

## FRANCHISE DISCLOSURE DOCUMENT

Next Step Franchising, Inc.  
(A Massachusetts Corporation)  
962 Washington Street  
Hanover, Massachusetts 02339  
866 My Lapels™ (866-695-2735)  
[www.lapelsdrycleaning.com](http://www.lapelsdrycleaning.com)



Lapels® businesses are full-service environmentally friendly Dry Cleaning Plants and Satellite Dry Cleaning Stores. Each type of Lapels® business offers a full range of services including dry cleaning and shirt service and which also may include tailoring, shoe repair, wedding gown and fur storage, suede and leather processing and other ancillary services. Depending on the type of business, some or all of the services connected with the store are sub-contracted to qualified professionals.

(1) The total investment necessary to begin operation of a Lapels® franchise depends on the type of business you choose, and is set forth in the chart below, in the column “Initial Investment Range”. This includes an Initial Franchise Fee as set forth below, that must be paid to the franchisor or affiliate.

	<b>Initial Franchise Fee</b>	<b>Initial Investment Range</b>
Full Service Environmentally-Friendly Dry Cleaning Plant	\$25,000	\$335,031 to \$516,911
Satellite Store	\$15,000	\$71,002 to \$138,712

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

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact Lapels® corporate offices at 962 Washington Street, Hanover, MA 02339 and 866 My Lapels™ (866-695-2735).

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

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

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

FDD Date of Issuance is March 31, 2014

## STATE COVER PAGE

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

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

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

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

1. THE FRANCHISE AGREEMENT REQUIRES YOU TO RESOLVE DISPUTES WITH US BY ARBITRATION ONLY IN MASSACHUSETTS. OUT-OF-STATE ARBITRATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST YOU MORE TO ARBITRATE WITH US IN MASSACHUSETTS THAN IN YOUR OWN STATE.
2. THE FRANCHISE AGREEMENT STATES THAT MASSACHUSETTS LAW GOVERNS THE AGREEMENT, AND THIS LAW MAY NOT PROVIDE THE SAME PROTECTIONS AND BENEFITS AS LOCAL LAW. YOU MAY WANT TO COMPARE THESE LAWS
3. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

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

Effective Date: March 31, 2014, subject to state-specific effective dates on following page.

This document may be given to persons in the following states:

Alabama	Louisiana	North Carolina
Alaska	Maine	Ohio
Arizona	Massachusetts	Oklahoma
Arkansas	Mississippi	Oregon
Colorado	Missouri	Pennsylvania
Connecticut	Montana	South Carolina
Delaware	Nevada	Tennessee
Georgia	New Hampshire	Texas
Idaho	New Jersey	Vermont
Iowa	New Mexico	West Virginia
Kansas		Wyoming

This document may be given to persons in the following states **ONLY** if a registration date is filled in after the name of the state:

	<u>Registration Date</u>	<u>Last Effective Date</u>
California	06/10/04	04/22/14
Florida	09/18/03	12/01/14
Hawaii		
Illinois		
Indiana		
Kentucky	07/27/10	N/A
Maryland		
Michigan	04/29/09	04/29/14
Minnesota		
Nebraska	06/28/10	N/A
New York	09/18/03	04/29/14
North Dakota		
Rhode Island	06/03/03	05/08/14
South Dakota	08/06/12	08/06/14
Utah		
Virginia		
Washington	06/02/05	04/24/14
Wisconsin	06/24/10	04/23/14

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**Lapels®**  
FRANCHISE DISCLOSURE DOCUMENT  
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## Item 1

### **THE FRANCHISOR, AND ANY PARENTS, PREDECESSORS AND AFFILIATES**

Next Step Franchising, Inc. the franchisor of the Lapels<sup>®</sup> franchise, is referred to in this disclosure document as “we,” “us,” “our,” or “Next Step” as the context requires. A franchisee is referred to in this disclosure document as “you”, the legal entity [includes a corporation, partnership, LLC or other legal entity (collectively "legal entity") and their owners, officers and directors], and “your” as the context requires, who is buying the franchise.

We are a corporation formed under Massachusetts law on September 28, 2000. Our principal business address is 962 Washington Street, Hanover, Massachusetts 02339. Our agent or agents to receive service of process, if any, are listed in attached Exhibit “C.” We do not have a parent or any predecessors or affiliates. We changed our name in September 2005 from BJL Companies, Ltd. to Next Step Franchising, Inc. We intend to do business under our corporate name and under the Lapels<sup>®</sup> name. We sell franchises for the operation of Lapels<sup>®</sup> businesses.

This disclosure describes the two (2) types of businesses we currently franchise: Lapels<sup>®</sup> full-service Environmentally Friendly Dry Cleaning Plant businesses and Lapels<sup>®</sup> Satellite Store businesses.

A Lapels<sup>®</sup> Environmentally-Friendly Dry Cleaning Plant (a “Plant”) is a full-service retail store at which all dry cleaning processing takes place on the premises. The two primary types of dry cleaning solvents classified as environmentally-friendly now used in the dry cleaning process are hydrocarbon and D5 decamethylecyclopentasiloxane (trade name Green Earth).

A Lapels<sup>®</sup> Satellite Store business (a “Satellite Store”) is a pick-up and drop-off dry cleaning store where no processing is done on premises. All processing work is done by Lapels<sup>®</sup> approved wholesalers who process the clothing at a separate location.

Generally, dry cleaning services are affected by seasonality, climate and the demographic characteristics of the area in which the dry cleaning store is located. Summer and winter seasons tend to be lower in demand than fall and spring but, depending on the climate of the area, the degree to which this has an affect varies in different areas of the country. You will compete mainly with other locally-owned single store operations and local or regional chains providing dry cleaning and related apparel-care services.

Franchisees can purchase either a Lapels<sup>®</sup> Plant business or a Lapels<sup>®</sup> Satellite Store business. Each of these Lapels<sup>®</sup> businesses offer a full range of services including dry cleaning and shirt service, and which may also include tailoring, shoe repair, wedding gown heir looming, fur storage, suede and leather processing and other ancillary services.

You will operate your franchise from a fixed location that we approve in a defined geographical area (the “Territory”). We manage the Lapels<sup>®</sup> network of franchisees. We do not engage in any other business. We have offered franchises for this business since our inception in October 2000, or 13 1/2 years as of March 31, 2014.

For Plant locations, there are specific state and town/city building codes and regulations governing the operation of dry cleaning plants with which franchisees must comply. Codes and regulations vary from state to state.

To comply with present and future mandates of the EPA, OSHA and other federal, state and local regulatory agencies, you may need to purchase parts, accessories or other items, obtain local, state and federal environmental permits or take other actions. Compliance with applicable governmental regulations is imperative.

Some states and localities have laws and regulations specific to the operation of a dry cleaning establishment. For example, the State of Pennsylvania requires that boiler rooms have exterior doors. Laws and regulations applying to boiler permits, fire prevention, hazardous waste disposal and the like vary from state to state and sometimes from locality to locality within a state. Also, state regulations are often stricter than the federal regulations in some respects. State and local inspectors also may interpret and enforce ADA (Americans with Disabilities Act) requirements for plant design differently. For instance, local requirements for aisle width and height may vary. There may be other laws applicable to your business and we urge you to make inquiries about these laws.

## **Item 2**

### **BUSINESS EXPERIENCE**

#### **Kevin A. Dubois, President & CEO**

Kevin Dubois is our President and CEO, positions he has held since January 2012. Prior to that, Mr. Dubois was the Vice President and Chief Operating Officer of Next Step Franchising, Inc. from January of 2007 through the end of 2011.

#### **Michael Eisner, Vice President Franchise Development**

Michael Eisner was the first Franchisee of Lapels® Dry Cleaning. In 2005 Michael sold his Lapels® business and became the Director of Sales and Real Estate in our corporate office. In 2013 Michael assumed the Title of Vice President of Development and leads the Strategic Development of existing and new Franchise Owners.

#### **Kathy May, Director of Franchise Operations**

Kathy May became our Director of Franchise Development in December, 2011. Before that, Ms. May was the Lapels® Franchise Coordinator from 2009 to December 2011.

#### **Amy Barrett, Franchise Relations Liaison**

Amy joined Next Step Franchising in 2012 to assist in the ongoing support of Lapels® Stores. From 2005 – 2011 Mrs. Barrett was the Office Coordinator for Barrett Development.

#### **Jeff Kline, Franchisee / Certified Trainer**

Jeff Kline was a Program Manager for Orbital Sciences Corporation from 2001-2012. He was responsible for design, development and deployment of low earth orbit satellites. In 2012 Jeff became President of JTK Enterprises in which he owns and operates a Lapels Dry Cleaning Plant, Satellite Store and Home & Office Delivery Route in the East Valley of Arizona. Jeff is also part of the corporate team and offers in house training, performs on-site training of new stores and also assists in updating and preparing operations manuals, training manuals and construction documentation.

#### **Robert Rosofsky, Head of Installation Team & Construction Oversight**

Robert has been the head of our installation at Lapels Dry Cleaning for the last seven years. In this role Robert assists new store owners in communication with their General Contractors for preparing their location for our team as well as acting as a liaison with their sub contractors.

#### **Fran Linden, Marketing & Graphic Design Services**

Fran Linden was President of Dighton Design Services from 1999 to current. Fran now serves as our Marketing and Graphic Design liaison. Fran assists our franchise owners and corporate team in the implementation of marketing ideas and design.

**Item 3**  
**LITIGATION**

No litigation is required to be disclosed in this offering circular.

**Item 4**  
**BANKRUPTCY**

No bankruptcy information is required to be disclosed in this Item.

**Item 5**  
**INITIAL FEES**

You and all other franchisees who sign the franchise agreement presented in this Franchise Disclosure Document (the “Franchise Agreement”) will pay us a lump-sum, nonrefundable initial franchise fee as follows:

<b><u>Business</u></b>	<b><u>Initial Franchise Fee</u></b>
Lapels® Plant	\$25,000
Lapels® Satellite Store	\$15,000

You will pay us the initial franchise fee when the franchise agreement is signed. The initial franchise fee for second and additional franchises that you might purchase, provided you’re still qualified, will be 80% of the then-current franchise fee. The initial franchise fee is uniform in all cases. We are under no obligation to grant you additional franchises.

Other fees are due after you have a store location and have signed a lease, if applicable. This will be approximately 30 to 180 days after you pay your initial franchise fee but could be longer. These other fees include:

- Initial training and site support fee of \$7,000 for a Plant and \$4,000 for a Satellite Store, payable at the time the lease is signed for your store. The initial training fee is refundable on a pro rata basis for training that is not completed due to circumstances beyond your control;
- Equipment, supplies and services fee of \$249,851 for a Plant and \$36,418 for a Satellite Store, payable at the time the lease is signed for your store. This fee is refundable, less a 20% administrative fee, up to the time the purchase orders are submitted for the equipment, which is approximately one (1) week after receipt of payment by Next Step Franchising, Inc.;
- Equipment installation fee of \$39,000. This fee is due when final plans have been submitted and approved. This fee is refundable less a 20% administrative fee up to the time equipment is delivered for installation;
- Grand opening and first year marketing fee of \$8,400, payable at the time the lease is signed for your store. This fee is refundable less a 20% administrative fee up to 9 (9) weeks prior to the scheduled opening of your store.

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**Item 6****OTHER FEES**

FA = Franchise Agreement

<b><i>Type of fee</i></b>	<b><i>Amount</i></b>	<b><i>Due Date</i></b>	<b><i>Remarks</i></b>
Successor Franchise Fee <sup>1</sup>	\$5,000	After the expiration of the initial term when you sign our then-current franchise agreement	Paid to us (FA 1.4.) Applies to a renewal or extension of the franchise term.
Royalty Fee <sup>1,3</sup>	5% of Gross Revenue <sup>2</sup> .	Every Monday for the week ending the prior Sunday	Paid to us (FA 2.2.)
Ongoing Local Marketing	A minimum of two percent (2%) of Gross Revenue <sup>2</sup> per year, either through participation in corporate-wide programs (where available) or with local marketing vendors.	Expended bi-monthly each quarter	Paid to local advertisers or to us to spend on your behalf if you don't spend it (FA 2.5.)
Regional/National Marketing	No fees are included at this time.		
Interest on Late Payments <sup>1</sup>	Highest contract rate beginning from the due date of the overdue payment	When you pay us the overdue amount	Paid to us (FA 2.6.)
Refresher Training <sup>1</sup>	\$400/day plus expenses, if needed. . Required refresher training would likely be for one or two days and would take place either at corporate headquarters or your store. Subject matter would vary depending on specific needs	At the time you attend refresher training.	Paid to us (FA 3.2)
Additional Support & Training Fees <sup>1</sup>	We have the option of charging for additional training we may conduct for you at your request. Amounts vary for this additional training from \$1,000 - \$4,000.	At the time you request additional training	Paid to us (FA 3.1.)
Per Diem Fee <sup>1</sup>	\$400 per day plus expenses	Before we provide additional guidance that you request	Paid to us (FA 3.5.)
Operations Manual Replacement Charge <sup>1</sup>	Actual Cost plus 15% Processing Fee. Current cost is \$50.00.	Before we give you another copy of our Operations Manual	Paid to us (FA 3.6)
Auditing Costs <sup>1</sup>	Actual Costs will be in the range of \$800 - \$3,000.	After an audit	You shall reimburse us for our auditing costs if we have to audit you because you fail to provide us with timely reports and to keep records required by the franchise agreement (FA 8.3.)



<b><i>Type of fee</i></b>	<b><i>Amount</i></b>	<b><i>Due Date</i></b>	<b><i>Remarks</i></b>
Transfer Fee <sup>1</sup>	\$5,000	Payable when we approve the transfer	Payable on transfers of your interest in the franchise (FA 9.2.)
Store Remodel	Estimated between \$2,000 and \$7,000	At the time costs incurred	Required no more often than every 5 years (FA 6.1)
Termination Fee	\$20,000 plus costs and attorney fees	Upon unlawful termination by you or by us with cause	Other damages may also be due to us.
Costs and Attorneys' Fees <sup>1</sup>	Actual Costs	At the time actual costs are incurred.	You shall reimburse us for accounting, attorneys', arbitrators' and related fees incurred by us as a result of your failure to pay us or failure to provide us with required reports and other information in a timely manner. (FA 13.9)

**Notes:**

<sup>1</sup> Except as otherwise noted above, all fees and charges are uniformly imposed by us on all franchisees, are payable to us and are nonrefundable.

<sup>2</sup> **Gross Revenue:** means all revenue you derive from operating the franchise, including, but not limited to, all amounts you receive at or away from the franchise location, and whether from cash, check, credit (including accounts receivable), barter, trade, or any other cash equivalent transactions, but excluding all federal, state or municipal sales, use or service taxes collected from customers and paid to the appropriate taxing authority and excluding customer refunds, adjustments, credits, discounts and allowances actually made by the franchise in compliance with our Operations Manual. See Article 2.3. of the Franchise Agreement.

<sup>3</sup> **Royalties, Reports and Records:** During the term of the Franchise Agreement, you must pay us an on-going, non-refundable Royalty Fee in an amount equal to 5% of your Gross Revenue, calculated and payable weekly on Monday for the week ending the prior Sunday. If we do not receive your Royalty Fee within seven days of its due date, we will be permitted to directly debit your checking account for the unpaid weekly Royalty Fee, which we will calculate based on information we obtain, or estimate if such information is not made available to us. You must provide to us authorization to debit your account by signing an electronic funds transfer authorization form.

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**Item 7****ESTIMATED INITIAL INVESTMENT**

Your estimated initial investment will vary depending on the type of franchise you choose to buy. We have separated these figures into two tables so that you may make an accurate comparison of our two franchise types: (1) Plant and (2) Satellite Store.

**(1) PLANT**

<b>ITEM 7: YOUR ESTIMATED INITIAL INVESTMENT</b>				
<b>Type of Expenditure</b>	<b>Amount</b>	<b>Method of payment</b>	<b>When due</b>	<b>To whom payment is to be made</b>
Initial Franchise Fee	\$25,000 (Note 1)	Lump sum	At signing of your Franchise Agreement	Next Step Franchising, Inc.
Initial training and site support	\$7,000	Lump Sum	When you sign a lease for your store	Next Step Franchising, Inc.
Travel and living expenses while training	\$0 to \$2,000 (Note 2)	As incurred	During training	Airlines, hotels, car rental agencies, restaurants
Real Estate and prepaid rent, security and utility deposits	\$0 to \$10,000 (Note 3)	(Note 3)	(Note 3)	(Note 3)
Leasehold improvements / build out / Architect	\$0 to \$80,000 (Note 4)	As incurred	As agreed with contractors	Contractors
Equipment, Supplies & Services	\$249,851 (Note 5)	Lump Sum	When you sign a lease for your store	Next Step Franchising, Inc.
Equipment Receiving, Installation, Freight and Rigging.	\$39,000 (Note 6)	Lump Sum	When you sign a lease for your store	Next Step Franchising, Inc.
Signage and permits	\$5,000 to \$12,000	Lump Sum	Before commencing operations	Next Step Franchising
Grand opening marketing	\$8,400 (Note 7)	Lump Sum	When you sign a lease for your store	Next Step Franchising, Inc.
Insurance	\$480 - \$960 (Note 8)	As incurred	Before commencing operations	Insurance company
Miscellaneous opening costs	\$300 to \$2,700 (Note 9)	As incurred	As incurred	Suppliers, vendors, professional advisors, etc.
Additional funds – 3 months	\$0 to \$80,000 (Note 10)	As incurred	As incurred	Suppliers, vendors, employees, etc.
<b>TOTAL</b>	<b>\$335,031 to \$516,911 (Note 11)</b>			

Notes:

- (1) This fee is non-refundable.
- (2) Expenses you may incur during training include travel, lodging and living expenses for the duration of training as needed.
- (3) If you do not own adequate space you must lease space for your store. Plants are typically located in retail centers or shopping plazas but may be free standing as well. Store sizes will vary from market to market but typically Lapels® Plants will range from 1,700 to 2,200 square feet. The low investment presumes that you were not required to pay anything beyond the first month's rent.
- (4) The low estimate assumes landlord will provide the space ready for occupancy or will provide a tenant improvement allowance to cover the cost of build-out.
- (5) This expense includes the initial base package of goods that you must purchase from us (the "Startup Supplies and Equipment Package"). The Startup Supplies and Equipment Package includes the items listed in Appendix C of the Franchise Agreement and is the standard basic package of supplies and equipment needed to start your business. Items included in the Startup Supplies and Equipment Package may be changed from time to time to reflect changes in the system, procedures and your needs.
- (6) Equipment installation Includes the coordination of Delivery and Receiving of Lapels® Standard Equipment Package. It also includes the installation of said equipment and the steam and return lines for the equipment. Installation does not include the electrical, plumbing, HVAC or Tenant Improvements that may be needed to the space.
- (7) Marketing package includes the initial grand opening marketing for your Lapels® Business. Such Marketing includes 15,000 Direct Mail Pieces, Banners, Micro Website, Building of Social Media such as Facebook® pages, Cooperative Mail and other grassroots promotions that may apply to your market.
- (8) This estimates your initial insurance down payment.
- (9) This includes utility deposits, advertising for employees, licenses and permits, incorporation fees, and professional fees.
- (10) This estimates your startup expenses including payroll costs. These figures are estimates and we cannot guarantee that you will not have additional expenses starting the business. Your payroll costs will largely be affected by your financial position at the time you start the business. Your costs will depend on how closely you follow the Operations Manual and other operating materials provided by us (called "*The Way We Do Things*"), your management skill, experience and business acumen, local economic conditions, the acceptance by local consumers of your services, prevailing wage rates, competition, and the sales levels reached during the initial period.
- (11) The expenses in this Item 7 are estimates of your initial investment before commencing operations. We've made no estimate regarding real estate acquisition costs, insurance costs or occupancy costs since these vary widely market to market. You should review these figures carefully with a business advisor before making any decision to purchase the franchise.

