

**EXHIBIT A**  
**LICENSE AGREEMENT**  
**AND SCHEDULES**

## LICENSE AGREEMENT

This License Agreement ("**Agreement**") is entered into as of \_\_\_\_\_ (the "**Effective Date**"), between Closet Tailors, LLC., a California limited liability company ("**Licensor**"), and \_\_\_\_\_, an \_\_\_\_\_ proposing to do business in the state of \_\_\_\_\_ as Closet Tailors of \_\_\_\_\_ ("**Licensee**"). Licensee will begin operation pursuant to this Agreement on \_\_\_\_\_ (the "**Operating Date**") and will make the first payment of monthly "Fees" (as defined below) on \_\_\_\_\_.

### RECITALS

A. Licensor is engaged in the administration and development of programs for the operation of retailers of "Closet Organization" products, utilizing the "System" and "Service Marks" (each as defined below) as well as other proprietary information owned by, and identified with, Licensor. Licensor is the owner of the Service Marks, the System, and all rights in respect of each of them. Licensor's activities in general, and its Closet Organization license program in particular, are undertaken to develop, maintain, and enhance the Service Marks and Licensor's overall reputation in retail sales and related services relating to the field of Closet Organization.

B. Licensee desires to be licensed by the Licensor to use the System, the Service Marks, and the goodwill of Licensor to conduct the "Licensed Business" (as defined below). Licensor is willing to grant to Licensee a license for the System and the Service Marks, in accordance with the provisions of this Agreement and Licensor's "Confidential Operating Manual," on the terms and conditions set forth below.

C. Licensee acknowledges that, in the administration of this Agreement and in taking actions with respect to its relationship with Licensee, Licensor must take into account the needs of all persons operating under the Service Marks, the effect upon those persons as a whole, and the need to protect the Service Marks for the benefit of those persons and Licensor.

### AGREEMENT

#### 1. DEFINITIONS.

**1.01 Affiliate.** An "**Affiliate**" of Licensor or Licensee, as the case may be, means all persons in the following categories when they are acting in the course of conducting business activities related to Licensor or Licensee: (a) all persons who Control, are Controlled by, or are under common Control with, Licensor or Licensee; (b) all direct or indirect shareholders, partners, members, or owners of a Licensor or Licensee, regardless of whether they Control Licensor or Licensee; and (c) all officers, directors, employees, and agents of Licensor or Licensee and of Licensor's or Licensee's other Affiliates.

**1.02 Assumed Name.** The term "**Assumed Name**" means the name (or, with Licensor's consent, names) under which the Licensee will conduct the Licensed Business. The Assumed Name will be a combination of (i) those Service Marks set forth in the Confidential Operating Manual to be used in the Assumed Name and (ii) a geographical reference to the Territory (or, with Licensor's consent, other names selected by Licensee and approved by Licensor).

**1.03 Closet Organization.** "**Closet Organization**" is the design, sale, and installation of organizing units and storage and organizing accessories for closets and other spaces, including pantries, storerooms, utility rooms, basements, attics, and garages.

**1.04 Confidential Operating Manual.** The "**Confidential Operating Manual**" is the collection of policies and procedures (regardless of title) to be adhered to by Licensee in performing under this Agreement. In Licensor's discretion, the Confidential Operating Manual may be delivered to Licensee in one or more printed volumes or may be made available on Licensor's Intranet. Regardless of the form of presentation, the Confidential Operating Manual includes all amendments and supplements prescribed by Licensor from time to time. In the event of any doubt, the copy of the Confidential Operating Manual maintained by Licensor at its headquarters will conclusively be deemed to be the "official" version of the Confidential Operating Manual.

**1.05 Control.** "**Control**" means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person or entity, whether through the ownership of voting securities, by contract, or otherwise.

**1.06 Fees.** The term "**Fees**" means, collectively, the Continuing Royalty payable pursuant to Section 4.03, the Advertising Fee payable pursuant to Section 4.04 and the Toll Free Number Use Fee payable pursuant to Section 8.04(a).

**1.07 Key Account.** The term "**Key Account**" means any (a) potential or existing customer that has multiple sites, offices, or retail premises, at least one of which is located outside the Territory; (b) any home improvement retail or wholesale outlet, construction company, contractor, or similar business whose clientele includes potential customers for Closet Organization; and (c) operators of Internet Web sites (or similar referral sources) that offer to refer customers to Licensor and its licensees for a fee.

**1.08 Licensed Business.** The term "**Licensed Business**" means maintaining and operating a retail operation for the sale to customers located in the Territory of Closet Organization, in accordance with the System and using the goodwill associated with the Service Marks, all upon the terms and conditions set forth in this Agreement. For purposes of this Agreement, a customer is located in the Territory if the affected closet or other space (that is, the closet(s) or other space in connection with which the Closet Organization services will be performed) is located in the Territory).

**1.09 Manager.** The term "**Manager**" means the employee or agent of Licensee who has been designated by Licensee as the person responsible for the day-to-day operation of the Licensed Business and who has successfully completed Initial Training (if Licensee is an individual, Licensee may be the Manager).

**1.10 Materials.** The term "**Materials**" means all forms, contracts, agreements, signs, displays, stationery, and other items permitted or required by Licensor to be used in the operation of the Licensed Business.

**1.11 Service Marks.** The term "**Service Marks**" means "**CLOSET TAILORS**" and all other proprietary marks registered or pending with the United States Patent and Trademark Office, as well as all common law trademarks and service marks, trade names, logotypes, insignias, designs, and other commercial symbols which Licensor uses and authorizes others to use to identify the Licensed Business.

**1.12 System.** The term "**System**" means a comprehensive marketing and operational system, as amended from time to time, prescribed by Licensor to be used in the conduct of the Licensed Business, as set forth in this Agreement and the Confidential Operating Manual. The System includes, among other things, the Service Marks and certain advertising, marketing and sales programs and techniques; Licensor-controlled telephone numbers; training programs and materials; artwork, graphics, and layouts; slogans, names, and titles; text; and other intellectual property that Licensor makes available to Licensee. Licensor, in its sole discretion, may improve and/or change the System from time to time (including adding to, deleting, or modifying elements of the System, establishing categories or classifications of Licensees, and amending the Confidential Operating Manual) for the intended purpose of making the System more effective, efficient, economical, or competitive; adapting to or taking advantage of competitive conditions, opportunities, technology, materials or local marketing needs and conditions; enhancing the reputation or public acceptance of the System; and/or better serving the public.

**1.13 Territory.** The term "**Territory**" means the geographic area described in the attached Schedule A, which is defined by U.S. Postal Service ZIP Codes (the boundaries of which are subject to adjustment by the Postal Service). On the Effective Date, the Territory consists of approximately 32,000 households, but the number of households (and the number of persons per household) is subject to growth and shrinkage over the Term.

**1.14 Transfer.** The term "**Transfer**" means any direct or indirect sale, assignment, transfer, conveyance, delegation of duties, gift, declaration of trust, pledge, mortgage, hypothecation, or other encumbrance, voluntarily or involuntarily, by operation of law or otherwise, whether as a single transaction or as part of a series of transactions, of any interest in a person, this Agreement, or all or substantially all of the assets of a person.

## 2. THE LICENSED BUSINESS.

**2.01 Grant of License.** Licensor grants to Licensee, and Licensee accepts, a license ("**License**") to participate in and use the System by conducting the Licensed Business solely within the Territory in strict accordance with this Agreement and the Confidential Operating Manual, from the Operating Date until the end of the Term, unless sooner terminated. Nothing contained in this Agreement may be interpreted as a guarantee of success. Licensee retains the right to conduct businesses and perform services other than the Licensed Business, but subject to the restrictions on engaging in competitive activities under Section 8.09, and subject to all other applicable provisions of this Agreement and the Confidential Operating Manual. **Licensee may not use the Service Marks, all or any part of the System, or any of Licensor's other proprietary information in connection with any other businesses or services without the express prior written permission of the President or other executive officer of Licensor, which permission, if granted, will bring the other businesses or services within the scope of the Licensed Business.**

### **2.02 Limited Exclusivity.**

(a) Except as provided in paragraphs (b), (c), and (d) of this Section 2.02, during the Term, Licensor will not establish or operate within the Territory, or license any third party (other than Licensee) to establish or operate within the Territory, any other business that both sells and installs Closet Organization products using the System and the Service Marks.

(b) Licensee acknowledges and agrees that, from time to time, Licensor may enter into agreements with Key Accounts, or permit other licensees (on terms and conditions more specifically set forth in the Confidential Operating Manual) to enter into agreements with Key Accounts that contemplate performance of Closet Organization services in the Territory. If Licensor or an authorized licensee enters into a Key Account arrangement, then with respect to locations of the Key Account in the Territory, Licensor (or the authorized licensee, as the case may be) will offer Licensee the opportunity to provide the sales, installations, or other services to or at the request of the Key Account in the Territory, which Licensee may accept or reject in its discretion. If Licensee chooses not to provide the sales, installations, or other services with respect to the Key Account in the Territory, or if Licensee fails to provide the sales, installations, or other services to a particular Key Account in the Territory on any two occasions in a 12-month period, Licensor may (for the remainder of the Term) provide or grant others the right to provide sales, installations, or other services with respect to that particular Key Account in the Territory.

(c) Licensee acknowledges that, from time to time, opportunities may arise to participate in joint marketing efforts (such as home shows and Yellow Pages advertising) with other Closet Tailors licensees. If Licensee is afforded the opportunity to participate in joint marketing efforts but declines to do so, the participating Closet Tailors licensee(s) will be required to offer any leads for the Territory generated as a result of the joint marketing effort to Licensee on reasonable terms and conditions (including maximum prices per referral) specified from time to time in the Confidential Operating Manual. If the participating licensee(s) comply with Licensor's guidelines on the offering terms for the leads and Licensee declines to accept the lead on the terms offered, then the participating licensee will not be required to turn over the lead to Licensee and the participating licensee may instead work the lead in the Territory without compensation to Licensee.

(d) Except to the limited extent expressly provided in paragraph (a) of this Section 2.02, the rights granted to Licensee under this Agreement are non-exclusive and Licensor expressly reserves all other rights, including the exclusive, unrestricted rights, directly and indirectly, itself and through its employees, representative, licensees, franchisees, assigns, agents, and others: (i) to own and operate, and to license others to own and operate, Closet Organization businesses using the System and the Service Marks at any location outside the Territory; (ii) to solicit, sell to, and service Key Accounts and the clients of those Key Accounts, wherever located (including within the Territory), subject to compliance with paragraph (b) of this Section 2.02 and Section 8.14; (iii) to acquire or be acquired by a company that operates and/or licenses Closet Organization businesses within the Territory without using the System and the Service Marks; (iv) to acquire or be acquired by a manufacturer of products associated with Closet Organization; (v) to sell Closet Organization products through any other means that do not involve

both the System and the Service Marks (including within the Territory); and (vi) to advertise and promote the System and the Service Marks at any location within or outside the Territory.

**2.03 Reserved Rights.** Nothing contained in this Agreement will accord Licensee any right, title or interest in or to the Service Marks, System, operational techniques, service concepts, proprietary information, or goodwill of Licensor, except only those rights granted by this Agreement.

**2.04 Area and Scope of Operation.** Unless otherwise approved in writing by Licensor, Licensee will only conduct its Licensed Business within the Territory, including (a) having any offices, warehouse, or other facilities located within the Territory, and (b) providing sales and services only with respect to closets or other spaces located within the Territory. Licensee will (i) diligently and effectively promote, market, and engage in the Licensed Business within the Territory; (ii) develop, to the best of its ability, the potential for the Licensed Business from within the Territory; (iii) operate the Licensed Business so as to maximize the total sales of Closet Organization-related products and services of the Licensed Business; and (iv) devote and focus its full-time attention and efforts to that promotion and development.

Unless otherwise instructed by Licensor, Licensee may operate in unassigned territories known as "gray areas" adjoining the Territory (for this purpose, a "**gray area**" is an area that is not part of any other licensee's territory, nor an area served by Licensor's "company-owned" operations). Any operations in gray areas are subject to sale of the territory to another licensee, to initiation of "company-owned" operations in the gray area, and to Licensor's rules and regulations, including that any advertising in gray areas (including in telephone directories) can only include Licensor's toll-free telephone number, and not the local telephone number of Licensee.

Licensee does not receive any right of first refusal or other rights of any type to a gray area by virtue of operations in that gray area. Licensor may sell any gray area territory at any time, without advance notice to Licensee. Upon notice from Licensor, Licensee will *immediately* cease all marketing activities in any gray area. Licensor may give a notice to cease marketing without regard to whether the gray area has been sold to another licensee. After Licensor gives notice to cease marketing, Licensee may (for a maximum of 30 days) complete installations of Closet Organization products for which orders were completed *before* Licensor gave Licensee notice to cease marketing in the area.

Licensee's  
Initials:

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**2.05 Additional Territory.** Licensee may expand the Territory by signing an additional License Agreement for an additional geographical areas (each, an "**Additional Territory**") and paying an "**Additional Territory Fee**" in the amount of Licensor's then-current Initial Territory Fee for a similarly-sized Territory (which may be higher than the Initial Territory Fee under this Agreement). Licensee and its Affiliates may not be in default under this Agreement or any other agreement with Licensor or its Affiliates at the time Licensee proposes to sign a License Agreement for the Additional Territory, and the Additional Territory desired by Licensee must be available at that time (that is, cannot be the subject of a license agreement or deposit receipt between Licensor and another licensee or be operated as a "company-owned" territory by Licensor). Even if Licensee expresses an interest in a particular Additional Territory, Licensor, in its sole discretion, may sell all or any part of the Additional Territory prior to the time Licensee signs the License Agreement for the Additional Territory. Licensor may refuse to sell an Additional Territory to Licensee unless Licensee presents to Licensor a business plan (in accordance with Licensor's standards) that shows how Licensee will adequately serve all areas.

Licensee must begin operating the Licensed Business in each Additional Territory by the later of (a) the date Licensee signs the License Agreement for the Additional Territory, and (b) six months after the date Licensee began operating pursuant to its first license agreement from Licensor. Thereafter, Licensee must continually meet and maintain the "Base Sales Minimums" (as defined in Section 8.01(e)) in the Territory and each Additional Territory. If Licensee doesn't open or meet these territorial Base Sales Minimums, Licensee will have the option to return the Additional Territory to Licensor. However, the Additional Territory Fee is not refundable.

