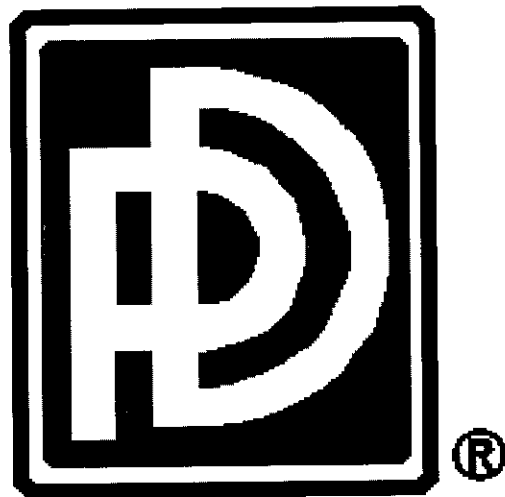


EXHIBIT H

Paul Davis Restoration Operations Manual

PAUL DAVIS RESTORATION OPERATIONS MANUAL



INTRODUCTION TO THE PDR OPERATIONS MANUAL

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Revised November 2005**

**TABLE OF CONTENTS
FOR THE
INTRODUCTION TO THE PDR OPERATIONS MANUAL**

Article I. HOLD HARMLESS2

Article II. DEFINITIONS3

ARTICLE I HOLD HARMLESS

Each Franchisee shall be deemed to have released each member, officer and director of all approved Paul Davis Restoration and Completion Services, Inc. ("CSI"), committees, including, without limitation, the National Executive Committee ("NEC"), the Strategic Marketing Committee ("SMC"), the Board of Directors of CSI, and the Executive Finance Committee ("EFC") of CSI (each of the foregoing members, officers, and directors of any such committee is hereafter referred to as an "Indemnified Party"), of and from any liability of any nature and on account of any decision, ruling, or finding rendered by an Indemnified Party or any act or thing performed or omitted by an Indemnified Party, if done or omitted in good faith and for a purpose which the Indemnified Party believed to be in the best interest of the Paul Davis Restoration franchise system, including CSI.

CSI shall indemnify and hold harmless each Indemnified Party against all judgments, including interest, fines, amounts paid or agreed upon in settlement, reasonable costs, and expenses including attorney's fees and any other liability, cost, fee, or expense that may be paid or incurred by an Indemnified Party as a result of any claim, action, suit, or proceeding, whether civil, criminal, administrative, or otherwise prosecuted or threatened to be prosecuted (collectively, the "Legal Costs"). Such indemnification shall not depend upon whether or not the Indemnified Party is an officer, director or member at the time such claim, action, suit, or proceeding is begun, prosecuted, or threatened nor on whether or not the liability to be indemnified was incurred or the act or omission occurred prior to the adoption of Booklet Two. This indemnification shall be deemed to have been in effect as of the election of the first National Executive Committee and the first Board of Directors of CSI.

