

FRANCHISE DISCLOSURE DOCUMENT

FIVE STAR FLOORING FRANCHISE, LLC

A Utah limited liability company
761 W. 1200 N., Suite 300
Springville, UT 84663

Phone: 586-500-0182

Email: dhartley@fivestarfranchising.com
www.fivestarflooring.com



We are ***FIVE STAR FLOORING FRANCHISE, LLC*** a Utah limited liability company. We offer franchises to qualified individuals and entities to own and operate a Five Star Flooring™ franchise under our service marks, trade names, programs, and systems under the name “**FIVE STAR FLOORING.**” Our franchisees offer quality flooring installation, replacement, and renovation services to the public under the Service Marks and the Five Star Flooring programs, products, and systems (the "Method of Operation").

The total investment necessary to begin operation of a **FIVE STAR FLOORING** franchise is **\$158,500 to \$320,500 for one location, or \$196,000 to \$459,000 for a multi-location Executive Model, with additional multiple-location franchise fees as set forth in Item 5.** This includes the initial investment of **\$68,500** for one location or **\$198,500** for a multiple-location Executive Model that must be paid to us or our affiliate.

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

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 Dean Hartley at 761 W. 1200 N., Suite 300, Springville UT 84663 and (801) 804-1026.

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

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

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

ISSUANCE DATE: April 8, 2026

How to Use This Franchise Disclosure Document

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

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

What You Need To Know About Franchising *Generally*

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

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

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

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

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

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

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

Some States Require Registration

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

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

Special Risks to Consider About *This* Franchise

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

1. Out-of-State Dispute Resolution. This franchise agreement requires you to resolve disputes with the franchisor by mediation, arbitration and/or litigation only in Utah. Out-of-state mediation, arbitration, or litigation may force you to accept a less favorable settlement for disputes. It may also cost more to mediate, arbitrate, or litigate with the franchisor in Utah than in your own state.

2. Mandatory Minimum Payments. You must make minimum royalty, advertising fund payments and other payments, regardless of your sales levels. Your inability to make the payments may result in termination of your franchise and loss of your investment.

3. Sales Performance Required. You must maintain minimum sales performance levels. Your inability to maintain these levels may result in loss of any territorial rights you are granted, termination of your franchise, and loss of your investment.

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

**NOTICE REQUIRED BY THE STATE OF MICHIGAN
(THE FOLLOWING APPLIES TO TRANSACTIONS GOVERNED BY MICHIGAN
FRANCHISE INVESTMENT LAW)**

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

Each of the following provisions is void and unenforceable if contained in any documents relating to a franchise:

A prohibition of the right of a Franchisee to join an association of Franchisees.

A requirement that a Franchisee assent to a release, assignment, novation, waiver, or estoppel that deprives a franchisee of rights and protections provided in this act. This does not preclude a franchisee, after entering into a Franchise Agreement, from settling any and all claims.

A provision that permits a franchisor to terminate a franchise prior to the expiration of its term except for good cause. Good cause shall include the failure of the franchisee to comply with any lawful provision of the Franchise Agreement and to cure such failure after being given written notice thereof and a reasonable opportunity, which in no event need be more than 30 days, to cure such failure.

A provision that permits a franchisor to refuse to renew a franchise without fairly compensating the franchisee by repurchase or other means for the fair market value at the time of expiration of the franchisee's inventory, supplies, equipment, fixtures, and furnishings. Personalized materials that have no value to the franchisor and inventory, supplies, equipment, fixtures, and furnishings not reasonably required in the conduct of the franchise business are not subject to compensation. This subsection applies only if: (a) the term of the franchise is less than five years, and (b) the franchisee is prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising or other commercial symbols in the same area subsequent to the expiration of the franchise or the franchisee does not receive at least six months advance notice of franchisor's intent not to renew the franchise.

A provision that permits the franchisor to refuse to renew a franchise on terms generally available to other franchisees of the same class or type under similar circumstances. This section does not require a renewal provision.

A provision requiring that arbitration or litigation be conducted outside this state. This will not preclude the franchisee from entering into an agreement, at the time of arbitration or litigation, to conduct arbitration or litigation at a location outside this state.

A provision that permits a franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause. The subdivision does not prevent a franchisor from exercising a right of first refusal to purchase the franchise. Good cause shall include, but is not limited to:

The failure of the proposed transferee to meet the franchisor's then-current reasonable qualifications or standards.

The fact that the proposed transferee is a competitor of the franchisor or subfranchisor.

The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.

The franchisee's failure or proposed transferee to pay any sums owing to the franchisor or to cure any default in the Franchise Agreement existing at the time of the proposed transfer.

A provision that requires the franchisee to resell to the franchisor items that are not uniquely identified with the franchisor. This subdivision does not prohibit a provision that grants to a franchisor a right of first refusal to purchase the assets

of a franchise on the same terms and conditions as a bona fide third-party willing and able to purchase those assets, nor does this subdivision prohibit a provision that grants the franchisor the right to acquire the assets of a franchise for the market or appraised value and has failed to cure the breach in the manner provided in subdivision (c).

A provision that permits the franchisor to directly or indirectly convey, assign, or otherwise transfer its obligations to fulfill contractual obligations to the franchisee unless a provision has been made for providing the required contractual services.

If the franchisor's most recent financial statements are unaudited and show a net worth of less than \$100,000, the franchisee may request the franchisor to arrange for the escrow of the initial investment and other funds paid by the franchisee until the obligations, if any, of the franchisor to provide real estate, improvements, equipment, inventory, training or other items included in the franchise offering are fulfilled. At the option of the franchisor, a surety bond may be provided in place of escrow.

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

Any questions regarding this notice should be directed to the Department of Attorney General, State of Michigan, Department of the Attorney General, G. Mennen Williams Building, 7th Floor, 525 W. Ottawa Street, P.O. Box 30212, Lansing, MI 48909, and telephone (517) 335-7622.

THE MICHIGAN NOTICE APPLIES ONLY TO FRANCHISEES WHO ARE RESIDENTS OF MICHIGAN OR LOCATE THEIR FRANCHISES IN MICHIGAN

Though the State of Michigan intends to enforce the above, we reserve the right to challenge such enforcement.

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1.

THE FRANCHISOR, AND ANY PARENTS, PREDECESSORS, AND AFFILIATES

We are **FIVE STAR FLOORING FRANCHISE, LLC** (called “We,” “Us,” or “Our”). We were organized in Utah on February 4, 2014. We do business under the names “**FIVE STAR FLOORING**” and “**FIVE STAR FLOORING FRANCHISE**” and the **Five Star Flooring** logos. We do not intend to do business under any other names. Five Star Flooring Franchise, LLC is called “us” or “we” in this Franchise Disclosure Document. “You” means the prospective purchaser of a FIVE STAR FLOORING franchise, and includes owners or partners of a corporation, partnership, or other legal entity that purchases a FIVE STAR FLOORING franchise.

We are the franchisor of the Five Star Flooring franchise system. We license our franchisees in specified territories to own and to operate franchises under the name “Five Star Flooring.” We authorize our franchisees to promote, advertise, and sell quality flooring replacement, installation, and renovation services with all related products to the public and to use our Method of Operation and our service marks in the operations of the franchisee’s business.

Our principal office address is 761 W. 1200 N., Suite 300, Springville UT 84663. Our telephone number is (888) 344-0828. We began offering Five Star Flooring franchises in December 2025. We do not have any other business activities. We have never offered franchises in any other line of business. We do not operate any businesses of the type being franchised. We produce and sell innovative advertising and sales promotion materials. We may attempt to negotiate group discount rates for the benefit of our franchisees for products, supplies, and equipment.

Our registered agents for service of process are outlined in Exhibit E to this Disclosure Document.

Our parent company is Five Star Franchising, L.L.C. Five Star Franchising, L.L.C. was formed in December 2014 to succeed Five Star Franchising, Inc., formerly known as Five Star Painting, Inc. Our parent is owned by FS PEP Holdco, LLC, an affiliate of Princeton Equity Group, LLC, a private equity firm based in Princeton, New Jersey and in Dallas, Texas. In 2021, we had a change of ownership and were acquired by FS PEP Holdco, LLC. This created additional affiliations through other companies under the same ownership of FS PEP Holdco, LLC. As a result of this transaction, we are under common control as entities named below as affiliates.

The predecessor of our parent, Five Star Franchising, Inc. was formed in December 2004 as “Five Star Painting, Inc.” That predecessor changed its name to “Five Star Franchising, Inc.” on June 17, 2010. In connection with the sale of the “Five Star Painting” franchise brand in January 2015, the predecessor was merged, and shifted its operations to the newly-formed Five Star Franchising, L.L.C., by a contribution agreement. Its principal address is 761 W. 1200 N., Suite 300, Springville UT 84663. From its inception until June 2006, Five Star Franchising, Inc., under the “Five Star Painting, Inc.” name, operated a painting business in Las Vegas, Nevada that offered painting and services similar to the services offered by our franchisees since its inception. Since October 2007 to 2015, our parent or our parent’s predecessor owned and operated a painting business in Provo, Utah. Our parent’s predecessor also offered **FIVE STAR** franchises in the painting industry from 2006 to May 2007.

BBC Holdings, LLC has offered premium boutique fitness franchises offering high-intensity interval training workouts since 1998, from its principal address of 2214 NW 1st Pl, Miami, Florida 33127. As of December 31, 2025, it had 28 franchised locations.

Five Star Bath, L.L.C. has offered bathroom renovation franchises since 2015, from its principal business address of 761 W. Spring Creek Pl., Springville, Utah 84663. As of December 31, 2025, it had 348 franchises in operation.

Gotcha Covered Franchising, LLC has offered window covering and treatment franchises since 2009, from its principal business address of 6251 Greenwood Plaza Blvd Suite 170, Greenwood Village, CO 80111. As of December 31, 2025, it had 163 franchises in operation.

Ringside Development Company has offered hazardous material cleaning service franchises since 2010, from its principal business address of 761 W. Spring Creek Pl., Springville, Utah 84663. As of December 31, 2025, it had 127 franchises in operation.

1-800-Packouts Franchise LLC has offered contents restoration service franchises since 2015, from its principal business address of 761 W. Spring Creek Pl., Springville, Utah 84663. As of December 31, 2025, it had 57 franchises in operation.

Mosquito Shield Franchise, LLC has offered mosquito treatment service franchises since 2013, from its principal business address of 500 E. Washington St. #24, North Attleboro, Massachusetts 02760. As of December 31, 2025, it had 407 franchises in operation.

Five Star Connect, Inc. has been in the business of delivering support services to franchise systems since 2015, including to us and some of our affiliates; these services include call center, software, and marketing services. The principal business address of Five Star Connect, Inc. is 761 W. Spring Creek Pl., Springville, Utah 84663.

SB Oil Change Franchising, LLC has offered Strickland Brothers 10 Minute Oil Change franchises since 2019, from its principal business address of 301 North Main Street, Suite 1600, Winston Salem, North Carolina 27101. As of December 31, 2025, it had 57 franchises in operation.

CMY Franchising, LLC has offered yard greeting franchises since 2017, from its principal business address of 3917 Double Dome Road, Austin, Texas 78734. As of December 31, 2025, it had 507 franchises in operation.

D1 Sports Franchise LLC, has offered athletic performance training facility franchises since 2015, from its principal address of 7115 S. Springs Drive, Franklin, Tennessee 37067. As of December 31, 2025, it had 157 franchises in operation.

Stretch Zone Franchising LLC has offered Stretch Zone franchises since 2016, from its principal business address of 6700 North Andrews Avenue, # 210, Fort Lauderdale, Florida 33309. As of December 31, 2025, it had 414 franchises in operation.

Pirtek USA LLC has offered hydraulic and industrial hose replacement franchises since 1997, from its principal business address of 300 Gus Hipp Boulevard, Rockledge, Florida 32955. As of December 31, 2025, it had 194 franchises in operation.

Ellie Fam LLC has offered outpatient counseling and therapy clinic franchises since 2021, from its principal business address of 1345 Mendota Heights Road, Suite 800, Mendota Heights, Minnesota 55120. As of December 31, 2025, it had 227 franchises in operation.

KidStrong Franchising LLC has offered "whole child" development program franchises focused on physical fitness, leadership, and confidence building since 2019, from its principal business address of 3801 Parkwood Boulevard, Suite 301, Frisco, Texas 75034. As of December 31, 2025, it had 165 franchises in operation.

Amped Fitness 1, LLC has operated high-value, low-price fitness clubs since 2016, from its principal business address of 2001 N Federal HWY Unit 309 Pompano Beach, Florida 33062. As of December 31, 2025, it had 0 franchises in operation.

Five Star Flooring Franchise, LLC has offered flooring replacement, installation, and repair service franchises beginning in 2026, from its principal business address of 761 W. Spring Creek Pl. #300, Springville, Utah 84663. As of December 31, 2025, it had 0 franchises in operation.

Decorate With Lights Corp. has offered holiday and permanent lighting and decorative service franchises beginning in 2021, from its principal business address of 761 W. Spring Creek Pl. #300, Springville, Utah 84663. As of December 31, 2025, it had 15 franchises in operation.

We and our affiliate companies retain the right to own or operate additional **FIVE STAR FLOORING** offices and franchises.

The market for flooring installation, replacement, and renovation services is well established throughout the United States. The principal sources of direct competition for your franchise are similar businesses, some of which are part of other, existing franchise chains that provide flooring installation, replacement, and renovation services. Indirect sources of competition come from other general contractors.

There are federal, state, and in some cases local regulations pertaining specifically to the construction industry. These regulations pertain to contractor licensing, asbestos and lead paint removal and disposal, hazardous waste handling and disposal, and other permit, zoning, and material handling considerations. Other legal regulations that apply to all businesses generally may include:

Federal, state, and city, county, parish, borough, municipality or other local laws.

Federal. Examples of federal laws are wage and hour, occupational health and safety, equal employment opportunity, hazardous materials communication to employees, hazardous waste and environmental, and the Americans With Disabilities Act.

State. State laws may cover the same topics as federal laws. Examples of state laws include environmental, occupational health and safety, fire, health, and building and construction laws.

Local. Local laws may cover the same topics as federal and state laws. Examples of local laws include health and sanitation, building codes, fire codes, and waste disposal.

2.

BUSINESS EXPERIENCE

J. ANDREW MENGASON - Chief Revenue Officer

J. Andrew Mengason is our Chief Revenue Officer, working out of Springville, Utah, and has held this role since February 2022. He is CEO and President of Madison Range Investments, located in Birmingham, Michigan and has held such role since May 2018. He was previously President and Chief Operating Officer of Mesa Systems, LLC, in

Salt Lake City, Utah, from January 2019 to January 2022, and Chief Operating Officer for BELFOR Franchise Group, in Ann Arbor, Michigan from 2013 to 2018.

DEAN HARTLEY – Brand President

Mr. Hartley has served as our Brand President since our incorporation in October, 2025, and has operated our company-owned affiliate outlet in Michigan since its incorporation in July, 2020.

COLT FLORENCE – Chief Growth Officer

Colt Florence is our Chief Growth Officer, working from our Springville, Utah office, and has held such role since July 2024. He was previously Vice President of Franchise Development for Authority Brands, working from the greater Salt Lake City, Utah area, from April 2021 through July 2024, and previously was Franchise Development Manager for Authority Brands from June 2020 through April 2021. He had a prior role as Vice President of Sales/Development with Better Way Franchise Group, in the greater Salt Lake City, Utah area, from June 2018 through June 2020.

DOMINIC ORTMAN – Vice President of Operations

Mr. Ortman has served as our Vice President of Operations since October, 2025, working remotely from his Detroit, Michigan, location. He also serves as Vice President of Operations of our affiliate, Five Star Bath, LLC, and has held such role since July 2023. He previously held roles as General Manager at Bob's Discount Furniture in Shelby, Michigan from August 2020 through June 2023; as ESports Events and Lead Progression Coordinator for Internet Friends ESports Team, working remotely, from August 2009 through June 2023, and as Senior Store Manager and Multi-Unit Sales Trainer with Men's Warehouse in Michigan, from September 2015 through October 2020.

3.
LITIGATION

No litigation is required to be disclosed in this Item.

4.
BANKRUPTCY

No bankruptcy is required to be disclosed in this item.

5.
INITIAL FEES

The Initial Franchise Fee is **\$59,500 for a territory of up to approximately 150,000 households**. To acquire additional territory, a fee of \$0.40 per household shall apply. Additional territories may be acquired, and when multiple territories are acquired concurrently, the following table of Initial Franchise Fees applies:

Units	Initial Franchise Fee	Total Initial Franchise Fees
1	\$59,500	\$59,500
2	\$40,000	\$99,500
3	\$35,000	\$134,500
4	\$30,000	\$164,500
5	\$30,000	\$194,500
6	\$30,000	\$224,500

The Initial Franchise Fee is paid in consideration for our sales expenses, administrative overhead, return on investment, and start-up costs related to the execution of the Franchise Agreement, the opening of the Franchise, and for our lost or deferred opportunity to sell franchises in the Franchise Territory to others. Our proprietary software is also included in the Initial Franchise Fee. Simultaneous with the execution of the Franchise Agreement, you will pay to us the entire Initial Franchise Fee.

If you have an existing business with annual gross sales of at least \$200,000, and that business is similar to the franchise, and you agree to merge it with the Franchise, we will discount the initial franchise fee by 25%, and by an additional 25% for each \$100,000 of additional annual gross sales, as follows:

Percentage Discount	Annual Gross Sales of Existing Business*
25%	\$200,000 - \$299,999
50%	\$300,000 - \$399,999
75%	\$400,000 - \$499,999
100%	\$500,000 and above

* Annual Gross Sales should be documented in your most recent two calendar years of financial statements, bank statements and filed tax returns, as delivered to us for eligibility for the discount.

We offer a veteran discount program. If you meet the requirements for this program, you may qualify for a **10%** discount to your Initial Franchise Fee. If you believe you may be eligible, contact us for details about this program.

You will buy from us our Quick Start Package (“QSP”), and pay us the QSP Fee applicable to your franchise size. Your QSP will include initial items for demonstration purposes, initial sales supplies for your operations, a starting supply of consumables, and certain marketing and storage items. Your QSP Fee will be **\$19,000** (plus applicable tax, tariff, and freight/shipping costs).

You will pay us a \$1,000 Annual Conference Registration Deposit, due within seven (7) days of signing your franchise agreement, which will be applied to the actual attendance fee for your first attendance at the first annual conference available to you after you have completed your training. If any portion of this deposit is not required as part of that annual conference attendance or registration fee, it will be credited to you on your invoice following the annual conference.

You must open the franchise within **120** days after the date of the Franchise Agreement. This time requirement may be extended for multiple franchise purchases. If this obligation is not fulfilled, we may elect to terminate the Franchise Agreement by refunding one-quarter of the Initial Franchise Fee and any amount paid for purchases of unused advertising materials and apparel from us or our parent. We may retain the remaining portion of the Initial Franchise Fee and any amount paid to us, our parent or our affiliates for used advertising material and apparel. You must return any unused products you have obtained from us.

The initial fees are uniform except as described in this Item 5. We intend to raise the initial franchise fee after certain growth levels have been attained. The increased franchise fee and timing have not been determined as of this date.

We may offer franchises at a reduced rate to prospective franchisees who in our opinion possess the knowledge and experience to conduct business with minimal assistance from us or who are purchasing multiple franchises. Occasionally, we may grant new franchises to our owners and employees and their family members with reduced or no initial fees.

The Initial Franchise Fee and the amount paid for the initial advertising materials are not refundable in whole or in part under any circumstances other than those listed above.

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6.
OTHER FEES

<u>Name of Fee</u>	<u>Amount</u>	<u>Date Due</u>	<u>Remarks</u>
Royalty Fee	6% of your Gross Revenue (or 5% based on the scale in the notes below) with \$1,000 monthly minimum commencing on the 7 th month after you commence operations and increasing until your 36 th month of operations; thereafter, the monthly minimum will be \$2,500 per month. If you fail to report your sales through our proprietary software, the monthly minimum, instead of the previously-described amount will be the greater of \$3,000 or 6% of your 12-month average for the previous twelve reported months (with the total being annualized if there are less than twelve months).	Payable upon booking the job (not completion of the job), paid weekly (currently on Wednesdays). The monthly minimum begins after you commence operations and at the end of each subsequent monthly cycle starting on the 7 th month after you commence operations. The 6% royalty still applies during such initial months of operation; however, you will not be obligated to pay any additional amount until the monthly minimum begins.	See Note 1. The amount of the Royalty Fee is based on the scale in the notes below. This fee may be payable through automatic debit processes as outlined in the Five Star Flooring Operating Manual. Depending on the method of payment you choose, you may be charged a processing fee in addition to the invoiced amount.
National Marketing Fee	Up to 2.5% of your monthly Gross	Payable upon booking the job,	See Note 2. This fee may be payable

<u>Name of Fee</u>	<u>Amount</u>	<u>Date Due</u>	<u>Remarks</u>
	Revenue with \$350 monthly minimum commencing on the 7th month after you commence operations.	together with Royalty Fees.	through automatic debit processes as outlined in the Five Star Flooring Operating Manual.
Territory Marketing Requirement	You will spend at least 10% of your annual Gross Revenue on your territory advertising (which includes your National Marketing Fee). Included in this, will be the cost of online lead generation services delivered by our designated vendor.	As Incurred	This amount is not a fee. It is spent by you on local advertising. The cost of any directory listings or yellow page ads, or your portion of the cost, would be included in your territory advertising. If you do not spend 10% of your Gross Revenue within a calendar year on territory advertising, you will contribute the difference between the amount expended and the amount you should have expended as National Marketing Fees.
Regional Marketing Fund Contribution	Currently 0, and up to 2 percent of your gross revenue according to a vote of the franchisees in the region.	As voted and approved by your local marketing cooperative (only if franchisees in an advertising region vote to establish a Regional Advertising Fund). It will be credited towards your monthly Territory Marketing Requirement.	If at any meeting of the franchisees in an marketing region, 65 percent of the franchisees vote to contribute to a regional advertising program (with franchisor-owned outlets holding identical voting power with other franchised outlets), all franchisees within that region will be obligated to make a

<u>Name of Fee</u>	<u>Amount</u>	<u>Date Due</u>	<u>Remarks</u>
			contribution to a regional advertising fund in the amount established by the vote. For purposes of voting among franchisees in a marketing region for approval of contributing to a regional marketing program, franchisor-owned outlets shall have the same voting power as other franchisees, save that in no event shall all votes approving contribution to a regional marketing program come exclusively from franchisor-owned outlets. We may require you to execute documents that allow us to automatically take this fee out of your franchise bank accounts each month. See Item 11, below.
Call Center Monthly Fees See Note	Our vendor presently charges U.S. Franchisees \$250 per month plus \$1.50 per minute for call handling services. Texting services are presently charged at \$2.50 per Chat Conversation or Text Conversation with our vendor, with rates that will	The monthly fee is payable by the second Wednesday of each month. We may change the date on which fees are due and will advise you of any change.	We may arrange preferred vendor relationships to negotiate preferred treatment and rates. If so, you agree to use approved telephone answering services, and pay approved vendors pursuant to those negotiated terms, as such terms may be established and

<u>Name of Fee</u>	<u>Amount</u>	<u>Date Due</u>	<u>Remarks</u>
	only change after communication to you.		communicated to you.
Additional Training	\$300 per day and you must reimburse us for our out of pocket costs.	Before opening or after you open your franchise for business.	You must give us not less than 35 days' prior written notice of your desire to receive additional training. The duration of training is negotiable depending upon your needs. You will not receive any compensation for services rendered by the trainee during this or any other training. We may designate qualified franchisees or master franchisees to conduct some or all of your training.
Refresher training programs and seminars	\$300 per day or then-current rates.	Upon demand	In addition to a reasonable training fee, you are exclusively responsible for paying all travel, living and other expenses and compensation of attending refresher training programs and seminars. (See Franchise Agreement, Section 3.2)
Cost to Attend Annual Convention and Trade Show	\$1,000 to \$3,500	As arranged with third party vendors	You are required to attend our annual convention and trade show. The amounts in this table are estimates for your travel, food and

<u>Name of Fee</u>	<u>Amount</u>	<u>Date Due</u>	<u>Remarks</u>
			lodging costs to attend. This is not a fee collected by us; these amounts are paid to third parties vendors. Travel and lodging costs, including plane fares, may vary greatly based on your franchise location and the distance to the location of the annual convention.
Annual Convention and Trade Show Fee	The then-current registration fee, presently \$1,000.	Upon demand, six months prior to the conference, in connection with monthly invoicing at that time.	If you do not attend a convention, we will deliver to you and you will pay us for all training materials, documentation, handouts, training videos, and video recordings of the activities of the convention. The price for the training materials, documentation, handouts, training videos, and video cassettes for each annual convention will be established by us from time to time and you will pay the published rate.
Transfer Fee	Greater of \$10,000 or 5% of proposed purchase price for the business, not to exceed 50% (fifty per cent) of the then-current franchise fee. Note, any sales commission owed as	Before transfer	The Transfer Fee will be paid by delivering: (i) a non-refundable deposit of \$1,000 with the written request for our approval of the proposed purchaser and (ii) the balance of

<u>Name of Fee</u>	<u>Amount</u>	<u>Date Due</u>	<u>Remarks</u>
	a result of your transfer shall remain your obligation, in addition to the Transfer Fee.		the Transfer Fee on the closing date of the transfer. This fee will reimburse us for our legal, accounting, credit check, and investigation expenses that result from the transfer.
Renewal	You will reimburse us for our out-of-pocket costs concerning the renewal up to \$2,500 plus applicable taxes.	Immediately upon demand	
Step-In Right Costs	Out-of-pocket expenses and costs we incur	As Incurred	You must reimburse us for our out of pocket expenses and costs we incur if we step-in to operate your franchise according to Franchise Agreement.
Non-Reporting Fee	\$250 per day	Each day that you have failed to deliver reports or records due to us.	You will be charged this fee for each report or record which you have agreed to deliver to us, per day, beginning the first day following the due date on which you have not reported, and continuing through the date when you deliver such reports or records.
Late Charge	1.5% per month	Each month that amounts owed remain unpaid	You will not be compelled to pay late charges at a rate greater than the

<u>Name of Fee</u>	<u>Amount</u>	<u>Date Due</u>	<u>Remarks</u>
			maximum allowed by applicable law.
Late Payment Penalty	\$10 per day from the date due until paid in full.	As incurred	You will not be compelled to pay late payment penalty in an amount greater than the maximum allowed by applicable law
Addendum Fee	\$250	As incurred	You must pay us a processing fee for modifications to your franchise agreement that are made at your request. When you request an amendment or addendum to your franchise agreement or related agreements we may require that you sign a general release releasing us from all claims you may have except claims which, under state law, may not be released.
Relocation	You will reimburse us for our out-of-pocket costs concerning the relocation.	Prior to relocation	
Accounting Software Fees	\$0 to \$250 per month	As incurred.	You must use the designated accounting software provided by our designated vendor(s). This fee is paid directly to the vendor.
Bookkeeping Service Fee	\$0-\$300 per month	As incurred.	You must use the designated or approved bookkeeping vendor

<u>Name of Fee</u>	<u>Amount</u>	<u>Date Due</u>	<u>Remarks</u>
			to obtain bookkeeping services at their then-current rates, paid directly to such vendor(s).
Operations Software – hosting and Maintenance Monthly Software Support Fee	\$1,100 to \$2,500 per month	The monthly fee is payable by the 2 nd Wednesday of each month. We may change the date on which fees are due and will advise you of any change.	We may expand and improve our software programs, or have additional software programs that you will be required to implement in your Business. This fee may change or increase in the future. We (or the vendors from whom you obtain such software) will determine the increase, if any, to this fee each year.
Software Technical Support Fee	Up to \$50.00 per hour, if we decide to collect this fee	As incurred	We will give you a reasonable time to become familiar with our computer software programs. We will give you free technical software support for so long as we deem necessary for you to sufficiently understand our software. We will give you 45 days advance notice when we deem it reasonable for you to pay a reasonable fee to receive additional technical support.
Product Testing Costs	Out-of-pocket expenses and costs we incur	As incurred	You must reimburse us for our out of pocket expenses and

<u>Name of Fee</u>	<u>Amount</u>	<u>Date Due</u>	<u>Remarks</u>
			costs we incur to test new products or sources you request for approval (See Item 8 and Franchise Agreement Section 5.1).
Audit	Our costs for the audit if you understate revenue by more than 2% or fail to deliver to us required reports on time	Immediately upon demand	See notes below.
Warranty Escrow on Transfer	Up to 5% of sales price	On transfer	You agree that up to 5% of the gross transfer price will be held by us in escrow for the twelve (12) calendar months following the date of the sale to cover any warranty or service agreement claims by your customers. The exact percentage held in escrow will be determined by the number and value of projects completed by you in the twelve (12) calendar months preceding the sale. If a warranty or service agreement claim is made, we will charge the escrow fund our then-current hourly service fee (a minimum of \$100 per hour) for labor plus the actual cost of materials and supplies plus a \$50 processing fee for each claim. At the

<u>Name of Fee</u>	<u>Amount</u>	<u>Date Due</u>	<u>Remarks</u>
			conclusion of the twelve (12) months, we will release any remaining escrowed funds to you. If there are no claims, a one-time processing fee of \$150 will be charged, with the remaining funds released to you.
Post-Termination Default Fee	\$200 per day	Upon demand	Paid for each day that you operate the franchise without having complied with the post-expiration and termination or transfer requirements.
Transferee Commission	10% of transaction amount, upon completion of your transfer of the franchise to a transferee; or if making use of our franchise broker relationships, the actual amount of the commission arising from such use.	As incurred.	This fee applies to a franchise transfer wherein we find the buyer/transferee for you to transfer your franchise agreement, acting in a similar capacity to a private business broker for your proposed transaction; or if making use of our franchise broker relationships, to the commission actually arising from such use.
Unauthorized Marketing Fee	\$500 per unapproved marketing item.	As incurred.	If you use marketing materials without first obtaining our written approval, a liquidated damage amount of \$500 is owed for each unapproved marketing item.

All fees are imposed by and payable to us and are uniformly imposed and collected. All fees are non-refundable.

NOTES

1. Royalty Fee Scale: We have established the following simple scale for the percentage Royalty Fee to decrease each calendar of operation as your Gross Revenue increases:

<u>Gross Revenue for the Calendar Year</u>	<u>Royalty Fee</u>
\$0.00 - \$1,000,000	6.0%
\$1,000,001+	5.0%

Minimum monthly royalties will apply, based upon the following time frames and amounts:

0-6 Months	\$0 minimum monthly royalty
7-12 Months	\$1,000 minimum monthly royalty
1-2 Years	\$1,500 minimum monthly royalty
2-3 Years	\$2,000 minimum monthly royalty
3+ Years	\$2,500 minimum monthly royalty

"Gross Revenue" Defined. "Revenue" means all receipts generated by the Franchise from any source, including, but not limited to, sales, rentals, vending, exchanges, repairs, services, labor, service charges, service contracts, any other type of remuneration, gift, contra-deal, barter of products or services, charity, payment in kind, or any other benefit or value that is received or deferred to be received, and excludes discounts, refunds and sales taxes. Credit transactions will be included in Revenue as of the date of the transaction without deduction for uncollected credit accounts. The proceeds from any business interruption insurance or eminent domain recovery you receive will be included in "Revenue." "Gross Revenue" means the total Revenue for any calendar period as relevant.

2. Marketing Fund. Minimum marketing fees will apply, based upon the following time frames and amounts:

0-6 Months	\$0 minimum monthly marketing fee
7-12 Months	\$350 minimum monthly marketing fee
1-2 Years	\$600 minimum monthly marketing fee
2-3 Years	\$800 minimum monthly marketing fee
3+ Years	\$1,200 minimum monthly marketing fee

3. Taxes. You must pay any taxes imposed as a result of your payment to us of initial or ongoing fees.

4. Audits. We may audit your reports, books, statements, business records, cash control devices, and tax returns at any time during normal business hours. Audits will be conducted at our expense unless you understate the Gross Revenue for any reported period or periods by more than 2 percent or unless you fail to deliver any required report of Gross Revenue or any required financial statement in a timely manner. In the event of an understatement or failure to deliver, you will reimburse us for all audit costs. These will include, among other things, the charges of any independent accountant and the travel expenses, room, board, and compensation of our employees incurred in connection with the audit. You will immediately pay all Royalty Fees, National Marketing Fees, Local Advertising expenditures and late payment charges that the audit determines are owed. These payments will not prejudice any other remedies we may have under the Franchise Agreement or by law.

5. Addendum Fee. If you request a modification to your Franchise Agreement that must be achieved through a written addendum to the agreement, we incur legal costs to prepare an appropriate legal document. To defray these costs, for each addendum you request, we charge a processing fee. Such a fee is assessed per addendum, and not per clause or change requested. It is only assessed as actual requests for an addendum are approved, and upon completion and execution of the addendum. Changes or addenda requested by us are not subject to this processing fee.

6. Chat Conversation or Text Conversation. To appropriately respond to and administer customer inquiries, you will establish procedures for responses to customer inquiries via text message or chat message, by use of a service approved by Franchisor (“Text and Chat Services”). The Text and Chat services shall be available to, and apply to, the authorized telephone number(s) in use by you, which you have conditionally assigned to Franchisor, and over which you have authorized Franchisor to control and manage. In responding to and administering customer Text and Chat Services, any text message or chat message exchange (a “Conversation”) conducted through the Company website (chat) or through a text-enabled telephone line (text) initiated by a lead or by an individual expressing an interest in Company (a “Customer”), and wherein the text or chat exchange continues without a lapse in time between the last message or response by Provider and the Customer’s last message that is greater than six hours shall be considered a Conversation. For any exchange with a Customer where the Customer’s response comes after greater than six hours since the last message or text by Provider, the first Conversation shall be deemed to have ended, and the new Customer response initiates a new Conversation. Franchisor, or its designated vendor, may provide the Text and Chat Services.

7. Call Center. The Marketing Fund will pay for your use of the designated call center for the first three months. These amounts will be your responsibility thereafter, to be paid directly to such designated call center vendor/supplier.

7.
ESTIMATED INITIAL INVESTMENT

YOUR ESTIMATED INITIAL INVESTMENT
(Single Location*)

*Assumes that the Owner is the Salesperson

EXPENDITURE	ESTIMATED AMOUNT	PAYMENT METHOD	When Due	TO WHOM
Initial Franchise Fee ¹	\$59,500. To acquire additional territory, a fee of \$0.40 per household shall apply.	Cash	The entire initial Franchise Fee is due and payable upon execution of the Franchise Agreement	Us
Quick Start Package ²	\$19,000	Cash	Prior to attending in-	Us

EXPENDITURE	ESTIMATED AMOUNT	PAYMENT METHOD	When Due	TO WHOM
			person training.	
Optional QSP Add-on: Trailer	\$0 to \$40,000	Cash	Prior to attendance at training.	Us
Annual Conference Registration Deposit ³	\$1,000	Lump Sum	Within 7 days of signing of Franchise Agreement.	Us
Marketing ¹³	\$35,000 to \$65,000	As Incurred	As Incurred	Approved Suppliers
Warehouse/Premises and Show Displays ¹¹	\$3,000 to \$4,000	As Incurred	As Incurred	Landlord, Utility Companies and Suppliers
Supplies, Inventory, and Equipment ⁹	\$7,500 to \$25,000	As Incurred	Before Opening and As Incurred thereafter	Suppliers
Computer Equipment and Software/License Fees ¹⁰	\$1,000 to \$2,000	As Incurred	Before Initial Training	Suppliers
Travel and Living Expenses to Attend Training ⁴	\$2,500 to \$4,000	As Incurred	Before and During Training	Airlines, Hotels, Restaurants, etc.
Vehicle/Trailer (and wrap) ⁷	\$500 to \$32,500	As Incurred	As Incurred	Suppliers
Professional Services (Licensing, Insurance, Legal) ¹²	\$7,500 to \$13,500	As Incurred	As Incurred	Attorneys, Accountants, Etc.
Recruiting and Personnel ¹⁵	\$2,000 to \$5,000	As Incurred	As Incurred	Personnel
Working Capital (Additional Funds and Living Expenses – 3 Months) ¹⁴	\$20,000 (note 2) to \$50,000	As Incurred	As Incurred	Employees, Suppliers, Utilities, etc.
TOTAL	\$158,500 to \$320,500			

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YOUR ESTIMATED INITIAL INVESTMENT

(Multi-Location Estimate**)

**Assumes the hiring of a Salesperson

**Assumes two locations. For locations 3-6, and their additional Initial Franchise Fee, See Note 1.

EXPENDITURE	ESTIMATED AMOUNT	PAYMENT METHOD	When Due	TO WHOM
Initial Franchise Fee ¹	\$99,500. To acquire additional territory, a fee of \$0.40 per household shall apply.	Cash	The entire initial Franchise Fee is due and payable upon execution of the Franchise Agreement	Us
Quick Start Package ²	\$19,000	Cash	Prior to attendance at training.	Us
Optional QSP Add-on: Trailer	\$0 to \$40,000	Cash	Prior to attendance at training.	Us
Annual Conference Registration Deposit ³	\$1,000	Lump Sum	Within 7 days of signing of Franchise Agreement.	Us.
Marketing (first 5 months) ¹³	\$35,000 to \$70,000	As Incurred	As Incurred	Approved Suppliers
Supplies, Inventory, and Equipment ⁹	\$7,500 to \$50,000	As Incurred	Before Opening and As Incurred thereafter	Suppliers
Insurance, Business Licenses, Permits, Professional Fees ⁶	\$7,500 (note 2) to \$13,500	As Incurred	Prior to Opening	State Administrators/ Government Agencies, etc.
Warehouse/Premises and Show Displays ¹¹	\$3,000 to \$5,000	As Incurred	As Incurred	Landlord, Utility Companies and Suppliers
Computer Equipment and Software/License Fees ¹⁰	\$1,000 to \$3,500	As Incurred	Before Opening and As Incurred thereafter	Suppliers

EXPENDITURE	ESTIMATED AMOUNT	PAYMENT METHOD	When Due	TO WHOM
Vehicle/Trailer (and wrap) ⁷	\$500 (note 2) to \$32,500	As Incurred	Before Initial Training	Suppliers
Recruiting and Personnel ¹⁵	\$2,000 (note 2) to \$5,000	As Incurred	As Incurred	Suppliers
Working Capital (Additional Funds and Living Expenses – 3 Months) ¹⁴	\$20,000 to \$120,000	As Incurred	Before Opening	Insurers
TOTAL	\$196,000 to \$459,000 (for a 2-territory executive model)			

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Notes:

General Notes: You should anticipate the preceding initial expenditures in connection with the establishment of a **FIVE STAR FLOORING** franchised business. Additional factors related to each expenditure category are described in the following notes.

No allowance has been made in this table for interest or other financing expenses related to opening the franchise. The need for this type of expense will vary with the terms of any financing you get in connection with your franchise. Financing sources may reduce your initial cash requirements, and the availability and terms of financing to any individual franchisee will depend upon factors including the availability of financing in general, your credit worthiness, the collateral security that you may have and policies of lending institutions concerning the type of business to be operated by you. The investment and expenditures required of actual franchisees may vary considerably from the projections outlined above, depending on many factors, including geographical area, the amount of space leased by you and the capabilities of any particular management and service team. If you are purchasing multiple franchises, you will incur the estimated initial expenditures for each franchise you operate.

Note 1: Additional territories may be acquired, and when multiple territories are acquired concurrently, the following table of Initial Franchise Fees applies:

Units	Initial Franchise Fee	Total Initial Franchise Fees
1	\$59,500	\$59,500
2	\$40,000	\$99,500
3	\$35,000	\$134,500
4	\$30,000	\$164,500
5	\$30,000	\$194,500
6	\$30,000	\$224,500

We estimate that the initial phase covered by the additional funds estimate to be approximately 3 months. The high and low range estimates are based on our owners' and our affiliates' experience in opening and operating franchised businesses in the United States and Canada since 2000. They are also based on our and our affiliates' franchisees' experiences in the flooring replacement, installation, and renovation segment from 2021 to the present and our and our affiliates' (including their franchisees') experience in home service segments since 2004. The predominant factors for calculating the 3-month estimates are amounts paid for employee wages and inventory.

2. The Quick Start Package is designed to provide you with essential items directly from Five Star Flooring. Costs may vary based on availability or changes to the package contents over time. However, the total cost will not exceed \$25,000 (plus applicable tax, tariff, and freight/shipping costs). Items will be delivered by Five Star Flooring or various vendors throughout your training and opening period.

3. Attendance at the Five Star Conference is required. Conference fees for new franchisees are collected at the time of signing and are non-refundable, even if you do not attend. Travel and accommodation expenses are your responsibility. The non-attendance fee may be up to \$1,500, though your deposit will satisfy the cost of registration for your first year.

4. This estimate includes travel and accommodation costs, such as airfare, for you and your employees to attend initial training programs. Actual expenses will vary based on factors such as travel distance, transportation method

(e.g., flights or ground travel), accommodation type, daily expenses, and the number of attendees. Please note that this estimate does not cover wages or salaries for you or your trainees during the training period.

5. This estimate represents the anticipated insurance premiums (auto and commercial general liability) for the first three months of business operations. Actual costs may vary based on local market conditions, chosen coverage levels, insurance provider, and other relevant factors.

6. Before starting business operations, you must obtain the required licenses and permits. Specific requirements vary by local, municipal, county, and state regulations.

7. You may purchase a new or used vehicle or modify an existing one, provided it meets the operational requirements outlined in the Operations Manual. The number of vehicles needed will depend on the number of initial employees.

8. You are required to display the Five Star Flooring branding as outlined in the Operations Manual. Options range from magnetic signs to full vehicle wraps, with costs varying based on wrap size, vehicle size, and local vendor pricing.

9. Initial equipment and supplies are required to establish office and warehouse operations. These may include furniture, storage racks, tools, and materials to support your first 3–6 months of sold projects. Costs will vary based on business growth rate, number of installers, and the size of your initial facility.

10. You are required to use QuickBooks Online for accounting. Five Star Flooring also utilizes a tech stack of various software essential for business operations, including the designated CRM and other industry-specific tools. Some software costs are covered through monthly software and tech fees, while others may be paid directly to the software provider.

11. There will be costs associated with outfitting your space and acquiring mobile display units for show and event programs. We recommend starting with a minimum of 1,000 square feet of warehouse space. Show displays are not required unless you plan to incorporate a show and event program into your marketing strategy.

12. This estimate includes a range of pre-opening expenses such as legal, accounting, administrative, permitting, brokerage, and other professional fees. These costs may also cover assistance with reviewing the Franchise Agreement and related services. Actual costs may vary.

13. Marketing is an ongoing effort, typically ranging from 10–20% of your revenue, as outlined in the Operations Manual. You are required to spend a minimum of \$20,000 per month on marketing by month three. Actual marketing expenses may be higher depending on territory size and growth objectives.

14. You will need additional capital to cover ongoing expenses, including payroll, royalties, repairs, additional marketing, financing and credit card fees, taxes, utilities, and other costs that may not be fully covered by sales revenue.

15. You may choose to hire more or fewer initial employees based on your territory size. The required roles are outlined in the Operations Manual. Costs for attracting and hiring employees can vary, and recruitment services are available, though not required. Fees for these services also vary significantly. The Item 7 tables are premised on your assuming the sales role, with personnel costs to support you in this function.

These figures are estimates based on data and the experience of past franchisees. Your startup expenses may be higher or lower depending on factors such as business experience, management skills, local wage rates, competition, and your sales execution in the first 3–6 months. New businesses often experience negative cash flow. These estimates do not include minimum royalty fees or ad fund contributions.

Any fees paid to us are not refundable. Amounts paid to third parties may be refundable, depending upon the contracts between them and you.

We do not finance any part of the initial investment.

8.

RESTRICTIONS ON SOURCES OF PRODUCTS & SERVICES

We will lend to you a copy of our Five Star Flooring Operating Manual at the mandatory training course described in Item 11, below. We may amend the Five Star Flooring Operating Manual, including changes that may affect minimum requirements for your franchise operations. You will strictly follow the requirements of the Five Star Flooring Operating Manual as we amend it. You will carry out immediately all changes at your cost, unless we otherwise specify. We reasonably may designate minimum standards for operations and designate guidelines, as specified in the Five Star Flooring Operating Manual. The Five Star Flooring Operating Manual is confidential and our exclusive property.

The Five Star Flooring Operating Manual contains the **FIVE STAR FLOORING** System and related specifications, standards, operating procedures, accounting and bookkeeping methods, marketing programs and ideas, marketing layouts, marketing guidelines, operation requirements, public relations guidelines, service guidelines, and other rules that we may prescribe.

You must purchase all marketing materials from us or our approved suppliers to ensure uniformity and quality of the marketing. Any equipment, products, inventory, or other items that bear the Five Star Flooring logo or have the words “Five Star Flooring” in them must be bought from us or an approved supplier.

You must purchase all equipment, inventory, and all other items used in your franchised business from us or from approved suppliers to ensure the quality and uniformity of services in the Five Star Flooring franchise system. We may attempt to negotiate group discount rates for the benefit of our franchisees for products, supplies, and equipment.

All specifications that we require of you and lists of approved suppliers will be included in the Five Star Flooring Operating Manual. Such suppliers will include software suppliers and call center suppliers/vendors, as well as those relating to marketing, equipment, or inventory. We will upon request provide specifications to approved suppliers and suppliers seeking approval. We will use our best judgment to set and modify specifications to maintain the integrity and quality of our franchise system. We will provide you notice of changes in designated suppliers, or in costs of their services as such changes may be communicated to us, and will give you that notice as early as we are reasonably able to do so.

We, our parent, and other approved suppliers will be your sources for marketing materials and equipment, products, inventory, and all other items that bear the Five Star Flooring name or logo. Our officers Andrew Mengason, Colt Florence, and Dean Hartley, each have an ownership interest in our parent. The cost of such items is included as part of your Marketing expenses in the Item 7 tables.

With advance written notice, you may request our approval to obtain products, equipment, supplies or materials from sources that we have not previously approved. We may require you to give us sufficient information, photographs, drawings, samples and other data to allow us to determine whether the items from these other sources meet our specifications and standards. These specifications and standards will relate to quality, durability, value, cleanliness, composition, strength and the suppliers' capacity and facility to supply your needs in the quantities, at the times, and with the reliability necessary for efficient operation. We may require that samples from any supplier be delivered to a designated independent testing laboratory for testing before approval and use. You will reimburse us for the actual

cost of the tests. We may license any supplier that can meet or exceed our quality control requirements and standards, for a reasonable license fee, to produce and deliver **FIVE STAR FLOORING** products to you but to no other person. Our confidential requirements, systems and formulas will be revealed to potential suppliers only after we have received reasonable evidence that the proposed supplier is trustworthy and reputable; has the capacity to consistently follow our standards, requirements and testing procedures; will maintain the confidentiality of the designs, systems and formulas; and will adequately supply your reasonable needs. We will not unreasonably withhold approval of a supplier you propose. We will notify you in writing of the approval or disapproval of any supplier you propose within 30 days of receiving written notice from you of your request for approval.

We or our agents may inspect any approved manufacturer, supplier or distributor facilities and products to assure proper production, processing, packaging, storing, and transportation. Permission for inspection will be a condition of our continued approval of any manufacturer, supplier or distributor. If we find from any inspection that a manufacturer, supplier or distributor fails to meet our specifications and standards, we will give written notice describing this failure to you and to the manufacturer, supplier or distributor, with a notice that unless the failure or deficiency is corrected within 30 days, the manufacturer, supplier or distributor will no longer be approved.

We and our parent may derive revenue from products and services that you are required to purchase. This revenue results from sales by us and our parent or affiliates of our parent to our franchisees of products bearing our names and services marks, certain marketing (including SEO marketing services) and brand development services, and rebates from third-party suppliers of other inventory, products, or services. In fiscal year 2025, we did not receive any revenues from the sale of such products to our franchisees and from supplier rebates, or 0% of our total revenue reflected in our Parent's audited financial reports. We estimate that purchases from us, our parent, or approved suppliers will be from **10 to 20** percent of the total purchases you make to commence operations of your franchise. We estimate that purchases from us, our parent, approved suppliers will be from **60 to 80** percent of the total purchases you make to operate your franchise on an ongoing basis.

We and our parent may receive rebates, price adjustments, or discounts on products or services sold to you by recommended or approved suppliers. You must purchase online lead generation, telephone number, call tracking, call center, and text messaging services from ProNexis or another designated vendor of our choosing. In 2025, our affiliate ProNexis received no revenues from our franchisees' use of its services. Approved suppliers may pay our parent company a rebate on all franchisee purchases based on a percentage of sales such suppliers make to our franchisees (included in the revenues from required purchases, above) but no such rebates were paid in 2025.

We have established a software system based upon our accounting computer software and customer relationship management needs. You are required to use this software together with your accounting systems specified by us or otherwise approved by us in writing. You are required to deliver reports from such systems upon request from us, or as set forth in our Operations Manual, including regular reports of operating profits and losses, tax returns, etc.

There are no other obligations for you to purchase or lease according to specifications or from approved suppliers. Except as explained above, we have no required specifications, designated suppliers or approved suppliers for goods, services, or real estate related to your franchise business. Except as explained above, we will not derive revenue from your purchases or leases. We have not established any purchasing or distribution cooperatives.

We currently provide material benefits to franchisees based on use of designated or approved sources including the right to renew your franchise rights and to obtain additional franchises.

We negotiate purchase arrangements with suppliers, including price terms for the benefit of our franchisees. In the future, we hope to create and augment the effectiveness of cooperatives for the purchase of products and materials

and the provision of marketing, for the benefit of the **FIVE STAR FLOORING** franchise system. No purchasing or distribution cooperatives presently exist, nor are any presently contemplated.

You may not sell any products, services or activities other than those specifically recognized and approved by us as part of our franchise system without our prior written approval.

You are required to obtain and keep in force by advance payment of premium appropriate liability insurance. The insurance will include, at a minimum, the following (as of the date of this disclosure, and as may be updated in our Operations Manual):

- A. Comprehensive general liability insurance, including and products liability, completed operations, property damage, contractual liability, independent contractors liability, owned and non-owned and hired automobile coverage, and personal injury coverage with a combined single limit of at least **\$1,000,000** per occurrence and **\$2,000,000** aggregate, including umbrella coverage.
- B. Workers' compensation and employer's liability insurance, and other insurance required by statute or rule of the state in which the franchise is located and operated.
- C. Business interruption and lost profit insurance.
- D. Employer Practice liability insurance.
- E. Automobile liability insurance, including owned, non-owned, leased and hired vehicle coverage, with a combined single limit of at least \$1,000,000 for death, personal injury and property damage.

The insurance will not be limited in any way because of any insurance we maintain. Maintenance of the required insurance will not diminish your liability to us under the indemnities contained in this Agreement. The policy or policies will insure against our vicarious liability for actual and, unless prohibited by applicable law, punitive damages assessed against you. Your coverage must be issued by an approved carrier, and you must coordinate with our designated vendors or service providers to confirm proper and continuous coverage.

We may require you to increase the minimum limits of and types of coverage to keep pace with regular business practice and prudent insurance custom.

The insurance will insure us, you, and our respective subsidiaries, owners, officers, directors, partners, members, employees, servants, and agents against any loss, liability, products liability, personal injury, death, or property damage that may accrue due to your operation of the Franchise. Your policies of insurance will contain a separate endorsement naming us as an additional named insured.