### 3. **LOCATION OF BUSINESS.**

**3.01 Principal Place of Business.** Licensee's principal place of business is at the following location:

**3.02 Office/Warehouse.** Licensor recommends that Licensee utilize an office and/or warehouse at which (among other things) Licensee may accept delivery of Closet Organization products before installation. At any time, Licensee may, without further approval from Licensor, develop an office and/or warehouse provided that the office/warehouse is located within the Territory (unless Licensor consents in writing to the office/warehouse being located outside the Territory). Licensee may display a discreet sign at the office/warehouse to direct deliveries, but may not utilize any signage designed to attract passing traffic.

**3.03 No Retail Storefront.** The License granted by this Agreement contemplates that Licensee will operate a primarily mobile business. Licensee may not operate a fixed retail location for the display and/or sale of Closet Organization products and services (including at any office/warehouse), whether inside or outside the Territory, without Licensor's written consent. If Licensor consents to a fixed retail location, Licensor and Licensee must sign an addendum or agreement governing the location, construction, and operation of the Licensed Business at the fixed retail location. This addendum or agreement may contain terms and requirements, among other things, for site selection, design and layout, signage, and lease terms.

**4. PAYMENTS BY LICENSEE.**

**4.01 License Fee.** Concurrently with Licensee's execution of this Agreement, Licensee will pay to Licensor an "**Initial License Fee**" of \$14,950 (unless Licensee already holds a License Agreement from Licensor, in which case the Initial License Fee will be waived). Licensee will receive the Closet Tailors Start-Up Package (listed in Schedule B to this Agreement) when the Initial License Fee is paid in full (no Closet Tailors Start-Up Package is provided if the Initial License Fee is waived). The Initial License Fee is payable in a lump sum in lawful money of the United States of America upon execution of this Agreement by Licensee, but may be financed over 12 months if Licensee qualifies (in Licensor's sole discretion). The Initial License Fee is not refundable.

**4.02 Territory Fee.** Concurrently with Licensee's execution of this Agreement, Licensee also will pay to Licensor an "**Initial Territory Fee**" of \$35,000. The Initial Territory Fee is payable in a lump sum, all in lawful money of the United States of America, upon execution of this Agreement by Licensee. The Initial Territory Fee is not refundable.

**4.03 Continuing Royalty.**

(a) In addition to the Initial License Fee and Initial Territory Fee, commencing on the Operating Date of this Agreement, Licensee will pay a flat fee "**Continuing Royalty**" of \$1,500 (subject to phase-in as described below) for each month or portion of a month (Licensor may change the frequency of payment and reporting to weekly, and if Licensor does so, the Continuing Royalty will be adjusted accordingly) during the Term of this Agreement.

In spite of the uniform Continuing Royalty described above, if the Territory was not licensed by Licensor immediately before the Effective Date (*i.e.*, this is not a renewal term, and Licensee did not accept a Transfer of the Territory from another Licensee), the Continuing Royalty will be decreased during the first two years of the Term. During this phase-in period, Licensee will pay a Continuing Royalty according to the following schedule:

<u>Months From the Operating Date</u>	<u>Royalty</u>
1st through 6th month	\$300
7th through 12th month	\$700
13th through 24th month	\$1,100

After the end of the two-year phase-in period, the Continuing Royalty will be \$1,500 per month for the rest of the Term of this Agreement.

If Licensee renews this Agreement, the amount of the Continuing Royalty throughout the renewal term will be the Continuing Royalty provided for in the then-current form of License Agreement being issued by Licensor (and Licensee will not be entitled to any phase-in offered under the renewal License Agreement).

(b) Licensee will deposit the Continuing Royalty as first-class mail with the United States Postal Service, postmarked on or before the fifth day of each month. Any payment of Continuing Royalty not postmarked by the fifth day of the month in which it is due will be subject to a late penalty of \$100 and will bear interest at the maximum rate permitted by applicable law, from the date due until the date received by Licensor. Checks returned for insufficient funds will be subject to a penalty of \$25. Payments of Continuing Royalty are not refundable. Licensor may in the future require Licensee to authorize Licensor to withdraw Continuing Royalty (and all other Fees due under this Agreement) directly from Licensee's bank account. If and when Licensor does so, Licensee must immediately make arrangements with its bank to authorize these withdrawals.

(c) Notwithstanding the Continuing Royalty Rate described in paragraph (a), above, if Licensee purchased an existing Closet Tailors business from another licensee, as a result of which this Agreement was issued to Licensee, then Licensee will continue to pay the Continuing Royalty paid by the prior licensee. For example, if the prior licensee was in the 20<sup>th</sup> month of the Term, and was paying \$1,100, Licensee will start paying a Continuing Royalty of \$1,100, which will increase to \$1,500 on the 25<sup>th</sup> month after the prior licensee's Operating Date.

**4.04 Advertising Fee.**

(a) Commencing on the Operating Date, Licensee will pay to Licensor a monthly "Advertising Fee" in the amount specified below. The amount of the Advertising Fee is as follows:

<u>Time Period</u>	<u>Monthly Advertising Fee</u>
From Operating Date until there are 100 Licensed Territories Nationwide .....	\$300
Once there are 101 Licensed Territories Nationwide until there are 200 Licensed Territories Nationwide	\$500
Once there are 201 Licensed Territories Nationwide until there are 500 Licensed Territories Nationwide	\$750
Once there are 501 Licensed Territories Nationwide until there are 1,000 Licensed Territories Nationwide	\$1,000
Once there are 1,001 Licensed Territories Nationwide.....	\$1,500

(b) Licensee will deposit the Advertising Fee as first-class mail with the United States Postal Service, postmarked on or before the fifth day of each month. Any payment of Advertising Fee not postmarked by the fifth day of the month in which it is due will be subject to a late penalty of \$100 and will bear interest at the maximum rate permitted by applicable law, from the date due until the date received by Licensor. Checks returned for insufficient funds will be subject to a penalty of \$25. Payments of Advertising Fee are not refundable. As contemplated by Section 4.03(b), above, Licensor may in the future require Licensee to authorize Licensor to withdraw the Advertising Fee (along with other Fees due under this Agreement) directly from Licensee's bank account. If and when Licensor does so, Licensee must immediately make arrangements with its bank to authorize these withdrawals.

(c) Licensor may in the future establish the Closet Tailors National Support Services Network, under which qualified representatives will be able to respond to inquiries from customers of Closet Tailors licensees. The costs for these services may be reimbursed partially or wholly from the Advertising Fee.

(d) On a national or regional basis, Licensor may impose an additional assessment upon all (or those affected) of its licensees for special designated advertising or promotional activities, if 2/3 of all Closet Tailors licensees agree to that assessment in writing.

(e) Licensor will expend for the purposes of national, regional, or local advertising, market research, advertising production costs; and public relations and promotional campaigns designed to promote and enhance the value of the Service Marks and general public recognition and acceptance of the Service Marks, an amount equal to (i) the aggregate Advertising Fees collected from all of its Licensees less (ii) an administrative fee equal to 15% of the annual aggregate Advertising Fees received by Licensor.

(f) No interest on unexpended Advertising Fees will be imputed for the benefit of or payable to Licensee and no interest on Licensor expenditures in excess of Advertising Fees collected will be imputed for the benefit of, or payable to, Licensor.

(g) Licensor will determine the cost, form of media, content, format, production, timing, location (including regional or local concentration and seasonal exposure) and all other matters relating to advertising, public relations, and promotional campaigns.

(h) On or before March 31 of each year, if requested in writing by Licensee, Licensor will deliver to Licensee a statement of receipts and expenditures of the aggregate Advertising Fees relating to the preceding calendar year, certified to be correct by an officer of Licensor.

(i) The Advertising Fees paid by Licensee (and Licensor's other licensees) do not constitute a "fund" or the corpus of a trust, and may be freely intermingled by Licensor with its other assets. Neither payment of the Advertising Fee, Licensor's contractual undertaking to expend an amount equal to the aggregate payments of Advertising Fees by licensees in a specified fashion, nor any matter related thereto may in any way be construed as creating a "trust," a "fiduciary relationship," or any other similar special arrangement.

**4.05 Interest on Delinquent Payments.** All delinquent payments of any sums due Licensor will bear interest at the maximum rate permitted by law.

**4.06 No Accord or Satisfaction.** If Licensee pays, or Licensor otherwise receives, a lesser amount than the full amount provided for under this Agreement for any payment due hereunder, the payment or receipt will be applied against the earliest amount due Licensor. Licensor may accept any check or payment in any amount without prejudice to Licensor's right to recover the balance of the amount due or to pursue any other right or remedy. No endorsement or statement on any check or payment or in any letter accompanying any check or payment or elsewhere will constitute or be construed as an accord or satisfaction.

**4.07 Optional Customer Referral Fees.** Licensor may offer one or more programs that can result in referrals to Licensee of potential customers, such as referrals from Web sites not owned or operated by Licensor or Key Account referral programs pursuant to which licensees can be rewarded for establishing relationships with customers that require Closet Organization in multiple territories. Licensee will be provided information about these programs before receiving any referrals from them (such as agreed pricing, required service agreements, and required referral fees as a dollar amount or as a percentage of sales to the referred customer), and is not required to accept referrals from any of these programs. If, after receiving details of a particular referral program, Licensee elects to accept referrals from the program, Licensee will pay the referral fees required as part of the program if Licensee then receives referrals from the program. No referral fee will be required if Licensee independently develops a lead (even with a customer that is otherwise participating in the program) without receiving a referral from the program. All referral fees payable as a result of Licensee's participation in a particular referral program are payable to Licensor monthly, by the 5<sup>th</sup> day of the month, for sales made in the prior month as a result of referrals.

## **5. TERM.**

**5.01 Initial Term.** The initial term of this Agreement (the "**Term**") is ten years from the Operating Date, unless sooner terminated pursuant to the provisions of this Agreement.



## **5.02 Additional Term.**

(a) Subject to the terms and conditions contained in this Section 5.02, Licensee may extend its license relationship for one additional ten-year term, upon the following conditions:

(i) Licensor will notify Licensee of the expiration date of the Term of this Agreement and will transmit to Licensee a copy of its then current License Agreement and License Offering Circular approximately 180 days before the expiration of the Term.

(ii) Not earlier than ten business days after receipt by Licensee of a License Offering Circular and five business days after receipt by Licensee of the then current License Agreement complete in all material respects, but not later than 30 business days after receipt by Licensee of the notice, License Agreement and License Offering Circular, Licensee will execute and return the then current License Agreement. Upon receipt, Licensor will execute one copy and return it to Licensee. The new agreement will become effective concurrently upon expiration of the Term of this Agreement. If Licensee fails or refuses to execute and return to Licensor the new License Agreement within the time frame set forth in this Section 5.02(a)(ii), all of Licensee's rights and options to enter into an additional license agreement will expire.

(iii) In the event of a modification to Licensor's then current license agreement or license offering circular occurring prior to the effective date of the subsequent license agreement, Licensor will be entitled to transmit to Licensee a copy of the modified versions of those documents, and notwithstanding any other provision Licensee will have at least ten business days after receipt of the revised license offering circular and five business days after receipt of the revised license agreement complete in all material respects, to execute and return the revised license agreement.

(iv) Licensee will pay a \$7,500 renewal fee at the time the new license agreement is signed by Licensee.

(v) At the time of commencement of the new license agreement, Licensee and its Affiliates may not be in default under this or any other agreement with Licensor and its Affiliates, and Licensee must have materially performed all of its obligations under this Agreement over the life of this Agreement.

(b) If Licensor ceases granting Licenses in the state in which the Licensed Business is operating, Licensor will notify Licensee at least 180 days before the expiration of the Term of that cessation, whereupon Licensee's right to enter into a new license agreement will be terminated in its entirety at the end of the Term.

(c) If Licensor determines not to grant an additional license agreement by reason of a default by Licensee which is incurable or has not been cured by Licensee within the applicable time period or failure of Licensee to fully perform its obligations under this Agreement, Licensor will give Licensee notice of its intention not to grant an additional term (i) within the minimum time required by the jurisdictional authorities, or (ii) in the absence of a specific period, within 30 days after Licensee gives its notice of desire to enter into a new license agreement but not less than 90 days before the termination date of this Agreement.

(d) After the execution by Licensee of a subsequent license agreement, and before the effective date of the new license agreement, Licensee will bring its Licensed Business into full compliance with the standards then applicable to new Closet Tailors licensees.

**5.03 Notice of Expiration Required by Law.** If applicable law requires that Licensor give a longer period of notice to Licensee than provided in this Agreement prior to the expiration of the Term, Licensor will give the additional required notice. If Licensor does not give the required additional notice, this Agreement will remain in effect on a month-to-month basis only until Licensee has received the required additional notice.

## 6. SERVICE MARKS.

### 6.01 License.

(a) Licensor grants to Licensee the right during the Term to use and display the Service Marks in accordance with the provisions contained in this Agreement and in the Confidential Operating Manual, solely in connection with the operation of the Licensed Business. Licensee acknowledges that Licensor prescribes minimum standards respecting the nature and quality of the goods and services used by Licensee in connection with which the Service Marks are used. Licensee agrees to be responsible for and to supervise all of its employees and agents in order to insure the proper use of the Service Marks in compliance with this Agreement. Licensee will use the Service Marks solely in connection with the Licensed Business and may not use or display the Service Marks in connection with the operation of any business, the performance of any other service, or the conduct of any other activity outside the scope of the Licensed Business. Licensee agrees that all of Licensee's use of the Service Marks under this Agreement inures to the benefit of Licensor. Nothing in this Agreement will give Licensee any right, title, or interest in or to any of the Service Marks, except a mere privilege and license during the Term to display and use the Service Marks strictly according to the limitations provided in this Agreement and the Confidential Operating Manual. Licensee agrees that all art work, graphics, layouts, slogans, names, titles, text, or similar Materials incorporating, or being used in connection with, the Service Marks which may be created by Licensee, its employees, agents and subcontractors and any other party with whom Licensee contracts to have the Materials produced will become the sole property of Licensor, including copyright and trademark rights, and Licensee agrees on behalf of itself, its employees, its agents, its subcontractors, and any other party with whom it may contract to have the materials produced, to promptly execute any and all appropriate documents in this regard. Licensee agrees to join with Licensor in any application to enter Licensee as a registered or permitted user, or the like, of the Service Marks with any appropriate governmental agency or entity. Upon termination of this Agreement for any reason, Licensor may immediately apply to cancel Licensee's status as a registered or permitted user and Licensee will consent in writing to the cancellation and will join in any cancellation petition. The expense of any of the foregoing recording activities will be borne by Licensor.