ARTICLE II DEFINITIONS

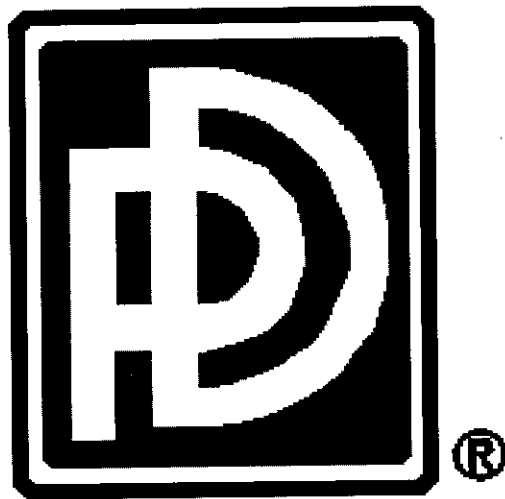
- 2.1 **"Active Representative"** shall mean the individual authorized to vote on behalf of a franchise and may be either a director, officer, stockholder, associate, or employee of an operating franchise.
- 2.1.1 Such active representative shall be duly designated by the owner of record of the operating franchise.
- 2.1.2 No operating franchise shall have more than one (1) active representative at any one time, and no active representative shall represent more than one (1) operating franchise at any one time.
- 2.1.3 Any disagreement concerning noncompliance that may affect a Franchisee's right to participate in a District Council meeting shall be submitted to the President and Vice President of that district, who shall rule on that Franchisee's eligibility to participate as an active franchise in the upcoming district meeting.
- 2.1.4 Any Franchisee judged to be in noncompliance shall be entitled to attend the meeting but may not take part in discussion or voting.
- 2.2 **"Arbitration Committee"** shall mean the Arbitration Committees created under Article XIII (Organization of Arbitration Committee) hereof.
- 2.3 **"District Council"** shall mean the District Councils created under Section 1.2 (Creation: District Councils) hereof.
- 2.4 **"District Executive Committee"** shall mean the executive committee consisting of the three (3) officers of each District Council created in accordance with Section 3.8 (Officers of District Councils: District Executive Committee).
- 2.5 **"Executive Finance Committee (EFC)"** shall mean the executive committee consisting of the President, Treasurer, and Assistant Treasurer of Completion Services, Inc., the President, CEO or representative of the Franchisor corporation, and one non-officer member from the Board of Directors.
- 2.6 **"Financial Institution"** shall mean any organization authorized to do business under state or federal laws relating to financial institutions, including but not limited to banks and trust companies, savings and loan companies and associations including brokerage firms, savings banks, and credit unions, registered with the Securities and Exchange Commission and

with the state in which it is engaged in the business of buying and selling securities for its institutions.

- 2.7 **"Franchise"** shall mean all operating franchises and all other franchises granted by the Franchisor whether operating or non-operating. As used in these booklets the term "franchise" means a single franchise agreement.
- 2.8 **"Franchise Network"** shall mean and shall consist of all franchises that are from time to time a part of the Paul Davis Restoration system of franchises.
- 2.9 **"Franchisee"** shall mean any person, corporation, partnership, trust, or other entity to whom a franchise has been granted and who has entered into a Franchise Agreement with the Franchisor that is current and in good standing.
- 2.10 **"Franchisor"** shall mean Paul Davis Restoration, Inc., a Florida corporation, and Paul Davis Systems Canada, Ltd., an Ontario corporation, and their successors.
- 2.11 **"General Council"** shall mean the General Council composed of an active representative of each operating franchise, which is created under Section 1.4 (Creation: General Council) hereof.
- 2.12 **"National Executive Committee (NEC)"** shall mean the executive committee of the franchise network created under Section 1.3 (Creation: National Executive Committee) hereof.
- 2.13 **"New Programs"** shall mean all amendments, alterations, or modifications to existing programs, services, and products offered by the Franchisor to the Franchisee and shall include all new ideas, proposals, and programs which are created or presented by any District Council or the Franchisor or any Franchisee for consideration by the National Executive Committee.
- 2.14 **"Operating Franchise"** shall mean a franchise which:
- 2.14.1 (a) Has a Franchise Agreement between the Franchisor and a Franchisee that is in force and in good standing.
- 2.14.2 (b) Meets all Mandatory Operating Requirements.
- 2.14.3 (c) Is current with all accounts payable to Completion Services Inc. and the Franchisor.
- 2.14.4 (d) Complies with the high ethical standards of Paul Davis Restoration. (A franchise whose Franchise Agreement has been canceled or terminated shall not qualify as an "Operating Franchise.")

2.15 **"Proposal"** shall have the meaning set forth in Section 8.1 (Procedures for Recommendations: General).

PAUL DAVIS RESTORATION OPERATIONS MANUAL



BOOKLET ONE COOPERATIVE PROGRAMS

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BOOKLET ONE TABLE OF CONTENTS

INTRODUCTION.....	2
ARTICLE I COMPUTER SOFTWARE SUPPORT AND ENHANCEMENT PROGRAM	4
ARTICLE II JOINT QUALITY REVIEW PROGRAM.....	5
ARTICLE III STRATEGIC MARKETING PLAN	7
ARTICLE IV JOB COMPLETION AND GUARANTEE FUND.....	9

INTRODUCTION

This booklet contains programs accepted by the General Council and is, by reference, an integral part of each Franchise Agreement. Each article included in this booklet has been approved by the required percentage of the council members of the General Council and by the Franchisor.