9. FRANCHISEE'S OBLIGATIONS

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

<u>OBLIGATION</u>	<u>SECTION IN FRANCHISE AGREEMENT</u>	<u>DISCLOSURE DOCUMENT ITEM</u>
a. Site selection and acquisition or lease	Section 1.1 & 1.2	Items 6 & 12
b. Pre-opening purchases and leases	Sections 4.1, 5.1 & 8.2	Items 7 & 8
c. Site development and other pre-opening requirements	Sections 1.3, 3.1, 4.1 & 5.1	Items 7, 8 & 12
d. Initial and ongoing training	Sections 3.1 & 3.2	Items 6 & 11
e. Opening	Sections 4.1 and 5.1	Item 11
f. Fees	Sections 2.1, 2.2, 2.3, 2.4, 6.1, & 7.1	Items 5, 6 & 17
g. Compliance with standards & policies/ Five Star Flooring Operating Manual	Sections 5 & 6.3	Items 11 & 17
h. Trademarks and proprietary information	Sections 1.1, 5.1, 5.3, 5.4, 5.5, 5.8, 5.9, 6.5, 9.2 & 9.10	Items 13, 14 & 17
i. Restrictions on products and services offered	Sections 1.2, 1.5, 5.1, 5.2, 5.5, 5.6, 5.7, 5.9, 5.10, 6.3, 6.5	Items 8, 12, 13, 16 & 17
j. Warranty and customer service requirements	Sections 5.1, 5.2 & 5.5	Item 11
k. Territorial development and sales quotas	Section 1.1	Items 7 & 12
l. Ongoing product & service purchases	Sections 2.9, 5.1, 5.2, 5.5, 5.9, 5.10 & 8.2	Items 7 & 8
m. Maintenance, appearance and remodeling requirements	Sections 1.4, 5.1, 5.2, 5.5 & 6.5	Items 7, 11 & 17
n. Insurance	Section 8.2	Item 7
o. Marketing	Sections 1.5, 2.3, 2.4, 2.6, 5.1, 5.2, 5.3, 5.4, 5.5 & 6.5	Items 9 & 11
p. Indemnification	Sections 6.7 & 8.1	Item 6
q. Owner's participation/ management/ staffing	Sections 2.9, 3, 4.1, 5, 6.5, 6.8, 7, 9.3, 9.10, 9.12 & 9.14	Items 11, 15 & 17
r. Records and reports	Sections 2.8, 5.1, 5.2 & 5.5	Items 6, 11 & 17
s. Inspections and audits	Sections 2.9, 5.1, 5.2 & 5.5	Items 6, 11 & 17
t. Transfer	Section 7	Item 17
u. Renewal	Section 6.1	Item 17
v. Post-termination obligations	Sections 5.8, 5.9, 6.5, 6.6, 6.8, 9.9, 9.10	Item 17

w. Non-competition covenants	Sections 5.8, 5.9, 6.5, 6.6, 6.8, 9.9, 9.10	Item 17
x. Dispute resolution	Sections 9.7 & 9.8	Item 17
y. Post-Termination Default Fee	Section 6.5	Item 6

10. FINANCING

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

11. FRANCHISOR'S ASSISTANCE, MARKETING, COMPUTER SYSTEMS, AND TRAINING

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

A. Pre-Opening Obligations

Before you open your franchise, we will:

- 1) Designate your Franchise Territory in the Franchise Agreement before the Franchise Agreement is executed. (Franchise Agreement, Section 1.1) It is your sole responsibility to locate a site for the franchised business (the "Franchise Premises"), which must be approved by us within 30 days of your proposal. Our approval of the Franchise Premises is not a guarantee of the success that you will have. You may not relocate the Franchise Premises without our prior written approval. Your Franchise Premises may be situated in a home office, if such space is available to you. We generally do not own the premises or lease it to you. Your Franchise Premises must allow for you to park your vehicle, including any trailer you use, and must have adequate space for surplus or in-process materials which your operations might require you to store for brief periods of time. It must also be able to support your operations with high-speed internet access for you and any staff member(s) you retain. Outside of these factors, and the location within your Franchise Territory, we do not consider other factors in approving or disapproving your site. We will provide you a decision regarding approval or disapproval of your proposed location within two weeks. If we cannot agree on a site prior to your obligation to commence operations, you may be in default of your agreement and your investment may be at risk of being lost entirely. (Franchise Agreement, Section 1.4) Equipment, signs, fixtures, opening inventory, and supplies may be obtained with our assistance, and should be chosen from those approved in our operations manual. We do not deliver or install such items.
- 2) Provide initial orientation and training to you and your required manager(s). (Franchise Agreement, Section 3.1).
- 3) Assist you in complying with local laws and regulations to enable you to operate your franchised business, with assistance to conform the premises to local ordinances and building codes and obtaining required

permits, and/or constructing, remodeling, or decorating the premises and/or hiring and training employees, although you remain finally responsible for these.

- 4) Loan you a copy of the Five Star Flooring Operating Manual. (Franchise Agreement, Section 5.1). The table of contents for our Operations Manual as of the date of this Disclosure Document is found in this Item.
- 5) Give you a list of any approved or designated suppliers. (Franchise Agreement, Section 5.1) Our criteria for approving suppliers is contained in our Operations Manual which will be available to you.

Time to Open

The typical length of time between the signing of the Franchise Agreement or first payment of consideration for the Franchise and the opening of the Franchise for business is about 90 days. You are expected to complete the mandatory training and commence your franchise business operations within **120** days after you sign the franchise agreement. Factors that may affect this time are finding and negotiating for the franchise premises, arranging for the training session, equipping the Franchise, obtaining initial inventory, financing and business permit requirements, and your personal operational needs. Any failure caused by a war or civil disturbance, a natural disaster, a labor dispute, shortages or other events beyond your reasonable control will be excused for a time that is reasonable under the circumstances.

If the commencement of operation obligation is not fulfilled, we may terminate the Franchise Agreement by refunding one-quarter of the Initial Franchise Fee. We may retain the remaining portion of the Initial Franchise Fee. You then are required to return any product or equipment you have obtained from us. (Franchise Agreement, Section 4.1).

Operations Manual Table of Contents

The Five Star Flooring Operating Manual is hosted online and is available through our intranet. The Five Star Flooring Operating Manual is confidential and remains our property. It contains mandatory and suggested specifications, standards and procedures. We may modify the Five Star Flooring Operating Manual, but the modifications will not alter your basic status and rights under the franchise agreement. The revisions may include advancements and developments in supplies, products, equipment, sales, marketing, operational techniques, and other items and procedures used for the operation of the franchise. As of the date of this disclosure document, the Table of Contents of the current version of the Five Star Flooring Operating Manual consists of approximately **25** separate pages plus embedded content and videos and includes:

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Training

Pre-Training & Owner's Welcome

Our pre-training cycle is approximately 6-8 weeks of training and familiarization of the Five Star Flooring program before you start your business. Pre-training will be held virtually and conducted by our Brand Coaches. Our Owner's training week will be conducted in Warren, Michigan unless another location is designated (Franchise Agreement, Section 3.1). The initial training program is included in the Initial Franchise Fee. All your accommodations, travel, room, board, and wage expenses during this period are borne exclusively by you. The training program must be completed by all franchisees or their designated managers, unless, at our reasonable discretion, based upon a franchisee's experience, it is deemed unnecessary. As of the date of this disclosure document, the current agenda for the training includes.

TRAINING PROGRAM

Five Star Flooring Pre-Training		
Subject	Hours of Training	Location
Franconnect	1	Virtual
Trainual	15	Virtual
Appointment Setting	1	Virtual
CompanyCam	0.5	Virtual
Hatch	1	Virtual

Starboard & Royalties	1	Virtual
ServiceMinder	3	Virtual
Production	3	Virtual
Marketing	2.5	Virtual
Hiring	1.5	Virtual
Business' Vision	1.5	Virtual
Sales	1	Virtual

Five Star Flooring In-Person Training			
Subject	Hours in Classroom Training	Hours of On-the-Job Training	Location
Vision / Model	1	-	Training Facility, Warren, MI
Business Pipeline	1	-	Training Facility, Warren, MI
Marketing KPI	1	-	Training Facility, Warren, MI
Pricing	3	-	Training Facility, Warren, MI
Sales	8	-	Training Facility, Warren, MI
ServiceMinder	2	-	Training Facility, Warren, MI
Hatch	1	-	Training Facility, Warren, MI
Safety	1	-	Training Facility, Warren, MI
Hiring	1	-	Training Facility, Warren, MI
Warehouse Walk-through	1	-	Training Facility, Warren, MI
Production Organization	1	-	Training Facility, Warren, MI
Measure	1	-	Training Facility, Warren, MI

OneClickContractor	1	-	Training Facility, Warren, MI
Financing	2	-	Training Facility, Warren, MI
Royalties	1	-	Training Facility, Warren, MI
Commissions	1	-	Training Facility, Warren, MI
Expanding Territories	1	-	Training Facility, Warren, MI
Sales Ride Along	-	2	Training Facility, Warren, MI
Measure Ride Along	-	1	Training Facility, Warren, MI

*The Training Schedule may be amended.

Our trainers are: Dominic Ortman, Dean Hartley, and various Brand Coaches.

Dean Hartley has been the Brand President of Five Star Flooring since its incorporation, and has been Brand President of our affiliate, Five Star Bath, LLC since August of 2014, and has worked in the home services industry since 2007. Dean brings extensive knowledge of flooring renovation and installation knowledge, backed up by being a dynamic business owner.

Dominic Ortman has been acting as Vice President of Operations for Five Star Flooring since its incorporation, and has been Vice President of Operations of our affiliate, Five Star Bath, LLC, since September October of 2023. Dominic brings operational & team building excellence from previous roles with Tailored Brands & Bob's Furniture.

You must request to schedule a training session for your or the manager at least 35 days before the session is to start. Training is scheduled and held on an "as needed" basis depending on the number of franchisees requesting training in a particular time frame and the franchisor's training personnel's availability. The training session must be completed no later than 2 weeks before the scheduled date of the opening of the franchise.

You or any designated full-time manager must complete the initial mandatory training program to our satisfaction or we may terminate the Franchise Agreement upon refunding the Initial Franchise Fee. You are encouraged to attend the training session as soon as possible after executing the Franchise Agreement and before incurring any costs or expenses related to the opening of the Franchise. We will not be liable for your costs or expenses if we terminate the Franchise Agreement because you or the manager fails to complete the mandatory training to our satisfaction.

You are responsible for all expenses you and your employees incur to attend the initial training, including transportation, meals, accommodations and entertainment.

You, or one of your employees, must complete initial training within six months of the date of the franchise agreement.

If you desire to have more than two individuals receive initial training, these additional individuals will be accommodated at our convenience. We reserve the right to charge a reasonable fee for the provision of the training regardless of when and where the individuals participate in initial training.

We may at any time during initial training inform you that an individual attending training on your behalf is not suitable due to criminal activities, disruptive behavior, poor attendance or other reasons. Upon that notice, our obligations to train that individual will be deemed to have been discharged.

If the franchise is managed by any persons other than you, you must notify us of the identity of the managers. Each manager as hired must successfully complete the mandatory training program within one month after being hired. You will pay for this training at our then current fee.

After completion of the mandatory training program, you or your designated installer must also receive installer training. This may be completed immediately following the mandatory training program at our headquarters. The installer training program will provide you or your designated installer with the specific techniques and nuances that relate to the products used in the Five Star Flooring system. You, or one of your employees, must complete installer training prior to commencing operations of your franchise. You will pay the transportation, board, and lodging expenses you or the installer incur related to this training, including transportation, meals, accommodations and entertainment.

You or your manager must attend the regularly scheduled huddles, meetings, and conferences which are identified and scheduled by us as set forth in the Operations Manual. These are offered to provide, at no cost, additional and ongoing training aimed at your business performance and improvement. If any are rescheduled without at least 2 business days' notice, your absence will be regarded as excused. Likewise, if you obtain prior permission to be absent, such will not impact your compliance with these requirements.

Although not required by agreement, we may, at our discretion or upon your request, provide other supervision, assistance, and services before the opening of your business; such as literature, marketing materials, displays, flyers, additional training assistance and a selection of inventory and supplies.

B. Our Obligations DURING the Operation of Your Franchise Business

After you open your franchise, we will:

- 1) Provide you with such continuing advice and guidance as we reasonably determine as necessary. In particular, we will provide you advice and guidance regarding:
 - selection, purchasing, stocking and display of product and supplies;
 - hiring and training of employees;
 - formulation and implementation of marketing and promotional programs;
 - establishment and maintenance of administrative, and general operating procedures;
 - improvements to the system, including new products and services development;
 - financial advice and consultation; and
 - the manner in which products and services are offered, including establishing pricing guidelines as set forth within our proprietary sales software and in the Operations Manual.

- 2) At your option and upon not less than thirty-five days' prior written notice to us, you may receive additional training at our training center or at other agreed upon locations. All expenses of this training will be borne by you, including but not limited to your travel, lodging, meals, compensation, and our reasonable costs and expenses including a reasonable training fee at our then current rates. This additional training consists of visits to our franchises, work experience and observation of franchise operations. The duration of training is negotiable depending upon your needs. You will not receive any compensation for services rendered by the trainee during this or any other training. (Franchise Agreement, Section 3.2).
- 3) From time to time we may provide refresher training programs or seminars and may require that you or your managers attend and complete them to our satisfaction. These programs and seminars will be held at locations we designate and will be provided without charge to you. You will be exclusively responsible for paying all travel, living and other expenses and compensation of attending these programs and seminars. Each year, you or the designated managers of your Franchise will be required to attend up to 20 hours of programs and seminars, depending upon program and seminar availability. In addition, we may deem it appropriate or necessary to provide additional training and supervision to you and your managers and employees at your franchise location. If so, you will fully participate in and complete this additional training and supervision, including additional or revised training programs and processes that may be added to the Five Star Flooring Operating Manual in the future. We may charge a reasonable Training Fee for these additional training sessions. (Franchise Agreement, Section 3.2)
- 4) Administer our marketing program and formulate and conduct national and regional promotion programs. Advertising materials may be provided by us, or may be provided by a national or regional agency, or other approved supplier. We are not obligated to expend any minimum amount on marketing in your territory.
- 5) Inspect the Franchise and conduct activities to ensure compliance with the terms of the Franchise Agreement and Five Star Flooring Operating Manual to assure consistent quality and service throughout our franchise system. (Franchise Agreement, Sections 2.9 and 5).
- 6) Inspect the facilities of your manufacturers, suppliers, and distributors and notify you and the manufacturers, suppliers, and distributors in writing of any failure to meet our specifications and standards. (Franchise Agreement, Sections 2.9 and 5).
- 7) We may provide other supervision, assistance or services although we are not bound by the Franchise Agreement or any related agreement to do so. These may include among other things: marketing materials, literature, additional assistance in training, promotional materials, bulletins on new products or services, and new sales and marketing techniques or developments.

Marketing

Currently we promote our franchises through print, internet, and direct mail media. Marketing programs may be implemented locally and regionally through marketing cooperatives. We may use in-house marketing departments and may use national and regional marketing agencies. We may provide to you marketing materials and point of sales aids for you to use in your local marketing and promotional efforts. We will use your National Marketing Fees to place marketing in geographic areas, in media, at times and using products and services we deem to be in the best interest of our franchisees and our franchise system. We currently require your search engine optimization or "SEO" internet marketing services to be obtained through our parent's affiliate, Five Star Marketing, with other approved vendors for pay-per-click (PPC) and social media marketing.

We will provide you access to marketing and promotional materials as may be developed by us from time to time. We reserve the right to charge you a fee for these materials. All published marketing or sales material in any media

must be approved in writing by us prior to release to the public. If you fail to obtain our prior written approval, then you must pay us \$500 per each unapproved marketing item, as liquidated damages and not as a penalty. You are required to participate in our national marketing campaigns or lead generation programs/services during all times that such campaigns, programs, or services are occurring.

Marketing Funds

You are required to pay to us up to 2.5% of your monthly Gross Revenue as a National Marketing Fee, and certain minimum National Marketing Fees also apply (see Item 6, above). We reserve the right to temporarily lower, suspend, or rebate the National Marketing Fee at any time, upon prior written notice to you and to our other franchisees. We will administer the capital we receive as National Marketing Fees and direct all regional and national marketing programs with sole discretion over the creative ideas, materials, endorsements, placement, and allocation of overhead expenses. We may use the National Marketing Fund, derived from such capital, to maintain, administer, direct, prepare, and review national, regional, or local marketing materials and programs as we, in our sole discretion, deem proper. We are under no obligation to administer the National Marketing Fund to ensure that expenditures are proportionate to contributions of franchisees for any given market area or that any franchise benefits directly or proportionately from the development or placement of marketing. We shall not be obligated to expend all or any part of the Fees we receive during any specific period, and are not obligated to spend any amount on marketing within your territory.

Each of our company-owned Five Star Flooring operations in the United States offering products and services similar to our franchisees will make contributions to the fund equivalent to the contribution percentage required of our franchisees.

Any National Marketing Fund proceeds not used in the fiscal year in which they were contributed will be applied and used for marketing expenses in the following year.

We do not use any of the National Marketing Fund to advertise our franchise opportunity, although we will place notices that franchises are available on marketing materials and on the internet. While marketing materials note that franchises are available from us, no marketing fees or assessments we collect from our franchisees are used for marketing that is principally a solicitation for the sale of franchises.

Summary of National Marketing Fund Contributions and Expenses for Fiscal Year 2025

Marketing Fund Contributions: \$0
Marketing Fund Expenses: \$0 (there was no excess)

Expenses by Category:

Paid Marketing:	0%
Corporate Overhead:	0%
Software:	0%
Outsourced Services & Trade Shows:	0%
Pilot Programs, Sponsorships and	
Misc. Costs:	0%

The National Marketing Fund is administered by us. The National Marketing Fund is not audited. Neither we nor any of our parents, affiliates, or owners receive any payment for providing goods or services paid for by the National Marketing Fund. You may obtain an accounting of the National Marketing Fund and expenditures upon written request to us.

Territory Marketing Expenditures

In addition to your obligation to pay to the National Marketing Fees, each month you will expend in your local market at least **10%** of your Gross Revenue to advertise and promote your Franchise (the "Territory Marketing Requirement"). You will report the nature, extent, and amount of these local expenditures in the form and at the times we require in the Operations Manual.

Promotional Materials

You will submit to us all marketing copy and other marketing and promotional materials before you use them in your local marketing program. You will not use any marketing copy or other promotional material until we approve it. You specifically acknowledge and agree that any web site will be deemed "marketing" under the Franchise Agreement and will be subject to, among other things, our approval, restrictions, and requirements outlined in the Five Star Flooring Operating Manual. The term "web site" means an interactive electronic document contained in a network of computers linked by communications software you operate or authorize others to operate that refers to the franchised business, proprietary marks, us, or the Method of Operation. The term web site includes, but is not limited to, Internet and World Wide Web home pages.

Marketing Cooperatives

At the time of this disclosure, no advertising council, composed of franchisees, has been organized and is not contemplated. We may designate local, regional, or national marketing coverage areas for the development of cooperative local or regional marketing and promotional programs. An "marketing coverage area" is defined as the area covered by a particular marketing medium such as television, radio, or other medium, as recognized in the media industry. We will designate the geographic boundaries of cooperative marketing and promotional programs and the respective marketing coverage areas of these programs. We have the power to require cooperatives to be formed, changed, dissolved, or merged. As of the creation of this document, no such marketing coverage areas or marketing cooperatives are in place.

We will promptly notify you and our other franchisees of the establishment, modification, and geographical boundaries of regional marketing regions. We may require all franchisees located within each marketing region to meet periodically for the purpose of creating and establishing regional marketing programs. Each franchise and each operation we, our parent, or our affiliates own and operate will be entitled to one vote at these meetings. For the purpose of this subsection, each operation we own will be deemed to be a franchise.

If at any meeting of the franchisees in a marketing region, **65** percent of the franchisees vote to contribute to a regional marketing program, all franchisees within that region will be obligated to make a contribution to a regional marketing fund in the amount established by the vote (the "Regional Marketing Fund"). For purposes of voting among franchisees in an marketing region for approval of contributing to a regional marketing program, franchisor-owned outlets shall have the same voting power as other franchisees, save that in no event shall all votes approving contribution to a regional marketing program come exclusively from franchisor-owned outlets. No marketing region may require any franchisee in that region to make a contribution to a Regional Marketing Fund in excess of **two** percent of that franchisee's Gross Revenue. Your contributions to regional cooperative marketing or promotional programs will be credited toward the minimum monthly local marketing and promotional expenditure required in

Franchise Agreement, Section 2. "Marketing coverage area" is defined as the area covered by a particular marketing medium such as television, radio, or other medium, as recognized in the industry. At the time a cooperative local or regional marketing or promotional program is developed, we will provide to you a list of all open Five Star Flooring franchises within your marketing coverage area.

We will administer each Regional Marketing Fund in the same manner and upon the same terms and conditions as the National Marketing Fee outlined in this Item 11. (Franchise Agreement, Section 2.3). There are no other written governing documents that govern any cooperative marketing program. No Regional Marketing Fund will be audited. However, we will prepare annual financial statements that you may obtain upon written request to us.

Your contributions must be paid to the cooperative administrator we designate, when and in the same manner as the Royalty Fee and National Marketing Fee payments are paid to us. Please refer to Items 6, 8, and 9 for more information about our marketing programs.

Other than the National Marketing Fees and the Regional Marketing Funds described above, there are no other marketing funds in which you must participate.

Computer Systems

We will require you to have a computer system with accounting and business control capacities. You must lease, purchase, or otherwise acquire, from sources of your choice and at your expense, software and hardware which strictly conform to our specifications. We will give you at least 90 days' written notice, describing the hardware, software, and upgrading requirements of the system before you are obligated to initially install the computer systems. Required computer systems, hardware, and software generally cost between \$500 and \$1,500.

You must use our proprietary software and reporting systems or other designated software and systems. To ensure consistency throughout the franchise system, you will be required to use our designated software for all estimating. (Franchise Agreement, Sections 5.10). We have no contractual obligation for maintenance, repairs, updates, or upgrades to your computer systems.

You must have a laptop computer or tablet device and cell phone. You must also have an ability for your laptop computer or tablet device to remotely connect to the internet. We require that your laptop computer or tablet device and communications systems meet the following minimum requirements:

- Reliable high-speed internet access
- Compatible internet browser to run our online software, and approved accounting software
- Chrome browser compatibility
- Mobile printing functionality
- Adequate hard drive, cloud storage, or removable memory to save and back up company files

We may require you to use an information processing and communication system that is fully compatible with any program or system which we, in our sole discretion, may employ. If we require, you must record and transmit all financial information using this system and our designated ISP or other communication vendors. We may at our discretion change standards for reporting to provide effective technology for the entire system. We will have full ability to poll your data, system, and related information by means of direct access whether in person or by telephone/modem. We will have independent access to the information that will be generated and stored in your information processing and communication system. We will have access to all of the data repositied in this system anticipated to be composed of customer and order information and communications, and there will be no contractual

limitation on our right to access your information or data. The required computer systems will generate and store non-identifiable data relating to revenues and will generate a confidential customer database which remains our property. We will not implement any electronic system that will disrupt or damage your electronic system, and our access will be read-only.

Other than any proprietary software referenced above, none of the hardware or software you are required to obtain is proprietary to us. Any hardware and software that is functionally equivalent and fully compatible to that listed may be used, except for your estimating software.

You must pay us for upgrades to our proprietary software. The cost of those upgrades will not exceed \$500 during any calendar year. For other designated software, upgrade costs will be the amount agreed upon between you and the approved supplier of such software. Other than the required upgrades to our proprietary software, you may, but are not obligated to, update or upgrade hardware and software during the term of the agreement. We estimate that these optional updates or upgrades will be approximately \$0 to \$250 per year. This hardware and software is used for communications, accounting and record keeping. We do not now have, but may in the future require, independent access to and use of the information and data on your other computer systems. There are no contractual limits on such access and use.

We will give you free technical software support for so long as we deem necessary for you to sufficiently understand our software. We will give you 45 days advance notice when we deem it reasonable for you to pay a reasonable technical support fee to receive additional technical support. We estimate that the technical support fee would be no more than \$250 per month.

12. TERRITORY

Franchise Territory

We will grant you a specific territory or location within which you will operate your franchised business (the “Franchise Territory” or “Territory”) which is defined in your Franchise Agreement, generally as a set of ZIP codes. The franchise allows you to operate within your territory, and if you open a storefront (which is not required), at an approved location within your territory. A typical franchise territory consists of up to approximately **150,000** households. The exact location of the Franchise Territory offered to you will depend upon our market analysis, market penetration plans, and franchise placement strategies. Your approval will also be considered in designating the Franchise Territory. Among the factors we consider to determine the feasibility of possible franchise territory locations are population demographics and other businesses in the area according to census and chamber of commerce information.

The Franchise Territory is identified in Section 1.1 of the Franchise Agreement. Before you sign the Franchise Agreement, the geographical boundaries of your Franchise Territory will be described in the Franchise Agreement. The Franchise Territory will be identified using geographical or political boundaries.

The Franchise Territory is an exclusive territory. So long as the Franchise Agreement is in force and you are not in default in any material provision of the Agreement, we will not establish or allow others to establish a **FIVE STAR FLOORING** business within your Franchise Territory. You may not establish or operate any other **FIVE STAR FLOORING** establishment without executing a separate franchise agreement for that facility. To maintain your protection, you must meet certain minimum annual revenue targets, or we will have a right to reduce your territory size. Those thresholds are as follows:

Year 1: no minimum revenue target

Year 2: annual minimum revenue target of \$1.50 per household of territory

Year 3: annual minimum revenue target of \$2.00 per household of territory

Year 4, and thereafter: annual minimum revenue target of \$3.00 per household of territory

If you fail to meet these minimum revenue targets, and desire to maintain your territory, you must pay as an adjusted minimum royalty the difference between your actual royalties, and the royalties which would have been owed had you met the annual minimum revenue target. Failure to pay such adjusted minimum royalty may result in a reduction of your Franchise Territory size, or in our approval of other franchisees to provide services in your Franchise Territory.

To establish additional franchise outlets, you must not be in default in any material provision of any and all agreements between you and us; your proposed location must meet our franchise placement and market penetration criteria; and you must sign our then-current franchise agreement.

Under certain circumstances, including having an existing relationship of at least six months with a customer, you may operate for such a customer only, outside your territory. Other Franchisees will be given this same right. Thus, for certain customer relationships (referred to as “Reserved Client” relationships), your territory’s protections may

be softened. Except as concerning qualified Reserved Client orders, neither you nor other franchisees will be permitted to make sales to clients outside your territory, including through alternative channels such as internet, catalog, telemarketing, or direct marketing.

You agree not to conduct the business outside the Franchise Territory without our prior written consent. If we give such consent, designating any areas as “Operational Areas,” such consent may be revoked by us at any time. You receive no owned territory rights associated with Operational Areas, but instead are given conditional permission to operate your franchised business in such Operational Areas. Such permission is given in our sole discretion. Our designation of any area as an “Operational Area” shall not give you any right to such area, and the Operational Area may be sold by us at any time. Additionally, if during any calendar year, greater than ten percent (10%) of your annual gross revenues are realized from any single ZIP code within Operational Area, we may require that you purchase the Operational Area.

You are not permitted to engage in any marketing, install any products, or provide any services, at locations outside of the Franchise Territory, unless you have obtained our prior written consent. Currently, you may request permission to engage in marketing, install products, provide services, in territories known as “unowned territories” in accordance with the requirements, terms and conditions in the Manual. If we give you permission to engage in marketing, install products or provide services in any unowned territory, we have the right to sell or assign such territory or any party of it, at any time, without prior notice to you. You will not have a right of first refusal or option to buy any unowned territory you formerly marketed in or worked.

Although we will not grant another Five Star Flooring Franchise the right to engage in any marketing, install any products, or provide any services in your Franchise Territory, we don’t promise that another franchisee will not violate his or her franchise agreement and conduct business in your territory. If a franchisee does so, we may require the franchisee to immediately pay to us or, at our option, to you, post-Termination Default Fee of \$5000 per installation, project, or sale, provided we have the right to do so under the terms of that franchisee’s agreement. If we require the franchisee to pay post-Termination Default Fee to you (or we remit to you post-Termination Default Fee paid by that franchisee to us), that payment is your sole remedy against us and the other franchisee for that installation of products or provision of services. However, we have no obligation to seek post-Termination Default Fee.

We reserve the right to acquire the assets or ownership interests of one or more businesses providing services similar to those provided by the Franchised Business, and franchising, licensing or creating similar arrangements with respect to these businesses once acquired, wherever these businesses (or the franchisees or licensees of these businesses) are located or operating (including within the Territory).

We, our parent, and our affiliates, reserve the right to use other channels of distribution (such as the internet, catalogues, telemarketing, and direct marketing) to make sales within your territory while using our principal Trademark. If we do so, we are not obligated to compensate you for conducting business within your Franchise Territory.

You are granted the right to conduct business only inside your Franchise Territory. You are restricted from soliciting or accepting orders from customers outside your Franchise Territory, and do not have any right to use other channels of distribution, including the internet, catalogues, telemarketing, and direct marketing, to make sales outside of your Franchise Territory.

We do not currently, and do not have plans, to operate or franchise a business under a different trademark that would sell goods or services similar to those that you offer.

Relocation

You must receive our written permission before you relocate your franchise. Any relocation will be at your sole expense. You must satisfy our then current franchise placement and demographics criteria, as expressed in the Operations Manual.

Continuation of Your Franchise

Your territorial exclusivity not dependent upon achievement of those certain sales values described earlier. There are no other circumstances that permit us to modify or alter your territorial rights during the term in your Franchise Agreement.

First Right of Purchase and Right of First Refusal

You do not receive the right to acquire additional franchises or grant sub franchises within the Franchise Territory or in contiguous territories. Other than the first right of refusal outlined above, you have not been extended options, rights of first refusal, or similar rights to acquire additional franchises or grant sub franchises within the Franchise Territory or in contiguous territories.

Minimum Sales Quota

You must meet certain minimum annual revenue targets, or we will have a right to reduce your territory size.

Those thresholds, as described earlier, are as follows:

Year 1: no minimum revenue target

Year 2: annual minimum revenue target of \$1.50 per household of territory

Year 3: annual minimum revenue target of \$2.00 per household of territory

Year 4, and thereafter: annual minimum revenue target of \$3.00 per household of territory

If you fail to meet these minimum revenue targets, and desire to maintain your territory, you must pay as an adjusted minimum royalty the difference between your actual royalties, and the royalties which would have been owed had you met the annual minimum revenue target.

13. **TRADEMARKS**

We have registered the following marks on the Principal Register of the U.S. Patent and Trademark Office and have maintained their registration through filing of all required declarations and renewals (which have not yet been required), and have filed or will file all required affidavits to maintain or renew the marks:

Mark: Five Star Flooring

Serial Number: 99494737
Application Date: November 13, 2025
Registration No. pending
Registration Date:



Mark:
Serial Number: 99687857
Application Date: March 6, 2026
Registration No.
Registration Date:

We also claim common law rights to the "FIVE STAR FLOORING" name, marks, and logos, including the following logo, based on our exclusive use of the name, marks, and logos in interstate commerce.

The logo and word mark, including the principal trademark in this FDD, are not registered in the Principal Register of the U.S. Patent and Trademark Office. We do not have a federal registration for our principal trademark. Therefore, our trademark does not have many legal benefits and rights as a federally registered trademark. If our right to use the trademark is challenged, you may have to change to an alternative trademark, which may increase your expenses.

We will allow you to use these and all other trade names, trademarks, service marks, and logos we now own or may in the future develop for our franchise system. We refer to all these commercial symbols as the "trademarks."

The trademarks are our and our parent's exclusive property. You will immediately notify us of any infringement of, or challenge to, your use of the trademarks. We and our parent will have sole discretion to take or not to take action, as we deem appropriate. We are not required to protect your rights to use the trademarks or to protect you against claims for infringement or unfair competition arising out of your use of the trademarks. We and our parent have sole discretion as to whether to defend you against or indemnify you for expenses or damages incurred due to claims of infringement or unfair competition arising out of your use of the trademarks. The franchise agreement does not require us to take affirmative action when notified of such uses or claims or to participate in your defense or indemnify you for expenses or damages if you are a party to an administrative or judicial proceeding involving the trademarks, or if the proceeding is resolved unfavorably to you. We have the sole right to control any administrative proceedings or litigation involving the trademarks.

You must follow our rules when you use the trademarks. You may not use the trademarks in any manner we have not authorized in writing.

All goodwill associated with the trademarks, including any goodwill that might be deemed to have arisen through your activities, will accrue directly and exclusively to our and our parent's benefit, except as otherwise provided by applicable law.

You may not use or give others permission to use the trademarks, or any colorable imitation of them, combined with any other words or phrases.

We may change or modify any part of the trademarks at our sole discretion. You will accept, use and protect, for the purposes of the franchise, all changes and modifications as if they were a part of the trademarks at the time the franchise agreement is executed. You will bear all costs and expenses that may be reasonably necessary because of these changes or modifications. Under no circumstances will we be liable to you for any damages, costs, losses, or detriments related to of these changes or modifications.

There are no presently effective determinations of the U.S. Patent and Trademark Office, the trademark administrator of any state or any court, any pending interference, opposition or cancellation proceeding and any pending material litigation involving the trademarks in any state.

We have entered into a Consent Agreement with Erick Medal and Five Star HardWood Floors, LLC, concerning their registered trademark “Five Star HardWood Floors” and a related logo trademark, allowing them to operate under such marks in and around New Jersey, and allowing us to offer our services and apply for trademark protections in all other locations.

Other than these, there are no agreements that concern our rights to use or license the use of the trademarks. We know of no infringing uses that could materially affect your use of the trademarks.

14.

PATENTS, COPYRIGHT, AND PROPRIETARY INFORMATION

We intend to affix a statutory notice of copyright to our Five Star Flooring Operating Manual, to most of our marketing products, and to our paper and service products, and to all modifications and additions to them. There are no determinations, agreements, infringements or obligations currently affecting these notices or copyrights. You have no rights to the copyrighted material. You are granted the right and are required to use the copyrighted items only with your operation of the franchise during the term of your franchise agreement.

The Five Star Flooring Operating Manual is described in Item 11. Although we have not filed applications for copyright registration, all copyrighted materials are our property. Item 11 describes limits on use of the copyrighted materials by you and your employees. We claim proprietary rights in our proprietary estimating software and reporting systems. We consider these proprietary systems as our trade secrets. You are only permitted to use our proprietary systems in accordance with the Franchise Agreement and only as long as you are a franchisee. You must contact us immediately if you learn of any unauthorized use of our proprietary information. You must also agree to not contest our rights to and interest in our copyrights and other proprietary information.

We have no patents and no pending patent applications material to your franchise.

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

We recommend that you or one of your owners if you are a corporation or partnership, participate fully in the actual day-to-day operation of the franchise business. However, you are not required to participate in the day-to-day operations of your franchise by the Franchise Agreement or any other contractual obligation with us. You may designate a Manager to assume responsibility for day-to-day operations. We do not impose any restrictions on who may serve as a Manager of your franchise; however you should exercise reasonable care in selecting your employees. Any Managers you employ to help you to operate the franchise must successfully complete the mandatory training program described in Item 11. Your manager is not required to have an equity interest in your franchise. The Manager and all of your owners must agree to be bound by the confidentiality and non-competition provisions of the Franchise Agreement in writing.

Each of your owners must assume and agree to discharge all of your obligations under the franchise agreement.

Our Step-In Rights. As outlined in Section 6.7 of the Franchise Agreement, to prevent any interruption of the franchised business that would cause harm to the franchise and to our franchise system and lessen their value, we may step in to operate the franchise when we deem necessary. Reasons may include our determination that: you are incapable of operating the franchise; you are absent or incapacitated because of illness or death; you have failed to pay when due any taxes or assessments against the franchise or property used in connection with the franchise; you have failed to pay when due any liens or encumbrances of every kind placed upon or against your business property; or we decide that operational problems require us to operate the franchise for a time.

All Revenue derived from our operation of the franchise will be for your account. We may pay from that Revenue all expenses, debts, and liabilities we incur during our operation of the franchise. We will keep in a separate account all Revenue generated by the operation of your business, less the expenses of the business, including reasonable compensation and expenses for us and our representatives.

16.
RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

We require that you use, offer, and sell only those products and services that we approve in writing. (See Item 9.) You must offer all products and services that we designate as required by our franchisees. We reserve the right, without limitation, to modify, delete, and add to the authorized products and services. You will not be limited in the customers to whom you may sell goods and services.

17.
RENEWAL, TERMINATION, TRANSFER, AND DISPUTE RESOLUTION

THE FRANCHISE RELATIONSHIP

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

<u>Provision</u>	<u>Section in Franchise Agreement</u>	<u>Summary</u>
a. Length of the franchise term	Section 1.1	10 years
b. Renewal or extension of term	Section 6.1	If you are in good standing, you may renew for periods of 10 years under the terms of our then current franchise agreement forms that may have materially different terms and conditions than your original contract.
c. Requirements for franchisee to renew or extend	Section 6.1	“Renewal” means that you, upon the expiration of the original term of the franchise agreement, have the right to enter into a new agreement according to our then-current franchise agreement forms that may have materially different terms and conditions than your original contract. You must give notice at least three and not more than 6 months before expiration of the initial term; faithfully perform under the initial agreement; refurbish the Franchise and replace obsolete equipment; sign general release; sign a new agreement; pay up to \$2,500 renewal fee; and go through retraining.
d. Termination by franchisee	Section 6.2	You may terminate the Franchise Agreement if you comply with the terms of the Franchise Agreement and if

		we substantially breach any material provision of the Agreement and fail to cure or reasonably to begin to cure that breach within 30 days after receipt of written notice specifying the breach. Termination will be effective 10 days after you deliver to us written notice of termination for our failure to cure within the allowed period.
e. Termination by franchisor without cause	Not applicable	We cannot terminate unless you are in default
f. Termination by franchisor with cause	Section 6.3	We can terminate only if you default.
g. "Cause" defined – curable defaults	Section 6.3(A)	You have 30 days to cure any default not listed in Section 6.3.
h. "Cause" defined – non-curable defaults	Section 6.3(B)	Bankruptcy and insolvency, abandonment, repeated default, misrepresentations, levy of execution, criminal conviction, noncompliance with laws, non-payment of fees, repeated under reporting of sales, disclosure of information.
i. Franchisee's obligations on termination/non-renewal	Section 6.5 & 6.8	De-identification, return of manuals, release of phone numbers and listings, de-identification of your franchise equipment and premises, payment of sums owed, confidentiality, and non-competition.
j. Assignment of contract by franchisor	Section 7.1	There are no restrictions on our right to transfer.

k. "Transfer" by franchisee - defined	Section 7.1	Restrictions apply if you sell, transfer, assign, encumber, give, lease, or sublease (collectively called "transfer") the whole or any part of: the franchise agreement, substantial assets of the franchise, or ownership or control of you.
l. Franchisor approval of transfer by franchisee	Section 7.1	We have the right to approve all transfers.
m. Conditions for franchisor approval of transfer	Section 7.1	The transferee must qualify as a franchisee, he must assume your obligations, you may not be in default, the transferee must successfully complete the mandatory training, the current assignment fee is the greater of \$10,000 or 5 percent of the proposed purchase price for the Business, plus applicable taxes, the transferee must sign a new franchise agreement on our then current terms, and you must release us. Depending on your volume of operations and sales over the preceding 12-months prior to transfer, an escrow amount of up to 5% of the purchase price may additionally be withheld to fund warranty claims during the 12-month period immediately following the transfer of the franchise.
n. Franchisor's right of first refusal to acquire franchisee's business	Section 7.3	If you receive an offer, we will have the right to purchase on the same terms and conditions as offered to you, 60 -day notice and right to decide.

o. Franchisor's option to purchase franchisee's business	Section 7.3	You will give us the right of first purchase before soliciting offers from a third party if you choose to sell your franchise business. You agree to notify us in writing if you desire to sell or transfer any interest in you or in your franchised business. We will elect to exercise our option to purchase within 60 business days after our receipt of your written notification. If we offer you an amount that you do not agree to, you may try to sell to a third party. You are obligated before any transfer to a third party to comply with all criteria outlined in the paragraphs related to First Right of Refusal.
p. Death or disability of franchisee	Section 7.2	Within 180 days, your heirs, beneficiaries, devisees or legal representatives may apply to continue to operate the franchise, or transfer Franchise interest.
q. Non-competition covenants during the term of the franchise	Sections 5.8 & 5.9	You may not disclose confidential information or compete.
r. Non-competition covenants after the franchise is terminated or expires	Sections 5.9 & 6.8	After termination of the Franchise Agreement, no competition is allowed for 720 days within the Territory, within a 100-mile radius of the Territory, within a 100-mile radius of any location where we operate or have granted the franchise to operate a Five Star Flooring business, and within the United States of America.

s. Modification of the agreement	Sections 5.5 and 9.7	We may modify the Operating Manual. Modifications to the language of the Franchise Agreement require the signed written agreement of the parties.
t. Integration/Merger clause	Sections 5.1, 5.5, & 9.7	Subject to relevant state law, only the terms of the Franchise Agreement and Five Star Flooring Operating Manual are binding. Any other promises may not be enforceable. Nothing in the Franchise Agreement or in any related agreement is intended to disclaim the representations we make in the Franchise Disclosure Document.
u. Dispute resolution by arbitration or mediation	Section 9.8	Except for certain claims, all disputes must be arbitrated in accordance with the provisions of the <i>Arbitration Act</i> of the State of Utah in Utah, except as stated in State Addenda to this Disclosure Document. The Franchise Agreement prohibits disputes from being arbitrated on a class or consolidated basis.
v. Choice of forum	Section 9.8	Litigation must be in Utah County, Utah, except as stated in State Addenda to this disclosure document and subject to applicable state law.
w. Choice of law	Section 9.8	Except as stated in State Addenda and subject to applicable state law, Utah law applies except as otherwise provided in the Franchise Agreement and

		subject to state laws in those states whose laws require exclusive application and except to the extent governed by the United States Trademark Act.
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See State Law Addendum for additional, state-specific disclosures.

18.
PUBLIC FIGURES

No public figures are involved in our franchise program.

19.
FINANCIAL PERFORMANCE REPRESENTATIONS

The FTC’s Franchise Rule permits a franchisor to provide information about the actual or potential financial performance of its franchised and/or franchisor-owned outlets, if there is a reasonable basis for the information, and if the information is included in the Disclosure Document. Financial performance information that differs from that included in this Item 19 may only be given 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.

Financial Performance Representation

Controlled Locations

The Five Star Flooring Macomb location was previously operated as In and Out Floors, as it was owned and managed by Dean Hartley. This location was acquired by us in 2025. Mr. Hartley remains our Brand President and a full-time employee of our Parent. The data below represents its operations while it operated as In and Out Floors from September 1, 2024 through August 31, 2025 (the twelve full months occurring prior to our acquisition), and thus reflects all company-controlled locations. Since acquiring it, we have created the franchise system described in this FDD and under which it will operate. Its performance is provided here with adjustments (annotated for clarity below the chart) so that it omits owner-level expenses in significant part and also adjusts certain expenses so as to more closely reflect those which would likely be consistent with typical operations of independent owners. It also reflects an adjustment to revenue to conform to the price increase implemented during 2025. This location is not operated in a manner anticipated to be different from your Franchise Business save for these pilot programs and these adjustments for owner-level expenses.

Note: these expenses and categories of expenses reflect the operations at the Controlled Location, and your specific operations may result in variations from those reflected in this representation. In particular, your personnel and

staffing decisions may create significant variation from the reflected and reported data. Owner add-backs have been removed, to reflect operational expenses customary to franchisees operating their businesses and avoid confusion relating to such personnel-related decisions and the associated bookkeeping entries.

Performance of In and Out Floors, now known as Five Star Flooring, at its Michigan corporate-owned location from September 1, 2024 through August 31, 2025

Adjusted Revenue (see Note 1)	\$2,895,922	
COGS (Installation + Material)	\$1,629,764	
Gross Profit	\$1,266,158	43.72%
Expenses		
Advertising	\$362,129	12.50%
Overhead (see Note 2)	\$124,387	4.30%
Admin Labor (see Note 3)	110000	3.80%
Sales Labor (see Note 4)	\$121,035	4.18%
Royalty	\$144,796	5.00%
Ad Fund	\$57,918	2.00%
Total Expenses	\$920,266	
Adjusted Net Profit	\$345,892	11.94%

Note 1
Actual revenue from this period was \$2,758,021; however, such did not reflect a cost increase of \$0.50/sq ft which has been implemented. Since this would not alter expenses, and was not reflected, it has been incorporated in the adjusted revenue to accurately reflect the performance as though the cost increase had been implemented throughout the reporting period.

Note 2
Overhead includes expenses for utilities, telephone, office supplies, software, credit card processing fees, and insurance

Note 3
Admin labor includes an adjusted cost for telephone answering commensurate with our familiarity with the cost you will be charged by use of our designated vendor, rather than payment of personnel costs on your payroll (the actual expense while our company-controlled location operated without the benefit of this was \$90,294.31, compared with the allocation of \$40,000 here as anticipated with our vendor). Similarly, it reflects the imputed cost of a \$70,000 annual salary for an administrative team member so that you will be enabled to handle other project management tasks.

Note 4
Sales labor has been adjusted from the expense actually incurred (\$242,070) to reduce by half, on the assumption that you as the owner will handle half of all sales responsibilities to align with the allocation of responsibility anticipated for all franchisees.

This is the historical performance of our controlled location. Some outlets have earned this amount. Your individual results may vary. There is no assurance that you will earn as much.

Written substantiation for this financial performance representation is available to you upon reasonable written request.

Some outlets have sold this amount. Your individual results may differ. There is no assurance that you'll sell as much.

Other than the preceding financial performance representation, Five Star Flooring Franchise, LLC does not make any financial performance representations. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor's management by contacting Dean Hartley at 761 W. 1200 S., Ste 200, Springville UT 84663, 801-551-5415, the Federal Trade Commission, and the appropriate state regulatory agencies.

20.
OUTLETS AND FRANCHISEE INFORMATION

Table No. 1
SYSTEMWIDE OUTLET SUMMARY
As of December 31 for Years 2023, 2024, and 2025

Column 1	Column 2	Column 3	Column 4	Column 5
Outlet Type	Year	Outlets at the Start of the Year	Outlets at the end of the Year	Net Changes
Franchised				
	2023	0	0	0
	2024	0	0	0
	2025	0	0	0
Company Owned				
	2023	0	0	0
	2024	0	0	0
	2025	0	6	+6
Total Outlets				
	2023	0	0	0
	2024	0	0	0

	2025	0	6	+6
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Table No. 2
TRANSFERS OF OUTLETS FROM FRANCHISEES TO NEW OWNERS
(other than the Franchisor)
As of December 31 for Years 2023, 2024, and 2025

Column 1	Column 2	Column 3
State	Year	Number of Transfers
MI	2023	0
	2024	0
	2025	0
Total	2023	0
	2024	0
	2025	0

Table No. 3
STATUS OF FRANCHISED OUTLETS
As of December 31st for Years 2023, 2024, and 2025

Column 1	Column 2	Column 3	Column 4	Column 5	Column 6	Column 7	Column 8	Column 9
State	Year	Franchises at the Start of the Year	Franchises Opened	Terminations	Non-renewals	Reacquired by Franchisor	Ceased Operation - other reasons	End of the Year
MI								
	2023	0	0	0	0	0	0	0
	2024	0	0	0	0	0	0	0
	2025	0	0	0	0	0	0	0
Totals								
	2023	0	0	0	0	0	0	0
	2024	0	0	0	0	0	0	0

	2025	0	0	0	0	0	0	0
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Table No. 4
STATUS OF COMPANY-OWNED OUTLETS
As of December 31 for Years 2023, 2024, and 2025

Column 1	Column 2	Column 3	Column 4	Column 5	Column 6	Column 7	Column 8	Column 9
State	Year	Franchises at the Start of the Year	Franchises Opened	Terminations	Non-renewals	Reacquired by Franchisor	Ceased Operation - other reasons	End of the Year
MI	2023	0	0	0	0	0	0	0
	2024	0	0	0	0	0	0	0
	2025	0	6	0	0	0	0	6
Total	2023	0	0	0	0	0	0	0
	2024	0	0	0	0	0	0	0
	2025	0	6	0	0	0	0	6

Table No. 5
PROJECTED OPENINGS AS OF December 31, 2025 through December 31, 2026

State	Franchise Agreements Signed But Outlet Not Open	Projected New Franchised Outlet In The Next Fiscal Year	Projected New Company-Owned Stores in the New Fiscal Year
Arizona	0	1	0
California	0	1	0
Massachusetts	0	1	0
North Carolina	0	1	0
Nevada	0	1	0
Ohio	0	1	0
Oregon	0	1	0
Pennsylvania	0	1	0
Texas	0	3	0
Totals	0	11	0

The following is a complete listing of all of our current franchisees and the addresses and telephone numbers of all of their operations as of **December 31, 2025** (franchisees with an asterisk ‘*’ beside their name had signed a franchise agreement but had not yet opened as of that date):

[Our only outlet was company-owned, and not franchised]

The following is a list of the name, city and state, and the current telephone number or if unknown, the last known home telephone number of every franchisee who had an outlet terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the franchise agreement during our most recently completed fiscal year or who has not communicated with us or our affiliate within **10** weeks of the date of this Disclosure Document.

State	City	Name	Address	Zip Code	Phone Number
n/a	n/a	n/a	n/a	n/a	n/a

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

Our standard franchise agreement, all renewal and transfer agreements, and all agreements to settle disputes with franchisees, generally contain confidentiality clauses. Thus, all our franchisees have signed a confidentiality clause with us. In some instances, current and former franchisees sign provisions restricting their ability to speak openly about their experience with **FIVE STAR FLOORING**. You may wish to speak with current and former franchisees, but be aware that not all such franchisees will be able to communicate with you.

The following is a list, to the extent known to us, of the names, addresses, telephone numbers, email addresses, and web addresses of each trademark-specific franchise organization associated with the franchise system being offered which we have created, sponsored, or endorsed: **NONE**.

The following is a list of any independent franchisee organizations that have asked to be included in this disclosure document: **NONE**.

21.
FINANCIAL STATEMENTS

Attached as Exhibit A to this Disclosure Document are the audited financial statements of our Parent for fiscal years ended December 31, 2023, fiscal year-end December 31, 2024, and fiscal year-end December 31, 2025. Our fiscal year-end is December 31. The guarantee of performance of our Parent to assure performance of our obligations is attached in Exhibit A as well.

22.
CONTRACTS

Attached are copies of the Franchise Agreement, the State Law Addendum, and all other related agreements you may have to sign when you purchase your franchise. The standard form release agreement that you will be required to sign in certain instances, such as for a transfer or renewal, is found in section 9.9 of the Franchise Agreement.

23. RECEIPTS

Attached to this Disclosure Document are two Receipt pages. They are duplicates that evidence your receipt of this Disclosure Document – the first is to be retained by you, the other by us (Exhibit F).

EXHIBIT A

TO

FIVE STAR FLOORING FRANCHISE, LLC

DISCLOSURE DOCUMENT

FINANCIAL STATEMENTS

Right Answers, Right Here.



TANNER

Accountants & Advisors

FS PEP HOLDCO, LLC and SUBSIDIARIES

**Consolidated Financial Statements
As of December 31, 2023 and 2022
and For the Years Then Ended**

Together with Independent Auditors' Report



Independent Auditors' Report

To the Board of Managers of
FS PEP Holdco, LLC

Opinion

We have audited the accompanying consolidated financial statements of FS PEP Holdco, LLC and subsidiaries (collectively, the Company), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, members' equity, and cash flows for the years then ended, and the related notes to consolidated financial statements.

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

3300 N. Triumph Blvd., Suite 410, Lehi, UT 84043

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

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

Tanner LLC

April 5, 2024

Consolidated Balance Sheets*As of December 31,*

	2023	2022
<u>Assets</u>		
Current assets:		
Cash	\$ 1,338,811	\$ 3,760,121
Restricted cash	840,143	543,616
Accounts receivable, net of an allowance for credit losses of \$105,953 and \$58,660, respectively	3,532,277	2,360,599
Current portion of contract assets	1,382,859	1,350,919
Prepaid and other current assets	1,460,144	792,682
Total current assets	8,554,234	8,807,937
Goodwill, net	56,518,636	63,918,327
Intangible assets, net	50,358,496	54,137,918
Contract assets, net of current portion	10,981,453	9,616,933
Operating lease right-of-use assets	1,246,432	1,153,787
Other assets	706,855	703,934
Total assets	\$ 128,366,106	\$ 138,338,836
<u>Liabilities and Members' Equity</u>		
Current liabilities:		
Accounts payable	\$ 655,035	\$ 602,708
Accrued expenses	1,997,785	2,643,685
Current portion of contract liabilities	2,371,381	1,960,914
Current portion of operating lease liabilities	229,780	154,246
Current portion of long-term debt	481,000	491,176
Total current liabilities	5,734,981	5,852,729
Contract liabilities, net of current portion	17,138,458	13,714,594
Operating lease liabilities, net of current portion	1,070,182	1,031,261
Long-term debt, net of current portion and debt issuance costs	46,148,366	46,381,407
Deferred income taxes	5,507,405	5,083,150
Total liabilities	75,599,392	72,063,141
Commitments and contingencies (Notes 4, 6 & 7)		
Members' equity	52,766,714	66,275,695
Total liabilities and members' equity	\$ 128,366,106	\$ 138,338,836

See accompanying notes to consolidated financial statements.

1

Consolidated Statements of Operations

	For the Years Ended December 31,	
	2023	2022
Revenues	\$ 34,597,657	\$ 26,026,524
Cost of revenues	10,001,056	5,463,228
Gross profit	24,596,601	20,563,296
Operating expenses:		
Selling, general and administrative	20,522,378	18,837,743
Depreciation and amortization	11,307,800	10,597,574
Total operating expenses	31,830,178	29,435,317
Loss from operations	(7,233,577)	(8,872,021)
Other income (expense):		
Interest expense	(5,506,427)	(3,821,499)
Gain on sale of unconsolidated subsidiary	-	1,025,637
Other income (expense)	(204,868)	(51,463)
Total other expense, net	(5,711,295)	(2,847,325)
Loss before income taxes	(12,944,872)	(11,719,346)
Income tax benefit (provision)	(765,698)	1,280,676
Net loss	\$ (13,710,570)	\$ (10,438,670)

See accompanying notes to consolidated financial statements.

2

Consolidated Statements of Operations

	For the Years Ended December 31,	
	2023	2022
Revenues	\$ 34,597,657	\$ 26,026,524
Cost of revenues	10,001,056	5,463,228
Gross profit	24,596,601	20,563,296
Operating expenses:		
Selling, general and administrative	20,522,378	18,837,743
Depreciation and amortization	11,307,800	10,597,574
Total operating expenses	31,830,178	29,435,317
Loss from operations	(7,233,577)	(8,872,021)
Other income (expense):		
Interest expense	(5,506,427)	(3,821,499)
Gain on sale of unconsolidated subsidiary	-	1,025,637
Other income (expense)	(204,868)	(51,463)
Total other expense, net	(5,711,295)	(2,847,325)
Loss before income taxes	(12,944,872)	(11,719,346)
Income tax benefit (provision)	(765,698)	1,280,676
Net loss	\$ (13,710,570)	\$ (10,438,670)

See accompanying notes to consolidated financial statements.