(b) Licensor has advised Licensee that the name "Closet Tailors" may have been used by other persons in the conduct of a Closet Organization business prior to Licensor's registration of its service mark and that those prior users may have the legal right to continue to use the name "Closet Tailors" in the geographical area in which they have used it. Licensor has further advised Licensee that the mechanisms for determining whether a particular trade name is being used by another person (i) vary substantially from locale to locale and Licensor cannot assure Licensee that the name "Closet Tailors" is not currently being used in the Territory; (ii) may require a search of local trademark and service mark registration records, fictitious business name filings, or both, or some other records maintained by city, county, or state agencies or entities; and (iii) may be imperfect and fail to reveal some protected uses. **Licensee understands that, before executing this Agreement and accepting the Territory, Licensee should have obtained advice from local counsel regarding the appropriate search and protection mechanisms and have conducted an appropriate search and investigation in the Territory to determine whether there is any prior user of the name "Closet Tailors".**

(c) As a material part of the consideration for the grant of a License on the terms set forth in this Agreement, Licensee releases Licensor from any and all claims, actions, and causes of action arising out of or related to any prior use of the name "Closet Tailors" in the Territory and waives any and all claims, actions, or causes of action it might otherwise have against Licensor arising out of or related to any loss, claims, costs, liability, expenses, actions, causes of action, or obligations to which Licensee may become subject because of any prior use of the name "Closet Tailors" in the Territory. Nothing in the preceding sentence, however, will be deemed to limit a party's respective obligations under Section 6.06 below.

### 6.02 Acts in Derogation of the Licensor's Rights.

(a) Licensee agrees that the Service Marks are the exclusive property of Licensor. Licensee now asserts no claim and will hereafter assert no claim to any goodwill, reputation or ownership by virtue of Licensee's licensed use of the Service Marks or otherwise. Ownership and title of the Service Marks and Licensor's manuals, bulletins, instruction sheets, forms, methods of operation, and goodwill are and

will remain vested solely in Licensor, and Licensee's right of use is only co-extensive with the Term of this Agreement. Licensee acknowledges that the material and information now and hereafter provided and/or revealed to Licensee pursuant to this Agreement (including the contents of the Confidential Operating Manual) are confidential trade secrets of Licensor and are revealed in confidence, and Licensee will keep and respect the confidences so reposed, both during and after the Term of this Agreement. Licensor expressly reserves all rights with respect to the Service Marks, confidential trade secrets, methods of operation, and other proprietary information, except as expressly granted to Licensee in this Agreement or in the Confidential Operating Manual. Licensor will disclose its trade secrets to Licensee by loaning to Licensee for the Term of this Agreement manuals and other written materials containing the trade secrets, through training and assistance provided to Licensee, and by and through the performance of Licensor's other obligations under this Agreement. Licensee acknowledges that Licensor is the sole owner of all proprietary information and trade secrets; that the information is being imparted to Licensee only by reason of its special status as a Licensee of the System; and that the trade secrets are not generally known to the Closet Organization industry or public at large and are not known to Licensee except by reason of the disclosure. Licensee further acknowledges that it will acquire no interest in the trade secrets, other than the right to utilize them in the development and operation of the Licensed Business during the Term of this Agreement. In addition, Licensee acknowledges that the use or duplication of the trade secrets except as expressly permitted by this Agreement will constitute an unfair method of competition and that Licensor will suffer irreparable injury thereby. Licensee agrees that it will not do or permit any act or in derogation of any of the rights of Licensor in connection with the Service Marks, either during or after the Term of this Agreement, and that Licensee will use the Service Marks only for the uses and in the manner licensed under and as provided in this Agreement. Furthermore, Licensee and its employees and agents will not engage in any acts or conduct that impair the goodwill associated with the Service Marks.

(b) In connection with the operation of the Licensed Business, Licensee agrees that at all times and in all advertising, promotions, signs, and other display materials, on its letterheads, business forms, and at all authorized business sites, in all of its business dealings related thereto and to the general public, it will identify the Licensed Business under an Assumed Name, approved by Licensor, together with the words "AN INDEPENDENTLY OWNED AND OPERATED LICENSEE" or such other similar designation as prescribed by Licensor, all in the form, size, and style as prescribed in the Confidential Operating Manual. In its sole discretion, Licensor retains the right to deny the use of certain words or phrases in the Assumed Name. Licensee will file and keep current a "Fictitious Business Name Statement" (or similar document) with respect to its Assumed Name in the county or other designated region in which Licensee is conducting business and at any other places as may be required by law. Prior to commencing business under the Service Marks, Licensee will supply evidence satisfactory to Licensor that Licensee has complied with relevant laws regarding the use of fictitious or assumed names. Licensor must approve in advance the total appearance of the Assumed Name (and other identifying words). Licensee further agrees that it will not identify itself as (i) Licensor, (ii) a subsidiary, parent, division, shareholder, partner, joint venturer, agent, or employee of Licensor or other owner of the Service Marks or (iii) any of Licensor's other licensees. If Licensee is a corporation, Licensee will not use in its corporate name either the Service Marks or any words confusingly similar thereto.

**6.03 Use and Modification of Service Marks.** Licensor may add to, substitute, or modify any or all of the Service Marks from time to time, by directive in the Confidential Operating Manual. Licensee will accept, use, display, or cease using, as may be applicable, the Service Marks, including any modified or additional trade names, trademarks, service marks, logotypes, and commercial symbols, and will within 30 days of receiving notification, commence to implement the changes and use its best efforts to complete the changes as soon as practicable. On the expiration or sooner termination of this Agreement, Licensor may, if Licensee does not do so, execute in Licensee's name and on Licensee's behalf any and all documents necessary, in Licensor's judgment, to end and cause a discontinuance of the use by Licensee of the Service Marks and Assumed Name registrations and Licensor is hereby irrevocably appointed and designated as Licensee's attorney-in-fact to do so.

**6.04 Use of Other Trademarks.** Licensee will not use or display or permit the use or display of trademarks, trade names, service marks, insignias or logotypes, other than the Assumed Name (i) in any advertisement that contains the words "Closet Tailors" or any other Service Marks, (ii) in or on any place

of business of Licensee in any manner that is reasonably visible from outside the place of business, or (iii) in any computer system used at any place of business of Licensee, or otherwise in connection with the Licensed Business, in any manner that could lead any person to believe that the other trademarks, trade names, service marks, insignias, or logotypes or the products or services with which they are associated are owned or offered by the Licensor or its affiliates, except as otherwise expressly permitted in this Agreement or in the Confidential Operating Manual.

**6.05 Prohibition Against Disputing Licensor's Rights.** Licensee may not, during or after the Term of this Agreement, in any way, dispute or impugn the validity of the Service Marks, the rights of Licensor to the Service Marks, or the right of Licensor or other licensees of Licensor to use the Service Marks.

**6.06 Service Mark Infringement Claims and Defense of Service Marks.** If Licensee receives notice or otherwise becomes aware of any claim, suit, or demand against it by any party other than Licensor or its affiliates, on account of any alleged infringement, unfair competition, or similar matter arising from Licensee's use of the Service Marks in accordance with the terms of this Agreement, Licensee will promptly notify Licensor of the claim, suit, or demand. Licensee may not settle or compromise any such claim, suit, or demand by a third party without the prior written consent of Licensor. Licensor will defend, compromise, or settle at its discretion any such claim, suit or demand at Licensor's cost and expense, using attorneys selected by Licensor, and Licensee agrees to cooperate fully in the matter. Provided that Licensee has fully complied with the obligations of this Section 6.06, Licensor will indemnify Licensee against all judgments resulting from any claim, suit, or demand arising from Licensee's use of the Service Marks in accordance with the terms of this Agreement. Licensor will have the sole discretion to determine whether a similar trademark or service mark being used by a third party is confusingly similar to the Service Marks being used by Licensee and whether and what subsequent action, if any, should be undertaken with respect to the similar trademark or service mark.

**6.07 Use of Service Marks on the Internet.**

(a) Licensee may not develop, create, generate, own, license, lease, or use in any manner any computer medium or electronic medium (including any Internet home page, e-mail address, Web site, bulletin board, newsgroup or other Internet-related medium) which in any way uses or displays, in whole or part, the Service Marks, or any of them, or any words, symbols, or terms confusingly similar to any of them without Licensor's express prior written consent, and then only in the manner and in accordance with the procedures, policies, standards, and specifications that Licensor establishes from time to time. Without limiting the generality of the foregoing, Licensee will not cause, permit or allow the Service Marks, or any of them, or any words, symbols or terms confusingly similar to any of them, be used or displayed in whole or part: (i) as, or as a part of, an Internet domain name; (ii) as, or as a part of, a uniform resource locator (or "URL," the unique address assigned to each page of a Web site) at any level or address; or (iii) on or in connection with any Internet home page, Web site, bulletin board, newsgroup, chat-group, buddy list, instant messenger, meta-tag (or the comparable identifier in any future technology) or other Internet-related activity, without Licensor's express prior written consent, and then only in the manner and in accordance with the procedures, policies, standards, and specifications that Licensor establishes from time to time. Licensee may not link to or frame any part of Licensor's Web site (including the Licensee Page, if any) to any other Web site or authorize any third party to link to or frame any part of Licensor's Web site (including the Licensee Page, if any) without Licensor's express prior written consent, and then only in the manner and in accordance with the procedures, policies, standards, and specifications that Licensor establishes from time to time.

(b) Except as provided below, Licensee may not use, nor authorize any third party to use, the Service Marks to advertise, promote, offer, or sell any goods or services through the Internet, if those goods or services are the same as or similar to those (i) which are offered at or from the Licensed Business, (ii) which bear any of the Service Marks, or (iii) which are otherwise offered or sold under the Service Marks. Licensee may, however, use the Service Marks to sell goods or services through the Internet in compliance with the Confidential Operating Manual or with Licensor's prior written consent, but then only in the manner and in accordance with the procedures, policies, standards, and specifications that Licensor establishes from time to time.

(c) Licensor is the owner of, and will retain all right, title, and interest in and to the domain name "Closet Tailors"; the URL: "www.closettailors"; all existing and future domain names, URLs,

addresses and subaddresses (including the Licensee Page subaddresses); all computer programs and computer code (e.g., HTML, Java) used for or on Licensor's Web site, excluding any computer programs and computer code owned by third parties (collectively, "**Software**"); all text, images, sounds, files, video, designs, animations, layout, color schemes, trade dress, concepts, methods, techniques, processes and data prepared for, used on or in connection with, displayed on, or collected from or through Licensor's Web site (collectively, "**Content**"); and all intellectual property rights in or to any of them.

## **7. INSTRUCTION AND OPERATING ASSISTANCE**

**7.01 Initial Training.** Unless the Initial License Fee was waived pursuant to Section 4.01, immediately before the Operating Date, Licensor will provide training to Licensee's Manager in the System (including instruction in Closet Organization design, measurement, and product installation; sales and marketing techniques; advertising techniques; availability and differences of Closet Organization products; and Licensor's policies and procedures ("**Initial Training**"). Licensor will determine the duration of and the time(s) and place(s) at which the Initial Training will be conducted. The Manager must complete Initial Training before the Operating Date. Licensor will provide the Initial Training to additional responsible management persons as requested by Licensee, subject to the provisions of Section 7.02. Before beginning the Initial Training, the Manager must deliver to Licensor a signed confidentiality agreement in the form from time-to-time included in the Confidential Operating Manual. At or immediately before Initial Training (unless the Initial License Fee was waived pursuant to Section 4.01 or Licensee acquired the Licensed Business as a result of a Transfer from another licensee), Licensor will provide Licensee with the Closet Tailors Start-Up Package, comprised of those items enumerated in Schedule B to this Agreement.

As part of the Closet Tailors Start-Up Package, Licensor will pay up to \$500 in transportation costs for Licensee's Manager to attend Initial Training, and charges for one room for 15 nights at a hotel of Licensor's choice. Licensee (or its Manager) is responsible for car rental, meals, and entertainment during training.

**7.02 Additional Attendees.** Provided there is sufficient room in an Initial Training class, Licensor will allow additional responsible management persons designated by Licensee to attend Initial Training. Persons attending Initial Training must have a demonstrable relationship to the management and operation of the Licensed Business by Licensee. Prior to beginning training, each person must deliver to Licensor a signed confidentiality agreement in the form from time-to-time included in the Confidential Operating Manual. Licensor reserves the right to assess a reasonable charge (not to exceed \$150 per day) for training additional attendees other than the Manager. At Licensor's discretion, any additional trainees may not be allowed to participate in field trips or vendor visits during the Initial Training.

If there is sufficient room available in the same session of Initial Training that Licensee's Manager attends, then one other responsible management person designated by Licensee may attend that same session at no additional charge. No credit or refund for the tuition or transportation will be made if only one attendee participates in the Initial Training.

### **7.03 Staff Training Courses.**

(a) Licensor may make available to Licensee, from time to time, optional staff training courses, seminars, conferences, or other programs, in a suitable location in Licensor's discretion. Following Initial Training, Licensor reserves the right to exclude prospective trainees from any further training courses who have not attended prior Licensor training courses which Licensor believes to be necessary for the trainee to have taken first.

(b) Upon reasonable notice, Licensor may require attendance of designated personnel of Licensee at training courses, seminars, conferences, or other programs other than Initial Training that are deemed by Licensor to be relevant or appropriate to the successful operation of the System. Licensor will charge no fees for required training courses, seminars, conferences, or other programs.

(c) In connection with any staff training courses described in Sections 7.03(a) and 7.03(b) above, Licensee will pay the travel, hotel and meal expenses for Licensee's attendees.

**7.04 Continuing Assistance.** Representatives of Licensor will be available on an ongoing basis during normal business hours at its headquarters for consultation and guidance with respect to the operation and management of the Licensed Business. In addition to the Confidential Operating Manual, Licensor may from time to time provide Licensee with additional materials and/or training relating to the Licensed Business.

**7.05 Proprietary Materials.** At Initial Training or other training programs (if any), Licensor will provide to Licensee proprietary information for use in connection with the training of Licensee's staff. At Initial Training, Licensor will lend to Licensee, for Licensee's use during the Term of this Agreement, one copy of the Confidential Operating Manual, which is and will at all times remain the property of Licensor. Licensor may also from time to time make available to Licensee for purchase certain materials relevant to the System and the Licensed Business. Licensee may not, and may not allow its employees or others, to copy, reproduce, disseminate, or otherwise reveal to third parties any of the foregoing proprietary information and related materials without Licensor's express prior written consent.