Franchisees are required to participate in the programs included in this manual. The cost is to be determined from time to time by the General Council. Upon request by the General Council or the NEC the Franchisor will provide an annual report, to each Franchisee, on each of the cost sharing programs in this booklet.

Any program to which the Franchisees contribute a monthly fee may be canceled at the end of each year by a two-thirds vote of the Franchisees present and voting at the General Council or District Council meeting(s) unless another program time frame has been established.

The Franchisor and Completion Services, Inc. ("CSI"), is granted the right of offset to use any funds coming into its possession for the benefit of a particular Franchisee to pay any existing debt to CSI or the Franchisor, whether arising as a result of cooperative programs or any other legitimate business reasons.

Each franchise (defined as a single franchise agreement) shall pay a single cooperative charge for each cooperative program as set forth in the provisions for that program.

PENALTIES FOR FAILURE TO PAY COOPERATIVE PROGRAM FEES

ANY FRANCHISE FAILING TO PAY ALL COOPERATIVE PROGRAM FEES ON A CURRENT BASIS WHOSE ACCOUNT BECOMES THIRTY (30) DAYS PAST DUE SHALL SUFFER THE FOLLOWING PENALTIES:

1. The franchise shall lose its right to vote in any General Council or District Council meetings.
2. The franchise shall not receive any services provided through the Franchisor for software, national sales, advertising, toll-free telephone service, consultation, etc.
3. The franchise, its employees, and its Associates shall not be eligible to receive any awards or recognition.

PROCEDURE FOR INSTITUTING PENALTIES

The Franchisor shall:

1. Notify the chairman of the Compliance and Procedures Committee.
2. Give the non-complying Franchisee a ten (10) day notice in which to either bring the franchise into compliance or initiate an arbitration to seek an extension of time for compliance.
3. Any extension of time granted shall be from the time the arbitration is filed with the Franchisor and shall not exceed sixty (60) days. However, a request for further time may be filed with the Arbitration Committee twenty (20) days prior to the expiration of any previously granted extension.

If the Franchise fails either to bring its account current or obtain an extension of time from an Arbitration Committee and bring its account current during such extension, the penalties listed above shall be instituted immediately.

NO RELEASE OF OBLIGATION TO PAY

Implementation of any or all of the above penalties shall not in any way alter or relieve the noncomplying Franchisee of its obligation to pay for all cooperative programs, services, royalties, etc.

TERMINATION OF FRANCHISE

If the non-complying Franchise does not bring its account current within sixty days of the implementation of any or all of the above penalties, the Franchisor shall issue a notice of intent to terminate the franchise and if Franchisee still does not bring his account current within the remedy time, terminate the franchise.

ARTICLE I
COMPUTER SOFTWARE SUPPORT
AND ENHANCEMENT PROGRAM

- 1.1.1 Each franchise will contribute \$75 per month, or such other amount as may be from time to time approved by the General Council, for computer services and for new computer programs.
- 1.1.2 In exchange for the monthly fee, Franchisor shall provide to Franchisee:
- 1.1.2.1 1. Software and computer systems support for problems that:
- 1.1.2.1.1 a. Are not user created.
- 1.1.2.1.2 b. Result from following the system.
- 1.1.2.1.3 c. Are caused by programming error.
- 1.1.2.1.4 d. Do not result from a hardware failure.
- 1.1.2.1.5 e. Are related to data conversion for computer system upgrades.
- 1.1.2.2 2. All enhancements to Franchisor's existing computer programs and all new computer programs developed by Franchisor in relation to this franchise.
- 1.1.3 Franchisee acknowledges that support, enhancements, and new programs will be provided through distributed media mailed to Franchisees or via download through the Franchisor website.
- 1.1.4 Franchisee agrees that should any support or services be required of the Franchisor outside of the Franchisor's office, then Franchisee will reimburse Franchisor for all expenses incurred by Franchisor's personnel in providing the service.