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**(2) SATELLITE STORE**

<b>ITEM 7: YOUR ESTIMATED INITIAL INVESTMENT</b>				
<b>Type of Expenditure</b>	<b>Amount</b>	<b>Method of payment</b>	<b>When due</b>	<b>To whom payment is to be made</b>
Initial Franchise Fee	\$15,000 (Note 1)	Lump sum	At signing of Franchise Agreement	Next Step Franchising, Inc.
Initial training and site support	\$4,000	Lump sum	When you sign a lease for your store	Next Step Franchising, Inc.
Travel and living expenses while training	\$0 to \$2,000 (Note 2)	As incurred	During training	Airlines, hotels, car rental agencies, restaurants
Real Estate and prepaid rent, security and utility deposits	\$0 to \$8,000 (Note 3)	(Note 3)	(Note 3)	(Note 3)
Leasehold improvements / build out / Architect	\$0 to \$20,000 (Note 4)	As incurred	As agreed with contractors	Contractors/Architect
Equipment, Installation, Supplies & Services	\$38,412 (Note 5)	Lump sum	When you sign a lease for your store	Next Step Franchising, Inc.
Signage and permits	\$5,000 to \$10,000	As incurred	Before commencing operations	Next Step Franchising
Grand opening marketing	\$8,400 (Note 6)	Lump sum	When you sign a lease for your store	Next Step Franchising, Inc.
Insurance	\$140 - \$200 (Note 7)	As incurred	Before commencing operations	Insurance company
Miscellaneous opening costs	\$50 to \$2,700 (Note 8)	As incurred	As incurred	Suppliers, vendors, professional advisors, etc.
Additional funds – 3 months	\$0 to \$30,000 (Note 9)	As incurred	As incurred	Suppliers, vendors, employees, etc.
<b>TOTAL</b>	<b>\$71,002 to \$138,712 (Note 10)</b>			

## Notes:

- (1) This fee is non-refundable.
- (2) Expenses you may incur during training include travel, lodging and living expenses for the duration of training as needed.
- (3) If you do not own adequate space you must lease space for your store. Satellite locations are typically in retail centers or shopping plazas but may be free standing as well. Store sizes will vary from market to market but typically Lapels<sup>®</sup> Satellite Stores will range from 800 to 1,400 square feet. The low investment presumes that you were not required to pay anything beyond the first month's rent.
- (4) The low estimate assumes landlord will provide the space ready for occupancy or will provide a tenant improvement allowance to cover the cost of build-out.

- (5) This expense includes the initial base package of goods that you must purchase from us (the "Startup Supplies and Equipment Package"). The Startup Supplies and Equipment Package includes the items listed in Appendix C of the Franchise Agreement and is the standard basic package of supplies and equipment needed to start your business. Items included in the Startup Supplies and Equipment Package may be changed from time to time to reflect changes in the system, procedures and your needs.
- (6) Marketing package includes initial grand opening marketing of the business to include 15,000 Direct Mail Pieces, Banners, Micro Web Site, Social Media Pages such as Facebook® and other grassroots marketing that may be available in your market.
- (7) This estimates your initial insurance down payment.
- (8) This includes utility deposits, advertising for employees, licenses and permits, incorporation fees, and professional fees.
- (9) This estimates your startup expenses including payroll costs. These figures are estimates and we cannot guarantee that you will not have additional expenses starting the business. Your payroll costs will largely be affected by your financial position at the time you start the business. Your costs will depend on how closely you follow the Operations Manual and other operating materials provided by us called "*The Way We Do Things*", your management skill, experience and business acumen, local economic conditions, the acceptance by local consumers of your services, prevailing wage rates, competition, and the sales levels reached during the initial period.
- (10) The expenses in this Item 7 are estimates of your initial investment before commencing operations. We've made no estimate regarding real estate acquisition costs, insurance costs or occupancy costs since these vary widely market to market. You should review these figures carefully with a business advisor before making any decision to purchase the franchise.

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**Item 8**

**RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES**

You must purchase the Startup Supplies and Equipment Package (defined in Item 7 of this Disclosure Document) from us. We are the only approved supplier of this package. We derive income by charging a markup over the costs of acquiring certain of these goods. Our revenue from the sale of equipment and services to franchisees was \$1,079,747.00 or 57% of our total revenues of \$1,897,309 for the year ending December 31, 2011. For a Plant franchise, the cost of supplies and equipment purchased in accordance with specifications represents approximately 60% of your total purchases in connection with the establishment of the Plant. For a Satellite Store location, this cost is approximately 49% of your total purchases in connection with the establishment of your store.

On an ongoing basis, you must purchase goods and services from us or from our approved suppliers and according to our specifications. Approved suppliers and specifications are in our Operations Manual. Approved suppliers and specifications are determined based on the current needs for operating the franchised business. We evaluate approved suppliers based on price, service, quality, and other commercially reasonable benchmarks. The identity of approved suppliers and these specifications are updated periodically in writing by modifying the appropriate pages of our Operations Manual, "The Way We Do Things". We will send you modified pages through the United States Mail, electronic mail or by any other commercially reasonable means. We have procedures for approving suppliers you recommend. It takes up to 30 days to evaluate new suppliers. Approvals may be revoked by us for cause and we will notify you of such revocations in writing.

We do not provide other material benefits to you (e.g., special renewal privilege or additional franchises) based on your use of our designated or approved sources.

We may terminate your franchise if you purchase goods or services that are not according to our specifications.

There are no purchasing or distribution cooperatives at this time.

**Item 9**

**FRANCHISEE'S OBLIGATIONS**

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

<b><i>Obligation</i></b>	<b><i>Section in agreement</i></b>	<b><i>Disclosure document item</i></b>
a. Site selection and acquisition/lease	1.3	11
b. Pre-opening purchases/leases	1.3	8
c. Site development and other pre-opening requirements	1 and 3	11
d. Initial and ongoing training	3	11
e. Opening	2.8 and 3	11
f. Fees	1.4, 2.1, 2.2, 2.5, 2.6, 2.7, 3.2, 3.5, 3.6, 8.3, 9.2	5, 6
g. Compliance with standards and policies/Operations Manual	3.6, 6	11
h. Trademarks and proprietary information	4	13, 14

<i><b>Obligation</b></i>	<i><b>Section in agreement</b></i>	<i><b>Disclosure document item</b></i>
i. Restrictions on products/services offered	6	16
j. Warranty and customer service requirements	No specific provision	Not applicable
k. Territorial development and sales quotas	No specific provision	12
l. Ongoing product/service purchases	6	8
m. Maintenance, appearance and remodeling requirements	6.1	17
n. Insurance	12.1	7, 8
o. Advertising	2.5 and 2.6	6
p. Indemnification	12.4	Not applicable
q. Owner's participation/management/staffing	3.1	15
r. Records and reports	7	11
s. Inspections and audits	8	6 and 11
t. Transfer	9	17
u. Renewal	1	17
v. Post-termination obligations	10 and 11	17
w. Non-competition covenants	5 and 11	17
x. Dispute resolution	12 and 13	17
y. [other]		

### **Item 10**

#### **FINANCING**

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

### **Item 11**

#### **FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS AND TRAINING**

**Except as listed below, we are not required to provide you with any assistance.** (FA = franchise agreement).

Before you begin operations of your Lapels<sup>®</sup> business, we will:

Grant you a franchise to be operated from a specific location in a specific territory (from time to time generally referred to herein as the "Store") (FA 1.3.). The methods we use to assist you in selecting a site for your Lapels<sup>®</sup> business are an analysis of demographics including household counts, income levels, and LifeMode summary groups with similar consumption and demographic patterns, etc. We also conduct a review of the site plan, traffic patterns, foot traffic count, cost for build-out or renovation, proximity to competition, proximity to major anchor tenants, etc.;

Provide you with pre-opening assistance, which will include:

- (1) Assisting you in selecting the site for the Store (FA 1.3)
- (2) Reviewing the location selected by you for conformity to our site selection guidelines. The site must meet our criteria for demographic characteristics; traffic patterns; parking; character of neighborhood; competition from, proximity to, and nature of other businesses; size; appearance; and other physical and commercial characteristics.

- (3) If you are obtaining a your first Lapels® franchise, providing you guidance and assistance (either directly or through an independent commercial real estate agent) in submitting a Letter of Intent for the site you select. Such Letter of Intent will include items such as initial and renewal terms, preferred parking, signage criteria, condition of space, ability to construct 24 hour drop box, exclusivity language, Landlord subordination, Landlords work to space, “fit up” period, delivery date of space and other payment terms. Although we or our agents may provide guidance or assistance to you in your securing a lease for your site, and make suggestions as to provisions to be changed or reviewed with your legal counsel, you must accept full responsibility for the final terms and conditions of the lease for your site.
- (4) Provide a suggested floorplan for your location. For a Plant such plan would include call area layout, equipment layout, boiler room, electrical load calculations and steam lines. Although not always required, if needed you will arrange for Architecturally Stamped plans for submission to the town. You will independently contract with general contractor(s), architects and/or engineers to perform leasehold improvements to your location.
- (5) Provide signage mockups, and help you secure town and landlord approval and installation of said signage. Signage allowance is \$5,000 for a Satellite Store and \$8,000 for a Plant location. Once town and landlord ordinances have been determined, we will provide the maximum amount of signage allowed as a mock up, along with additional pricing (if any) for your approval.
- (6) Provide our proprietary Lapels® “The Way We Do Things” Operations Manual. (FA 3.6)
- (7) Assist you during the Store’s grand opening period and use the Grand Opening Advertising Budget to promote the Store. (FA 2.9)

Provide you a pre-commencement training program for you and up to one additional employee, to be trained simultaneously. (FA 3.1). Due to the type of training, there are no regular scheduled training classes—schedules are developed based on franchisee and trainer availability, date of lease signing, and date of store opening. Training will begin, usually two to three weeks prior to the anticipated opening date of your store. The individual training program is normally conducted over a 4-6 day time period, or equivalent to 40 to 50 hours of training. The exact time will depend upon your experience and ability to learn the material. The content will be covered by studying our Operations Manual, the Computer System Manual, for familiarization with the touch screen application and on-the-job training at an operating Lapels® store (FA 3.1);

Training will be done either at our headquarters at 962 Washington Street, Hanover, Massachusetts and a local area Lapels® store, or in your local area if there is an Area Developer or Certified Trainer. You are responsible for paying for your travel and living expenses. You are required to complete the training program to our satisfaction prior to commencing business.

**TRAINING PROGRAM – PLANT AND SATELLITE STORE**

<b>Subject</b>	<b><sup>1</sup>Hours of Classroom Training</b>	<b><sup>1</sup>Hours of Store On-The-Job Training</b>	<b>Location</b>
Orientation and Overview of Computer System, Services & Processes	1	6 Hours	Operating Training Store
Front Counter, Customer Interaction, Order Processing	1 Hour	12 Hours	Corporate Office, Operating Training Store
Marking-In Garments and Forms, Hands-on Customer Service	0	8 Hours	Operating Training Store
Administrative, File Maintenance, Back	1	7 Hours	Operating



<b>Subject</b>	<b><sup>1</sup>Hours of Classroom Training</b>	<b><sup>1</sup>Hours of Store On-The-Job Training</b>	<b>Location</b>
Office, Reporting			Training Store
In-store Review, Marketing, Customer Service, Programs	2 Hours	3 Hours	Corporate Office, Operating Training Store
Hands-on Customer Interaction, Customer Service	0	6 Hours	Operating Training Store
Hands-on Review, Computer Setup, Refresher Training on specific subjects as determined by trainer	5 Hours (over 3 days)	19 Hours	Franchisee's New Store
Plant Operations (plant only) - all aspects of cleaning, spotting, and finishing. This training will take place in your operating plant.	Hands-on	30 Hours	Franchisee's Operating Plant
Plant Equipment <sup>3</sup> (plant only)	A representative from the equipment supplier will train you on all aspects of operating your cleaning, spotting and finishing equipment.		

**Notes:**

- <sup>1</sup> It is the nature of this business that there is full integration of the subjects being learned by a franchisee and there are no clear beginning and ending times. Exact start and end time for subjects will depend on the background and experience of the trainee(s) and the content will be adjusted accordingly.
- <sup>2</sup> Training will be conducted by Certified Trainers and other personnel listed under Item 2 or by the Area Developer/Certified Trainer in your area. Personnel conducting specific subjects may change over time. Our current Certified Trainers are Michael Eisner and Fred Siegel, who have each been franchisees or employed by us for more than three years. We authorize certain consultants to provide in-plant training and consultation to our franchisees as may be required from time to time.

Provide you with general guidance regarding operating issues (FA 3.3.);

Provide you with lists of approved suppliers and specifications for, or, in some cases, order directly from the manufacturer on your behalf and at your expense, the inventory, furniture, fixtures, equipment and supplies you will need to acquire before commencing operations (FA 3.7.).

We estimate the length of time between the earlier of the signing of the Franchise Agreement or the first payment for the Lapels® franchise and the start of operations of the Lapels® franchise to be approximately 30-180 days. Things that may affect this time period include your ability to obtain financing, locating an acceptable site, delayed purchases or installation of furniture, fixtures, equipment, software, etc. The pre-commencement training program and commencement assistance will be conducted at our predetermined location and at our mutual convenience during this time period.

When you are ready to open the Store, we will have one of our representatives provide you with one to two workdays of commencement assistance at your Store or in your territory (FA 3.1.);

Ongoing Assistance – After you have opened your Store:

1. We will send one of our representatives to assist with the Store's opening;

2. We will advise you regarding the Store's operation based on your reports or our inspections. We will guide you in our Operations Manual by electronic media, telephone consultation or at our office or your Store;
3. We will continue to provide you access to the Operations Manual and our consultation. We may modify the Operations Manual periodically to reflect changes in system standards;
4. Once you have commenced operations of the business, we or our representative may, at our discretion, visit with you in your Store from time to time to provide you with guidance in operating the franchise. (FA 3.4.).
5. We will provide you local marketing support (FA 2.5). We occasionally provide for placement of advertising on behalf of the entire Lapels® system, including franchisees. However, most placements are done on a local basis, typically by local advertising agencies hired by individual franchisees. We may advertise in local or regional newspapers; trade publications and other media at our own expense to promote the Lapels® brand name. We will provide assistance with ad copy for seasonal promotional events such as Christmas, Thanksgiving, spring, fall & winter specials, etc. You may develop advertising materials for your own use, at your own cost. We must approve materials in advance and in writing prior to your using them. In order to protect the integrity of our trademarks and avoid confusion, we require that the only website you use in connection with your Store is the one we have created for and provided to you to use. You may make modifications to the website provided we approve the content in advance and in writing. During the first quarter of 2011 a marketing committee comprised of existing franchisees was formed and periodically meets to determine and suggest the best ways for all franchisees to meet their marketing goals. Franchisees are not obligated to participate in local or regional advertising cooperatives.
6. We will let you use the Lapels® marks with our written consent. Such consent will not be unreasonably withheld.

At your request, we will furnish additional guidance and assistance and, in this case, may charge the *per diem* fees and charges we establish. If you request additional or special training for your employees, all of the expenses that we incur for this training, including *per diem* charges and travel and living expenses for our personnel, will be your responsibility (FA 3.5.). Training will be done either at our headquarters at 962 Washington Street, Hanover, Massachusetts and one of our local area stores, or in your own store or in your local area if there is an Area Developer or Certified Trainer. You are responsible for paying for your travel and living expenses. The duration, frequency and content of this additional training will vary according to your request for additional training in a certain subject area, but may range from 1-4 days and may be requested an unlimited number of times per year.

#### Computer System

Included with your Startup Supplies and Equipment Package you will receive a computer hardware and software package to help run your business. You must use the computer hardware and software provided, and must continue to comply with computer specifications that we periodically establish, including hardware components, point of sale software, dedicated phone/cable/modem/power lines, printers and other computer-related accessories and peripheral equipment (the "Computer System"). In addition to the Computer System, you also must have a functioning email address so that we can send you notices and otherwise communicate with you by this method.

The Computer System will function in part as a web-based point-of-sale system for all transactions at the Store. The Computer System currently includes point of sale software and maintenance programs provided by one or more third-party suppliers that we designate. The initial computer package will include a Dual Core 3.0 GHZ Computer ( or equivalent), Windows 7 Professional, 104 Key Keyboard, 3 Button Mouse Optical, Dual Serial & Dual Parallel Controller Cards, Norton Anti Virus, 15" Touch Screen Monitor, Epson Thermal Invoice Printer, Printer Cables, Kick out Cash Drawer, Metrologic Wireless Scanner, Star Tag Printer and PPI approved Credit Card Swipe.

You must obtain specific maintenance, updating, upgrading or hosting support contracts for the Computer System from either our designated supplier or directly from us.

We or our supplier may condition any license of required or recommended proprietary software to you, and/or your use of technology developed or maintained by or for us, on your signing a software license agreement or similar document, or otherwise agreeing to the terms that we periodically specify to regulate your use of, and our and your respective rights and responsibilities for, the software or technology. You must not modify, delete, or change any software or hardware configurations that we or our designated supplier(s) provide to you without our advanced written consent. We may charge you up-front and ongoing fees for any required or recommended proprietary software or technology that we or our supplier licenses to you in the future and for other Computer System maintenance and support services provided during the term of the Franchise Agreement.

The Computer System may store some data and information about the Store's customers, finances and operations. We will have unlimited, independent access to all of the information and data in the Computer System, and you acknowledge that we may access customer data that the Computer System uses or generates.

## **Item 12**

### **TERRITORY**

You may operate your Plant or Satellite Store only at the fixed location that we have approved, and you may not relocate the Store without our approval. Once we approve the site, you will be granted a specific, exclusive territory, which we will define based on this fixed location (the "Territory"). We will not grant other Lapels® franchisees the right to open a franchise within the Territory. We will determine the size and boundaries of the Territory at our discretion, based on factors including geographic area, population density, character of neighborhood, location, number of competing businesses and other factors. While the exact size of the Territory will vary based on these factors, a typical territory will cover an area that extends in all directions from the Store, up to three miles in less populated areas and one city block in city areas, with the Store located at the approximate center of the Territory.

We retain the right in our sole discretion to establish, and grant to franchisees the right to establish, Lapels® businesses anywhere outside the Territory on terms and conditions as we deem appropriate; we may sell our services, whether or not using the Lapels® or related trademarks, inside or outside the Territory through distribution channels other than Lapels® businesses. We may use various channels of distribution (e.g. the internet, telemarketing or other direct marketing) inside or outside your Territory to solicit the sale of franchises, using our principal trademarks or other marks. We will not solicit sales or market to provide services within your Territory that compete with the dry cleaning and other services you will provide.

Franchisees may not solicit business from outside their exclusive territory without prior written approval from Franchisor. Certain Franchisees may include pick-up and delivery of clothing as part of the services they offer. Franchisees may not pick up or deliver clothing, nor solicit customers for such services, outside of their Territory.

There is no sales quota or performance obligation in maintaining your Territory.

The definition of your Territory, as well as any other terms of the Franchise Agreement, may not be changed without our and your written consent. You do not receive the right to acquire additional franchises.

**Item 13**

**TRADEMARKS**

The Lapels® trademark and other trademarks set forth below are the principal trademarks you'll use under license from us through the Franchise Agreement.

<b><i>Trademark</i></b>	<b><i>Registration Number</i></b>	<b><i>Date</i></b>	<b><i>Register</i></b>
LAPELS®	2595701	07/16/02	Principal
THE FUTURE OF DRY CLEANING®	2608181	08/13/02	Principal
LAPELS® [logotype]	3289519	09/11/07	Principal
LAPELS EXPRESS® [logotype]	3114317	07/11/06	Principal
LAPELS EXPRESS™	Common Law		
Your Neighborhood Dry Cleaner®	3358907	12/25/07	Principal
866 MY LAPELS™	Common Law		
<u>We Believe in a "Greener Future"®</u>	<u>4012272</u>	<u>08/16/11</u>	<u>Principal</u>

By virtue of our trademark registrations with the Patent and Trademark Office, we have certain presumptive legal rights vis-à-vis these trademarks (the "Marks"). You must follow our operating procedures when you use the Marks. You cannot use the Marks or any other mark as part of your corporate name. You may not use the Marks in the event you wish to advertise the sale of your franchise.

There are no currently effective material determinations of the Patent and Trademark Office, Trademark Trial and Appeal Board, the trademark administrator of any state or any court. There are no pending infringements, oppositions or cancellations concerning the Marks. There is no pending material litigation involving the Marks.

There are no agreements currently in effect that significantly limit our rights to use or license the use of the Marks in a manner material to the franchise.

We are not obligated, by the terms of the Franchise Agreement or otherwise, to protect your right to use the Marks. Nor are we obligated to protect you against claims of infringement or unfair competition arising out of your use of the Marks. We have no actual knowledge of either superior prior rights or infringing uses that could materially affect your use of the Marks in the state where your franchise may be located.

**Item 14**

**PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION**

You do not receive the right to use an item covered by a patent or copyright, but you must use the proprietary information contained in our Operations Manual. The Operations Manual and the specifics on your use of the Operations Manual are described in the franchise agreement.

Although we haven't filed an application for copyright registration, we claim copyright protection for the Operations Manual, software, advertising materials, other materials we give you for your use or for public dissemination, other proprietary information and publications we own or have acquired under license from a third party, and everything concerning operating procedures. All of this is our proprietary intellectual property.

**Item 15**

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

You or your managing partner or shareholder, or a manager designated by you and approved by us and trained by us, must, at all times, faithfully, honestly and diligently perform and exert your best efforts in performing your obligations under the franchise agreement. Each of your owners must jointly and severally be bound by the terms of the franchise agreement and personally guarantee performance. We expect that you or your full time manager will provide on-site supervision of the franchise. If you are a multiple storeowner and do not provide full-time on-site supervision, we expect your manager(s) to be fully trained by you or by one of our certified trainers to the same level that you were trained, except for handling of business confidential information, such as check payment processing, etc. Your manager(s) or driver(s) must agree to the same level of confidentiality, non-competition and similar restrictions regarding our operating procedures as described in our Operations Manual and sign a written agreement to maintain confidentiality of the trade secrets described in Item 14 and to conform to the covenants not to compete described in Item 17. There is no amount of business equity that the "on premises" supervisor must have in the franchise.