2

Consolidated Statements of Cash Flows

	For the Years Ended December 31,	
	2023	2022
Cash flows from operating activities:		
Net loss	\$ (13,710,570)	\$ (10,438,670)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of goodwill and intangible assets	11,179,113	10,568,470
Depreciation of fixed assets	128,687	29,104
Amortization of deferred financing costs	237,783	213,726
Amortization of operating lease right-of-use assets	265,177	108,253
Equity-based compensation	201,589	-
Gain on sale of unconsolidated subsidiary	-	(1,025,637)
Loss (gain) on disposal of fixed assets	(11,390)	43,615
Provision for bad debt	47,293	25,950
Decrease (increase) in:		
Accounts receivable	(1,218,971)	(777,114)
Contract assets	(1,396,460)	(2,540,535)
Other assets	(428,865)	(535,234)
Increase (decrease) in:		
Accounts payable and accrued expenses	(593,573)	2,012,196
Contract liabilities	3,834,331	3,647,786
Operating lease liabilities	(243,367)	(76,533)
Deferred taxes	424,255	(1,269,181)
Net cash used in operating activities	(1,284,968)	(13,804)
Cash flows from investing activities:		
Purchase of property and equipment	(441,815)	(238,771)
Proceeds from sale of property and equipment	83,000	-
Contingent consideration paid	-	(1,200,000)
Proceeds from sale of unconsolidated subsidiary	-	1,623,174
Net cash paid for acquisitions	-	(46,109,861)
Net cash used in investing activities	(358,815)	(45,925,458)
Cash flows from financing activities:		
Member contributions	-	29,025,980
Borrowing on long-term debt	-	20,100,000
Payment of debt issuance costs	-	(307,500)
Repayment of long-term debt	(481,000)	(378,894)
Member distributions	-	(250,000)
Net cash provided by (used in) financing activities	(481,000)	48,189,586
Net change in cash and restricted cash	(2,124,783)	2,250,324
Cash and restricted cash at beginning of year	4,303,737	2,053,413
Cash and restricted cash at end of year	\$ 2,178,954	\$ 4,303,737
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 5,102,711	\$ 3,053,817
Cash paid for income taxes	110,538	1,916
Supplemental disclosure of non-cash investing and financing information:		
Operating lease right-of-use assets and liabilities added through new contracts	\$ 357,822	\$ -
Operating lease right-of-use assets and liabilities recorded upon adoption of ASC Topic 842, <i>Leases</i>	-	1,175,322
Cash acquired through acquisition	-	124,418
Contingent consideration settled through issuance of equity	-	300,000
Measurement period adjustment to goodwill	-	1,474,328
Rollover equity contributions in acquisitions	-	6,230,000

See accompanying notes to consolidated financial statements.

4

Notes to Consolidated Financial Statements

1. Description of Organization and Summary of Significant Accounting Policies

Organization

FS PEP Holdco, LLC is a holding company established for the purpose of acquiring and operating home services related franchisor companies. Through its franchisor entities located throughout the United States, the Company seeks to establish profitable and sustainable franchise systems that provide franchise partners the tools to profitably operate and own a successful home service business.

Basis of Presentation and Principles of Consolidation

The consolidated financial statements presented in conformity with accounting principles generally accepted in the United States of America (US GAAP) and include the accounts of FS PEP Holdco, LLC and its wholly owned subsidiaries: Five Star Connect, Inc.; Gotcha Covered Franchising, LLC; Ringside Development Company; Bio-One IP Group, LLC; Ringside Group, LLC; Mosquito Shield Franchise, LLC; 1-800-Packouts Holdco, LLC; and Five Star Franchising, LLC and its wholly owned subsidiary Five Star Bath, LLC.

FS PEP Holdco, LLC was formed on April 9, 2021 (date of inception) and during 2021 began acquiring operating companies. The consolidated financial statements reflect the operations of FS PEP Holdco, LLC and all of its subsidiaries (collectively the Company). All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Concentrations of Credit Risk

The Company maintains its cash in bank deposit accounts which, at times, exceed federally insured limits. To date, the Company has not experienced a loss or lack of access to its invested cash and cash equivalents; however, no assurance can be provided that access to the Company's invested cash will not be impacted by adverse conditions in the financial markets.

Restricted Cash

Restricted cash balances relate to cash franchisees contribute to the Company's national branding funds. Cash contributed by franchisees to the national branding funds are to be used in accordance with the franchise agreements with a focus on marketing and advertising.

Accounts Receivable

Accounts receivable consist of amounts due on franchisee accounts for various fees including royalties, support fees, branding fees, insurance, training, and expendable equipment. The allowance for credit losses and other reserves are based upon the Company's historical experience with franchisees and considers the age of the receivable and the franchisees' ability to pay. Accounts are written-off when determined to be uncollectible and all reasonable efforts to collect the receivable have been exhausted. Accounts receivable do not include any amounts for interest. An allowance for credit losses of \$105,953 and \$58,660 was accrued as of December 31, 2023 and 2022, respectively.

Notes Receivable

Some franchise agreements allow for the financing of initial franchising fees over a term of one to five years. These receivables bear interest ranging from 4.00% to 10.00% and are reviewed for collectability by assessing the franchisee's completion of training, commencing operations, and revenue generation. As of December 31, 2023 and 2022, the Company had \$239,770 and \$436,865 outstanding on notes receivable, which have been included in the other assets account on the accompanying consolidated balance sheets.

Contract Assets

The Company incurs broker or sales commission expenses paid to third parties to obtain franchise agreements with franchisees. The commissions are related to franchise fee revenue and are capitalized as contract assets and recognized over the term of the respective franchise agreement.

Goodwill and Intangible Assets

Goodwill represents the excess purchase price over fair value of net assets acquired that is not allocable to separately identifiable intangible assets. Other identifiable intangible assets primarily consist of trade names and franchise agreements in place. These assets are amortized using the straight-line method over the estimated useful life of the asset acquired.

The Company amortizes goodwill over a period of ten years. The Company evaluates the recoverability of the carrying amount of goodwill at the entity level whenever events or circumstances indicate the carrying amount may not be recoverable. Management has determined there was no impairment as of December 31, 2023 and 2022.

Investment in Unconsolidated Subsidiary

The Company's investment in Joe Homebuyer Franchising, LLC, was owned 50% by Five Star Franchising, LLC and 50% by an outside party. The investment was accounted for under the equity method of accounting. On March 9, 2022, the Company completed the sale of its equity interests in Joe Homebuyer Franchising, LLC to the existing equity partner for \$1,623,174. As a result of this sale, the Company recognized a gain of \$1,025,637.

Debt Issuance Costs

The Company defers costs related to issuing debt and amortizes the costs using the effective interest method, to interest expense over the term of the related debt.

Revenue Recognition

The Company primarily derives revenue from royalties, call center services, franchise and license fees, equipment and product sales, and advertising services. Revenue is recognized from these contracts with customers by applying the following steps:

- Identification of the contract, or contracts, with a customer.
- Identification of the performance obligations in a contract.
- Determination of the transaction price.
- Allocation of the transaction price to the performance obligations in the contract.
- Recognition of revenue when, or as, performance obligations are satisfied.

Royalties

The Company sells individual franchises as well as territory agreements (Franchise Agreements) that grant the right to operate a location, using the Company's software and trademarks, generally for a period of five or ten years. The franchisees are equipped with certain equipment and samples and are trained at the Company's facilities. The Franchise Agreements require franchisees to pay continuing fees, or royalties, on a monthly basis based on the terms of the Franchise Agreement. Royalty income is based on either a percentage (generally ranging from 2% to 7%) of franchisee gross sales, minimum monthly payments, or other calculated amounts as defined in the Franchise Agreement and is recognized as the royalties are at the franchisees' point of sale.

Call Center Services

The Company provides certain sales and marketing support services for franchisees, including the operation of a call center for inbound-customer and marketing related calls. The fees associated with the call center are structured as either a fixed monthly fee or a variable fee based on the monthly usage of the call center. Revenue for call center services are recognized during the month that the services are performed.

Franchise Fees

The Franchise Agreements require the franchisee to pay an initial fee to obtain the rights associated with the Franchise Agreements. Initial franchise fee revenue is partially recognized upon substantial completion of the startup services required of the Company. The remainder of the franchise fee revenue is recognized over the term of the Franchise Agreement. All fees collected in advance are deferred until performance obligations are met, and revenue is earned. Deferred amounts are classified as contract liabilities in the accompanying consolidated balance sheets.

Franchise sales resulting from leads furnished by independent franchise brokers are subject to a sales commission. The costs of commissions paid to franchise brokers are capitalized and recognized over the same period as the related revenue.

Equipment and Product Sales

Revenue from the sale of equipment and products is recognized when title and risk of loss transfers to the buyer, which is generally upon shipment.

Advertising Services

Under the terms of the Franchise Agreements, the Company may establish national branding funds and charge a fee of up to 3% of the franchisees' gross receipts to pay for marketing costs that benefit multiple franchises and are used to promote the brands. Marketing revenues and expenses are recognized in equal amounts as marketing expenses are incurred. Any amounts collected but unspent at the end of the year are accrued for as a liability on the accompanying consolidated balance sheets until the related expense has been incurred.

Other Revenues

Other revenues include vendor rebates, fees generated by consulting services, monthly technology access fees and other miscellaneous fees allowable under the terms of the Franchise Agreements. Consulting and other fees are recognized as revenue once the consulting or other services have been performed, these services are short term in nature and provided on a month-to-month basis. Monthly technology access fees are recognized during the month that services are performed.

Amounts recognized as revenue for the different revenue types were as follows for the years ended December 31, 2023 and 2022:

	<u>2023</u>		<u>2022</u>	
Royalties	\$	11,447,971	\$	10,191,623
Call center services		2,799,481		2,977,806
Franchise fees		4,622,915		3,823,573
Equipment and product sales		2,414,926		3,830,583
Advertising services		7,184,067		3,683,755
Other revenues		6,128,297		1,519,184
	\$	34,597,657	\$	26,026,524

Contract Liabilities

Contract liabilities represent billings made to or payments received from franchisees for which the related performance obligation has not yet been fulfilled. This primarily consists of franchise fees that have been received but are deferred to be recognized over the term of the franchise agreement. Deposits for conferences and trainings are also deferred until the point at which the service has been provided.

Recently Adopted Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13 or ASC 326). ASU 2016-13 revises the accounting requirements related to the measurement of credit losses and requires organizations to measure all expected credit losses for financial assets based on historical experience, current conditions, and reasonable and supportable forecasts about collectability. Assets must be presented in the financial statements at the net amount expected to be collected. During 2019, the FASB issued additional ASUs amending certain aspects of ASU 2016-13.

On January 1, 2023, the Company adopted ASC 326 and all the related amendments using the modified retrospective method. The Company's adoption did not result in a significant impact to the opening balance of retained earnings and the comparative information has not been adjusted or restated.

Leases

Management determines if a contract is or contains a lease at inception or modification of a contract. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. Control over the use of the identified asset means the lessee has both (a) the right to obtain substantially all of the economic benefits from the use of the asset and (b) the right to direct the use of the asset. Such assets are classified as ROU assets with a corresponding lease liability.

For all arrangements where it is determined that a lease exists, the related ROU assets and lease liabilities are recorded as either operating or finance leases. At inception or modification, the Company calculates the present value of lease payments using the implicit rate determined from the contract or the Company's incremental borrowing rate applicable to the lease, which is determined by estimating what it would cost the Company to borrow a collateralized amount equal to the total lease payments over the lease term based on the contractual terms of the lease and the location of the leased asset. The present value is adjusted for prepaid lease payments, lease incentives, and initial direct costs. Lease expense is recognized for these leases on a straight-line basis over the expected lease term. Non-lease costs, such as common-area maintenance costs, taxes, and insurance, are not included in the measurement of the ROU assets and lease liabilities. The depreciable life of assets and leasehold improvements are limited by the expected lease term.

Sales Tax

The Company accounts for sales tax on a net basis and excluded from revenues.

Shipping and Handling Costs

The Company classifies freight billed to customers as sales revenue and the related freight costs as cost of sales.

Advertising and Marketing

Advertising and marketing costs included in operating expenses primarily consist of collateral marketing materials and are expensed as incurred. These costs are included in general and administrative expenses and were \$1,963,625 and \$2,153,360 during the years ended December 31, 2023 and 2022, respectively.

Income Taxes

The Company is a limited liability company under provisions of the Internal Revenue Code and has elected to be treated as a partnership for income tax purposes. As such, the payment and recognition of income taxes are the responsibility of the members of the Company.

The Company files income tax returns in the US federal and state jurisdictions. The Company is generally subject to US federal, state and local income tax examination by tax authorities for a period of three years from the date of filing. The Company is not currently under examination in any jurisdiction in which it operates.

The Company is required to determine whether its tax positions are more likely than not to be sustained upon examination by the applicable taxing authority, based on the technical merits of the position. The tax benefits recognized are measured as the largest amount of benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant taxing authorities. Based on its analysis, the Company has determined that it has not incurred any liability for unrecognized tax benefits as of December 31, 2023. The Company does not expect that its assessment regarding unrecognized tax benefits will materially change over the next 12 months.

Certain subsidiaries of the Company recognize deferred income tax assets and liabilities for the expected future tax consequences of events that have been included in the subsidiary financial statements or tax returns. Under this method, deferred income tax assets and liabilities are determined based on the difference between financial statement and tax bases of assets and liabilities using estimated tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are recognized only if it is more likely than not that the asset will be realized in future years.

Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure through April 5, 2024, which is the day the consolidated financial statements were available to be issued.

2. Acquisitions of Subsidiary Entities

During the year ended December 31, 2022, the Company entered into the following acquisition agreements:

On January 31, 2022, the Company entered into a securities purchase agreement to acquire 100% of the equity interests in 1-800-Packouts, LLC (Packouts). The securities purchase agreement included payment of rollover interest of \$4,230,000 wherein the former owner was granted an ownership interest in the Company, which was included in the total consideration paid for the acquisition. The securities purchase agreements also included two delayed cash payments of \$1,000,000 made in June 2023 and December 2023. These payments were valued at present value of \$1,795,418 as of the acquisition date. This amount was accrued and included in the 2022 issued financials.

On March 11, 2022, the Company entered into a securities purchase agreement to acquire 100% of the equity interests in Mosquito Shield Finance Corporation (Mosquito Shield). The securities purchase agreement included payment of rollover interest of \$2,000,000 wherein the former owner was granted an ownership interest in the Company, which was included in the total consideration paid for the acquisition.

In relation to these acquisitions, the Company elected to early adopt Accounting Standards Update 2021-08, *Business Combinations* (ASU 2021-08). ASU 2021-08 allows a Company to recognize and measure contract assets and contract liabilities in accordance with ASC 606, *Revenue from Contracts with Customers*. Accordingly, the contract assets and contract liabilities were recognized at carryover value from the predecessor, rather than at fair value.

The following is a summary of the estimated fair values of the assets acquired and the liabilities assumed with each acquisition during the year ended December 31, 2022:

	Packouts	Mosquito Shield
Cash	\$ 5,966	\$ 118,452
Accounts receivable	117,678	584,222
Contract assets	-	7,878,108
Other assets	49,810	392,928
Operating lease right-of-use asset	86,718	-
Trade name	4,380,000	6,600,000
Franchise agreements	1,790,000	11,200,000
Goodwill	18,214,963	12,067,365
Liabilities assumed	(86,718)	(10,935,213)
Total purchase price	\$ 24,558,417	\$ 27,905,862

Each of these transactions have been accounted for as a business combination using the acquisition method and the operations of the acquired entities have been consolidated with the operations of the Company as of the respective dates of the transactions.

The assets acquired and liabilities assumed were recorded based on their estimated fair values as of the date of acquisition as determined by management. The excess of the purchase price over the fair values of assets acquired and liabilities assumed was recorded as goodwill. The value of goodwill recognized in connection with the transactions can be attributed to a number of business factors including, but not limited to, the ability of the Company to grow given the additional capital and strategic expertise brought to the Company by the new ownership group.

Trade names were valued using a relief from royalty discounted cash flows method. Franchise agreements were valued using excess of earnings discounted cash flows method. The estimated useful lives of trade names is 15 years, franchise agreements is 13 to 15 years, and goodwill is 10 years.

3. Goodwill and Intangible Assets

Goodwill and intangible assets consist of the following as of December 31:

	2023	2022
Trade name	\$ 27,550,000	\$ 27,550,000
Franchise agreements	30,900,000	30,900,000
Goodwill	72,717,748	72,717,748
Total intangible assets	131,167,748	131,167,748
Less: accumulated amortization	(24,290,616)	(13,111,503)
Intangible assets, net	\$ 106,877,132	\$ 118,056,245

Amortization expense resulting from goodwill and intangible assets was \$11,179,113 and \$10,568,470 for the years ended December 31, 2023 and 2022, respectively.

The future aggregate amounts of amortization expense to be recognized related to definite-lived intangible assets as of December 31, 2023 are as follows:

Years Ending December 31,	
2024	\$ 11,186,801
2025	11,186,801
2026	11,186,801
2027	11,186,801
2028	11,186,801
Thereafter	50,943,127
	<u>\$ 106,877,132</u>

4. Long-Term Debt

In connection with the acquisitions of the subsidiary companies, the Company entered into a financing arrangement with Deerpath Fund Services, LLC (Deerpath) that matures on September 3, 2026. Under the financing arrangement, the Company received an initial term loan with a principal amount of \$28,000,000, to be used for the 2021 acquisitions as well as amounts available for future transactions as follows: (1) up to an aggregate of \$15,000,000 available as delayed draw term loans, which was fully used for the Packouts and Mosquito Shield acquisitions in 2022, and (2) contingent amounts of up to \$25,000,000 available for future financing to be negotiated, of which \$5,100,000 had been drawn for the Mosquito Shield acquisition. The loans bear interest rate of a 3-month term SOFR plus 5.65% (11.04% as of December 31, 2023). As of December 31, 2023 and 2022, the amount drawn on the facility was \$48,100,000. The facility also provides for a revolving line with available draws up to \$2,000,000, which had not been drawn on as of December 31, 2023 and 2022.

During 2022, the Company had also entered into short term notes payable with former owners of the subsidiary entities in the amount of \$78,594. These amounts have no specific maturity date or repayment schedule, but were fully repaid in 2022. As part of the acquisition of Mosquito Shield, the Company acquired \$59,801 of notes payable to a financial institution that were fully repaid during 2022.

As of December 31, 2023 the Company had future maturities of notes payable as follows:

Years Ending December 31,	
2024	\$ 481,000
2025	481,000
2026	<u>46,416,500</u>
	47,378,500
Less: debt issuance costs	<u>(749,134)</u>
	<u>\$ 46,629,366</u>

Future amortization of debt issuance costs for the Company's notes payables as of December 31, 2023 are as follows:

Years Ending December 31,		
2024	\$	255,474
2025		274,481
2026		219,179
	\$	749,134

5. Operating Leases

The Company has entered into certain operating leases for office space under operating lease arrangements with original lease terms ranging from 36 to 120 months. As of December 31, 2023, there was a weighted average of 5.5 years remaining on the original lease terms. The Company estimated their incremental borrowing rate in calculating the ROU asset and operating lease liability as the rate implicit in the leases were not known, the weighted average incremental borrowing rate used was 5.79%.

The following table reconciles the undiscounted future cash flows to the operating lease liability recorded on the accompanying balance sheet as of December 31, 2023:

Years Ending December 31,		
2024	\$	297,565
2025		266,383
2026		260,354
2027		179,048
2028		166,598
Thereafter		378,010
Total lease payments		1,547,958
Less: interest		(247,996)
	\$	1,299,962

Operating lease payments in the table above and operating ROU asset and lease liability on the accompanying balance sheets are shown net of sublease income. Rent expense under the operating leases totaled was \$302,043 and \$162,279 for the years ended December 31, 2023 and 2022, respectively.

6. Commitments and Contingencies

Litigation

The Company is involved in legal proceedings from time to time arising in the normal course of business. Management, after consultation with legal counsel, believes that the outcome of these proceedings will not have a material impact on the Company's consolidated financial position, results of operations, or liquidity.

Employee Agreements

The Company has entered into employment agreements with certain officers and employees of the Company, which require that certain severance payments are made in the event of termination without cause.

Indemnification Agreements

Under the Company's organizational documents, the Company's officers, employees and directors are indemnified against certain liabilities arising out of the performance of their duties. The Company's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Company that have not yet occurred. However, based on experience, the Company expects any risk of loss to be remote. The Company also has an insurance policy for its directors and officers to insure them against liabilities arising from the performance of their duties in their positions with the Company or its subsidiaries.

7. Related Party Transactions

The Company pays a management fee to a certain member of the Company on an annual basis based on revenues. The Company made payments of management fees of \$570,389 and \$1,613,745 for services rendered during the years ended December 31, 2023 and 2022, respectively.

The Company provides call center and other management services to another franchisor that is under common ownership. Additionally, the Company incurs certain expenses on behalf of that related franchisor and bills them for costs incurred. Amounts charged for services performed during the years ended December 31, 2023 and 2022, amounted to \$250,031 and \$86,101, respectively, and are included in revenues. As of December 31, 2023 and 2022, accounts receivable due from this related party were \$250,031 and \$86,101, respectively.

8. Income Taxes

The benefit (provision) for income taxes consists of the following for the years ended December 31, 2023 and 2022:

	2023	2022
Current:		
Federal	\$ (262,480)	\$ 8,833
State	(78,963)	2,662
Total current	(341,443)	11,495
Deferred:		
Federal	(292,567)	1,048,721
State	(131,688)	220,460
Total deferred	(424,255)	1,269,181
Total benefit (provision) for income taxes	\$ (765,698)	\$ 1,280,676

Significant components of the Company's deferred income tax assets (liabilities) are as follows as of December 31:

	2023	2022
Deferred income tax assets (liabilities):		
Intangible assets	\$ (5,747,861)	\$ (5,340,652)
Deferred costs	(16,114)	(62,708)
Fixed Assets	(44,540)	(35,068)
Deferred revenue	140,945	30,312
NOL carryforwards	166,613	290,452
Other	(6,448)	34,514
	<u>\$ (5,507,405)</u>	<u>\$ (5,083,150)</u>

Associated with the acquisition of Ringside Development Company, there were \$27.5 million of identifiable intangible assets that were acquired. Ringside Development Company is structured as a C-Corporation for income tax purposes and thus is responsible for accruing the provision (benefit) for income taxes attributable to operations. This transaction was not a taxable transaction for income tax purposes and thus the tax liabilities associated with intangible assets are classified as permanent differences because they are not timing differences that will eventually be recognized in the tax return. This liability is recorded to accrue for the future tax effect that would occur if the intangible assets were to be recovered at the recorded carrying value as there is an assumption that all assets will be used in service or sold, thus a deferred tax liability is established to account for the future tax effect of recovery.

The benefit (provision) for income taxes attributable to loss before income taxes differed from the amount obtained by applying the federal statutory income tax rate to loss before income taxes due to tax rate adjustments, state taxes, permanent differences in deductible goodwill amortization, and prior period adjustments and true-ups.

Note that for U.S. Federal income tax purposes, given the change in control that occurred pursuant to the acquisition of Five Star Connect, Inc. and Ringside Development Company, the Company's net operating loss carryforwards are subject to Internal Revenue Code (IRC) Section 382 which, as determined by IRC Section 382, the net operating loss carryforwards and tax credits generated as of the acquisition date may be limited in their annual usage in the future.

As the acquisitions that occurred in 2021 were structured as stock purchases, the resulting definite-lived intangible assets recognized carried a tax basis of \$0. Accordingly, the amortization expense recognized for U.S. GAAP purposes is not deductible for income tax purposes and is considered a permanent difference.

The Company has concluded that there are no significant uncertain tax positions requiring disclosure, and there are no material amounts of unrecognized tax benefits.

9. Subsequent Events

In March 2024, the Company completed an acquisition of the brand, Card My Yard, from a related party. The acquisition was settled primarily for an exchange of equity in the Company.

Right Answers, Right Here.



TANNER

Accountants & Advisors

FS PEP HOLDCO, LLC and SUBSIDIARIES

**Consolidated Financial Statements As
of December 31, 2024 and 2023 and
For the Years Then Ended**

Together with Independent Auditors' Report



TANNER

Independent Auditors' Report

To the Board of Managers of FS PEP Holdco, LLC

Opinion

We have audited the accompanying consolidated financial statements of FS PEP Holdco, LLC and subsidiaries (collectively, the Company), which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of operations, members' equity, and cash flows for the years then ended, and the related notes to consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of FS PEP Holdco, LLC and subsidiaries as of December 31, 2024 and 2023, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Due to the March 2024 acquisition of an entity under common control, CMY Holdco, LLC (Note 2), the historical activity prior to the acquisition of CMY Holdco, LLC and its wholly-owned subsidiary, Card my Yard Franchising, LLC, have been retrospectively combined in the consolidated financial statements of the Company. We did not audit the 2023 financial statements of Card my Yard Franchising, LLC, which statements reflect total assets of

\$10,040,671, and total revenues of \$3,521,565. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Card my Yard Franchising, LLC as of December 31, 2023, and for the year then ended, is based solely on the report of the other auditors.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

3300 N. Triumph Blvd., Suite 410, Lehi, UT 84043

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Tanner LLC

April 23, 2025

2. Consolidated Balance Sheets

As of December 31,

				2024	2023
<u>Assets</u>					
Current assets:					
Cash				\$ 3,690,691	\$ 1,455,349
Restricted cash				-	840,143
Accounts receivable, net of an allowance for credit losses of \$74,296 and \$105,953, respectively				6,102,611	3,565,178
Other current receivable				820,000	-
Current portion of contract assets				1,797,429	1,382,859
Prepaid and other current assets				1,803,912	1,537,556
Total current assets	14,214,643	8,781,085			
Goodwill, net				52,556,496	66,184,756
Intangible assets, net				45,678,810	50,358,496
Contract assets, net of current portion				13,317,603	10,981,453
Operating lease right-of-use assets				1,603,081	1,272,436
Other assets				2,206,748	828,551
Total assets				\$ 129,577,381	\$ 138,406,777
<u>Liabilities and Members' Equity</u>					
Current liabilities:					
Accounts payable				\$ 1,515,669	\$ 713,523
Accrued expenses				2,383,578	2,656,030
Current portion of contract liabilities				3,227,336	2,517,756
Current portion of operating lease liabilities				360,394	256,163
Revolving credit facility				1,100,000	-
Current portion of long-term debt, net of debt issuance costs				206,519	851,000
Total current liabilities				8,793,496	6,994,472
Contract liabilities, net of current portion				20,994,540	17,393,479
Operating lease liabilities, net of current portion				1,321,919	1,070,182
Long-term debt, net of current portion and debt issuance costs				46,197,321	46,148,366
Deferred income tax liabilities				4,942,067	5,507,405
Total liabilities				82,249,343	77,113,904
Commitments and contingencies (Notes 4, 5 & 6)					
Members' equity				47,328,038	61,292,873
Total liabilities and members' equity				\$ 129,577,381	\$ 138,406,777

3. Consolidated Statements of Operations

	<i>For the Years Ended December 31,</i>	
	2024	2023
Revenues	\$ 47,493,372	\$ 38,119,222
Cost of revenues	14,071,864	10,711,574
Gross profit	33,421,508	27,407,648
Operating expenses:		
Selling, general, and administrative	28,732,110	24,077,839
Depreciation and amortization	11,953,138	12,782,735
Total operating expenses	40,685,248	36,860,574
Loss from operations	(7,263,740)	(9,452,926)
Other income (expense): Interest expense	(5,462,474)	(5,530,375)
Other income (expense)	43,809	(218,954)
Total other expense, net	(5,418,665)	(5,749,329)
Loss before income taxes	(12,682,405)	(15,202,255)
Income tax benefit (provision)	432,399	(765,698)
Net loss	\$ (12,250,006)	\$ (15,967,953)

4. Consolidated Statements of Members' Equity

For the years ended December 31, 2024 and 2023

Members' Equity

Balance as of January 1, 2023	\$ 77,059,237
Equity-based compensation	201,589
Net loss	(15,967,953)
Balance as of December 31, 2023	61,292,873
Equity-based compensation	163,300
Member units issued for acquisition (Note 2)	3,000,000
Repurchase of member units	(4,878,129)
Net loss	(12,250,006)
Balance as of December 31, 2024	\$ 47,328,038

5. Consolidated Statements of Cash Flows

For the Years Ended December 31,

2024

2023

Cash flows from operating activities:

Net loss	\$ (12,250,006)	\$ (15,967,953)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of goodwill and intangible assets	11,662,770	12,639,099
Depreciation of fixed assets	290,368	143,636
Amortization of deferred financing costs	255,474	237,783
Amortization of operating lease right-of-use assets	378,441	263,663
Equity-based compensation	163,300	201,589
Gain on disposal of fixed assets	(2,189)	(11,390)
Credit loss expense	466,027	47,293
Decrease (increase) in:		
Accounts receivable	(2,952,504)	(1,251,872)
Contract assets	(2,750,720)	(1,396,460)
Other assets	516,161	(385,204)
Increase (decrease) in:		
Accounts payable and accrued expenses	480,916	4,506
Contract liabilities	4,310,641	3,834,331
Operating lease liabilities	(353,118)	(243,367)
Deferred income taxes	(565,338)	424,255
Net cash used in operating activities	(349,777)	(1,460,091)

Cash flows from investing activities:

Purchase of property and equipment	(1,813,949)	(441,815)
Net cash paid for acquisition	(991,946)	-
Proceeds from acquisition related legal settlement	4,950,000	-
Proceeds from sale of property and equipment	-	83,000
Purchase of intangibles	-	(5,355)
Net cash provided by (used in) investing activities	2,144,105	(364,170)

Cash flows from financing activities:

Borrowing on line of credit	1,100,000	-
Borrowing on long-term debt	-	245,000
Repayment of long-term debt	(851,000)	(481,000)
Purchase of membership units	(648,129)	-
Net cash used in financing activities	(399,129)	(236,000)

Net change in cash and restricted cash	1,395,199	(2,060,261)
Cash and restricted cash at beginning of year	2,295,492	4,355,753
Cash and restricted cash at end of year	\$ 3,690,691	\$ 2,295,492

6. Consolidated Statements of Cash Flows - Continued

		<i>For the Years Ended December 31,</i>	
		2024	2023
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 5,748,129		\$ 5,102,711
Cash paid for income taxes	644,566		110,538
Supplemental disclosure of non-cash investing and financing information:			
Operating lease right-of-use assets and liabilities added through new contracts		\$ 489,629	\$ 357,822
Reduction of of member units and related assets due to legal settlement		4,230,000	-
Reconciliation of cash and restricted cash:			
Cash		\$ 3,690,691	\$ 1,455,349
Restricted cash		-	840,143
Cash and restricted cash at end of year		<u>\$ 3,690,691</u>	<u>\$ 2,295,492</u>

7. Notes to Consolidated Financial Statements

1. Description of Organization and Summary of Significant Accounting Policies

Organization

FS PEP Holdco, LLC is a holding company established for the purpose of acquiring and operating home services related franchisor companies. Through its franchisor entities located throughout the United States, the Company seeks to establish profitable and sustainable franchise systems that provide franchise partners the tools to profitably operate and own a successful home service business.

Basis of Presentation and Principles of Consolidation

The consolidated financial statements are presented in conformity with accounting principles generally accepted in the United States of America (US GAAP) and include the accounts of FS PEP Holdco, LLC and its wholly owned subsidiaries: Five Star Connect, Inc.; Gotcha Covered Franchising, LLC; Ringside Development Company; Bio-One IP Group, LLC; Ringside Group, LLC; Mosquito Shield Franchise, LLC; 1-800-Packouts Holdco, LLC; CMY Holdco, LLC; Five Star Bath, Inc; Five Star Franchising, LLC; and its wholly owned subsidiary Five Star Bath, LLC.

FS PEP Holdco, LLC was formed on April 9, 2021, (date of inception) and during 2021 began acquiring operating companies. The consolidated financial statements reflect the operations of FS PEP Holdco, LLC and all of its subsidiaries (collectively the Company). All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Concentrations of Credit Risk

The Company maintains its cash in bank deposit accounts which, at times, exceed federally insured limits. To date, the Company has not experienced a loss or lack of access to its invested cash and cash equivalents; however, no assurance can be provided that access to the Company's invested cash will not be impacted by adverse conditions in the financial markets.

Restricted Cash

Restricted cash balances relate to cash franchisees contribute to the Company's national branding funds. Cash contributed by franchisees to the national branding funds are to be used in accordance with the franchise agreements with a focus on marketing and advertising.

Accounts Receivable, net

Accounts receivable consist of amounts due on franchisee accounts for various fees including royalties, support fees, branding fees, insurance, training, and expendable equipment. The allowance for credit losses and other reserves are based upon the Company's historical experience with franchisees and considers the age of the receivable and the franchisees' ability to pay. Accounts are written-off when determined to be uncollectible and all reasonable efforts to collect the receivable have been exhausted. Accounts receivable do not include any amounts for interest.

The balances in accounts receivable and the allowance for credit losses were as follows as of December 31:

		2024	2023	2022
Accounts receivable	\$	6,176,907	\$ 3,671,131	\$ 2,419,259
Allowance for credit losses		(74,296)	(105,953)	(58,660)

Notes Receivable

Some franchise agreements allow for the financing of initial franchising fees over a term of one to five years. These receivables bear interest ranging from 4% to 10% and are reviewed for collectability by assessing the franchisee's completion of training, commencing operations, and revenue generation. As of December 31, 2024 and 2023, the Company had \$66,850 and \$239,770 outstanding on notes receivable, which have been included in the other assets account on the accompanying consolidated balance sheets. Management has determined that no allowance for credit loss is necessary for these notes receivable as of December 31, 2024 or 2023.

Contract Assets

The Company incurs broker and sales commission expenses paid to third parties to obtain franchise agreements with franchisees. The commissions are related to franchise fee revenue and are capitalized as contract assets and recognized over the term of the respective franchise agreement.

Goodwill and Intangible Assets

Goodwill represents the excess purchase price over fair value of net assets acquired that is not allocable to separately identifiable intangible assets. Other identifiable intangible assets primarily consist of trade names and franchise agreements in place. These assets are amortized using the straight-line method over the estimated useful life of the asset acquired.

The Company amortizes goodwill over a period of ten years. The Company evaluates the recoverability of the carrying amount of goodwill at the entity level whenever events or circumstances indicate the carrying amount may not be recoverable. Management has determined there was no impairment as of December 31, 2024 and 2023.

Debt Issuance Costs

The Company defers costs related to issuing debt and amortizes the costs using the effective interest method, to interest expense over the term of the related debt.

Revenue Recognition

The Company primarily derives revenue from royalties, call center services, franchise and license fees, equipment and product sales, and advertising services. Revenue is recognized from these contracts with customers by applying the following steps:

- Identification of the contract, or contracts, with a customer.
- Identification of the performance obligations in a contract.
- Determination of the transaction price.
- Allocation of the transaction price to the performance obligations in the contract.
- Recognition of revenue when, or as, performance obligations are satisfied.

Royalties

The Company sells individual franchises as well as territory agreements (Franchise Agreements) that grant the right to operate a location, using the Company's software and trademarks, generally for a period of five or ten years. The franchisees are equipped with certain equipment and samples and are trained at the Company's facilities. The Franchise Agreements require franchisees to pay continuing fees, or royalties, on a monthly basis based on the terms of the Franchise Agreement. Royalty income is based on either a percentage (generally ranging from 6% to 25%) of franchisee gross sales, minimum monthly payments, or other calculated amounts as defined in the Franchise Agreement and is recognized as the royalties are at the franchisees' point of sale.

Call Center Services

The Company provides certain sales and marketing support services for franchisees, including the operation of a call center for inbound-customer and marketing related calls. The fees associated with the call center are structured as either a fixed monthly fee or a variable fee based on the monthly usage of the call center. Revenue for call center services are recognized during the month that the services are performed.

Franchise Fees

The Franchise Agreements require the franchisee to pay an initial fee to obtain the rights associated with the Franchise Agreements. Initial franchise fee revenue is partially recognized upon substantial completion of the startup services required of the Company. The remainder of the franchise fee revenue is recognized over the term of the Franchise Agreement. All fees collected in advance are deferred until performance obligations are met, and revenue is earned. Deferred amounts are classified as contract liabilities in the accompanying consolidated balance sheets. The balance of contract liabilities was \$24,221,876, \$19,911,235, and \$15,968,514, as of December 31, 2024, 2023, and 2022, respectively.

Franchise sales resulting from leads furnished by independent franchise brokers are subject to a sales commission. The costs of commissions paid to franchise brokers are capitalized and recognized over the same period as the related revenue.

Equipment and Product Sales

Revenue from the sale of equipment and products is recognized when title and risk of loss transfers to the buyer, which is generally upon shipment.

Advertising Services

Under the terms of the Franchise Agreements, the Company may establish national branding funds and charge a fee of up to 3% of the franchisees' gross receipts to pay for marketing costs that benefit multiple franchises and are used to promote the brands. Marketing revenues and expenses are recognized in equal amounts as marketing expenses are incurred. Any amounts collected but unspent at the end of the year are accrued for as a liability on the accompanying consolidated balance sheets until the related expense has been incurred.

Installation Sales

Company-operated franchises provide shower and bath installations that are generally completed within 1-2 days. Revenue is recognized at the point-in-time the product installation is completed and accepted by the customer.

Vendor Rebates

The Company receives rebates from certain vendors used by franchisees. Vendor rebate revenue is recognized at the point-in-time the associated sales to vendors are recorded and the rebate is earned.

Other Revenues

Other revenues include fees generated by consulting services, monthly technology access fees and other miscellaneous fees allowable under the terms of the Franchise Agreements. Consulting and other fees are recognized as revenue once the consulting or other services have been performed, these services are short term in nature and provided on a month-to-month basis. Monthly technology access fees are recognized during the month that services are performed.

Amounts recognized as revenue for the different revenue types were as follows for the years ended December 31, 2024 and 2023:

	2024	2023
Royalties	\$ 16,760,701	\$ 13,797,504
Advertising services	8,154,242	7,184,067
Other revenues	6,665,981	5,113,894
Franchise fees	5,798,078	5,023,575
Equipment and product sales	3,878,525	2,414,926
Call center services	3,018,653	2,799,481
Vendor rebates	2,782,697	1,785,775
Installation sales	434,495	-
	<u>\$ 47,493,372</u>	<u>\$ 38,119,222</u>

Contract Liabilities

Contract liabilities represent billings made to or payments received from franchisees for which the related performance obligation has not yet been fulfilled. This primarily consists of franchise fees that have been received but are deferred to be recognized over the term of the franchise agreement. Deposits for conferences and trainings are also deferred until the point at which the service has been provided.

Leases

Management determines if a contract is or contains a lease at inception or modification of a contract. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. Control over the use of the identified asset means the lessee has both (a) the right to obtain substantially all of the economic benefits from the use of the asset and (b) the right to direct the use of the asset. Such assets are classified as ROU assets with a corresponding lease liability.

For all arrangements where it is determined that a lease exists, the related ROU assets and lease liabilities are recorded as either operating or finance leases. At inception or modification, the Company calculates the present value of lease payments using the implicit rate determined from the contract or the Company's incremental borrowing rate applicable to the lease, which is determined by estimating what it would cost the Company to borrow a collateralized amount equal to the total lease payments over the lease term based on the contractual terms of the lease and the location of the leased asset. The present value is adjusted for prepaid lease payments, lease incentives, and initial direct costs. Lease expense is recognized for these leases on a straight-line basis over the expected lease term. Non-lease costs, such as common-area maintenance costs, taxes, and insurance, are not included in the measurement of the ROU assets and lease liabilities. The depreciable life of assets and leasehold improvements are limited by the expected lease term.

Sales Tax

The Company accounts for sales tax on a net basis and excluded from revenues.

Shipping and Handling Costs

The Company classifies freight billed to customers as sales revenue and the related freight costs as cost of sales.

Advertising and Marketing

Advertising and marketing costs included in operating expenses primarily consist of collateral marketing materials and are expensed as incurred. These costs are included in selling, general, and administrative expenses and were \$1,995,154 and \$2,089,788 during the years ended December 31, 2024 and 2023, respectively.

Income Taxes

The Company is a limited liability company under provisions of the Internal Revenue Code and has elected to be treated as a partnership for income tax purposes. As such, the payment and recognition of income taxes are the responsibility of the members of the Company.

The Company files income tax returns in the US federal and state jurisdictions. The Company is generally subject to US federal, state and local income tax examination by tax authorities for a period of three years from the date of filing. The Company is not currently under examination in any jurisdiction in which it operates.

The Company is required to determine whether its tax positions are more likely than not to be sustained upon examination by the applicable taxing authority, based on the technical merits of the position. The tax benefits recognized are measured as the largest amount of benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant taxing authorities. Based on its analysis, the Company has determined that it has not incurred any liability for unrecognized tax benefits as of December 31, 2024. The Company does not expect that its assessment regarding unrecognized tax benefits will materially change over the next 12 months.

Certain subsidiaries of the Company recognize deferred income tax assets and liabilities for the expected future tax consequences of events that have been included in the subsidiary financial statements or tax returns. Under this method, deferred income tax assets and liabilities are determined based on the difference between financial statement and tax bases of assets and liabilities using estimated tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are recognized only if it is more likely than not that the asset will be realized in future years.

Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure through April 23, 2025, which is the day the consolidated financial statements were available to be issued.

2. Acquisitions of Subsidiary Entities

CMY Holdco, LLC

On March 26, 2024, the Company entered into a contribution and exchange agreement to acquire 100% of the membership interests in CMY Holdco, LLC (CMY) from a common owner wherein the common owner was granted additional ownership interest in the Company. The agreement also includes contingent consideration of up to \$5,605,000 to be paid if CMY reaches certain system sales metrics over the 36 month period after the acquisition. Management has determined that it is not probable that the metrics will be achieved, and no liability related to the contingent consideration has been recorded in the accompanying consolidated balance sheets.

The acquisition of CMY qualified as a commonly controlled transaction which requires retrospective combination of the entities for all periods presented. In accordance with US GAAP, as of January 1, 2023, the beginning balances of assets, liabilities, and members' equity have been adjusted to include the historical cost values of CMY. The Company's consolidated statements of operations for the years ended December 31, 2024 and 2023, include all of CMY's operations as if CMY had been combined as of January 1, 2023.

Five Star Bath, Inc.

On December 13, 2024, the Company entered into a securities purchase agreement to acquire 100% of the shares of a franchisee, Five Star Bath, Inc. The securities purchase agreement included payment of rollover ownership interest of \$3,000,000 wherein the former owner was granted an ownership interest in the Company, and a cash payment of \$1,100,000.

The purchase consideration has been allocated based on the assessment of the fair market values of the acquired assets and liabilities assumed. The excess of the purchase price over the fair value of the net assets gives rise to goodwill.

The following table sets forth the allocation of the purchase consideration to the assets acquired and liabilities assumed:

Total consideration	\$ 4,100,000
Rollover equity	(3,000,000)
Cash acquired	(108,054)
Net cash paid	\$ 991,946
Cash	\$ 108,054
Accounts receivable	50,956
Prepays and other assets	634,944
Operating lease right-of-use asset	219,457
Goodwill	3,354,824
Operating lease liability	(219,457)
Other liabilities assumed	(48,778)
Total purchase price	\$ 4,100,000

Legal Settlement

During 2024, the Company entered into a settlement agreement for claims made under the indemnity clause of the purchase agreement for the 2022 acquisition agreement of 1-800 Packouts, LLC (Packouts). The Company claimed they incurred losses due to alleged breaches of franchise-related representations and warranties by the former owner of Packouts and member of the Company. In March 2024, both parties entered into a settlement agreement to resolve these claims. Under the terms of the agreement, the Company received a total settlement of \$10,000,000. The settlement stipulated that the Company would repurchase the former owner's membership interest in the Company in exchange for a reduction of the legal settlement receivable at an agreed value of \$4,230,000. The remaining settlement amount would be received as periodic cash payments. During the year ended December 31, 2024, the Company received cash payments totaling \$4,950,000 and the remaining receivable amount of \$820,000 is due in September 2025.

The Company determined that since this settlement was related to the acquisition of Packouts, the settlement of amount would be treated as a reduction in the related purchase price and the acquired assets.

3. Goodwill and Intangible Assets

Goodwill and intangible assets consist of the following as of December 31:

	2024	2023
Trade name	\$ 27,550,000	\$ 27,550,000
Franchise agreements	30,900,000	30,900,000
Goodwill	80,483,637	87,128,812
Total intangible assets	138,933,637	145,578,812
Less: accumulated amortization	(40,698,331)	(29,035,560)
Intangible assets, net	\$ 98,235,306	\$ 116,543,252

Amortization expense resulting from goodwill and intangible assets was \$11,662,770 and \$12,639,099 for the years ended December 31, 2024 and 2023, respectively.

The future aggregate amounts of amortization expense to be recognized related to definite-lived intangible assets as of December 31, 2024, are as follows:

Years Ending December 31,	
2025	\$ 11,668,434
2026	11,668,434
2027	11,668,434
2028	11,668,434
2029	11,668,434
Thereafter	39,893,136
	<u>\$ 98,235,306</u>

4. Long-Term Debt and Revolving Credit Facility

In connection with the acquisitions of subsidiary companies in prior years, the Company entered into a financing arrangement with Deerpath Fund Services, LLC (Deerpath) that matures on September 3, 2026. Under the financing arrangement, the Company received an initial term loan with a principal amount of \$28,000,000, to be used for acquisitions which occurred in 2021, as well as amounts available for future transactions as follows: (1) up to an aggregate of \$15,000,000 available as delayed draw term loans, and (2) contingent amounts of up to \$25,000,000 available for future financing to be negotiated. The loans bear an interest rate of a 3-month term SOFR plus 5.65% (10.24% as of December 31, 2024). As of December 31, 2024 and 2023, the total amount that has been drawn on the facility was \$48,100,000. The arrangement also provides for a revolving credit facility with available draws up to \$2,000,000, of which the Company had drawn \$1,100,000 as of December 31, 2024.

As of December 31, 2024, the Company had future maturities of notes payable as follows:

Years Ending December 31,	
2025	\$ 481,000
2026	46,416,500
	46,897,500
Less: debt issuance costs	(493,660)
	<u>\$ 46,403,840</u>

Future amortization of debt issuance costs for the Company's notes payables as of December 31, 2024, are as follows: Years Ending December 31,

2025	\$ 274,481
2026	219,179
	<u>\$ 493,660</u>

5. Operating Leases

The Company has entered into certain operating leases for office space under operating lease arrangements. As of December 31, 2024, there was a weighted average of 4.3 years remaining on the original lease terms. The Company estimated their incremental borrowing rate in calculating the ROU asset and operating lease liability as the rate implicit in the leases were not known. The weighted average incremental borrowing rate used was 5.77%.

The following table reconciles the undiscounted future cash flows to the operating lease liability recorded on the accompanying consolidated balance sheet as of December 31, 2024:

Years Ending December 31,	
2025	\$ 511,334
2026	456,597
2027	312,535
2028	231,112
2029	203,190
Thereafter	<u>213,394</u>
Total lease payments	1,928,162
Less: interest	<u>(245,849)</u>
	<u>\$ 1,682,313</u>

The Company elected the short-term lease recognition exemption and short-term leases, which have an initial term of 12 months or less, are not included in right-of-use assets or corresponding lease liabilities. The components of lease cost were as follows for the years ended December 31:

	2024	2023
Operating lease cost	\$ 425,914	\$ 406,131
Short-term lease cost	<u>133,893</u>	<u>200,074</u>
Total	\$ 559,807	\$ 606,205

6. Commitments and Contingencies

Litigation

The Company is involved in legal proceedings from time to time arising in the normal course of business. Management, after consultation with legal counsel, believes that the outcome of these proceedings will not have a material impact on the Company's consolidated financial position, results of operations, or liquidity.

Employee Agreements

The Company has entered into employment agreements with certain officers and employees of the Company, which require that certain severance payments are made in the event of termination without cause.

Indemnification Agreements

Under the Company's organizational documents, the Company's officers, employees and directors are indemnified against certain liabilities arising out of the performance of their duties. The Company's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Company that have not yet occurred. However, based on experience, the Company expects any risk of loss to be remote. The Company also has an insurance policy for its directors and officers to insure them against liabilities arising from the performance of their duties in their positions with the Company or its subsidiaries.

7. Related Party Transactions

The Company pays a management fee to a certain member of the Company on an annual basis based on revenues. The Company made payments of management fees of \$784,283 and \$870,389 for services rendered during the years ended December 31, 2024 and 2023, respectively.

The Company provided call center and other management services to another franchisor that is under common ownership. Additionally, the Company incurred certain expenses on behalf of that related franchisor and billed them for costs incurred. Amounts charged for services performed during the years ended December 31, 2024 and 2023, amounted to \$0 and \$250,031, respectively, and are included in revenues. As of December 31, 2024 and 2023, accounts receivable due from this related party were \$0 and \$250,031, respectively. As of March 2024, this franchisor was no longer under common ownership.

8. Income Taxes

The benefit (provision) for income taxes consists of the following for the years ended December 31, 2024 and 2023:

	2024	2023
Current:		
Federal	\$ (133,183)	\$ (262,480)
State	244	(78,963)
Total current	(132,939)	(341,443)
Deferred:		
Federal	453,482	(292,567)
State	111,856	(131,688)
Total deferred	565,338	(424,255)
Total benefit (provision) for income taxes	\$ 432,399	\$ (765,698)

Significant components of the Company's deferred income tax assets (liabilities) are as follows as of December 31:

	2024	2023
Deferred income tax assets (liabilities):		
Intangible assets	\$ (5,284,048)	\$ (5,747,861)
Deferred costs	(153,662)	(16,114)
Fixed assets	(36,969)	(44,540)
Deferred revenue	249,196	140,945
NOL carryforwards	287,562	166,613
Other	(4,146)	(6,448)
	<u>\$ (4,942,067)</u>	<u>\$ (5,507,405)</u>

The benefit (provision) for income taxes attributable to income before benefit (provision) for income taxes differed from the amount obtained by applying the federal statutory income tax rate to income (loss) before income taxes due to tax rate adjustments, state taxes, permanent differences in deductible goodwill amortization, and prior period adjustments and true-ups.

As of December 31, 2024, the Company had U.S. federal and state tax-basis net operating loss carryforwards (NOLs) of approximately \$1,182,000 and \$1,045,000, respectively. The federal and state NOLs will begin to expire in 2038 and 2036, respectively.

The Company has concluded that there are no significant uncertain tax positions requiring disclosure, and there are no material amounts of unrecognized tax benefits.

9. Subsequent Events

In February 2025, the Company completed an acquisition of a Bio-One franchisee, Phillips & O'Brien, LLC, for a purchase price of \$300,000.

Right Answers, Right Here.



TANNER

Accountants & Advisors

FS PEP HOLDCO, LLC and SUBSIDIARIES

**Consolidated Financial Statements
As of December 31, 2025 and 2024
and For the Years Then Ended**

Together with Independent Auditors' Report



Independent Auditors' Report

**To the Board of Managers of
FS PEP Holdco, LLC**

Opinion

We have audited the accompanying consolidated financial statements of FS PEP Holdco, LLC and subsidiaries (collectively, the Company), which comprise the consolidated balance sheets as of December 31, 2025 and 2024, and the related consolidated statements of operations, members' equity, and cash flows for the years then ended, and the related notes to consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of FS PEP Holdco, LLC and subsidiaries as of December 31, 2025 and 2024, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Due to the March 2024 acquisition of an entity under common control, CMY Holdco, LLC (Note 2), the historical activity prior to the acquisition of CMY Holdco, LLC and its wholly-owned subsidiary, Card my Yard Franchising, LLC, have been retrospectively combined in the consolidated financial statements of the Company.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

3300 N. Triumph Blvd., Suite 410, Lehi, UT 84043

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Tanner LLP

April 1, 2026

3300 N. Triumph Blvd., Suite 410, Lehi, UT 84043

Consolidated Balance Sheets

As of December 31,

	2025	2024
<u>Assets</u>		
Current assets:		
Cash	\$ 4,539,992	\$ 3,690,691
Accounts receivable, net of an allowance for credit losses of \$441,212 and \$74,296, respectively	9,557,463	6,102,611
Other current receivable	-	820,000
Current portion of contract assets	2,094,653	1,797,429
Prepaid and other current assets	2,703,573	1,803,912
Total current assets	18,895,681	14,214,643
Goodwill, net	49,709,291	52,556,496
Intangible assets, net	42,587,632	45,678,810
Contract assets, net of current portion	13,973,962	13,317,603
Operating lease right-of-use assets	1,411,994	1,603,081
Other assets	3,765,821	2,206,748
Total assets	\$ 130,344,381	\$ 129,577,381
<u>Liabilities and Members' Equity</u>		
Current liabilities:		
Accounts payable	\$ 2,393,312	\$ 1,515,669
Accrued expenses	3,864,563	2,383,578
Current portion of contract liabilities	5,562,715	3,227,336
Current portion of operating lease liabilities	523,286	360,394
Revolving credit facility	-	1,100,000
Current portion of long-term debt, net of debt issuance costs	565,996	206,519
Total current liabilities	12,909,872	8,793,496
Contract liabilities, net of current portion	21,102,341	20,994,540
Operating lease liabilities, net of current portion	1,011,953	1,321,919
Long-term debt, net of current portion and debt issuance costs	50,597,210	46,197,321
Revolving credit facility	1,100,000	-
Deferred income tax liabilities	4,626,115	4,942,067
Total liabilities	91,347,491	82,249,343
Commitments and contingencies (Notes 4, 5 & 6)		
Members' equity	38,996,890	47,328,038
Total liabilities and members' equity	\$ 130,344,381	\$ 129,577,381

See accompanying notes to consolidated financial statements.