ARTICLE II JOINT QUALITY REVIEW PROGRAM

- 1.2.1 Quality control is the function of the Franchisor and Franchisees and has to do with compliance with operating procedures. It was made a part of the Cooperative Programs in an effort to reduce expense to the Franchisees.
- 1.2.2 Joint Quality Reviews will be conducted by a Franchisor representative under the coordination of a Regional Manager (RM) employed by the Franchisor. The Franchisor shall be responsible for performing reviews on at least 10% of the franchises in the PDR network each year or more if required to promote uniform quality in the network. Each new (new sale or resale) franchise will be reviewed in the first 6 to 12 months of operation. The remaining reviews will be either scheduled, requested, or randomly selected based on indications that the franchise is experiencing difficulties or could benefit from special assistance.
- 1.2.3 The Joint Quality Review process will place special emphasis on support assistance. This review covers areas such as: computer reports; franchise files; operational requirements; and contracts.
- 1.2.4 The monthly charge to each franchise shall be \$50, or such other amount as may be from time to time approved by the General Council. The General Council shall determine a new monthly charge, from time to time, to reflect the change in expenses incurred by the Franchisor for this program.
- 1.2.5 If the Joint Quality Review process uncovers quality issues, the Franchisor representative shall notify the Franchisee of such issues and set a reasonable time for the correction of such issues (not less than thirty (30) days nor more than one hundred twenty (120) days).
- 1.2.6 The Franchisor will not reveal any of the information obtained through the Joint Quality Review to anyone other than (1) the Franchisee(s) or general manager of the franchise; (2) the Franchisor staff; (3) an Arbitration Committee, if so requested, and if the information is related to an issue in an arbitration; (4) the Compliance and Procedures Committee; and (5) the members of the NEC.
- 1.2.7 At the completion of each Joint Quality Review:
- 1.2.7.1 1. A confidential written report shall be given to the Franchisee covering the results of the review.
- 1.2.7.2 2. The Franchisor representative shall have the right to make copies of all forms, reports, and contracts provided as part of the review process, using the

Franchisee's copying facilities and to remove such copies from the premises to be retained in a confidential manner by the Franchisor.

- 1.2.8 If during the normal course of the Joint Quality Review, cross territory infringements are found, the Franchisor shall notify both Franchisees of such infringements.

ARTICLE III STRATEGIC MARKETING PLAN

- 1.3.1 A. At its February 1999, meeting the NEC recommended the adoption and implementation of a comprehensive Strategic Marketing Plan (the "SMP"). The SMP was adopted as a new U.S. cooperative program in the spring 1999 District Council meetings and was thereafter incorporated in this booklet.
- 1.3.2 B. The SMP was initially based on a 1999 document titled "Strategic Marketing Plan." It is understood that the SMP is intended to be a constantly evolving program and therefore the U.S. Franchisor and U.S. franchisees recognized that it was in the best interest of the PDR organization to permit some flexibility in its implementation. It was anticipated that the SMP would require continuous oversight and modification in order to be effective. Such oversight and modification is provided through the mechanism of the NEC and the Strategic Marketing Committee (SMC).
- 1.3.3 C. SMC membership is comprised of one chairperson (if not an NEC member, is automatically a non-voting NEC member), four at large members (may or may not be NEC members), and two representatives of the US Franchisor. The SMC will exercise decision-making authority over the SMP, except as provided below:
- 1.3.3.1 1. The financing of the SMP can only be modified through affirmative vote of the General Council. The current SMP fee for each franchise established by the General Council is: (a) a fixed monthly payment of \$125 per month, plus (b) a variable monthly payment of two tenths of one percent (0.33%) of closed Gross Sales with a ceiling of \$5,000,000.
- 1.3.3.2 2. The SMP went into effect July 1, 1999 and shall continue through June 30, 2008. The SMP will continue beyond this date only if affirmed by vote of the General Council.
- 1.3.3 D. Under the direction of the NEC, the SMC has the following responsibilities:
- 1.3.4.1 1. Develop, periodically update, and provide oversight in the implementation of all programs defined within the SMP, including, but not be limited to, strategies and related tactical programs in the areas of Quality, Customer Satisfaction, Franchise Operations, Marketing Communications, and Technology tools.
- 1.3.4.2 2. Be responsible for the use of the PDR logo and any operating division logos throughout North America. The logos shall not be used in any manner which approval has not been granted by the SMC. It is

expressly understood that the logos are the sole property of the Franchisor and that the authority given to SMC is with the consent of the Franchisor. It is further agreed that the Franchisor has the right to withdraw its consent for this authority if at any time in its reasonable judgment the SMC misuses such authority.