**Item 16**

**RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL**

You may only sell products and services that have been approved in advance by us. You must offer all goods and services that we designate as required for all franchisees. We reserve the right to change the types of authorized goods and services. There is no limit to our right to make changes in our offerings. You may offer additional goods and services that are unique to a specific region of the country, provided they are approved in advance by us in writing. You must operate your franchise according to *The Way We Do Things*, which may change and evolve over time. You must operate from your store within your Territory.

**Item 17**

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

**THE FRANCHISE RELATIONSHIP**

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

<b><u>PROVISION</u></b>	<b><u>SECTION IN FRANCHISE AGREEMENT</u></b>	<b><u>SUMMARY</u></b>
a. Length of the franchise term	1.4	Term is 10 years
b. Renewal or extension of the term	1.4	A successor franchise may be granted for 10 years
c. Requirements for you to renew or extend	1.4	Bring your franchise up to current standards, model and décor, sign a new then-current form franchise agreement and pay the successor franchise fee of \$5,000. The then-current agreement may contain terms and conditions that are materially different than the Agreement attached to this disclosure document.
d. Termination by you	10 and 18	Franchisee may terminate the agreement on any grounds available by law; Specific Compensatory Damages for your wrongful termination
e. Termination by us without cause	Not applicable	We will not terminate the Franchise Agreement without cause

<b><u>PROVISION</u></b>	<b><u>SECTION IN FRANCHISE AGREEMENT</u></b>	<b><u>SUMMARY</u></b>
f. Termination by us with cause	10.2	Material, uncured breaches of the Franchise Agreement
g. "Cause" defined – curable defaults	Not applicable	No specific provision
h. "Cause" defined – non-curable defaults	Not applicable	No specific provision
i. Your obligations on termination/non-renewal	10.3	No specific provision
j. Assignment of contract by us	9.1	Fully transferable by us, however, no assignment will be made except to an assignee who, in good-faith and judgment of the franchisor, is willing and financially able to assume the franchisor's obligations under the Franchise Agreement
k. "Transfer" by you – defined	9.2	All transfers require our approval
l. Our approval of transfer by you	9.2	Required
m. Conditions for our approval of transfer	9.2	Prior written approval
n. Our right of first refusal to acquire your business	9.3	For all third party <i>bona fide</i> offers
o. Our option to purchase your business	Not applicable	No specific provision
p. Your death or disability	9.2	Would be a transfer
q. Non-competition covenants during the term of the franchise	5	You may not have an interest in a competitive business while you are a franchisee
r. Non-competition covenants after the franchise is terminated or expires	11	24 months within an area consisting of your Territory plus 2 miles and a like area around any other Lapels® store
s. Modification of the agreement	13.16	Must be in writing
t. Integration / merger clause	13.18	Oral statements not binding. The Franchise Agreement is the entire agreement; nothing contained therein or in any related agreement is intended to disclaim any representations made in this FDD.
u. Dispute resolution by arbitration or mediation	13.12	All non-money issues except post-term use of the principal trademarks
v. Choice of forum	13.14	Massachusetts
w. Choice of law	13.13	Massachusetts; The forgoing choice of law should not be considered a waiver of any right conferred upon the franchisor or upon the franchisee by article 33 of the General Business law of the state of New York.

NOTE: THERE IS A CALIFORNIA SPECIFIC ADDENDUM TO THIS OFFERING IN EXHIBIT D – STATE ADDENDA.

These states have statutes which may supersede the franchise agreement in your relationship with us, including the areas of termination and renewal of your franchise: ARKANSAS [Stat. Section 70807], CALIFORNIA [Bus. & Prof. Code Sections 2000020043], CONNECTICUT [Gen. Stat. Section 42133e et seq.], DELAWARE [Code Sections 25512556], HAWAII [Rev. Stat. Section 482E-1], ILLINOIS [815 ILCS 705/16 and 705/20], INDIANA [Stat. Section 23-2-2.7, et seq.], IOWA [Code Sections 523H.1 523H.17], MICHIGAN [Stat. Section 19.854(27)], MINNESOTA [Stat. Section 80C.14], MISSISSIPPI [Code Section 752451], MISSOURI [Stat. Section 407.400], NEBRASKA [Rev. Stat. Section 87401], NEW JERSEY [Stat. Section 56:101], SOUTH DAKOTA [Codified Laws Section SDCL 37-5B], VIRGINIA [Code 13.155757413.1564], WASHINGTON [Code Section 19.100.180], WISCONSIN [Stat. Section

135.03]. These and other states may have court decisions which may supersede the franchise agreement in your relationship with us, including the areas of termination and renewal of your franchise.

**Item 18**

**PUBLIC FIGURES**

We do not use public figures to promote this franchise.

**Item 19**

**FINANCIAL PERFORMANCE REPRESENTATIONS**

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

We do not make any representations about a franchisee's future financial performance or the past financial performance of company-owned or franchised outlets. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor's management by contacting Kevin Dubois, President and CEO, Next Step Franchising, Inc., 962 Washington Street, Hanover, MA 02339 and 866-695-2735, the Federal Trade Commission, and the appropriate state regulatory agencies.

***(The space below is blank by intention.  
Disclosure Document continues on the next page)***

**Item 20**

**OUTLETS AND FRANCHISEE INFORMATION**

Our fiscal year ends on December 31.

**Table No. 1**

**System-wide Outlet Summary  
For years 2011 to 2013**

<b>Outlet Type</b>	<b>Year</b>	<b>Outlets at the Start of the Year</b>	<b>Outlets at the End of the Year</b>	<b>Net Change</b>
Franchised	2011	39	40	+1
	2012	40	42	+2
	2013	42	51	+9
Company-owned	2011	0	0	0
	2012	0	0	0
	2013	0	0	0
Total Outlets	2011	39	40	+1
	2012	40	42	+2
	2013	42	51	+9



**Table No. 2**

**Transfers of Outlets from Franchisees to New Owners (other than Franchisor)  
For years 2011 to 2013**

<b>State</b>	<b>Year</b>	<b>Number of Transfers</b>
Massachusetts	2011	0
	2012	2
	2013	0
California	2011	0
	2012	0
	2013	0
New Hampshire	2011	1
	2012	0
	2013	0
Total	2011	0
	2012	2
	2013	0

**Table No. 3****Status of Franchised Outlets  
For years 2011 to 2013**

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-renewals	Reacquired by Franchisor	Ceased Operations- Other Reasons	Outlets at End of the Year
	2011	0	0	0	0	0	0	0
AZ	2012	0	3	0	0	0	0	3
	2013	3	0	0	0	0	0	3
	2011	2	0	0	0	0	1	1
CA	2012	1	0	0	0	0	0	1
	2013	1	0	0	0	0	0	1
	2011	1	0	0	0	0	0	1
CO	2012	1	0	0	0	0	0	1
	2013	1	0	0	0	0	0	1
	2011	0	1	0	0	0	0	1
CT	2012	1	0	0	0	0	0	1
	2013	1	0	0	0	0	0	1
	2011	1	0	1	0	0	0	0
FL	2012	0	0	0	0	0	0	0
	2013	0	0	0	0	0	0	0
	2011	1	0	0	0	0	1	0
GA	2012	0	0	0	0	0	0	0
	2013	0	0	0	0	0	0	0
	2011	1	0	0	0	0	0	1
ID	2012	1	0	0	0	0	1	0
	2013	0	0	0	0	0	0	0
	2011	0	2	0	0	0	0	2
LA	2012	2	2	0	0	0	0	4
	2013	4	3	0	0	0	0	7
	2011	20	1	2	0	0	0	19
MA	2012	19	1	0	0	0	0	20
	2013	20	6	1	0	0	0	25

	2011	0	1	0	0	0	0	1
MO	2012	1	0	0	0	0	0	1
	2013	1	0	0	0	0	0	1
	2011	1	2	0	0	0	0	3
NJ	2012	3	0	0	0	0	0	3
	2013	3	0	0	0	0	0	3
	2011	1	0	1	0	0	0	0
NH	2012	0	0	0	0	0	0	0
	2013	0	0	0	0	0	0	0
	2011	1	0	0	0	0	0	1
OH	2012	1	0	0	0	0	0	1
	2013	1	0	0	0	0	0	1
OK	2013	0	1	0	0	0	0	1
	2011	1	0	0	0	0	0	1
PA	2012	1	0	0	0	0	0	1
	2013	1	0	0	0	0	0	1
	2011	1	0	0	0	0	0	1
RI	2012	1	0	0	0	0	0	1
	2013	1	0	0	0	0	0	1
	2011	2	1	0	0	0	0	3
SC	2012	3	0	0	0	0	0	3
	2013	3	0	0	0	0	0	3
	2011	4	0	0	0	0	1	3
TX	2012	3	0	0	0	0	2	1
	2013	1	1	0	0	0	1	1
	2011	2	0	0	0	0	0	2
WA	2012	2	0	0	0	0	2	0
	2013	0	0	0	0	0	0	0

	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-renewals	Reacquired by Franchisor	Ceased Operations-Other Reasons	Outlets at End of the Year
Total:	2011	39	8	4	0	0	3	40
	2012	40	6				4	42
	2013	42	11	1	0	0	1	51

**Table No. 4**

**Status of Company-Owned Outlets  
For years 2011 to 2013**

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-renewals	Reacquired by Franchisor	Ceased Operations-Other Reasons	Outlets at End of the Year
None								

**Table No. 5**

**Projected Openings as of December 31, 2013**

<b>State</b>	<b>Franchise Agreements Signed but Outlet Not Opened</b>	<b>Projected New Franchised Outlets in the Next Fiscal Year</b>	<b>Projected New Company-Owned Outlets In the Next Fiscal Year</b>
AL	0	0	0
AZ	1	2	0
CA	0	1	0
CO	0	1	0
DC	0	0	0
FL	1	2	0
GA	0	0	0
ID	0	0	0
LA	0	0	0
MA	2	4	0
MS	1	1	
NH	0	1	0
NJ	0	2	0
OH	0	1	0
OK	0	1	0
PA	0	0	0
RI	0	2	0
SC	0	0	0
TX	1	3	0
WA	0	0	0
<b>Total</b>	<b>6</b>	<b>21</b>	<b>0</b>

The following are the name, address and telephone number for each outlet of all current franchisees:

Dao Tang LLC 152 Brookline Avenue, Boston, Ma. 02215 Hong Thi Nguyen 617 262 8808	TGL Mission Corp 55 Brick Boulevard, Brick, NJ 08723 Tom & Leslie Dresser 732-551-2106
Von Hone Dry Cleaning 1 Kirby Road, Suite C, Cromwell, CT 06416 Bernard J. Von Hone 860-635-5100	TGL Mission Corp 126 Schanck Road, Freehold, NJ 07728 Tom & Leslie Dresser 732-970-7770

<p>EMB Associates Inc. 318 Walnut Street, Newton, MA 02460 Maria &amp; Egidio Barros 617-527-6700</p>	<p>Dirty Dogs, Inc. 2117 Washington Street, Hanover, MA 02339 Frederic Siegel 781-659-0444</p>
<p>Lajoieshire Enterprises, Inc. 246 E. Main St. #102, Norton, MA 02766 Matt Wiltshire 508-285-2859</p>	<p>372 Washington Street, Westwood, MA 02090 Huong Lam 781-467-0020</p>
<p>142 Littleton Road #7, Westford, MA 01886 Xuyen Nguyen 978-692-8511</p>	<p>Carbus L3 4 Longfellow Place, Boston, MA 02114 Rafael Bustos 617-248-0700</p>
<p>TAN TOAN, Inc. 669 Washington, Street, Easton, MA. 02375 Trung Pham Nguyen 508-230-2299</p>	<p>12336 Poway Road, Poway, CA 92064 Ashish &amp; Krishna Patel 858-513-6365</p>
<p>73 Cedar St, Dedham, MA. 02026 Tung P. Tran 781-751-9015</p>	<p>Yellow Diamond LLC 1259 Worcester Rd. Framingham, MA 01701 Anoosh Ghassemi 508-875-8805</p>
<p>Four Corners Dry Cleaners 525 Boston Post Road, Sudbury, MA 01776 Fequiere St. Fleur 508-626-1709</p>	<p>408 Centre Avenue, Abington, MA 02351 San Tran 781-871-2210</p>
<p>MB Associates, Inc. 462 Washington Street, Brighton, MA 02135 Maria &amp; Egidio Barros 617-254-0811</p>	<p>186 Great Road, Bedford, MA 01730 Myong Kim 978-930-9302</p>
<p>Earth Friendly Dry Cleaners 776 Plain Street, Marshfield, MA 02050 Dang Pham 781-837-4336</p>	<p>Environmentally Friendly Dry Cleaners LLC 283 Bloomfield Avenue, Verona, N.J. 07044 Kamaluddin Alladin 973 857 4000</p>
<p>407 High Plain Street, Walpole, MA 02081 Frank Mercurio 508-850-7555</p>	<p>Sophie Enterprises Watertown, MA Reza Honary 508-479-3274</p>
<p>JTK Industries, Inc. 2586 S.Val Vista Drive #101, Gilbert, AZ 85295 Jeff Klein 480-855-2000</p>	<p>C &amp; L Cleaners 622 George Washington Hwy, Lincoln, RI 02865 Stan Ciombor / Jim Lovetere 401-334-3441</p>
<p>Dao Tang LLC 808 Memorial Drive, Cambridge, MA 02139 Lien Tang Dao 617-868-8886</p>	<p>Mich/Ind Enterprises LLC 4875 Princeton Road, Liberty Township, Oh. 45011 Bradley Tate &amp; Virginia Savelli 513 737 3310</p>

<p>DRJO Cleaning, LLC 6613 N. Kings Highway, Myrtle Beach, SC 29572 David and Rochelle Chastain 843-712-2682</p>	<p>DRJO Cleaning, LLC 4030 River Oaks Dr., Myrtle Beach, SC 29579 David and Rochelle Chastain 843-236-1943</p>
<p>DRJO Cleaning, LLC 11405-8 Ocean Highway, Pawleys Island, SC 29585 David and Rochelle Chastain 843-314-9082</p>	<p>EMB Associates 2551 Massachusetts Ave, Cambridge, MA 02140 Maria Barros 617-349-0006</p>
<p>296 Shawsheen Avenue, Wilmington, Ma. 01887 Young Sook Choie 978 253 0695</p>	<p>DK Wood, Inc. 6709 Coal Mine Avenue, Littleton, Co. 80123 David &amp; Karen Wood 303-798-4444</p>
<p>Parker Group Holdings LLC 4075 Sterlington Road, Suite 8, Monroe, LA 71203 Thomas Parker 318-322-3226</p>	<p>Parker Group Holdings LLC 1800 Forsythe Avenue, Monroe, LA 71201 Thomas Parker 318-537-9484</p>
<p>White Garments LLC 121 Plaza Drive, Wildwood, MO 63040 Brian &amp; Christyn Bond 636-273-1330</p>	<p>Parker Group Holdings LLC 3225 Louisville Ave, Monroe, LA 71201 Thomas Parker 318-324-9494</p>
<p>Parker Group Holdings LLC 1205 Common Street, Winnsboro, LA 71295 Thomas Parker 318-435-3684</p>	<p>Parker Group Holdings LLC 1944 Julia Street, Rayville, LA 71269 Thomas Parker 318-728-5407</p>
<p>Parker Group Holdings LLC 848 Broadway Street, Delhi, LA 71232 Thomas Parker 318-878-5514</p>	<p>Carbus 4 LLC 213 N. Main Street, Natick, MA 01760 Joe Caracoppa 508-975-4595</p>
<p>RRM &amp; B Limited Partnership 621 Tremont Street, Boston, MA 02118 May Situ 617-236-0098</p>	<p>My Pall's Corporation 827 Chief Justice Cushing Highway, Cohasset, MA 02025 Beau Ryan 781-383-1300</p>
<p>JTK Industries, Inc 4025 E. Chandler Blvd, Phoenix, AZ 85048 Jeff Kline 480-706-1032</p>	<p>JTK Industries, Inc. 1085 W. Queen Creek Rd, Chandler, AZ 85248 Jeff Kline 480-963-2223</p>
<p>TFS Properties LLC 13801 N. Bryant Ave., Oklahoma City, OK 73013 Brian Culver 405-418-4030</p>	<p>New Beginnings LLC 1655 E. Ruben Torres Blvd, Brownsville, TX 78521 Jose Kauachi 956-621-4389</p>
<p>Cha-Ching Dry Cleaners LLC 456 West Central Street, Franklin, MA 02038 Frank Mercurio 508-346-3511</p>	<p>RRM &amp; B Limited Partnership 1211 Hancock Street, Quincy, MA 02169 Bao Chen 617-773-1113</p>

Parker Group Holdings LLC 5500 Cypress Street, W. Monroe, LA 71291 Thomas Parker 318-537-9165	Radiance Dry Cleaning, LLC 833 Columbia Blvd, Bloomsburg, PA 17815 Steve Jennings 570-387-1015
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#### AREA DEVELOPERS

Hard Right Partners, Inc. 9 Rosemary Lane, Greenville, RI 02828 Stan Ciombor & Jim Lovetere 401-949-0478 or 508-697-4724	
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The following are the names, cities and states and last known telephone numbers for every franchisee who had an outlet terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business in the Lapels® franchise system during fiscal year 2012.

In some instances, current and former franchisees sign provisions restricting their ability to speak openly about their experience with the Lapels® system. You may wish to speak with current and former franchisees, but be aware that not all such franchisees will be able to communicate with you.

#### Former Franchisee Contact Information

During the last fiscal year, the Lapels® Dry Cleaning franchisees listed below have left the system.

The following Lapels® Dry Cleaning franchisees voluntarily ceased to conduct business:

Four Corners Dry Cleaners	Ahmed Sukaik 4646 Matlock Road, Arlington, TX 76018 Arlington, TX 76018
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The following Lapels® Dry Cleaning franchisees were terminated:

525 Boston Post Road, Sudbury, MA 01776 Fequiere St. Fleur 508-626-1709	
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If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

We are not currently selling any business that was formerly a franchise and is now under our control. Specific information about any such units we control in the future may be attached as an addendum to a disclosure document or, if disclosure has already been made, then in a supplement to the previously furnished disclosure document.

There are currently no trademark-specific franchisee associations required to be disclosed in this document.



**Item 21**

**FINANCIAL STATEMENTS**

Attached to this disclosure document as Exhibit “B” are our audited balance sheets and the related statements of income and retained earnings and cash flows as of December 31, 2012 and 2011.

**Item 22**

**CONTRACTS**

Attached to this disclosure document as Exhibit “A” is our Franchise Agreement.

**Item 23**

**RECEIPTS**

The Receipts are the last two pages of this document. There are two duplicate copies. We keep one of the copies, which you must sign and date.

***[The Disclosure Document Ends Here]***



**Exhibit "A" — Franchise Agreement**



## FRANCHISE AGREEMENT

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

Franchisor: Next Step Franchising, Inc., a Massachusetts corporation having its principal place of business at 962 Washington Street, Hanover, Massachusetts 02339 (referred to in this Agreement as “we,” “us” or “our”).

Franchisee: (referred to in this Agreement as “you,” “your” or “owner”).

### 1. PREAMBLES, ACKNOWLEDGMENTS AND GRANT OF FRANCHISE.

**1.1. PREAMBLES.** This Agreement governs your ownership and operation of one (1) Lapels® dry cleaning business of the type and in the location described in Article 1.3 below.

These businesses operate under the Lapels® name and other trademarks (the “Marks”), which we control, and under distinctive business formats, methods, procedures, standards and specifications (the “System”). You have represented to us that you want the Lapels® franchise. We have considered your purchasing a franchise in reliance upon all of your representations.

**1.2. ACKNOWLEDGMENTS.** You acknowledge that you have read this Agreement and our Franchise Disclosure Document and understand and accept the terms, conditions and covenants contained in this Agreement as being reasonably necessary to maintain our high standards of quality and service and the uniformity of those standards at each Lapels® business and thereby to protect and preserve the goodwill of the Marks. You acknowledge that you have conducted an independent investigation of the business venture contemplated by this Agreement and recognize that, like any other business, the nature of the business conducted by the Lapels® business may evolve and change over time, that an investment in the Lapels® business involves business risks and that your business abilities and efforts are vital to the success of the venture. You acknowledge that any information you acquire from other Lapels® franchisees relating to their sales, profits or cash flows does not constitute information obtained from us, nor do we make any representation as to the accuracy of any such information. You acknowledge that, in all of their dealings with you, our officers, directors, employees and agents act only in a representative, and not in an individual, capacity. All business dealings between you and such persons as a result of this Agreement are solely between you and us. You further acknowledge that we have advised you to seek franchise counsel to review and evaluate this Agreement.