1

Consolidated Statements of Operations

	<i>For the Years Ended December 31,</i>	
	2025	2024
Revenues	\$ 75,322,650	\$ 47,493,372
Cost of revenues	24,352,610	14,071,864
Gross profit	50,970,040	33,421,508
Operating expenses:		
Selling, general, and administrative	40,837,272	28,732,110
Depreciation and amortization	12,794,667	11,953,138
Total operating expenses	53,631,939	40,685,248
Loss from operations	(2,661,899)	(7,263,740)
Other income (expense):		
Interest expense	(5,763,645)	(5,462,474)
Other income (expense)	(176,690)	43,809
Total other expense, net	(5,940,335)	(5,418,665)
Loss before income taxes	(8,602,234)	(12,682,405)
Income tax benefit (provision)	(33,882)	432,399
Net loss	\$ (8,636,116)	\$ (12,250,006)

See accompanying notes to consolidated financial statements.

2

Consolidated Statements of Members' Equity*For the years ended December 31, 2025 and 2024*

	Members' Equity
Balance as of January 1, 2024	\$ 61,292,873
Equity-based compensation	163,300
Member units issued for acquisition (Note 2)	3,000,000
Repurchase of member units	(4,878,129)
Net loss	(12,250,006)
Balance as of December 31, 2024	47,328,038
Equity-based compensation	204,968
Member units issued for acquisition (Note 2)	100,000
Net loss	(8,636,116)
Balance as of December 31, 2025	\$ 38,996,890

See accompanying notes to consolidated financial statements.

3

Consolidated Statements of Cash Flows

For the Years Ended December 31,

	2025	2024
Cash flows from operating activities:		
Net loss	\$ (8,636,116)	\$ (12,250,006)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Amortization of goodwill and intangible assets	11,968,566	11,662,770
Depreciation of fixed assets	826,101	290,368
Amortization of deferred financing costs	334,614	255,474
Amortization of operating lease right-of-use assets	432,840	378,441
Equity-based compensation	204,968	163,300
Gain on disposal of fixed assets	-	(2,189)
Credit loss expense	1,045,996	466,027
Decrease (increase) in:		
Accounts receivable	(4,497,955)	(2,952,504)
Contract assets	(953,583)	(2,750,720)
Other assets	(784,749)	516,161
Increase (decrease) in:		
Accounts payable and accrued expenses	2,146,131	480,916
Contract liabilities	1,441,376	4,310,641
Operating lease liabilities	(388,827)	(353,118)
Deferred income taxes	(315,952)	(565,338)
Net cash provided by (used in) operating activities	2,823,410	(349,777)
Cash flows from investing activities:		
Purchase of property and equipment	(1,985,719)	(1,813,949)
Net cash paid for acquisition	(445,892)	(991,946)
Proceeds from acquisition related legal settlement	820,000	4,950,000
Net cash provided by (used in) investing activities	(1,611,611)	2,144,105
Cash flows from financing activities:		
Payment of debt issuance costs	(245,980)	-
Borrowing on line of credit	-	1,100,000
Borrowing on long-term debt	416,915	-
Repayment of long-term debt	(533,433)	(851,000)
Purchase of membership units	-	(648,129)
Net cash used in financing activities	(362,498)	(399,129)
Net change in cash	849,301	1,395,199
Cash at beginning of year	3,690,691	2,295,492
Cash at end of year	\$ 4,539,992	\$ 3,690,691

See accompanying notes to consolidated financial statements.

4

Consolidated Statements of Cash Flows - Continued

	<i>For the Years Ended December 31,</i>	
	2025	2024
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 5,377,981	\$ 5,748,129
Cash paid for income taxes	73,651	644,566
Supplemental disclosure of non-cash investing and financing information:		
Operating lease right-of-use assets and liabilities added through new contracts	\$ 165,441	\$ 489,629
Reduction of member units and related assets due to legal settlement	-	4,230,000

See accompanying notes to consolidated financial statements.

5

Notes to Consolidated Financial Statements

1. Description of Organization and Summary of Significant Accounting Policies

Organization

FS PEP Holdco, LLC is a holding company established for the purpose of acquiring and operating home services related franchisor companies. Through its franchisor entities located throughout the United States, the Company seeks to establish profitable and sustainable franchise systems that provide franchise partners the tools to profitably operate and own a successful home service business.

Basis of Presentation and Principles of Consolidation

The consolidated financial statements are presented in conformity with accounting principles generally accepted in the United States of America (US GAAP) and include the accounts of FS PEP Holdco, LLC and its wholly owned subsidiaries: Five Star Connect, Inc.; Gotcha Covered Franchising, LLC; Ringside Development Company, and its wholly owned subsidiary Bio-One Atlanta, LLC; Bio-One IP Group, LLC; Ringside Group, LLC; Mosquito Shield Franchise, LLC, and its wholly owned subsidiary MS SEPA, LLC; 1-800-Packouts Holdco, LLC; CMY Holdco, LLC; Five Star Bath, Inc; Five Star Franchising, LLC, and its wholly owned subsidiary Five Star Bath, LLC; and In and Out Floors, LLC.

FS PEP Holdco, LLC was formed on April 9, 2021, and during 2021 began acquiring operating companies. The consolidated financial statements reflect the operations of FS PEP Holdco, LLC and all of its subsidiaries (collectively the Company). All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Concentrations of Credit Risk

The Company maintains its cash in bank deposit accounts which, at times, exceed federally insured limits. To date, the Company has not experienced a loss or lack of access to its invested cash and cash equivalents; however, no assurance can be provided that access to the Company's invested cash will not be impacted by adverse conditions in the financial markets.

Accounts Receivable

Accounts receivable consists of amounts due on franchisee accounts for various fees including royalties, support fees, branding fees, insurance, training, and expendable equipment. The allowance for credit losses and other reserves are based upon the Company's historical experience with franchisees and considers the age of the receivable and the franchisees' ability to pay. Accounts are written off when determined to be uncollectible and all reasonable efforts to collect the receivable have been exhausted. Accounts receivable does not include any amounts for interest.

The balances in accounts receivable and the allowance for credit losses were as follows as of December 31:

	2025	2024	2023
Accounts receivable	\$ 9,998,675	\$ 6,176,907	\$ 3,671,131
Allowance for credit losses	(441,212)	(74,296)	(105,953)
Accounts receivable, net	\$ 9,557,463	\$ 6,102,611	\$ 3,565,178

Contract Assets

The Company incurs broker and sales commission expenses paid to third parties to obtain franchise agreements with franchisees. The commissions are related to franchise fee revenue and are capitalized as contract assets and recognized over the term of the respective franchise agreement.

Goodwill and Intangible Assets

Goodwill represents the excess purchase price over fair value of net assets acquired that is not allocable to separately identifiable intangible assets. Other identifiable intangible assets primarily consist of trade names and franchise agreements in place. These assets are amortized using the straight-line method over the estimated useful life of the asset acquired.

The Company amortizes goodwill over a period of ten years. The Company evaluates the recoverability of the carrying amount of goodwill at the entity level whenever events or circumstances indicate the carrying amount may not be recoverable. Management has determined there was no impairment as of December 31, 2025 and 2024.

Debt Issuance Costs

The Company defers costs related to issuing debt and amortizes the costs using the effective interest method, to interest expense over the term of the related debt.

Revenue Recognition

The Company primarily derives revenue from royalties, call center services, franchise and license fees, equipment and product sales, and advertising services. Revenue is recognized from these contracts with customers by applying the following steps:

- Identification of the contract, or contracts, with a customer.
- Identification of the performance obligations in a contract.
- Determination of the transaction price.
- Allocation of the transaction price to the performance obligations in the contract.
- Recognition of revenue when, or as, performance obligations are satisfied.

Royalties

The Company sells individual franchises as well as territory agreements (Franchise Agreements) that grant the right to operate a location, using the Company's software and trademarks, generally for a period of five or ten years. The franchisees are equipped with certain equipment and samples and are trained at the Company's facilities. The Franchise Agreements require franchisees to pay continuing fees, or royalties, on a monthly basis based on the terms of the Franchise Agreement. Royalty income is based on either a percentage (generally ranging from 6% to 25%) of franchisee gross sales, minimum monthly payments, or other calculated amounts as defined in the Franchise Agreement and is recognized as the royalties are at the franchisees' point of sale.

Call Center Services

The Company provides certain sales and marketing support services for franchisees, including the operation of a call center for inbound-customer and marketing related calls. The fees associated with the call center are structured as either a fixed monthly fee or a variable fee based on the monthly usage of the call center. Revenue for call center services are recognized during the month that the services are performed.

Franchise Fees

The Franchise Agreements require the franchisee to pay an initial fee to obtain the rights associated with the Franchise Agreements. Initial franchise fee revenue is partially recognized upon substantial completion of the startup services required of the Company. The remainder of the franchise fee revenue is recognized over the term of the Franchise Agreement. All fees collected in advance are deferred until performance obligations are met, and revenue is earned. Deferred amounts are classified as contract liabilities in the accompanying consolidated balance sheets. The balance of contract liabilities was \$26,665,056, \$24,221,876, and \$19,911,235, as of December 31, 2025, 2024, and 2023, respectively.

Franchise sales resulting from leads furnished by independent franchise brokers are subject to a sales commission. The costs of commissions paid to franchise brokers are capitalized and recognized over the same period as the related revenue.

Equipment and Product Sales

Revenue from the sale of equipment and products is recognized when title and risk of loss transfers to the buyer, which is generally upon shipment.

Advertising Services

Under the terms of the Franchise Agreements, the Company may establish national branding funds and charge a fee of up to 3% of the franchisees' gross receipts to pay for marketing costs that benefit multiple franchises and are used to promote the brands. Marketing revenues and expenses are recognized in equal amounts as marketing expenses are incurred. Any amounts collected but unspent at the end of the year are accrued for as a liability on the accompanying consolidated balance sheets until the related expense has been incurred.

Company-owned Franchise Operations

Company-owned franchises provide (i) residential installation services, including shower, bath, and flooring installations, (ii) bio-hazard cleanup and remediation services, and (iii) residential pest control services, including mosquito spraying and abatement.

Residential installation services, including shower, bath, and flooring installations, are typically completed within one to several days depending on the scope of the project. Revenue for these services is recognized at a point in time upon completion of the installation and customer acceptance, as this represents the transfer of control of the promised goods and services.

Bio-hazard cleanup and remediation services are generally short-term in nature and may be completed within a single day or over a limited number of days depending on the scope of the project. Revenue is recognized at a point in time upon completion of services and customer acceptance, as the customer simultaneously receives and consumes the benefits of the services and the Company has a right to payment upon completion.

Residential pest control services, including mosquito spraying and abatement, are typically performed on a recurring or contract basis over a defined service period. Revenue for these services is recognized over time as the services are performed, as the customer simultaneously receives and consumes the benefits of the services. For one-time treatments, revenue is recognized at a point in time upon completion of the service.

Vendor Rebates

The Company receives rebates from certain vendors used by franchisees. Vendor rebate revenue is recognized at the point-in-time the associated sales to vendors are recorded and the rebate is earned.

Other Revenues

Other revenues include fees generated by consulting services, monthly technology access fees and other miscellaneous fees allowable under the terms of the Franchise Agreements. Consulting and other fees are recognized as revenue once the consulting or other services have been performed, these services are short term in nature and provided on a month-to-month basis. Monthly technology access fees are recognized during the month that services are performed.

Amounts recognized as revenue for the different revenue types were as follows for the years ended December 31:

	2025	2024
Royalties	\$ 20,434,288	\$ 16,760,701
Company-owned franchise operations	16,724,007	434,495
Other revenues	9,131,670	6,665,981
Advertising services	8,620,322	8,154,242
Franchise fees	6,875,338	5,798,078
Call center services	5,390,396	3,018,653
Equipment and product sales	4,190,369	3,878,525
Vendor rebates	3,956,260	2,782,697
	<u>\$ 75,322,650</u>	<u>\$ 47,493,372</u>

Contract Liabilities

Contract liabilities represent billings made to or payments received from franchisees for which the related performance obligation has not yet been fulfilled. This primarily consists of franchise fees that have been received but are deferred to be recognized over the term of the franchise agreement. Deposits for conferences, trainings, and services are also deferred until the point at which the service has been provided.

Leases

Management determines if a contract is or contains a lease at inception or modification of a contract. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. Control over the use of the identified asset means the lessee has both (a) the right to obtain substantially all of the economic benefits from the use of the asset and (b) the right to direct the use of the asset. Such assets are classified as ROU assets with a corresponding lease liability.

For all arrangements where it is determined that a lease exists, the related ROU assets and lease liabilities are recorded as either operating or finance leases. At inception or modification, the Company calculates the present value of lease payments using the implicit rate determined from the contract or the Company's incremental borrowing rate applicable to the lease, which is determined by estimating what it would cost the Company to borrow a collateralized amount equal to the total lease payments over the lease term based on the contractual terms of the lease and the location of the leased asset. The present value is adjusted for prepaid lease payments, lease incentives, and initial direct costs. Lease expense is recognized for these leases on a straight-line basis over the expected lease term. Non-lease costs, such as common-area maintenance costs, taxes, and insurance, are not included in the measurement of the ROU assets and lease liabilities. The depreciable life of assets and leasehold improvements are limited by the expected lease term.

Sales Tax

The Company accounts for sales tax on a net basis and excluded from revenues.

Shipping and Handling Costs

The Company classifies freight billed to customers as sales revenue and the related freight costs as cost of sales.

Advertising and Marketing

Advertising and marketing costs included in operating expenses primarily consist of collateral marketing materials and are expensed as incurred. These costs are included in selling, general, and administrative expenses and were \$2,395,606 and \$1,995,154 during the years ended December 31, 2025 and 2024, respectively.

Income Taxes

The Company is a limited liability company under provisions of the Internal Revenue Code and has elected to be treated as a partnership for income tax purposes. As such, the payment and recognition of income taxes are the responsibility of the members of the Company.

The Company files income tax returns in the US federal and state jurisdictions. The Company is generally subject to US federal, state and local income tax examination by tax authorities for a period of three years from the date of filing. The Company is not currently under examination in any jurisdiction in which it operates.

The Company is required to determine whether its tax positions are more likely than not to be sustained upon examination by the applicable taxing authority, based on the technical merits of the position. The tax benefits recognized are measured as the largest amount of benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant taxing authorities. Based on its analysis, the Company has determined that it has not incurred any liability for unrecognized tax benefits as of December 31, 2025. The Company does not expect that its assessment regarding unrecognized tax benefits will materially change over the next 12 months.

Certain subsidiaries of the Company recognize deferred income tax assets and liabilities for the expected future tax consequences of events that have been included in the subsidiary financial statements or tax returns. Under this method, deferred income tax assets and liabilities are determined based on the difference between financial statement and tax bases of assets and liabilities using estimated tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are recognized only if it is more likely than not that the asset will be realized in future years.

Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure through April 1, 2026, which is the day the consolidated financial statements were available to be issued.

2. Acquisitions of Subsidiary Entities

During the year ended December 31, 2025, the Company entered into the following acquisition agreements:

Phillips & O'Brien, LLC (Bio-One Atlanta, LLC)

On February 14, 2025, the Company entered into a securities purchase agreement to acquire 100% of the equity interest of a franchisee, Phillips & O'Brien, LLC (Bio-One Atlanta, LLC). The securities purchase agreement included a cash payment of \$300,000.

MS SEPA, LLC

On May 13, 2025, the Company entered into a securities purchase agreement to acquire 100% of the equity interest of a franchisee, MS SEPA, LLC. The securities purchase agreement included payment of rollover ownership interest of \$100,000 wherein the former owner was granted an ownership interest in the Company, and a cash payment of \$4,900,000. The agreement also includes contingent consideration of up to \$1,000,000 to be paid if the acquired entity reaches certain system sales metrics in 2025. Management has determined that it is not probable that the metrics will be achieved, and no liability related to the contingent consideration has been recorded in the accompanying consolidated balance sheets.

In and Out Floors, LLC

On September 13, 2025, the Company entered into a securities purchase agreement to acquire 100% of the equity interest of In and Out Floors, LLC. The securities purchase agreement included a cash payment of \$300,000 and a contingent consideration of up to \$1,500,000 in 2026, \$2,200,000 in 2027, and \$2,800,000 in 2028 to be paid if the acquired entity reaches certain system sales metrics over the 36-month period after the year of the acquisition. Management has determined that it is not probable that the metrics will be achieved, and no liability related to the contingent consideration has been recorded in the accompanying consolidated balance sheets.

The purchase consideration for each of the acquisition has been allocated based on the assessment of the fair market values of the acquired assets and liabilities assumed. The excess of the purchase price over the fair value of the net assets gives rise to goodwill.

The following table sets forth the allocation of the purchase consideration to the assets acquired and liabilities assumed:

Consideration:	Bio-One Atlanta	MS SEPA	In and Out Floors
Total consideration	\$ 300,000	\$ 4,739,200	\$ 300,000
Rollover equity	-	100,000	-
Funded debt, net of issuance cost	-	(4,787,250)	-
Prorated expenses	-	77,075	-
Working capital adjustment	-	(240,000)	-
Transaction expenses	-	(37,875)	-
Cash acquired	(2,799)	-	(3,259)
Net cash paid	\$ 297,201	\$ (148,850)	\$ 296,741
Fair value of assets acquired and liabilities assumed:			
Cash	\$ 2,799	\$ -	\$ 3,259
Accounts receivable	2,893	-	-
Other assets	80,600	433,767	-
Operating lease right-of-use asset	-	-	76,312
Goodwill	260,556	5,374,132	-
Territory allocation	-	-	395,495
Contract liabilities	-	(1,001,804)	-
Operating lease liability	-	-	(76,312)
Other liabilities assumed	(46,848)	(66,895)	(98,754)
Total purchase price	\$ 300,000	\$ 4,739,200	\$ 300,000

During the year ended December 31, 2024, the Company entered into the following acquisition agreements:

CMY Holdco, LLC

On March 26, 2024, the Company entered into a contribution and exchange agreement to acquire 100% of the membership interests in CMY Holdco, LLC (CMY) from a common owner wherein the common owner was granted additional ownership interest in the Company. The agreement also includes contingent consideration of up to \$5,605,000 to be paid if CMY reaches certain system sales metrics over the 36 month period after the acquisition. Management has determined that it is not probable that the metrics will be achieved, and no liability related to the contingent consideration has been recorded in the accompanying consolidated balance sheets.

The acquisition of CMY qualified as a commonly controlled transaction which requires retrospective combination of the entities for all periods presented. In accordance with US GAAP, as of January 1, 2023, the beginning balances of assets, liabilities, and members' equity have been adjusted to include the historical cost values of CMY. The Company's consolidated statements of operations for the years ended December 31, 2025 and 2024, include all of CMY's operations as if CMY had been combined as of January 1, 2023.

Five Star Bath, Inc.

On December 13, 2024, the Company entered into a securities purchase agreement to acquire 100% of the shares of a franchisee, Five Star Bath, Inc. The securities purchase agreement included payment of rollover ownership interest of \$3,000,000 wherein the former owner was granted an ownership interest in the Company, and a cash payment of \$1,100,000.

The purchase consideration has been allocated based on the assessment of the fair market values of the acquired assets and liabilities assumed. The excess of the purchase price over the fair value of the net assets gives rise to goodwill.

The following table sets forth the allocation of the purchase consideration to the assets acquired and liabilities assumed:

Total consideration	\$	4,100,000
Rollover equity		(3,000,000)
Cash acquired		(108,054)
Net cash paid	\$	991,946
Cash	\$	108,054
Accounts receivable		50,956
Prepays and other assets		634,944
Operating lease right-of-use asset		219,457
Goodwill		3,354,824
Operating lease liability		(219,457)
Other liabilities assumed		(48,778)
Total purchase price	\$	4,100,000

Legal Settlement

During 2024, the Company entered into a settlement agreement for claims made under the indemnity clause of the purchase agreement for the 2022 acquisition agreement of 1-800 Packouts, LLC (Packouts). The Company claimed they incurred losses due to alleged breaches of franchise-related representations and warranties by the former owner of Packouts and member of the Company. In March 2024, both parties entered into a settlement agreement to resolve these claims. Under the terms of the agreement, the Company received a total settlement of \$10,000,000. The settlement stipulated that the Company would repurchase the former owner's membership interest in the Company in exchange for a reduction of the legal settlement receivable at an agreed value of \$4,230,000. The remaining settlement amount would be received as periodic cash payments. During the year ended December 31, 2025, the Company has received all of the remaining cash payments.

The Company determined that since this settlement was related to the acquisition of Packouts, the settlement of amount would be treated as a reduction in the related purchase price and the acquired assets.

3. Goodwill and Intangible Assets

Goodwill and intangible assets consist of the following as of December 31:

	2025	2024
Goodwill	\$ 86,118,325	\$ 80,483,637
Franchise agreements	30,900,000	30,900,000
Trade name	27,550,000	27,550,000
Territory allocation	395,495	-
Total intangible assets	144,963,820	138,933,637
Less: accumulated amortization	(52,666,897)	(40,698,331)
Intangible assets, net	\$ 92,296,923	\$ 98,235,306

Amortization expense resulting from goodwill and intangible assets was \$11,968,566 and \$11,662,770 for the years ended December 31, 2025 and 2024, respectively.

The future aggregate amounts of amortization expense to be recognized related to definite-lived intangible assets as of December 31, 2025, are as follows:

Years Ending December 31,		
2026	\$	12,258,258
2027		12,258,258
2028		12,258,258
2029		12,258,158
2030		11,897,810
Thereafter		31,366,181
	\$	92,296,923

4. Long-Term Debt and Revolving Credit Facility

In connection with the acquisitions of subsidiary companies in prior years, the Company entered into a financing arrangement with Deerpath Fund Services, LLC (Deerpath) that matures on September 3, 2027. Under the financing arrangement, the Company received an initial term loan with a principal amount of \$28,000,000, to be used for acquisitions which occurred in 2021, as well as amounts available for future transactions as follows: (1) up to an aggregate of \$15,000,000 available as delayed draw term loans, and (2) contingent amounts of up to \$25,000,000 available for future financing to be negotiated, which \$4,900,000 was used for the In and Out Floors acquisition in 2025. The loans bear an interest rate of a 3-month term SOFR plus 4.5% (9.94% as of December 31, 2025). As of December 31, 2025 and 2024, the total amount that has been drawn on the facility were \$53,000,000 and \$48,100,000. The arrangement also provides for a revolving credit facility with available draws up to \$2,000,000, of which the Company had drawn \$1,100,000 as of December 31, 2025.

During 2025, the Company entered into a promissory note with another financial institution that matures on February 3, 2032; interest rate is a fixed rate, 8% as of December 31, 2025. The Company's outstanding debt is secured by substantially all the Company's assets.

As of December 31, 2025, the Company had future maturities of notes payable as follows:

Years Ending December 31,		
2026	\$	565,996
2027		50,801,027
2028		42,267
2029		45,872
2030		49,734
Thereafter		63,336
		<u>51,568,232</u>
Less: debt issuance costs		<u>(405,026)</u>
	\$	<u>51,163,206</u>

Future amortization of debt issuance costs for the Company's notes payable as of December 31, 2025, are as follows:

Years Ending December 31,		
2026	\$	243,015
2027		162,011
	\$	<u>405,026</u>

The notes payable requires the Company to meet certain financial covenants. Management believes the Company was in compliance with these covenants as of December 31, 2025.

5. Operating Leases

The Company has entered into certain operating leases for office space under operating lease arrangements. As of December 31, 2025, there was a weighted average of 3.79 years remaining on the original lease terms. The Company estimated their incremental borrowing rate in calculating the ROU asset and operating lease liability as the rate implicit in the leases were not known. The weighted average incremental borrowing rate used was 5.88%.

The following table reconciles the undiscounted future cash flows to the operating lease liability recorded on the accompanying consolidated balance sheet as of December 31, 2025:

Years Ending December 31,		
2026	\$	590,779
2027		386,251
2028		269,803
2029		203,005
2030		209,095
Thereafter		56,533
Total lease payments		<u>1,715,466</u>
Less: interest		<u>(180,227)</u>
	\$	<u>1,535,239</u>

The Company elected the short-term lease recognition exemption and short-term leases, which have an initial term of 12 months or less, are not included in right-of-use assets or corresponding lease liabilities. The components of lease cost were as follows for the years ended December 31:

	2025	2024
Operating lease cost	\$ 539,273	\$ 425,914
Short-term lease cost	180,160	133,893
Total	\$ 719,433	\$ 559,807

6. Commitments and Contingencies

Litigation

The Company is involved in legal proceedings from time to time arising in the normal course of business. Management, after consultation with legal counsel, believes that the outcome of these proceedings will not have a material impact on the Company's consolidated financial position, results of operations, or liquidity.

Employee Agreements

The Company has entered into employment agreements with certain officers and employees of the Company, which require that certain severance payments are made in the event of termination without cause.

Indemnification Agreements

Under the Company's organizational documents, the Company's officers, employees and directors are indemnified against certain liabilities arising out of the performance of their duties. The Company's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Company that have not yet occurred. However, based on experience, the Company expects any risk of loss to be remote. The Company also has an insurance policy for its directors and officers to insure them against liabilities arising from the performance of their duties in their positions with the Company or its subsidiaries.

7. Equity

Profit Interest Units

The Company's grant agreement, approved on August 12, 2022, authorizes the grant of Class C Units to employees, officers, and managers of the Company. 50% of the grants are time vesting and have a vesting period of 4 years with 12.5% vesting on each of the anniversary of the grant date. The other 50% of the grants are vesting based on the performance condition of a liquidity event. As of December 31, 2025, the Company has granted a total of 53,167 Class C Units. Equity-based compensation for the years ended December 31, 2025 and 2024 was \$204,968 and \$163,300, respectively, which is included in selling, general, and administrative expenses in the accompanying consolidated statements of operations.

Discretionary and Liquidating Distribution

Distributions of net proceeds in connection with the consummation of a Liquidity Event or a liquidation of the Company shall be distributed in the following order and priority:

- (i) first, to the holders of Class A Units in proportion to their relative portion of the Undistributed Class A Preferred Return;

(ii) second, to the holders of Class A Units in proportion to their relative portion of the Unreturned Class A Contributions, until each holder of Class A Units has received Distributions in an aggregate amount equal to the aggregate Unreturned Class A Contributions with respect to such holder's Class A Units outstanding immediately prior to such Distribution;

(iii) third, to the holders of Class B Units in proportion to their relative Class B Pro Rata Share, until the holders of Class B Units have collectively received Distributions in an aggregate amount equal to the Class B Pro Rata Portion of the amount of aggregate Distributions to the holders of Class A Units and Class B Units;

(iv) fourth, if applicable, to the holder of Vested Class D Units, the Class D Distribution Amount; and

(v) thereafter, to the holders of Class A Units, Class B Units and Vested Class C Units in proportion to the number of Class A Units, Class B Units and Vested Class C Units held by such Members; provided, however, that the total Distributions to holders of Class A Units shall not exceed the greater of (A) the aggregate Distributions to holders of Class A Units and (B) their aggregate pro rata share of all Distributions distributed to the holders of Class A Units, Class B Units and Vested Class C Units.

8. Related Party Transactions

The Company pays a management fee to a certain member of the Company on an annual basis based on revenues. The Company made payments of management fees of \$881,427 and \$784,283 for services rendered during the years ended December 31, 2025 and 2024, respectively.

9. Income Taxes

The benefit (provision) for income taxes consists of the following for the years ended December 31, 2025 and 2024:

	2025	2024
Current:		
Federal	\$ (289,024)	\$ (133,183)
State	(60,810)	244
Total current	(349,834)	(132,939)
Deferred:		
Federal	296,189	453,482
State	19,763	111,856
Total deferred	315,952	565,338
Total benefit (provision) for income taxes	\$ (33,882)	\$ 432,399

Significant components of the Company's deferred income tax assets (liabilities) are as follows as of December 31:

	2025	2024
Deferred income tax assets (liabilities):		
Intangible assets	\$ (4,857,558)	\$ (5,284,048)
Deferred costs	(245,439)	(153,662)
Fixed assets	(66,591)	(36,969)
Deferred revenue	324,393	249,196
NOL carryforwards	120,271	287,562
Other	98,809	(4,146)
	<u>\$ (4,626,115)</u>	<u>\$ (4,942,067)</u>

The benefit (provision) for income taxes attributable to income before benefit (provision) for income taxes differed from the amount obtained by applying the federal statutory income tax rate to income (loss) before income taxes due to tax rate adjustments, state taxes, permanent differences in deductible goodwill amortization, and prior period adjustments and true-ups.

As of December 31, 2025, the Company had U.S. federal and state tax-basis net operating loss carryforwards (NOLs) of approximately \$509,000. The federal and state NOLs will begin to expire in 2038.

The Company has concluded that there are no significant uncertain tax positions requiring disclosure, and there are no material amounts of unrecognized tax benefits.

FIVE STAR FLOORING FRANCHISE, LLC.

FRANCHISE AGREEMENT

[Print name of individual]

[Jointly and Severally, "You"]

and

[Print name of proprietorship, partnership, and company]

[Jointly and Severally, "You"]

and

FIVE STAR FLOORING FRANCHISE, LLC.

["We" or "Us"]

Five Star Flooring Franchise, LLC.

Springville, Utah

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SCHEDULE A Franchise Territory

FRANCHISE AGREEMENT

THIS AGREEMENT has been entered this ____ day of _____, 20___. It is by and between **FIVE STAR FLOORING FRANCHISE, LLC.**, a Utah limited liability company, ("we, us") and _____ and _____ (jointly and severally "you").

For purposes of this Agreement "you" may include an individual, corporation, partnership, limited liability company or other legal entity. "You" includes any corporation, partnership, limited liability company, individual, combination of individuals, or other legal entity that owns a majority interest of you, or in which you own a majority interest. The term "you" will include all persons who succeed to your interest by transfer or by operation of law.

We have certain rights to, have registered in various jurisdictions, and intend to continue to develop names, trademarks, service marks, logos, commercial symbols, and styles. These include, but are not limited to "**Five Star Flooring**" (the "Service Marks"). We own valuable goodwill and have valuable expertise, confidential information, methods, procedures, techniques, uniform standards, operations manuals, inventory control guidelines, systems, layouts, merchandise, and materials. These are connected with the operation, promotion, and marketing of businesses that offer quality flooring replacement, renovation, and installation services and related products to the public under the Service Marks (the "Five Star Flooring System").

You desire us to train you and authorize you to operate a high-caliber franchise to offer and sell the Five Star Flooring System to the public and to use the Five Star Flooring System and Service Marks including trademarks disclosed to you and identified in our operations manual. We are willing to grant you such a franchise on the terms and conditions set forth in this Agreement.

You acknowledge that this Agreement was accompanied by a Franchise Disclosure Document, which you received at the earlier of:

- the first personal meeting with us (in New York and Rhode Island); or
- 14 calendar days before signing any franchise or related agreement or making any payment with the franchisor or an affiliate in connection with the franchise sale (10 business days in Michigan, New York, Oregon, Rhode Island, Washington and Wisconsin).

In addition, you acknowledge either:

- receipt of this Agreement containing all substantive terms at the time of delivery of the Franchise Disclosure Document; or
- if we unilaterally or materially altered the terms and conditions of our standard franchise agreement or any related agreements attached to the Franchise Disclosure Document, you acknowledge that you received a complete and final copy of this Agreement and its exhibits not less than 7 calendar days before you signed this Agreement.

You have read this Agreement and our Franchise Disclosure Document. You understand and accept the terms, conditions and covenants contained in this Agreement. They are necessary to maintain our high standards of quality, service and uniformity at all franchises. They protect and preserve the goodwill of the Service Marks and the confidentiality and value of the Five Star Flooring System.

You realize that entering into this Agreement will obligate you to operate your franchised business in strict accordance and conformity with the standards, specifications and procedures as set forth in the Operations Manual that we will loan to you. You furthermore realize that there is a risk in owning any business venture including this one and that running a business can be very hard work. If you operate your Five Star Flooring Franchise below the standards we require, customers who patronize that Five Star Flooring franchise location will be less likely to patronize other Five Star Flooring locations. This would damage the business of others. It will be difficult for us to obtain new franchisees if a prospective purchaser observes that you do not maintain the required standards.

We expressly disclaim the making of, and you acknowledge that you have not received or relied upon, any warranty or guaranty, express or implied, as to the revenues, profits or success of the business venture contemplated by this Franchise Agreement, except those representations specifically disclosed in our Franchise Disclosure Document. You acknowledge that you have read this Agreement and our Franchise Disclosure Document and that you have no knowledge of any representations by us, or our officers, directors, shareholders, employees or agents that are contrary to the statements made in our Franchise Disclosure Document or to the terms of this Agreement. We do not furnish nor do we authorize our salespersons to furnish any oral or written information concerning the actual or potential sales, costs, income or profits of any Five Star Flooring operation that is inconsistent with disclosures in our Franchise Disclosure Document. Actual results vary from unit to unit and we cannot estimate the results of any particular franchise.

THEREFORE, in consideration of the mutual promises and covenants contained in this Agreement, the parties agree as follows:

1 **GRANT OF FRANCHISE AND FRANCHISE TERRITORY**

1.1 **Grant of Franchise and Franchise Territory.** We grant to you, and you accept from us, the franchise, license, and privilege to use the Service Marks, the Five Star Flooring System, and merchandise bearing the Service Marks, for 10 years from the date of this Agreement (the "Franchise"). This grant is solely for the operation by you of one Five Star Flooring replacement, renovation, and installation franchise in the geographical territory identified in the attached Exhibit A ("the Franchise Territory").

During the term of this Agreement, and subject to the provisions of Section 5.2 below and all system standards, we agree not to establish, or license anyone else to establish, any other franchise using the Service Marks or the Five Star Flooring System within the Franchise Territory, without your prior written consent. You expressly agree, subject to processes more specifically outlined in our Operations Manual, that any Five Star Flooring franchisee may obtain rights to work for a client outside of that franchisee's franchise territory and in the territorial boundaries of another Five Star Flooring franchisee, including in your Franchise Territory. To reserve rights to a specific client (the "Reserved Client"), a Five Star Flooring franchisee, including you, must:

- a.i. Prove by way of invoice and receipt of payment, to have accomplished work for the specific Reserved Client within the franchisee's franchise territory designated in an existing Five Star Flooring franchisee agreement within the six months previous to the time of intended work outside of that franchise territory.
- a.ii. Prove by way of date book registry or digital records, all attempts and meetings related to obtaining the Reserved Client and related to the work to be performed outside of that franchise territory. The Reserved Client must also have further potential work within that franchise territory.
- a.iii. Apply to us for and receive our express written consent allowing designation and assignment of the Reserved Client.
- a.iv. Not accept to bid on any job outside of the franchise territory before receiving our written consent.

Any dispute arising as to whether any Five Star Flooring franchisee may reserve a client will be in our absolute discretion, and our decision will be final and binding.

Any Reserved Client obtained by our corporate sales office may be given to one franchisee in particular, or be spread through a number of franchisees, or be spread through all franchise territories in which the Reserved Client may have work. This allocation of work will be within our sole discretion.

If you have rights to a Reserved Client, but do not wish to accept work outside of the Franchise Territory, you agree to allow us to allocate this potential work to others of our franchisees who have sufficient skill and knowledge to accomplish the work in a satisfactory manner.

You will not be entitled to receive any compensation if other Five Star Flooring franchisees accomplish work in the Franchise Territory for Reserved Clients.

If either the Franchise Territory or the location for your franchised operations has not been determined when this Agreement is executed, you are responsible for selecting the site for your franchise within the area designated in Exhibit A. The Franchise Territory and your franchise site must be in the United States of America or Canada, legally available pursuant to state, provincial, and federal franchise and business opportunity disclosure and registration laws and pursuant to our contractual commitments (including those with our other franchisees) and in compliance with our franchise placement, market development and demographic criteria.

1.2 **Location for Franchise.** You will operate the Franchise only within the Franchise Territory. You may have one or more locations in the Franchise Territory from which the following are performed (collectively the "Franchise Premises"):

- A. The storage of any equipment used in association with your Franchise.
- B. Where crews might meet at the beginning of the day before they go to their jobsites.
- C. Maintenance of telephone, fax, email or postal address for the Franchise.
- D. Advertisement of the address, telephone, fax, email or any other contact information for your location.
- E. Generation of revenues for the Franchise.

If not determined when this Agreement is executed, you are responsible for selecting the site for the Franchise Premises within the area designated in Exhibit A and in accordance with this Agreement.

1.3 **Franchise Development.** You are responsible to furnish and equip the Franchise.

- A. We will furnish to you a schedule of equipment packages for the Franchise. Any modifications you propose must be approved in writing by us. All approvals will be solely within our discretion to maintain a uniform image consistent with Five Star Flooring franchise system concepts.
- B. You will comply with the standards and specifications we establish for vehicles and equipment, among other things.
- C. You will comply within a time we deem reasonable with any requirement we impose to modify the vehicles and equipment.

1.4 **Relocation of the Franchise.** You will not relocate the Franchise without our prior written approval. Any relocation will be at your sole expense. This Agreement will govern your operations at any replacement Franchise location. You may decide to relocate the Franchise for the following reasons:

- in your and our judgment there is a change in character of the location of the Franchise sufficiently detrimental to your business potential to warrant its relocation, or
- you reasonably decide to relocate the Franchise for cause.

If so, you may relocate the Franchise to another available location, if:

- A. you are not in breach of this Agreement;
- B. you evidence to our satisfaction your ability to obtain and commence operations at the new location within a time we deem reasonable after you vacate the original location;
- C. you develop and equip, at your sole expense, the new location according to our then current specifications and standards;
- D. you pay all reasonable out-of-pocket expenses we incur because of the relocation. The terms "Franchise Territory" and "Franchise Premises" will include the relocated business site; and
- E. you satisfy our then current franchise placement and demographics criteria, as expressed in the Operations Manual.

1.5 **You Will Not Advertise Outside Territory.** Except with our prior written permission, you will not place under any circumstances advertisements using the Service Marks in or originating from any area other than the Franchise Territory. If we give such consent, designating any areas as "Operational Areas," such consent may be revoked by us at any time. You receive no owned territory rights associated with Operational Areas, but instead are given conditional permission to operate your franchised business in such Operational Areas. Such permission is given in our sole discretion. Our designation of any area as an "Operational Area" shall not give you any right to such area, and the Operational Area may be sold by us at any time. Additionally, if during any calendar year, greater than ten percent (10%) of your annual gross revenues are realized from any single ZIP code within Operational Area, we may require that you purchase the Operational Area.

You are not permitted to engage in any marketing, install any products, or provide any services at locations outside of the Franchise Territory, unless you have obtained our prior written consent. Currently, you may request permission to engage in marketing, install products, and provide services in territories known as "unowned territories" in accordance with the requirements, terms, and conditions in the Manual. If we give you permission to engage in marketing, install products, or provide services in any unowned territory, we have the right to sell or assign such territory or any part of it, at any time, without prior notice to you. You will not have a right of first refusal or option to buy any unowned territory you formerly marketed in or worked.

Although we will not grant another Five Star Flooring Franchise the right to engage in any marketing, install any products, or provide any services in your Franchise Territory, we don't promise that another franchisee will not violate his or her franchise

agreement and conduct business in your territory. If a franchisee does so, we may require the franchisee to immediately pay to us or, at our option, to you, a Post-Termination Default Fee of \$5000 per installation, project, or sale, provided we have the right to do so under the terms of that franchisee's agreement. If we require the franchisee to pay Post-Termination Default Fee to you (or we remit to you post-Termination Default Fee paid by that franchisee to us), that payment is your sole remedy against us and the other franchisee for that installation of products or provision of services. However, we have no obligation to seek Post-Termination Default Fee.

1.6 **Existence of Divergent Forms of Franchise Contracts.** You acknowledge that we have offered franchises to others in the past, the terms of which may have varied materially from those set forth in this Agreement.

1.7 **Rights We Reserve.** We retain all rights not specifically granted to you under this Agreement. Except as otherwise provided in this Agreement, we retain the right, in our sole discretion and without granting any right to you:

- A. to use or license the use of the Service Marks or any other trademarks, service marks, logos, or commercial symbols in connection with the sale of any services or products other than those directly contemplated being used, offered, or sold by you under this Agreement. We expressly reserve the right to sell, or earn rebates and fees from the sale by others licensed or authorized by us to sell, proprietary products on a wholesale basis for use in preparing products that will not carry a Five Star Flooring brand.
- B. to operate and grant to others the right to operate Five Star Flooring businesses outside the Franchise Territory on such terms and conditions as we deem appropriate.
- C. to sell products or services anywhere, including within the Franchise Territory through channels of distribution other than the Five Star Flooring business currently reserved to you in the Franchise Territory, including Internet, other forms of media now or in the future developed, wholesale, and mail order channels. The Internet is a channel of distribution reserved exclusively to us, and you may not independently market on the Internet or conduct e-commerce except as otherwise allowed by us in the Operations Manual.
- D. to establish, operate, own, or franchise any business, including competitive businesses, outside of the Franchise Territory.

1.8 **Nonexclusive.** We reserve the right to market, solicit sales, and sell, lease, rent, or otherwise dispose of franchise products to any person or customer we want. These include national accounts, commercial customers, franchisees, end users, or any other customer we may select. We may exercise our right directly or indirectly by or through independent contractors that may include franchisees and dealers.

1.9 **Maximum Pricing.** We will be permitted, to the extent permitted by relevant law, to establish price ceilings or minimum or maximum allowable prices on the products and services you offer and sell. Except as so specified by us or as otherwise required in this Agreement and in the Operations Manual, you may determine the prices at which you sell products and services, as well as the terms and conditions of sale.

2 **PAYMENT OF FEES AND OTHER FINANCIAL REQUIREMENTS**

2.1 **Initial Franchise Fee and Initial Purchases.** The Initial Franchise Fee is **\$59,500 for a minimum of 75,000 households, and up to 150,000 households, plus \$0.40 per household for additional territory.** Contemporaneously with the execution of this Agreement, you have paid to us the entire Initial Franchise Fee.

The Initial Franchise Fee is paid in consideration of our sales expenses, administrative overhead, return on investment, and start-up costs related to the execution of this Agreement and the opening of the Franchise and for our lost or deferred opportunity to sell franchises in the Franchise Territory to others.

None of the Initial Franchise Fee is refundable.

You will additionally pay us \$19,000 (plus applicable tax, tariff, and freight/shipping costs) for a Quick Start Package containing initial supplies you will need in order to open your business. This assures that you obtain certain minimum quantities of supplies as well as required marketing and related items. This Quick Start Package Fee is due prior to your attendance at training.

2.2 **Royalty Fee; Annual Minimum.** You will pay to us **6%** of your Gross Revenue as a Royalty Fee. This fee is payable upon the earliest occurring of the following: (i) execution by any means of a service agreement with your customer; (ii) acceptance of the work proposal by the customer in any fashion; or (iii) upon your receipt of funds to pay on any proposal or agreement with a prospective customer, in full or in part. For purposes of calculating this Royalty Fee, "Gross Revenue" shall be defined to include all amounts to which you are entitled to receive payment, before expenses, under each customer contract entered into in connection with your franchised business or in connection with services performed by us in connection with this Agreement. "Revenue" additionally means all receipts generated by the Franchise from any source, including, but not limited to, sales, rentals, vending, exchanges, repairs, services, labor, service charges, service contracts, any other type of remuneration, gift, contra-deal, barter of products or services, charity, payment in kind, or any other benefit or value that is received or deferred to be received, and excludes discounts, refunds and sales taxes. Credit transactions will be included in Revenue as of the date of the transaction without deduction for uncollected credit accounts. The proceeds from any business interruption insurance or eminent domain recovery you receive will be included in "Revenue." "Gross Revenue" means the total Revenue for any calendar period as relevant.

Beginning on the 7th month after you commence business operations through the Franchise and prorated from the date the Franchise opens for business, and continuing thereafter until you complete your 12th month of operations, you will pay to us the greater of this 6% of your Gross Revenue as the Royalty Fee; or a **\$1,000** monthly minimum Royalty Fee for the preceding month in months where your Gross Revenues do not yield such amount at the 6% amount of the Royalty Fee. Within 5 business days after each calendar month end, you will pay to us the amount by which **\$1,000** exceeds the amount of Royalty Fee payments that you actually paid to us during that preceding month. If the amount of Royalty Fee payments that you actually paid to us during the preceding month exceeds **\$1,000**, then you will not be required to make any monthly minimum payment, because you will have already paid the minimum Royalty Fee for such period. During the first six months after you commence business, you will owe only the Royalty Fee, with no minimum.

Beginning on the 13th month after you commence business operations through the Franchise and prorated from the date the Franchise opens for business, and continuing thereafter, until you complete your 24th month of operations, you will pay to us a **\$1500** monthly minimum Royalty Fee for the preceding month on the same terms as the earlier months. Within 5 business days after each calendar month end you will pay to us the amount by which **\$1500** exceeds the amount of Royalty Fee payments that you actually paid to us during that preceding month. If the amount of Royalty Fee payments that you actually paid to us during the preceding month exceeds **\$1500**, then you will not be required to make any monthly minimum payment, because you will have already paid the minimum Royalty Fee for such period.

Beginning on the 25th month after you commence business operations through the Franchise and prorated from the date the Franchise opens for business, and continuing thereafter, until you complete your 36th month of operations, you will pay to us a **\$2000** monthly minimum Royalty Fee for the preceding month on the same terms as the earlier months. Within 5 business days after each calendar month end, you will pay to us the amount by which **\$2000** exceeds the amount of Royalty Fee payments that you actually paid to us during that preceding month. If the amount of Royalty Fee payments that you actually paid to us during the preceding month exceeds **\$2000**, then you will not be required to make any monthly minimum payment, because you will have already paid the minimum Royalty Fee for such period.

Beginning on the 37th month after you commence business operations through the Franchise and prorated from the date the Franchise opens for business, and continuing thereafter, you will pay to us a **\$2500** monthly minimum Royalty Fee for the preceding month on the same terms as the earlier months. Within 5 business days after each calendar month end, you will pay to us the amount by which **\$2500** exceeds the amount of Royalty Fee payments that you actually paid to us during that preceding month. If the amount of Royalty Fee payments that you actually paid to us during the preceding month exceeds **\$2500**, then you will not be required to make any monthly minimum payment, because you will have already paid the minimum Royalty Fee for such period.

Notwithstanding any of the foregoing, if you fail to report your monthly sales through our proprietary software in accordance with the standards of the Operations Manual, the monthly minimum described above will not apply, and you will instead pay to us a monthly minimum Royalty Fee the greater of (i) \$3000 or (ii) 6% of your 12-month average for the previous twelve reported months (with the total being annualized if there are less than twelve months).

The Royalty Fee and monthly minimum are due and payable in the manner specified from time to time in the Operations Manual described in Section 5, below.

We have established the following simple scale for the percentage Royalty Fee to decrease each calendar year of operation as your annual Gross Revenue increases during such calendar year:

<u>Gross Revenue for the Calendar Year</u>	<u>Royalty Fee</u>
\$0.00 - \$1,000,000	6.0%
\$1,000,001 +	5.0%

We may require these Royalty Fee payments to be made by automatic account withdrawal or other automatic processes we reasonably specify in the Operations Manual, such as automatic pre-authorized payment plan, electronic funds transfer, or the Internet.

2.3 **National Marketing Fee.** You will pay to us a National Marketing Fee equal up to **2.5%** of the total Gross Revenue derived from the Franchise. This fee is payable upon booking the job and upon ordering materials through our proprietary software. We reserve the right to temporarily lower or suspend this monthly fee at any time, upon prior written notice to you and to our other franchisees.

For the first six months after you commence business operations, you will only owe the National Marketing Fee as set forth above, with no minimums. Thereafter, minimum payments will apply, as follows.

Beginning on the 7th month after you commence business operations through the Franchise and prorated from the date the Franchise opens for business, and continuing thereafter, until you complete your 12th month of operations, you will pay to us a **\$350** monthly minimum National Marketing Fee for the preceding month. Within 5 business days after each calendar month end you will pay to us the amount by which **\$350** exceeds the amount of National Marketing Fee payments that you actually paid to us during that preceding month. If the amount of National Marketing Fee payments that you actually paid to us during the preceding month exceeds **\$350**, then you will not be required to make any monthly minimum payment, because you will have already paid the minimum National Marketing Fee for such period.

Beginning on the 13th month after you commence business operations through the Franchise and prorated from the date the Franchise opens for business, and continuing thereafter, until you complete your 24th month of operations you will pay to us a **\$600** monthly minimum National Marketing Fee for the preceding month. Within 5 business days after each calendar month end you will pay to us the amount by which **\$600** exceeds the amount of National Marketing Fee payments that you actually paid to us during that preceding month. If the amount of National Marketing Fee payments that you actually paid to us during the preceding month exceeds **\$600**, then you will not be required to make any monthly minimum payment, because you will have already paid the minimum National Marketing Fee for such period.

Beginning on the 25th month after you commence business operations through the Franchise and prorated from the date the Franchise opens for business, and continuing thereafter, until you complete your 36th month of operations you will pay to us a **\$800** monthly minimum National Marketing Fee for the preceding month. Within 5 business days after each calendar month end you will pay to us the amount by which **\$800** exceeds the amount of National Marketing Fee payments that you actually paid to us during that preceding month. If the amount of National Marketing Fee payments that you actually paid to us during the preceding month exceeds **\$800**, then you will not be required to make any monthly minimum payment, because you will have already paid the minimum National Marketing Fee for such period.

Beginning on the 37th month after you commence business operations through the Franchise and prorated from the date the Franchise opens for business, and continuing thereafter, will pay to us a **1200** monthly minimum National Marketing Fee for the preceding month. Within 5 business days after each calendar month end you will pay to us the amount by which **\$1200** exceeds the amount of National Marketing Fee payments that you actually paid to us during that preceding month. If the amount of National Marketing Fee payments that you actually paid to us during the preceding month exceeds **\$1200**, then you will not be required to make any monthly minimum payment, because you will have already paid the minimum National Marketing Fee for such period.

This payment may be required to be made by automatic account withdrawal or other automatic processes we reasonably specify in the Operations Manual, such as automatic pre-authorized payment plan, electronic funds transfer or the Internet.

We may use all National Marketing Fees we receive from you in local, regional, national, Internet, or international marketing for:

- maintaining, administering, researching, directing and preparing marketing and promotional activities (including, among other things, the costs of preparing and conducting television, radio, magazine and newspaper marketing campaigns, public relations programs and press releases);

- direct mail and outdoor billboard marketing;
- marketing research and development;
- marketing surveys and public relations activities;
- development and maintenance of any Internet or e-commerce programs;
- marketing materials;
- decor and promotional materials;
- artwork; marketing services;
- training and conventions related to marketing, customer service, and sales augmentation;
- production and distribution of periodic newsletters to provide you with industry news, suggestions, and advice on franchise operations; and
- our reasonable salaries, accounting, collection, legal, and other costs related to all of the above.

Our internal artwork, marketing, promotion, newsletter production costs, and associated administrative costs are paid from the National Marketing Fees. These will be calculated at our cost as established from time to time.

We will place your National Marketing Fees together with contributions from our other franchisees in a common fund (the “Fund”) to place marketing in geographic areas, in media, at times, and using products and services we deem to be in the best interest of our franchisees and the Five Star Flooring franchise system.

You recognize the value of marketing and the importance of the standardization of marketing and promotion to the furtherance of the goodwill and the public image of the Five Star Flooring System. You are required to participate in our national marketing campaigns or lead generation programs/services at all times that such campaigns, programs, or services are occurring.

The Fund will be administered by us. We will direct all regional and national marketing programs. We will have sole discretion over the creative concepts, materials, endorsements, placement, and allocation of moneys from the Fund. The Fund will be used to maintain, administer, direct, prepare, and review national, regional, or local marketing materials and programs as we will in our sole discretion deem proper. It also will be used to cover our costs of collecting and administering the marketing fees we collect from our franchisees, including incurred legal fees. The Fund will be used to pay for joint marketing programs, including programs with our suppliers, sister corporations, and co-branding partners. We are under no obligation to administer the Fund to ensure that expenditures are proportionate to contributions of franchisees for any given market area or that any franchise benefits directly or proportionately from the development or placement of marketing. We will not be obligated to expend all or any part of the Fund during any specific period of time. Upon your written request, we will provide to you the most recent annual accounting of the Fund.

The Fund may be used for marketing, marketing, public relations, production, and media expenses related to promotion of the Service Marks, our franchise system, and our products and services. The Fund may also be used for operational, administrative, office, rent, automobile, and collection expenses. Some expenses may be incurred from the Fund in connection with our efforts related to franchise sales and may include references to the availability of franchises in materials produced and placed in media by the Fund.

We may create a marketing advisory board made up of Five Star Flooring franchisees. These franchisees will make recommendations on your behalf as to types of marketing, promotion, and public relations. We will use these and other recommendations, which we feel are appropriate, when drafting a budget and program each year for the Fund.

We anticipate that all contributions and earnings of the Fund will be expended for the marketing and promotional purposes during the taxable year within which the contributions and earnings are received. If, however, excess amounts remain in the Fund at the end of such taxable year, all expenditures in the following taxable year(s) will come first from earnings and contributions from the prior year and next out of earnings in the current year.