## **8. OPERATION OF BUSINESS**

### **8.01 Licensee Operational and Staff Requirements.**

(a) Licensee will employ or engage the services of, on a full time basis, at least one Manager who will devote his or her entire time and attention during normal business hours, as defined in the Confidential Operating Manual, to the management, operation, and development of the Licensed Business and will not engage in any other business activity requiring his or her active participation during normal business hours.

(b) At any time after the Effective Date, but before the Operating Date, Licensee must purchase or lease at Licensee's expense a motor vehicle meeting Licensor's standards, as set forth in the Confidential Operating Manual (a "**Vehicle**") for use in the Licensed Business. As part of the Closet Tailors Start-Up Package, Licensor provides signage displaying the Closet Tailors logo. Licensee must retain (at Licensee's expense) a capable vendor to affix the signage to the Vehicle (placement of the signage on the Vehicle must be in accordance with the specifications of Licensor as set forth in the Confidential Operating Manual). Any subsequent modifications to the Service Mark and distinctive logo on the side of the Vehicle will be at Licensee's expense. Licensee will be responsible for all operating and other expenses associated with the Vehicle. Licensee will deliver to Licensor a copy of the bill of sale or lease for the Vehicle within ten days after Licensee purchases or leases it. Licensee must at all times maintain a policy of comprehensive liability insurance on an occurrence basis with a combined single limit for bodily injury, death, or property damage of not less than \$500,000 with Licensor as an additional named insured. The insurance requirements of the preceding sentence will survive so long as Licensee uses the Vehicle in any business operating under the Assumed Names. In the event this Agreement is terminated, for whatever reason, Licensee will immediately remove the name and logo of Closet Tailors from the Vehicle and cease any further use of that name and logo.

(c) Licensee may purchase Closet Organization products only from vendors designated by Licensor (which may include affiliates of Licensor). Each vendor will have an account number assigned to it by Licensor. All purchases by Licensee will be coded to the specific account number corresponding to that vendor, and all records of all purchases by Licensee each month will be forwarded by the vendor to Licensor. Any purchases by any Licensee from any vendor other than as designated by Licensor, unless approved in advance by Licensor, will be deemed a material breach of this Agreement, in which event the termination provisions of this Agreement will apply. In addition, Licensee will be required to purchase from designated vendors or approved suppliers sample books, marketing materials, or other items necessary to sell the Closet Organization products, as well as stationery and business cards containing Licensor's proprietary service marks.

(d) Licensee will purchase or lease and use in the Licensed Business a MasterCard/Visa terminal and other necessary items of office equipment and furnishings.

(e) Licensee will maintain a minimum average monthly sales volume, measured over a rolling 12-month period ("**Base Minimum Sales**") of \$10,000. Sales volume for this purpose consists of all money or things of value received or receivable ("receivable" means earned though not yet received)

during a month, directly or indirectly by Licensee, which constitute payment to or on account of the Licensed Business, without deducting Licensee's costs or expenses, shipping, commissions, salaries, and overrides or bonuses payable to its salespersons or employees, but less applicable sales taxes. The Base Minimum Sales threshold may be adjusted once each year at the discretion of Licensor effective June 1 of each year based on changes in the "Consumer Price Index." Licensor will give Licensee reasonable advance notice of any adjustment to the Base Minimum Sales threshold.

The term "**Consumer Price Index**" means the annual average of the Consumer Price Index for All Urban Consumers, Service Group Only, 1982-1984 = 100, published by the Bureau of Labor Statistics of the United States Department of Labor (the "**Bureau**"). If the Bureau ceases publishing the Consumer Price Index, then the successor or most nearly comparable index as selected by Licensor will be used.

(f) Licensee will pay any and all personal property, income, sales, use, excise, *ad valorem*, and other taxes, regardless of source or nature, which may be imposed, levied, assessed, or charged on, against, or in connection with, the Licensed Business or any product or service sold or furnished by Licensee under this Agreement or otherwise, by any federal, state, county, municipal, or other governmental agency or subdivision which may have jurisdiction over the Licensed Business or the products or services offered in connection therewith.

(g) Licensor strongly suggests (but does not require) that Licensee should have a minimum working capital of not less than \$15,000 after paying the Initial License Fee and Initial Territory Fee, but before commencement of operations. Depending upon the circumstances, Licensee may need considerably greater working capital (of \$30,000 or more). This working capital is to be used for initial advertising; Vehicle expenses; the office equipment required by Licensor as well as miscellaneous other office equipment; insurance; all necessary business, contractors or other licenses required by your state to do business; initial tools and supplies; deposits; initial start-up costs; and related expenses. Those amounts (some of which may be paid to Licensor and other amounts to outside vendors in connection with various expenses) are generally non-refundable; whether any amounts paid to third parties are refundable depends upon the agreement with the third party.

(h) From time to time, Licensee will hire the additional full-time and part-time staff that Licensee considers necessary to operate the Licensed Business properly. Although Licensor may make recommendations to Licensee (in the Confidential Operating Manual or otherwise) concerning employees, Licensee will be solely responsible for all hiring, firing, and discipline issues concerning its employees. Licensee will indemnify Licensor (pursuant to Section 13.02, below) for all claims arising out of or relating to Licensee's employees and Licensee's hiring, firing, and discipline decisions concerning those employees.

**8.02 Depository Account.** If Licensee is delinquent in paying Fees to Licensor twice in any consecutive 12 month period, Licensor may require Licensee to establish and maintain a "**Depository Account**" Any Depository Account will be established in accordance with the requirements set forth in the Confidential Operating Manual at a bank or other financial institution that is a participating member of the Automated Clearinghouse ("**ACH**") or such other network or system as may be directed by Licensor. Licensee will instruct the institution holding the Depository Account to allow Licensor access to the Depository Account for collection of Fees. Under no circumstances will access to the Depository Account be deemed to be control or joint control of the Depository Account by Licensor. If the Depository Account is established, Licensee continuously will maintain a minimum balance in the Depository Account of \$3,000 or the higher continuous minimum balance that Licensor considers reasonably necessary. Licensee will reimburse Licensor for all extraordinary costs incurred by Licensor in collecting or attempting to collect Fees from the Depository Account (for example, charges for non-sufficient funds, uncollected funds or other discrepancies in deposits or maintenance of the Depository Account balance in accordance with the terms ). The Depository Account will be established and maintained solely for purposes set forth in this Section 8.02 and the Confidential Operating Manual.

**8.03 Confidential Operating Manual.**

(a) Licensee will operate the Licensed Business in accordance with the Confidential Operating Manual. Licensor will have the right to modify the Confidential Operating Manual at any time

by the addition, deletion or other modification of the provisions of the Confidential Operating Manual. Licensor agrees that although the modifications to the Confidential Operating Manual may be material in that they may have an effect on the operation of the Licensed Business, they may not conflict with or materially alter the terms of this Agreement. All additions, deletions or modifications will be effective (i) five business days after Licensor has deposited notification to Licensee with the United States Postal Service properly addressed, or (ii) the next business day after verified receipt by Licensee of electronic mail notification, or (iii) the next business day after notification is posted on Licensor's Web site if Licensee has password protected access to the Web site for the notifications.

(b) All additions, deletions, or modifications to the Confidential Operating Manual will be equally applicable to all similarly-situated Licensees. The Confidential Operating Manual, as modified or amended from time to time, will not alter Licensee's fundamental status and rights under this Agreement. As modified from time to time, the Confidential Operating Manual will be deemed to be an integral part of this Agreement and references to the Confidential Operating Manual made in this Agreement, or in any amendments or exhibits hereto, will be deemed to mean the Confidential Operating Manual, as amended from time to time.

(c) If Licensor produces a printed version of the Confidential Operating Manual, Licensor will lend to Licensee at no additional charge one copy of the Confidential Operating Manual. All copies of the Confidential Operating Manual will at all times remain the sole, confidential, and trade secret property of Licensor. Upon the expiration or termination of this Agreement for any reason whatsoever, Licensee will immediately return all printed copies of the Confidential Operating Manual to Licensor. Except as specifically permitted by Licensor, at no time may Licensee, or its employees or agents, make, or cause to be made, any copies or reproductions of all or any portion of the Confidential Operating Manual or disclose the terms of the Confidential Operating Manual to any other person except employees and agents of Licensee when required in the operation of the Licensed Business.

#### **8.04 Telephone Numbers and Directory Advertising.**

(a) Licensor will operate a toll free telephone number to be used for the conduct of the Licensed Business. All advertising relating to the Licensed Business will include this toll free number. For each month or portion of a month in which this Agreement is in effect, Licensee will pay Licensor a Toll Free Number Use Fee of \$29.50.

(b) At its expense, Licensee will obtain and maintain telephone service for the Licensed Business. Licensee may insert this number in its directory listings (see paragraph (c), below), business cards, and stationery in conjunction with the Licensed Business, but may otherwise advertise this telephone number only with Licensor's prior written consent. If Licensee operates the Licensed Business from Licensee's residence, the business line obtained by Licensee must be separate and distinct from Licensee's personal (residential) telephone number. If Licensee is engaged in businesses other than the Licensed Business, Licensee must maintain different telephone numbers and may make no reference to the Licensed Business in any "white pages" or "yellow pages" listings in respect of the other businesses. At the time of termination of this Agreement, for any reason, Licensee will comply with the provisions of Section 12.01(b) below, with respect to telephone numbers.

(c) Licensee will advertise the Licensed Business in all primary (as determined by Licensor) "white pages" and "yellow pages" directories in the Territory. The form, size, content, and placement of yellow page advertising will be at the sole discretion of Licensee, consistent, however, with procedures prescribed by Licensor in the Confidential Operating Manual. All "display" advertisements in the yellow pages must state that each business is independently owned and operated, must list Licensor's toll free telephone number, and may list the local telephone number for Licensee's Licensed Business. Licensee may, at its option, join with other Closet Tailors licensees for a single yellow page advertisement, and if so, in addition to Licensor's toll free telephone number, either the local telephone number of each Closet Tailors licensee must be listed in the yellow page advertisement or none of the local telephone numbers may be listed.

(d) Upon termination of this Agreement, for any reason, Licensor will retain or change any listed telephone numbers relating to the Licensed Business in its sole discretion, and Licensee will do all things necessary or appropriate to transfer those telephone numbers to Licensor, including paying any



outstanding accounts with "white pages" and "yellow pages" directories and telephone service providers, and will not provide a call forwarding or telephone number referral with respect to any retained or disconnected telephone number. Furthermore, upon termination, Licensee will not indicate in any manner it was previously affiliated with Licensor.

(e) Licensor may impose other requirements concerning telephones and telephone numbers in the Confidential Operating Manual. Among other requirements that may be imposed in the Confidential Operating Manual, Licensor may require that Licensee's telephones be answered by a live person (either an employee of Licensee or an answering service) during regular business hours, rather than using voice-mail or a telephone answering machine.

**8.05 Insurance.** Licensee will have in effect on the Operating Date and maintain during the Term a commercial general liability insurance policy and all other insurance in the types and amounts as are specified in the Confidential Operating Manual. All policies of insurance to be maintained by Licensee will contain a separate endorsement naming the Licensor, and if required, its affiliated companies, as additional insured parties. The policies of insurance will not be subject to cancellation or modification except after 30 days prior written notice to the Licensor. Licensee will cause certificates of insurance showing compliance with the above requirements to be delivered to the Licensor annually upon renewal and at any other times that Licensor requests. If Licensee does not maintain the insurance coverage required in the Confidential Operating Manual, Licensor may purchase the policies of insurance it considers to be required and Licensee will reimburse Licensor for all costs of the insurance.

**8.06 Record of Revenues.**

(a) Licensee will maintain during the Term, and for a period of 36 months following expiration or termination of this Agreement for any reason, complete and accurate records of all revenues related to the Licensed Business, in the form and manner specified by Licensor in its Confidential Operating Manual. Licensee will permit Licensor or its representatives or agents selected in the sole discretion of Licensor, during normal business hours, to examine or audit the books of accounts, bank statements, documents, records, papers, and federal, state and local tax return records relating to the Licensed Business or individual officers, directors, owners, partners, or affiliated or related entities or shareholders.

(b) No later than January 31 of each year during the Term, Licensee will furnish Licensor with a statement of Licensee's total sales during the prior calendar year. The annual statements will be prepared in accordance with the guidelines prescribed by Licensor in the Confidential Operating Manual, and will be certified by Licensee or by Licensee's Chief Executive Officer or Chief Financial Officer (as appropriate), as being true and correct.

(c) Licensor may use information from Licensee's annual statement of sales, in aggregate form, as part of Licensor's franchise offering circular or similar disclosure document.

**8.07 Review.** Upon reasonable prior written notice, Licensor will have the right to send representatives at reasonable intervals during normal business hours, into Licensee's principal place of business or other offices to inspect Licensee's operations, business methods, service, financial and other records, management, and administration, to determine the quality and the faithfulness of Licensee's compliance with the provisions of this Agreement and the Confidential Operating Manual.

**8.08 Compliance with Laws.** Licensee will (i) operate the Licensed Business in compliance with all applicable laws, rules and regulations of all governmental authorities, (ii) comply with all applicable wage and hour and other laws and regulations of the federal, state, or local governments, (iii) prepare and file all necessary tax returns, (iv) pay promptly all taxes imposed upon Licensee or upon its business or property, and (v) at all times comply with the applicable licensing requirements if any, of a State Contractor's License Board (or its equivalent) and other appropriate organizations. Licensee represents and warrants that it will obtain and maintain all necessary permits, certificates, and/or licenses necessary to conduct the Licensed Business in the Territory. Licensee will immediately notify Licensor of any litigation, arbitration, disciplinary action, criminal proceeding, or any other legal proceeding or action brought against or involving Licensee, or any entity affiliated with Licensee, or any agent, employee, owner, director or partner of Licensee, which notification will include all relevant details concerning the proceedings, according to the procedures set forth in the Confidential Operating Manual.

#### **8.09 No Other Closet Organization Businesses.**

(a) Licensee acknowledges that, pursuant to this Agreement, Licensee will receive valuable specialized training, trade secrets, and confidential information, including information regarding the operational, sales, promotional, and marketing methods and techniques of the System. Licensee acknowledges that this specialized training, trade secrets, and confidential information provide a competitive advantage and will be valuable to Licensee in the development and operation of the Licensed Business, and that gaining access to this specialized training, trade secrets, and confidential information is, therefore, a primary reason why Licensee is entering into this Agreement.