**1.3. GRANT OF FRANCHISE.** We grant you a franchise to operate one (1) Lapels® dry cleaning business of the following type (referred to in this Agreement as the “FRANCHISE”):

- Lapels® Satellite Dry Cleaning Store
- Lapels® Full Service Environmentally Friendly Dry Cleaning Plant

The FRANCHISE will be located as follows, which location will be approved in advance by us:  
Franchise Location: TBD

Before commencing operations, you will provide us with a copy of your lease, if any, for the FRANCHISE, and will execute and cause to be executed concurrently with your execution of the lease an Option to Assume Lease in a form acceptable to us (see attached Appendix D). You acknowledge that we've advised you to seek real estate counsel to negotiate the terms of your lease with your landlord. We make no representation of any kind whatsoever regarding your likelihood of success at the FRANCHISE location. You acknowledge and agree that our recommendation or approval of the FRANCHISE location, and any information regarding the FRANCHISE communicated to you, does not constitute a representation or warranty of any kind, express or implied, as to the suitability of the location for a Lapels® store or for any other purpose. Our recommendation or approval of the location indicates only that we believe that the location falls within acceptable criteria for franchise locations that we have established as of the time of our recommendation or approval of the FRANCHISE location. You acknowledge and agree that your acceptance and approval of the FRANCHISE location is based on your own independent investigation of the suitability of the location. The development of the FRANCHISE is entirely your responsibility. Such development must follow *The Way We Do Things* (defined below).

We will not grant to another franchisee a franchise within a geographical area (referred to in this Agreement as the "Territory") described as follows:

We will define the Territory based on the fixed location of the FRANCHISE, once we approve the site. We will determine the size and boundaries of your Territory at our discretion, based on factors including geographic area, population density, character of neighborhood, location, number of competing businesses and other factors. While the exact territory size will vary based on these factors, a typical territory will cover an area that extends in all directions from the FRANCHISE location, up to three miles in less populated areas and one city block in city areas, with the FRANCHISE location located at the approximate center of the Territory. The exact location of the FRANCHISE and definition of the Territory will be added to this Agreement by addendum once the location has been determined and approved.

If you offer pickup and delivery services from your FRANCHISE using a Lapels® delivery van, you are not authorized to conduct such services outside of the Territory.

**1.4. TERM AND RENEWAL.** Time is of the essence in connection with the construction and opening of the FRANCHISE. You agree to open the FRANCHISE to the public no later than the earlier of 240 days from the date of this Agreement or 60 days from the date that we approve your final construction plans. This Agreement is for a term of ten (10) years from the first date on which the FRANCHISE opens to serve the general public, unless terminated as set forth herein. Provided you are in full compliance with the terms of this Agreement, we and you may mutually agree to renew this Agreement for successor ten (10) year periods. You and we will execute our then-current franchise agreement at the time of renewal. We shall be obligated to grant you a successor franchise if you give notice of your intention to renew as set forth herein and you are not in material default of the terms hereof at the time of such notice and at the time of such renewal. We are not required to renew this Agreement if we have notified you of your default hereunder more than three (3) times during the initial term. Upon renewal, you will pay us a renewal fee (the "Successor Franchise Fee") of Five Thousand (\$5,000) Dollars at the time we execute the then-current franchise agreement. In addition, at the time of renewal, you agree to update the model and décor of the Store to requirements for new franchised stores at the time of renewal, if you have not updated the model or décor of the Store within the five years prior to renewal.

**1.5. RIGHTS WE RESERVE.** We retain the right to establish, and grant to franchisees the right to establish, Lapels® businesses anywhere outside the Territory on such terms and conditions as we deem appropriate; and sell our services, whether or not using the Marks, inside or outside the Territory through distribution channels other than Lapels® businesses.

**1.6. GUARANTY AND ASSUMPTION OF OBLIGATIONS.** If you or anyone representing you is signing this Agreement in other than your or their individual capacity, you and such persons representing you shall also execute the Guaranty and Assumption of Obligations document attached hereto as Appendix "A."

**1.7. CORPORATE, LLC OR PARTNERSHIP FRANCHISEE.** If you are at any time a corporation, limited liability company, or partnership, you agree and represent that:

1.7.1. You will have the authority to execute, deliver and perform your obligations under this Agreement and are duly organized or formed and validly existing and in good standing under the laws of the state of your incorporation or formation. You are also duly qualified to do business in the state in which your Territory is located. You will notify us within five (5) days whenever there is a change in your corporate status or whenever you receive service of process for any reason;

1.7.2. Your organizational documents or partnership agreement will recite that the issuance and transfer of any ownership interests in you are restricted by the terms of this Agreement, and all certificates and other documents representing ownership interests in you will bear a legend referring to the restrictions of this Agreement;

1.7.3. Appendix B to this Agreement will completely and accurately describe all of your owners and their interests in you; and

1.7.4. Each of your owners, at any time during the term of this Agreement, will execute an agreement in the form that we prescribe (see Appendix A to this Agreement) undertaking to be bound jointly and severally by all provisions of this Agreement and any ancillary agreements between you and us that bind you. You and your owners agree to execute and deliver to us such revised Appendices A as may be necessary to reflect any changes in the information contained therein and to furnish such other information about your organization or information as we may request within five (5) days of such change.

1.7.5. Your owners and you will grant to one individual, "Managing Owner", the authority to legally bind you in any dealings with us, or our affiliates, and to direct any action necessary to ensure compliance with this Agreement and any other agreements relating to the Lapels® business. You will notify us of any change in the Managing Owner before such change unless such change results from the death or incapacitation of the Managing Owner in which event you will appoint a new Managing Owner within sixty (60) days after such death or incapacitation and give us prior notice of such appointment. Neither you nor your owners will, directly or indirectly, take any actions to avoid or restrict the authority requirement for the Managing Owner.

## **2. FEES.**

**2.1. INITIAL FRANCHISE FEE.** Concurrently with your execution of this Agreement, you are paying us a nonrecurring and nonrefundable initial franchise fee in the amount of Fifteen Thousand (\$15,000.00) Dollars for a Satellite Store, or Twenty Five Thousand (\$25,000) Dollars for an Environmentally-Friendly Dry Cleaning Plant, which will be fully earned by us upon the execution of this Agreement. The initial franchise fee for second and additional franchises that you might purchase, provided you're still qualified, is eighty (80%) percent of the then-current initial franchise fee. We are under no obligation to grant you additional franchises.

**2.2 ROYALTY FEES.** Following your start of operations at your location, you agree to pay us a "Royalty Fee" in a weekly amount, equal to five percent (5%) of Gross Revenue (define below). The Royalty Fee is due every Monday for the week ending the prior Sunday. If we do not receive your Royalty Fee within seven days of its due date, we will be permitted to directly debit your checking account for the unpaid weekly Royalty Fee, which we will calculate based on information we obtain, or estimate if such information is not made available to us. You have agreed to and have signed an Authorization for Electronic Funds Transfer (EFT), which is part of this Agreement and which will allow us to debit your bank account directly for unpaid Royalty Fees. In the event that you cancel your EFT Authorization or any Royalty Fee payment is 7 days or more past due at any time, you will be in breach of this Agreement, and such breach will constitute grounds for termination. See Article 10.2.

**2.3. GROSS REVENUE.** Gross Revenue means all revenue you derive from operating the franchise, including, but not limited to, all amounts you receive at or away from the franchise location, and whether from cash, check, credit (including accounts receivable), barter, trade, or any other cash-equivalent transactions, but excluding all federal, state or municipal sales, use or service taxes collected from customers and paid to the appropriate taxing authority and excluding customer refunds, adjustments, credits, allowances and discounts actually made by the franchise in compliance with our Operations Manual.

**2.4. STARTUP SUPPLIES & EQUIPMENT PACKAGE.** You shall pay us for the standard Startup Supplies and Equipment Package upon signing of a lease for your store. The Startup Supplies and Equipment Package varies according to the type of franchise selected. For both the Environmentally-Friendly Dry Cleaning Plant and for the Satellite Store, it consists generally of an automated conveyor, slick rails, a marking counter, two call counters, specifications and layouts for outside/inside signage, custom touch screen computer system with software and printers (as further described in Article 2.4.2 below), store layout design for installation, uniforms and initial supplies for store operations. Plant locations include dry cleaning and finishing equipment. A list of the Startup Supplies and Equipment Package specific to your franchise type is attached hereto as Appendix C.

2.4.1 For an Environmentally-Friendly Dry Cleaning Plant you shall pay us a fee for equipment installation. Equipment installation fees are \$39,000 and will be invoiced to you when final layout and installation plans have been submitted and approved. Payment will be due to us upon receipt of the invoice by you. Equipment cannot be delivered for installation until this fee has been paid. There is no additional installation fee for Satellite Stores.

2.4.2 You agree to use the computer hardware, maintenance and operation systems, point of sale systems, and/or operating software we specify from time to time, (the "Computer System"). You also agree to maintain a functioning e-mail address. We may modify specifications for the Computer System from time to time, which may require you to purchase additional or upgraded components to, or to obtain service, maintenance and support for, the Computer System. Although we cannot estimate the future cost of the Computer System, you agree to incur the costs of obtaining, upgrading, maintenance and/or support. You further acknowledge that we or our suppliers may require you to sign a software license or other similar document to regulate your use of, or our respective rights and responsibilities with regard to, the software or technology you use, and you agree to comply with the same.

**2.5. ONGOING LOCAL MARKETING and REGIONAL/NATIONAL MARKETING.** We do not currently impose or require a regional/national marketing fee. However, a Regional/National marketing fee may be imposed when there are five or more franchises in a Region. A "Region" is defined as an area serviced by a common independent advertising enterprise. Your Territory is not affected by the term "Region" and vice versa. You must spend at least two percent (2%) of the FRANCHISE's Gross Revenue for local advertising and marketing. Your local advertising and marketing must follow our guidelines. You must keep a record of the amounts spent for local advertising and, if requested, submit or permit us to inspect your records. You may develop advertising materials for your own use, at your cost. You must submit to us samples of all advertising, promotional and marketing materials that we have not prepared or previously approved at least thirty (30) days before its first use. You may not use any advertising or promotional materials that we have disapproved. If you do not document your minimum advertising expenses of at least two percent (2%) of your Gross Revenue, we may collect such amount, or the balance thereof, from you and spend such amount for advertising the FRANCHISE on your behalf.

All advertising and marketing materials developed for your FRANCHISE must contain notices of our Website domain name in the manner we designate. You may not develop, maintain or authorize any

website that mentions or describes you or the FRANCHISE or displays any of the Marks, except that website that we have specifically authorized in writing or made available for your use.

**2.6. INTEREST ON LATE PAYMENTS.** All amounts which you owe us will bear interest after their due date at the highest contract rate of interest permitted by law. You acknowledge that this Article does not constitute our agreement to accept any payments after they are due or our commitment to extend credit to, or otherwise finance your operation of, the FRANCHISE. Your failure to pay all amounts when due constitutes grounds for termination of this Agreement, as provided in Article 10.2 hereof.

**2.7. APPLICATION OF PAYMENTS.** Notwithstanding any designation you might make, we have sole discretion to apply any of your payments to any of your past due indebtedness to us. You acknowledge and agree that we have the right to set off any amounts you or your owners owe us against any amounts we might owe you or your owners.

**2.8 GRAND OPENING MARKETING.** You will pay us a Grand Opening Marketing Fee of Eight Thousand Four Hundred (\$8,400) Dollars when you sign your lease for the Store (see Item 7 of the Disclosure Document). In connection with your Grand Opening, we will attract targeted customers to your store through direct mail postcards and cooperative mailings or other saturation marketing as available in the marketplace.

### **3. TRAINING, SITE SUPPORT AND COMMENCEMENT ASSISTANCE.**

**3.1. TRAINING/SITE SUPPORT** Before the FRANCHISE begins operating, we will furnish training and site support for the operation of the Lapels<sup>®</sup> business to you (or, if you are a corporation or partnership, your managing shareholder or partner) and one (1) additional employee you elect to enroll in the training program. For Environmentally-Friendly Dry Cleaning Plant franchisees, initial training and site support is seven thousand dollars (\$7,000). For Satellite Store franchisees, initial training and site support is four thousand dollars (\$4,000) (see Item 7 of the Disclosure Document). Initial training consists of pre-commencement training and will cover the areas of personnel, administration, store operations, plant operations, marketing, sales and customer service. It is the nature of this business that there is full integration of the subjects being learned by a franchisee. As a result, there is not an exact beginning or ending time to cover these areas. Your completion of training may take between two (2) to six (6) days at designated Lapels<sup>®</sup> stores or Next Step Franchising, Inc. Headquarters. Specific duration will vary depending on your prior relevant experience and ability to comprehend the training material. Training will be conducted by using a combination classroom instruction and by using a proprietary Operations Manual. Training will be provided simultaneously for you (or your managing shareholder or partner) and your employee at an operating Lapels<sup>®</sup> business or at our principal place of business. Commencement assistance consists of approximately one to three working days by our representative assisting you at your Store. You (or your managing shareholder or partner) and your employee are required to complete the initial training to our satisfaction. You also are required to participate in all other activities required to operate the FRANCHISE. Additionally, we will furnish initial training and site support such as for sitelocation, lease review, wholesaler support, store build-out and other start up assistance to you (or your managing shareholder or partner) and the aforementioned number of additional employees, as needed. You will be responsible for all travel and living expenses which you (or your managing shareholder or partner) and your employee incur in connection with training. If we determine that you (or your managing shareholder or partner) are unable to complete initial training to our satisfaction, we have the right to terminate this Agreement pursuant to the terms hereof.

**3.2. REFRESHER TRAINING.** We may require you (or your managing shareholder or partner) and/or previously trained and experienced employees to attend periodic refresher training courses at such times and locations that we designate, and we may charge reasonable fees for such courses. We also may require you to pay us fees for our training your new employees hired after your FRANCHISE commences operations, if you so request. You agree to give us reasonable assistance in training or assisting other Lapels<sup>®</sup> franchisees.

**3.3. GENERAL GUIDANCE.** We will advise you from time to time regarding operating issues concerning the FRANCHISE disclosed by reports you submit to us or on-site inspections we make. Such guidance will, at our discretion, be furnished in our “Operations Manual” (defined below), bulletins or other written materials and/or during telephone consultations and/or consultations at our principal business address or at the FRANCHISE.

**3.4. ON-SITE CONSULTATION AND QUALITY ASSURANCE VISITS.** During the term of this Agreement, our representative may call you or visit with you in your store to provide you with guidance in operating the FRANCHISE. Our representative may also visit with you in the Store from time to time for the purpose of conducting quality assurance visits. Such visits may occur at any time during your regular business hours. Our rights in this regard are further explained in Item 8.

**3.5. ADDITIONAL GUIDANCE AND ASSISTANCE.** At your request, we may furnish additional guidance and assistance and, in such a case, may charge the *per diem* fees and charges we establish from time to time. If you request additional or special training for your employees, all of the expenses that we incur in connection with such training, including *per diem* charges and travel and living expenses for our personnel, will be your responsibility.

**3.6. OPERATIONS MANUAL - “THE WAY WE DO THINGS”.** During the term of this Agreement, we will allow you to use one (1) copy of our operations manual (“Operations Manual”), consisting of such materials (possibly including, but not limited to, audio tapes, videotapes, magnetic media, computer software and written materials) that we furnish to franchisees from time to time for use in operating the FRANCHISE. The Operations Manual contains the System and other information and rules that we prescribe from time to time for the operation of the FRANCHISE and information relating to your other obligations under this Agreement and related agreements, which, taken together, we refer to as “*The Way We Do Things*”. The Operations Manual may be modified from time to time to reflect changes in *The Way We Do Things*. You agree to keep your copy of the Operations Manual current and in a secure location at the FRANCHISE. In the event of a dispute relating to its contents, the master copy of the Operations Manual we maintain at our principal business address will be controlling. You may not at any time copy, duplicate, record or otherwise reproduce any part of the Operations Manual. If your copy of the Operations Manual is lost, destroyed or significantly damaged, you agree to obtain a replacement copy at our cost to replace the manual plus fifteen (15) percent processing fee. If you are unable to substantiate, to our reasonable satisfaction, that your lost Operations Manual, or parts thereof, was not obtained by a “Competitive Business” (defined herein), we may terminate this Agreement as provided herein.

**3.7 SUPPLIERS AND WHOLESALERS.** We, or our representative, shall assist you in obtaining lists of approved suppliers and/or specifications for any leasehold improvements, inventory, equipment and supplies you will need to directly acquire or will obtain directly from us before commencing operations at the FRANCHISE. You will acquire certain inventory, equipment, furniture, supplies, computer equipment and software directly from us as part of the Startup Supplies and Equipment Package. We, or our representatives, shall assist you in finding and negotiating agreements with wholesale providers of dry cleaning and other services on your behalf. You may then enter into contracts directly with these suppliers and may alter the terms thereof provided said terms conform to *The Way We Do Things*. We will also order certain fixtures or equipment directly from their manufacturer(s) on your behalf and at your expense. You acknowledge and agree that our recommendation or approval of wholesale providers of services, and any information regarding said providers communicated to you, do not constitute a representation or warranty of any kind, express or implied, as to the suitability of said providers or the quality of the services they provide. Our recommendation or approval of the wholesale providers of services indicates only that we believe that said providers fall within acceptable criteria for suppliers of services that we have established as of the time of our recommendation or approval.

#### **4. MARKS AND CONFIDENTIAL INFORMATION.**

**4.1. OWNERSHIP AND GOODWILL OF MARKS.** Your right to use the Marks is derived solely from this Agreement and limited to your operation of the FRANCHISE pursuant to and in compliance with this



Agreement and *The Way We Do Things*, which we prescribe from time to time during its term. Your unauthorized use of the Marks will be a breach of this Agreement and an infringement of our rights in and to the Marks. You acknowledge and agree that your usage of the Marks and any goodwill established by such use will be exclusively for our benefit and that this Agreement does not confer any goodwill or other interests in the Marks upon you (other than the right to operate the FRANCHISE in compliance with this Agreement). All provisions of this Agreement applicable to the Marks apply to any additional proprietary trademarks and service marks and commercial symbols we authorize you to use.

**4.2. LIMITATIONS ON YOUR USE OF THE MARKS.** You agree to use the Marks as the sole identification of the FRANCHISE, except that you agree to identify yourself as the independent owner thereof in the manner we prescribe. **You may not use any Marks as part of any corporate or legal business name** or with any prefix, suffix or other modifying words, terms, designs or symbols (other than logos licensed to you hereunder), or in any modified form, nor may you use any Marks in connection with the performance or sale of any unauthorized goods or services or in any other manner we have not expressly authorized in writing. No Marks may be used in any advertising concerning the transfer, sale or other disposition of the FRANCHISE or an ownership interest in you. You agree to display the Marks prominently in the manner we prescribe at the FRANCHISE, on supplies or materials we designate and in connection with forms and advertising and marketing materials. You agree to give such notices of trademark and service marks registrations; i.e., “®”, “™”, as we specify and to obtain any fictitious or assumed name registrations required under applicable law.

**4.3. NOTIFICATION OF INFRINGEMENTS AND CLAIMS.** You agree to notify us immediately of any apparent infringement or challenge to your use of any Marks, or of any claim by any person of any rights in any Marks, and agree not to communicate with any person other than us, our attorneys and your attorneys in connection with any such infringement, challenge or claim. We have sole discretion to take such action as we deem appropriate and the right to control exclusively any litigation, United States Patent and Trademark Office (“USPTO”) proceeding or any other administrative proceeding arising out of any such infringement, challenge or claim or otherwise relating to any Marks. You agree to sign any and all instruments and documents, render such assistance and do such acts and things as, in the opinion of our attorneys, may be necessary or advisable to protect and maintain our interests in any litigation or USPTO proceeding or other proceeding or otherwise to protect and maintain our interests in the Marks.

**4.4. DISCONTINUANCE OF USE OF THE MARKS.** If it becomes advisable at any time in our sole discretion for us and/or you to modify or discontinue the use of any Marks and/or use one or more additional or substitute trademarks or service marks, you agree to comply with our directions within a reasonable time after receiving notice thereof. We will not be obligated to reimburse you for any loss of Sales attributable to any modified or discontinued Marks or for any expenditure you make to promote a modified or substitute trademark or service mark.

**4.5. WHAT’S OURS, IS OURS.** We possess (and will continue to develop and acquire), and may disclose to you, certain confidential information (the “Confidential Information”) relating to the development and operation of Lapels® businesses, which may include (without limitation): Store location selection criteria, the System, the Operations Manual, any other proprietary materials, the sales and marketing techniques used, and knowledge of and experience in developing and operating Lapels® businesses; marketing and advertising programs for Lapels® businesses; knowledge of specifications for and suppliers of certain goods, services, furniture, fixtures, equipment, software, furnishings and signs, materials and supplies; and knowledge of the operating results and financial performance of Lapels® businesses other than the FRANCHISE.