A. We Will Administratively Segregate Marketing Contributions. The Fund will be administered as follows:

1. We will administratively segregate all Fund contributions paid to us by our franchisees. All payments will be deposited in our general operating account; will be commingled with our general operating funds; and will be deemed to be our asset, subject, however, to our obligation to expend it in accordance with the terms of this Agreement.
2. We will furnish to you annual financial statements of the Fund. Our books and records relating to the Fund will be available for your inspection during our normal business hours, upon reasonable notice.
3. Although we intend the Fund to be of perpetual duration, we maintain the right to terminate the Fund. The Fund will not be terminated, however, until all monies in the Fund have been expended.
4. An accounting of Fund contributions and expenditures will be prepared annually and will be made available to you upon request. Such accounting may include an audit of the contributions to and expenditures of the Fund prepared by an independent certified public accountant selected by us, at the Fund's expense.

B. You are Not a Third Party Beneficiary of the Fund. We will have the sole right to enforce the obligations of you and all our other franchisees, who contribute to the Fund. Neither you nor any other of our franchisees who are obligated to contribute to the Fund will be deemed a third party beneficiary with respect to the Fund or have any right to enforce any obligation to contribute to the Fund.

C. We May Return Funds to You or Use Funds for Regional Co-op Programs. We will have the right to expend all, or any portion of, the Fund for the following purposes:

1. for regional or local co-op marketing or promotional programs provided, however, that such programs will be available to all similarly situated franchisees; and,
2. if, in our sole judgment, you or any other franchisee is located in a geographic territory not adequately serviced by our national or regional marketing programs, we may rebate all or a portion of the Fund Payment paid by that franchisee for use by that franchisee for local marketing. Expenditures by that franchisee will be in addition to the local marketing requirements set forth in this Agreement.

D. Establishment of Marketing Programs. At any time and from time to time, we will have the right to create or modify marketing regions for the purpose of establishing regional marketing, marketing, and promotional programs. We will promptly notify you and our other franchisees of the establishment, modification, and geographical boundaries of regional marketing regions. We may require all franchisees located within each geographic region to meet periodically for the purpose of creating and establishing regional marketing programs. Each franchise unit, and each unit we own and operate, will be entitled to one vote at these meetings. For the purpose of this subsection, each unit we own will be deemed to be a franchise.

If at any meeting of the franchisees in a marketing region, **65%** of the franchisees vote to contribute to a regional marketing program, all franchisees within that region will be obligated to make a contribution to a regional marketing fund in the amount established by the vote (the "Regional Marketing Fund"). No marketing region may require any franchisee in that region to make a contribution to a Regional Marketing Fund in excess of 2% of that franchisee's Gross Revenues.

We will administer each Regional Marketing Fund in the same manner and upon the same terms and conditions as the Fund established above. Alternatively, each Regional Marketing Fund will be administered pursuant to standards and procedures outlined in the Operations Manual by representatives elected by each region, at a meeting we call for this purpose. We will administer each Regional Marketing Fund in the same manner and upon the same terms and conditions as the Fund established above, or we may decide to have each Regional Marketing Fund administered by representatives elected by each region, at a meeting we call for this purpose.

You agree to participate in and contribute your share to the cooperative marketing and promotional programs in your marketing coverage area. The cost of the program will be allocated among franchisees in the marketing coverage area and each franchisee's share will be in proportion to its sales during the preceding 12 month period, or portion of this period, but we will not require that the aggregate of your contributions for local and cooperative marketing during any month exceed four percent of your gross receipts during that month. We will have the right to approve or disapprove the content of all marketing. Your contributions to cooperative marketing promotional programs may be taken as a credit toward the monthly local marketing and promotional expenditure required in this Agreement. "Marketing coverage area" will be defined as the area covered by the particular marketing medium (television, radio, or other medium) as recognized in the industry. In the event of a disagreement, our determination of the coverage area will be final.

E. Sales Leads/Regional, National and International Accounts. We will alert you to any national accounts we acquire which may have locations in the Territory. We will also refer to you any leads who call our national toll free number that are located in the Territory. We will e-mail or telephone this information to you.

We will maintain your name on certain bidder's lists for large corporations and government agencies in order to provide you with the opportunity to expand your business in the Territory.

To the extent that we enter into an agreement to provide materials or services to any national or international account which has a location within your Territory, we may offer you the right to service that account at that location at the terms upon which we and the national or international account have agreed. If, for any reason, you elect not to service a national or international account that is offered to you, we may, in our sole discretion, service such account or appoint any other party to service that account.

This may include past, current, and prospective customers with whom we or one or more Five Star Flooring franchisees have developed a relationship or standing as a preferred supplier. These may include, without limitation, customers with national, regional, or multiple locations which may be located in the franchise territory of one or more Five Star Flooring franchisees. We and our franchisees have spent time, money, and effort developing contacts, expertise, and relationships with these Five Star Flooring customers that can cause certain business to be favorably secured by us and our franchisees for the mutual benefit of us and all of our franchisees. Such customers will be allocated and handled pursuant to processes and procedures outlined in the Operations Manual described in Section 5, below.

F. Obligation to Deliver Price Lists. You will deliver to us current price lists of all goods and services you sell in, at or through the Franchise. We will have the right to rely upon the accuracy of the price lists, and may use the information to advertise, market and promote the Franchise, and the goods and services you sell. At any time, you may amend, modify, or change the price list by notifying us in writing. Price changes will not be effective for a period of 30 days after the notification, to enable us to modify marketing or promotional materials we use to advertise your goods or services. You will adhere to the price lists while they are effective. We may establish the prices at which you sell goods and services.

G. We May Advertise "Suggested Prices". In national or regional marketing programs, we may include "suggested prices" for the goods or services sold by you and our other franchisees. We will include within all our marketing the phrase "available at participating locations only" or other cautionary language to advise the consumer that the suggested prices may not be adhered to by all our franchisees. We may compel you to charge "suggested prices" to the extent permitted by state and federal laws and regulations.

H. Discount Programs. From time to time, we may develop and market special discount or free coupon programs. You will have the right, but not the obligation, to participate in these programs. We will notify you of the creation and provisions of a discount or coupon program. Within **5** days after receipt of the notice, you will advise us whether or not you wish to participate in that program. If you notify us that you wish to participate, you will adhere to all provisions of the program. If you elect to be excluded from a program, we will have the right to advise consumers, by marketing, sales solicitation, or otherwise, that you are not a participant. You will not be entitled to the benefits of that program. We will establish the discount or coupon programs in our sole discretion, and will not have any obligation to consult or confer with you or any other of our franchisees with respect to the nature, content, or amount of any discount or coupon established pursuant to any program.

We may develop and market special promotional items which will be made available to you at our cost plus a reasonable mark up. You will maintain a representative inventory of such promotional items to meet public demand. You will have the right to purchase alternative promotional items provided that alternative goods conform to our specifications and quality standards. You must fully and accurately participate in, honor, accept, and redeem all promotional and marketing materials that we authorize.

When required by relevant law, you will have the right, but not the obligation, to participate in these programs. We will notify you of the creation and provisions of each program. Within **5** days after receipt of the notice, you will advise us whether or not you wish to participate in that program. If you notify us that you wish to participate, you will adhere to all provisions of the program. If you elect to be excluded from a program, we will have the right to advise consumers, by marketing, sales solicitation or otherwise, that you are not a participant. You will not be entitled to the benefits of that program. We may establish the programs in our sole discretion, and will have no obligation to consult or confer with you or any other of our franchisees with respect to the nature, content or price of any promotional item established pursuant to any program.

I. Your Obligation to Market your Franchise Locally. In addition to your obligation to pay National Marketing Fees, each month you will expend in your territory market at least **10%** of your Gross Revenue to advertise and promote

the Franchise (the “Territory Marketing Requirement”). This Territory Marketing Requirement of 10% includes the up to 2.5% paid for National Marketing Fees. You will report the nature, extent, and amount of these territory expenditures in the form and at the times we require in the Operations Manual.

J. Telephone, Cellular Phone, and Marketing Content. You will not publish, promote, or advertise any cell phone or landline telephone number except for the landline telephone number that we own in the areas where you conduct your Franchise. We will furnish you with one or more telephone numbers that will be forwarded to a call center, the use of which is a condition of your franchise license. During and after customary business hours, you shall use only the type of telephone answering service or other means of telephone answering approved by Franchisor (us). To facilitate your compliance with this condition, Franchisor may provide negotiated preferred relationships with telephone answering service providers or sales and support providers, and Franchisor may also, in its discretion, provide use of a toll-free telephone number for the Five Star Flooring franchise system. You will not use any other telephone number(s) in relation to Franchise. You will advertise your franchise in appropriate online or telephone directories that service your franchise area, using the furnished telephone number(s). This advertisement will be in the form and have the content specified from time to time in the Operations Manual. When more than one Five Star Flooring facility serves a metropolitan area, classified advertisements will list all Five Star Flooring units operating within the distribution area of the classified directory, and you will contribute your equal share in the cost of the advertisement. The expenditures for this marketing generally will be in addition to the minimum monthly local marketing requirements of this Agreement. From time to time, in our sole discretion, the Fund may be used for some or all such marketing.

You will buy your own cellular phones for use in the Franchise. All costs associated with using and maintaining your cellular phones will be your sole responsibility. Your cellular phone numbers may be printed on your Five Star Flooring business cards only. You will not print or use your cellular numbers on any type of publication, advertisement, signs, invoices, quotes, or any other printed matter except for your business cards. Upon termination or expiration of this Agreement, we reserve the right to acquire your cellular phones or their associated telephone numbers, and you agree to sell the phones and transfer the associated telephone numbers to us (the phones shall be valued at the phones’ current market value less 20%) if we elect to acquire them. You will pay any costs or penalties due to the cancellation of your cellular phones.

K. You Are to Use Local Marketing Materials We Supply. We will supply to you a Marketing Manual which will contain samples of local advertisements we approve. You will use only the marketing materials contained in the Marketing Manual, and may not, without our prior written consent, place any advertisement, in any media, which materially varies from the form and content of the approved advertisements in the Marketing Manual.

Additionally, you will at all times during the term or any successor or renewal term of the Franchise Agreement confer to us administrator or comparable privileges for your online presence, including web page, social media, marketing affiliate pages, directories, third party telephone or other contact accounts, and related account access and control credentials as may be more fully specified in the Operating Manual.

L. Approval of Your Local Marketing and Website, and E-Commerce. You will submit to us all marketing copy and other marketing and promotional materials, public relations programs and press releases, radio and television marketing, specialty and novelty items, and signs before you use them in your local marketing program. You will not use any marketing copy, public relations program, press release, or other promotional material until we approve it. Your failure to conform to our provisions or requirements and subsequent non-action by us to require you to cure or remedy your failures and defaults will not be deemed a waiver of future or additional failures and defaults by you under this provision or any other provision of this Agreement.

You specifically acknowledge and agree that any website will be deemed “marketing” under this Agreement and will be subject to (among other things) our approval. (As used in this Agreement, the term “web site” means an interactive electronic document, contained in a network of computers linked by communications software that you operate or authorize others to operate and that refers to the franchised business, proprietary marks, us or the Five Star Flooring System. The term web site includes, but is not limited to, Internet and World Wide Web home pages.) In connection to any web site, you agree to the following:

1. We will allow you to establish a web page as part of our web site.
2. You will not establish or use the web page without our prior written approval.
3. Before establishing the web page, you will submit to us a sample of the web site format and information in the form and manner we may reasonably require.

4. In addition to any other applicable requirements, you will comply with our standards and specifications for websites as prescribed by us from time to time in the Operations Manual or otherwise in writing or on a franchisee forum intranet system.
5. If you propose any material revision to the web page or any of the information contained in the website, you will submit the revision to us for our prior written approval.
6. You will use only approved keywords, meta tags, and titles pertaining to our industry. We will e-mail or respond via facsimile approved keywords, meta tags, and titles upon your request by e-mail or facsimile.
7. You may only offer approved products or services on your web page. Any website changes made without our approval will put you in default of this Franchise Agreement.
8. We retain the sole right to market on the Internet, including all use of websites, domain names, URL's, linking, meta-tags, marketing, auction sites, e-commerce, and co-branding arrangements. You will provide us content for our Internet marketing, and follow our Intranet and Internet usage requirements. We also retain the sole right to use the Service Marks on the Internet, including on websites, as domain names, directory addresses, meta-tags, and in connection with linking, marketing, co-branding, and other arrangements. We retain the right to approve any linking or other use of our website. You may not establish a presence on or market using the Internet except as we may specify, and only with our prior written consent.
9. If you want to independently advertise or promote in any media (including the Internet), you must obtain our prior written approval, except when using materials and media previously approved by us.
10. Subject to the terms of use on our website, we may gather, develop, and use in any lawful manner information about any visitor to the website, including but not limited to your customers, franchisees, or prospective franchisees, regardless of whether they were referred to you via the website or were otherwise in contact with you.
11. We have established or may establish in the future an intranet or comparable on-line facility. You must use it in the manner we require. You understand and agree that we may elect to provide certain assistance, deliver information and materials, or otherwise communicate with you via the Internet or the intranet. At your sole expense, you will maintain and update as needed all computer system requirements and services necessary to access the Internet and the intranet in the manner we require. You are required to have DSL or other high speed Internet service to your business or home office, where you will be able to access downloads from us of marketing materials, operations manual revisions, training materials, and corporate news.

2.4 **Call Center Fees.** We may provide or designate an approved supplier or suppliers to provide a call center to help you manage telephone calls and text messages from your customers and potential customers, and to assist you in managing your reports. You are required to use such a supplier to acquire your telephone number, track calls, and provide call center services. You will pay to us the actual reasonable cost for this service charged by your supplier, and we will submit such payment to the supplier. At the time that this Agreement was prepared, the cost with the then-current supplier was **\$250 per month plus \$1.50 per minute for services used**. Costs for text message response and forwarding services, was at a rate of \$2.50 per Chat Conversation or Text Conversation with our vendor, with rates that will only change after communication to you. The monthly fees are due by the 7th day of each month. Use of a Franchisor-provided toll free line shall incur additional fees of \$20 per appointment for appointments set on the toll-free line, and an additional \$1.20 per minute for other sales and support services rendered in connection with any toll-free line. We reserve the right to adjust this payment as our or the supplier's costs for running the Call Center service either increase or decrease, and will provide you reasonable notice, anticipated to be approximately 60 days or such other notice as is reasonable and available for us to communicate changes to you, when such adjustments become known to us.

We may require that these payments be made by automatic account withdrawal or other automatic processes we reasonably specify in the Operations Manual, such as automatic pre-authorized payment plan, electronic funds transfer, or the Internet. You agree to execute all documents required to comply with this provision.

You acknowledge and agree that we may shut down your access to our Call Center and all related services and technologies if you fail to make timely payment of service, royalty, or other fees or otherwise breach this Agreement.

2.5 **"Revenue" Defined.** "Revenue" means all receipts generated by the Franchise from any source, including, but not limited to, sales, rentals, vending, exchanges, repairs, services, labor, service charges, service contracts, any other type of remuneration, gift, contra-deal, barter of products or services, charity, payment in kind, or any other benefit or value that is received or deferred to be received, and excludes discounts, refunds and sales taxes. Credit transactions will be included in Revenue as of the date of the transaction without deduction for uncollected credit accounts. The proceeds from any business interruption insurance or eminent domain recovery you receive will be included in "Revenue." "Gross Revenue" means the total Revenue for any calendar period as relevant.

2.6 **You Will Pay Taxes and Indebtedness.** You will pay all taxes, assessments, liens, encumbrances, accounts, and other debts, regardless of their nature, assessed against you, the Franchise, or inventory, materials, and equipment used in the Franchise. Payment will be made when due and before delinquent, except when being contested in good faith by appropriate proceedings. If we are charged with any tax by the authorized taxing authority of any state or political subdivision, including taxes on sales made to or licenses granted to you, or sales made by you through the Franchise, you will pay these taxes. You will pay to us promptly and when due the amount of all sales taxes, personal property taxes, and similar taxes imposed upon, required to be collected, or on account of collection by us of the Initial Franchise Fee, the Royalty Fee, or any other payments you make to us pursuant to this Agreement.

You acknowledge that one of the benefits accruing to you and all of our other franchisees is the economy of mass purchasing power made available through us. Your failure to pay or repeated delay in making prompt payment in accordance with the terms of the invoice or statements rendered to you for payments due, or misdirection of supplies or other abuses, will result in a loss of credit standing and goodwill and a loss of benefits derived to us and other franchisees using the Five Star Flooring System. You expressly agree to promptly make all product purchase payments on invoices and statements rendered to you in accordance with the terms of the invoices and statements and to make timely remittances of rent as required on your lease.

2.7 **Royalty Fees, National Marketing Fees, Local Marketing Expenditures, and Other Sums to Be Paid Promptly.** You will not set off any claim for damages or money due to you from us against any payments to be paid by you to us under this Agreement or any related agreement between the parties. No endorsement or statement on any check or payment of any sum less than the full sum due from you to us will be construed as an acknowledgment of payment in full or as an accord and satisfaction. We will have the right to accept any check or payment without prejudice to our rights to recover the balance due or to pursue any other remedy available to us.

Upon your failure to pay us as and when due, we may, at our election, deduct the unpaid sums from any monies or credit we hold for your account. You agree that you will not withhold payment of any amounts due to us on the grounds of any alleged non-performance by us, or in the event of any dispute or a claim by you, or for any other reason whatsoever.

A late charge will be added to any sums to be paid under this Agreement that remain unpaid after the date due. The late charge will equal **1.5%** per month. In addition, late payments and late reports will be subject to a late payment penalty of \$10 per day. These late charges and late payment penalties will not exceed any limits placed upon late charges and late payment penalties by applicable local laws.

Our acceptance of late charges will not constitute a waiver of the breach created by your non-payment of any amount when due. Notwithstanding the payment of any late charges, we may exercise any rights or remedies granted by this Agreement upon your breach or any rights or remedies otherwise granted by law.

Nothing contained in this Agreement obligates us to accept any payments after due or to commit to extend credit to or otherwise finance your operation of the Franchise. You acknowledge that failure to pay all amounts when due will constitute grounds for termination of this Agreement.

2.8 **Records.** You will keep a complete and accurate set of books and records of the operation of the Franchise, produce monthly financial statements in accordance with generally accepted accounting principles and practices for each calendar month and furnish copies of these statements to us within **30** days after the end of each quarter or upon our request. We may, as outlined in the Operations Manual, require you to use certain designated software for accounting or bookkeeping purposes. Your use of such software is a condition to your franchise, and in connection with such use, you must furnish to us no less than Viewing access to such software, together with all required reports as set forth herein. If we designate required accounting software, you must use such software from any designated vendor(s) as set forth in the Operations Manual. Such software use may include fees paid directly to such vendor(s), on such terms that they set.

You will furnish to us, as outlined in the Operations Manual, an itemized report of the Gross Revenue and of your profit and loss for the prior month. This report must be certified by you to be true and correct. The report will be in the form and will include such supporting documentation as we may reasonably demand from time to time. All Royalty and National Marketing Fees due based upon the Gross Revenue for the preceding month will accompany the report.

You will keep records of all business done and Revenue received through the Franchise. These records will include, but are not limited to, order sheets, cash register tapes, sales and rental agreement forms, daily sales summaries, tax returns, financial statements, and invoices. You will date, file in consecutive order, retain for a period of **10** years, and make available to us for inspection and audit all of your records.

Within five (5) days of your receipt, you must provide us a copy of any legal notices, legal claims, legal demands, legal proceedings, legal actions, or other litigation, regulatory or administrative proceedings, or similar matters involving you or potentially relating to or relevant to us.

Our right to inspect will include, within 10 days of our request, the right to examine your books, tax returns, banking or other financial institution statements, and records of other businesses owned, in whole or in part, or operated by you to determine whether all revenue to be reported by you has been properly reported and that appropriate fees and contributions have been paid. We may establish a uniform list of accounts and a uniform bookkeeping system for all of our franchisees. You agree to maintain your books and records in the manner we require.

Failure to deliver any of the required or requested records including books, tax returns, banking or other financial institution statements, records of other businesses owned, records of revenue or business done, invoices, receipts, or other reports will result in you incurring a per-day fee for non-reporting in the amount of \$250.00 per day. When you have made delivery of the requested records or reports, such fee shall cease to be incurred.

You will submit to us a list of all shareholders, members, partners or other owners of the franchise business and the respective interests held by each as of the end of each fiscal year. Provided, however, if your shares are publicly traded, the list of shareholders required will include only those owning **5%** or more of the shares outstanding. The required report will be submitted to us within **90** days after the end of your fiscal year.

2.9 **Audits.** We may audit your reports, books, statements, business records, cash control devices, and tax returns at any time during normal business hours. Audits will be conducted at our expense unless you understate the Gross Revenue for any reported period or periods by more than **2%** or unless you fail to deliver any required report of Gross Revenue or any required financial statement in a timely manner. In the event of an understatement or failure to deliver, you will reimburse us for all audit costs. These will include, among other things, the charges of any independent accountant and the travel expenses, room, board, and compensation of our employees incurred in connection with the audit. You will immediately pay all Royalty Fees, National Marketing Fees, Local Marketing expenditures and late payment charges that the audit determines are owed. These payments will not prejudice any other remedies we may have under this Agreement or by law. Our right to audit will include the right to examine the books, tax returns and records of other businesses that you own or operate, in whole or in part, to determine whether all revenue to be reported by you has been properly reported and that appropriate fees and contributions have been paid.

2.10 **You are to Pay all Franchise Costs.** All the costs of the Franchise, including opening and operating costs, will be your sole obligation. We will have no costs, liability or expense whatsoever with respect to your opening and operation of the Franchise. You will not use or employ the Service Marks in performing any activity or incurring any obligation or indebtedness in a manner that could result in making us liable for them. You are responsible for any employee wages and compensation, payroll taxes and other required withholding, worker's compensation and benefits. You will control your own employees and contractors. You will take all steps necessary to maintain a safe and healthy environment for your workers and customers.

2.11 **Attendance at Conventions.** We may hold conventions for the franchisees that make up our franchise system. These conventions may be held at a different location each time. They include programs on sales and marketing techniques, performance specifications, marketing programs, training suggestions, and committee elections, among other things. **Your attendance at each convention is required.** You will bear all expenses of attending, including travel, lodging, meals and entertainment. For any annual convention that you do not attend, we will deliver to you and you will pay us for all training materials, documentation, handouts, training videos, and video recordings of the activities of the convention. The price for the training materials, documentation, handouts, training videos, and video cassettes for each annual convention will be established by us from time to time and will be due at the registration deadline and may be drawn from any account authorized for us to process payments.

You will pay us a \$1,000 Annual Conference Registration Deposit, due within seven (7) days of signing this Agreement, which will be applied to the actual attendance fee for your first attendance at the first annual conference available to you after you have completed your training. If any portion of this deposit is not required as part of that annual conference attendance or registration fee, it will be credited to you on your invoice following the annual conference. Thereafter, you will pay the Conference Registration Fee to us, at least six months prior to such conference, which you authorize to be drawn from your account by use of the payment authorization presently on file, at such time in connection with the standard invoicing and payment processes.

2.12 **Application of Payments.** We have the right, in our sole discretion, to apply any payment from you to any past due indebtedness you owe to us or our affiliates, whether from monthly fee payments, purchases, late payment charges, or for any other reason. This section will apply regardless of how you may designate a particular payment is to be applied.

For the purposes of this Agreement, and all other instruments and agreements relating to it, we will have the right to treat any payment received from you as payment on account. We may apply any monies received from you in the following priority:

- a) to the payment of any sales or use taxes required to be paid in connection with any dealings between you and us pursuant to this Agreement;
- b) to the payment of interest on overdue amounts;
- c) to the payment of accrued late charges;
- d) to the payment of overdue or outstanding amounts;
- e) to the payment of current Royalty Fees;
- f) to the payment of current National Marketing Fees;
- g) to the payment of the purchase price for all or any items you purchase from us or Five Star Flooring Suppliers, and
- h) to the payment of rent and any other amounts payable by you to us,

in any order that we, in our discretion, decide and notwithstanding any contrary designations by you as to the application of your payments.

2.13 **Method of Payments.** We have the right, in our sole discretion, to establish approved methods of payment and require that you have a current payment method on file with us and pre-authorized to process payments of all amounts coming due under this Agreement. The approved or available payment methods may vary, and will be available to you for updating and verification through the Operations Manual and the operations software. At all times, you are required to have current account information for an approved payment method on file with us, as a condition of your franchise. Depending on the method of payment you choose, you may be charged a processing fee in addition to the invoiced amount.

3 **TRAINING**

3.1 **Mandatory Training.** We will provide a one-week mandatory training course for you or your franchise manager at a location we will designate, currently in Spanish Fork, Utah. This training course will cover all aspects of the operation of the Franchise, including use of our computer software and reporting systems, estimating, sales techniques, marketing plans and techniques, administration and bookkeeping controls, service methods, deployment of labor, and maintenance of quality standards. You or the manager will complete the course no later than 2 weeks before opening the Franchise for business and within six months of the date of this Agreement.

You must ask us to schedule a training session for you or the manager at least 35 days before the session is to start. You or the manager must complete this mandatory training program to our exclusive satisfaction, or we may terminate this Agreement without refunding the Initial Franchise Fee. You are encouraged to begin training before incurring any costs or expenses related to the planned opening of the Franchise. We will not be liable for any costs or expenses you incur if we terminate this Agreement because you or your manager fails to satisfactorily complete the mandatory training course.

You will pay the transportation, board, and lodging expenses you or the manager incur related to this training, including transportation, meals, accommodations, and entertainment. The training course will be not less than five days at our training center. Training and training materials may be delivered in the formats or media we choose. This may include course books or training exercises on paper, video, CD-ROM, or other electronic format, via webcast or an intranet. You will participate in and pay for the training, including the costs of computer equipment and internet services needed to participate.

If the Franchise is managed by any persons other than you, you will notify us of these managers. Each manager you hire must successfully complete the mandatory training program within **one** month after being hired. You will bear all costs of the training, including a reasonable training fee at \$300 per day or our then current rates. Each of your employees will complete a training program as prescribed in the Operations Manual. All training programs for your employees will be conducted under the direction of you or your designated manager who has successfully completed the mandatory training course.

Individuals:

If you will be operating your franchised business as an individual, we strongly recommend that you devote your full time and best efforts to the day to day operation of your franchised business with no operational or management commitments in other businesses except other franchises offered by us. You may, however, continue to operate such other businesses (if any), in which you are engaged as of the date of this Agreement, that are family owned. If you continue to operate other businesses, you must employ separate personnel for the businesses, market services under one or more trading designations separate from the Service Marks, maintain separate offices and customer reception space, and have the personnel related to such other businesses wear apparel that does not feature any of the Service Marks.

Partnerships:

If you will be operating your franchised business as a partnership, one or more partners must participate in the actual day to day operation of your franchised business, or you must have in your employ a manager who runs your day to day operations. The partner or partners who are in charge of running your franchised business or your manager must have successfully completed our training course.

Corporations, Limited Liability Companies:

If you will be operating your franchised business as a corporation, limited liability company, or other legal entity, you must have in your employ a general manager. This general manager can be you, any member of your board, an officer of your corporation, or a member of your limited liability company. The general manager who oversees the running of your franchised business must have successfully completed our training course.

Managers/Training:

No matter what form of business you decide to use, the person assigned to running the day to day operations of the business must have completed our training course. Anyone in your employ who is a manager or crew leader of your franchise operations must also have completed our required training course.

After completion of the mandatory training program, you must receive one week of field training, and your designated installer must also receive installer training in accordance with our operations standards. These trainings may be completed following the mandatory training program and may be held at our headquarters or at another location of our choosing. The field training and installer training programs will provide you or your designated installer with the specific techniques and nuances that relate to the products used in the Five Star Flooring system, as well as location-specific applications of the mandatory initial training. Both field training and installer training must be completed prior to commencing operations of your franchise. You will pay the transportation, board, and lodging expenses incurred related to this training, including transportation, meals, accommodations, and entertainment.

3.2 Supplemental Training. At your option and upon not less than **35** days' prior written notice to us, you may receive additional training at our training center or at other agreed upon locations. All expenses of this training will be borne by you, including but not limited to your or our travel, lodging, meals, compensation, and our reasonable costs and expenses, including a reasonable training fee at our then current rates.

This additional training consists of visits to our franchises, work experience, and observation of franchise operations. The duration of training is negotiable depending upon your needs. You will not receive any compensation for services rendered by the trainee during this or any other training. We may designate qualified franchisees or master franchisees to conduct some or all of your training.

From time to time, we may provide refresher training programs or seminars and may require that you or your managers attend and complete them to our satisfaction. These programs and seminars will be held at locations we designate and will be provided without charge to you. You will be exclusively responsible for paying all travel, living, and other expenses and compensation for attending these programs and seminars. Each year, you or the designated managers of your Franchise will be required to attend up to **20** hours of programs and seminars, depending upon program and seminar availability. In addition, we may deem it appropriate or necessary to provide additional training and supervision to you and your managers and employees at your franchise location. If so, you will fully participate in and complete this additional training and supervision, including additional or revised training programs and processes that may be added to the Operations Manual in the future. We may charge a reasonable Training Fee for these additional training sessions.

4 **COMMENCEMENT OF OPERATIONS**

4.1 **Time to Complete Training and Commence Operation.** You or your manager will complete to our exclusive satisfaction the mandatory training defined above, find a site location that is acceptable to you and approved by us, and commence full and continuous operation of the Franchise within **120** days after execution of this Agreement. Prior to commencing operation, you will procure all necessary licenses, permits, and improvements and purchase initial inventory. Any failure to commence operation caused by a war or civil disturbance, a natural disaster, a labor dispute, shortages, or other events beyond your reasonable control will be excused for a period of time that is reasonable under the circumstances.

If this training, site location, and commencement of operation obligation are not fulfilled, we may, in our discretion, terminate this Agreement by refunding not less than **one-quarter** of the Initial Franchise Fee.

4.2 **You Are to Obtain Permits and Licenses.** Prior to commencing business operations, you will obtain all local permits and licenses necessary to operate the Franchise, including relevant contractor licenses. You will comply with all of the provisions of all other applicable federal, state, or local statutes, rules, or ordinances.

5 **FRANCHISE STANDARDS OF OPERATION**

5.1 **Operations Manual, Minimum Inventory, Supplies, Plans and Specifications, and Public Relations.** Our industry is highly competitive. Continuous efforts to maintain, update, and improve the Five Star Flooring System are essential. The developments we will make for the benefit of our franchise system as a whole are contemplated throughout the term of this Agreement. The continuous development of the Five Star Flooring System in this manner is an important and beneficial aspect of the relationship you want to have with us. We agree to lend to you a copy of or otherwise provide online access to the **FIVE STAR FLOORING** Operations Manual once you have paid to us the Initial Franchise Fee in full. The Operations Manual describes the Five Star Flooring System, including specifications, standards, designated or approved vendors, required services, operating procedures, accounting and bookkeeping methods, marketing ideas, inventory requirements and control techniques, plans and specifications, service requirements, co-branding requirements, public relations and other rules that we may prescribe from time to time and identify as part of the Operations Manual. Among other things, the Operations Manual may contain information, requirements, and standards related to:

- Planning and consulting
- Site selection assistance
- Permitting assistance
- Hiring and employee management training and assistance
- Equipment standards and assistance
- Proprietary or designated computer programs or software for estimating, point of sale, marketing, accounting, scheduling, and reporting
- Reporting and bookkeeping standards and requirements, including use of approved bookkeeping service providers
- Inventory management assistance and training
- Written operations standards and assistance
- Initial and ongoing operational training, including regularly scheduled huddles, meetings, and conferences
- Management and employee training

- Marketing and marketing services (including use of approved or designated suppliers)
- Standards, ongoing training, and ongoing support
- Insurance guidance and standards

The Operations Manual includes materials in whatever form (including electronic) we provide to you that describe the guidelines, advice, and requirements regarding the operation of your franchise, including user manuals and related instruction materials. It includes amendments, supplements, and new documents made and identified by us as part of the Operations Manual. The Operations Manual may be delivered to you by hard paper copy, via an intranet, intranet, or other downloading mechanism to your computer, or via another medium chosen at our discretion.

For avoidance of confusion, the Parties state and agree that Franchisee's compliance with the Operations Manual is a continuing condition of the franchise license from Franchisor; however, the terms of the Operations Manual are not terms of this Agreement. Compliance with the terms of the Operations Manual comprise a condition to the continued license of the franchise, and includes such terms as may be contained in the aforesaid manual as of the date of the Franchise Agreement, together with updates thereto as may, from time to time, be provided by Franchisor to Franchisee.

The Operations Manual is and will remain confidential and our exclusive property. You will not disclose, copy, or duplicate any part of the Operations Manual for any reason. Nothing in this Agreement may be construed as an incorporation of the terms of the Operations Manual or as making the Operations Manual part of this Agreement. The Operations Manual, in part, may consist of confidential:

- A. manual or manuals, and
- B. any Intranet or password protected portion of an Internet site, and
- C. any other embodiment of the Methods of Operation, including notices of new standards and techniques, including all media identified by us as part of the Operations Manual, and
- D. any amendments, supplements, derivative works, and replacements; whether embodied in electronic or other media.

We develop minimum requirements for service, estimating, products, supplies, stationery, business forms, marketing, plans and specifications, materials, and signs, among other things. These requirements are outlined in the Operations Manual. You will purchase all initial inventory items and additional items specified from time to time in the Operations Manual. We may amend the Operations Manual, including changes which may affect minimum requirements for your franchise operations. You will strictly adhere to the requirements of the Operations Manual as we amend it from time to time. You will implement immediately all changes at your cost, unless we otherwise specify. We reasonably may restrict you from producing, stocking, and selling certain services and goods, from time to time, as specified in the Operations Manual.

You must purchase items that bear the Service Marks from us or suppliers we approve from time to time. Proprietary items and supplies may be private labeled by us.

We retain the right to make a reasonable profit on any items, supplies, and materials you buy from us. We may also make a reasonable profit on supplies we purchase in bulk quantities and sell to you.

We may obtain money, goods, services, or other benefits from persons and entities with which you do business, on account of that business with you. These may include rebates, refunds, commissions, co-operative payments, or discounts. Such benefits or funds will be received and used for purposes as may be deemed desirable in the discretion of Five Star. The uses to which Five Star may put such funds may include such uses as providing supplemental training or offering promotional services to Five Star franchisees.

There are no required quotas as to quantity of purchases you must make from us or from approved vendors. You must only have enough supplies on hand to meet customer demand. If you elect to purchase equipment, inventory, and supply items from us at our then current prices, payment must be made when you place your order. The items we offer may include, among other things, equipment, merchandise, and supplies that bear the Service Marks. You may offer these Trademark bearing items only through the Franchise.

Any products and goods sold, licensed, or leased by or through us to you will be sold, licensed, or leased in accordance with the terms expressly set forth in the Operations Manual or as otherwise provided for in writing by us or the manufacturer of the products and goods. **EXCEPT AS EXCLUSIVELY SET FORTH IN WRITING AND SIGNED BY US, WE MAKE NO EXPRESS OR IMPLIED WARRANTIES WITH RESPECT TO THE PRODUCTS AND GOODS, AND ALL WARRANTIES, EXPRESS OR IMPLIED, INCLUDING BUT NOT RESTRICTED TO THE IMPLIED WARRANTY OF TITLE AND THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, ARE EXPRESSLY DISCLAIMED. UNDER NO CIRCUMSTANCES WILL OUR LIABILITY IN CONNECTION WITH ANY PRODUCTS OR GOODS EXCEED THE DOLLAR AMOUNT OF THE PURCHASE PRICE OR LICENSE FEE PAID BY YOU FOR THE PRODUCTS OR GOODS. IN NO EVENT WILL WE BE LIABLE TO ANY PARTY, INCLUDING BUT NOT LIMITED TO, YOU AND YOUR CUSTOMERS, FOR ANY TORT DAMAGES OR INDIRECT, SPECIAL, GENERAL, INCIDENTAL, OR CONSEQUENTIAL DAMAGES, INCLUDING BUT NOT LIMITED TO, LOSS OF PROFITS OR ANTICIPATED PROFITS AND LOSS OF GOODWILL, ARISING IN CONNECTION WITH THE USE (OR INABILITY TO USE) THE PRODUCTS OR GOODS FOR ANY PURPOSE WHATSOEVER, EVEN IF WE ARE AWARE OR HAVE BEEN ADVISED OF THE POSSIBILITY OF POTENTIAL LOSS OR DAMAGES.**

We will not be liable to you if we are unable to deliver equipment, inventory or supply items to you because of any loss, damage, or delay caused by strikes, riots, fire, insurrection, war, elements, embargoes, failure of carriers, inability to obtain transportation facilities, forces majeure, acts of God or of the public enemy, or any other cause beyond our control.

You will purchase all products, supplies, and materials required for the operation of the Franchise from manufacturers, suppliers, or distributors approved by us. All specifications that we require of you and the lists of approved suppliers will be included in the Operations Manual. We will use our best judgment to set and modify specifications in order to maintain the integrity and quality of the franchise system. You specifically agree that, as a condition to your continued use of the license granted to you pursuant to this Franchise Agreement, during and after customary business hours, you will use only the type of telephone answering service or other means of telephone answering approved by us as the Franchisor. Preferred vendor rates and relationships may be negotiated by us from time to time, and you agree to enter into such agreements as may be necessary to avail yourself of such approved and preferred telephone answering services and to satisfy the condition to use an approved telephone answering service. You additionally agree, as a condition to your continued use of the license granted to you pursuant to this Franchise Agreement, that during and after customary business hours, you will use only the type of text messaging service or other means of instant or text messaging as approved by us as the Franchisor. To appropriately respond to and administer customer inquiries, you will establish procedures for responses to customer inquiries via text message or chat message, by use of a service approved by Franchisor ("Text and Chat Services"). The Text and Chat services shall be available to, and apply to, the authorized telephone number(s) in use by you, which you have conditionally assigned to Franchisor, and over which you have authorized Franchisor to control and manage. In responding to and administering customer Text and Chat Services, any text message or chat message exchange (a "Conversation") conducted through the Company website (chat) or through a text-enabled telephone line (text) initiated by a lead or by an individual expressing an interest in Company (a "Customer"), and wherein the text or chat exchange continues without a lapse in time between the last message or response by Provider and the Customer's last message that is greater than six hours shall be considered a Conversation. For any exchange with a Customer where the Customer's response comes after greater than six hours since the last message or text by Provider, the first Conversation shall be deemed to have ended, and the new Customer response initiates a new Conversation. Franchisor, or its designated vendor, may provide the Text and Chat Services. Subject to change upon 30-day written notice to you, the rates and fees for Text and Chat Services that shall be due and owed comprise: i) a fee of \$2.50 per Conversation per Chat or per Text Conversation; and ii) such other fees as may be established and delivered to you, effective following 30-days prior written notice.

You must sell, offer for sale, distribute, or deliver only such services or products that meet the specifications and standards of quality and quantity in the Operations Manual. You must sell or offer to sell all approved items and services. You must refrain from deviating from our standards and specifications and must discontinue selling or offering for sale any such items as we may, in our discretion, disapprove in writing at any time.

You agree to offer the warranty program we set out in the Operations Manual. You will promptly notify us of any warranty claim and will commence all work within a reasonable time frame. All warranty work must be performed pursuant to the Operations Manual and under the Five Star Flooring marks. You will pay all costs and expenses incurred from warranty claims related to work you originally perform and have negotiated any acquisition of any previous customer relationships, both for future sales, but also understanding your assumed liability for warranty claims for previously performed work. Your acquisition of the Territory has contemplated any such assumed liabilities and accounted therefor in the negotiation of this Agreement.

With advance written notice, you may request our approval to obtain products, supplies, or materials from sources that we have not previously approved. We may require you to give us sufficient information, photographs, drawings, samples, and other data to allow

us to determine whether the items from these other sources meet our specifications and standards, as established from time to time. These specifications and standards will relate to quality, taste, texture, composition, absorbency, strength, finish, and appearance, and the suppliers' capacity and facility to supply your needs in the quantities, at the times, and with the reliability necessary for efficient operation. We may require that samples from any supplier be delivered to a designated independent testing laboratory for testing prior to approval and use. You will reimburse us for the actual cost of the tests. We will license any supplier that can meet or exceed our quality control and confidential formula requirements and standards, for a reasonable license fee, to produce and deliver products to you, but to no other person. Our confidential manufacturing requirements, equipment, designs, systems, and formulas will be disclosed to potential suppliers only after we have received reasonable evidence that the proposed supplier is trustworthy and reputable; has the capacity to consistently adhere to our standards, requirements, and testing procedures; will maintain the confidentiality of the designs, systems and formulas; and will adequately supply your reasonable needs. We may require a Confidentiality and Non-Disclosure Agreement signed by the proposed supplier prior to release of any confidential information. We will not unreasonably withhold approval of a supplier you propose. We will notify you in writing of the approval or disapproval of any supplier you propose within 30 days of our receipt from you of your written notice of request for approval.

From time to time, we or our agents may inspect any proposed or approved manufacturer's, supplier's, or distributor's facilities and products to assure proper production, processing, packaging, storing, and transportation. Permission for inspection will be a condition of our continued approval of any manufacturer, supplier, or distributor. Should we determine from any inspection that a manufacturer, supplier, or distributor fails to meet our specifications and standards, we will give written notice describing this failure to you and to the manufacturer, supplier, or distributor, together with a notice that unless the failure or deficiency is corrected within **30** days, the manufacturer, supplier, or distributor will no longer be approved.

One of the benefits accruing to you and all our other franchisees is the economy of mass purchasing power made available through us. Your failure to pay or repeated delay to make prompt payment in accordance with the terms of the invoices and statements for payments due on your purchases of signs, equipment, products, supplies and other inventory items, or you misdirection of supplies or other abuse of our approved suppliers, distributors and manufacturers, will result in a loss of credit standing and goodwill and benefits otherwise available to us and our other franchisees. You expressly agree to promptly pay all such invoices and statements in accordance with their terms.

5.2 Standards to Be Maintained. You will follow the Five Star Flooring System and maintain standards for products and service that we prescribe.

A. You will operate the Franchise in a clean, orderly, and respectable manner in strict compliance with this Agreement and the Operations Manual. You will only use signs, equipment, materials, products, inventory, plans and services that conform to our specifications to conduct the franchise.

You may only use approved vehicles which are free of any rust and dents. You will wash your vehicles at least once every two weeks. Your vehicles will only be used for Franchise purposes, including positive marketing, and will not be used for any other reason that could harm Five Star Flooring system, brand, or Marks. We must approve the vehicles you use for your Franchise. You will maintain your vehicles in good repair and operating condition. You will adhere to our vehicle requirements and standards, including our requirements for the purchase of new vehicles.

B. You will maintain signs approved by us on the Franchise Premises (if at an office site or commercial location) and on vehicles you use in your franchise operations, and to identify locations where you are conducting franchise services. These signs must comply with local sign ordinances, regulations, and laws. The signs will describe you only as a franchisee operating pursuant to this Agreement. You will apply only decals and logos approved by us on your vehicles, signs, and equipment. You will keep your signs clean and legible, and free of tears, paint problems, punctures, cuts, and graffiti.

C. We may inspect the Franchise at reasonable times to verify your compliance with the terms of this Agreement. To do so, we may:

1. Inspect the Franchise;
2. Observe your operation of the franchise business for any consecutive or intermittent periods we deem necessary;

3. Select items, products, and other materials, services, equipment, and materials, operations, and supplies for test of content and evaluation purposes to make certain that they are satisfactory and meet our quality control provisions and performance standards;
4. Interview your personnel, customers, vendors, and co-branded partners; and
5. Inspect and copy any books, records, and documents related to the operation of the franchise and any other franchise information we may require.
6. Hire a third party “secret shopper” or present ourselves as a customer without disclosing our identity for the purpose of evaluating the quality of products, services, and experience you offer. We may do this no more than three times a calendar year and for a total cost of no more than \$125.00 per evaluation event.

You and anyone acting as your agent will cooperate fully with us and our agents in connection with these inspections, observations, and interviews. You expressly waive any rights of privacy or confidentiality you have with your personnel, customers, vendors and co-branded partners in reference to these inspections, observations, and interviews.

D. You will comply with all applicable ordinances, regulations, bylaws, laws, and statutes. You will not permit unlawful activities through the Franchise and will not sell, exchange, offer, hold, show, rent, or permit to be sold, exchanged, offered, held, shown, or rented any material or service you know or reasonably suspect to have been obtained in violation of law or to be otherwise illegal.

You will secure and maintain in force all required licenses, permits and certificates relating to the operation of the Franchised Business and will operate the Franchised Business in full compliance with all applicable ordinances and regulations, including without limitation, all government laws and regulations relating to occupational hazards and health, EEOC laws, Americans with Disabilities Act, copyright laws protecting owners of artistic works, consumer protection, trade regulations, workers compensation, unemployment insurance and withholding, and payment of federal and state income taxes, social security taxes and sales, use and property taxes.

E. You will not sell or dispense any products or services or activities other than those we specifically recognize and approve in writing.

F. After we have delivered to you written notice of default or violation of this Agreement or notice of specific actions, omissions, or instances of neglect or misguidance, we may employ professional shopping services to monitor your compliance with this Agreement. You will repurchase merchandise and otherwise fully reimburse these shopping services for goods, services, and other items they receive, lease, or buy from you in the process of verifying compliance, including reasonable travel and time costs (currently \$35 per hour). You will hold us harmless from any such charges incurred by any shopping service. We will pay all other charges made by the shopping services.

G. You, at your expense, will maintain the Franchise and your vehicles, equipment and furnishings in good repair, attractive appearance, and sound operating condition in compliance with the Operations Manual. At our request, you will make necessary repairs in order to maintain uniform appearance and to protect the reputation of the Service Marks. You will commence all repairs and changes within a reasonable time after notice from us, and you will proceed with due diligence until completion.

If you do not maintain the Franchise or your vehicles as required, after notice to you, we at our option, may make the necessary maintenance and repairs and charge the cost to you. If we make or direct the making of repairs, we will not incur any liability to you, including but not limited to, liability for interruption of your business during the course of making the maintenance and repairs.

H. You will keep your franchise open for business every business day of the year, except holidays we designate, during the hours specified or approved in writing by us. For clarification, we currently consider active communication by you or your designated representative (if you are unavailable) with the Call Center as satisfying this “open for business” requirement. We may change these requirements from time to time as designated in the Operations Manual.

I. At all times, you will ensure that your copy of the Operations Manual and any other manuals given to you are kept current and up to date with the amendments and updates we provide to you. In the event of any dispute as to the contents of the Operations Manual, the terms of our master copies maintained at our principal place of business will be controlling.

J. If you fail to complete or repair a job up to the quoted estimate and job description, we may, at our sole discretion and in order to protect our brand and system reputation, complete or repair the job to the quoted estimate and description. You will bear 100% of the expense and cost of any and all remedial action we take to complete or repair the job, which costs and expenses may exceed the quoted estimate.

K. You will maintain the following annual minimum revenue targets set forth in the table below, as an express condition to the protections afforded to your territory. In the event that you fail to meet such targets, you will be subject to a reduction, in our discretion, in your territory size. To avoid such reduction, and to preserve your protected territory rights, you must tender a fee equal to the difference between i) the amount of royalties actually paid during the calendar year and ii) the amount which would have been due as royalties had you met your annual minimum revenue targets, on or before January 10 of the following calendar year. The targets are as follows:

Year 1:	No annual minimum revenue target
Year 2:	Annual minimum revenue target of \$1.50 per household in your territory
Year 3:	Annual minimum revenue target of \$2.00 per household in your territory
Years 4+:	Annual minimum revenue target of \$3.00 per household in your territory

5.3 Service Marks, Operations Manual, Customer Database, and Five Star Flooring System Are Our Exclusive Property. You agree that the Service Marks, Operations Manual, Customer Database, and Five Star Flooring System are our sole and exclusive property, as is all content entered by you into all Software provided to you by Five Star Flooring (which content is deemed a work made for hire, and is created by you for the sole benefit of Five Star Flooring). Except for the Franchise granted to you by this Agreement, nothing in this Agreement or any other agreement will give you or others any right, title, or interest whatsoever in or to the Service Marks, Operations Manual, or Five Star Flooring System. Your license to use the Service Marks is non-exclusive. We, in our sole discretion, may operate under the Service Marks and may grant licenses to others to use the Service Marks on any terms and conditions we deem appropriate. In those states and nations where applicable, you agree to execute on request all documents necessary to record you as a registered user of the Service Marks. You will not use the Service Marks as part of any electronic mail address or in any electronic mail message except in accordance with the Operations Manual and only for purposes of the franchise.

You will immediately notify us of any infringement of, or challenge to, your use of the Service Marks or any marks identical to or confusingly similar to the Service Marks, including any claims of infringement or unfair competition. While we will make reasonable efforts to protect your rights to use the Service Marks, we will have sole discretion to take or not to take action, as we deem appropriate. If we undertake the defense or prosecution of any litigation or administrative action involving you or any litigation or administrative action involving the Service Marks or the Five Star Flooring System, you agree to execute any and all documents and to do all acts and things that, in the opinion of our counsel, are necessary or advisable to carry out the defense or prosecution. This may be done either in our name or in your name, as we will elect. We will not be required to participate in your defense or indemnify you for expenses or damages if you are a party to an administrative or judicial proceeding involving the Service Marks or if the proceeding is resolved unfavorably to you. Instead, at any time, you will modify or discontinue use of any franchise names or Service Marks, or will use one or more substitute names or marks, if we so direct in writing at any time. Our sole obligation in this event will be to reimburse you for your tangible costs in complying with our direction (i.e., cost of changing signs, stationery, etc.). Under no circumstances will we be liable to you for any other damages, costs, losses, rights, or detriments related to any modification, discontinuance, or substitution. All obligations or requirements imposed upon you relating to the Service Marks will apply with equal force to any modified or substituted names or marks.

You will not contest, directly or indirectly: our ownership, title, right, or interest in the Service Marks, the Operations Manual, the Customer Database, or the Five Star Flooring System; or our exclusive right to register, use, or license others to use the Service Marks, Operations Manual, and Five Star Flooring System. You will not advertise or use the Service Marks without following our then current guidelines and requirements. These may include, but will not be limited to, the placement of appropriate © or ® copyright and registration marks, or the designations TM or SM, where applicable.

Any and all goodwill associated with the Service Marks, including any goodwill that might be deemed to have arisen through your activities, will accrue directly and exclusively to our benefit, except as otherwise provided by applicable law. You appoint us as your agent and attorney-in-fact to amend or cancel any registered user or business name filings obtained by you or on your behalf that involve or pertain to the Service Marks.

You will not use the Service Marks on products or services that come from any source other than us or sources we approve in writing, except for products you prepare or produce pursuant to the Operations Manual and the Five Star Flooring System.

We make no representation or warranty, express or implied, as to the use, exclusive ownership, validity, or enforceability of the Service Marks.

We and you will use reasonable best efforts to continuously improve the products, processes, and services used in the Five Star Flooring System and to develop new products, processes, and services for use as part of the Five Star Flooring System. All the improvements, inventions, and developments you make, develop, or create for use in the Five Star Flooring System will be our property, and we alone will hold any patent, trademark registration, or other form of protection for those improvements, inventions, developments, processes, methods, and practices.

5.4 **You Will Not Use Names or Marks in Combination.** Except as provided in this Agreement, you will not use or give others permission to use the Service Marks, or any colorable imitation of them, combined with any other words or phrases. You and your owners, officers, and agents will not form or participate in the formation of any company, firm, corporation, or other entity having a name containing the words of the Service Marks. You may not combine or associate any name or symbol of the Service Marks with any other name or word in any marketing or signage. The Service Marks must be used in exact conformity with specifications we set in the Operations Manual.

5.5 **Service Marks, Operations Manual, and Five Star Flooring System May Be Changed.** You acknowledge that the Service Marks, Operations Manual, and Five Star Flooring System, including any future amendments or modifications to them, have substantial value, and that the conditions, restrictions, covenants not to compete, and other limitations imposed by this Agreement are necessary, equitable, and reasonable for the general benefit of you, us, and others enjoying any lawful economic interest in the Service Marks, Operations Manual, and Five Star Flooring System.

We may change or modify any part of the Service Marks, Operations Manual, or Five Star Flooring System from time to time at our sole discretion. You will accept, use, and protect, for the purposes of this Agreement, all changes and modifications as if they were a part of the Service Marks, Operations Manual, and Five Star Flooring System at the time this Agreement is executed. You will bear all costs and expenses which may be reasonably necessary as a result of such changes or modifications. Under no circumstances will we be liable to you for any damages, costs, losses, or detriments related to these changes or modifications.

Complete and detailed uniformity of the Service Marks, Operations Manual, and Five Star Flooring System under the varying conditions to be experienced by our franchisees may not be possible or practicable. Therefore, we reserve the right, at our discretion, to accommodate your special needs or those of any other of our franchisees. These needs may result from the peculiarities of a particular site or location, density of population, business potential, population of trade area, existing business practices, requirements of local law or local customers, landlord requirements, or any other condition which we deem to be important to the successful operation of the franchisee's business. From time to time, we may allow certain franchisees to depart from normal system standards and routines to experiment with or test new products, equipment, designs, and procedures. In no event will any variance or testing be deemed a waiver of any of our rights, or an excuse for you to not perform any of your duties under this Agreement. We may require you at any time to commence full compliance with the Operations Manual and the Five Star Flooring System. We will not be required to grant any variance to you under any circumstances. You will not require us to disclose or grant to you a like or similar variation.

5.6 **Standard Uniform.** You will require that all of your employees wear a standard uniform as described in the Operations Manual. All uniforms will be properly laundered regularly and replaced when worn. We may change the standard uniform from time to time. You agree to adopt new uniforms and replace worn uniforms when necessary and bear the purchase price of them.