(b) In consideration for this specialized training, trade secrets, confidential information, and rights, Licensee covenants that, except as otherwise approved in writing by Licensor, Licensee will not during the Term, either directly or indirectly, for itself or through, on behalf of, or in conjunction with any persons, partnership, or corporation:

(i) Divert or attempt to divert any business or customer of the Licensed Business to any "Competitor" (as defined below), by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Service Marks and the System. For purposes of this Agreement, a "**Competitor**" is a business that derives 20% or more of its gross revenues from the direct or indirect retail sale of Closet Organization products or services or other products or services similar to those sold by the Licensor and its licensees.

(ii) Own, maintain, operate, engage in, or have any financial or beneficial interest in (including any interest in corporations, partnerships, trusts, unincorporated associations, or joint ventures), advise, assist, or make loans to, any Competitor located within the United States, its territories or commonwealths, or any other country, province, state, or geographic area in which Licensor has used, sought registration of, or registered the Service Marks or similar marks, or operates or licenses others to operate a business under the Service Marks or similar marks.

(c) For a continuously uninterrupted period of two years, beginning with the "commencement date" specified below, Licensee will not, directly or indirectly, for itself, or through, on behalf of, or in conjunction with any other person:

(i) Divert or attempt to divert any business or customer of the Licensed Business to any Competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Service Marks and the System.

(ii) Employ or seek to employ any person who is at that time, or has been within the preceding six months, employed by Licensor or by any other licensee or developer of Licensor, or otherwise directly or indirectly induce those persons to leave their employment, except as permitted under any existing license agreement between Licensor and Licensee.

(iii) Own, maintain, operate, engage in, or have any financial or beneficial interest in (including any interest in corporations, partnerships, trusts, unincorporated associations, or joint ventures), advise, assist, or make loans to, any Competitor that is, or is intended to be, located within the Territory or within a 25 mile radius of any Closet Tailors business in existence or under development as of the commencement date of this Section 8.09(c).

For purposes of this Section 8.09(c), the "**commencement date**" is the date that this Agreement expires without renewal or is terminated (regardless of the reason for termination), or that Licensee transfers all of its interest in this Agreement.

(d) Licensee acknowledges that each of the covenants contained in this Section 8.09 is a reasonable limitation as to time, geographical area, and scope of activity to be restrained, and do not impose a greater restraint than is necessary to protect the goodwill or other business interests of Licensor. Each of the covenants in this Section 8.09 will be construed as independent of any other covenant or provision of this Agreement. If all or any portion of a covenant in this Section 8.09 is held unreasonable or unenforceable by a court or agency having valid jurisdiction in an unappealed final decision to which Licensor is a party, Licensee expressly agrees to be bound by any lesser covenant subsumed within the terms of the 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. This Section 8.09 will not

apply to the ownership of less than a 1% beneficial interest in the outstanding equity securities of any publicly held company.

(e) Licensee understands and acknowledges that Licensor may, in its sole discretion, reduce the scope of any covenant set forth in this Section 8.09 in this Agreement, or any portion of this Section 8.09 without Licensee's consent, effective immediately upon notice to Licensee. Licensee agrees that any covenant as so modified will be fully enforceable, and Licensee covenants that it will comply with the modified covenant.

(f) Licensee expressly agrees that the existence of any claims it may have against Licensor, whether or not arising from this Agreement, will not constitute a defense to the enforcement by Licensor of the covenants in this Section.

(g) Licensee must require and obtain execution of covenants similar to those set forth in this Section 8.09 (including covenants applicable upon the termination of a person's employment with Licensee) from its Manager. Additionally, at Licensor's request, Licensee will require and obtain execution of similar covenants to those identified in the preceding sentence from any personnel of Licensee who have received or will have access to training from Licensor. Licensee will also require all persons who Control Licensee or who own (directly or indirectly) 10% or more of Licensee to execute similar covenants. Any covenants required under this Section 8.09(g) will be substantially in the form of Section 8.09, but with signature lines for those making these covenants.

#### **8.10 Licensor's Web Site.**

(a) Licensor has established and will maintain from time to time one or more sites on the World Wide Web portion of the Internet that may, among other things, facilitate orders, provide information about the System and the products and services that are offered at businesses operated under the Service Marks, and allow end-users to locate a nearby business operated under the Service Marks (the "*Licensor's Web site*"). Licensor has sole discretion and control over the design and content of Licensor's Web site. Licensor may, at its sole option, from time to time, without prior notice to Licensee: (i) change, revise, or eliminate the design, content, and functionality of Licensor's Web site; (ii) make operational changes to Licensor's Web site; (iii) change or modify the URL and/or domain name of Licensor's Web site; (iv) substitute, modify, or rearrange Licensor's Web site, at Licensor's sole option, including in any manner that Licensor considers necessary or desirable to, among other things, (A) comply with applicable laws, (B) respond to changes in market conditions or technology, and (C) respond to any other circumstances; (v) limit or restrict end-user access (in whole or in part) to Licensor's Web site; and (vi) disable or terminate Licensor's Web site without any liability to Licensee.

(b) Licensor may link Licensor's Web site to the Web sites of third parties, including electronic service providers, Licensor's Affiliates, and other providers of goods and services. Licensor may also permit third parties to link (including links to interior pages of Licensor's Web site, including the Licensee Page) and frame Licensor's Web site (including the Licensee Page). Licensor may place legal notices, disclaimers, Licensor's corporate logos and slogans, advertisements, endorsements, trademarks, and other identifying information on Licensor's Web site, all of which may be modified, expanded, or eliminated at Licensor's option. Further, Licensor may establish or participate in programs whereby Licensor refers end-users to other Web sites, or Licensor receives referrals from other Web sites. All consideration (monetary and non-monetary) received by Licensor on account of the placement or sale of advertisements, endorsements, and sponsorships on Licensor's Web site (including any Licensee Page), and all consideration (monetary and non-monetary) received by Licensor on account of affiliate programs, will belong only to Licensor. Licensor may also establish programs that encourage repeat visits to Licensee's Web site by end-users.

(c) Licensor's Web site may include one or more interior pages that identify Closet Tailors licensees operating under the Service Marks, including the Licensed Business, by among other things, geographic region, address, telephone numbers, and other appropriate matters. Licensor's Web site may also include one or more interior pages dedicated to franchise sales by Licensor and/or relations with Licensor's investors.

(d) Licensor may, from time to time, establish one or more interior pages on Licensor's Web site dedicated in whole or in part to the Licensed Business (the "*Licensee Page*"). Licensor may permit Licensee to customize or post certain information to the Licensee Page, subject to Licensee's execution of

Licensor's then-current participation agreement, and Licensee's compliance with the procedures, policies, standards, and specifications that Licensor may establish from time to time. The participation agreement may require the Licensee to pay a reasonable fee (not to exceed \$600 per year) for the privilege of having a Licensee Page, and may include specifications and limitations for the data or information to be posted to the Licensee Page, customization specifications, the basic template for design of the Licensee Page, parameters and deadlines specified by Licensor, disclaimers, and other standards and specifications and rights and obligations of the parties as Licensor may establish from time to time. Any modifications (including customizations, alterations, submissions, or updates) to the Content made by Licensee for any purpose will be deemed to be a "work made for hire" under the copyright laws, and therefore, Licensor will own the intellectual property rights in and to the modifications. To the extent any modification does not qualify as a work made for hire as outlined above, Licensee hereby assigns those modifications to Licensor for no additional consideration and with no further action required and will execute any further assignments as Licensor may request.

(e) Without limiting Licensor's general unrestricted right to permit, deny, and regulate Licensee's participation on Licensor's Web site in Licensor's sole discretion, if Licensee breaches this Agreement, or any other agreement with Licensor or its affiliates, Licensor may disable or terminate the Licensee Page and remove all references to the Licensed Business on Licensor's Web site until the breach is cured.

(f) Licensor has no control over the stability or maintenance of the Internet generally; as a result, Licensor is not responsible for damage or loss caused by errors of the Internet. Furthermore, Licensor is not liable for any direct, indirect, special, incidental, exemplary, or consequential damages arising out of the use of, or the inability to use, Licensor's Web site or the Internet, including loss of profits, goodwill, or savings; downtime; or damage to or replacement of programs and data, whether based in contract, tort, product liability, or otherwise.

**8.11 Electronic Commerce.** Licensor may, at its sole option, use Licensor's Web site for the purpose of engaging in "Electronic Commerce." The term "**Electronic Commerce**" means offering and selling merchandise and services associated with the Service Marks, and receiving and accepting orders and payment for that merchandise and services, directly or indirectly, through any means of electronic communication, including receiving and accepting orders over the Internet. Initially, Licensor intends that Licensor's Web site will offer end-users the ability to place orders for products to be delivered from licensed and company-owned Closet Tailors businesses operating under the Service Marks. Upon Licensor's request, Licensee will be required to participate in Electronic Commerce and will execute Licensor's then-current electronic commerce participation agreement, which will, among other things: (i) state the terms on which Licensee and Licensor will share program revenues and expenses; (ii) authorize Licensor, from time to time, to establish, and thereafter modify, procedures, policies, protocols, and standards and specifications that govern Electronic Commerce and use of end-user information; (iii) require specified computer (hardware and software) and communications equipment; and (iv) authorize Licensor to disable or terminate end-user's ability to place orders or schedule appointments with Licensee during any period that Licensee is in breach of this Agreement or any other agreement with Licensor or its Affiliates.

**8.12 Licensor Intranet/Extranet.**

(a) Licensor may establish and maintain, at its option, either a series of "private" pages on Licensor's Web site (described in Section 8.10) or an Intranet through either of which Licensor, licensees of Licensor, and their respective employees may communicate with each other, and through which Licensor may disseminate the Confidential Operating Manual, updates thereto, and other confidential information. Licensor will have sole discretion and control over all aspects of the Intranet, including the content and functionality of the Intranet. Licensor will have no obligation to maintain the Intranet indefinitely, and may dismantle it at any time without liability to Licensee.

The term "**Intranet**" means a private method of communication for use only by employees and licensees of Licensor. The Licensor's Intranet may be either a "true" intranet (a series of inter-connected computers that use the same type of software as the Internet, but that are not technically part of the Internet and do not use the Internet to transmit material to one another) or an extranet (which will actually transmit information over the Internet, but require a password to access data on the servers used by Licensor).

(b) If Licensor establishes an Intranet, Licensee will have the privilege to use the Intranet, subject to Licensee's strict compliance with the standards and specifications, protocols, and restrictions (collectively, "**Licensor Protocols**") that Licensor may establish from time to time. The Licensor Protocols may relate to, among other things, (i) the use of abusive, slanderous, or otherwise offensive language in electronic communications; (ii) communications between or among Licensees that endorse or encourage breach of any licensee's license agreement; (iii) confidential treatment of materials that Licensor transmits via the Intranet; (iv) password protocols and other security precautions; (v) grounds and procedures for Licensor's suspending or revoking a Licensee's access to the Intranet; and (vi) a privacy policy governing Licensor's access to and use of electronic communications that licensees post to the Intranet. Licensee acknowledges that, as administrator of the Intranet, Licensor can technically access and view any communication that any person posts on the Intranet. Licensee further acknowledges that the Intranet facility and all communications that are posted to it will become Licensor's property, free of any claims of privacy or privilege that Licensee or any other person may assert.

(c) Upon receipt of notice from Licensor that Licensor has established the Intranet, Licensee will establish and continually maintain (during all times that the Intranet is established and until the termination of this Agreement) an electronic connection (the specifications of which will be specified in the Confidential Operating Manual) with the Intranet that allows Licensor to send messages to and receive messages from Licensee, subject to the Licensor Protocols.

(d) If Licensee breaches this Agreement or any other agreement with Licensor or its Affiliates, Licensor may disable or terminate Licensee's access to the Intranet without Licensor having any liability to Licensee, and in which case Licensor will only be required to provide Licensee a paper copy of the Confidential Operating Manual and any updates thereto, if none have been previously provided to Licensee, unless Licensee is not otherwise entitled to the Confidential Operating Manual.

**8.13 Change in Status Processing.** Requests for (i) change of Assumed Name, (ii) changes in designated Manager or (iii) other changes in status as may be specified from time to time by Licensor, will be made on the form as designated by Licensor in the Confidential Operating Manual.

**8.14 Key Accounts.** Licensee acknowledges that to competitively attract and effectively service Key Accounts, Licensor may need to establish policies governing the manner in which Key Accounts will be solicited and serviced, including reserving to Licensor the exclusive right to solicit particular Key Accounts or types and/or categories of Key Accounts, and requiring Licensee to obtain Licensor's prior consent before soliciting Key Accounts. Licensee will comply with all Key Account Policies.

Licensee further acknowledges that Key Account policies to be established by Licensor may obligate Licensee to pay a fee (either a flat amount or a percentage of sales) in exchange for referral from or to the Key Account. Without limiting the foregoing, Licensee expressly acknowledges that Licensor, may offer to subcontract Licensee to furnish approved products and services on Licensor's behalf to Key Accounts in Licensor's sole discretion and subject to the applicable customer's approval and Licensee's execution of a subcontract in the form prescribed by Licensor. If Licensor offers Licensee such a subcontract, Licensee will not be obligated to accept it. However, if Licensee declines, Licensor may itself perform the services or may subcontract the services to another licensee or an independent subcontractor. Licensee acknowledges that Licensor makes no representation or warranty that any specified amount of Key Account business will be provided within the Territory.

**8.15 Computer and Software.** One aspect of the System is the ability to display in the customer's home an on-screen layout of the Closet Organization products proposed to be sold to the customer. To that end:

(a) Licensee must obtain (by purchase or lease) at least one laptop/desktop computer meeting Licensor's criteria for the computer (including chipset, memory, hard drive size, operating system, and required commercial programs). Licensee is also required to obtain Internet access (preferably high-speed, such as DSL or cable). If required due to changes in technology, Licensee must upgrade that computer and related items from time to time. Licensee is not required (but may desire) to obtain a printer or other accessories to go with the computer.

(b) Licensor will provide to Licensee, at no additional charge, one copy of a software program that will allow Licensee to provide the in-home demonstrations described above. Licensee may

use the software on only a single computer, but may obtain additional copies of the software from Licensor for Licensor's then-current fee. Licensor will, from time-to-time in Licensor's discretion, provide Licensee with enhancements, improvements, and other upgrades to the software. Changes to the software may require Licensee to upgrade the computer on which the software runs.