**4.6. FOR FRANCHISE USE ONLY.** You acknowledge and agree that you will not acquire any interest in Confidential Information, other than the right to utilize Confidential Information disclosed to you in operating the FRANCHISE during the term of this Agreement, and that the use or duplication of any Confidential Information in any other business would constitute an unfair method of competition. You further acknowledge and agree that Confidential Information is proprietary, includes our trade secrets and is disclosed to you solely on the condition that you agree, and you do hereby agree, that you: Will not use Confidential Information in any other business or capacity; will maintain the absolute confidentiality of

Confidential Information during and after the term of this Agreement; will not make unauthorized copies of any portion of Confidential Information disclosed via electronic medium or in written or other tangible form; and will adopt and implement all reasonable procedures that we prescribe from time to time to prevent unauthorized use or disclosure of Confidential Information, including, without limitation, restrictions on disclosure thereof to FRANCHISE personnel and others.

**4.7. IDEAS, CONCEPTS, TECHNIQUES OR MATERIALS.** All ideas, concepts, techniques or materials relating to the FRANCHISE, whether or not constituting protectable intellectual property, and whether created by or on behalf of you or your owners, will be promptly disclosed to us, deemed to be our sole and exclusive property and part of the System and deemed to be works made for hire for us. You and your owners agree to sign whatever assignment or other documents we may request from time to time to evidence our ownership or to assist us in securing intellectual property rights in such ideas, concepts, techniques or materials.

## **5. EXCLUSIVE RELATIONSHIP.**

You acknowledge and agree that we would be unable to protect Confidential Information against unauthorized use or disclosure or to encourage a free exchange of ideas and information among Lapels<sup>®</sup> businesses if franchise owners of Lapels<sup>®</sup> businesses were permitted to hold interests in or perform services for a Competitive Business (defined below). You also acknowledge that we have granted the FRANCHISE to you in consideration of and reliance upon your agreement to deal exclusively with us. You therefore agree that, during the term of this Agreement, neither you nor any of your owners (nor any of your or your owners' spouses, children or other relatives by blood or marriage) will have any direct or indirect interest as a disclosed or beneficial owner in a Competitive Business or perform services as a director, officer, manager, employee, consultant, representative, agent or otherwise for a Competitive Business or recruit or hire any person who is our employee or the employee of any Lapels<sup>®</sup> business without obtaining the prior written permission of that person's employer. The term "Competitive Business" as used in this Agreement means any business operating, or granting franchises or licenses to others to operate, any franchise or similar business (other than another Lapels<sup>®</sup> business operated under a franchise agreement with us).

## **6. THE WAY WE DO THINGS.**

**6.1. COMPLIANCE WITH THE WAY WE DO THINGS.** You acknowledge and agree that your operation and maintenance of the FRANCHISE in accordance with *The Way We Do Things* (defined above) is essential to preserve the goodwill of the Marks and all Lapels<sup>®</sup> businesses. Therefore, at all times during the term of this Agreement, you agree to operate and maintain the FRANCHISE in accordance with *The Way We Do Things*, as we periodically modify and supplement them during the term of this Agreement. In compliance with this objective, you agree that you will maintain the condition, environment and appearance of the FRANCHISE in accordance with *The Way We Do Things* in such a manner as we prescribe from time to time, observing the highest standards of cleanliness, sanitation, efficiency and courtesy to customers. You also agree to update or remodel the FRANCHISE location in accordance with changes we may make in décor, fixtures or design for new Lapels<sup>®</sup> franchises, at least every five (5) years and as a condition to renewal,

**6.2. PROVISIONS OF THIS AGREEMENT.** You agree that *The Way We Do Things* prescribed from time to time in the Operations Manual, or otherwise communicated to you in writing or other tangible form, constitute provisions of this Agreement as if fully set forth herein. All references to this Agreement include all *The Way We Do Things* as periodically modified.

**6.3. MODIFICATION OF THE WAY WE DO THINGS.** We may periodically modify *The Way We Do Things*, which may accommodate regional or local variations as we determine, and any such modifications may obligate you to invest additional capital in the FRANCHISE ("Capital Additions") and/or incur higher operating costs; provided, however, that such modifications will not alter your fundamental

status and rights under this Agreement. We will not obligate you to make any Capital Additions when such investment cannot, in our reasonable judgment, be amortized during the remaining term of this Agreement, unless we agree to extend the term of this Agreement so that such additional investment, in our reasonable judgment, may be amortized, or unless such investment is necessary in order to comply with applicable laws.

## **7. RECORDS, REPORTS AND FINANCIAL STATEMENTS.**

**7.1. BOOKKEEPING.** You agree to establish and maintain at your own expense a bookkeeping, accounting and record keeping system conforming to the requirements and formats we prescribe from time to time, including but not limited to a Chart of Accounts that we prescribe, according to Generally Accepted Accounting Principles (GAAP). We may require you to use approved computer hardware and software in order to maintain certain sales data and other information. You agree to furnish to us on such forms that we may require and prescribe from time to time, without limitation, as follows: Within five (5) days after their filing, copies of all signed sales tax returns and signed withholding tax returns for the FRANCHISE and, as soon as you have received them, copies of the canceled checks for the required sales taxes and withholding taxes; within fifteen (15) days after the end of each calendar month, a profit and loss statement for the FRANCHISE for the immediately preceding calendar month and a year-to-date balance sheet as of the end of such month in our approved format; within ninety (90) days after the end of the Franchisee's fiscal year, reviewed annual profit and loss and source and use of funds statements and a reviewed balance sheet for the FRANCHISE as of the end of such fiscal year signed by you or your principal operating officer or operating partner; and within ten (10) days after our request, exact copies of federal and state income and other tax returns and such other forms, records, books and other information we may periodically require.

**7.2. VERIFICATION.** You agree to verify and sign each report and financial statement in the manner we prescribe. We have the right to disclose data derived from such reports without identifying you or the location of the FRANCHISE. We also have the right to require you to have reviewed or audited financial statements prepared on an annual basis.

## **8. INSPECTIONS AND AUDITS.**

**8.1. OUR RIGHT TO INSPECT THE FRANCHISE.** To determine whether you and the FRANCHISE are complying with this Agreement and *The Way We Do Things*, we and our designated agents have the right at any time during regular business hours, and without prior notice to you, to: Inspect the FRANCHISE; observe, photograph and videotape the operations of the FRANCHISE for such consecutive or intermittent periods as we deem necessary; remove samples of any goods, materials or supplies for testing and analysis; interview personnel and customers of the FRANCHISE; and inspect and copy any books, records and documents relating to your operation of the FRANCHISE. We also have the right at any time to receive and review the data transmitted through your Point of Sale computer system.

**8.2. COOPERATION.** You agree to cooperate with us fully in connection with any such inspections, observations, photographing, videotaping, product removal and interviews. You agree to present to your customers such evaluation forms that we periodically prescribe and to participate and/or request your customers to participate in any surveys performed by us or on our behalf.

**8.3. OUR RIGHT TO AUDIT.** We have the right at any time during regular business hours, and without prior notice to you, to inspect and audit, or cause to be inspected and audited, your (if you are a corporation or partnership) and the Franchisee's business, bookkeeping and accounting records, sales and income tax records and returns and other records. You agree to cooperate fully with our representatives and independent accountants we hire to conduct any such inspection or audit. In the event such inspection or audit is made necessary by your failure to furnish reports, supporting records or other information as herein required, or to furnish such items on a timely basis, you agree to reimburse us for the reasonable cost of such inspection or audit, including, without limitation, the charges of attorneys

and independent accountants and the travel expenses, room and board and compensation of our employees. The foregoing remedies are in addition to our other remedies and rights under this Agreement and applicable law.

## **9. TRANSFER.**

**9.1. BY US.** This Agreement is fully transferable by us and will inure to the benefit of any transferee or other legal successor to our interests herein.

**9.2. BY YOU.** You understand and acknowledge that the rights and duties created by this Agreement are personal to you (or, if you are a corporation or partnership, to your owners) and that we have granted the Franchise to you in reliance upon our perceptions of your (or your owners') individual or collective character, skill, aptitude, attitude, business ability, acumen and financial capacity. Accordingly, neither this Agreement (or any interest therein) nor any ownership or other interest in you or the FRANCHISE may be transferred without our prior written approval which will not be unreasonably withheld. Any transfer without such approval constitutes a breach of this Agreement and is void and of no effect. The transfer of your Franchise, and our approval, is conditioned further on the successor Franchisee continuing to operate as a FRANCHISE under a Franchise Agreement with us. As used in this Agreement, the term "transfer" includes your (or your owners') voluntary, involuntary, direct or indirect assignment, sale, gift or other disposition of any interest in: this Agreement; you; or the FRANCHISE. You will pay us a transfer fee of Five Thousand (\$5,000) Dollars at the time we approve any transfer.

**9.3. OUR RIGHT OF FIRST REFUSAL.** We have the right, exercisable by written notice delivered to you or your selling owners within thirty (30) days from the date of the delivery to us of both an exact copy of such *bona fide* offer and all other information we request, to purchase all of your interest for the price and on the terms and conditions contained in such *bona fide* offer, provided that: We may substitute cash for any form of payment proposed in such offer; our credit will be deemed equal to the credit of any proposed purchaser; we will have not less than sixty (60) days after giving notice of our election to purchase to prepare for closing; and we are entitled to receive, and you and your owners agree to make, all customary representations and warranties given by the seller of the assets of a business or the capital stock of an incorporated business, as applicable.. In no case will we (nor any third party to whom we assign our right hereunder) exercise the option for any partial sale of your business. Any such sale to us will result in a 100% ownership position.

**9.4. EXERCISE.** If we exercise our right of first refusal, you and your selling owner(s) agree that, commencing on the date of the closing, you and they will be bound by the post-term non-competition covenant contained herein.

## **10. TERMINATION OF AGREEMENT; OBLIGATIONS UPON TERMINATION OR EXPIRATION**

**10.1. TERMINATION BY YOU.** You may not terminate this Agreement except by operation of law. Any attempt by you to terminate this Agreement except by operation of law will be deemed a termination without cause.

**10.2. TERMINATION BY US.** We have the right to terminate this Agreement, effective upon delivery of written notice of termination to you, if: You (or your managing shareholder or partner) fail to successfully complete initial training to our satisfaction; you fail to begin operating the FRANCHISE within one hundred eighty (180) calendar days after the execution of this Agreement, providing we and you have found a mutually suitable location for your Lapels® business; you abandon or fail actively to operate the FRANCHISE for three (3) or more consecutive business days, unless the FRANCHISE has been closed for a purpose we have approved or because of a major and significant casualty or by reason of a lawful government order; you surrender or transfer control of the operation of the FRANCHISE without our prior written consent; you (or any of your owners) have made any material misrepresentation or omission in connection with your purchase of the Franchise; you (or any of your owners) are or have been convicted

by a trial court of, or plead or have pleaded no contest to, a felony; you (or any of your owners) engage in any dishonest or unethical conduct which may adversely affect the reputation of the FRANCHISE or another Lapels® business or the goodwill associated with the Marks; you (or any of your owners) make an unauthorized assignment of this Agreement or of an ownership interest in you or the FRANCHISE; in the event of your death or permanent disability or the death or permanent disability of the owner of a controlling interest in you, this Agreement or such owner's interest in you is not assigned as herein required; you lose the right to possession of the Store; you (or any of your owners) make any unauthorized use or disclosure of any Confidential Information or use, duplicate or disclose, or lose and are unable to produce same within twenty four (24) hours of our request, any portion of the Operations Manual in violation of this Agreement (provided, however, if you can prove to our reasonable satisfaction that the Operations Manual, or portions thereof, were not obtained by a "Competitive Business," we will not exercise our rights to terminate this Agreement provided you pay the current replacement charge, which is the cost to replace the documents, plus fifteen (15%) processing fee; you violate any health, safety or sanitation law, ordinance or regulation and do not immediately begin to cure the noncompliance or violation, and correct such noncompliance or violation within twenty four (24) hours after written notice thereof is delivered to you; you fail to make payments of any amounts due to us and do not correct such failure within seven (7) days after written notice of such failure is delivered to you; you cancel your EFT authorization without approval by us; you fail to pay when due any federal or state income, service, sales or other taxes due on the operations of the FRANCHISE, unless you are, in good faith, legally contesting your liability for such taxes; you (or any of your owners) fail to comply with any other provision of this Agreement or *The Way We Do Things* and do not correct such failure within thirty (30) days after written notice of such failure to comply is delivered to you; you (or any of your owners) fail on three (3) or more separate occasions within any period of twelve (12) consecutive months to submit when due reports or other data, information or supporting records, to pay when due any amounts due to us or otherwise to comply with this Agreement, whether or not such failures to comply were corrected after written notice of such failure was delivered to you; or you make an assignment for the benefit of creditors or admit in writing your insolvency or inability to pay your debts generally as they become due; you consent to the appointment of a receiver, trustee or liquidator of all or the substantial part of your property; the FRANCHISE is attached, seized, subjected to a writ or distress warrant or levied upon, unless such attachment, seizure, writ, warrant or levy is vacated within thirty (30) days; or any order appointing a receiver, trustee or liquidator of you or the FRANCHISE is not vacated within thirty (30) days following the entry of such order.

**10.3. OBLIGATIONS UPON TERMINATION OR EXPIRATION.** Upon any termination or expiration of this Agreement, all of your rights to use the Marks and the System and to operate under the Marks and the System shall terminate and:

- 10.3.1. You shall immediately cease to operate the FRANCHISE, and shall not thereafter, directly or indirectly, represent yourself to the public or hold yourself out as a present or former franchisee of ours;
- 10.3.2. You shall promptly pay all sums owing to us, and any affiliated landlord entity, including interest and any damages, costs, and expenses, including reasonable attorneys' fees, incurred by us by reason of any default by you;
- 10.3.3. You shall immediately and permanently cease to use, by advertising or in any other manner whatsoever, any feature or method associated with the System, any or all of the Marks, and any other trade secrets, confidential information, operating manuals and materials, slogans, trade dress, signs, symbols, or devices that are part of our System or are otherwise used in connection with the operation of the FRANCHISE. You agree that any such unauthorized use or continued use after the termination of this Agreement shall constitute irreparable harm subject to injunctive relief. Your continued use of our trademarks, trade names, proprietary marks, and service marks after termination of this Agreement shall constitute willful trademark infringement;

- 10.3.4. You shall immediately return to us all operating manuals, plans, specifications, and other materials in your possession or control containing information prepared by us and relative to the operation of the FRANCHISE, and all copies thereof (all of which are acknowledged to be our property), and shall retain no copy or record of any of the foregoing, except your copy of this Agreement, any correspondence between the parties, and any other documents that you reasonably need for compliance with any provision of law;
- 10.3.5. You shall remove from the FRANCHISE and from any equipment, signs, trade fixtures, furnishings, and other personal property (except as provided in paragraph 10.6 below) and return to us, all of the Marks or other indicia of Lapels®, and shall disconnect, withdraw, and/or terminate, within five (5) days after termination or expiration of this Agreement, any telephone listings and/or fictitious name registration containing any part of the Marks. You hereby appoint us as your attorney-in-fact to do any act necessary in your name to effect the intent of this paragraph;
- 10.3.6. You shall, at our option by notice to you within thirty (30) days from the date of termination or expiration, sell to us any or all of the equipment, interior and exterior signs, trade fixtures, furnishings, and other personal property used in connection with the FRANCHISE (hereinafter collectively "Equipment"), at the purchase cost when originally installed in the FRANCHISE, less a depreciation deduction computed on a straight line basis over a ten (10) year useful life for the respective items (but in no event less than ten percent (10%) of the original purchase cost for such equipment, fixtures, and furnishings). If you owe a balance due on your purchase or financing of such Equipment, or if the same is otherwise subject to a lien or claim for any indebtedness, the amounts of such balance and/or indebtedness shall be deducted from the purchase price payable to you. All sums of money due to us by you may be offset against the purchase price payable to you. Nothing contained herein, however, shall be construed to entitle you to be released from liability for such unpaid balance or indebtedness, if any, in excess of the portion of the purchase price applied for payment of such debts;
- 10.3.7. You shall, at our option by notice to you within thirty (30) days from the date of termination or expiration, assign to us any interest that you have in the Lease or any other Agreement related to the FRANCHISE. If we do not elect to exercise our option to acquire the Lease, you shall make such modifications or alterations to the premises immediately upon termination or expiration of this Agreement as may be necessary to distinguish the appearance of the premises from that of other franchises in the System, and shall make such specific additional changes thereto as we may require for that purpose. In the event that you fail or refuse to comply with the requirements of this Article 10.7, we shall have the right to enter upon the premises, without being guilty of trespass or any other tort, for the purpose of making such changes as may be required, at your expense, which you agree to pay upon demand;
- 10.3.8. You shall pay to us all damages, costs, and expenses, including, but not limited to, reasonable investigation and attorneys' fees and other reasonable expenses and costs such as travel costs and payroll expenses for our employees, incurred in obtaining injunctive or other relief for the enforcement of any provisions of this Article 10; and
- 10.3.9. You shall continue to comply with Article 11 of this Agreement, for the period specified therein. If you begin to operate any other business wherever situated, you shall not use, in connection with such other business or the promotion thereof, any reproduction, counterfeit, copy or colorable imitation of any of our Marks or trade dress; and you shall not utilize any designation of origin or description or representation that falsely suggests or represents an association or connection with us, whether or not constituting unfair competition.

## 11. RESTRICTIVE COVENANTS.

You acknowledge that you will receive specialized training and confidential and proprietary information regarding, among other things, our operational, sales, promotional, and marketing methods and techniques, and that this training and information will provide you with a competitive advantage. As a condition of providing you with this training and information and granting you the FRANCHISE, we require the following covenants to protect our legitimate business interests and goodwill and the interests of our other Lapels® franchisees.

**11.1.** During (a) the term of this Agreement, including any extension or renewal thereof, and (b) “the Post-Term period,” which is two (2) years after any of the following dates, whichever occurs latest: (i) the date of a transfer permitted by Article 9 of this Agreement; (ii) the date of the expiration or termination of the Agreement, regardless of the cause for termination; or (iii) the date of your compliance with an arbitration award or court order with respect to any of the foregoing events or with respect to enforcement of this Article 11, neither you nor any of your partners, officers, directors, shareholders, owners, members, affiliates, or family members will, directly or indirectly:

(a) Divert or attempt to divert any business or customer of the FRANCHISE to any other business that sells or offers to sell products or services that are the same as or similar to the type offered at the FRANCHISE, 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 our Marks and System;

(b) Employ or seek to employ any person who is at that time employed by us or by any other franchisee of ours, or otherwise directly or indirectly induce such person to leave such employment;

(c) Except with respect to the ownership or operation of additional franchises granted by us, own, maintain, advise, operate, engage in, be employed by, provide money or loans to, or have any other direct or indirect interest in or association or relationship with any other business that sells or offers to sell products or services that are the same as or similar to the type offered at the FRANCHISE; provided that, during the Post-Term period only, the provisions of this paragraph 11.1(c) shall only apply to another business located in the Territory; within an area consisting of the Territory plus a three (3) mile radius around the Territory; and within an area consisting of the territory of any other Lapels® business plus a three (3) mile radius around that territory; or

(d) Directly or indirectly contest or aid in contesting our right or the right of any prospective franchisee of ours to obtain a building permit, zoning variance, or other governmental approval required for the development of another location as a Lapels® franchise.

(e) During the term of this Agreement, including any extension or renewal thereof, and at any time thereafter, regardless of the cause of termination, neither you, nor any of your partners, officers, directors, shareholders, members, or employees shall communicate or divulge to, or use for the benefit of any person, persons, partnership, association, or corporation, any information or knowledge concerning the methods of constructing, equipping, or operating units under any of our Systems and all other information or knowledge which we deem confidential and which may be communicated to you, or of which you may be apprised by virtue of your operation under the terms of this Agreement. You shall divulge such confidential information only to such of your employees as must have access to it in order to operate the FRANCHISE. Any and all information, knowledge, and know-how including, without limitation, drawings, materials, specifications, techniques, and other data, which we designate confidential shall be deemed confidential for purposes of this Agreement. We shall have the nonexclusive right to use and incorporate into our Systems, for our benefit and the benefit of our franchisees, licensees, and distributors, all modifications, changes, and improvements developed or discovered by you or your employees or agents in connection with the FRANCHISE, without any liability or obligation to the developer thereof.

(f) The covenants contained in this Article 11 shall be construed as severable and independent. If all or any portion of a covenant in this Article 11 is held unreasonable or unenforceable by a court, arbitration panel, or other agency having valid jurisdiction in a decision to which we are a party, you agree to be bound by any lesser covenant included within the terms of such greater covenant that imposes the maximum duty permitted by law, as if the lesser covenant were separately stated in, and made a part of, this Article 11.