5.7 **Employees.** You will ensure that your employees present a neat and clean appearance and render friendly, efficient, sober, and courteous service to your patrons in accordance with the grooming and training requirements of the Operations Manual, which may include background checks and drug testing standards. You are responsible for any employee wages and compensation, payroll taxes and other required withholding, worker's compensation, and benefits. You will in no way obligate us for expenses incurred in the operation of your franchise, including labor costs. You are required to hire and maintain sufficient staff in order to handle customer volume at all times.

You are responsible for making sure your employees meet the standards, specifications, and procedures outlined in the Operations Manual. You will hire only efficient, competent, sober, and courteous employees for the conduct of the franchise business. You may not hire any employees who have been found guilty of any charges of fiduciary misconduct, any form of unlawful sexual conduct, any felony of any kind, or any similar charges that reflect negatively on the person's moral turpitude and character. All revenues generated under this Agreement from all business activities of the Franchise must be paid directly to you. *Your Employees and*

Associates are not permitted to receive or request payment directly from your customers or clients to them in their personal names or capacities.

5.8 You Will Not Communicate Confidential Information. You specifically acknowledge that you will receive valuable specialized and confidential information, including information regarding our operational, sales, promotional, and marketing methods and techniques, operating procedures, processes, practices, lists of suppliers, customer lists, manuals, marketing and sales techniques and strategies, and the Five Star Flooring System. Unless required by court order or applicable law, you agree not to copy, download to internet, intranet, modem, fax, e-mail, mail, or send any confidential material or divulge any material directly or indirectly to any other person or enterprise outside of the Five Star Flooring system. During the term of this Agreement and after it expires or is terminated, you will never communicate, fax, e-mail, post on an internet electronic bulletin board, divulge or use in any other manner, either for your benefit or the benefit of any other person, persons, partnerships, associations, companies or corporations any confidential or proprietary information, knowledge or know-how concerning the Five Star Flooring System or any information we have communicated to you in written, verbal or electronic form, including intranet passwords, for the operation of your franchised business.

The Five Star Flooring System includes valuable proprietary and confidential information. Unless required by court order or applicable law, you agree to not communicate or divulge the contents of our Operations Manuals or any other information related to the Five Star Flooring System or to the operation of the Franchise or our franchise system to any person or entity except those we authorize in writing to receive the information. You agree that this content and information are confidential. This includes information that is our exclusive property, and you may only use it in the Franchise, subject to the provisions and duration of this Agreement. You agree to fully and strictly adhere to all security procedures we prescribe for maintaining the confidentiality of the information. You agree to disclose information to your employees only to the extent necessary to perform the franchise business. You will not reverse engineer, decompile, or disassemble any items embodying the Five Star Flooring System or our confidential information.

The Five Star Flooring System is a technologically advanced program of accounting, identification procedures, management systems, techniques, and business operations and systems that would, if used by other persons, firms, or entities, give a substantial competitive advantage which we presently enjoy. Any and all information, knowledge and know how, not generally known about the Five Star Flooring System and our products, services, standards, specifications, systems, procedures and techniques, including information, manuals, contracts, customer data, supplier data, financial data, price lists, methods, techniques, processes, compilations, formulas, programs or patterns related to the operation of a Five Star Flooring franchise and its products and services and any other information or material that we may designate as confidential, will be deemed confidential for purposes of this Agreement. This will not apply to information which you can demonstrate came to your attention prior to disclosure by us, or which is or has become a part of the public domain through publication or communication by others. Our confidential information is licensed, not sold, to you. You will not reverse engineer, decompile, or disassemble any item that embodies confidential information. The Operations Manual may contain guidelines to protect confidential information [and trade secrets], including limited access to the information on a need to know basis, locking of offices and computer files, placement of appropriate legends on materials, limited access for copying and scanning, password protection, and encryption. You will conduct periodic meetings with your managers and employees to instruct them on their responsibilities to maintain the confidentiality of our information, including severance interviews with terminated employees in which they acknowledge in writing their post-employment confidentiality obligations.

You will require as a condition of the employment of your employees and anyone else providing services to you, that they maintain and protect our confidential and proprietary information, including the signing of a confidentiality agreement. You must follow our security procedures, which may include the execution of approved nondisclosure agreements, and Intranet and Internet usage agreements. You will be responsible to use your best efforts to enforce these covenants and agreements by your employees. These covenants are for the benefit of us and the Five Star Flooring franchise system and are enforceable by us. If you become aware of any actual or threatened violations of these covenants by any of your employees and anyone else providing services to you, you will promptly and fully advise us in writing of all related facts known to you. You will cooperate with us in all ways we reasonably request to prevent or stop any violation. This may include institution or permitting to be instituted in your name any demand, suit, or action that we determine is advisable. The demand, suit, or action may be maintained and prosecuted by us and you at your expense.

You will use your best efforts to ensure that you and all your agents, employees, consultants, partners, owners, members, officers, directors, and shareholders, and other persons in your control, to whom any information is communicated, will keep, preserve, and protect all confidential information.

This section contains prohibitions based upon an understanding that you, your key employees, your officers, your partners, your employees, members, and stockholders (as applicable) will possess knowledge of business and operating methods and confidential information, disclosure of which would prejudice our interests and our other franchisees.

If you engage in any flooring replacement, renovation, remodel, installation or related business within 2 years of the expiration, termination or transfer of this Agreement, you will prove to us that you have not used our confidential information in that business. This 2-year period is not intended to limit the duration of your obligation to preserve the confidentiality of the information and to not use the information after expiration, termination or transfer of this Agreement.

5.9 **Conflicting or Competing Interests.** You will diligently, faithfully, and honestly perform your obligations pursuant to this Agreement. You will use your best efforts to develop, promote, and enhance your franchise. You will not engage in any activity or business enterprise that conflicts with these obligations. We require that you, or your majority owner if you are a corporation, limited liability company, or partnership, participate fully in the actual day to day operation of the franchise business.

At all times, the Franchise must be under your direct supervision. You will devote a substantial amount of time and energy to properly operate the Franchise. What constitutes proper operation will be in our sole reasonable discretion. In your absence, the Franchise must be under the direct supervision of a manager who has successfully completed the required training programs and who devotes the necessary time during business hours to the management of the Franchise.

In express consideration for and during the term of this Agreement, neither you nor your owners, shareholders, members, partners, directors, officers, employees, consultants, distributors, or agents, nor the members of your or their immediate families or households (who have access to or knowledge of the Operations Manual or Five Star Flooring System), will directly or indirectly participate as an owner, shareholder, member, partner, director, officer, employee, consultant, franchisor, franchisee, distributor, advisor or agent, or serve in any other capacity in any business (including business in formation) engaged or to be engaged in the sale or rental at wholesale or retail or on the Internet of flooring replacement, remodel, repair, installation, and decorating products or services or any business that offers products or services that are essentially the same as, or substantially similar to, the products and services that are part of the Five Star Flooring System. We may waive this covenant only in writing. During all of these periods, you agree to promptly and fully disclose to our Chief Executive Officer any business opportunity coming to your attention, or conceived or developed in whole or in part by you, which relates to our business.

You will use your best efforts to ensure that you and your owners, directors, officers, partners, shareholders, members, employees, consultants, and agents, during the term of this Agreement and for a period of 2 years after expiration or termination of this Agreement, do not:

- A. divert or directly or indirectly attempt to divert any of our business or any of our customers to any competing establishment;
- B. employ or seek to employ any person we employ or any other person who is at that time operating or employed by or at any of our franchises, or otherwise directly or indirectly induce these persons to leave their employment; nor
- C. do or perform, directly or indirectly, any other act injurious or prejudicial to our goodwill associated with the Service Marks and Five Star Flooring System

If, for any reason, any provision set forth in this Subsection is determined to exceed any lawful scope or limit as to duration, geographic coverage, or otherwise, it is agreed that the provision will nevertheless be binding to the full scope or limit allowed by law or by a court of law. The duration, geographic coverage, and scope allowable by law or court of law shall apply to this Agreement.

The provisions relating to interests in any other business will not apply to your ownership of outstanding securities of any corporation whose securities are publicly held and traded. Provided that you hold these securities for investment purposes only and that your total holdings do not constitute more than 5% of the outstanding securities of the corporation.

You will use your best efforts to obtain written covenants from your owners, shareholders, members, partners, directors, officers, employees, consultants, distributors, and agents in a form satisfactory to us that these persons will comply with the provisions of this Section.

You and we stipulate that, in light of all of the facts and circumstances of the relationship between you and us, the covenants, restrictions, and agreements referred to in this Section (including without limitation their scope, duration, and geographic extent) are fair and reasonably necessary for the protection of our confidential information, goodwill, and other protectable interests. If a court of competent jurisdiction should decline to enforce any of those covenants and agreements, you and we request the court to reform

these provisions to restrict your use of confidential information, non-solicitation, ability to compete with us, and any other covered topics to the maximum extent, in time, scope of activities, and geography, the court finds enforceable under applicable law.

5.10 **Computer Systems.** You will install and use accounting and inventory control computer systems approved by us. You will purchase, lease, or otherwise acquire, from sources of your choice and at your expense, computer hardware and software (including but not limited to programs, computer terminals, Internet and other network access providers, web site vendors and video conferencing) that are totally compatible with and strictly conform to all requirements, standards, and specifications we may set from time to time, including coordination with consolidated systems used at co-branded locations. You must have these systems in operation prior to opening for business. You must comply with any separate software or other license agreement that we or our designee uses in connection with providing these services to you.

Use of the operations software, as required by the Operating Manual, including amounts due to the software providers will also incur a \$1,100 to \$2,500 per month software fee, which you agree to pay monthly, on or before the 2nd Wednesday of each month, with the date subject to change upon notice, and a software support fee of up to \$50 per hour or actual vendor rates. We will give you free technical software support for as long as we deem necessary for you to sufficiently understand our software. We will give you 45 days advance notice when we deem it reasonable for you to pay to receive additional technical support. These fees offset the cost to us of supporting your use of the software and related services, as needed.

You are required to have DSL or other high speed Internet service to your business or home office, where you will be able to access downloads from us of marketing materials, operations manual revisions, training materials, and corporate news, and through which we may have access to your computer systems and records. You must also have a laptop computer and cell phone. You must have a wireless card or similar technology for your laptop computer to remotely connect to the internet to assist you in making on-site bids and proposals to customers.

E-PROBLEM DISCLAIMER: Computer systems are vulnerable in varying degrees to computer viruses, bugs, power disruptions, communication line disruptions, Internet access failures, Internet content failures, the Year 2000 problem and similar date-related problems, and attacks by hackers and other unauthorized intruders ("E-Problems"). We do not guarantee that information or communication systems that we or others supply will not be vulnerable to E-Problems. It is your responsibility to protect yourself from E-Problems. You should also take reasonable steps to verify that your suppliers, lenders, landlords, customers, and governmental agencies on which you rely have reasonable protection from E-problems. This may include taking reasonable steps to secure your systems (including firewalls, password protection, and anti-virus systems) and to provide backup systems.

5.11 **Terms of Product Sales.**

A. To receive products, you must deliver to us a purchase order that specifies the products. All orders you submit are subject to acceptance at our corporate headquarters. We reserve the right to reject any order that is not credit approved or does not conform to the provisions of this Agreement. All orders accepted for delivery will be governed exclusively by the terms and conditions of this Agreement. Unless we agree in writing, no additional or different terms and conditions appearing on the face or reverse side of any order you issue will become part of that order. Our acknowledgment of your purchase order will not be acceptance of any additional or different terms and conditions.

B. Shipments are subject to availability. Upon notice to you, we may schedule and reschedule any order at our discretion. We may decline any order for credit reasons or because the order specifies an unreasonably large quantity or makes an unreasonable shipment request.

C. We will use commercially reasonable efforts to meet any scheduled shipment date. However, we will not be liable for delays in meeting a scheduled shipment date for any reason. If products are scarce, we will allocate them equitably, at our discretion, among our customers.

D. Unless otherwise agreed, the products will be shipped only to your approved facility and only after receipt of an order from you.

E. We may refuse to ship or delay the shipment of any products on order if you become delinquent in payment of your obligations, exceed established credit lines, fail to meet our other credit or financial requirements, or fail to provide financial information when we request. No cancellation, refusal, or delay will terminate this Agreement.

F. All products will be delivered to you F.O.B. origin upon transfer to a common carrier. You will pay all transportation, insurance, rigging, and drayage charges.

G. On delivery of products to carrier, title (or with respect to Licensed Programs licensed, not sold, title only to the media on which the Licensed Program is delivered) will pass to you and you will assume responsibility for promptly advising the carrier and insurer of the loss, for filing a claim and for recovery of any sums owed by them to you. Upon request, we will cooperate with you to establish a claim.

H. You grant to us a security interest in the products and proceeds as security for your obligations under this Agreement. Upon request, you will execute and file all instruments or documents necessary to perfect any security interest. You acknowledge that we may file a copy of this Agreement as a financing statement for that purpose.

I. You will maintain sufficient inventories of products and employ sufficient help to operate your business at a level of capacity and market penetration commensurate with the reasonable demands of the marketplace.

J. You will represent and report fairly all products you purchase from us or from designated vendors.

K. You will comply with all of the obligations and requirements imposed upon you by the manufacturers or distributors of the products.

L. You will use commercially reasonable efforts and good faith to promote, demonstrate and sell the products and services.

M. You will provide us with forecasts of your projected purchases of products.

N. You acknowledge that we are not the manufacturer of the products. The products are subject to the manufacturer's standard warranty. We disclaim all warranties, including the implied warranties of merchantability and fitness for a particular purpose. No representation, affirmation of fact, or statement regarding capacity or suitability, which is not in this Agreement, will be a warranty by us for any purpose.

O. We will not be liable for any loss or damage claimed to have resulted from the use, operation, or performance of the products, whatever the form of action. Our maximum liability to you, whether based upon contract, warranty, tort, or otherwise, will not exceed the actual amount you pay to us for the specific product that causes the damages. These limitations of liability will not apply to claims for personal injury caused by our negligence. We will not be liable to you for special, indirect, incidental, or consequential damages or from any damages resulting from loss of use, data, or profits.

6 RENEWAL, TERMINATION AND STEP-IN RIGHTS

6.1 Renewal of Franchise.

A. If you are not in breach or default, you may renew the Franchise for periods of 10 years under the terms of our then-current Franchise Agreement forms. "Then-current," as used in this Agreement and applied to our Franchise Disclosure Document and Area Development Agreement, will mean the form then currently provided to prospective franchisees or area developers, or if not then being provided, then the form we select in our sole discretion, which previously has been delivered to and executed by a franchisee of ours. You will exercise your renewal option by giving written notice to us. The notice must be given at least three months, but no earlier than six months, before the end of the franchise term established by this Agreement.

You will pay a renewal fee of **\$2,500**, plus applicable taxes, to account for our costs of closing, processing paperwork, training, upgrading and the continued use of the Five Star Flooring System during the term of the new agreement of the Franchise. The renewed Franchise Agreement will be evidenced by you signing the Franchise Agreement forms we are then using (with appropriate modifications to reflect the fact that the agreement relates to the grant of a renewal franchise). These forms may vary materially from this Agreement. Royalty Fees, National Marketing Fees, Local Marketing expenditures, and other fees will be set at the then prevailing rates and terms. Your failure or refusal to execute the Renewal Franchise Agreement forms within **30** days after delivery to you may be regarded as an election by you not to renew. Upon renewal, the Franchise must remain located in the geographical territory designated in this Agreement. The Franchise Territory and its geographic area may be modified to meet our then current franchise market penetration and demographic standards and co-branding requirements.

You will refurbish the Franchise and its vehicles and equipment to conform to the then current Operations Manual and Five Star Flooring System. You must make all capital expenditures reasonably required to renovate and modernize the Franchise and its vehicles, signs, and equipment to reflect the design and decor image of Five Star Flooring franchises we then require of new or renewing Five Star Flooring franchises. These expenditures will be in the amount necessary to make the Franchise modern and fresh and to resolve wear and tear.

You must execute a general release, in a form we prescribe, following applicable law, to release us from any claims you may have against us.

Before renewal, you or your designated manager will attend and successfully complete any retraining program we prescribe in writing. This will be done at your expense, including travel, meals, and lodging. The renewal fee will cover our training fees and costs.

B. We may refuse to renew this Agreement if you fail to satisfactorily comply with this Agreement. The determination of satisfactory compliance will be within our exclusive discretion in good faith. If we refuse to renew, you must continue to perform under this Agreement until its expiration.

C. Continuation. You have no automatic right to continue operation of the Franchise following expiration or termination of this Agreement. If you continue to operate the Franchise with our express or implied consent, following the expiration or termination of this Agreement, the continuation will be a month-to-month extension of this Agreement. This Agreement will then be terminable by either party upon **30** days written notice. Otherwise, all provisions of this Agreement will apply while operations continue. Upon termination of this Agreement under this section, all post-termination covenants and obligations in this Agreement will apply.

6.2 **Termination by You.** You may terminate this Agreement if you comply with the terms of this Agreement and if we substantially breach any material provision of this Agreement and fail to cure or reasonably to begin to cure that breach within **30** days after receipt of written notice specifying the breach. Termination will be effective **10** days after you deliver to us written notice of termination for our failure to cure within the allowed period.

6.3 **Termination by Us.**

A. The following provisions are in addition to all other remedies available to us at law or in equity. We will have the option to cure your breaches at your expense.

If you breach or default in any of the terms of this Agreement, we have the right to appoint a receiver to take possession, manage and control assets, collect profits, and pay the net income for the operation of the Franchise as ordered by a court of jurisdiction. The right to appoint a receiver will be available regardless of whether waste or danger of loss or destruction of the assets exists, and without the necessity of notice to you.

1. You irrevocably nominate, constitute, and appoint the person serving from time to time as our President to be your attorney-in-fact so to act in your name and on your behalf.
2. At our election and without waiving any claims for default or breach and without prior notice to you or resort to legal process, we may enter upon any premises using the reasonable force as is necessary in the circumstances, without being guilty of trespass or liable to you or the property owner for the entry, for the purposes of securing the return of our property, the performance of your obligations of discontinuance and the protection of our rights upon expiration or termination of this Agreement.

If any payments to us, our affiliates or approved vendors are late by more than 15 business days, we may order all product deliveries withheld from you until the payments are received.

You agree that it will be a default constituting a substantial breach of a material provision of this Agreement pursuant to relevant law, thus establishing good cause for termination of this Agreement and any other franchise and related agreements between the parties if you (or your owners, officers, or key employees) breach any term or provision of this Agreement and do not cure the breach (or reasonably begin to cure and diligently pursue the cure until the breach is remedied) within **30** days after receipt of our written "Notice to Cure." Termination will occur immediately upon delivery to you of our written declaration of termination for failure to cure within the allowed time frame.

You further acknowledge and agree that we may limit or completely shut down your access to our Call and Technology Center and related services and technologies if you fail to make timely payment of service, royalty, or other fees or otherwise breach this Agreement.

B. You agree that it will be a default constituting a substantial breach of a material provision of this Agreement pursuant to relevant law, thus establishing good cause for us to immediately terminate this Agreement and any other franchise and related agreements between the parties without other cause, and without giving you an opportunity to cure, if you (or your owners, officers, or key employees):

1. Become insolvent, make a general assignment for the benefit of creditors, have a receiver appointed to administer or take possession of any part of the franchised business or your assets, or admit to not being able to meet your obligations as they become due or become bankrupt, or become subject to any chapter of the United States Bankruptcy Code, unless you:
 - a. timely undertake to reaffirm the obligations under this Agreement;
 - b. timely comply with all conditions as legally may be imposed by us upon such an undertaking to reaffirm this Agreement; and
 - c. timely comply with such other conditions and provide such assurances as may be required in relevant provisions of the United States Bankruptcy Code;

provided, however, that we and you acknowledge that this Agreement constitutes a personal service contract and that we have relied to a degree and in a manner material to this Agreement upon the personal promises of you and/or your directors, officers, shareholders or partners, as the case may be, to participate personally on a full-time basis in the management and operation of the franchised business, and, consequently, we and you agree that any attempt by any other party, including the trustee in bankruptcy or any third party, to assume or to accept an assignment of this Agreement will be void.

2. Fail to operate the Franchise continuously and actively for **5** consecutive days or for any shorter period after which it is reasonable under the facts and circumstances to conclude that you do not intend to continue the Franchise or maintain a suitable Franchise location.
3. Fail to comply with any requirement of this Agreement or of any related agreement between the parties within twelve months after having received the most recent of two or more **30**-day or **5**-day Notices to Cure deficiencies in performance of the same or any other requirement pursuant to Subsection (A) above or this Subsection (B), whether or not you had corrected your earlier failures to comply after we delivered notice to you.
4. On more than two occasions, fail to report monthly Revenue on time, understate monthly Revenue by more than **2%**, or distort other material information.
5. Make or have made any material misrepresentation or misstatement on the franchise application or with respect to ownership of the Franchise. If you misrepresented yourself and are a competitor of ours or a competitor of an affiliate of ours, we may keep your entire initial franchise fee, cancel training, and terminate this Agreement.
6. Allow the Franchise or Franchise Premises to be seized, taken over, or foreclosed by a creditor, lien holder, or lessor; let a final judgment against you to remain unsatisfied for **30** days (unless a supersedeas or other appeal bond is filed); or allow a levy of execution upon the Franchise or upon any property used in the Franchise, that is not discharged by means other than levy within **5** days of the levy.
7. Are convicted of a felony, or are convicted of any criminal misconduct relevant to the operation of the Franchise.
8. Within a period of **10** days after notification of noncompliance, fail to comply with any federal, state or local law or regulation applicable to the operation of the Franchise.
9. Fail to pay any Franchise, Royalty, or National Marketing Fees or other amounts owed pursuant to this Agreement within **5** days after receipt of written notice that the fees or amounts are overdue.
10. Operate the Franchise in a manner that creates an imminent danger to public health or safety.

- 5 Do not keep confidential information related to the Franchise confidential except to employees or persons authorized to know.
6. Fail to obtain agreements from your employees to keep confidential information confidential.
13. Attempt to unilaterally repudiate this Agreement or the performance or observance of any of its terms, conditions, covenants, provisions, or obligations by any conduct evidencing your intention to no longer comply with or be bound by this Agreement.
14. Cross Default. Where there is more than one agreement in existence between the parties (or their respective affiliates), you agree that we have the right to treat a material breach or default of any one agreement as a material breach or default of all or any of the other agreements and any such material breach or default of any one agreement shall be treated, in respect of any of the other agreements as a material breach or default of each such agreement.

6.4 **Time Frames Subject to Applicable Laws.** The provisions of this Agreement may state periods of notice less than those required by applicable law. They may provide for termination, cancellation, non-renewal, or the like, other than according to applicable law. They will be extended or modified to comply with applicable law.

6.5 **You Will Discontinue Use of Service Marks, Operations Manual, and Five Star Flooring System on Termination of Agreement.** Substantial damages that are difficult to determine at the date of execution of this Agreement will accrue to us if you do not comply with any of the following requirements upon expiration or termination of this Agreement. Upon expiration or termination of this Agreement, you will:

A. Immediately cease using the Service Marks (or any names or marks deceptively similar to them), the Operations Manual, and the Five Star Flooring System.

B. Return to us all copies of the Operations Manual. Return to us all records, files, instructions, correspondence, and materials in your possession or control related to the Five Star Flooring System, including but not limited to the customer database and any content you have entered into Five Star Flooring software. You will give us a complete and accurate summary of your advertisers, customers, and leads, including their names, addresses, telephone numbers, and related file records. You will assist us in every way possible to bring about a complete and effective transfer of your franchise business to us or to our designated franchisee.

C. Authorize telephone, Internet, email, electronic network, directory, and listing entities to transfer all numbers, addresses, domain names, locators, directories, and listings to us or our designee. Notify them of the termination of your right to use the Franchise names and Service Marks. You authorize the transfer of your telephone numbers and directory listings and Internet addresses, domain names, and locators to us or our designated franchisees. You appoint us as your agent and attorney-in-fact to effect the transfer of these telephone numbers and directory listings and domain names, and Internet directory listings to us. You agree that we will be treated as the subscriber for the telephone numbers and directory listings. We will have full authority to instruct the applicable telephone, directory, and listing companies on the use and disposition of the telephone listings and numbers. You release and indemnify these companies from any damage or loss because they follow our instructions.

D. Make reasonable modifications to the interior and exterior of any retained premises and vehicles to reduce your identification as a part of our franchise system. These modifications will include but will not be limited to removal of reasonable alterations to eliminate any possibility of confusion with any other Five Star Flooring operation.

E. Pay to us within **seven** days all Royalty Fees, National Marketing Fees, and other sums you owe. These sums will include all damages, costs and expenses, including reasonable attorneys fees and collection costs, we incur because of your breach. These sums will include all costs and expenses, including reasonable attorney fees, we incur in obtaining injunctive, appellate, or other relief to enforce the provisions of this Agreement.

F. Abide by all provisions of the restriction upon communication of confidential information set forth above and the post-termination Covenant Not to Compete set forth below. You will immediately return to us all of our confidential information you have received, including any items that embody the confidential information. You acknowledge that you have no continuing ownership interest in the confidential information.

- G. At our option, do some or all of the following:
- H. Remove all Franchise-related equipment, furnishings, and inventory from the Franchise Premises;
- I. Sell the equipment, furnishings, and inventory to us at the following purchase prices:
- i.i.1.a. For new and unused items, your cost as originally invoiced to you, less a restocking charge equal to 15 percent of your cost.
 - i.i.1.b. For used items, products, equipment, supplies, materials and inventory, the current fair market value less 20 percent of the value.
 - i.i.1.c. For leasehold improvements, machinery, equipment, fixtures, furnishings, and signage - the lesser of:
 - i. the current fair market value less 20 percent of the value,
 - ii. your cost as originally invoiced to you, less 20 percent of your cost.
 - i.i.1.d. Damaged, obsolete, or discontinued items will be transferred to us at no cost.
 - i.i.1.e. We will not be liable for payment to you for intangibles, including, without limitation, goodwill.
 - i.i.1.f. In each the instance we may deduct from any monies payable to you all sums due by you to us or your suppliers, whether under this Agreement or any other agreement or instrument.
- J. If the Franchise Premises is at an office site or commercial location, assign to us the lease for the Franchise Premises and ownership and control of any web site you own or control;
- K. Unless we state in writing that we do not intend to exercise this right, the parties must agree upon a purchase price and terms within **5** business days after termination of this Agreement. If not, a fair value and fair terms will be determined in Utah County, Utah, by three appraisers. Each party must select one appraiser. The two appraisers chosen must then select a third appraiser. Each party will pay for its own appraiser and each party will pay half for the third appraiser. The parties may then present evidence of the value of the Franchise and fair terms for the purchase. The appraisers must exclude from their decision any amount or factor for the "goodwill" or "going concern" value of the Franchise. The decision of the majority of the appraisers will be conclusive. Any time within **30** days after receiving the appraisers' decision, at our option we may purchase the Franchise and your assets at the price and upon the terms determined by the appraisers.
- L. Upon termination for any reason, you will return to us all proprietary and confidential materials, including client lists, keys, codes, signage, marketing and marketing materials, uniforms, service agreements and other forms, printed files, clients lists and account information, security codes, cards and passes, picture identification badges and the like as described in the Operations Manual. If you fail to return or cease use of any of these items, we may enter your business premises without being guilty of trespass or any other tort to remove and retain the items. You will pay to us, on demand, any expenses we incur in trying to remove or collect such items or in attempting to have you cease use of them. Your failure to immediately return all keys and security codes or passes to us may result in us changing locks, keys and codes at client premises at your expense.
- M. You agree to continue to provide warranty coverage as necessary to your past customers or compensate Five Star Flooring for such warranty coverage if necessary. Warranty coverage will not automatically transfer to Five Star Flooring upon termination.

N. **Post-Termination Default Fee:** Subject to applicable law, upon the expiration, termination or transfer of this Agreement, it is understood and agreed that we will suffer damages if you do not immediately comply with the requirements of this Agreement. In addition to any other remedy provided for or available to us at law or equity, we will have the right to claim and recover damages from you for your failure to comply. You agree that for each day subsequent to the expiration, termination, or transfer of this Agreement that you operate the Franchise without having complied with the requirements this Agreement, you will pay to us the non-refundable sum of **\$200 per day** as and for post-Termination Default Fee in respect of your failure. You agree that this sum represents a genuine attempt by the parties to pre-estimate the magnitude of the damages caused by your failure.

6.6 **We May Assign Territory Upon Termination.** Upon expiration or termination of this Agreement, we may immediately license or franchise the Franchise Territory to another person or may operate Five Star Flooring businesses within the Franchise Territory.

6.7 **Our Step-In Rights.** The parties want to prevent any operation or interruption of the Franchise that would cause harm to the Franchise and to our franchise system and lessen their value. Therefore, you authorize us to step in to operate the Franchise for as long as we believe necessary and practical in our exclusive judgment. We may do so without waiving any other rights or remedies that we may have. Cause for stepping-in may include our reasonable determination that: you are incapable of operating the Franchise; you are absent or incapacitated because of illness or death; you have failed to pay when due any real property, equipment rent or lease payments, suppliers, or inventory payments; you have failed to pay to us when due any franchise, royalty, marketing, or other fee; you have failed to pay when due any taxes or assessments against the Franchise or property used in the Franchise; you have failed to pay when due any liens or encumbrances placed upon or against your business property; your business activities are having a negative impact upon the value of our franchise system; or we decide that significant operational problems require us to operate the Franchise for a time. We may exercise our step-in rights if you are ill or disabled, you, your lender, or the SBA requests our assistance or agrees to our proffered support and supervision, directly or indirectly or through contract agents. If you have a loan for the franchise that is guaranteed by the Small Business Administration, our right to step-in will be limited to a 60 day period unless otherwise requested or agreed with the lending bank at that time. Thirty days after exercising our step-in rights, we will re-evaluate your then-current status. At our discretion, we will either operate for an additional 30-day period or turn the operation back over to you. In turning the operation back over to you, we do not waive our rights to step back in the future.

All Revenue from our operation of the Franchise will be for your exclusive account. We will pay from that Revenue all expenses, debts and liabilities we incur during our operation of the Franchise. This will include our personnel and administrative costs, plus 15% to cover our overhead expenses. In addition, we will have the option, but not the obligation, to pay for you any claims owed by you to any creditor or employee of the Franchise. You will reimburse us upon demand, including at the rate set forth above for overdue amounts.

We will keep in a separate account all Revenue generated by the operation of the Franchise, less the expenses of operation.

We will have no obligation to retain any employee of the Franchise, nor to honor any contractual employment commitments you previously made. If we elect to retain any employee, employment will be pursuant to a new employment agreement between us and the employee. Employment will commence on the first business day on which we carry on business through the Franchise. Any claim by an employee for unpaid salary, vacation pay, or other benefits will be your responsibility.

Upon our exercise of these Step-In Rights, you agree to hold us harmless for all acts, omissions, damages, or liabilities arising during our operation of the franchise.

Our operation of the Franchise will not operate as an assignment to us of any lease or sublease of franchise property. We will have no responsibility for payment of any rent or other charges owing on any lease for franchise property, except as the charges relate to the period of our operation of the Franchise.

You agree to pay our reasonable legal and accounting fees and costs we incur because of our exercise of these Step-In Rights.

6.8 **You and Your Owners Not to Compete on Expiration, Termination or Transfer of Agreement.** This covenant will apply for 720 days after termination, expiration or transfer of this Agreement. In express consideration for this Agreement, you will assure that you and your owners, shareholders, partners, directors, officers, employees, and agents, and the members of their immediate families or households (who have actual knowledge of or access to the Operations Manual or Five Star Flooring System), will not directly or indirectly participate as an owner, shareholder, director, partner, officer, employee, consultant, franchisor, franchisee, distributor, advisor or agent, or serve in any other capacity in any business engaged directly or indirectly in the offer, sale, rental, Internet dissemination, or promotion of flooring replacement, renovation, remodel, installation, or related products or services or any business that offers products or services that are essentially the same as, or substantially similar to, the products and services that are part of the Five Star Flooring System. This covenant applies within the Franchise Territory, within a 100-mile radius of the Franchise Territory, within a 100-mile radius of any location where we operate or have granted the franchise to operate a Five Star Flooring business, and within the United States of America.

You acknowledge and confirm that the time, content, and geographical restrictions contained in this Section are fair and reasonable. They are not the result of overreaching, duress, or coercion of any kind by us. You further acknowledge and confirm that your

observance of the covenants contained in this Agreement will not cause you any undue hardship, financial or otherwise, and that enforcement of each of the covenants contained in this Agreement will not impair your ability to obtain employment commensurate with your abilities and on terms fully acceptable to you, or otherwise to obtain income required for the comfortable support of your family and the satisfaction of your creditors. Your knowledge of the Five Star Flooring System would cause our franchise system serious injury and loss if you use the knowledge to the benefit of a competitor or to compete with us or our franchisees.

If, for any reason, any provision set forth in this Subsection exceeds any lawful scope or limit as to duration, geographic coverage, or otherwise, it is agreed that the provision will nevertheless be binding to the full scope or limit allowed by law or by a court of law. The duration, geographic coverage, and scope allowable by law or court of law shall apply to this Agreement.

7 TRANSFER

Notwithstanding the foregoing, and by way of additional agreement and clarification, a transfer consummated pursuant to the provisions of this Section 7 through Franchisor's use of a franchise broker or referral service facilitated by Franchisor shall include as a requisite provision in the relevant Purchase Agreement (or its equivalent) a clause requiring that the entire purchase price be delivered to Franchisor via wire transfer, after which, upon the delivered funds clearing Franchisor's financial institution, Franchisor shall reduce the amount by those sums owing pursuant to Franchisee's outstanding amounts owed under the Agreement (including applicable Transfer Fees or Commissions due to the respective franchise broker or referral service partner of Franchisor) and remit the remaining amounts pursuant to the instructions of Franchisee and Transferee or the instructions of the Purchase Agreement.

7.1 Sale or Assignment.

A. Your rights and obligations under this Agreement are exclusive to you. Whether voluntarily or involuntarily, neither you, your owners, partners nor others claiming an interest in the Franchise will sell, transfer, assign, encumber, give, lease, or sublease, or allow any other person to conduct business in or through (collectively called "transfer") the whole or any part of: this Agreement, the Franchise Premises (if at an office site or commercial location), substantial assets of the Franchise business, or ownership or control of you or to fractionalize any of the rights granted to you pursuant to this Agreement. Any attempted transfer without our prior written consent will be a breach of this Agreement. Our consent will not be unreasonably withheld. We need not consent to any transfer before the date the Franchise opens for business.

Because we will have a strong and vested interest in the financial viability and ongoing management abilities of the transferee, we need not consent to any transfer if we reasonably believe the purchase price is excessive or if we believe based upon a review of the transferee's operational and business plans that the transferee's business operations might not be beneficial on a cash flow or financial basis.

We enter this Agreement, in part, in reliance upon the individual or collective character, skill, attitude, business ability, and financial capacity of you (or your shareholders, members, or partners, if you are a corporation, limited liability company, partnership, or other entity).

Notwithstanding the foregoing, and by way of additional agreement and clarification, a transfer consummated pursuant to the provisions of this Section 7 through Franchisor's use of a franchise broker or referral service facilitated by Franchisor shall include as a requisite provision in the relevant Purchase Agreement (or its equivalent) a clause requiring that the entire purchase price be delivered to Franchisor via wire transfer, after which, upon the delivered funds clearing Franchisor's financial institution, Franchisor shall reduce the amount by those sums owing pursuant to Franchisee's outstanding amounts owed under the Agreement (including applicable Transfer Fees or Commissions due to the respective franchise broker or referral service partner of Franchisor) and remit the remaining amounts pursuant to the instructions of Franchisee and Transferee or the instructions of the relevant Purchase Agreement (or its equivalent).

You recognize that there are many subjective factors that comprise the process by which we select a suitable franchise owner. Our consent to a transfer by you will remain a subjective determination and will include, but not be limited to, the following conditions. Before the effective date of a transfer we approve:

1. The transferee must assume your Franchise obligations. You will remain bound by your covenants in this Agreement to not disclose confidential information and to not compete with us or our franchisees.
2. You will pay all ascertained or liquidated debts concerning the Franchise.

3. You may not be in breach of this Agreement or any other agreement between the parties. Our consent to the transfer will not constitute a waiver of any claims we may have against you.
4. The transferee will complete to our exclusive satisfaction the training programs we then require of new franchisees or otherwise show to our satisfaction sufficient ability to successfully operate the Franchise. The cost of this training and our related evaluations are included in the Transfer Fee described below.
5. You or the transferee will pay a Transfer Fee according to our then current Transfer Fee Schedule. This fee will reimburse us for our reasonable legal, accounting, credit check, and investigation expenses that result from the transfer. The Transfer Fee will be equal to the greater of **\$10,000** or **five** percent of the proposed purchase price for the Franchise, plus applicable taxes, not to exceed fifty percent (50%) of the then-current franchise fee. The Transfer Fee will be paid by delivering: i) a non-refundable deposit of \$1,000 with the written request for our approval of the proposed purchaser, and ii) the balance on the closing date of the transfer. Depending on your volume of operations and sales over the preceding 12-months prior to transfer, an escrow amount of up to 5% of the purchase price may additionally be withheld to fund warranty claims during the 12-month period immediately following the transfer of the franchise (the "warranty escrow period"). Upon completion of the warranty escrow period, any amounts expended on warranty claim expenses, together with a processing fee of \$150 will be deducted from this escrow amount, and the balance will be refunded after 45 business days from the close of the warranty escrow period. Notwithstanding the foregoing, the applicable commission or transfer fee, in the specific event of Franchisor delivering a resale partner to Franchisee through Franchisor's use of a franchise broker service with whom Franchisor has any active referral agreement, and Franchisee transacts a transfer of the franchised business, shall be the obligation of Franchisee. Thus, any obligation of Franchisor toward the franchise broker or referral service with respect to such referral agreement is hereby assumed in full by Franchisee for such transaction relating to Franchisee.
6. You will pay us a **10%** commission on the gross transfer price (excluding the price of real property), if we obtain the transferee for you. Notwithstanding the foregoing, the applicable commission or transfer fee, in the specific event of Franchisor delivering a resale partner to Franchisee through Franchisor's use of a franchise broker service with whom Franchisor has any active referral agreement, and Franchisee transacts a transfer of the franchised business shall be the obligation of Franchisee. Thus, any obligation of Franchisor toward the franchise broker or referral service with respect to such referral agreement shall be assumed in full by Franchisee.
7. You agree that up to 5% of the gross transfer price will be held by us in escrow for the twelve (12) calendar months following the date of the sale to cover any warranty or service agreement claims by your customers. The exact percentage held in escrow will be determined by the number and value of projects completed by you in the twelve (12) calendar months preceding the sale. If a warranty or service agreement claim is made, we will charge the escrow fund our then-current hourly service fee (a minimum of \$100 per hour) for labor plus the actual cost of materials and supplies, plus a \$50 processing fee for each claim. At the conclusion of the twelve (12) months, we will release any remaining escrowed funds to you. If there are no claims, a one-time processing fee of \$150 will be charged, with the remaining funds released to you.
8. The transferee will execute all documents we then require of new franchisees. This includes a new franchise agreement in the form we then are using. The new franchise agreement may contain economic and general terms that are materially different from those contained in this Agreement. The term of the new agreement will be for the unexpired term of this Agreement or for a new full term, as we will elect. You must ask us to provide the prospective purchaser with our current form of disclosure document required by the applicable federal or provincial/state registration and disclosure laws, and a receipt for this document will be delivered to us; provided, however, we will not be liable for any representations you make apart from those contained in our disclosure document.
9. The transferee will meet our standards for quality of character, financial capacity, and experience required of a new or renewing franchisee. You will provide information we require to prove the transferee meets our standards.
10. If permitted by applicable law, you and your owners, members, partners, officers, and directors will execute a general release in our favor. The release must be in a form we prescribe, following applicable law, to release any claims you may have against us and our representatives, subsidiaries, and affiliates, and our officers, directors, attorneys, shareholders, and employees in their corporate and individual capacities. This will include claims arising under federal, state, and local laws, rules, and ordinances arising out of, or connected with, the offer, sale, and performance of this Agreement or any other agreement between the parties.

11. If the Initial Franchise Fee has not yet been paid in full, it must be paid in full despite the due date for payment established by this Agreement.
12. If you have lease or sublease for the Franchise Premise and such document requires, the lessor or sublessor must have consented to the assignment or sublease of the Franchise Premises to the transferee. All equipment must be inspected and certified by a qualified professional inspector to be in good working order and free of operational defects. It will be your responsibility to bring all equipment to proper working order before the transfer takes place.
13. You will enter into an agreement to subordinate, to the transferee's obligations to us (including the payment of all franchise fees), any obligations of the transferee to make installment payments of the purchase price to you. The form of this subordination is subject to our approval.
14. The transferee will refurbish the Franchise, its equipment, and signage to conform to the current Operations Manual and Five Star Flooring System within 90 days of transfer.
15. Upon our granting of approval for the transfer, you will:
 - a. ensure that the transfer is effected in compliance with the requirements of all federal, state, and local laws, including applicable tax and bulk sales legislation;
 - b. deliver to the purchaser the Operations Manual and all other manuals and materials we provided to you for use in the Franchise, including all materials bearing the Trademarks and our marketing, promotional, and training materials, order books, and bookkeeping and reporting forms.
 - c. With our prior written consent, you may transfer your rights and obligations under this Agreement to a corporation or other entity in which you continuously own a majority of the issued and outstanding shares of each class of stock or other evidence of ownership. The entity must be newly organized with its activities confined exclusively to acting as the franchisee under this Agreement. The entity must contemporaneously agree in writing to be bound by the terms of this Agreement. You must contemporaneously agree in writing to guarantee the obligations of the entity and to remain personally liable in all respects under this Agreement. (You and all other owners will personally and unconditionally guarantee the obligations of the new entity, and you will remain personally subject to and bound by all terms, conditions, restrictions, and prohibitions contained in this Agreement. You, as an owner of the entity, agree to separately and personally, for you and for your successors, heirs, and personal representatives, will act as surety for the full and faithful performance of all of the obligations, commitments, and payments required of the entity. In that capacity, you agree that we do not have to pursue any remedies we may have against the entity, but rather, may proceed directly and primarily against you with or without joining the entity as principal or as a named party in any proceeding.)

You will be in breach of this Agreement if you, at any time, dispose of any interest sufficient to reduce your ownership in the entity to less than a majority of any class of stock or other evidence of ownership. From time to time, at our request, you will provide to us a current list of all your owners, shareholders, members, directors, officers, partners, and employees, with a summary of their respective interests in you.

B. We may transfer this Agreement. If we do, it will be binding upon and inure to the benefit of our successors and assigns. Specifically, you agree that we may sell our assets, the Service Marks, or the Five Star Flooring System outright to a third party, may go public, may engage in a placement of some or all of our securities, may merge, acquire other entities or be acquired by other entities, or may undertake a refinancing, recapitalization, re-organization, leveraged buyout or other economic or financial restructuring. As for any or all of these sales, assignments, and dispositions, you waive any claims, demands, or damages arising from or related to the loss of the Service Marks (or any variation of them) or the loss of association with or identification as part of our franchise system.

We will not be required to remain in any particular form of business or to offer to you products, whether or not bearing our Service Marks.

C. You may offer your securities or partnership interests to the public, by private offering, or otherwise, only with our prior written consent. Consent may not be unreasonably withheld. All materials required for the offering by federal or state

law will be submitted to us for review before filing with any government agency. Any materials to be used in any exempt offering will be submitted to us for review prior to their use. No offering by you will imply (by use of the Service Marks or otherwise) that we are participating in an underwriting, issuance, or offering of your securities. You and all other participants in the offering must fully indemnify us concerning the offering. For each proposed offering, you will pay to us the amount necessary to reimburse us for our reasonable costs and expenses associated with reviewing the proposed offering, including legal and accounting fees. You will give us at least **60** days written notice before the effective date of any offering or other transaction covered by this subsection.

D. You may not grant a sub-franchise or transfer less than all of your rights under this Agreement.

E. Our consent to a proposed transfer will not be a waiver of any claims we may have against you (or your owners), nor will it be a waiver of our right to demand exact compliance with this Agreement. Our consent to a transfer will not constitute or be interpreted as consent for any future or other transfer.

F. You will comply with and help us to comply with any laws that apply to the transfer, including state and federal laws governing the offer and sale of franchises.

7.2 **Your Death or Disability.**

A. Besides the Step-In Rights described above, the following will apply in case of your death or incapacity if you are an individual, or of any general partner of yours if you are a partnership, or of any member or shareholder owning **50%** or more of you if you are a limited liability company or corporation, or other entity. Within **180** days of the event, the heirs, beneficiaries, devisees or legal representatives of that individual, partner, member, or shareholder will:

1. Apply to us for the right to continue to operate the Franchise for the duration of the term of this Agreement. The right to continue will be granted upon the fulfillment of all of the conditions set forth in Subsection (A) of the section entitled "Sale or Assignment," above (except that no transfer fee will be required). Or,
2. Transfer your interest according to the provisions of that Subsection. If a proper and timely application for the right to continue to operate has been made and rejected, the 180 days within which to transfer will be computed from the date of rejection. For purposes of this Subsection, on an application for the right to continue to operate, our silence through the **180** days following the event of death or incapacity will be deemed an acceptance made on the last day of the period.
3. If a suitable transferee purchaser is not found within **180** days from the date of death or permanent incapacity, we may, at our sole option, enter into a contract to purchase the Franchise. Unless we state in writing that we do not intend to exercise this right, the parties must agree upon a purchase price and terms within twenty business days after notice from us. If not, a fair value and fair terms will be determined in Utah County, Utah, by three appraisers. Each party must select one appraiser. The two appraisers chosen must then select a third appraiser. Each party will pay for its own appraiser, and each party will pay half for the third appraiser. The parties may then present evidence of the value of the Franchise and fair terms for the purchase. The appraisers may include in their decision a factor for the "goodwill" or "going concern" value of the Franchise. The decision of the majority of the appraisers will be conclusive. Any time within **30** days after receiving the appraisers' decision, at our option, we may purchase the Franchise and your assets at the price and upon the terms determined by the appraisers. Terms of payment will be **10%** of the purchase price payable upon contract signing, the balance payable in **60** equal monthly payments of principal payments with interest calculated at the prime rate, published by your principal bank at time of each monthly principal payment.

B. If the provisions of this Subsection have not been fulfilled within the time provided, at our option, all rights licensed to you under this Agreement will immediately terminate and revert to us.

7.3 **First Right of Purchase.** You will give us the right of first purchase before soliciting offers from a third party if you choose to sell your franchise business. You agree to notify us in writing if you desire to sell or transfer any interest in you or in your franchised business. You will give us sufficient information and documentation to allow us to analyze the status and value of your business. We will elect to exercise our option to purchase within **60** business days after our receipt of your written notification and due diligence information. If we offer you an amount that you do not agree to, you may try to sell to a third party, but on no better terms for the purchaser than we offered to you. If you later receive an offer from a third party purchaser on better terms than we offered to you, you are obligated to re-offer to us pursuant to the subsection entitled "First Right of Refusal". You are obligated before any transfer to a third party to comply with all criteria set forth in the subsections entitled "Sale or Assignment" and "First Right of

Refusal.” If you do not complete a transaction with a third party within six months, you agree we will again have the right of first purchase before any subsequent contemplated transaction.

We may elect to purchase all of the franchise business regardless of your intent to sell, assign, or transfer a lesser interest. We can pay the purchase price in cash up front or by industry-standard monthly payments that amortize the principal amount with interest calculated at prime plus 1% as of the date of purchase. The choice of payment type is in our sole discretion.

7.4 **First Right of Refusal.** If you receive a bona fide offer from a third party acting at arm's length to purchase the Franchise, a majority interest in ownership of you, or substantially all of the assets of the Franchise, which offer is acceptable to you or to your owners, we will have the right to purchase at the bona fide price on the same terms and conditions as offered to you. We may substitute cash for any other form of consideration contained in the offer. Our credit will be deemed to be equal to the credit of any proposed purchaser. At our option, we may pay the entire purchase price at closing. Within 6 days after receipt by you of an acceptable bona fide offer, you will notify us in writing of the terms and conditions of the offer. You will give us sufficient information and documentation to allow us to analyze the status and value of your business. We may exercise this right to purchase within 30 days after receipt of notice from you and due diligence information. If the interest which is the subject of the offer involves less than all of the ownership interest, then, in our sole option, our right of first refusal will apply to the entire ownership interest. In such case, the consideration to be received, as set forth in the offer, shall be divided by the percentage interest subject to the offer, and the resulting quotient shall be the price to be paid for the entire ownership interest. Terms and conditions for the purchase of the entire ownership interest shall be as similar to the terms and conditions set forth in the offer as practicable, except for the substitute provisions noted above in this section.

If we do not exercise our right to purchase within the 30 days, you may make the proposed transfer to a third party. The transfer will not be at a lower price or on more favorable terms than disclosed to us. Any transfer will be subject to our prior written permission described in the section entitled "Sale or Assignment," above. If the Franchise is not transferred by you within 6 months from the date it is offered to us, or if any material change is made in the terms of the proposed sale, then you must re-offer to transfer to us before a transfer to a third party.

You do not receive the right to acquire additional franchises or grant sub franchises within the Franchise Territory or in contiguous territories. Other than the first right of refusal outlined above, you have not been extended options, rights of first refusal, or similar rights to acquire additional franchises or grant sub franchises within the Franchise Territory or in contiguous territories.

8 **INDEMNITY AND INSURANCE**

8.1 **Indemnity.** You will indemnify and hold us harmless from all fines, suits, proceedings, claims, demands, actions, losses, attorney fees and damages arising out of or connected with the Franchise and the business activities, acts or omissions of you and your employees and agents, including those brought against you and us jointly alleging that you and we were negligent or otherwise liable. We will not be liable to you or to any other person because of your act, omission, neglect, or breach. If it is established that both you and we were negligent or otherwise liable, you and we will contribute to the relevant award, and the obligation to indemnify and hold harmless shall be determined based upon the adjudicated and assigned respective degree of fault. In the event of a settlement prior to adjudication, you and we will agree to degrees of fault. You and we will contribute to the relevant settlement, and the obligation to indemnify and hold harmless shall be determined based upon the agreed degree of fault. All provisions of this Section will be subject to these contribution and allocation of indemnification provisions.

You will indemnify us for any loss, cost, or expense, including attorneys' fees, that may be sustained by us because of the acts or omissions of your vendors or suppliers.

This indemnification will include use, condition, equipping, maintenance, or operation of the Franchise, including the sale of any product, service, or merchandise sold through the Franchise. Any loss, claims, costs, expenses, damages and liabilities shall include, without limitation, those arising from latent or other defects in the Franchise, whether or not discoverable by us, and those arising from the death or injury to any person or arising from damage to the property of you or us, and our respective agents or employees, or any third person, firm or legal entity.

You will defend us at your own expense in any legal or administrative proceeding subject to this Subsection. The defense will be conducted by attorneys we approve. Our approval will not be unreasonably withheld. You will immediately pay and discharge any liability rendered against us in any proceeding, including any settlement that we approve in writing. You will not settle any claim against us without our prior written approval. In our sole discretion and upon prior written notice to you, we may settle or defend any claims against us at your expense, including attorney fees that we pay or incur in settling or defending. Promptly upon demand, you

will reimburse us for any and all legal and other expenses we reasonably incur in investigating, preparing, defending, settling, compromising, or paying any settlement or claim, including monies that we pay or incur in settling or defending such proceeding.

All references in this Agreement that provide that you will indemnify or defend us or that you will name us under any insurance policy will also mean that our affiliates, directors, officers, and employees will be also and equally indemnified, defended or named.

8.2 **Insurance.** Upon commencement of franchise operations, and during the term of this Agreement, you will obtain and keep in force by advance payment of premium appropriate fire and extended coverage, vandalism, malicious mischief, general liability, and products liability insurance. This insurance will be in an amount sufficient to replace your personal property upon loss or damage. This insurance will be written by a financially responsible insurance company satisfactory to us in accordance with our standards and specifications in the Operations Manual. The insurance will include, at a minimum, the following:

A. Comprehensive general liability insurance, including products liability, completed operations, property damage, contractual liability, independent contractors liability, owned and non-owned and hired automobile coverage, and personal injury coverage with a combined single limit of at least **\$1,000,000** per occurrence and **\$2,000,000** aggregate, including umbrella coverage.

B. Workers' compensation and employer's liability insurance, and other insurance required by statute or rule of the state in which the franchise is located and operated.

The insurance will insure us, you, and our respective subsidiaries, owners, officers, directors, partners, members, employees, servants, and agents against any loss, liability, product liability, personal injury, death, or property damage that may accrue due to your operation of the Franchise. Your policies of insurance will contain a separate endorsement naming us as an additional named insured. The insurance will not be limited in any way because of any insurance we maintain, and will be the primary, non-contributory insurance for claims made thereunder. The insurance will not be subject to cancellation except upon **20** days' written notice to us. Certificates of your insurance policies will be kept on deposit with us. Maintenance of the required insurance will not diminish your liability to us under the indemnities contained in this Agreement. The policy or policies will insure against our vicarious liability for actual and (unless prohibited by applicable law) punitive damages assessed against you.

All insurance policies you obtain will contain a blanket waiver of the insurer's rights of subrogation in respect of or against us and our officers, agents, employees and representatives; and will not contain any insured vs. insured exclusion clause, but will contain a severability clause providing that each the policy will be treated as though a separate insurance policy had been issued to each named insured.