## 9. ASSIGNMENT

**9.01 Assignment by Licensor.** Licensor may Transfer this Agreement, or all or any part of its rights, privileges, and obligations under this Agreement, to any other person, provided that, in respect to any Transfer resulting in the subsequent performance by the assignee of the functions of the Licensor: (i) at the time Licensor Transfers this Agreement, Licensor reasonably believes that the transferee is financially responsible and economically capable of performing the delegated obligations of Licensor; and (ii) the transferee of Licensor expressly assumes and agrees to perform the obligations. Following the Transfer by Licensor, Licensor will be relieved of all obligations or liabilities then existing or thereafter able to be asserted under this Agreement.

**9.02 Assignment by Licensee.** This Agreement is being entered into in reliance upon and in consideration of the singular personal skills and qualifications of Licensee (if Licensee is an individual) or the persons who directly or indirectly Control Licensee or directly or indirectly own (in this context, an "**Equity Holder**") a beneficial interest in Licensee (if Licensee is person other than an individual), and the trust and confidence reposed by Licensor in Licensee and its Equity Holders. Licensee and its Equity Holders each covenant to actively and substantially participate in the ownership and operation of the Licensed Business.

(a) Without the prior written consent of Licensor and subject to Licensor's right of first refusal provided for in Section 9.03, neither Licensee nor any Equity Holder may Transfer any interest in Licensee, this Agreement, or all or substantially all of the assets of Licensee used in connection with the Licensed Business. As further clarification of the foregoing restrictions, Licensee may not sub-license or attempt to sub-license this Agreement, or a portion but not all of Licensee's rights under this Agreement, without the express prior written permission of Licensor. Any Transfer or purported Transfer in violation of this Section 9.02 will be void.

(b) Licensor may withhold its consent to a sub-licensing of all or part of Licensee's interest in the Agreement for any reason whatsoever in Licensor's sole discretion. If Licensee or any of its owners proposes to make any other form of Transfer, and if Licensor elects not to exercise its right of first refusal (or if the right of first refusal is not applicable to the proposed Transfer, as provided in this Agreement), Licensor will not unreasonably withhold its consent to the Transfer. Licensor may consider the effect that the Transfer and the prospective transferees will have or may reasonably be expected to have on the reputation or business operations of the Licensed Business, the Service Marks, or Licensor, or any of Licensor's affiliates. Additionally, it will not be unreasonable for Licensor to impose, among other things, the following conditions precedent to its consent to any Transfer:

(i) The proposed assignee of the interest to be subjected to the Transfer will complete Licensor's application for a license agreement, and Licensee and the proposed assignee will fully disclose in writing all of the terms and conditions of the proposed Transfer.

(ii) The proposed assignee(s) of the interest to be subjected to the Transfer demonstrate(s) that it has or they have the skills, qualifications, and economic resources necessary, in Licensor's reasonable judgment, to conduct the business contemplated by this Agreement. Among other things, this may require the possession of certain skills and qualifications of the prospective transferee, including experience in or ability to learn the Closet Organization business; financial and operational skills and qualifications; economic resources; reputation and character of the prospective transferees; and the ability of the prospective transferee(s) to fully and faithfully conduct the Licensed Business as contemplated by this Agreement.

(iii) The proposed assignee of the interest to be subjected to the Transfer expressly assumes in writing for the benefit of Licensor all of the obligations of Licensee under this Agreement.

(iv) If the proposed Transfer will result in a new Licensee under this Agreement, the new Licensee executes the then current form of License Agreement being used by Licensor for the remainder of the unexpired Term of this Agreement.

(v) As of the date of the proposed Transfer, Licensee is in full compliance with all of its obligations to Licensor, whether under this Agreement or under any other agreement, arrangement, or understanding with Licensor.

(vi) The proposed assignee of the interest to be subjected to the Transfer must agree in writing that Licensor's Initial Training program described in Section 7.01 and any other training or orientation programs then required by Licensor will be satisfactorily completed by necessary personnel within 30 days after the effective date of the Transfer; provided, however, that the proposed assignee must pay for all of its expenses incurred in connection therewith, including travel, hotel, and meal expenses.

(vii) Licensee pays to Licensor a non-refundable transfer fee equal to the amount then being charged by Licensor; in addition, if the proposed assignee of the interest to be subjected to the Transfer was already in Licensor's lead database at the time of first contact between Licensee (or its Equity Holder) and the proposed assignee, then Licensor may require Licensee to pay the referral fee then being charged by Licensor plus the amount of any broker fees that Licensor must pay to a third-party (not an employee of Licensor).

(c) If Licensee is not an individual, Licensee will provide Licensor at the Effective Date with a copy of Licensee's governing documents (such as articles of incorporation, bylaws, operating agreement, or partnership agreement) and all other agreements among the Equity Holders (such as buy/sell agreements). If Licensee is a corporation or other entity that issues capital stock, Licensee will provide Licensor at the Effective Date with a prototype stock certificate. As a condition to entering into the License Agreement, a Licensee that issues capital stock will be required to place the following legend on all stock certificates:

**"The transfer of this stock is subject to the terms and conditions of that certain License Agreement dated \_\_\_\_\_ between this corporation and Closet Tailors, LLC. Reference is made to that License Agreement and the restrictive provisions contained therein and as may be otherwise set forth in the Articles of Incorporation and by-laws of this corporation."**

(d) The cumulative Transfer in any 12 consecutive month period of 25% or more of the ownership interests or voting power in Licensee will be deemed to be a Transfer for purposes of this Section 9.

**9.03 Right of First Refusal.** Except as provided in Sections 9.04, 9.05, and 9.06, the right of Licensee or its Equity Holders to Transfer any interest in this License Agreement will be subject to Licensor's right of first refusal with respect thereto. Licensor may exercise the right of first refusal in the following manner:

(a) Licensee will deliver to Licensor a written notice setting forth (i) all of the terms and conditions of any *bona fide* offer relating to a proposed Assignment by Licensee, and (ii) all available information concerning the proposed assignee of the interest proposed to be subject to a Transfer.

(b) Within ten days after Licensor's receipt of the notice (or if Licensor requests additional information, within ten days after receipt of the additional information), Licensor may either consent or withhold its consent to the Transfer, in accordance with Section 9.02 or, at its option, may accept the Transfer itself or on behalf of its nominee upon the terms and conditions specified in the notice.

(c) If Licensor elects not to exercise the right of first refusal and consents to the Transfer, Licensee will for a period of 90 days, and subject to the provisions of Section 9.02, be free to complete the proposed Transfer upon the terms and conditions specified in the notice. If, however, the terms are materially changed, or if the 90-day period expires, Licensor will again have the right of first refusal with respect to the offer and Licensee will again be required to comply with Section 9.03(a) above.

**9.04 Transfers to Family Members.** An individual Licensee or an Equity Holder, may with Licensor's consent, which will not be unreasonably withheld, Transfer the Licensed Business or an equity interest in Licensee to the person's spouse, parent, sibling, niece, nephew, descendant, or spouse's descendant (each, a "**Family Member**") provided that adequate provision is made for the management of the Licensed Business and the transferor guarantees, in form and substance satisfactory to Licensor, the performance of the transferee's obligations under this Agreement.

**9.05 Transfers to Affiliated Persons.** Licensee or an Equity Holder may, without the consent of Licensor, upon 30 days prior written notice to Licensor, Transfer the Licensed Business or an equity interest in Licensee to a person (other than an individual) entirely owned by natural person(s) making the Transfer in the same proportionate amount of ownership as before the Transfer, provided that adequate provision is made for the management of the Licensed Business and that the transferor guarantees, in form and substance satisfactory to Licensor, the performance of the transferee's obligations under this Agreement. No transfer fee will be payable in respect of a Transfer pursuant to this Section.

**9.06 Transfers Upon Death or Incapacity.** Notwithstanding any of the foregoing, upon the death or legal incapacity of Licensee or an Equity Holder that is an individual, the person's interest in this Agreement or its equity interest in the Licensee will Transfer in accordance with the person's will or, if the person dies intestate, in accordance with laws of intestacy governing the distribution of the person's estate, provided that adequate provision is made for the management of the Licensed Business and the transferee is one or more of the decedent's spouse, parents, siblings, nieces, nephews, descendants, or spouse's descendants. A Transfer pursuant to this Section 9.06 will be free from Licensor's right of first refusal provided in Section 9.03, and no transfer fee will be payable in respect of a Transfer pursuant to this Section. Any subsequent Transfer will be subject to all provisions of this Section 9.

If Licensor determines, in its reasonable judgment, that the heirs, personal representatives, or conservators, as applicable, are not capable of operating the Licensed Business, Licensor may immediately commence operating the Licensed Business on behalf of Licensee pending a Transfer to a qualified buyer. For this management assistance, Licensor may charge Licensee a fee equal to 8% of the Gross Sales during Licensor's operation of the License, plus the wages or salary for an interim Manager.

## **10. DEFAULT AND TERMINATION**

### **10.01 General.**

(a) Licensor may unilaterally terminate this Agreement upon Licensee's material breach of this Agreement or upon the occurrence of any of the conditions listed in Section 10.02. The listing in Section 10.02 of some conditions as constituting specific grounds for termination does not imply that other material breaches of this Agreement are not also good cause for termination, even though some of the conditions listed in Section 10.02 parallel obligations of Licensee set forth elsewhere in this Agreement. Licensor will exercise its right to terminate this Agreement in the manner described in this Section 10.

(b) Notwithstanding anything contained in this Agreement to the contrary, in those circumstances under which Licensor may terminate this Agreement, Licensor may in its sole discretion, offer to Licensee an alternative remedy to termination of this Agreement. If Licensee declines Licensor's alternative offer, Licensor may proceed to terminate this Agreement.

(c) Notwithstanding anything to the contrary in this Agreement, in those circumstances under which Licensor may terminate this Agreement for Licensee's default, Licensor may exercise all remedies available to it at law or in equity, including seeking specific performance and damages (including direct, indirect, special, incidental, or consequential damages). All rights and remedies provided in this Agreement are in addition to and not in substitution of the rights and remedies available to a party at law or in equity.

**10.02 Termination Without Opportunity to Cure.** The obligations of Licensor under this Agreement are contingent upon the non-occurrence of each of the conditions set forth below. Licensor may terminate this Agreement immediately upon notice to Licensee, without prior opportunity to cure, upon the occurrence of any of the following conditions, each of which constitutes grounds for immediate



termination of this Agreement without notice or opportunity to cure (except as specifically set forth in these conditions):

(a) To the extent permitted by law, if Licensee or the Licensed Business is declared bankrupt or judicially determined to be insolvent, or if all or a substantial part of the assets used by Licensee in connection with the Licensed Business are assigned to or for the benefit of any creditor, or if Licensee admits Licensee's inability to pay its debts as they come due.

(b) If Licensee Abandons the Licensed Business. The term "**Abandon**" means failure to operate the Licensed Business for a period of seven consecutive days (without Licensor's prior written consent) during a time that Licensee is required to operate the Licensed Business under the terms of this Agreement, or any shorter period under which it is not unreasonable under the facts and circumstances for Licensor to conclude that Licensee does not intend to continue to operate the Licensed Business. A repeated pattern of failure to operate the Licensed Business for periods of less than seven consecutive days may result in the License being deemed Abandoned if in the judgment of Licensor the closure adversely impacts the Licensed Business. The Licensed Business will not be deemed Abandoned if the failure to operate is due to acts of God or other matters beyond the control of Licensee (other than Licensee's inability to procure money), provided that Licensee gives notice of any cessation of operations to Licensor promptly after the initial occurrence of the event resulting in the cessation of operations (and in any event within ten days) and Licensor acknowledges in writing that the cessation of operations is due to one of the foregoing causes and provided further that Licensee re-establishes the Licensed Business and is fully operational within 120 days after the initial occurrence of the event resulting in the cessation of operations or any longer period that Licensor permits.

(c) If Licensor and Licensee agree in writing to terminate this Agreement.

(d) If Licensor discovers that Licensee made any material misrepresentations relating to the acquisition of the Licensed Business, or if Licensee engages in conduct that reflects materially and unfavorably upon the operation and reputation of the Licensed Business or the Service Marks.

(e) If Licensee fails, for a period of 10 days after notification of noncompliance, to comply with any federal, state or local law or regulation applicable to the operation of the Licensed Business.

(f) If Licensee, after curing any breach in accordance with Section 10.03 commits the same breach, whether or not the breach is corrected after notice.

(g) If Licensee repeatedly fails to comply with one or more requirements of this Agreement, whether or not corrected after notice.

(h) If the Licensed Business or business premises of the Licensee are seized, taken over, or foreclosed by a government official in the exercise of the official's duties, or seized, taken over, or foreclosed by a creditor, lienholder, or lessor; if a final judgment against Licensee for more than \$1,000 remains unsatisfied for 30 days (unless a supersedeas or other appeal bond has been filed); or if a levy of execution has been made upon the license granted by this Agreement or upon any property used in the Licensed Business, and it is not discharged within five days after the date of the levy.

(i) If Licensee is convicted of a felony, of a misdemeanor involving moral turpitude, or of other criminal misconduct which is relevant to the operation of the Licensed Business.

(j) If Licensee fails to pay any Continuing Royalty or other amounts due to Licensor within five days after receiving written notice that the fees are overdue.

(k) If Licensor makes a reasonable determination that continued operation of the Licensed Business by Licensee will result in an imminent danger to public health or safety.

(l) If any other license agreement between Licensor and Licensee is terminated by Licensor because of breach or default by Licensee or failure of a condition to continued effect of the license agreement.

**10.03 Termination Subject to Opportunity to Cure.** Except for failure of the conditions listed in Section 10.02, above, or as otherwise expressly provided in this Agreement, Licensee will have 30 days after Licensor's written notice within which to cure any breach of this Agreement, and to provide evidence

of the cure to Licensor. If any default is not cured within that time period, or any longer time period that applicable law requires or that Licensor specifies in the written notice, this Agreement and all rights granted by it will thereupon automatically terminate without further notice or opportunity to cure.

**10.04 Description of Default.** The description of any breach, default, or failure of a condition in any notice served by Licensor upon Licensee will in no way preclude Licensor from specifying additional or supplemental breaches, defaults, or failures of conditions (including matters discovered after the termination is effective) in any action, arbitration, mediation, hearing, or suit relating to this Agreement or the termination of this Agreement.

**10.05 Statutory Limitations.** Notwithstanding anything to the contrary in this Section 10, if any valid, applicable law or regulation of a competent governmental authority having jurisdiction over this Agreement or the parties limits Licensor's right to terminate this Agreement or requires longer notice periods than those set forth in this Agreement, and if the parties are prohibited by law from agreeing to the shorter periods set forth in this Agreement, then Licensor will conform to the requirements of those laws and regulations, but only to the extent necessary to bring Licensor's actions within the requirements of the law or regulation.