(g) You acknowledge that we shall have the right to reduce the scope of any covenant set forth in this Article 11, or of any portion or portions thereof, without your consent, and you agree to comply forthwith with any covenant as modified. You agree that the existence of any claim that you may have against us shall not constitute a defense to our enforcement of the covenants in Article 11.

## **12. RELATIONSHIP OF THE PARTIES AND INDEMNIFICATION.**

**12.1. INDEPENDENT CONTRACTORS.** You and we understand and agree that this Agreement does not create a fiduciary relationship between you and us, that we and you are and will be independent contractors and that nothing in this Agreement is intended to make either you or us a general or special agent, joint venturer, partner or employee of the other for any purpose. You agree to conspicuously identify yourself in all dealings with customers, suppliers, public officials, FRANCHISE personnel and others as the owner of the FRANCHISE under a franchise we have granted and to place such notices of independent ownership on such forms, checks, business cards, stationery and advertising and other materials as we may require from time to time. You agree to obtain the policies of insurance that we prescribe from time to time. You shall present evidence of insurance to us as often as we shall reasonably require, but in any event, not less than thirty (30) days before your commencement of operations. Such policies of insurance must require thirty (30) day notice of cancellation to us including notice of non-payment of premiums.

**12.2. NO LIABILITY FOR ACTS OF OTHER PARTY.** You agree not to employ any of the Marks in signing any contract or applying for any license or permit, or in a manner that may result in our liability for any of your indebtedness or obligations, and that you will not use the Marks in any way we have not expressly authorized. Neither we nor you will make any express or implied agreements, warranties, guarantees or representations or incur any debt in the name or on behalf of the other, represent that our respective relationship is other than franchisor and franchisee or be obligated by or have any liability under any agreements or representations made by the other that are not expressly authorized in writing. We will not be obligated for any damages to any person or property directly or indirectly arising out of the Franchise's operation or the business you conduct pursuant to this Agreement.

**12.3. TAXES.** We will have no liability for any sales, use, service, occupation, excise, gross receipts, income, property or other taxes, whether levied upon you, your owners, or the FRANCHISE, in connection with the business you conduct (except any taxes we are required by law to collect from you with respect to purchases from us). Payment of all such taxes is your responsibility.

**12.4. INDEMNIFICATION.** You agree to indemnify, defend and hold us, our affiliates and our respective shareholders, directors, officers, employees, agents, successors and assignees (the "Indemnified Parties") harmless from and against and to reimburse any one or more of the Indemnified Parties for all claims, obligations and damages described in this Article, any and all taxes described in Article 12.3. and any and all claims and liabilities directly or indirectly arising out of the FRANCHISE operation or your breach of this Agreement. For purposes of this indemnification, "claims" includes all obligations, damages (actual, consequential or otherwise) and costs reasonably incurred in the defense of any claim against any of the Indemnified Parties, including, without limitation, reasonable accountants', arbitrators', attorneys' and expert witness fees, costs of investigation and proof of facts, court costs, other expenses of litigation, arbitration or alternative dispute resolution and travel and living expenses. We have the right to defend any such claim against us. This indemnity will continue in full force and effect



subsequent to and notwithstanding the expiration or termination of this Agreement. Furthermore, you agree to indemnify, defend and hold harmless the Indemnified Parties from and against any obligations, liabilities, actions, costs and expenses arising from, related to or in connection with, your actions or failures to act, any violation by you of this Agreement or any violation by you of any law, rule or regulation, including franchise-related laws, rules and regulations.

**12.5. MITIGATION NOT REQUIRED.** Under no circumstances will we or any other Indemnified Party be required to seek recovery from any insurer or other third party, or otherwise to mitigate our, their or your losses and expenses, in order to maintain and recover fully a claim against you. You agree that a failure to pursue such recovery or mitigate a loss will in no way reduce or alter the amounts we or another Indemnified Party may recover from you.

### **13. ENFORCEMENT.**

**13.1. SEVERABILITY AND SUBSTITUTION OF VALID PROVISIONS.** Except as expressly provided to the contrary herein, each provision of this Agreement, and any portion thereof, will be considered severable, and if, for any reason, any such provision is held to be invalid or contrary to or in conflict with any applicable present or future law or regulation in a final, unappealable ruling issued by any court, agency or tribunal with competent jurisdiction in a proceeding to which we are a party, that ruling will not impair the operation of, or have any other effect upon, such other portions of this Agreement as may remain otherwise enforceable, which will continue to be given full force and effect and bind the parties hereto, although any portion held to be invalid will be deemed not to be a part of this Agreement from the date the time for appeal expires, if you are a party thereto, otherwise upon your receipt from us of a notice of non-enforcement thereof.

**13.2. LESSER COVENANT ENFORCEABLE.** If any covenant herein which restricts competitive activity is deemed unenforceable by virtue of its scope in terms of area, business activity prohibited and/or length of time, but would be enforceable by reducing any part or all thereof, you and we agree that such covenant will be enforced to the fullest extent permissible under the laws and public policies applied in the jurisdiction whose law is applicable to the validity of such covenant.

**13.3. GREATER NOTICE.** If any applicable and binding law or rule of any jurisdiction requires a greater prior notice than is required hereunder of the termination of this Agreement or of our refusal to enter into a successor franchise agreement, or the taking of some other action not required hereunder, or if, under any applicable and binding law or rule of any jurisdiction, any provision of this Agreement or any of *The Way We Do Things* is invalid or unenforceable the prior notice and/or other action required by such law or rule will be substituted for the comparable provisions hereof, and we will have the right in our sole discretion to modify such invalid or unenforceable provision or unenforceable part of *The Way We Do Things* to the extent required to be valid and enforceable. You agree to be bound by any promise or covenant imposing the maximum duty permitted by law which is subsumed within the terms of any provision hereof as though it were separately articulated in and made a part of this Agreement, that may result from striking from any of the provisions hereof, or any part of *The Way We Do Things*, any portion or portions which a court or arbitrator may hold to be unenforceable in a final decision to which we are a party, or from reducing the scope of any promise or covenant to the extent required to comply with such a court order or arbitration award. Such modifications to this Agreement will be effective only in such jurisdiction, unless we elect to give them greater applicability, and will be enforced as originally made and entered into in all other jurisdictions.

**13.4. WAIVER OF OBLIGATIONS.** We and you may by written instrument unilaterally waive or reduce any obligation of or restriction upon the other under this Agreement, effective upon delivery of written notice thereof to the other or such other effective date stated in the notice of waiver. Any waiver we grant will be without prejudice to any other rights we may have, will be subject to our continuing review and may be revoked, in our sole discretion, at any time and for any reason, effective upon delivery to you of ten (10) days' prior written notice.

**13.5. NON-WAIVER.** We and you will not be deemed to have waived or impaired any right, power or option reserved by this Agreement, (including, without limitation, the right to demand exact compliance with every term, condition and covenant herein or to declare any breach thereof to be a default and to terminate this Agreement before the expiration of its term) by virtue of any custom or practice at variance with the terms hereof; our or your failure refusal or neglect to exercise any right under this Agreement or to insist upon exact compliance by the other with our and your obligations hereunder including without limitation, *The Way We Do Things*; our waiver, forbearance, delay, failure or omission to exercise any right, power or option whether of the same, similar or different nature with respect to other Lapels<sup>®</sup> businesses; the existence of other franchise agreements for Lapels<sup>®</sup> businesses which contain different provisions from those contained herein; or our acceptance of any payments due from you after any breach of this Agreement. No special or restrictive legend or endorsement on any check or similar item given to us will constitute a waiver compromise settlement or accord and satisfaction. We are authorized to remove or obliterate any legend or endorsement, and such legend or endorsement will have no effect.

**13.6. FORCE MAJEURE.** Neither we nor you will be liable for loss or damage or deemed to be in breach of this Agreement if our or your failure to perform our or your obligations results from: Transportation shortages, inadequate supply of equipment, goods, supplies, labor, material or energy or the voluntary foregoing of the right to acquire or use any of the foregoing in order to accommodate or comply with the orders, requests, regulations, recommendations or instructions of any federal, state or municipal government or any department or agency thereof; acts of nature; fires, strikes, embargoes, war or riot; or any other similar event or cause.

**13.7. EXTEND PERFORMANCE.** Any delay resulting from any of said causes will extend performance accordingly or excuse performance, in whole or in part, as may be reasonable, except that said causes will not excuse payments of amounts owed at the time of such occurrence or payment of Royalties and Ad Fees due on any sales thereafter.

**13.8. OUT-OF-STOCK AND DISCONTINUED.** We are not liable to you for any loss or damage, or deemed to be in breach of this Agreement, if we cannot deliver, or cause to be delivered, or if our Affiliates or designated sources or approved suppliers cannot deliver, all of your orders for goods, equipment, supplies, etc., where such things are out-of-stock or discontinued.

**13.9. COSTS AND ATTORNEYS' FEES.** If we incur expenses in connection with your failure to pay when due amounts owed to us, to submit when due any reports, information or supporting records or otherwise to comply with this Agreement, you agree to reimburse us for any of the costs and expenses which we incur, including, without limitation, reasonable accounting, attorneys', arbitrators' and related fees.

**13.10. YOU MAY NOT WITHHOLD PAYMENTS DUE TO US.** You agree that you will not withhold payment of any amounts owed to us on the grounds of our alleged nonperformance of any of our obligations hereunder. You agree that all such claims will, if not otherwise resolved by us, be submitted to arbitration as provided herein.

**13.11. RIGHTS OF PARTIES ARE CUMULATIVE.** Our and your rights hereunder are cumulative, and no exercise or enforcement by us or you of any right or remedy hereunder will preclude our or your exercise or enforcement of any other right or remedy hereunder which we or you are entitled by law to enforce.

**13.12. ARBITRATION.** Except for money you owe us, our affiliates, designated sources or approved suppliers and except for controversies, disputes or claims related to or based on your use of the Marks after the expiration or termination of this Agreement, all controversies disputes or claims between us and our shareholders, officers, directors, agents and employees and you, your owners, guarantors, affiliates and employees, if applicable, arising out of or related to this Agreement or any other agreement between you and us or any provision of any such agreement, our relationship with you, the validity of this Agreement or any other agreement between you and us or any provision of any such agreement; or any part of *The Way We Do Things* relating to the establishment or operation of the FRANCHISE, will be

submitted for arbitration to the office of the American Arbitration Association that is nearest to our principal business address on demand of either party. Such arbitration proceedings will be conducted in such office, except as otherwise provided in this Agreement, will be heard by one arbitrator in accordance with the then current commercial arbitration rules of the American Arbitration Association. All matters relating to arbitration will be governed by the Federal Arbitration Act (9 U.S.C. §§ 1 *et. seq.*) and not by any state arbitration law.

**13.13. GOVERNING LAW.** All matters relating to arbitration will be governed by the Federal Arbitration Act (9 U.S.C. §§ 1 *et. seq.*). Except to the extent governed by the Federal Arbitration Act as required hereby, the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. §§ 1051 *et. seq.*) or other Federal law, this Agreement, the Franchise and all claims arising from the relationship between us and you will be governed by the laws of Massachusetts, without regard to its conflict of laws principles, except that any law regulating the sale of franchises or governing the relationship of a franchisor and its franchisee will not apply unless jurisdictional requirements are met independently without reference to this Article.

**13.14. CONSENT TO JURISDICTION.** Subject to the arbitration provisions of this Agreement, you and your owners agree that we may institute any action against you or your owners in any state or federal court of general jurisdiction in Massachusetts, and you (and each owner) irrevocably submit to the jurisdiction of such courts and waive any objection you (or he or she) may have to either the jurisdiction of or venue in such courts.

**13.15. WAIVER OF PUNITIVE DAMAGES AND JURY TRIAL.** Except with respect to your obligation to indemnify us and claims we bring against you for your unauthorized use of the Marks or unauthorized use or disclosure of any Confidential Information, we and you and your respective owners waive to the fullest extent permitted by law any right to or claim for any punitive or exemplary damages against the other and agree that, in the event of a dispute between us, the party making a claim will be limited to equitable relief and to recovery of any actual damages it sustains.

**13.16. BINDING EFFECT.** This Agreement is binding upon us and you and our respective executors, administrators, heirs, beneficiaries, assigns and successors in interest and may not be modified except by written agreement signed by you and us.

**13.17. LIMITATIONS OF CLAIMS.** Except for claims arising from your nonpayment or underpayment of amounts you owe us pursuant to this Agreement, any and all claims arising out of or relating to this Agreement or our relationship with you will be barred unless a judicial or arbitration proceeding is commenced within one (1) year from the date on which the party asserting such claim knew or should have known of the facts giving rise to such claims.

**13.18. CONSTRUCTION.** This Agreement, its preambles and exhibits, and the documents referred to herein, shall be the entire, full, and complete agreement between us and you concerning the subject matter hereof, and supersedes all prior agreements, no other representation having induced you to execute this Agreement; and there are no representations, inducements, promises, or agreements, oral or otherwise, between the parties not embodied herein, which are of any force or effect with reference to this Agreement or otherwise. Except for those permitted hereunder to be made unilaterally by us, no amendment, change, or variance from this Agreement shall be binding on either party unless mutually agreed to by the parties and executed in writing by their authorized officers or agents.

**13.19. WITHHOLD APPROVAL.** Except where this Agreement expressly obligates us reasonably to approve or not unreasonably to withhold our approval of any of your actions or requests, we have the absolute right to refuse any request you make or to withhold our approval of any of your proposed or effected actions that require our approval.

**13.20. HEADINGS.** The headings of the several Articles hereof are for convenience only and do not define, limit or construe the contents of such Articles.

**13.21. JOINT AND SEVERAL OWNERS' LIABILITY.** If two (2) or more persons are at any time the owner of the FRANCHISE hereunder, whether as partners or joint venturers, their obligations and liabilities to us will be joint and several. References to "owner" mean any person holding a direct or indirect, legal or beneficial ownership interest or voting rights in you (or a transferee of this Agreement and the FRANCHISE or an interest in you), including, without limitation, any person who has a direct or indirect interest in you (or a transferee), this Agreement or the FRANCHISE and any person who has any other legal or equitable interest, or the power to vest in himself any legal or equitable interest, in the Sales, profits, rights or assets thereof. References to a "controlling interest" in you mean thirty three and one-third (33.33%) percent or more of your voting shares or other voting rights if you are a corporation or partnership owned by three (3) or more persons; otherwise, fifty (50%) percent or more of your voting shares or other voting rights will constitute a "controlling interest." "Person" means any natural person, corporation, general or limited partnership, unincorporated association, cooperative or other legal or functional entity.

**13.22. "FRANCHISE".** The term "FRANCHISE" as used herein includes all of the assets of the Lapels<sup>®</sup> business you operate pursuant to this Agreement, including its Sales and income.

**13.23. MULTIPLE COPIES/COUNTERPARTS/SIGNATURES.** This Agreement may be executed in multiple copies, each of which will be deemed an original. This Agreement may be executed in counterparts with facsimile signatures accepted provided original signatures and original Agreements follow through overnight delivery or standard U.S. Mail or whatever other means to which you and we shall agree.

**13.24. OTHER DOCUMENTS.** A default of this agreement shall operate as a default of every other agreement you have with us or our affiliates and a default of any other agreement you have with us or our affiliates, including but not limited to any Promissory Note payable to us or our affiliates, shall operate as a default of this Franchise Agreement.

#### **14. NOTICES AND PAYMENTS.**

**14.1. NOTICES.** All written notices and reports permitted or required to be delivered by the provisions of this Agreement or the Operations Manual will be deemed so delivered: At the time delivered by hand; one (1) business day after transmission by telecopy, facsimile or other electronic system with confirmed receipt; one (1) business day after being placed in the hands of a commercial courier service for next business day delivery; or three (3) business days after placement in the United States Mail by Registered or Certified Mail, Return Receipt Requested, postage prepaid; and must be addressed to the party to be notified at its most current principal business address of which the notifying party has been notified. Any required payment or report which we do not actually receive during regular business hours on the date due (or postmarked by postal authorities at least two (2) days prior thereto) will be deemed delinquent.

**14.2. PAYMENTS.** All payments required to be delivered by the provisions of this Agreement or the Operations Manual will be in U.S. Dollars and will be deemed so delivered as provided in Article 14.1. above, or will be deemed delivered by bank-wire transfer upon telephone or electronic confirmation with the receiving bank.

#### **15. CONDITION TO SUBDIVIDING OR TRANSFERRING.**

Your rights hereunder may be subdivided and transferred to others, subject to our approval, which shall not be unreasonably withheld; however, this is provided that the balance of outstanding franchise, financing or other fees have been paid in full.

**16. STATE AMENDMENTS.**

If you are in a registration state that requires amendments to our standard franchise agreement, then this agreement includes a rider "state" attached hereto.

**17. STATE AND LOCAL TAX ON FEES.**

Any and all state and local taxes levied against royalty fees, ad fees, franchise fees or any other payments you make to us or owe to us shall be paid by you and not by us. You must account for the documentation and collection and payment of these taxes under Article (7) of this Agreement.

**18. COMPENSATORY DAMAGES.**

You do hereby acknowledge and agree that your breach of the terms of this Agreement or your termination of this agreement without our consent and without the award of lawful termination by a court or arbitrator in a proceeding brought in compliance with the terms hereof, shall cause us to incur damages, which damages may included, without limitation by enumeration, the following:

- 18.1. Money damages (actual and "benefit of the bargain");
- 18.2. Equitable relief;
- 18.3. Loss of market value and/or brand disparagement;
- 18.4. Lost profits;
- 18.5. The sum of money that you would reasonably have paid us during the term of this Agreement, including any renewal term;
- 18.6. The higher of the actual or pro rata cost of providing training to you by us;
- 18.7. Legal, accounting and other professional fees;
- 18.8. Out-of-pocket expenses to enforce the terms of this Agreement;
- 18.9. Other consequential damages;
- 18.10. Other incidental damages.

Nothing set forth above shall prevent a court or arbitrator to award liquidated damages as provided in this Agreement and injunctive or equitable relief as provided in this Agreement and such liquidated damages provisions or injunctive or equitable relief provisions shall not prevent the arbitrator or court awarding other damages or relief as provided above. You agree that all damages set forth above are reasonable and foreseeable, that the damages were not avoidable by us and are reasonably certain to be sustained by us as a consequence of your unlawful termination of this Agreement. This provision shall be binding on each and every guarantor of this Agreement regardless of whether this provision is part of the guaranty document executed by the guarantor. Any award of damages to us by an arbitrator as provided above shall not be appealable. Any award by a court as provided above may be appealable but only after you post a bond in favor of us equal to the amount of the award of damages plus our reasonable costs and attorney's fees during the course of any appeal. Any award of damages to us by an arbitrator or court is not dischargeable in bankruptcy by you or your guarantors.

**IN WITNESS WHEREOF**, the parties hereto have executed and delivered this Agreement on the date(s) set forth below.

Franchisor: NEXT STEP FRANCHISING, INC. By: \_\_\_\_\_

Name Printed: Kevin Dubois Title: President/CEO

Dated: \_\_\_\_\_

**EACH OF THE UNDERSIGNED PARTIES WARRANTS AND REPRESENTS THAT HE/SHE HAS NOT RELIED UPON ANY GUARANTEES CONCERNING SALES, PROFIT OR THE SUCCESS OF THIS FRANCHISE IN SO SIGNING.**

Franchisee: By: \_\_\_\_\_  
(Corporate Name)

Name Printed: Title: \_\_\_\_\_

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

Franchisee: \_\_\_\_\_ By: \_\_\_\_\_  
(Corporate Name)

Name Printed: \_\_\_\_\_ Title: \_\_\_\_\_

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

As Individuals:

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

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

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

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

**APPENDIX "A"**

**GUARANTY AND ASSUMPTION OF OBLIGATIONS**

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

This Guaranty and Assumption of Obligations is given on the date set forth above by the following persons:

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

In consideration of, and as an inducement to, the execution of the Franchise Agreement dated \_\_\_\_\_, 20\_\_ between you and us (the "Agreement"), each of the undersigned hereby personally and unconditionally:

Guarantees to us and our successors and assigns, for the term of the Agreement and thereafter as provided in the Agreement, that the owner will punctually pay and perform each and every undertaking, agreement and covenant set forth in the Agreement; and

Agrees to be personally bound by and personally liable for the breach of, each and every provision in the Agreement, both monetary obligations and obligations to take or refrain from taking specific actions or to engage or refrain from engaging in specific activities.

Each of the undersigned consents and agrees that: His direct and immediate liability under this guaranty will be joint and several; he will render any payment or performance required under the Agreement upon demand if owner fails or refuses punctually to do so; such liability will not be contingent or conditioned upon our pursuit of any remedies against owner or any other person; and such liability will not be diminished, relieved or otherwise affected by any extension of time, credit or other indulgence which we may from time to time grant to owner or to any other person, including, without limitation, the acceptance of any partial payment or performance or the compromise or release of any claims, none of which will in any way modify or amend this guaranty, which will be continuing and irrevocable during the term of the Agreement.