We may require you to increase the minimum limits of and types of coverage to keep pace with regular business practice and prudent insurance custom. Your coverage must be issued by an approved carrier, and you must coordinate with our designated vendors or service providers to confirm proper and continuous coverage.

If you fail to comply with any of the requirements of this Subsection, we may, but are not obligated to, purchase insurance at your expense to protect our interests. This insurance may, but need not, also protect your interest. The coverage we obtain might not pay any claim you make or any claim made against you. You may later cancel the insurance we obtain by providing evidence that you have obtained proper coverage elsewhere. You are responsible for the cost of any insurance purchased by us pursuant to this paragraph. This coverage may be considerably more expensive than insurance you can obtain on your own and might not satisfy your needs. You will pay us upon demand, the premium cost of this insurance, with a late payment charge on the unpaid balance at the rate established in this Agreement.

You will promptly report all claims or potential claims against you, the Business, or us in writing when you become aware of them. You will give immediate written notice to us of any claims or potential claims you make to your insurers.

We may, at our sole discretion, upon not less than 90 days prior written notice to you, secure a policy of insurance which will provide defined insurance coverage to all or any part of the Five Star Flooring system. This policy may replace or supplement the insurance coverage you are required to maintain. You will pay the relevant insurance premium to us or the designated insurance provider, as we direct.

Nothing contained in this Agreement will be construed as a representation or warranty by us that the insurance coverage we specify will insure you against all insurable risks or amounts of loss which may or can arise out of or in connection with the operation of your franchise business. It is your sole responsibility to ensure that adequate insurance coverage is obtained for your business.

Your procurement and maintenance of the insurance specified above will not relieve you of any liability to us under any indemnity requirement of this Agreement.

9 **NOTICE AND MISCELLANEOUS**

9.1 **Notices.** All notices required by this Agreement will be in writing. They may be sent by certified or registered mail, postage prepaid, and return receipt requested. They may be delivered by Federal Express or other reputable air courier service, requesting delivery with receipt on the most expedited basis available. They may also be delivered via email to your email address on file. Notices will be delivered to you at the Franchise Premises, to us at our headquarters, or to other locations specified in writing.

Notices may be delivered and receipted to you personally at any location.

Notices sent by certified or registered mail will be deemed to have been delivered and received **3** business days following the date of mailing. Notices sent by Federal Express, or other reputable air courier service or via email will be deemed to have been received one business day after placement, requesting delivery on the most expedited basis available.

9.2 **Business Name.** You will execute any documents we may from time to time direct, to be retained by us until this Agreement ends, to evidence that you abandon, relinquish, and terminate your right or interest you may claim in or to the Service Marks and the name "Five Star Flooring." If you operate your business as an entity, you will use an entity name that does not contain the name "Five Star Flooring," but you will obtain a fictitious name for your business entitled "Five Star Flooring of _____" which describes your ownership or location to specify and distinguish from any other entity's fictitious name.

9.3 **We and You Are Not Joint Venturers, Partners, or Agents.** You are and will remain an independent contractor. You and we are not and will never be considered joint venturers, partners, employees, or agents one for the other. Neither will have the power to bind nor obligate the other except as otherwise outlined in this Agreement. No representation will be made by either party to anyone that would create any apparent agency, employment, or partnership. Each will hold the other safe and harmless from each other's debts, acts, omissions, liabilities, and representations. You acknowledge that you are not in a fiduciary relationship with us.

In all public and private records, documents, relationships, and dealings, you will show that you are an independent owner of the Franchise. You will prominently indicate on your letterheads and business forms that you are our licensed franchisee by using language saying that you operate an independently owned Franchise. You will prominently display, by posting a sign within public view, on or in the Franchise Premises (if at an office site or commercial location) and on any vehicles that you use, a statement that clearly indicates that your franchise business is independently owned and operated by you as a franchisee and not as our agent.

You will maintain employee records to show clearly that you and your employees are not our employees. All employees and independent sub-contractors you employ must meet our character, quality, and performance standards. All state and federal, worker's compensation, and insurance requirements must be met for all employees and sub-contractors, including requirements we express in the Operations Manual.

The liability of you and your owners, shareholders, members, or partners will be both joint and several. A breach of this Agreement by you or by any shareholder, member, or partner will be a breach by all of the shareholders, members, or partners and also by you.

9.4 **Waiver.** A waiver of any breach of any provision, term, covenant, or condition of this Agreement will not be a waiver of any subsequent breach of the same or any other provision, term, covenant, or condition.

Any waiver of any provision of this Agreement must be set forth in writing and signed by the party granting the waiver. Any waiver we grant will not prejudice any other rights we may have, and will be subject to our continuing review. We may revoke any waiver, in our sole discretion, at any time and for any reason, effective upon delivery to you of **10** days prior written notice of revocation. Customs or practices of the parties in variance with the terms of this Agreement will not constitute a waiver of our right to demand exact compliance with the terms of this Agreement. Our delay, waiver, forbearance, or omission to exercise any power or rights arising out of any breach or default by you of any of the terms, provisions, or covenants of this Agreement will not affect or impair our rights and will not constitute a waiver by us of any right or of the right to declare any subsequent breach or default. Our subsequent acceptance of any payment due to us will not be deemed to be a waiver by us of any preceding breach by you of any terms, covenants or conditions of this Agreement.

By written notice, we unilaterally may waive any obligation of you, your owners, or the Guarantors.

Our consent, whenever required, may be arbitrarily withheld if you are in breach of this Agreement.

9.5 **Time Is of the Essence.** Time and strict performance are of the essence of this Agreement. ("Time is of the essence" is a legal term that emphasizes the strictness of time limits. In this Agreement, it means it will be a material breach of this Agreement to fail to perform any obligation within the time required or permitted by this Agreement.)

9.6 **Documents.** You and your partners, shareholders, members, officers, and owners agree to execute and deliver any documents that may be necessary or appropriate during the term and upon expiration or termination of this Agreement to carry out the purposes and intent of this Agreement. Upon the expiration, termination, or transfer of this Agreement, if you do not execute any document necessary in our judgment to comply with the requirements of this Agreement, then by this Agreement, you irrevocably nominate, constitute, and appoint the person then serving as our President as your attorney-in-fact to so execute that document in your name and on your behalf.

Any material violation or breach of any of these documents or of any other Franchise or related agreement between the parties will be a material violation of this Agreement and of all the other documents and agreements. The non-breaching party may enforce or terminate this Agreement and any or all of the other documents and agreements as provided for enforcement or termination of this Agreement.

If you are a partnership, all general partners will sign the documents. If you are a corporation or limited liability company, or other entity, all shareholders or members and all officers will personally guarantee your faithful performance.

You will assure that each of your owners, shareholders, general partners, members, directors, officers, managers, employees, consultants, distributors and agents will not compete with us; will not attempt to divert customers to competing businesses; will not induce the employees of us or of our franchisees to leave their employment; and will keep, preserve, and protect confidential information as required by this Agreement.

9.7 **Construction.**

A. **Entire Agreement.** This document, including any exhibits attached to this Agreement and the documents referred to in this Agreement, will be construed together and constitute the entire agreement between the parties. It supersedes all prior or contemporaneous agreements or understandings, whether written or oral, with respect to the subject matter of this Agreement. There are no other oral or implied understandings between the parties with respect to the subject matter of this Agreement. Except as expressly and otherwise provided in this Agreement, this Agreement may not be modified, nor may any rights be waived or abridged, orally or by course of dealing, but only by a written instrument signed by the parties. The words "this Agreement" include any future modifications unless otherwise suggested by the context. No salesperson, representative, or other person has the authority to bind or obligate us in any way, except our president or a vice president at our home office by an instrument in writing.

No previous communications, negotiations, course of dealing, or usage in the trade not specifically set forth in this Agreement will be admissible to explain, modify, or contradict this Agreement. The parties intend to confer no benefit or right on any person or entity not a party to this Agreement, and no third party will have the right to claim the benefit of any provision of this Agreement as a third party beneficiary of that provision.

Nothing in this Agreement or any related agreement is intended to disclaim the representations we made to you in our franchise disclosure document.

B. **Format.** All words in this Agreement include any number or gender as the context or sense of this Agreement requires. The words "will" and "must" used in this Agreement indicate a mandatory obligation. This Agreement has been prepared in the "you/we" format to simplify it and to facilitate our compliance with state and federal franchise disclosure laws. The rule of construction that a written agreement is construed against the party preparing or drafting such agreement will specifically not be applicable to the interpretation of this Agreement.

C. **Captions and Headings.** All captions and headings are for reference purposes only and are not part of this Agreement. The recitals set forth in this Agreement are specifically incorporated into and constitute a part of the terms of this

Agreement. If there is any typographical, word processing, printing, or copying error in this Agreement, the error will be interpreted and corrected consistent with the following order of interpretation:

1. The content and expressed intent, and exhibits of our Franchise Disclosure Document(s) previously delivered to you.
2. The content and expressed intent of franchise agreements we have executed with our other franchises are reasonably contemporaneous to this Agreement.

D. Severability. If any part of this Agreement is declared invalid, that declaration will not affect the validity of the remaining portion, which will remain in full force and effect as if this Agreement had been executed with the invalid portion omitted. The parties declare their intention that they would have executed the remaining portion of this Agreement without including any part, parts, or portions which may be declared invalid in the future. Provided, however, that if we determine that the finding of invalidity materially and adversely affects the basic consideration of this Agreement, we may, at our option, terminate this Agreement.

E. Implied Covenants. If applicable law implies a covenant of good faith and fair dealing in this Agreement, the parties agree that covenant will not imply any rights or obligations that are inconsistent with a fair construction of the terms of this Agreement. If applicable law implies such a covenant, the parties acknowledge and agree that:

1. This Agreement (and the relationship of the parties which is inherent from this Agreement) grants us the discretion to make decisions, take actions, or refrain from taking actions not inconsistent with our explicit rights and obligations under this Agreement that may favorably or adversely affect your interests;
2. We will use our business judgment in exercising our discretion based on our assessment of our own interests and balancing those interests against the interests of the owners of other Five Star Flooring businesses generally (including us, our franchisees, and parties related to us) and specifically without considering the individual interests of you or any other particular franchisee;
3. We will have no liability to you for the exercise of our discretion in this manner, so long as our discretion is not exercised in bad faith toward you; and
4. In the absence of bad faith, no trier of fact in any judicial or arbitration proceeding will substitute its judgment for the business judgment we exercise.

F. Joint and Several. If, at any time during the term of this Agreement, you consist of two or more persons or entities (whether acting in partnership or otherwise and whether or not all have signed this Agreement), the rights, privileges and benefits granted to you in this Agreement may only be exercised and enjoyed jointly; and your obligations, liabilities and responsibilities under this Agreement will be joint and several obligations of each such person and entity.

9.8 DISPUTE RESOLUTION

A. Intent, Meeting, and Mediation

You and we believe that it is important to resolve disputes amicably, quickly, cost-effectively, and professionally and return to business as soon as possible. You agree that you will communicate professionally with us and with our team at all times, including when communicating any dispute. You and we agree that the provisions of this Article support these mutual, practical business objectives, and, therefore, agree as follows:

- a. All provisions of this Franchise Agreement (including the language of this Article) will be fully enforced, including those relating to arbitration, waiver of jury trial, limitation of damages, venue, choice of laws, and shortened periods in which to bring claims.
- b. **All of the terms, covenants, and conditions of this Article, including the choice of law, choice of venue, and use of arbitration, are mandatory and not permissive.**
- c. The Parties rely on the federal preemption of state laws under the Federal Arbitration Act (9 U.S.C. §1 et seq.) (FAA) with the understanding that the FAA and not state law will control any matters concerning mediation and arbitration and, as a result, the provisions of this Franchise Agreement will be enforced only according to its terms and through the alternative dispute

mechanism found in this Article. The Parties further agree that each Party intends that any state law attempting to prohibit arbitration or attempting to void out-of-state forums for arbitration is preempted by the Federal Arbitration Act and that arbitration will be held as provided in this Article.

d. Except as expressly provided in this Franchise Agreement, **EACH PARTY KNOWINGLY WAIVES ALL RIGHTS TO A COURT OR JURY TRIAL AND, INSTEAD, SELECTS FACE-TO-FACE MEETINGS, MEDIATION AND FINALLY BINDING ARBITRATION AS THE SOLE MEANS TO RESOLVE DISPUTES UNDERSTANDING THAT FACE-TO-FACE MEETINGS, MEDIATION AND ARBITRATION MAY BE LESS FORMAL THAN A COURT OR JURY TRIAL, MAY USE DIFFERENT RULES OF PROCEDURE AND EVIDENCE, THAT AN APPEAL PROCESS IS GENERALLY LESS AVAILABLE, AND THAT THE FEES AND COSTS ASSOCIATED WITH MEDIATION AND ARBITRATION MAY BE SUBSTANTIALLY GREATER THAN IN CIVIL LITIGATION.**

Initials as to the above three subsections:

Initials of Franchisee

Initials of Franchisee

Initials of Franchisor

- i. Notwithstanding the fact that a Party is or may become a party to a court action or special proceeding with a third party or otherwise, and whether or not such pending court action or special proceeding: (i) may include issues of law, fact, or otherwise that arise out of the same transaction (or series of related transactions) as any arbitrable matter between or involving the Parties; (ii) involves a possibility of conflicting rulings on issues of law, fact, or otherwise; and (iii) such pending court action or special proceeding may involve a third party who cannot be compelled to arbitrate the terms, covenants, and conditions of this Franchise Agreement, the Parties still agree any dispute between the Parties to this Franchise Agreement will be enforced according to the terms found herein, including the obligation to perform under this Article.
- ii. Before arbitration, each Party agrees to adhere to the following procedure:
 - 1. First, in the event of a disagreement between us, we agree to meet face-to-face within 30 days after one Party gives written notice to the other;
 - 2. Second, if the issues between us cannot be so resolved, then the disagreement must be submitted to non-binding mediation before the Judicial Arbitration and Mediation Service (**JAMS**) or its successor (or an organization designated by JAMS or its successor). If JAMS is unable or unwilling to conduct such proceedings, and the Parties to the dispute cannot agree on an appropriate organization or person to conduct such proceedings, mediation will be heard by the American Arbitration Association. (**AAA**).

A. You and we will agree upon a single mediator. If we cannot agree upon the mediator, then the senior-most officer, director, or manager of the association under which the mediation is to take place will choose a neutral and disinterested mediator, and such choice will be final and binding.

B. Mediation must begin 30 days after the face-to-face meeting. Any Party may be represented by counsel and may bring persons appropriate to the proceeding with permission of the mediator.

C. Each Party will bear the Person’s costs associated with attending mediation. Each Party will equally split the cost of the mediator.

3. If mediation does not resolve the matter, you and we agree that the disagreement will be submitted to and finally resolved by binding arbitration.

B. Resolution under Arbitration

a. Subject to the terms of this Article, Arbitration must begin by the earlier of 90 days after the end of mediation or the last day of the one year identified in this Article.

b. Arbitration will be held before and under the arbitration rules of JAMS or its successor (or an organization designated by JAMS or its successor). If JAMS is unable or unwilling to conduct such proceedings, and the Parties cannot agree on an appropriate organization or person to conduct such proceedings, the arbitration will be heard by a single arbitrator from the AAA. The arbitrator must be experienced in franchising. If the Parties cannot agree upon the arbitrator, the senior-most officer, director, or manager of the association under which the arbitration is to take place will choose a neutral and disinterested arbitrator, and such choice will be final and binding upon the Parties.

c. Any Party may be represented by counsel and may, with permission of the arbitrator, bring persons appropriate to the proceeding.

d. The arbitrator's judgment on any preliminary matter and the final arbitration award will be final and binding and may be entered in any court having jurisdiction.

i. The arbitrator's award will be in writing. On request by any party to the arbitration, the arbitrator will provide to all disputants a reasoned opinion with findings of fact and conclusions of law, and the Party so requesting will pay the arbitrator's fees and costs.

ii. There will be no right to appeal any preliminary finding or ruling, and there is no right to appeal the final award.

e. The Parties agree that they will equally split the fees paid to start arbitration and the fees paid to the arbitrator until the arbitrator awards fees and other costs to the Prevailing Party.

C. Confidentiality:

The Parties to any meeting, mediation, or arbitration will sign confidentiality agreements, excepting only public disclosures and filings as are required by law.

(i) Choice of Law, Venue, and Jurisdiction

a. Any meeting, mediation, or arbitration will be conducted exclusively at a neutral location within 15 miles of our then-current headquarters without regard to conflict of law provisions or *forum non-conveniens* demand to the contrary.

b. The arbitrator will apply all applicable laws and equity permitted under the laws of the state of Utah, without regard to conflicts of law provisions. Any dispute requiring resolution before a court shall be brought in the appropriate state or federal court situated in Utah County, Utah, or the most proximate thereto, with the parties hereby irrevocably consenting to the exclusive jurisdiction and venue therein.

c. The terms of this Section and the terms of this Article generally **are mandatory and not permissive** and will control any matters of jurisdiction, venue, and choice of law; and by initialing below, you and we have agreed to the mandatory terms of this Article generally and to the mandatory terms of this Section specifically.

Initials as to this entire Section

Initials of Franchisee

Initials of Franchisee

Initials of Franchisor

(ii) Scope, Discovery, other Procedural Matters, Fees, and Costs

- a. The arbitrator will decide any factual, procedural, or legal questions relating to the dispute, including any decision as to whether there is a franchise contract between the Parties; whether this Article is applicable and enforceable; and all other matters, including issues relating subject matter, timeliness, scope, remedies, unconscionability, and any alleged fraud in the inducement.
- b. The Parties to the dispute have the same discovery rights as are available under the rules of the arbitration association hosting the arbitration.
- c. Each participant must submit or file any claim which would constitute a “compulsory counter-claim” (as defined by the applicable rule under the Federal Rules of Civil Procedure) within the same proceeding as the claim to which it relates. Any such compulsory counter-claim that is not submitted or filed in such proceeding will be forever barred.
- d. The arbitrator may issue summary orders disposing of all or part of a claim and provide for temporary restraining orders, preliminary injunctions, injunctions, attachments, claim and delivery proceedings, temporary protective orders, receiverships, and other equitable, interim, or final relief.
 - i. Each Party consents to the enforcement of such orders, injunctions, etc., by any court having jurisdiction.
 - ii. The arbitrator has subpoena powers limited only by the laws of the state of Utah.
- e. In addition to any other remedy, the arbitrator will award the “**Prevailing Party**” their costs, fees, reasonable attorney’s fees, expert witness fees, and the like that Party expended in preparation for and the prosecution of the case at arbitration. The Prevailing Party will be the Party that has obtained the greatest “**net judgment**” in terms of money or money equivalent. If money or money equivalent has not been awarded, then the Prevailing Party will be that Party that has prevailed on a majority of the material issues decided. The “**net judgment**” is determined by subtracting the smallest award of money or money equivalent from the largest award. If there is a mixed decision involving an award of money or money equivalent and equitable relief, or if the arbitrator deems it to be in the best interest of justice, the arbitrator, using their reasonable judgment, will award the above fees to the Party that it deems has prevailed over the other Party. This award applies to all matters decided by the arbitrator, including matters concerning misrepresentation or fraud.

(iii) Disputes Not Subject to the Mediation or Arbitration

- a. Claims or disputes relating primarily to the Marks, to any intellectual property licensed to you, to any matter governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. §§ 1051 et seq.), are subject to court proceedings in a court of competent jurisdiction. Only the portion of any claim or dispute identified in this Section is subject to court action, but only to the extent that such action is necessary to protect the Marks, the intellectual property, and any matters governed by the Lanham Act.
- b. Matters relating solely to the collection of money by one Party against the other are not subject to a face-to-face meeting, mediation, or arbitration. Such matters include collection efforts against you or us solely for the failure to make timely payment of any amount due to the other. In such an event, such matter may be brought in a court of competent jurisdiction and venue. If, however, one Party to such action pleads another claim, cross-claim, counter-claim, or affirmative defense based on anything other than the mere collection of money, or if the other Party alleges facts concerning fraud or any other equitable defense, then the entire matter, including the collection-of-money effort, will be subject to the alternative dispute resolution procedures of this Article.

c. To the extent that either of us seeks injunctive relief before the face-to-face meeting or mediation, the same may be applied to a court of competent jurisdiction. The court will hear only the application for injunctive relief, and the mere fact that the court exercised jurisdiction in considering the injunction will not serve to eliminate the alternative dispute resolution requirements of this Article. If the temporary injunction is granted, then the Party that made the application must begin the alternative dispute resolution process under this Article.

D. Other Matters

We each understand and specifically agree that any matters concerning the relationship between us and any dispute arising, as a result, will be determined on an individual basis and will not be brought as a class action or with multiple unrelated franchisees (whether as a result of attempted consolidation, joinder, or otherwise). This is prudent from a business standpoint because (a) the mediation and arbitration procedures function most effectively on an individual case basis; (b) there are significant factors present in each individual franchisee's situation which should be respected; and (c) class-wide or multiple plaintiff disputes do not foster quick, amicable, and economic dispute resolutions.

E. One Year Limitation of Action

a. Except for an alleged violation of the Marks or any intellectual property licensed to you (which may be brought at any time), and except for the enforcement of our right to indemnification under Article 14 and subsection (c) just below, **YOU AND WE ARE LIMITED TO BRINGING ANY ARBITRATION AGAINST THE OTHER WITHIN ONE YEAR OF THE DATE THAT THE FACTS WHICH GIVE RISE TO THE CLAIM WERE DISCOVERED, OR ONE YEAR FROM THE DATE THAT SUCH FACTS REASONABLY SHOULD HAVE BEEN DISCOVERED.** The one-year period begins to run and will not be tolled merely because the claiming party was unaware of legal theories, statutes, regulations, or case law upon which the claim might be based. If the Parties have begun mediation on the day that the one-year expires, then the one-year will be extended by 90 days from the unsuccessful end of mediation, within which a Party must bring arbitration. If arbitration is not brought by 5:00 p.m. Mountain Time on the 90th day after mediation ends, then the right to bring arbitration expires, and the Parties will have no other opportunity to try, arbitrate, or receive any other relief because of the action, matter, dispute, or disagreement underlying the claim.

b. Notwithstanding the foregoing, if any federal or state law provides for a shorter limitation period than is described in this Section, then such a shorter period will govern.

c. This Section will not apply to issues of indemnification, and such actions under the indemnification covenant may be brought within the period provided by any limitation-of-action statute under the laws of the state in which our headquarters is then located.

Initials as to this entire Section

Initials of Franchisee

Initials of Franchisee

Initials of Franchisor

F. Survival of Obligations

Each provision of this Article 16 is self-executing and will continue in full force and effect after a Transfer, expiration, termination, rescission, or finding of unenforceability of this Agreement (or any part of it).

G. Injunctive Relief and Specific Performance. For matters not governed by the foregoing provisions of this Section 9.8, either party may obtain in any court of competent jurisdiction specific performance and injunctive relief to restrain a violation by the other party of any term or covenant of this Agreement. Nothing contained in this Agreement will bar us or you to obtain specific performance of the provisions of this Agreement and injunctive relief against threatened conduct that will cause you or us loss or damages under customary equity rules, including applicable rules for obtaining restraining orders and preliminary injunctions.

H. Governing Law and Venue. For such matters as may be properly pursued under Section 9.8(G), you acknowledge that we have appointed and intend to appoint many franchisees on terms and conditions similar to those set forth in this Agreement. It mutually benefits those franchisees, you, and us if the terms and conditions of these license agreements are uniformly interpreted. This Agreement is accepted by us in the State of Utah and will be governed by the substantive laws of Utah without regard to Utah choice of law provisions. Provided, however, that any law of the State of Utah that regulates the sale of franchises or business opportunities or governs the relationship of a franchisor and its franchisee will not apply unless its jurisdictional requirements are met independently without reference to this Section. Utah laws will prevail, except to the extent governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. Sections 1051, et seq.) and except in those states whose franchise laws require exclusive application of those laws. This choice of laws will not include and does not extend the scope of application of any Utah franchise or business opportunity laws except as they may otherwise apply pursuant to their terms and definitions. No franchise or business opportunity, antitrust, "implied covenant," unfair competition, fiduciary, or any other doctrine of law, statute, law, or regulation of Utah or any other state is intended to be made applicable to this Agreement unless it would otherwise apply absent this paragraph. The foregoing will not be construed as a waiver of any of your rights under any applicable franchise registration, disclosure, or relationship law of another territory, state, or commonwealth. Any portion of this Agreement that requires enforcement in any other state, and is enforceable under the laws of that state but not of Utah, will be construed and enforced according to the laws of that state. All issues or disagreements relating to this Agreement will be mediated, arbitrated, tried, heard, and decided in Utah County, Utah, which you agree is the most convenient venue for these purposes, and the jurisdiction and venue of which you submit to hereby as the exclusive jurisdiction and venue for such disputes. You acknowledge and agree that this location for venue is reasonable and the most beneficial to the needs of and best meets the interest of, all of the members of the Five Star Flooring franchise system.

I. Remedies. You recognize the unique value and secondary meaning attached to the Five Star Flooring System, the Service Marks, and our standards of operation and trade practices. You agree that any noncompliance with the terms of this Agreement or any unauthorized or improper use of the Five Star Flooring System or the Service Marks will cause irreparable damage to us and our franchisees. You agree that if you engage in any unauthorized or improper use, during or after the period of this Agreement, we will be entitled to both permanent and temporary injunctive relief from any court of competent jurisdiction in addition to any other remedies prescribed by laws.

No right or remedy conferred upon us is exclusive of any other right or remedy in this Agreement or provided by law or equity. Each will be cumulative of every other right or remedy.

We may employ legal counsel or incur other expenses to collect or enforce your obligations or to defend against any claim, demand, action, or proceeding because of your failure to perform your obligations. Legal action may be filed by or against us, and that action or the settlement of it may establish your breach of this Agreement. If either event occurs, we may recover from you the amount of our reasonable attorney fees and all other expenses we incur in collecting or enforcing that obligation or in defending against that claim, demand, action, or proceeding.

You agree that the existence of any claims you may have will not constitute a defense to the enforcement by us of any of the confidentiality requirements and covenants not to compete described in this Agreement. You acknowledge that any violation of the confidentiality requirements and covenants not to compete would result in irreparable injury to us for which no adequate remedy at law may be available, and you accordingly consent to the issuance of an injunction prohibiting any conduct by you in violation of the terms of the covenants not to compete.

You agree that each of the confidentiality requirements and covenants not to compete described in this Agreement will be construed as independent of any other covenant or provision. If all, parts or any portion of any covenant in this Agreement is held unreasonable or unenforceable by a court or agency having valid jurisdiction in an unappealed final decision to which we are a party, you expressly agree to be bound by any lesser covenant subsumed within the terms of that covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated in this Agreement. Each of the covenants described in this Agreement is a separate and independent covenant in each of the separate counties and states in the United States in which we transact business. To the extent that any covenant may be determined to be judicially unenforceable in any county or state, that covenant will not be affected

with respect to any other county or state. You understand and acknowledge that we will have the right, in our sole discretion, to reduce the scope of any of covenants, confidentiality requirements, or covenants not to compete set forth in this Agreement that apply to you or to any other of our franchisees. We may do so without your consent, effective immediately upon your receipt of written notice. You agree that you will comply with any covenant that pertains to you as we so modify it.

You acknowledge we will suffer immediate and irreparable harm that will not be compensable by damages alone if you repudiate or breach any of the provisions of any part of this Agreement that relates to the confidentiality or protection of confidential information and trade secrets, or your covenants to not compete against us or our franchise system, or your threats or attempts to do so. For this reason, under those circumstances, we, in addition to and without limitation of any other rights, remedies or damages available to us at law or in equity, will be entitled to obtain temporary, preliminary and permanent injunctions in order to prevent or restrain the breach, and we will not be required to post a bond as a condition for the granting of this relief. You also agree that a violation of any of our your confidentiality or non-competition covenants will entitle us, in addition to all other remedies available at law or equity, to recover from you any and all funds, including, without limitation, wages, salary, and profits, which will be held by you in constructive trust for us, received by you in connection with such violation.

You specifically acknowledge the receipt of adequate consideration for the confidentiality and non-competition covenants contained in this Agreement and that we are entitled to require you to comply with these covenants. Those covenants will survive termination or expiration of this Agreement. You represent that if this Agreement expires or is terminated, whether voluntarily or involuntarily, you have experience and capabilities sufficient to enable you to find employment or otherwise earn a livelihood in areas which do not violate this Agreement and that our enforcement of a remedy by way of injunction will not prevent you from earning a livelihood.

A default by Franchisee under this Franchise Agreement will be deemed a default of all agreements between Franchisee and Franchisor. A default by Franchisee under any other agreement between Franchisor and Franchisee will be deemed a default under this Franchise Agreement. A default by the guarantor(s) of this Franchise Agreement or any other agreement guarantee or contract will be deemed a default of this Franchise Agreement. If this Franchise Agreement is terminated because of a default by Franchisee, Franchisor may, at its option, elect to terminate any or all other agreements between Franchisee and Franchisor. If any other agreement between Franchisee and Franchisor is terminated because of a default by Franchisee, Franchisor may, at its option, elect to terminate this Franchise Agreement. It is agreed that an incurable or uncured default under this Franchise Agreement or any other agreement between Franchisee and Franchisor will be grounds for termination of this Franchise Agreement and/or any and all agreements between Franchisee and Franchisor, without additional notice or opportunity to cure.

J. Attorneys Fees. The prevailing party in any arbitration, insolvency proceeding, bankruptcy proceeding, suit, or action to enforce this Agreement will recover its arbitration, proceeding, and court costs and reasonable attorney fees and previously incurred mediator fees. These will be set by the arbitration, proceeding, or court, including costs and attorney fees on appeal or review from the arbitration, proceeding, suit, or action. "Prevailing party" means the party who recovers the greater relief in the proceeding.

9.9 Other Agreements. If you or any of your shareholders, partners, or officers violate any material provision of any other franchise or similar agreement with us, that breach will be considered a breach of this Agreement and of the other agreements. We then may terminate or otherwise enforce this Agreement and the other agreements.

Whenever this Agreement requires that you enter into a release, such as for a transfer or renewal, the release will be in substantially the following form:

You (and your owners, members, partners, officers, and directors) agree to the following general release, subject to and following laws applicable in your jurisdiction, to release us from any claims you may have against us:

In consideration of the mutual covenants and understandings set forth in this release agreement, you release and discharge us and our current and former owners, partners, directors, officers, employees and agents from all obligations, duties, covenants and responsibilities to be performed under the franchise agreement with us related to the franchise and the franchise premises ("your Prior Franchise Agreement").

You release and forever discharge us and our current and former owners, partners, directors, officers, members, employees and agents from any and all claims, demands, actions or causes of action of every name, nature, kind and description whatsoever, whether in tort, in contract or under statute, arising directly or indirectly out of the negotiation of, execution of, performance of, nonperformance, or breach of your Prior Franchise Agreement and

any related agreements between you and us and out of any other action or relationship between you and us arising prior to the date of the release agreement.

You represent that this release has been read and that it is fully understood and voluntarily accepted. The purpose of this release is to make a full, final, and complete settlement of all claims against us, known or unknown, arising directly or indirectly out of your Prior Franchise Agreement and the relationship between you and us prior to the date of the transfer [renewal] agreement, including, but not limited to, economic loss.

It is expressly understood and agreed that this release is intended to cover and does cover not only all known losses and damages but any further losses and damages not now known or anticipated but which may later develop or be discovered, which arise under your Prior Franchise Agreement prior to the date of the transfer [renewal] agreement, including all effects and consequences.

These releases are intended to waive, release, and discharge all claims against us, other than these expressly reserved, with the express waiver of any statute, legal doctrine, or other similar limitation upon the effect of general releases. In particular, the parties waive the benefit of any applicable statutory provision, such as, by illustration, California Civil Code Section 1542, which states:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE AND THAT, IF KNOWN BY HIM OR HER, WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY.

You will waive the benefit of both statute and any other legal doctrine or principle of similar effect in any jurisdiction.

9.10 **Agreement Binding on Successors and Assigns.** This Agreement benefits and binds the respective heirs, executors, administrators, successors, and assigns of the parties.

9.11 **Execution in Counterparts and Our Acceptance.** This Agreement will be binding upon you at the time you sign it and deliver it to us. This Agreement will not be binding upon us until we accept it in writing by one of our principal officers at our home office. If we do not accept it within **60** days, this Agreement will no longer be binding upon you. This Agreement may be executed in any number of counterparts, each of which, when so executed and delivered, will constitute an original. Delivery of executed signature pages of this Agreement by facsimile transmission will constitute effective and binding execution and delivery of this Agreement. Electronic signatures shall be deemed effective as well as manual signatures.

9.12 **Approval by Shareholders, Members, or Partners.** If you are a corporation, limited liability company, partnership or other entity, we will not be bound until your shareholders, members or partners read and approve this Agreement, agree to the restrictions on them (including restrictions on the transfer of their interest in the Franchise and the restrictions and limitations on their ability to compete with us), and jointly and severally guarantee your performance under this Agreement. We may request a copy of the Resolution approved by your partners, members, shareholders, owners or directors as confirmation of your fulfillment of this requirement and authorizing your execution of this Agreement.

Your ownership certificates will have conspicuously endorsed upon them a statement that they are subject to, and that further assignment or transfer of them is subject to, the restrictions imposed upon assignments by this Agreement.

If you are an entity with more than one owner, the partnership agreement, shareholders agreement, limited liability operating agreement, or other similar agreement for the entity ("Owners Agreement") must contain the following provisions, which will supersede any contrary provisions in that agreement:

1. Your owners ("Owners") agree to submit any dispute you cannot resolve relating to the operation and management of the franchise business to mediation, and if such mediation does not resolve the matter, to arbitration. The decision of the arbitrator will be final and subject to enforcement by the courts of competent jurisdiction.
2. The term "operations and management" includes, but is not limited to, questions relating to:
 - A. Allocations of management responsibilities between the Owners;
 - B. Contributions to capital for purposes of business operations, repairs, and remodeling;

- C. The reasonable salaries of the Owners;
- D. Marketing efforts;
- E. The termination of the employment of an Owner;
- F. Procedures for making and implementing management decisions;
- G. Whether an Owner has performed duties with respect to the operation or management of the franchise business.

3. Unless the Owners and the arbitrator agree in writing otherwise, "operation and management" does not include questions relating to:

- A. Allocations, computations or distributions of profit or loss;
- B. Accounting issues;
- C. Elections of officers of the entity;
- D. Investments of cash not necessary for the operation of the business;
- E. Determining whether an Owner is disabled or incompetent within the meaning of the Owners Agreement;
- F. The fair market value of the Owners' interests in the entity;
- G. Whether an event has occurred, which gives rise to a right to buy the interest of an Owner other than a right resulting from an Owner's default determined to exist under 2, above;
- H. Whether an Owner has met his obligations to purchase the interest of any current or former Owner;
- I. Matters relating to the winding up of the entity after a dissolution;
- J. Matters relating to the legal validity of the Owners Agreement.

4. The Owner's agreement must provide that the Owner or Owners who are to be responsible for operation of the franchise business must own 50% or more of the capital interests in the entity and that the Owners of the entity must have voting rights proportionate to their interests in capital.

5. The Owners agree to notify us in writing of their intent to enter into, modify, or amend any Owners Agreement. Notice must be given at least 10 business days before they enter into that agreement, modification, or amendment. The purpose of this notice is to enable us to review it for compliance with this section.

6. Inclusion of these provisions in the Owner's Agreement will be a condition to our consent to the transfer of the franchise to an entity.

9.13 **Personal Guarantee.** The undersigned Franchisees or Guarantors are all of your partners, members, shareholders, or owners. They jointly, severally, irrevocably, and unconditionally guarantee to us the due and punctual observance and performance by you of all of your obligations under this Agreement and any other agreement to which we and you are parties. Each Guarantor agrees to guarantee us against all liability, loss, harm, damage, costs, and expenses (including attorney fees) that we may incur because of your failure to observe your obligations. The liabilities and obligations of each Guarantor will not be released, discharged, or affected by our release or discharge of or dealing with you under any of these agreements; or by anything we do, suffer, or allow to be done in relation to you; or by change, alteration, or modification of any of the agreements; or by any compromise, arrangement, or plan of reorganization affecting you; or by your bankruptcy or insolvency; or by any other act or proceeding in relation to you or any of the agreements by which any Guarantor might otherwise be released. The liabilities and obligations of each Guarantor pursuant to this Guarantee will be continuing in nature and will terminate only on the satisfaction of your obligations under this Agreement. A fresh cause of action will arise in respect of each breach by you, producing a liability of any Guarantor.

The Guarantors agree that it shall not be necessary for us or our assigns to institute suit or exhaust our legal remedies against you in order to enforce this guaranty. Guarantors agree that we may from time to time extend the time for performance or otherwise modify, alter, or change this Agreement, may extend the time for payment of all sums guaranteed, and may receive and accept notes, checks, and other instruments for the payment of money made by you and extensions or renewals without in any way releasing or discharging Guarantors from their obligations. This guaranty shall not be released, extinguished, modified, or in any way affected by our failure to enforce all the rights or remedies available to it under this Agreement. Our release of one or more Guarantor will not operate as a release of the other Guarantors.

10 **SIGNATURES**

IN WITNESS, the parties have executed this Agreement on the day and year first above written.

("we/us"):
FIVE STAR FLOORING FRANCHISE, LLC.

By: _____

Title: _____

(jointly and severally "you"):
By: _____

Title: _____

By: _____

Title: _____

FRANCHISE AGREEMENT
SCHEDULE A
FRANCHISE TERRITORY

ATTACHMENT 1

FRANCHISE DATA SHEET

1. The Effective Date set forth in the introductory paragraph of the Franchise Agreement is:
2. The Franchise Owner(s) set forth in the introductory paragraph of the Franchise Agreement is:

a(n) individual(s)/business (circle one) with an address of:

3. Number of Territories: _____.

4. The Initial Franchise Fee, referenced in Section 4(a) of the Agreement, shall be:

☐ (check as applicable) \$ _____

Such amount, if multiple territories are part of the Territory, is allocated as follows:

-

-

☐ (check as applicable) \$ _____, Franchisee qualifies for the VetFran program discount as an honorably discharged United States veteran or their spouse.

FRANCHISOR:

FIVE STAR FLOORING FRANCHISE, LLC

FRANCHISEE:

By: _____

Printed Name: _____

Title: _____

Date: _____

By: _____

Printed Name: _____

Title: _____

Date: _____



Bank Transfer Authorization Form

Please complete the following information to authorize payment of amounts owing for services rendered by payment with the bank account you put on file with us by submitting this form.

I authorize Five Star Franchising LLC or the Five Star Franchising brands* to electronically debit my bank account according to the terms of my agreement. I acknowledge that electronic debits against my account must comply with United States law.

Bank account information:

Bank routing number Account number

Account type: Business _____ or Personal _____
Checking _____ or Savings _____

Your signature allows Five Star Franchising LLC or the Five Star Franchising brands* to process payment for the contracted amount each month and/or week for online marketing, call center, royalties, or other contracted services beginning immediately.

Signature: _____ Date: _____

Name: _____

Phone number: _____

*The Five Star Franchising brands comprise Five Star Franchising, L.L.C.; 1800Packouts Franchise, L.L.C.; CMY FRANCHISING, L.L.C.; Ringside Development Company d/b/a Bio-One, Inc.; Five Star Bath, L.L.C.; Gotcha Covered Franchising, L.L.C.; and Mosquito Shield Franchising, L.L.C.

ATTACHMENT 2

OWNERS AGREEMENT

As a condition to the execution by Gotcha Covered Franchising, LLC (“we” or “us”), of a Franchise Agreement with _____ (“Franchisee”), each of the undersigned individuals (“Owners”), who constitute all of the owners of a direct or indirect beneficial interest in Franchisee covenant and agree to be bound by this Owners Agreement (“Owners Agreement”).

1. Acknowledgments.

1.1 Franchise Agreement. Franchisee entered into a franchise agreement with us effective as of _____ (“Franchise Agreement”). Capitalized words not defined in this Owners Agreement will have the same meanings ascribed to them in the Franchise Agreement.

1.2 Role of Owners. Owners are the beneficial owners of all of the direct and indirect equity interest, membership interest, or other equity controlling interest in Franchisee and acknowledge there are benefits received and to be received by each Owner, jointly and severally, and for themselves, their heirs, legal representatives, and assigns. Franchisee’s obligations under the Franchise Agreement, including the confidentiality and non-compete obligations, would be of little value to us if Franchisee’s direct and indirect owners were not bound by the same requirements. Under the provisions of the Franchise Agreement, Owners are required to enter into this Owners Agreement as a condition to our entering into the Franchise Agreement with Franchisee. Owners will be jointly and severally liable for any breach of this Owners Agreement.

2. Non-Disclosure and Protection of Confidential Information.

2.1 Confidentiality. Under the Franchise Agreement, we will provide Franchisee with specialized training, proprietary trade secrets, and other Confidential Information relating to the establishment and operation of a franchised business. The provisions of the Franchise Agreement governing Franchisee’s non-disclosure obligations relating to our Confidential Information are hereby incorporated into this Owners Agreement by reference, and Owners agree to comply with each obligation as though fully set forth in this Owners Agreement as a direct and primary obligation of Owners. Further, we may seek the same remedies against Owners under this Owners Agreement as we may seek against Franchisee under the Franchise Agreement. Any and all information, knowledge, know-how, techniques, and other data, which we designate as confidential, will also be deemed Confidential Information for purposes of this Owners Agreement.

2.2 Immediate Family Members. Owners acknowledge that they could circumvent the purpose of Section 2.1 by disclosing Confidential Information to an immediate family member (i.e., spouse, parent, sibling, child, or grandchild). Owners also acknowledge that it would be difficult for us to prove whether Owners disclosed the Confidential Information to family members. Therefore, each Owner agrees that he or she will be presumed to have violated the terms of Section 2.1 if any member of his or her immediate family uses or discloses the Confidential Information or engages in any activities that would constitute a violation of the covenants listed in Section 3, below, if performed by Owners. However, Owners may rebut this presumption by furnishing evidence conclusively showing that Owners did not disclose the Confidential Information to the family member.

3. Covenant Not to Compete.

3.1 Non-Competition During and After the Term of the Franchise Agreement. Owners acknowledge that as a participant in our system, they will receive proprietary and confidential information and materials, trade secrets, and the unique methods, procedures, and techniques which we have developed. The provisions of the Franchise Agreement governing Franchisee’s restrictions on competition both during the term of the Franchise Agreement and following the expiration or termination of the Franchise Agreement are hereby

incorporated into this Owners Agreement by reference, and Owners agree to comply with and perform each such covenant as though fully set forth in this Owners Agreement as a direct and primary obligation of Owners. Further, we may seek the same remedies against Owners under this Owners Agreement as we may seek against Franchisee under the Franchise Agreement.

3.2 Construction of Covenants. The parties agree that each such covenant related to non-competition will be construed as independent of any other covenant or provision of this Owners Agreement. If all or any portion of a covenant referenced in this Section 3 is held unreasonable or unenforceable by a court or agency having valid jurisdiction in a final decision to which we are a party, Owners agree to be bound by any lesser covenant subsumed within the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated in and made a part of this Section 3.

3.3 Our Right to Reduce Scope of Covenants. Additionally, we have the right, in our sole discretion, to unilaterally reduce the scope of all or part of any covenant referenced in this Section 3 of this Owners Agreement, without Owners' consent (before or after any dispute arises), effective when we give Owners written notice of this reduction. Owners agree to comply with any covenant as so modified.

4. Guarantee.

4.1 Payment. Owners will pay us (or cause us to be paid) all monies payable by Franchisee under the Franchise Agreement on the dates and in the manner required for payment in the relevant agreement.

4.2 Performance. Owners unconditionally guarantee full performance and discharge by Franchisee of all of Franchisee's obligations under the Franchise Agreement on the date and times and in the manner required in the relevant agreement.

4.3 Indemnification. Owners will indemnify, defend and hold harmless us, all of our affiliates, and the respective shareholders, directors, partners, employees, and agents of such entities, against and from all losses, damages, costs, and expenses which we or they may sustain, incur, or become liable for by reason of: (a) Franchisee's failure to pay the monies payable (to us or any of our affiliates) pursuant to the Franchise Agreement, or to do and perform any other act, matter, or thing required by the Franchise Agreement; or (b) any action by us to obtain performance by Franchisee of any act, matter, or thing required by the Franchise Agreement.

4.4 No Exhaustion of Remedies. Owners acknowledge and agree that we will not be obligated to proceed against Franchisee or exhaust any security from Franchisee or pursue or exhaust any remedy, including any legal or equitable relief against Franchisee, before proceeding to enforce the obligations of the Owners as guarantors under this Owners Agreement, and the enforcement of such obligations can take place before, after, or contemporaneously with, enforcement of any of Franchisee's debts or obligations under the Franchise Agreement.

4.5 Waiver of Notice. Without affecting Owners' obligations under this Section 4, we can extend, modify, or release any of Franchisee's indebtedness or obligation, or settle, adjust, or compromise any claims against Franchisee, all without notice to the Owners. Owners waive notice of amendment of the Franchise Agreement and notice of demand for payment or performance by Franchisee.

4.6 Effect of Owner's Death. Upon the death of an Owner, the estate of such Owner will be bound by the obligations in this Section 4, but only for defaults and obligations hereunder existing at the time of death; and the obligations of any other Owners will continue in full force and effect.

5. Transfers.

Owners acknowledge and agree that we have granted the Franchise Agreement to Franchisee in reliance on Owners' business experience, skill, financial resources, and personal character. Accordingly, Owners agree: a) not to sell, encumber, assign, transfer, convey, pledge, merge or give away any direct or indirect interest in this Franchisee, unless Owners first comply with the sections in the Franchise Agreement regarding transfer

and assignment, and b) that any attempt to do so will be a material breach of this Owners Agreement and the Franchise Agreement.

6. Notices.

6.1 Method of Notice. Any notices given under this Owners Agreement shall be in writing and delivered in accordance with the provisions of the Franchise Agreement.

6.2 Notice Addresses. Our current address for all communications under this Owners Agreement is:

Five Star Flooring Franchise, LLC
761 W. 1200 N., Ste 300
Springville UT 84663
Attn: Legal Department

The current address of each Owner for all communications under this Owners Agreement is designated on the signature page of this Owners Agreement. Any party may designate a new address for notices by giving written notice to the other parties of the new address according to the method set forth in the Franchise Agreement.

7. Enforcement of This Owners Agreement.

7.1 Dispute Resolution. Any claim or dispute arising out of or relating to this Owners Agreement shall be subject to the dispute resolution provisions of the Franchise Agreement. This agreement to engage in such dispute resolution process shall survive the termination or expiration of this Owners Agreement.

7.2 Choice of Law; Jurisdiction and Venue. This Owners Agreement and any claim or controversy arising out of, or relating to, any of the rights or obligations under this Owners Agreement, and any other claim or controversy between the parties, will be governed by the choice of law and jurisdiction and venue provisions of the Franchise Agreement.

7.3 Provisional Remedies. We have the right to seek from an appropriate court any provisional remedies, including temporary restraining orders or preliminary injunctions, to enforce Owners' obligations under this Owners Agreement. Owners acknowledge and agree that there is no adequate remedy at law for Owners' failure to fully comply with the requirements of this Owners Agreement. Owners further acknowledge and agree that, in the event of any noncompliance, we will be entitled to temporary, preliminary, and permanent injunctions and all other equitable relief that any court with jurisdiction may deem just and proper. If injunctive relief is granted, Owners' only remedy will be the court's dissolution of the injunctive relief. If the injunctive relief was wrongfully issued, Owners expressly waive all claims for damages they incurred as a result of the wrongful issuance.

8. Miscellaneous.

8.1 No Other Agreements. This Owners Agreement constitutes the entire, full, and complete agreement between the parties, and supersedes any earlier or contemporaneous negotiations, discussions, understandings, or agreements. There are no representations, inducements, promises, agreements, arrangements, or undertakings, oral or written, between the parties relating to the matters covered by this Owners Agreement, other than those in this Owners Agreement. No other obligations, restrictions, or duties that contradict or are inconsistent with the express terms of this Owners Agreement may be implied into this Owners Agreement. Except for unilateral reduction of the scope of the covenants permitted in Section 3.3 (or as otherwise expressly provided in this Owners Agreement), no amendment, change, or variance from this Owners Agreement will be binding on either party unless it is mutually agreed to by the parties and executed in writing. Time is of the essence.

8.2 Severability. Each provision of this Owners Agreement, and any portions thereof, will be considered severable. If any provision of this Owners Agreement or the application of any provision to any person, property or circumstances is determined by a court of competent jurisdiction to be invalid or unenforceable, the remainder of this Owners Agreement will be unaffected and will still remain in full force and effect. The

parties agree that the provision found to be invalid or unenforceable will be modified to the extent necessary to make it valid and enforceable, consistent as much as possible with the original intent of the parties (i.e. to provide maximum protection for us and to effectuate the Owners' obligations under the Franchise Agreement), and the parties agree to be bound by the modified provisions.

8.3 No Third-Party Beneficiaries. Nothing in this Owners Agreement is intended to confer upon any person or entity (other than the parties and their heirs, successors, and assigns) any rights or remedies under or by reason of this Owners Agreement.

8.4 Construction. Any term defined in the Franchise Agreement which is not defined in this Owners Agreement will be ascribed the meaning given to it in the Franchise Agreement. The language of this Owners Agreement will be construed according to its fair meaning, and not strictly for or against either party. All words in this Owners Agreement refer to whatever number or gender the context requires. If more than one party or person is referred to as you, their obligations and liabilities must be joint and several. Headings are for reference purposes and do not control interpretation

8.5 Binding Effect. This Owners Agreement may be executed in counterparts, and each copy so executed and delivered will be deemed an original. This Owners Agreement is binding on the parties and their respective heirs, executors, administrators, personal representatives, successors and (permitted) assigns.

8.6 Successors. References to "Franchisor" or "the undersigned," or "you" include the respective parties' heirs, successors, assigns or transferees.

8.7 Non-waiver. Our failure to insist upon strict compliance with any provision of this Owners Agreement shall not be a waiver of our right to do so. Delay or omission by us respecting any breach or default shall not affect our rights respecting any subsequent breaches or defaults. All rights and remedies granted in this Owners Agreement shall be cumulative.

8.8 No Personal Liability. You agree that fulfillment of any and all of our obligations written in the Franchise Agreement or this Owners Agreement, or based on any oral communications which may be ruled to be binding in a court of law, shall be our sole responsibility and none of our owners, officers, agents, representatives, nor any individuals associated with us shall be personally liable to you for any reason.

8.9 Owners Agreement Controls. In the event of any discrepancy between this Owners Agreement and the Franchise Agreement, this Owners Agreement shall control.

(Signatures on following page)

IN WITNESS WHEREOF, the parties have entered into this Owners Agreement as of the effective date of the Franchise Agreement.

OWNERS:

By: _____
Printed Name:

By: _____
Printed Name:

By: _____
Printed Name:

By: _____
Printed Name:

Five Star Flooring Franchise, LLC hereby accepts the agreements of the Owner(s) hereunder.

FIVE STAR FLOORING FRANCHISE, LLC

By: _____

Title: _____

Spousal Guaranty

SPOUSE GUARANTY

This Guaranty and Covenant (this “Guaranty”) is given by the undersigned (“Guarantor”) on (the “Effective Date”) to Five Star Flooring Franchise, LLC a Utah limited liability company (“Franchisor”), in order to induce Franchisor to enter into that certain Franchise Agreement dated on or about the Effective Date hereof (the “Franchise Agreement”) with, a(n) and (collectively “Franchisee”).

Guarantor acknowledges that Guarantor is the spouse of Franchisee’s Principal, as that term is used in the Franchise Agreement.

Guarantor acknowledges that Guarantor has read the terms and conditions of the Franchise Agreement and acknowledges that the execution of this Guaranty are in partial consideration for, and a condition to the granting of, the rights granted in the Franchise Agreement to Franchisee, and that Franchisor would not have granted these rights without the execution of this Guaranty by Guarantor.

Guarantor hereby individually makes, agrees to be bound by, and agrees to perform, all of the monetary obligations and non-disclosure and non-competition covenants and agreements of the Franchisee as set forth in the Franchise Agreement, including but not limited to, the covenants set forth in Sections 10 and 17 of the Franchise Agreement (“Guaranteed Obligations”). Guarantor shall perform and/or make punctual payment to Franchisor of the Guaranteed Obligations in accordance with the terms of the Franchise Agreement or other applicable document forthwith upon demand by Franchisor.

This Guaranty is an absolute and unconditional continuing guaranty of payment and performance of the Guaranteed Obligations. This Guaranty shall not be discharged by renewal of any claims guaranteed by this instrument, change in ownership or control of the Franchisee entity, transfer of the Franchise Agreement, the suffering of any indulgence to any debtor, extension of time of payment thereof, nor the discharge of Franchisee by bankruptcy, operation of law, or otherwise. Presentment, demand, protest, notice of protest and dishonor, notice of default or nonpayment, and diligence in collecting any obligation under any agreement between Franchisee and Franchisor are each and all waived by Guarantor and/or acknowledged as inapplicable. Guarantor waives notice of amendment of any agreement between Franchisee and Franchisor and notice of demand for payment by Franchisee. Guarantor further agrees to be bound by any and all amendments and changes to any agreement between Franchisee and Franchisor.

Franchisor may pursue its rights against Guarantor without first exhausting its remedies against Franchisee and without joining any other guarantor hereto and no delay on the part of Franchisor in the exercise of any right or remedy shall operate as a waiver of such right or remedy, and no single or partial exercise by Franchisor of any right or remedy shall preclude the further exercise of such right or remedy.