**10.06 Extended Cure Period/Reimbursement.** In those circumstances under which Licensor may terminate this Agreement, Licensor may in its sole discretion, grant to Licensee, in lieu of immediate termination of this Agreement, (i) an extended period of time (not to exceed six months from the last day of the cure period otherwise applicable to the breach) to cure the breach which gave rise to Licensor's right to terminate; (ii) an option to reimburse Licensor up to \$1,000 for investigating the breach of this Agreement; or (iii) if the breach consists of the offer or sale of Closet Organization in the territory assigned to another licensee of Licensor, the opportunity to pay the licensee in whose territory the sale was made an amount equal to 60% of the total gross sales generated by sales in the other licensee's territory (which may exceed the out-of-pocket losses suffered by the other licensee, but is intended to reimburse the other licensee for the full value of the business diverted, including lost goodwill). Licensee acknowledges that Licensor's election to grant an extended cure period or to permit a reimbursement will not operate as a waiver of any of Licensor's other rights under this Agreement.

## **11. DISPUTE RESOLUTION**

**11.01 Alternate Dispute Resolution.** Except for the disputes described in Section 11.02 of this Agreement and except as otherwise specifically modified by this Section 11, any dispute between Licensor and any of its Affiliates, on the one hand, and Licensee and any of its Affiliates, on the other, arising out of, relating to or referencing this Agreement or its breach in any way, including any claim sounding in tort arising out of the relationship created by this Agreement, and any claim that this Agreement or any other of its parts is invalid, illegal, or otherwise voidable or void, is subject to the dispute resolution provisions set forth in Section 11 of this Agreement.

**11.02 Disputes Not Subject To Alternate Dispute Resolution.** Licensee acknowledges that it is important that Licensor be able to use reasonable efforts to protect the Service Marks, the System, and the integrity of the Service Marks and the System. To that end, Licensor may, at its option, seek injunctive or other equitable relief to enforce the provisions of Section 6 (Service Marks), Section 7.05 (Proprietary Materials), Section 8.09 (No Other Closet Organization Business), or Section 12.01 (Licensee's Obligations Following Termination or Expiration) of this Agreement, or the provisions of any separate confidentiality or non-disclosure agreement between Licensor or its Affiliates (on the one hand) and Licensee or its Affiliates (on the other hand) in the Court specified by Section 11.06.

### **11.03 Option to Mediate Dispute.**

(a) In the event of a dispute between the parties, either party may initiate a mediation procedure in accordance with this Section 11.03 by making a written request for mediation with the Judicial Arbitration and Mediation Service ("**JAMS**"), the National Franchise Mediation Program administered by the CPR Center for Dispute Resolution of New York, or any other mediation service mutually agreed to by the parties. Any mediation will be conducted according to the procedures of the selected mediation service.

(b) The object of any mediation subject to this Section 11.03 is to assist the parties in reaching a mutually acceptable resolution of the dispute. The mediation will, in all circumstances, be consistent with the rights and obligations created by this Agreement and will not be premised on the derogation or diminution of those rights or disregard of those rights. The mediation process will begin promptly and be concluded expeditiously, unless the parties mutually agree otherwise. Any and all discussions, negotiations, findings, or other statements by the mediator and/or the parties made in connection with the mediation will be privileged and confidential and will not be admissible into evidence in any litigation or arbitration.

(c) All mediation proceedings will take place in Orange County, California, or if Licensor so elects, in the county where the principal place of business of Licensee is then located. The fees of the mediator will be borne equally by Licensor and Licensee, and all other expenses relating to the mediation will be borne by the party incurring them.

**11.04 Arbitration.**

(a) Except disputes not subject to alternative dispute resolution as set forth in Section 11.02 above, any dispute between Licensor or any of its Affiliates (on the one hand) and Licensee or any of its Affiliates (on the other hand) arising out of or relating to this Agreement or its breach, including any claim that this Agreement or any of its parts, is invalid, illegal or otherwise voidable or void, which has not been resolved in accordance with Section 11.03 above, will be resolved by submission to arbitration conducted by a single impartial arbitrator appointed by JAMS according to its Comprehensive Arbitration Rules and Procedures, or any other single impartial arbitrator mutually agreed to by the parties.

(b) All issues relating to arbitrability or the enforcement of the agreement to arbitrate contained in this Section 11 will be governed by the Federal Arbitration Act (9 U.S.C. §1 *et seq.*) and the federal common law of arbitration. All hearings and other proceedings will take place in Orange County, California, or if Licensor so elects, in the county where the principal place of business of Licensee is then located.

(c) This arbitration provision is self-executing and will remain in full force and effect after expiration or termination of this Agreement. Any arbitration will be conducted on an individual, and not a class-wide or multiple plaintiffs, basis. If either party fails to appear at any properly-noticed arbitration proceeding, an award may be entered against the party by default or otherwise notwithstanding the failure to appear. Judgment upon an arbitration award may be entered in any court having jurisdiction and will be binding, final, and not subject to appeal. No punitive or exemplary damages will be awarded against Licensor, Licensee, or entities related to either of them, in an arbitration proceeding or otherwise, and are hereby waived.

**11.05 Business Judgment.** The parties recognize, and any arbitrator or judge is affirmatively advised, that certain provisions of this Agreement describe the right of Licensor to take (or refrain from taking) action in the exercise of its business judgment, based on its assessment of the overall best interests of all persons operating under the Service Marks. Where that discretion has been exercised, and is supported by the business judgment of Licensor, neither an arbitrator nor a judge may substitute his or her judgment for the judgment exercised by Licensor unless the arbitrator or judge finds that Licensor has exercised its judgment or discretion without any reasonable business basis therefor.

**11.06 Venue; Submission to Court; Limitation of Damages.** In view of the fact that the books, records and business personnel of Licensor are located in Orange County, California, and in order to minimize disruption or interference with operation of (and Licensor's support to) all persons operating under the Service Marks, Licensee and Licensor agree as follows:

(a) All court proceedings arising out of or relating to this Agreement (including matters described in Section 11.02 above) will be brought in, and only in, the United States District Court for the Central District of California (Orange County, California). No individual or entity (whether named or otherwise designated) will be joined as a party to those proceedings if that joinder has the effect of destroying federal court jurisdiction, unless that individual or entity is a necessary party to the proceeding as a matter of law. Where there is no United States District Court having jurisdiction over the dispute, the proceeding may be initiated in, and only in, a state court of competent jurisdiction in and for Orange County, California. In either case, Licensor and Licensee consent to the exclusive exercise of jurisdiction by those courts.

(b) The parties agree that all disputes submitted to the court pursuant to Section 11.02 will be tried to the court sitting without a jury, notwithstanding any state or federal constitutional or statutory rights or provisions.

(c) No punitive or exemplary damages will be awarded against either Licensor or Licensee, or any affiliates of either of them, in any proceeding arising under Section 11.02, and all claims to punitive or exemplary damages are waived by both parties.

**11.07 Independence of Provisions.** The provisions of this Section 11 are independent of any other covenant or provision of this Agreement. If any part of this Section 11 is held to be indefinite, invalid, unconscionable, or otherwise unenforceable by a court of competent jurisdiction, the indefinite, invalid, unconscionable, or unenforceable provision will be deemed deleted, and the remaining parts of this Section 11 will continue in full force and effect. If the court determines that deletion of portions of this Section 11 would lead to an unintelligible provision, the parties request the court to modify or interpret the provisions to the minimum extent necessary to have them comply with the law while retaining the essence of the parties' agreement.

## **12. FURTHER OBLIGATIONS AND RIGHTS OF THE PARTIES UPON TERMINATION**

### **12.01 Licensee's Obligations following Termination or Expiration.**

(a) In the event of termination or expiration of this Agreement, whether by reason of Licensee's breach, default, non-renewal, lapse of time, or other cause, in addition to any other obligations provided for in this Agreement, Licensee will forthwith discontinue the use and/or display in any manner of the Service Marks and all Materials containing or bearing the Service Marks. Licensee will not thereafter operate or do business under the Assumed Name or any other name or in any manner that might tend to give the general public the impression that Licensee is in any way associated or affiliated with Licensor, or any of the businesses conducted by Licensor. In that event, Licensee also will comply with Section 12.01(b)(viii) respecting the return to Licensor of certain materials and will not thereafter use, in any manner, or for any purpose, directly or indirectly, any of Licensor's trade secrets, procedures, techniques, or materials acquired by Licensee by virtue of the relationship established by this Agreement, including (i) any training or other materials, manuals, bulletins, instruction sheets, or supplements to any of them, or (ii) any equipment, videotapes, videodiscs, forms, advertising matter, marks, devices, insignias, slogans, or designs used from time to time in connection with the Licensed Business.

(b) Among the steps that Licensee must take as a result of termination or expiration of this Agreement as described in Section 12.01(a) above, Licensee will promptly take the following steps:

(i) Licensee will remove at Licensee's expense identifying marks on the Vehicle and all other signs erected or used by Licensee and bearing the Service Marks, or any word or mark indicating that Licensee is associated or affiliated with Licensor.

(ii) Licensee will erase or obliterate from letterheads, stationery, printed matter, advertising or other forms used by Licensee the Service Marks and all words indicating that Licensee is associated or affiliated with Licensor.

(iii) Licensee will permanently discontinue all advertising to the effect that Licensee is associated or affiliated with Licensor.

(iv) Licensee will refrain from doing anything that might indicate that Licensee is or ever was an authorized licensee of the Service Marks or the System, including indicating, directly or indirectly, that Licensee was licensed to use the Service Marks or any other distinctive System features or that Licensee at any time operated under any name, word, or mark associated or affiliated with Licensor.

(v) If Licensee engages in any business thereafter, Licensee will use trade names, service marks, or trademarks (if any) which are significantly different from the Service Marks and use sign formats (if any) which are significantly different in color and type face and take all necessary steps to ensure that its Affiliates observe the foregoing obligations;

(vi) Licensee will Assign all interest and right to use all telephone numbers and all listings applicable to the Licensed Business in use at the time of the termination to Licensor and take all action necessary to change all telephone numbers immediately and change all listings as soon as possible including payment of any outstanding invoices payable to telephone service providers. At any time during the Term, Licensor may require Licensee to execute a telephone service supersedure form applicable to all or any of Licensee's telephone numbers; and

(vii) At the option of Licensor, Licensee will assign to Licensor all rights to all e-mail addresses, URLs, domain names, Internet listings, and Internet accounts related to the Licensed Business. Furthermore, Licensee will execute any forms or documents that Licensor considers necessary to appoint Licensor as Licensee's attorney-in-fact with full power and authority for the sole purpose of assigning these rights to Licensor.

(viii) Licensee will return to Licensor (at no expense to Licensor), any and all copies of the Confidential Operating Manual and of all software, software manuals, and related documentation provided to Licensee by or on behalf of Licensor. In addition, if Licensor provided, without additional charge in connection with the operation of the Licensed Business, any computer equipment, video equipment, video tapes, videodiscs, or any other communications media and material, Licensee will also return to Licensor (at no expense to Licensor) that computer equipment, video equipment, video tapes, videodiscs, and other communications media and material.

(c) If Licensee fails to make or cause to be made any removal or change described in Section 12.01(b) above, then Licensor may, after 15 days written notice, enter upon Licensee's premises upon which the Licensed Business was being conducted without being deemed guilty of trespass or any other tort, and make or cause to be made the required changes at the expense of Licensee, which expense Licensee agrees to pay to Licensor promptly upon demand. Licensee irrevocably appoints Licensor as its lawful attorney upon termination of this Agreement with authority to file any document in the name of and on behalf of Licensee for the purpose of terminating any and all of Licensee's rights in the Assumed Name and any of the Service Marks.

**12.02 Rights of Licensor.** The expiration or termination of this Agreement will be without prejudice to any rights of Licensor against Licensee and the expiration or termination will not relieve Licensee of any of its obligations to Licensor existing at the time of expiration or termination or terminate those obligations of Licensee which, by their nature, survive the expiration or termination of this Agreement.

**12.03 Licensor's Right to Cure Defaults by Licensee.** In addition to all other remedies granted by this Agreement, if Licensee defaults in the performance of any of its obligations or breaches any term or condition of this Agreement or any related agreement involving third parties, Licensor may, at its election, immediately or at any time thereafter, without waiving any claim for breach hereunder and without notice to Licensee, cure the default for the account of and on behalf of Licensee, and all costs or expenses (including attorney's fees) incurred by Licensor on account of curing the default will be due and payable by Licensee to Licensor on demand.

**12.04 Waiver and Delay.** No waiver by Licensor of any breach or series of breaches or defaults in performance by Licensee and no failure, refusal, or neglect of Licensor either to exercise any right, power, or option given to it under this Agreement or to insist upon strict compliance with or performance of Licensee's obligations under this Agreement or the Confidential Operating Manual, will constitute a waiver of the provisions of this Agreement or the Confidential Operating Manual with respect to any subsequent breach of the same or any other provision of this Agreement or the Confidential Operating

Manual, or a waiver by Licensor of its right at any time thereafter to require exact and strict compliance with the provisions of this Agreement or the Confidential Operating Manual.

**12.05 Attorney's Fees and Expenses.** In the event of any arbitration (including any petition for confirmation, modification, or vacation of the award) or litigation (including appeals) arising out of or relating to this Agreement, the breach or alleged breach of this Agreement, or the relationship of the parties, then the prevailing party will be reimbursed by the losing party for all costs and expenses incurred in connection therewith, including reasonable attorney's fees for the services rendered to the prevailing party.

### **13. GENERAL CONDITIONS AND PROVISIONS**

**13.01 Relationship of Licensee to Licensor.** The parties intend by this Agreement to establish between Licensor and Licensee the relationship of franchisor and franchisee. It is further agreed that Licensee has no authority to create or assume in Licensor's name or on behalf of Licensor, any obligation, express or implied, or to act or purport to act as agent or representative on behalf of Licensor for any purpose whatsoever. Neither Licensor nor Licensee is the employer, employee, agent, partner, fiduciary, or co-venturer of or with the other, each being independent. Licensee agrees that it will not hold itself out as the agent, employee, partner, or co-venturer of Licensor. All employees or agents hired or engaged by or working for Licensee will be only the employees or agents of Licensee and will not for any purpose be deemed employees or agents of Licensor, nor subject to Licensor's control; and in particular, Licensor will have no authority to exercise control over the hiring or termination of employees, independent contractors, or others who work for Licensee, their compensation, working hours or conditions, or the day-to-day activities of those persons, except to the extent necessary to protect the Service Marks. Licensee agrees to respond to customer indications of dissatisfaction with services rendered by Licensee in a diligent and professional manner and agrees to cooperate with representatives of Licensor in any investigation undertaken by Licensor of complaints respecting Licensee's activities. Each of the parties agrees to file its own tax, regulatory, and payroll reports with respect to its respective employees or agents and operations, and to indemnify the other party against any liability by virtue of the tax, regulatory, and payroll reports filed by the party.