Each of the undersigned waives all rights to payments and claims for reimbursement or subrogation which any of the undersigned may have against owner arising as a result of the undersigned's execution of and performance under this guaranty.

Each of the undersigned pledges his/her interest as one of your owners, if any, to us to secure the payment of any direct or indirect, primary or secondary liability, jointly or severally, or any renewals thereof, of the undersigned to us, due or to become due, or that may hereafter be contracted, and to secure any judgment on any of the foregoing. We or any assignee of ours may collect any part of said security by any lawful means. Any and all transfers of the Agreement shall not affect this pledge. You agree to execute any documents reasonably required by us to secure our interest herein pursuant to the Uniform Commercial Code, including, without limitation, standard form UCC-1.

IN WITNESS WHEREOF, each of the undersigned has affixed his signature on date set forth above.

GUARANTOR(S):

\_\_\_\_\_

\_\_\_\_\_

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

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

**APPENDIX "B"  
YOU AND YOUR OWNERS**

Effective Date: This Appendix B is current and complete as of \_\_\_\_\_, 20\_\_\_\_

**1. FORM OF OWNER.**

**1.1. PROPRIETORSHIP.** Your owner(s) (is/are) as follows:

**1.2. CORPORATION, PARTNERSHIP OR LIMITED LIABILITY COMPANY (LLC).** You were incorporated or formed on \_\_\_\_\_, 201\_\_\_\_, under the laws of the State of \_\_\_\_\_. You have not conducted business under any name other than your corporate, LLC, or partnership name and \_\_\_\_\_. The following is a list of your directors, if applicable, and officers, members, managers, or partners as of the effective date shown above:

Name of Each Director/Officer/Manager	Position(s) Held
_____	_____
_____	_____
_____	_____
_____	_____

**1.3. OWNERS.** The following list includes the full name and mailing address of each person who is one of your owners (as defined in the Agreement) and fully describes the nature of each owner's interest.

Owner's Name and Address	Description of Interest
_____	_____
_____	_____
_____	_____

[OWNER CORPORATION OR PARTNERSHIP]

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

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

Dated: \_\_\_\_\_

As Individuals:

\_\_\_\_\_ Dated: \_\_\_\_\_

\_\_\_\_\_ Dated: \_\_\_\_\_

\_\_\_\_\_ Dated: \_\_\_\_\_

\_\_\_\_\_ Dated: \_\_\_\_\_



**APPENDIX “C”**

**The Startup Supplies and Equipment Package for the FRANCHISE is described on the following page.**

**INSERT FRANCHISE-SPECIFIC LIST FOLLOWING THIS PAGE.**

**APPENDIX C  
STARTUP SUPPLIES AND EQUIPMENT PACKAGE  
SATELLITE STORE**

In return for your payment to us of Fifty Four Thousand Five Hundred and Eighty Two Dollars and no/100 (\$55,812) you will receive the following Startup Supplies and Equipment Package, consisting generally of:

- Standard Interior and Exterior Signage Layout, Drawings, Town/ City Permitting, Fabrication and Installation \$5,000 Allowance
- Standard Single-user Touch Screen Computer System and Point-of-Sale Software
- Standard Counter Package consisting of one marking in counter and two call counters including delivery
- Standard Double-deck Clothing Conveyor including delivery and installation
- Standard Store Startup supplies and uniforms
- Store Layout and Design
- Standard Grand Opening Marketing Package
- Standard Retail Store Training Program

We and you agree that this payment is due and payable when you sign your lease for the Store. You understand and hereby acknowledge that you will most likely incur additional costs as stated in our Item 7 of the Disclosure Document.

Franchisor: NEXT STEP FRANCHISING, INC.

By: \_\_\_\_\_  
(Signature)

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

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

Dated: \_\_\_\_\_

Franchisee: \_\_\_\_\_

By: \_\_\_\_\_  
(Signature)

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

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

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

Franchisee: \_\_\_\_\_  
(Corporate name)

By: \_\_\_\_\_  
(Signature)

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

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

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

**APPENDIX C**  
**STARTUP SUPPLIES AND EQUIPMENT PACKAGE**  
**ENVIRONMENTALLY FRIENDLY DRY CLEANING STORE**  
**with SHIRT PROCESSING**

In return for your payment to us of Two Hundred Sixty Four Thousand Four Hundred Fifty One and no/100 dollars (\$312,251) you will receive the following Startup Supplies and Equipment Package, consisting generally of:

- Standard Dry Cleaning and Finishing machines and equipment
- Standard Shirt Processing and Finishing machines, equipment and supplies
- Standard Interior and Exterior Signage Layout, Drawings, Fabrication and Installation \$8,000 Allowance
- Standard Double-user Touch Screen Computer System and Point-of-Sale Software
- Standard Counter Package consisting of one marking in counter and two call counters
- Standard Double-deck Clothing Conveyor
- Standard Store Startup supplies and uniforms
- Store Layout and Design
- Standard Grand Opening Marketing Package
- Standard Environmentally-Friendly Dry Cleaning Store Training Program
- Equipment Installation

We and you agree that this payment is due and payable when you sign your lease for the Store. You understand and hereby acknowledge that you will most likely incur additional costs as stated in our Item 7 of the Disclosure Document.

Franchisor: NEXT STEP FRANCHISING, INC.

By: \_\_\_\_\_  
(Signature)

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

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

Dated: \_\_\_\_\_

Franchisee: \_\_\_\_\_

By: \_\_\_\_\_  
(Signature)

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

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

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

Franchisee: \_\_\_\_\_  
(Corporate name)

By: \_\_\_\_\_  
(Signature)

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

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

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

APPENDIX "D"

THE OPTION TO ASSUME LEASE FOR THE FRANCHISE IS DESCRIBED ON THE FOLLOWING PAGE

**Option to Assume Lease**

1. If \_\_\_\_\_ ("Tenant") defaults under the Lease dated \_\_\_\_\_ ("Lease") by and between \_\_\_\_\_ ("Landlord") and Tenant for the premises located at \_\_\_\_\_ (the "Premises"), or if Lapels® ("Franchisor") terminates Tenant's franchise agreement covering the Premises, or if the franchise agreement expires, Landlord and Tenant acknowledge and agree that Franchisor will have the option to assume the Lease pursuant to the terms below.

2. Landlord agrees to give Franchisor written notice if Landlord terminates the Lease as a result of Tenant's default under the Lease. Franchisor agrees to give written notice to Landlord if Franchisor terminates Tenant's franchise agreement and, in such notice, will request that Landlord provide Franchisor with a copy of the Lease and specify any of Tenant's defaults thereunder. All notices will be by nationally recognized overnight courier (with tracking capability).

3. Franchisor or its representative may, within 30 days from (i) receipt of notice from Landlord that Landlord has terminated the Lease due to a default by Tenant, or (ii) sending notice to Landlord that Franchisor has terminated Tenant's franchise agreement covering the Premises, notify Landlord of Franchisor's decision to assume the Lease. If Franchisor exercises its right to assume the Lease, (i) Landlord will deliver possession of the Premises to Franchisor; and (ii) Franchisor will, immediately upon such delivery, cure all of Tenant's monetary defaults under the Lease, begin curing all of Tenant's nonmonetary defaults under the Lease, and execute an agreement, in a form acceptable to Landlord, pursuant to which Franchisor agrees to assume all of Tenant's rights and obligations under the Lease, subject to the next paragraph.

4. If Franchisor exercises its right to assume the Lease pursuant to Paragraph 3 above, Landlord agrees that Franchisor (i) may, without Landlord's consent, sublet the Premises or assign the Lease to an approved franchisee of Franchisor provided Franchisor remains liable for the payment of rent and the performance of Tenant's duties under the Lease and provided further that, if assigned, the approved franchisee executes an agreement, in a form acceptable to Landlord, pursuant to which such approved franchisee agrees to assume all of the Tenant's obligations under the Lease; (ii) may assign, without recourse, its rights under the Lease upon receiving Landlord's prior written consent, which consent shall not be unreasonably withheld; (iii) will not be subject to any provision of the Lease that requires Tenant to continuously operate a business in the Premises during any period that the Premises is closed for remodeling or while Franchisor is seeking to obtain and train a new franchisee, provided however, that such period of closure will not exceed 45 days in each instance; and (iv) may, if it subleases the Premises to a franchisee as provided above, retain all rent or other consideration payable to Franchisor under such sublease.

5. If Franchisor exercises its right to assume the Lease pursuant to Paragraph 3 above, within 10 days after written demand, Tenant agrees to assign all of its right, title, and interest in the Lease to Franchisor and, if Tenant does not do so, Tenant appoints Franchisor as its agent to execute all documents that may be necessary for Franchisor to take assignment of the Lease. Notwithstanding anything to the contrary contained herein, Tenant shall remain liable to Landlord for all of its obligations under the Lease and to Franchisor for all amounts that Franchisor pays to Landlord to cure Tenant's defaults under the Lease, including interest, reasonable collection costs, and deidentification costs (the parties acknowledging that Franchisor may enter the Premises, upon prior notice to Landlord, to deidentify the Premises). Upon notice to Landlord, Franchisor may assign this Option and its rights and obligations hereunder to any affiliate, subsidiary, or parent of Franchisor, provided such entity agrees to assume such rights and obligations in a form acceptable to Landlord. This Option may be signed in any number of counterparts by facsimile or otherwise, each of which shall be deemed an original, but all of which shall constitute one and the same instrument. A facsimile signature may be used for any purpose in lieu of an original signature.

**LANDLORD**

**TENANT**

**FRANCHISOR**

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

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

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

\_\_\_\_\_  
, individually

\_\_\_\_\_  
, individually

## EXHIBIT B - FINANCIALS

**NEXT STEP FRANCHISING, INC**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013 and 2012**

**Independent Auditor's Report**

Financial Statements

Balance Sheets	3
Statements of Income and Retained Earnings	4
Statements of Cash Flows	5
Notes to Financial Statements	6-9

James M. Coughlin CPA PC -- Certified Public Accountants

700 Bedford Street  
Abington, MA 02351

Phone: 781-792-0300  
Fax: 781-792-0766

coughlincpa@aol.com  
www.coughlincpa.com

## James M. Coughlin CPA PC

### INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Next Step Franchising Inc.  
Hanover, Massachusetts

We have audited the accompanying financial statements of Next Step Franchising Inc. which comprise the balance sheet as of December 31, 2013 and 2012 and the related statements of income and retained earnings, and cash flows for the years then ended, and the related notes to the financial statements.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on my audit. We conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements; the procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are applicable in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's

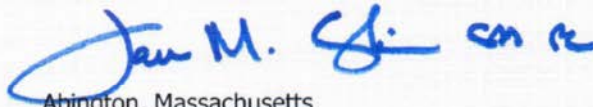


internal control. Accordingly, we express no such opinion. An audit also includes evaluation the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements

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

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Next Step Franchising Inc. as of December 31, 2013 and the results of its operations, cash flows, and its retained earnings for the year then ended in conformity with accounting principles generally accepted in the United States.

A handwritten signature in blue ink that reads "Jan M. Spiccone". The signature is written in a cursive style with a large initial "J" and "S".

Abington, Massachusetts  
March 24, 2014

**NEXT STEP FRANCHISING, INC****BALANCE SHEETS****December 31, 2013 and 2012****Assets**

	<u>2013</u>	<u>2012</u>
<b>CURRENT ASSETS</b>		
Cash	147,263	159,616
Accounts receivable, net of bad debt reserve of \$15,000	938,793	294,245
Notes receivable	8,038	10,297
Inventory	6,486	8,312
Prepaid expenses	16,325	18,875
	<u>1,116,905</u>	<u>491,345</u>
<b>EQUIPMENT</b>		
Equipment	41,673	41,673
Less - accumulated depreciation	39,024	39,024
	<u>2,649</u>	<u>2,649</u>
<b>OTHER ASSETS</b>		
Deposit	1,067	1,067
	<u>1,120,621</u>	<u>495,061</u>
<b><u>Liabilities and Stockholders' Equity</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	153,711	65,424
Accrued expenses	725,441	505,798
Current portion of long term debt	89,000	10,000
Accrued corporate taxes	581	581
Deferred revenue	305,054	-
Loan payable	-	3,103
TOTAL CURRENT LIABILITIES	<u>1,273,787</u>	<u>584,906</u>
<b>LONG TERM LIABILITIES</b>		
Long term debt	-	10,000
	<u>-</u>	<u>10,000</u>
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, no par value, authorized 200,000 shares, issued and outstanding 2,000 shares	1,000	1,000
Paid-in capital	70,000	70,000
Retained earnings (deficit)	<u>(224,166)</u>	<u>(170,845)</u>
	<u>(153,166)</u>	<u>(99,845)</u>
	<u>1,120,621</u>	<u>495,061</u>

See accompanying notes to financial statements

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James M. Coughlin CPA PC -- Certified Public Accountants

**NEXT STEP FRANCHISING, INC**  
**STATEMENTS OF INCOME AND RETAINED EARNINGS**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>Revenue</b>		
Franchise fees	1,643,467	1,047,041
Royalty and supply income	<u>253,842</u>	<u>190,355</u>
<b>TOTAL REVENUE</b>	<u>1,897,309</u>	<u>1,237,396</u>
<b>Operating expense</b>		
Franchise expenses	1,159,027	636,104
General and administrative expenses	<u>492,787</u>	<u>551,686</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>1,651,814</u>	<u>1,187,790</u>
<b>OPERATING INCOME</b>	<u>245,495</u>	<u>49,606</u>
<b>OTHER INCOME (EXPENSE)</b>		
Interest income	563	439
Interest expense	(997)	(133)
Bad debt expense	<u>-</u>	<u>(16,207)</u>
<b>TOTAL OTHER INCOME (EXPENSE)</b>	<u>(434)</u>	<u>(15,901)</u>
<b>Income Before Provision For Taxes</b>	245,061	33,705
<b>Provision of Income Taxes</b>	<u>456</u>	<u>456</u>
<b>NET INCOME</b>	244,605	33,249
<b>RETAINED EARNINGS, Beginning of Year</b>	<u>(170,845)</u>	<u>(85,131)</u>
<b>Less: SHAREHOLDER DISTRIBUTIONS</b>	(327,265)	(219,180)
<b>Add: SHAREHOLDER CONTRIBUTIONS</b>	<u>29,339</u>	<u>100,216</u>
<b>RETAINED EARNINGS, End Of Year</b>	<u>(224,166)</u>	<u>(170,845)</u>

See accompanying notes to financial statements

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James M. Coughlin CPA PC -- Certified Public Accountants



**NEXT STEP FRANCHISING, INC**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	244,605	33,249
Adjustments to reconcile excess revenues to net cash provided by operating activities		
Depreciation and amortization	-	-
Changes in:		
Accounts receivable	(644,548)	4,757
Notes receivable	2,259	(10,297)
Prepaid expenses	2,550	13,625
Inventory	1,826	(4,860)
Accounts payable	88,287	16,425
Deferred revenue	305,054	-
Accrued expenses	219,643	218,599
<b>TOTAL ADJUSTMENTS</b>	<u>(24,929)</u>	<u>238,249</u>
<b>Net Cash Provided by Operating Activities</b>	<u>219,676</u>	<u>271,498</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Equipment purchases	-	(1,741)
	<u>-</u>	<u>(1,741)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayments of shareholder loans	(3,103)	(8,173)
Repayments of long term debt	(20,000)	(128,900)
Proceeds from long term debt	89,000	-
Shareholder contributions	29,339	100,216
Shareholder distributions	(327,265)	(219,180)
	<u>(232,029)</u>	<u>(256,037)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	(12,353)	13,720
<b>CASH, BEGINNING OF YEAR</b>	<u>\$159,615</u>	<u>\$145,895</u>
<b>CASH, END OF YEAR</b>	<u>\$147,263</u>	<u>\$159,615</u>

See accompanying notes to financial statements

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James M. Coughlin CPA PC Certified Public Accountants

**NEXT STEP FRANCHISING, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013 AND 2012**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The company was organized under the laws of the Commonwealth of Massachusetts on September 28, 2000.

The principal business activity of Next Step Franchising Inc. is the development and sale of franchises in the dry cleaning and laundering industry. Its franchised locations are operated under the trade name "Lapels". The number of franchises operating at the end of 2013 and 2012 were 62 and 53 respectively.

**USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts or revenues and expenses during the reporting period. Actual results could differ from those estimates.

**REVENUE AND COST RECOGNITION**

The company earns revenues from its franchises as follows:

**A. Initial franchise fees**

These fees represent the right to operate a retail Lapels unit at a specific location, are recorded as revenue upon the execution of the franchise agreement. This fee is non-refundable and is fully earned by the franchisor at the date of execution. Franchises sold during the years ending December 31, 2013 and 2012 were ten and nine respectively, representing net fees of \$155,000 and \$150,000 respectively. Franchise fees refunded during the years ending December 31, 2013 and 2012 were \$0 and \$0 respectively.

**B. Startup package fees**

These fees are for the design, outfitting and supervision through a 'grand opening' at a particular operating site, and are recorded as revenue upon the signing of the store lease agreement. All estimated startup package expenses are also recorded at this time. The startup phase is generally completed within six months for the signing of the store lease agreement. Fees (net) recorded for the years ended December 31, 2013 and 2012 were \$222,736 and \$245,945.



**NEXT STEP FRANCHISING, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013 AND 2012**

**C. Plant sales fees**

These fees are for the Plant Sale Program, which represents the sale of a complete wholesale laundering facility. The initial nonrefundable fee is \$25,000 and the startup package is approximately \$243,000 representing fees for the design, outfitting and supervision through a 'grand opening' at a particular site, and recorded as revenue upon the signing of the lease agreement. All estimated startup package expenses are also recorded at this time. Franchises sold during 2013 and 2012 were five and two respectively, representing fees of \$1,253,930 and \$621,354.

**D. Area Developer transfer fees**

These fees, a one time \$2,500 fee, are charged each time an area developer sells an existing store. Fees recorded for the years ending 2013 and 2012 were \$0 and \$0.

**E. Administrative fees**

These fees represent a 5% royalty payable by certain franchisees which are included in the franchise agreement. Some franchisees signed agreements which require a flat weekly royalty fee. These fees are included in other revenue.

**BAD DEBT RESERVE**

At December 31, 2009, the company recorded a bad debt reserve of \$15,000 for potential bad debts. This reserve is still in existence.

**INCOME TAXES**

The company has elected to be taxed as a Subchapter S corporation. Under the Internal Revenue Service Code, all items of income and expense are passed through and taxed to the individual shareholders. No taxes are leveled at the corporate level. In 2008, the Financial Accounting Standards Board issued FASB Staff Position (FSP) FIN 48-3 which permits an entity its scope to defer the effective date of FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes*, to its financial statements for fiscal year beginning after December 15, 2008. The company has elected to defer the application of Interpretation 48 for the years ending December 31, 2013 and 2012.

**NEXT STEP FRANCHISING, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013 AND 2012**

**EQUIPMENT**

Property and equipment is recorded at cost. The straight-line method of computing depreciation over the estimated useful lives of the assets has been applied for financial reporting purposes. Capital expenditures incurred for the benefit of the company, for which there is no contractual guarantee of continuity, are capitalized and depreciated in full in the year of acquisition

**ADVERTISING COSTS**

The company expenses its advertising costs as they are incurred. Advertising expense charged to operations for the years ending December 31, 2013 and 2012 were \$79,971 and \$70,755 respectively.

2. **NOTES PAYABLE**

	<b><u>2013</u></b>	<b><u>2012</u></b>
Note Payable to Citizens Bank, payable on demand, with interest calculated at 1.75% above the bank's prime lending rate, secured by all business assets, due March 2014.	\$ 89,000	\$ 0
Note Payable with two private individuals, payable As described above with zero interest, unsecured	\$ 0	\$ 20,000
Total	\$ 89,000	\$ 20,000
Less: Current Portion	\$ 89,000	\$ 10,000
Total Long Term Debt	\$ 0	\$ 10,000



**NEXT STEP FRANCHISING, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013 AND 2012**

3. **DEFERRED REVENUE**

During 2103, certain contracts were signed and recorded with franchisors for new plant operations. As of December 31, 2013, a total of \$305,054 of revenue has been deferred into future periods, when the performance and earning cycle will be completed

4. **LEASE OBLIGATIONS**

The company leases its facilities from an entity controlled by a former shareholder under an operating lease which expires March 31, 2016. The company is also responsible for its share of annual real estate taxes, which are included in rent expense.

Rent expense charges to operations for the years ending December 31, 2013 and 2012 were \$31,417 and \$31,672 respectively.

The yearly minimum lease requirements over the future years are as follows:

2014	31,889
2015	32,777
2016	9,987

5. **CONCENTRATION OF CREDIT AND MARKET RISKS**

The organization maintains their funds in bank deposit accounts which, at times, may exceed federally insured limits.