If other guarantors have guaranteed any and or all of the Guaranteed Obligations, their liability shall be joint and several to that of Guarantor. Until all of the Guaranteed Obligations have been paid in full and/or performed in full, Guarantor shall not have any right of subrogation, unless expressly given to Guarantor in writing by Franchisor. All Franchisor’s rights, powers, and remedies hereunder and under any other agreement now or at any time hereafter in force between Franchisor and Guarantor shall be cumulative and not alternative and shall be in addition to all rights, powers, and remedies given to Franchisor by law.

Should any one or more provisions of this Guaranty be determined to be illegal or unenforceable, all other provisions nevertheless shall remain effective.

This Guaranty shall extend to and inure to the benefit of Franchisor and its successors and assigns and shall be binding on Guarantor and its successors and assigns.

IN WITNESS WHEREOF, Guarantor has signed this Guaranty as of the date set forth above.

GUARANTOR - SPOUSE OF FRANCHISEE'S PRINCIPAL:

Sign:

Print Name:

Address:

ATTACHMENT 3

STATEMENT OF OWNERSHIP

Franchisee: _____

Trade Name (if different from above): _____

**Form of Ownership
(Check One)**

____ **Individual** ____ **Partnership** ____ **Corporation** ____ **Limited Liability Company**

If a **Partnership**, provide name and address of each partner showing age owned, whether active in management, and indicate the state in which the partnership was formed.

If a **Corporation**, give the state and date of incorporation, the names and addresses of each officer and director, and list the names and addresses of every shareholder showing what percentage of stock is owned by each.

If a **Limited Liability Company**, give the state and date of formation, the name of the manager(s), and list the names and addresses of every member and the percentage of membership interest held by each member.

State and Date of Formation: _____

Management (managers, officers, board of directors, etc.):

Name	Title

Members, Stockholders, Partners*:

Name	Address	Percentage of Stock

*If any members, stockholders, or partners are entities, please list the owners of such entities up through the individuals.

Use additional sheets if necessary. Any and all changes to the above information must be reported to Franchisor in writing.

(Signatures on following page)

FRANCHISEE:

By: _____

Printed Name: _____

Title: _____

Franchise Disclosure Document Exhibit C

CONDITIONAL ASSIGNMENT

_____ ("you") operate your franchise business at _____.
In consideration of the granting of a franchise to you and other valuable consideration given by **FIVE STAR FLOORING FRANCHISE, LLC.**, a Utah limited liability company ("us"), you assign to us all telephone numbers, websites, domains, social media profiles, Google My Business directory listings, and any other collateral, profiles, online presences, or other listings you use in the operation of the franchise., together with administrator or comparable privileges for all web page(s), online marketing accounts, social media accounts, directories, accounts through which customers have a point of contact with you, accounts with marketing affiliates, or related items. Upon our exercise of this assignment for any event of termination, we assume the performance of all of the terms, covenants, and conditions of your agreement with the provider(s) concerning the web presence or listings with the full force and effect as if we had been originally issued the accounts, listings, or points of contact. We will hold this assignment, and will deliver it to the providers or other interested third parties only upon termination of the Franchise Agreement between us and you dated _____.

DATED this ____ day of _____, 20__.

("we/us"):
FIVE STAR FLOORING FRANCHISE, LLC.

(jointly and severally "you"):

By: _____

By: _____

Title: _____

Title: _____

By: _____

Title: _____

Schedule D to the Franchise Agreement

ROLL-IN ADDENDUM

This ROLL-IN ADDENDUM (the “Addendum”) is entered into by and between FIVE STAR FLOORING FRANCHISE, LLC, a Utah limited liability company having a principal place of business at 761 W. 1200 N., Ste 300, Springville UT 84663 (“we” or “us”), and _____, individually, having an address of _____ (“you”).

WHEREAS, we and you have contemporaneously herewith entered into a Franchise Agreement (the “Agreement”) for the operation of the Business (the “Franchised Business”) (Capitalized terms used herein without a definition shall have the meaning assigned to them in the Agreement);

WHEREAS, you (or your affiliate) currently operate an existing business (“Existing Business”) which performs services for existing customers (the “Roll-In Services”) that are similar to services provided by the Franchised Business operated under the Agreement; and

WHEREAS, in consideration of an assignment or “roll-in” of the Roll-In Services (including the customer base for work which falls within the definition of the Franchised Business) from the Existing Business to the Franchised Business, we are willing to alter certain fees payable by you under the Agreement for a time period specified in the Data Sheet to which this Addendum is attached;

NOW, THEREFORE, for and in consideration of good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

(a) Anything in the Agreement to the contrary notwithstanding, from and after the Effective Date the definition of “Gross Sales” (as defined in the Agreement) shall apply to the operation of the Roll-In Services to the same extent as it applies to the operation of the Franchised Business and you shall pay Royalty Fees and National Marketing Fees with respect to the Gross Sales arising from the operation of the Roll-In Services, as specified below and in the Data Sheet.

(b). Manner of Operation of Roll-In Services. All provisions of the Agreement shall apply to the Roll-In Services and the accounts and customers associated with such services, including the insurance and covenants, to the same extent as they apply to the Franchised Business. For avoidance of doubt, except as specifically provided otherwise herein, for purposes of the Agreement, from and after the Effective Date, the Roll-In Services are included in the definition of the Franchised Business.

(c). Franchisee’s Representations and Warranties. Franchisee hereby represents and warrants to Franchisor that it has all necessary power and authority to execute this Addendum, to bind the noncompetition Existing Business to the terms hereof, and to perform and comply with all of its obligations hereunder. There is no agreement or understanding (and Franchisee will not permit any such agreement or understanding to be entered into during the term of this Addendum) with respect to the Existing Business or the Roll-In Services that would conflict with the terms of this Addendum.

(d). Construction. Notwithstanding anything to the contrary in the Agreement, in the event of a conflict between the provisions of the Agreement and the provisions of this Addendum, the provisions of this Addendum shall control. The Agreement remains fully effective in all respects except as specifically modified herein, and all the respective rights and obligations of Franchisee and Franchisor remain as written unless modified specifically herein.

[SIGNATURES APPEAR ON FOLLOWING PAGE]

Signed on this _____ day of _____, 20__.

FRANCHISEE:

_____, individually

_____ **Date**

FRANCHISEE'S AFFILIATE (IF APPLICABLE):

_____, individually

Accepted as of the _____ day of _____, 20__, in _____.

FRANCHISOR:

FIVE STAR FLOORING FRANCHISE, LLC
A Utah Limited Liability Company

By: _____

Printed Name: _____

Title: _____

**Optional Trailer Addendum
EQUIPMENT PURCHASE AND FINANCING AGREEMENT
(Promotional Trailer)**

This Equipment Purchase and Financing Agreement ("Agreement") is entered into as of _____, 20____ (the "Effective Date"), by and between Five Star Bath, L.L.C., a Utah limited liability company, with its principal place of business at 761 W. 1200 N., Ste 300, Springville, Utah 84663 ("Franchisor"), and _____, a Five Star franchisee, with its principal place of business located at _____ ("Franchisee").

1. Sale of Equipment Franchisor hereby sells, and Franchisee hereby purchases, one (1) custom promotional trailer and associated installed fixtures and equipment (the "Equipment") for a total combined purchase price of \$40,000 (the "Purchase Price"). The Equipment will be identified in more particular part in the accompanying Bill of Sale of even date herewith.

Title to the Equipment shall transfer to Franchisee upon execution of this Agreement, subject to Franchisor's continuing security interest as set forth herein. All required taxes, title or registration fees, inspections, and costs or fees of maintenance or ownership shall be borne by Franchisee from and after the date of this Agreement.

2. Payment Terms

The Purchase Price shall be paid in forty-eight (48) equal monthly installments, commencing on the payment start date designated by Franchisor. An interest rate of 5.00% per annum, compounded monthly, shall apply.

Failure to make two (2) consecutive monthly payments shall constitute an Event of Default. Upon the occurrence of an Event of Default, Franchisor will deliver a Notice of Default, affording the Franchisee a right to cure. Franchisor may declare the entire outstanding balance of the Purchase Price due and payable at such time, and require that cure of the default occur through payment in full.

If no timely cure is made to a Notice of Default, Franchisor shall be entitled, without further notice, to exercise any and all rights and remedies available under applicable law, including but not limited to:

- ☐ Repossession of the promotional trailer and related equipment;
- ☐ Reassignment of the equipment to another franchise location;
- ☐ Assessment of transfer, transportation, storage, refurbishment, and administrative costs;
- ☐ Termination or suspension of franchise rights; and
- ☐ Any other remedies expressly reserved under the Agreements.

Nothing contained herein shall be deemed a waiver of Franchisor's rights, all of which are expressly reserved.

3. Security Interest

To secure Franchisee's obligations under this Agreement, Franchisee grants Franchisor a first-priority security interest in the Equipment until the Purchase Price is paid in full. Franchisor may file UCC-1 financing statements, record a lien on the title to the Equipment, or take other actions reasonably necessary to perfect and maintain such security interest.

4. Risk of Loss; Insurance; Casualty

a. Risk of Loss

Risk of loss, damage, destruction, or theft of the Equipment shall pass to Franchisee upon execution of this Agreement and shall remain with Franchisee until the Purchase Price is paid in full. The Equipment is purchased as-is, where-is, and without any warranty, express or implied, including fitness for any particular purpose, merchantability, or otherwise. At the time that the Purchase Price is paid in full, Franchisor will release any lien on title and title will transfer to Franchisee clear of such lien or other security interest.

b. No Relief From Payment Obligation

Franchisee's obligation to make all payments under this Agreement shall not be excused, reduced, suspended, or terminated as a result of any loss, damage, destruction, theft, or casualty affecting the Equipment.

c. Insurance Requirement

Franchisee shall, at its sole expense, maintain insurance coverage on the Equipment in amounts and with carriers reasonably acceptable to Franchisor, naming Franchisor as loss payee and additional insured, until the Purchase Price is paid in full.

d. Insurance Proceeds

Any insurance proceeds relating to the Equipment shall be applied, at Franchisor's election, to (i) repair or replacement of the Equipment, or (ii) reduction of the outstanding balance owed under this Agreement.

5. System Use and Transfer Restrictions

Franchisee acknowledges and agrees that the Equipment is custom-designed, branded with trademarked materials, and configured solely for use within the Five Star franchised system, has no independent resale market outside the system, and may not be transferred during the payment period except with Franchisor's prior written approval.

6. Transfer Administration and Transfer Fee

Any transfer or reassignment of the Equipment prior to full payment of the Purchase Price shall be administered exclusively by Franchisor and shall be subject to a \$2,000 transfer fee, exclusive of shipping or related costs. Franchisor may waive or enforce such fee in its discretion.

7. Default; Repossession and Reassignment

Upon an Event of Default, Franchisor may repossess and reassign the Equipment to another franchise location, and the remaining installment payments shall continue under the original schedule. Franchisee acknowledges such actions constitute a commercially reasonable exercise of secured creditor rights.

8. No Equity or Residual Interest Upon Default

No ownership interest, equity, residual value, or other claim in the Equipment shall vest in Franchisee unless and until the Purchase Price is paid in full. Upon default and reassignment, Franchisee waives all claims to the Equipment or prior payments.

9. Cross-Default With Franchise Agreement

Any default under this Agreement shall constitute a material default under the Franchise Agreement, and vice versa. Termination or non-renewal of the Franchise Agreement prior to full payment shall constitute an Event of Default hereunder.

10. Relationship to Franchise Agreement

This Agreement supplements and does not amend the Franchise Agreement. In the event of a conflict solely relating to the Equipment, this Agreement shall control.

11. Absolute and Unconditional Obligations; Non-Waiver

Franchisee's payment obligations are absolute and unconditional, not subject to setoff, defense, insolvency, bankruptcy, loss of the Equipment, or Franchisor's exercise of remedies. Any waiver by Franchisor in one instance shall not constitute a waiver in any other instance.

12. Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the State of Utah, without regard to conflicts-of-law principles. The Parties hereby submit, irrevocably, to the jurisdiction of the State or Federal courts situated in Utah, most proximate to the Franchisor's place of business at the time of execution.

13. Survival

All payment obligations, security interests, acknowledgements, and remedies shall survive termination or expiration of the Franchise Agreement until the Purchase Price is paid in full.

Signature Page – Optional Trailer Addendum

("Franchisor"):

("we/us"):

By:

Title:

("Franchisee") (jointly and severally "you"):

By: _____ **[sign]**

[print name] _____

[company name]

By: _____ **[sign]**

Title: _____ **[print]**

Franchise Disclosure Document Exhibit E
FRANCHISE DISCLOSURE DOCUMENT AND FRANCHISE AGREEMENT
STATE LAW ADDENDUM

The following modifications and additions are part of the Five Star Flooring Franchise Disclosure Document ("FDD") and Franchise Agreement ("FA") as required by relevant state laws.

These states have statutes which may supersede the Franchise Agreement in your relationship with us including the areas of termination and renewal of the Franchise:

ARKANSAS (Stat. Section 70-807)
CALIFORNIA (Bus. & Prof. Code Sections 20000-20043)
CONNECTICUT (Gen. Stat. Section 42-133e et seq.)
DELAWARE (Code, tit.)
HAWAII (Rev. Stat. Section 482-E1)
ILLINOIS (815 ILCS 705/1-44)
INDIANA (Stat. Section 23-2-2.7)
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 8-401)
NEW JERSEY (Stat. Section 56:10-1)
SOUTH DAKOTA (Codified Laws Section 37-5A-51)
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 Franchise Agreement in your relationship with us, including the areas of termination and renewal of the Franchise.

California

THE CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES THAT A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE DISCLOSURE DOCUMENT 14 DAYS PRIOR TO EXECUTION OF AGREEMENT.

Our website address is www.fivestarflooring.com. OUR WEBSITE HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION, ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION AT www.dfpi.ca.gov.

FDD COVER PAGE

REGISTRATION DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION, OR ENDORSEMENT BY THE COMMISSIONER.

FA:

Franchisees must sign a personal guaranty, making you and your spouse individually liable for your financial obligations under the agreement if you are married. The guaranty will place your and your spouse's marital and personal assets at risk, perhaps including your house, if your franchise fails.

No disclaimer, questionnaire, clause, or statement signed by a franchise in connection with the commencement of the franchise relationship shall be construed or interpreted as waiving any claim of fraud in the inducement, whether common law or statutory, or as disclaiming reliance on or the right to rely upon any statement made or information provided by any franchisor, broker or other person acting on behalf of the franchisor that was a material inducement to a franchisee's investment. Any statements or representations signed by a franchisee purporting to understand any fact or its legal effect shall be deemed made only based upon the franchisee's understanding of the law and facts as of the time of the franchisee's investment decision. This provision supersedes any other or inconsistent term of any document executed in connection with the franchise.

FDD Item 17, FA Sections 5, 6, 7, and 9

(7) California Business and Professions Code Sections 20000 through 20043 provide rights to the franchisee concerning termination or non-renewal of a franchise. If the Franchise Agreement contains a provision that is inconsistent with the law, the law will control.

(8) The Franchise Agreement provides for termination upon bankruptcy. This provision may not be enforceable under federal bankruptcy law (11 U.S.C.A. Sec. 101 et. seq.).

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

(4) The Franchise Agreement contains a post-Termination Default Fee clause. Under California Civil Code Section 1671, certain post-Termination Default Fee clauses are unenforceable.

(5) You must 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 31000 through 31516). Business and Professions Code Section 20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code Sections 20000 through 20043).

(6) The Franchise Agreement requires mediation in Utah County, Utah, with the costs shared by the parties equally, and requires binding arbitration in Utah County, Utah with the costs being borne by the party that does not prevail. 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.

(7) The Franchise Agreement requires application of the laws of the State of Utah. This provision may not be enforceable under California law.

(8) Section 31125 of the California Corporations Code requires us to give you a disclosure document, in a form and containing such information as the Commissioner may by rule or order require, before a solicitation of a proposed material modification of an existing franchise.

(9) No person or franchise broker identified in Item 2 is subject to any currently effective order of any national securities association or national securities exchange.

(10) Beginning in the 7th month after you open for business, you will pay us a minimum monthly royalty fee of \$1,000 even if your business does not generate any income.

(11) Our principal trademark has not yet received federal registration. Therefore, our trademark does not yet have as many legal benefits and rights as a federally registered trademark. If our right to use the trademark is challenged, you may have to change to an alternative trademark, which may increase your expenses.

FDD Item 3

California 10 CCR Section 310.114.1(c)(3) requires disclosure regarding whether the franchisor, any person or franchise broker in Item 2 of the FDD 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 that association or exchange.

Georgia

DISCLOSURES REQUIRED BY GEORGIA LAW

The State of Georgia has not reviewed and does not approve, recommend, endorse, or sponsor any business opportunity. The information contained in this disclosure has not been verified by the state. If you have any questions about this investment, see an attorney before you sign a contract or agreement.

Hawaii

Paragraph 4110.01, Section 482E-6(3): Upon termination or refusal to renew the franchise the franchisee will be compensated for the fair market value, at the time of the termination or expiration of the franchise, of the franchisee's inventory, supplies, equipment and furnishings purchased from the franchisor or a supplier designated by the franchisor; provided that personalized materials which have no value to the franchisor need not be compensated for. If the franchisor refuses to renew a franchise for the purpose of converting the franchisee's business to one owned and operated by the franchisor, the franchisor, in addition to their remedies provided in this paragraph, will compensate the franchisee for the loss of goodwill. The franchisor may deduct from such compensation reasonable costs incurred in removing, transporting and disposing of the franchisee's inventory, supplies, equipment, and furnishings pursuant to this requirement, and may offset from such compensation any moneys due the franchisor.

Idaho

FDD Item 17, FA Section 9

Any condition in a franchise agreement executed by a resident of Idaho or a business entity organized under the laws of Idaho is void to the extent it purports to waive venue or jurisdiction of the Idaho court system. Venue and jurisdiction will be in Idaho if the franchisee is an Idaho resident or a business entity organized under the laws of Idaho.

Illinois

FDD Cover Page

The following is added to the page entitled “Special Risks to Consider about *This* Franchise:

4. Financial Condition. The Franchisor’s financial condition as reflected in its financial statements (see Item 21) calls into question the Franchisor’s ability to provide services and support to you.

FDD Items 5 and 6; FA Sections 2.1, 2.2, 2.3, and 2.4

The Illinois Office of the Attorney General has imposed a financial assurance requirement. As a result, the Initial Franchise Fee is deferred until the Franchisor has satisfied its pre-opening obligations and the franchisee has opened for business.

FDD Item 17, FA Sections 6.1, 6.3, and 7.1(A)(9)

Releases executed by franchisees must comply with the Illinois Franchise Disclosure Act. Any attempt to waive compliance with Illinois law is void. (See Section 41 of the Illinois Franchise Disclosure Act, and Rule 200.609 of the Rules and Regulations).

The governing law and choice of law clauses contained in the Franchise Agreement are subject to the Illinois Franchise Disclosure Act.

Any provision in the Franchise Agreement and any ancillary Agreement which designates jurisdiction or venue in a forum outside of Illinois is void with respect to any cause of action which otherwise is enforceable in Illinois, provided that a Franchise Agreement may provide for arbitration in a forum outside of Illinois. (See Section 4 of the Illinois Franchise Disclosure Act, and Rule 200.608 of the Rules and Regulations).

Illinois law governs the franchise agreement.

In conformance with Section 4 of the Illinois Franchise Disclosure Act, any provision in a franchise agreement that designates jurisdiction or venue in a forum outside the State of Illinois is void. However, a franchise agreement may provide for arbitration to take place outside of Illinois.

Franchisees' rights upon Termination and Non-Renewal are set forth in sections 19 and 20 of the Illinois Franchise Disclosure Act.

In conformance with Section 41 of the Illinois Franchise Disclosure Act, any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with the Illinois Franchise Disclosure Act **or any other law** of Illinois is void.

Franchisor and/or its officers and affiliates have been the subject of franchise registration violations in 3 states, bankruptcy, and were party to litigation with the minority shareholder in connection with the acquisition of the majority interest in the company.

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

See the last page of this Exhibit E for your signature.

Indiana

FDD Item 17; FA Section 5 and 6

In Indiana, the reference to "members of their households or members of their immediate families" under the provisions of covenants not to compete will mean any person who has access to the information, including a spouse or any other person who lives within the household.

Maryland

FDD Cover Page

The following risk factor is added:

Ownership Change: The franchisor recently had a change of ownership. The support provided by the franchisor may be different from previous owners. Therefore, the expenses related to operating the franchise and the potential revenue you might achieve may be different from past performance.

FDD Item 17 and FA Sections 6, 7 and 9

According to COMAR 02.02.08.16L, the general release required as a condition of renewal, sale, assignment or transfer of the franchise will not apply to any liability under the Maryland Franchise Registration and Disclosure Law.

Any provision that provides for termination upon bankruptcy of the franchisee may not be enforceable under federal bankruptcy law (11 U.S.C. Section 101 et seq.).

Section 14-216(c) (25) of the Maryland Franchise Registration and Disclosure Act requires a franchisor to file an irrevocable consent to be sued in Maryland. Notwithstanding anything to the contrary in the franchise agreement or Disclosure Document, you may bring a lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Act.

Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within **3** years after the grant of the franchises.

Section 14-226 of the Maryland Franchise Registration and Disclosure Law prohibits a franchisor from requiring a prospective franchisee to assent to any release, estoppel or waiver of liability as a condition of purchasing a franchise. Our franchise agreement contains disclaimers of the occurrence or acknowledgment of the non-occurrence of acts that could constitute a violation of Maryland laws. These disclaimers, acknowledgments and representations 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.

Item 5 and Franchise Agreement 2.1:

The following is added to Item 5 of the FDD and to Section 2.1 of the Franchise Agreement:

Based upon the franchisor's financial condition, the Maryland Securities Commissioner has required a financial assurance. Therefore, all initial fees and payments owed by franchisees shall be deferred until the franchisor completes its pre-opening obligations under the franchise agreement and the outlet is open.

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

Michigan

The State of Michigan prohibits certain unfair provisions that are sometimes in franchise documents. If any of the following provisions are included in these franchise documents, the provisions are void for Michigan franchisees and cannot be enforced against Michigan franchisees. These provisions are:

- (a) A prohibition on the right of a franchisee to join an association of franchisees.
- (b) A requirement that a franchisee assent to a release, assignment, novation, waiver, or estoppel which deprives a franchisee of rights and protections provided in the Michigan Franchise investment law. This will not preclude a franchisee, after entering into a Franchise Agreement, from settling any and all claims.
- (c) A provision that permits a franchisor to terminate a franchise prior to the expiration of its term except for good cause. Good cause will include the failure of the franchisee to comply with any

lawful provision of the Franchise Agreement and to cure the failure after being given written notice and a reasonable opportunity, which in no event need be more than 30 days, to cure the failure.

- (d) A provision that permits a franchisor to refuse to renew a franchise without fairly compensating the franchisee by repurchase or other means for the fair market value at the time of expiration of the franchisee's inventory, supplies, , fixtures, and furnishings. Personalized materials which have no value to the franchisor and inventory, supplies, equipment, fixtures, and furnishings not reasonably required in the conduct of the franchise business are not subject to compensation. This subsection applies only if:
 - (i) The term of the franchise is less than 10 years, and
 - (ii) The franchisee is prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, marketing, or other commercial symbol in the same area subsequent to the expiration of the franchise, or the franchisee does not receive at least six months' advance notice of the franchisor's intent not to renew the franchise.
- (e) A provision that permits the franchisor to refuse to renew a franchise on terms generally available to other franchisees of the same class or type under similar circumstances. This section does not require a renewal provision.
- (f) A provision requiring that arbitration or litigation will be conducted outside this state. This will not preclude the franchisee from entering into an agreement, at the time of arbitration, to conduct arbitration at a location outside this state.
- (g) A provision which permits a franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause. This subdivision does not prevent a franchisor from exercising a right of first refusal to purchase the franchise. Good cause will include, but is not limited to:
 - (i) The failure of the proposed transferee to meet the franchisor's then current reasonable qualifications or standards.
 - (ii) The fact that the proposed transferee is a competitor of the franchisor or subfranchisor.
 - (iii) The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.
 - (iv) The failure of the franchisee or proposed transferee to pay any sums owing to the franchisor or to cure any breach in the Franchise Agreement existing at the time of the proposed transfer.
- (h) A provision that requires the franchisee to resell to the franchisor items that are not uniquely identified with the franchisor. This subdivision does not prohibit a provision that grants to a franchisor a right of first refusal to purchase the assets of a franchise on the same terms and conditions as a bona fide third party willing and able to purchase those assets, nor does this subdivision prohibit a provision that grants the franchisor the right to acquire the assets of a franchise for the market or appraised value of assets if the franchisee has breached the lawful provisions of the Franchise Agreement and has failed to cure the breach in the manner provided in subdivision (c).
- (i) A provision which permits the franchisor to directly or indirectly convey, assign, or otherwise transfer the franchisee's obligations to fulfill contractual obligations to the franchisee unless provision has been made for providing the required contractual services.

The fact that there is a notice of this offering on file with the Attorney General does not constitute approval, recommendation or endorsement by the Attorney General. A franchisor whose most recent financial statements are unaudited and show a net worth of less than \$100,000 will, at the request of a franchisee, arrange for the escrow of initial investment and other funds paid by the franchisee until the obligations to provide real estate, improvements, equipment, inventory, training, or other items included in the franchise offering are fulfilled. At the option of the franchisor, a surety bond may be provided in place of the escrow. Any questions regarding this notice should be directed to the Department of the Michigan Attorney General, 6520 Mercantile Way, Suite 3, Lansing, Michigan 48913; (517) 373-3800.

The name and address of the franchisor's agent in Michigan authorized to receive service of process is:

Michigan Department of Commerce
Corporation and Securities Bureau
Office of Franchise and Agent Licensing
6546 Mercantile Way
P. O. Box 30222
Lansing, Michigan 48910

Minnesota

Minnesota law prohibits requiring a franchisee to waive his or her rights to a trial or to consent to post-Termination Default Fee, termination penalties, or judgment notes; provided, that this part will not bar a voluntary arbitration of any matter if the proceeding is conducted by an independent tribunal under the rules of the American Arbitration Association. (Minn. Rules 2860.4400(J)).

Minnesota law provides franchisees with certain termination and non-renewal rights. Minn. Stat. Sec. 80C.14, Subd. 3, 4 and 5 require, except in certain specified cases, that a franchisee be given **90** days' notice of termination (with **60** days to cure) and **100** days' notice for non-renewal of the Franchise Agreement.

Minn. Stat. §80C.21 and Minn. Rule 2860.4400J prohibits 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, 80C, or your rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.

FDD Cover Page

The cover page, at its special risks section, is amended to state the following as a special risk:

Unregistered Trademark. The primary trademark that you will use in your business is not federally registered. If the franchisor's right to use this trademark in your area is challenged, you may have to identify your business and its products or services with a name that differs from that used by other franchisees or the franchisor. This change can be expensive and may reduce brand recognition of the products or services you offer.

FDD Item 13; FA Section 5

Minnesota Statutes Section 80C.20, Subdivision 1(g) allows the Minnesota Commissioner of the Department of Commerce to issue a cease and dismiss order or issue an order denying, suspending or revoking any registration, amendment or exception on finding any of the following . . . that the method of sale or proposed method of sale of franchises or the operation of the business of the franchisor or any term or condition of the franchise agreement or any practice of the franchisor is or would be unfair or inequitable to franchisees. Pursuant to this section, the Commissioner requires all franchisors registering in the state of Minnesota to state that the franchisor will protect the franchisee's right to use the trademarks, service marks, trade names, logo types or other commercial symbols or indemnify the franchisee from any loss, cost or expenses arising out of any claim, suit or demand regarding the use of the name. We intend to comply with the Minnesota statute and to protect the franchisee's rights and indemnify the franchisee for any losses to the full extent required by relevant state law.

FDD Item 17, FA Sections 6, 7 and 9

Minnesota Rule 2860.4400D prohibits a franchisor from requiring a franchisee to assent to a general release. The general release provisions in the Franchise Agreement are void and unenforceable in the state of Minnesota.

The FDD and Franchise Agreement are amended such that the disclosures pertaining to non-competition covenants during and after the term of the Franchise Agreement are disclosed to be subject to applicable state law.

FA Section 9

Pursuant to Minnesota Statutes Section 80.C.21, this section will not in any way abrogate or reduce any rights of the franchisee as provided for in Minnesota Statutes, Chapter 80.C, including, but not limited to, the right to submit matters to the jurisdiction of the courts in Minnesota.

FDD Item 19

Pursuant to a request from the Minnesota Department of Commerce, the information regarding the outlet operating under the name “In and Out Floors” is deleted and should be regarded as not informative regarding your operation of a franchised business under a different name.

Addendum Note

THESE FRANCHISES HAVE BEEN REGISTERED UNDER THE MINNESOTA FRANCHISE ACT. REGISTRATION DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION OR ENDORSEMENT BY THE COMMISSIONER OF COMMERCE OF MINNESOTA OR A FINDING BY THE COMMISSIONER THAT THE INFORMATION PROVIDED HEREIN IS TRUE, COMPLETE AND NOT MISLEADING.

THE MINNESOTA FRANCHISE ACT MAKES IT UNLAWFUL TO OFFER OR SELL ANY FRANCHISE IN THIS STATE WHICH IS SUBJECT TO REGISTRATION WITHOUT FIRST PROVIDING TO THE PROSPECTIVE FRANCHISEE, AT LEAST 7 DAYS PRIOR TO THE EXECUTION BY THE PROSPECTIVE FRANCHISEE OF ANY BINDING FRANCHISE OR OTHER AGREEMENT, OR AT LEAST 7 DAYS PRIOR TO THE PAYMENT OF ANY CONSIDERATION, BY THE FRANCHISEE, WHICHEVER OCCURS FIRST, A COPY OF THIS PUBLIC OFFERING STATEMENT, TOGETHER WITH A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE FRANCHISE. THIS PUBLIC OFFERING STATEMENT CONTAINS A SUMMARY ONLY OF CERTAIN MATERIAL PROVISIONS OF THE FRANCHISE AGREEMENT. THE CONTRACT OR AGREEMENT SHOULD BE REFERRED TO FOR AN UNDERSTANDING OF ALL RIGHTS AND OBLIGATIONS OF BOTH THE FRANCHISOR AND THE FRANCHISEE.

Franchise Agreement – Questionnaire

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

New York

FRANCHISE DISCLOSURE DOCUMENT COVER PAGE

INFORMATION COMPARING FRANCHISORS IS AVAILABLE. CALL THE STATE ADMINISTRATORS LISTED IN EXHIBIT A OR YOUR PUBLIC LIBRARY FOR SERVICES OR INFORMATION. REGISTRATION

OF THIS FRANCHISE BY NEW YORK STATE DOES NOT MEAN THAT NEW YORK STATE RECOMMENDS IT OR HAS VERIFIED THE INFORMATION IN THIS FRANCHISE DISCLOSURE DOCUMENT. IF YOU LEARN THAT ANYTHING IN THIS FRANCHISE DISCLOSURE DOCUMENT IS UNTRUE, CONTACT THE FEDERAL TRADE COMMISSION AND THE APPROPRIATE STATE OR PROVINCIAL AUTHORITY. THE FRANCHISOR MAY, IF IT CHOOSES, NEGOTIATE WITH YOU ABOUT ITEMS COVERED IN THE FRANCHISE 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 FRANCHISE DISCLOSURE DOCUMENT.

FDD Item 3

Except as provided above, with regard to the franchisor, its predecessor, a person identified in Item 2, or an affiliate offering franchises under the franchisor's principal trademark:

1. Has any administrative, criminal or material civil action pending against that person alleging: a felony; a violation of a franchise, antitrust or securities law, fraud, embezzlement, fraudulent conversion, misappropriation of property; unfair or deceptive practices or comparable civil or misdemeanor allegations. There are no pending actions, other than routine litigation incidental to the business, which are significant in the context of the number of franchises and the size, nature or financial condition of the franchise system or its business operations.

2. Has been convicted of a felony or pleaded nolo contendere to a felony charge or, within the ten-year period immediately preceding the date of this Disclosure Document, has been convicted of or pleaded nolo contendere to a misdemeanor charge or has been the subject a civil action alleging: violation of a franchise, antifraud or securities law, fraud, embezzlement, fraudulent conversion or misappropriation of property, or unfair or deceptive practices or comparable allegations.

3. Is subject to a currently effective injunctive or restrictive order or decree relating to the franchise or under any federal, state or Canadian franchise, securities, antitrust, trade regulation or trade practice law, resulting from 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 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.

FDD Item 17

The following is added to the end of the "Summary" sections of Item 17(c), titled "Requirements for franchisee to renew or extend," and Item 17(m), entitled "Conditions for franchisor approval of transfer":

However, to the extent required by applicable law, all rights you enjoy and any causes of action arising in your favor from the provisions of Article 33 of the General Business Law of the State of New York and the regulations issued thereunder shall remain in force; it being the intent of this proviso that the non-waiver provisions of General Business Law Sections 687(4) and 687(5) be satisfied.

The following language replaces the "Summary" section of Item 17(d), titled "Termination by franchisee":

You may terminate the agreement on any grounds available by law.

The following is added to the end of the "Summary" sections of Item 17(v), titled "Choice of forum", and Item 17(w), titled "Choice of law":

The foregoing choice of law should not be considered a waiver of any right conferred upon the franchisor or upon the franchisee by Article 33 of the General Business Law of the State of New York

North Dakota

FDD Item 9

Under North Dakota law, no modification or change the franchisor makes to the Operations Manual or Five Star Flooring System may materially affect the franchisee's status, rights, or obligations under the Franchise Agreement.

FDD Item 5 and 7, FA Section 2.1

North Dakota has imposed a financial assurance requirement. As a result, the Initial Franchise Fee is deferred until the Franchisor has satisfied its pre-opening obligations and the franchisee has opened for business.

FDD Item 17(c), FA Section 6.1

The Commissioner has determined that requiring franchisees to sign a general release upon renewal of the franchise agreement to be unfair, unjust, and inequitable within the intent of Section 51-19-09 of the North Dakota Franchise Investment law. The general release provision in Section 6.1 of this Agreement is void and unenforceable in the state of North Dakota.

FA Sections 5 and 6

The Commissioner has held that covenants restricting competition contrary to Section 9-08-06 of the North Dakota Century Code are unfair, unjust, or inequitable within the intent of the North Dakota Franchise Investment Law (Section 51-19-09). Thus, covenants not to compete are considered unenforceable in the State of North Dakota.

FA Section 6

Pursuant to Section 51-19-09 of the North Dakota Franchise Investment Law, a requirement that franchisees consent to post-Termination Default Fee or termination penalties in the event of termination of the franchise agreement is considered void and unenforceable.

FA Section 9.6

Apart from civil liability as set forth in section 51-19-12 N.D.D.C, which is limited to violations of the North Dakota Franchise Investment Law (registration and fraud) the liability of the franchisor to a franchisee is based largely on contract law. Despite the fact that those provisions are not contained in the franchise investment law, those provisions contain substantive rights intended to be afforded to North Dakota residents, and is unfair to franchise investors to require them to waive their rights under North Dakota Law.

The North Dakota Franchise Investment Law (Section 51-19-09) requires that this Agreement will be governed by the laws of North Dakota, which laws will prevail.

FA Section 9.9

Pursuant to the North Dakota Franchise Investment Law (Section 51-19-09), an arbitration or mediation locations which are remote from the site of the franchisee's business are unfair, unjust, or inequitable. Therefore, the site of arbitration or mediation must be agreeable to all parties.

Pursuant to the North Dakota Franchise Investment law (section 51-19-09), requiring franchisees to consent to the jurisdiction of courts outside of North Dakota is unfair, unjust, or inequitable. Thus, all issues or disagreements relating to this Agreement will be arbitrated, tried, heard and decided within the jurisdiction of courts in the state of North Dakota.

Sections of the Franchise Agreement stipulating that the franchisee shall pay all costs and expenses incurred by Franchisor in enforcing the agreement may not be enforceable under Section 51-19-09 of the North Dakota Franchise Investment Law.

Rhode Island

Section 19-28.1-14 of the Rhode Island Franchise Investment Act provides that "A provision in a franchise agreement restricting jurisdiction or venue to a forum outside this state or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under this Act." The Disclosure Document and Franchise Agreement are amended accordingly to the extent required by law.

South Dakota

FDD Item 17; FA Section 6

Under South Dakota law, termination provisions covering breach of the Franchise Agreement, failure to meet performance and quality standards and failure to make royalty payments contained in the Disclosure Document and franchise agreement must afford a franchisee **30 days'** written notice with an opportunity to cure the breach prior to termination.

FA Section 9

The law regarding franchise registration, employment, covenants not to compete, and other matters of local concern will be governed by the laws of the State of South Dakota; but as to contractual and all other matters, this Agreement and all provisions of this instrument will be and remain subject to the application, construction, enforcement, and interpretation under the governing law of the State of Utah.

Covenants not to compete upon termination of the franchise agreement are generally unenforceable in the State of South Dakota. Pursuant to SDCL 37-5A-86, any acknowledgement provision, disclaimer, or integration clause or a provision having a similar effect in a franchise agreement does not negate or act to remove from judicial review any statement, misrepresentation or action that would violate this chapter or a rule or order under this chapter. In the event that either party will make demand for arbitration, such arbitration will be conducted in a mutually agreed-upon site in accordance with Section 11 of the Commercial Arbitration Rules of the American Arbitration Association.

Any provision in a franchise agreement which designates jurisdiction or venue or requires the franchisee to agree to jurisdiction or venue in a forum outside of South Dakota is void with respect to any cause of action which is otherwise enforceable in South Dakota.

Virginia

The Virginia State Corporations Commission, through its Division of Securities and Retail Franchising, has imposed a financial assurance requirement. As a result, the Initial Franchise Fee is deferred until the Franchisor has satisfied its pre-opening obligations and the franchisee has opened for business.

FDD Item 9

In Virginia, notice of approval or disapproval of a proposed supplier will be issued by us within **45** days after the franchisee has delivered all required materials.

Washington

FDD Cover Page

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

FDD Item 5, Franchise Agreement Section 2.1

The State of Washington has imposed a financial condition under which the initial franchise fees due will be deferred until the franchisor has fulfilled its initial pre-opening obligations under the Franchise Agreement and the franchise is open for business.”

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

RCW 19.100.180 may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise.

In any arbitration or mediation involving a franchise purchased in Washington, the arbitration or mediation site will be either in the state of Washington, or in a place mutually agreed upon at the time of the arbitration or mediation, or as determined by the arbitrator or mediator at the time of arbitration or mediation. In addition, if litigation is not precluded by the franchise agreement, a franchisee may bring an action or proceeding arising out of or in connection with the sale of franchises, or a violation of the Washington Franchise Investment Protection Act, in Washington.

A release or waiver of rights executed by a franchisee may not include rights under the Washington Franchise Investment Protection Act or any rule or order thereunder except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, or rights or remedies under the Act such as a right to a jury trial, may not be enforceable.

Transfer fees are collectable to the extent that they reflect the franchisor’s reasonable estimated or actual costs in effecting a transfer.

Pursuant to RCW 49.62.020, a noncompetition covenant is void and unenforceable against an employee, including an employee of a franchisee, unless the employee’s earnings from the party seeking enforcement, when annualized, exceed \$100,000 per year (an amount that will be adjusted annually for inflation). In addition, a noncompetition covenant is void and unenforceable against an independent contractor of a franchisee under RCW 49.62.030 unless the independent contractor’s earnings from the party seeking enforcement, when annualized, exceed \$250,000 per year (an amount that will be adjusted annually for inflation). As a result, any provisions contained in the franchise agreement or elsewhere that conflict with these limitations are void and unenforceable in Washington.

RCW 49.62.060 prohibits a franchisor from restricting, restraining, or prohibiting a franchisee from (i) soliciting or hiring any employee of a franchisee of the same franchisor or (ii) soliciting or hiring any employee of the franchisor. As a result, any such provisions contained in the franchise agreement or elsewhere are void and unenforceable in Washington.

FDD Item 17; Entire FA, including without limitation Section 6 and 7

In any arbitration involving a franchise purchased in Washington, the arbitration site will 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 a franchisee will not include rights under the Washington Franchise Investment Protection Act, except when executed pursuant to a negotiated settlement after the Franchise Agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, rights or remedies under the Act such as a right to a jury trial may not be enforceable.

Transfer Fees are collectable to the extent that they reflect the franchisor's reasonable estimated or actual costs in effecting a transfer.

The franchisee acknowledges receipt of this Addendum.

Wisconsin

FDD Item 17

The applicable laws of Wisconsin may require notice periods greater than those set forth above for termination, cancellation, non-renewal, or the like, and may limit the reasons or causes for termination, cancellation, non-renewal, or the like. To the extent any provisions of the Franchise Agreement provide for periods of notice or for termination, cancellation, non-renewal, or the like other than in accordance with the applicable law, such provisions will not be effective, to the extent such are not in accordance with applicable law, and the franchisor will comply with the applicable law.

The Wisconsin Fair Dealership Law (Wisconsin Statutes, 1983-84, Title XIV-A, Chapter 135) supersedes any provision of a Franchise Agreement inconsistent with the law.

It is agreed that the applicable foregoing state law addendum for the state of _____, if any, supersedes any inconsistent portion of the Franchise Agreement (to which this addendum is attached) of this same date, and of the Franchise Disclosure Document. All terms of the Franchise Agreement, including these State Law Addendum provisions for the relevant state, have been agreed to at the time the Franchise Agreement was signed, to the extent that they are valid requirements of an applicable, effective, and enforceable state law. However, this addendum will have effect only if the Franchise Agreement or our relationship with you satisfies all of the jurisdictional requirements of the relevant state's franchise laws, without considering this addendum.

DATED this ____ day of _____, 20____.

("we/us"):

FIVE STAR FLOORING FRANCHISE, LLC.

(jointly and severally "you"):

By: _____

Title: _____

By: _____

Title: _____

By: _____

Title: _____

Franchise Disclosure Document Exhibit F

The Following Table Reflects Our Agents for Service of Process and the Relevant State Franchise Authorities:

NAMES AND ADDRESSES OF STATE REGULATORY AUTHORITIES AND REGISTERED AGENTS IN STATES		
STATE	REGISTERED AGENTS	REGULATORY AUTHORITIES
CALIFORNIA	California Commissioner of Financial Protection and Innovation: Los Angeles: 320 West 4th Street, Suite 750 Los Angeles, CA 90013-2344 (213) 576-7505	Financial Protection and Innovation Commissioner Department of Financial Protection and Innovation 320 West 4th Street, Suite 750 Los Angeles, CA 90013-1105 (213) 576-7505
	Sacramento: 1515 K Street, Suite 200 Sacramento, CA 95814-4052 (916) 445-7205	
	San Diego: 1350 Front Street San Diego, CA 92101-3697 (619) 525-4233	
	San Francisco: One Sansome Street, Suite 600 San Francisco, CA 94104	
CONNECTICUT	The Banking Commissioner Department of Banking Securities and Business Investment Division 260 Constitution Plaza Hartford, CT 06103-1800 (860) 240-8299	The Department of Banking Securities and Business Investment Division 260 Constitution Plaza Hartford, CT 06103-1800 (860) 240-8299
FLORIDA	[Not Applicable]	Senior Consumer Complaint Analyst Department of Agriculture and Consumer Services Division of Consumer Services Mayo Building, Second Floor Tallahassee, Florida 32399-0800 (850) 922-2770
HAWAII	Commissioner of Securities of the Department of Commerce and Consumer Affairs 335 Merchant Street, Room 203 Honolulu, HI 96813-2921 (808) 586-2722	Commissioner of Securities of the Department of Commerce and Consumer Affairs 335 Merchant Street, Room 203 Honolulu, HI 96813-2921 (808) 586-2722
ILLINOIS	Illinois Attorney General Franchise Division 500 South Second Street Springfield, IL 62706 (217) 782-4465	Illinois Attorney General Franchise Division 500 South Second Street Springfield, IL 62706 (217) 782-4465

STATE	REGISTERED AGENTS	REGULATORY AUTHORITIES
INDIANA	Secretary of State Administrative Offices of the Secretary of State 201 State House Indianapolis, IN 46204 (317) 232-6681	Securities Commissioner Securities Division Room E-111 302 West Washington Street Indianapolis, IN 46204 (317) 232-6681
IOWA	[Not Applicable]	Director of Regulated Industries Unit Iowa Securities Bureau 340 East Maple Des Moines, Iowa 50319-0066 (515) 281-4441
MARYLAND	Maryland Securities Commissioner 200 St. Paul Place Baltimore, MD 21202-2020 (410) 576-6360	Office of the Attorney General Division of Securities 200 St. Paul Place Baltimore, MD 21202-2020 (410) 576-6360
MICHIGAN	Michigan Department of Commerce, Corporations and Securities Bureau 525 W. Ottawa 670 Law Building Lansing, MI 48913 (517) 373-7117	Franchise Administrator Consumer Protection Division Antitrust and Franchise Unit Michigan Department of Attorney General 670 Law Building Lansing, MI 48913 (517) 373-7117
MINNESOTA	Minnesota Commissioner of Commerce 85 7 th Place East, Suite 500 St. Paul, MN 55101-2198 (651) 296-6328	Deputy Commissioner Minnesota Department of Commerce 85 7 th Place East, Suite 500 St. Paul, MN 55101-2198 (651) 296-6328
NEBRASKA	[Not Applicable]	Staff Attorney Department of Banking and Finance 1200 N Street Suite 311 P.O. Box 95006 Lincoln, Nebraska 68509 (402) 471-3445
NEW YORK	NYS Department of Law Investor Protection Bureau 28 Liberty St. 21 st Fl New York, NY 10005 (212) 416-8222	Secretary of State 99 Washington Ave Albany NY 12231
NORTH DAKOTA	North Dakota Securities Commissioner Fifth Floor 500 East Boulevard Bismarck, ND 58505	Franchise Examiner Office of Securities Commissioner 600 East Boulevard, 5th Floor Bismarck, ND 58505 (701) 328-4712
OREGON	Director of Oregon Department of Insurance and Finance Corporate Securities Section Labor and Industries Building Salem, OR 97310 (503) 378-4387	Department of Consumer and Franchise Services Division of Finance and Corporate Securities Labor and Industries Building Salem, OR 97310 (503) 378-4387

STATE	REGISTERED AGENTS	REGULATORY AUTHORITIES
RHODE ISLAND	Director of Rhode Island Department of Franchise Regulation Division of Securities Suite 232 Providence, RI 02903 (401) 222-3048	Associate Director and Superintendent of Securities Division of Securities 233 Richmond Street, Suite 232 Providence, RI 02903-4232 (401) 222-3048
SOUTH DAKOTA	Director of South Dakota Division of Securities 124 S. Euclid Ave 2 nd Floor Pierre, SD 57501 (605) 773-4823	Franchise Administrator Division of Securities 124 S. Euclid Ave. 2 nd Floor Pierre, SD 57501-5070 (605) 773-4013
TEXAS	[Not Applicable]	Secretary of State Statutory Document Section P.O. Box 12887 Austin, TX 78711 (512) 475-1769
UTAH	[Not Applicable]	Division of Consumer Protection Utah Department of Commerce 160 East Three Hundred South P.O. Box 45804 Salt Lake City, Utah 84145-0804 (801) 530-6601
VIRGINIA	Clerk of the State Corporation Commission 1300 E. Main Street, 1 st Floor Richmond, VA 23219 (804) 371-9733	Chief Examiner/Investigator State Corporation Commission Division of Securities and Retail Franchising 1300 E. Main Street, 9 th Floor Richmond, VA 23219 (804) 371-9051
WASHINGTON	Director of Department of Financial Institutions Securities Division 150 Israel Rd. SW Tumwater WA 98501 (360) 902-8760	Administrator Dept. of Financial Institutions Securities Division 150 Israel Rd. SW Tumwater WA 98501 (360) 902-8760
WISCONSIN	Wisconsin Commissioner of Securities P.O. Box 1768 345 W. Washington Avenue, 4 th Floor Madison, WI 53703 (608) 261-9555	Franchise Administrator Securities and Franchise Registration Wisconsin Securities Commission 345 W. Washington Avenue, 4 th Floor Madison, WI 53703 (608) 261-9555
FEDERAL TRADE COMMISSION		Franchise Rule Coordinator Division of Marketing Practices Bureau of Consumer Protection Pennsylvania Avenue at 6th Street, NW Washington, D.C. 20580 (202) 326-3128

STATE EFFECTIVE DATES

The following states have franchise laws that require that the Franchise Disclosure Document be registered or filed with the states, or be exempt from registration: California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington, and Wisconsin. This document is effective and may be used in the following states, where the document is filed, registered, or exempt from registration, as of the Effective Date stated below:

States Requiring Registration (registration not approved if blank):

California: pending
Hawaii: pending
Illinois: pending
Indiana: pending
Maryland: pending
Michigan: pending
Minnesota: pending
New York: pending
North Dakota: pending
Rhode Island: pending
South Dakota: pending
Virginia: pending
Washington: pending
Wisconsin: pending

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

**Franchise Disclosure Document Exhibit G
RECEIPT**

This franchise disclosure document summarizes certain provisions of the franchise agreement and other information in plain language. Read this disclosure document and all agreements carefully. If **Five Star Flooring Franchise, LLC.** offers you a franchise, it must provide this franchise disclosure document to you by the earliest of:

1. The first personal meeting to discuss the franchise (if you are in New York or Rhode Island); OR

14 calendar days before you sign a binding agreement or make a payment with the franchisor or an affiliate in connection with the proposed franchise sale (10 business days if you are in Michigan, New York, Rhode Island).

If **Five Star Flooring Franchise, LLC.** does not deliver this franchise 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 state agency listed in Exhibit D.

The name, principal business address, and telephone number of each franchise seller offering the franchise are: Andrew Mengason, 761 W. 1200 N., Ste 300, Springville UT 84663, (888) 344-0828
Dean Hartley, 761 W. 1200 N., Ste 300, Springville UT 84663, (888) 344-0828
Other:

Our authorized agents for service of process are identified on Exhibit E to this Franchise Disclosure Document.

Date of Issuance: April 8, 2026

I have received a disclosure document dated as indicated above that included the following Exhibits:

- A. Financial Statements
- B. Sample Franchise Agreement
- C. Conditional Assignment of Phone Number
- D. Roll-In Addendum
- E. State Law Addendum
- F. List of State Agents for Service of Process and State Administrators
- G. Acknowledgments of Receipt of Franchise Disclosure Document by Prospective Franchisee

DATED this ____ day of _____, 20__.

Signatures of All Prospective Franchisees:

Individuals: _____

Name of Corporation/LLC/Partnership: _____

By: _____ Title: _____

ALL INDIVIDUALS WHO WILL SIGN THE FRANCHISE AGREEMENT MUST SIGN THIS ACKNOWLEDGMENT. IF THE FRANCHISE AGREEMENT WILL ALSO BE EXECUTED BY A CORPORATION OR LIMITED LIABILITY COMPANY, AN OFFICER OR OWNER AUTHORIZED TO RECEIVE THIS CIRCULAR ON BEHALF OF THE CORPORATION OR LIMITED LIABILITY COMPANY MUST EXECUTE THIS ACKNOWLEDGMENT. IF THE FRANCHISE AGREEMENT WILL BE EXECUTED BY A PARTNERSHIP, THEN ALL GENERAL PARTNERS MUST EXECUTE THIS ACKNOWLEDGMENT AS GENERAL PARTNERS AND AS INDIVIDUALS.

KEEP THIS COPY FOR YOUR RECORDS.

Franchise Disclosure Document Exhibit G

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1. The first personal meeting to discuss the franchise (if you are in New York or Rhode Island); OR
2. 14 calendar days before you sign a binding agreement or make a payment with the franchisor or an affiliate in connection with the proposed franchise sale (10 business days if you are in Michigan, New York, Rhode Island).

If **Five Star Flooring Franchise, LLC.** does not deliver this franchise 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 state agency listed in Exhibit D.

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- B. Sample Franchise Agreement
- C. Conditional Assignment of Phone Number
- D. Roll-In Addendum
- E. State Law Addendum
- F. List of State Agents for Service of Process and State Administrators
- G. Acknowledgments of Receipt of Franchise Disclosure Document by Prospective Franchisee

DATED this _____ day of _____, 20__.

Signatures of All Prospective Franchisees:

Individuals: _____

Name of Corporation/LLC/Partnership: _____

By: _____ Title: _____

ALL INDIVIDUALS WHO WILL SIGN THE FRANCHISE AGREEMENT MUST SIGN THIS ACKNOWLEDGMENT. IF THE FRANCHISE AGREEMENT WILL ALSO BE EXECUTED BY A CORPORATION OR LIMITED LIABILITY COMPANY, AN OFFICER OR OWNER AUTHORIZED TO RECEIVE THIS CIRCULAR ON BEHALF OF THE CORPORATION OR LIMITED LIABILITY COMPANY MUST EXECUTE THIS ACKNOWLEDGMENT. IF THE FRANCHISE AGREEMENT WILL BE EXECUTED BY A PARTNERSHIP, THEN ALL GENERAL PARTNERS MUST EXECUTE THIS ACKNOWLEDGMENT AS GENERAL PARTNERS AND AS INDIVIDUALS.

PLEASE SIGN THIS COPY OF THE RECEIPT, DATE YOUR SIGNATURE, AND RETURN IT TO FIVE STAR FLOORING FRANCHISE, LLC., 761 W. 1200 N., Ste 300, Springville UT 84663