**13.02 Indemnity.** Except as otherwise expressly provided in Section 6.06, Licensee agrees to defend, and indemnify Licensor and its Affiliates and designees against all costs and expenses actually incurred by them or for which they are liable, including attorney's fees, court costs, losses, liabilities, damages, claims and demands of every nature, and including those incurred pursuant to a settlement entered into in good faith, arising out of or in connection with the Licensed Business, including any claim or controversy arising out of (i) any Transfer by Licensee referred to in Section 9.02, (ii) acts or omissions of Licensee which are not in strict compliance with this Agreement and the Confidential Operating Manual, or (iii) acts or omissions of Licensee which tend to create an impression that the relationship between the parties is other than one of Licensor and Licensee. Notwithstanding the foregoing, Licensee will have no obligation to indemnify Licensor, or its Affiliates or designees against costs or expenses arising from the conduct of Licensor found to be willful, malicious or grossly negligent.

**13.03 Survival of Covenants.** The covenants contained in this Agreement that by their terms require performance by the parties after the expiration or termination of this Agreement will be enforceable notwithstanding the expiration or other termination of this Agreement.

**13.04 Successors and Assigns.** This Agreement will be binding upon and inure to the benefit of the successors and assigns of Licensor and Licensee and their respective heirs, executors, administrators, successors, and assigns, subject to the restrictions on Assignment by Licensee contained in this Agreement.

**13.05 Joint and Several Liability.** If Licensee consists of more than one person, the obligation and liabilities to Licensor of each person are joint and several.

**13.06 Counterparts.** This Agreement may be executed in any number of copies, each of which will be deemed to be an original, and all of which together will be deemed to be one and the same instrument.

### **13.07 Notices.**

(a) All notices which the parties may be required or may desire to give under or in connection with this Agreement will be in writing and will be sent either by certified mail, return receipt requested, postage prepaid, or by reliable overnight delivery service, addressed as follows:

(i) If to Licensor, to:

Closet Tailors, LLC  
1927 N. Glassell  
Orange CA 92865

(ii) If to Licensee, to the attention of the Manager at the address indicated in Section 16.02(c).

(b) Notices sent in accordance with this Section 13.07 will be deemed given three business days after deposit with the United States Postal Service or the next business day after deposit with a reliable overnight delivery service.

(c) The addresses given in this Agreement for notices may be changed at any time by either party by written notice given to the other party as provided in this Agreement. If the address to which notices are otherwise required to be given pursuant to this Section 13.07 is known or believed by the person giving notice no longer to be valid, notices will also be sent to the last known valid address of the party receiving the notice.

## **14. CONSTRUCTION OF AGREEMENT**

**14.01 Governing Law.** The United States Arbitration Act (9 U.S.C. §1 *et seq.*) will govern jurisdictional issues respecting arbitration of disputes under this Agreement. The Lanham Act (15 U.S.C. §1051 *et seq.*) will govern any issue involving the Service Marks. To the extent applicable, the laws of the state where Licensee is domiciled will govern all issues involving (i) modification of this Agreement while it is in effect, (ii) the maximum rate of interest that may be charged under this Agreement, and (iii) enforcement of post-termination non-competition provisions. Except as otherwise provided in Section 10 and this Section 14.01, this Agreement and the legal relations among the parties will be governed by and construed in accordance with the laws of the State of California.

**14.02 Entire Agreement; Modification.** This Agreement contains all of the terms and conditions agreed upon by the parties with reference to the subject matter of this Agreement. No other agreements, oral or otherwise, will be deemed to exist or to bind any of the parties and all prior agreements and understandings are superseded by this Agreement. No officer or employee or agent of Licensor has any authority to make any representation or promise not contained in this Agreement. Licensee agrees that it has executed this Agreement without reliance upon any unauthorized representation or promise. This Agreement cannot be modified or changed except by (i) written instrument signed by all of the parties, or (ii) by Licensor's reduction of the scope of any of Licensee's obligations under this Agreement, which may be done without Licensee's consent and which will be effective immediately upon notice.

**14.03 Titles for Convenience Only.** Section titles used in this Agreement are for convenience only and will not be deemed to affect the meaning or construction of any of the terms, provisions, covenants, or conditions of this Agreement.

**14.04 Gender.** All terms used in any one number or gender will extend to mean and include any other number and gender as the facts, context, or sense of this Agreement or any Section may require.

**14.05 Severability.** Nothing contained in this Agreement will be construed as requiring the commission of any act contrary to law. Whenever there is any conflict between any provisions of this Agreement or the Confidential Operating Manual and any present or future statute, law, ordinance, regulation, or judicial decision, contrary to which the parties have no legal right to contract, the statute, law, ordinance, regulation, or judicial decision will prevail, but in that event the provision of this Agreement or the Confidential Operating Manual thus affected will be curtailed and limited only to the extent necessary to bring it within the requirements of the law. If any part, Section, sentence, or clause of this Agreement or the Confidential Operating Manual is held to be indefinite, invalid, or otherwise unenforceable, the

indefinite, invalid or unenforceable provision will be deemed deleted, and the remaining parts will continue in full force and effect, unless the provision pertains to the payment of fees pursuant to Section 4, in which case this Agreement will terminate.

**14.06 No Third Party Beneficiaries.** This Agreement is not intended to benefit any other person except the named parties. No other person may claim any rights under this Agreement by virtue of so-called "third party beneficiary rights" or otherwise.

**14.07 Examples Not Exclusive.** The verb "to include" (in all its tenses and variations, such as "including") is always used in a non-exclusive sense (as if followed by one of the phrases "without limitation" or "but not limited to"). The failure to list a particular example after a variation of the word "including" is not to be construed as an indication that the example is excluded.

**14.08 "Person" Inclusive.** The term "person" means all forms of juridical persons, including individuals, partnerships, corporations, trusts, unincorporated associations, and governmental entities.

## **15. SUBMISSION OF AGREEMENT**

The submission of this Agreement to Licensee does not constitute an offer, and this Agreement will become effective only upon the execution of this Agreement by both Licensor and Licensee. **This Agreement will not be binding on Licensor unless and until it has been accepted and signed by the President or other executive officer of Licensor. This Agreement may not become effective until and unless Licensee has been furnished by Licensor with any disclosure, in written form, required under or pursuant to applicable law.**

## **16. ACKNOWLEDGMENTS AND REPRESENTATIONS OF LICENSEE**

### **16.01 Certain Acknowledgments and Representations of Licensee.**

(a) If required, Licensee is a duly licensed state contractor under the laws of the state within which the Territory is situated (or has otherwise made arrangements to operate under an existing state contractors license in accordance with applicable law) and is in compliance with all applicable laws, rules, and regulations of authorities having jurisdiction.

(b) Licensee understands and acknowledges (i) that all persons operating under the Service Marks and the System benefit from uniform and ethical standards of quality, appearance, and service described in and required by the Confidential Operating Manual, and (ii) the necessity of operating the Licensed Business under the standards set forth in the Confidential Operating Manual. Licensee represents that it has the capabilities, professionally, financially, and otherwise, to comply with the standards of Licensor.

(c) If Licensee is not an individual, Licensee is duly incorporated or organized and is qualified to do business in the Territory.

(d) The execution of this Agreement by Licensee will not constitute or violate any other agreement or commitment to which Licensee is a party.

(e) Any individual executing this Agreement on behalf of Licensee is duly authorized to do so and the Agreement will constitute a valid and binding obligation of the Licensee and, if applicable, all of its partners, if Licensee is a partnership.

(f) Licensee has (or if Licensee is not an individual, Licensee's principals have) carefully read this Agreement and all other related documents to be executed by Licensee concurrently or in conjunction with the execution of this Agreement. Licensee has had the opportunity to obtain the advice of legal counsel in connection with the execution and delivery of this Agreement, understands the nature of this Agreement, and intends to comply with this Agreement and to be bound by this Agreement.

(g) The formation of this Agreement and the disclosures made in connection with the relationship set forth in this Agreement are governed in part by the franchise relations acts, the franchise investment laws, the franchise disclosure laws and the regulations promulgated under those laws and regulations in the states in which Licensor and its licensees do or intend to do business. Those laws,



regulations, and disclosure requirements have been implemented for the protection and benefit of franchisees and prospective franchisees. Licensee acknowledges that it has been advised to obtain legal advice and counsel to evaluate the opportunity of becoming a franchisee of Licensor and the benefits and duties of this Agreement. Licensee acknowledges that it has chosen to enter into this Agreement solely based upon its independent judgment as to its needs at a time when other franchise and license opportunities were available. No promises or assurances have been made by Licensor other than as explicitly set forth in this Agreement.

**16.02 Additional Information Respecting Licensee.**

(a) Attached as Schedule C is a schedule containing complete information respecting the owners, partners, members, officers, and directors, as the case may be, of Licensee.

(b) Unless otherwise disclosed to Licensor in writing, Licensee's financial and other records will be maintained at Licensee's principal place of business indicated in Section 3.01.

(c) The name and business address of Licensee's Manager is:

Licensee will deliver, pursuant to Section 13.07, written notice of any change in this information after the Effective Date.

(d) Licensee has delivered to Licensor complete and accurate copies of all organizational documents relating to Licensee, including (as appropriate) all partnership agreements, certificates of partnership, Articles or certificates of incorporation, by-laws, shareholder agreements, and operating agreements, as well as all amendments, side letters, and other items modifying any of those documents.

(e) The Term (as described in Section 5.01 ) of this Agreement expires on \_\_\_\_\_.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed on or as of the dates indicated below:

Dated: \_\_\_\_\_, 20\_\_\_\_

LICENSEE:

\_\_\_\_\_

ACCEPTED as of the Effective Date first above written.

LICENSOR:  
**CLOSET TAILORS, LLC**

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

ITS: \_\_\_\_\_

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

ITS: \_\_\_\_\_

**PERSONAL COVENANT AND GUARANTEE**

(To be executed if Licensee is not an individual)

In consideration of the execution by Licensor of this License Agreement, and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the undersigned covenant and agree as follows:

- A. The undersigned represent to Licensor that the undersigned are all of the persons having direct or indirect "Control" (as defined in the License Agreement) or a direct or indirect beneficial ownership interest in Licensee.
- B. The undersigned, individually and jointly, will (i) comply with and be bound by all provisions of the License Agreement to the same extent as if each of them were the Licensee, and (ii) not engage in any activities not permitted to the Licensee under the License Agreement (whether in their own behalf or in any capacity on behalf of any entity).
- C. Any controversy or claim arising out of this Personal Covenant and Guarantee, or any breach of it, will be submitted to mediation and arbitration in accordance with Section 11 of the License Agreement.
- D. If any other persons obtain direct or indirect Control of Licensee or a direct or indirect beneficial interest in Licensee, the undersigned will cause those persons to execute and deliver to Licensor a counterpart of this Personal Covenant and Guarantee.
- E. This Personal Covenant and Guarantee will be governed in accordance with the laws of the same state whose laws govern the License Agreement.

(Signature)

(Signature)

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

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

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

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

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

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

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

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

**LIST OF SCHEDULES TO LICENSE AGREEMENT:**

Schedule A -	Description of Territory
Schedule B -	Closet Tailors Start-Up Package
Schedule C -	Schedule of Names and Addresses of Sole Proprietor or Shareholders, Partners and/or Principal Officers, as Applicable, and Other Information

**SCHEDULE "A"**  
**TO THE LICENSE AGREEMENT OF CLOSET TAILORS, LLC**  
**DESCRIPTION OF TERRITORY**

The Territory licensed to Licensee consists of the following ZIP Codes  
(as defined from time-to-time by the United States Postal Service):

The Territory is commonly identified as "Closet Tailors of \_\_\_\_\_."

If the U.S. Postal Service changes the boundaries of any of the ZIP Codes, the corresponding boundaries of the Territory will automatically change in the same manner (*i.e.*, the Territory is and will remain defined by the ZIP Code boundaries as they change from time to time).

**SCHEDULE "B"**  
**TO THE LICENSE AGREEMENT OF CLOSET TAILORS, LLC**  
**CLOSET TAILORS START-UP PACKAGE**

The Start-Up Package consists of the following:

1. Round trip economy class airfare (up to \$500), hotel charges for one standard room (single or double occupancy) for 15 nights for the Manager and/or other person attending Initial Training.
2. Personalized web site with link to the Closet Tailors web site.
3. Samples of pertinent Closet Organization products (subject to availability from the vendors).
4. Vehicle logos (Licensee pays for installation on the service vehicle).
5. Marketing materials. Also includes private access to Licensor's "Create Your Own Ad" Web site as and when developed (which Licensee can use to create personalized ads for various types of media, e.g. newsprint, coop mailers, flyers, etc.).
6. Stationery (includes 500 each of letterhead, envelopes, business cards, and invoices).
7. 4 Polo Shirts with Licensor's service mark embroidered.

**SCHEDULE "C"**  
**TO THE LICENSE AGREEMENT OF CLOSET TAILORS, LLC**  
**SCHEDULE OF NAMES AND ADDRESSES OF OWNERS AND PRINCIPAL OFFICERS**

1. If the prospective licensee is an individual (sole proprietor), list below the name and residence address of the Licensee:

2. If the prospective licensee is not an individual, list below the names, residence addresses, and respective percentage ownership interests of each person who owns a direct or indirect beneficial interest in Licensee (if more space is required, attached additional sheets):

a. _____ _____ _____ _____ %	c. _____ _____ _____ _____ %
b. _____ _____ _____ _____ %	d. _____ _____ _____ _____ %

3. If the prospective licensee is not an individual, list the names, residence addresses, and respective titles of each individual who has or will have management authority with respect to Licensee, including officers, directors, managers, and partners (if necessary, list other individuals on additional sheets attached):

a. Title: _____ _____ _____ _____ _____	c. Title: _____ _____ _____ _____ _____
b. Title: _____ _____ _____ _____ _____	d. Title: _____ _____ _____ _____ _____