**Exhibit "C" — Agents For Service Of Process  
(State Agencies)**

*California*

California Commissioner of  
Corporations  
320 West 4<sup>th</sup> Street, Suite  
750  
Los Angeles, California  
90013-2344  
213-576-7500  
Toll Free 866-275-2677

*Connecticut*

Connecticut Banking  
Commissioner  
260 Constitution Plaza  
Hartford, Connecticut 06103  
860-240-8230  
800-831-7225

*Florida*

Florida Department of  
Agriculture & Consumer  
Services  
Bob Crawford, Commissioner  
Post Office Box 6700  
Tallahassee, Florida 32314-  
6700  
904-488-3022

*Hawaii*

Director of Hawaii  
Department of Commerce  
and Consumer Affairs  
1010 Richards Street  
Honolulu, Hawaii 96813  
808-586-2727

*Illinois*

Illinois Attorney General  
500 South Second Street  
Springfield, Illinois 62706  
217-782-4465

*Indiana*

Indiana Secretary of State  
201 State House  
Indianapolis, Indiana 46204  
317-232-6681

*Indiana State Administrator*

Indiana Securities  
Commissioner  
302 West Washington Street,  
Room E-111  
Indianapolis, Indiana 46204  
317-232-6685

**MULTISTATE 03312014**

*Kentucky*

Kentucky Attorney General  
Post Office Box 2000  
1024 Capital Center Drive  
Frankfort, Kentucky 40601-  
8204  
502-696-5300

*Maine*

Securities Administrator  
Bureau of Banking  
Securities Division  
State House Station  
Augusta, Maine 04333  
207-624-8551

*Maryland*

Maryland Securities  
Commissioner  
200 Saint Paul Place  
Baltimore, Maryland 21202  
410-576-6360

*Massachusetts*

Massachusetts Secretary of the  
Commonwealth  
Corporations Division  
One Ashburton Place, 17th  
Floor  
Boston, MA 02108  
617-727-9640

*Michigan*

Michigan Department of  
Commerce, Corporations and  
Securities Bureau  
670 Law Building  
Lansing, Michigan 48913  
517-373-7117

*Minnesota*

Minnesota Commissioner of  
Commerce  
85 Seventh Place,  
Suite 500  
Saint Paul, Minnesota  
55101-2198  
651-224-1152

*Nebraska*

Nebraska Department of  
Banking and Finance  
The Atrium, Suite 311  
1200 North Main Street  
Post Office Box 95006  
Lincoln, Nebraska 68509-  
5006  
402-471-2171

*New Hampshire Secretary of  
State*

Corporations Division  
107 North Main Street  
Concord, NH 03301  
603-271-3244

*New York*

Secretary of State of the  
State of New York  
162 Washington Street  
Albany, New York 12231  
518-474-4750

*New York State Administrator*

The New York Department of  
Law  
Bureau of Investor Protection  
and Securities  
120 Broadway, 23<sup>rd</sup> Floor  
New York, New York 10271  
212-416-8200

*North Carolina*

Secretary of State  
Legislative Office Building,  
Room 404  
300 North Salisbury Street  
Raleigh, North Carolina  
27611  
919-733-4201

*North Dakota*

North Dakota Securities  
Commissioner  
600 East Boulevard  
5<sup>th</sup> Floor  
Bismarck, North Dakota  
58505  
701-224-4712

*Rhode Island*

Director of Rhode Island  
Department of Business  
Regulation  
233 Richmond Street  
Suite 232  
Providence, Rhode Island  
02903-4232  
401-277-3048

*South Carolina*

Secretary of State  
Post Office Box 11350  
Columbia, South Carolina  
29211  
803-734-1087

*South Dakota*

Department of Labor and  
Regulations  
Division of Securities  
445 E Capital Avenue  
Pierre, South Dakota  
57501-3185  
605-773-4823

*Texas State Administrator*

Secretary of State  
Statutory Document Section  
Post Office Box 13563  
Austin, Texas 78711-3563  
512-475-1769

*Utah*

Director, Department of  
Commerce  
Division of Consumer  
Protection  
160 East 300 South  
Post Office Box 45804  
Salt Lake City, Utah  
84145-0804  
801-530-6601

*Virginia*

Clerk of the State  
Corporation Commission  
1300 East Main Street  
Richmond, Virginia 23219  
804-371-9733

*Virginia Administrator*

Division of Securities and  
Retail Franchising  
1300 East Main Street  
1<sup>st</sup> Floor  
Richmond, Virginia 23219  
804-371-9051

*Washington*

Washington Department of  
Financial Institutions  
Post Office Box 9033  
Olympia, Washington  
98507-9033  
206-902-8760

*Wisconsin*

Wisconsin Commissioner of  
Securities  
111 West Wilson Street  
Post Office Box 1768  
Madison, Wisconsin 53701  
608-266-1365



**Exhibit "D" — State Addenda**

## DISCLOSURE DOCUMENT ADDENDUM – CALIFORNIA

### Risk Factors:

REGISTRATION OF THIS FRANCHISE WITH THE STATE DOES NOT MEAN THAT THE STATE RECOMMENDS IT OR HAS VERIFIED THE INFORMATION IN THIS OFFERING CIRCULAR. IF YOU LEARN THAT ANYTHING IN THIS OFFERING CIRCULAR IS UNTRUE, CONTACT THE FEDERAL TRADE COMMISSION, D.C. 20580 AND THE COMMISSIONER OF CORPORATIONS, 320 W. 4<sup>th</sup> STREET, SUITE 750, LOS ANGELES, CA 90013.

Neither the franchisor, any person or franchise broker in Item 2 of this Offering Circular is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities Exchange Act of 1934, 15 U.S.S.A 78aet seq., suspending or expelling such person from membership in such association or exchange.

You must sign a general release if you renew or transfer your franchise. California Corporations Code 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code 31000 through 31516). Business and Professions Code 200010 voids a waiver of our rights under the Franchise Relations Act (Business and Professions code 2000000 through 20043).

The California Franchise Investment Law requires that a copy of all proposed agreements relating to the sale of the franchise be delivered together with the offering circular

### Additional Disclosures per Rule 310.114 (c):

California Business and Professions Code Sections 20000 through 20043 provide rights to the franchise concerning termination or non-renewal of a franchise. If the franchise agreement contains a provision that is consistent with the law, the law will control.

The franchise agreement provides for termination upon bankruptcy. This provision may not be enforceable under the federal bankruptcy law (11 U.S.C.A. Section 101 and following).

The franchise agreement contains a covenant not to compete, which extends beyond the termination of the franchise. This provision may not be enforceable under California law. The franchise agreement contains a liquidated damages clause. Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable.

**DISCLOSURE DOCUMENT ADDENDUM – CALIFORNIA**  
**Continued**

The franchise agreement requires binding arbitration. The arbitration will occur at Boston, Massachusetts with the costs being borne by the losing party. Prospective franchisees are encouraged to consult private legal counsel to determine the applicability of California and federal laws (such as Business and Professions Code Section 20040.5, Code of Civil Procedure Section 1281, and the Federal Arbitration Act) to any provisions of a franchise agreement restricting venue to a forum outside of the State of California.

The franchise agreement requires application of the laws of Massachusetts. This provision may not be enforceable under California law.

Section 31125 of the Franchise Investment Law requires us to give to you a disclosure document approved by the Commissioner of Corporations before we ask you to consider a material modification of your franchise agreement.

Our web URL is [www.lapelsdrycleaning.com](http://www.lapelsdrycleaning.com).

OUR WEBSITE HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF CORPORATIONS. ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF CORPORATIONS at [www.corp.ca.gov](http://www.corp.ca.gov).

**FRANCHISE AGREEMENT RIDER – CALIFORNIA**

**None.**

## DISCLOSURE DOCUMENT ADDENDUM - MICHIGAN

The State of Michigan prohibits certain unfair provisions that are sometimes in franchise documents. If any of the following provisions are in these franchise documents, the provisions are void and cannot be enforced against you.

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

- (a) A prohibition on the right of a franchisee to join an association of franchisees.
- (b) A requirement that a franchisee assent to a release, assignment, novation, waiver, or estoppel which deprives a franchisee of rights and protections provided in this act. This shall not preclude a franchisee, after entering into a franchise agreement, from settling any and all claims.
- (c) A provision that permits a franchisor to terminate a franchise before the expiration of its term except for good cause. Good cause shall include the failure of the franchisee to comply with any lawful provisions of the franchise agreement and to cure such failure after being given written notice thereof and a reasonable opportunity, which in no event need be more than 30 days, to cure such failure.
- (d) A provision that permits a franchisor to refuse to renew a franchise without fairly compensating the franchisee by repurchase or other means for the fair market value at the time of expiration, of the franchisee's inventory, supplies, equipment, fixtures, and furnishings. Personalized materials which have no value to the franchisor and inventory, supplies, equipment, fixtures, and furnishings not reasonably required in the conduct of the franchise business are not subject to compensation. This subsection applies only if (i) the term of the franchise is less than 5 years; and (ii) the franchisee is prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising or other commercial symbol in the same area subsequent to the expiration of the franchise or the franchisee does not receive at least 6 months advance notice of franchisor's intent not to renew the franchise.
- (e) A provision that permits the franchisor to refuse to renew a franchise on terms generally available to other franchisees of the same class or type under similar circumstances. This section does not require a renewal provision.
- (f) A provision requiring that arbitration or litigation be conducted outside this state. This shall not preclude the franchisee from entering into an agreement, at the time of arbitration to conduct arbitration at a location outside this state.
- (g) A provision which permits a franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause. This subdivision does not prevent a franchisor from exercising a right of first refusal to purchase the franchise. Good cause shall include, but it not limited to:
  - (i) The failure of the proposed franchisee to meet the franchisor's then current reasonable qualifications or standards.
  - (ii) The fact that the proposed transferee is a competitor of the franchisor or subfranchisor.
  - (iii) The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.
  - (iv) The failure of the franchisee or proposed transferee to pay any sums owing to the franchisor or to cure any default in the franchise agreement existing at the time of the proposed transfer.



(h) A provision that requires the franchisee to resell to the franchisor items that are not uniquely identified with the franchisor. This subdivision does not prohibit a provision that grants to a franchisor a right of first refusal to purchase the assets of a franchise on the same terms and conditions as a bona fide third party willing and able to purchase those assets, nor does this subdivision prohibit a provision that grants the franchisor the right to acquire the assets of a franchise for the market or appraised value of such assets if the franchisee has breached the lawful provisions of the franchise agreement and has failed to cure the breach in the manner provided in subdivision (C).

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

If the franchisor's most recent financial statements are unaudited and show a net worth of less than \$100,000.00, the franchisor shall, at the request of a franchisee, arrange for the escrow of initial investment and other funds paid by the franchisee or subfranchisor until the obligations to provide real estate, improvements, equipment, inventory, training, or other items included in the franchise offering are fulfilled. At the option of the franchisor, a surety bond may be provided in place of escrow.

**The fact that there is a notice of this Offering on file with the Attorney General does not constitute approval, recommendation, or endorsement by the Attorney General.**

Any questions regarding the notice should be directed to:

State of Michigan  
Consumer Protection Division  
Attention: Franchise  
670 Law Building  
Lansing, Michigan 48913  
Telephone Number: (517) 373-3800

**FRANCHISE AGREEMENT RIDER – MICHIGAN**

**None.**

## DISCLOSURE DOCUMENT ADDENDUM – NEW YORK

Item 3 Neither Franchisor, its predecessor, nor any person identified in Item 2, or any affiliate offering franchises under the franchisor's principal trademark has any administrative, criminal or civil action pending against that person, alleging a felony, a violation of a franchise, antitrust or securities law; fraud, embezzlement, fraudulent conversion, misappropriation of property; unfair or deceptive practices or comparable civil or misdemeanor allegations.

Neither Franchisor, its predecessor, nor any person identified in Item 2, or any affiliate offering franchises under the franchisor's principal trademark has been convicted of a felony or pleaded *nolo contendere* to a felony charge or, within the ten-year period immediately preceding the application for registration, has been convicted of has pleaded *nolo contendere* to a misdemeanor charge or has been the subject of a civil action alleging: violation of a franchise, antifraud or securities law; fraud, embezzlement, fraudulent conversion or misappropriation of property, or unfair or deceptive practices or comparable allegations.

Neither Franchisor, its predecessor, nor any person identified in Item 2, or any affiliate offering franchises under the franchisor's principal trademark is subject to any other currently effective injunctive or restrictive order or decree relating to franchise, or under a federal, state, or Canadian franchise, securities, antitrust, trade regulation or trade practice law, resulting from a concluded or pending action or proceeding brought by a public agency; or is subject to any currently effective order of any national securities association or national securities exchange as defined in the Securities Exchange Act of 1934, suspending or expelling such persons from membership in such association or exchange; or is subject to a currently effective injunctive or restrictive order relating to any other business activity as a result of an action brought by a public agency or department, including without limitation, actions affecting a license as a real estate broker or sales agent.

Item 4 During the ten-year period immediately before the date of the offering circular, neither the Franchisor nor its affiliate, nor its predecessor, officers or general partner has filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code; obtained a discharge of its debts under the bankruptcy code; or was a principal officer of a company or a general partner in a partnership that either filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code or that obtained a discharge of its debts under the U.S. Bankruptcy Code during or within one (1) year after the officer or general partner of Franchisor held this position in the company or partnership.

Item 5 Proceeds from the initial franchise fee are, in part, used to pay some of the following of our expenses and costs; (i) assistance and supervision provided by us for the opening of your Franchise; (ii) supervision and assistance as per Item 11 of this disclosure document; (iii) legal fees, accounting fees and compliance with federal, state and other laws; (iv) enforcement and protection of all of our trademarks, trade names, trade secrets and commercial symbols; and (v) selling, general and administration expenses. Any proceeds remaining from the initial franchise fee are our profits.

**FRANCHISE AGREEMENT RIDER – NEW YORK**

Notwithstanding anything to the contrary set forth in the Franchise Agreement to which this Rider is attached, the following terms and conditions shall control:

All rights enjoyed by Franchisee and any causes of action arising in its favor from the provisions of Article 33 of the General Business Law of the State of New York and the regulations issued thereunder shall remain in force; it being the intent of this proviso that the non-waiver provisions of General Business Law, Section 687.4 and 687.5 be satisfied.

\_\_\_\_\_  
FRANCHISOR

\_\_\_\_\_  
FRANCHISEE (Print Name)

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

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

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

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

**DISCLOSURE DOCUMENT ADDENDUM – RHODE ISLAND**

**None.**

**FRANCHISE AGREEMENT RIDER – RHODE ISLAND**

Notwithstanding anything to the contrary set forth in the Franchise Agreement to which this Rider is attached, the following terms and conditions shall control:

Section 19-28.1-14 of the Rhode Island Franchise Investment Act provides that “A provision in a franchise agreement restricting jurisdiction or venue to a forum outside this state or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under this Act.”

The above language has been included in this Offering Circular as a condition to registration. Franchisor and the Franchisee do not agree with the above language and believe that each of the provisions of the Franchise Agreement, including all choice of law provisions, is fully enforceable. Franchisor and the Franchisee intend to fully enforce all of the provisions of the Franchise Agreement and all other documents signed by them, including but not limited to, all venue, choice-of-law, arbitration provisions and other dispute avoidance and resolution provisions and to rely on federal pre-emption under the Federal Arbitration Act.

\_\_\_\_\_  
FRANCHISOR

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

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

\_\_\_\_\_  
FRANCHISEE (Print Name)

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

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

**DISCLOSURE DOCUMENT ADDENDUM – WASHINGTON**

**None.**

**FRANCHISE AGREEMENT RIDER - WASHINGTON**

Notwithstanding anything to the contrary set forth in the Franchise Agreement to which this Rider is attached, the following terms and conditions shall control:

These states have statutes that may supersede the Franchise Agreement in your relationship with Franchisor, including the areas of termination and renewal of your franchise: ARKANSAS [Stat. Sections 4-72-201 to 4-72-210], CALIFORNIA [Bus. & Prof. Code Sections 20000-20043], CONNECTICUT [Gen. Stat. Ch. 739, Sections 42-133e to 42-133h], DELAWARE [Title 6, Ch. 25, Code Sections 2551-2556], HAWAII [Title 26, Rev. Stat. Section 482E-6], ILLINOIS [ILCS, Ch. 815, Sections 705/1-705/44], INDIANA [Code Section 23-2-2.7-1 to 7], IOWA [Title XX, Code Sections 523H.1-523H.17], MARYLAND [Ann. Code Sections 11-1301 to 11-1307], MICHIGAN [1979 Comp. Laws, Section 445.1527], MINNESOTA [1996 Stat. Section 80C.14], MISSISSIPPI [Code Sections 75-24-51 to 75-24-63], MISSOURI [Rev. Stat. Sections 407.400-407.410, 407.413, 407.420], NEBRASKA [Rev. Stat. Sections 87-401 to 87-410-], NEW JERSEY [Rev. Stat. Sections 56:10-1 – 135.07], DISTRICT OF COLUMBIA [Code Sections 29-1201 to 29-1208], PUERTO RICO [Ann. Laws, Title 10, Ch. 14, Sections 278-278d], VIRGIN ISLANDS [Code Ann. Title 12A, Ch. 2, Subch. III, Sections 130-139]. These and other states may have court decisions that may supersede the Franchise Agreement in your relationship with Franchisor, including the areas of termination and renewal of your franchise.

Arbitration shall take place in the State of Washington, but only if “in-state” arbitration is a valid requirement of the Washington Franchise Investment Practices Act. The above language has been included in this Franchise Agreement as a condition to registration. Franchisor AND THE Franchisee do not agree that “in-state” arbitration is required under the Washington Franchise Investment Practices Act and believe that each of the provisions of the Franchise Agreement, including all venue provisions, are fully enforceable. Franchisor and the Franchisee intend to fully enforce all of the provisions of the Franchise Agreement and all other documents signed by them, including but not limited to, all venue, choice-of-law, arbitration provisions and other dispute avoidance and resolution provisions and to rely on federal pre-emption under the Federal Arbitration Act.

In the event of waiver of rights executed by a franchisee shall not include rights under the Washington Franchise Investment Protection Act except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, rights or remedies under the Act such as a right to a jury trial may not be enforceable.

Transfer fees are collectable to the extent that they reflect the franchisor’s reasonable estimated or actual costs in effecting a transfer.

\_\_\_\_\_  
FRANCHISOR

\_\_\_\_\_  
FRANCHISEE (Print Name)

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

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

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

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





**RECEIPT**

This disclosure document summarizes certain provisions of the franchise agreement and other information in plain language. Read this disclosure document and all agreements carefully.

If Next Step Franchising, Inc. offers you a franchise, it must provide this disclosure document to you 14 calendar-days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale, **or sooner if required by applicable state law.**

If Next Step Franchising, Inc. does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and the appropriate state agency listed in Exhibit C of this disclosure document.

The following person/people offered this franchise for sale to you:

Name \_\_\_\_\_  
Principal business address \_\_\_\_\_  
Telephone number \_\_\_\_\_

The issuance date of this disclosure document is: March 31, 2014

A state-specific effective date may also apply. State: \_\_\_\_\_ State Effective Date: \_\_\_\_\_

The name and address of the franchisor's registered agent authorized to receive service of process is set forth in Exhibit C.

I received a disclosure document dated March 31, 2014 that included the following Exhibits:

- A. FRANCHISE AGREEMENT
- B. FINANCIAL STATEMENTS
- C. AGENTS FOR SERVICE OF PROCESS (STATE AGENCIES)
- D. EXHIBIT STATE ADDENDA

Date \_\_\_\_\_ Prospective Franchisee:/s/ \_\_\_\_\_

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

Address: \_\_\_\_\_ City/State: \_\_\_\_\_ Zip: \_\_\_\_\_

**PROSPECTIVE FRANCHISEE'S COPY**



## RECEIPT

This disclosure document summarizes certain provisions of the franchise agreement and other information in plain language. Read this disclosure document and all agreements carefully.

If Next Step Franchising, Inc. offers you a franchise, it must provide this disclosure document to you 14 calendar-days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale, **or sooner if required by applicable state law.**

If Next Step Franchising, Inc. does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and the appropriate state agency listed in Exhibit C of this disclosure document.

The following person(s) offered this franchise for sale to you:

Name \_\_\_\_\_  
Principal business address \_\_\_\_\_  
Telephone number \_\_\_\_\_

The issuance date of this disclosure document is: March 31, 2014

A state-specific effective date may also apply. State: \_\_\_\_\_ State Effective Date: \_\_\_\_\_

The name and address of the franchisor's registered agent authorized to receive service of process is set forth in Exhibit C.

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- D. EXHIBIT STATE ADDENDA

Date \_\_\_\_\_ Prospective Franchisee:/s/ \_\_\_\_\_

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

Address: \_\_\_\_\_ City/State: \_\_\_\_\_ Zip: \_\_\_\_\_

### FRANCHISOR'S COPY

Please immediately sign and date both of the receipts set forth on this and the preceding page. Return this page (marked "FRANCHISOR'S COPY" at the bottom) to our corporate offices at 962 Washington Street, Hanover, MA 02339. Fax 781-829-9546.