- 1.3.4.3 3. Develop and/or approve new marketing materials for all Franchisor endorsed operating divisions of PDR franchises.
- 1.3.4.4 4. The SMC will select printers, negotiate prices, monitor service by the printer, and monitor the quality of the products produced.
- 1.3.4.5 5. The SMC will work with the selected printer to ensure:
 - 1.3.4.5.1 a. A proper inventory is maintained of all approved marketing materials through pre-printed supplies and/or electronic files.
 - 1.3.4.5.2 b. Any dead stock will be periodically removed from inventory or sold to the Franchisees and any loss incurred by the printer will be spread over the cost of remaining approved marketing materials as stocks are replenished and/or new marketing materials are developed.
- 1.3.4.3 6. The SMC will conduct its business by teleconference and physical meetings set up by the chairperson. All associated expenses will be paid from the SMP fund.

ARTICLE IV JOB COMPLETION AND PAYMENT GUARANTEE FUND

- 1.4.1 On February 16, 1986, at the Tampa, Florida, meeting, the General Council voted (by 80% roll call vote) to establish a Job Completion and Payment Guarantee Fund (the "Fund"), effective March 1, 1986, as a part of the Operations Manual, with the NEC to determine the final form of the program. In April, 1986, the NEC formed a Florida Corporation known as **Completion Services, Inc.** ("CSI"), to maintain and administer the Fund. The Board of Directors of CSI is composed of the members of the NEC. The officers of CSI shall be the same officers as the NEC President, Treasurer, and Assistant Treasurer.
- 1.4.1.1 I. The purposes and operations of CSI shall be as follows:
- 1.4.1.1.1 A. Manage the Fund and guarantee the proper completion of all insurance related jobs sold by Paul Davis Restoration franchises in accordance with the Guarantee Certificate.
- 1.4.1.1.2 B. Enhance and aid the Franchisee in the operation and performance of the franchise. This could include, but is not limited to, additional programs, national discounts, volume buying power, national insurance policies, and the payment of legal costs from the Fund in satisfaction of CSI's indemnification obligation under the Hold Harmless contained in the Introductory section. This future direction shall always be under the control of the CSI Board of Directors with approval of the majority of the shareholders.
- 1.4.1.1.3 C. Submit to the District Councils proposals in which CSI would be used as a vehicle to serve as a purchasing cooperative, provided such efforts do not include extending credit to any person using this service.
- 1.4.1.1.4 D. Submit to the District Councils proposals in which CSI would be used as a vehicle to enter venture efforts designed to improve or strengthen the Franchisees' position with the insurance industry, provided such efforts are reasonably projected to provide minimum risk to CSI, with strong potential to provide profits to CSI on an ongoing basis
- 1.4.1.1.5 E. Submit to the District Councils proposals in which CSI would be used as a vehicle to provide management and information services to the franchisees in order to facilitate better management techniques
- 1.4.1.1.6 F. Submit to the District Councils proposals in which CSI would be used as a vehicle to provide a resource to CSI to recognize potential risk to the CSI fund.

- 1.4.1.2 II. The Fund shall be under control of the CSI Board of Directors who shall meet at least once each year, and more often if necessary, to oversee the proper operation, use, and management of the Fund. Meeting expenses incurred by members of the Board of Directors in performing their duties in the general management of the Fund shall be reimbursed.
- 1.4.1.3 III. The Fund shall be established in the following manner:
 - 1.4.1.3.1 A. For all new franchises sold by the Franchisor, the Franchisor shall contribute \$1,000 to the Fund to establish the new franchise's account. This provision shall not apply to any new franchise established as a result of a full or partial resale of an existing franchise.
 - 1.4.1.3.2 B. Each franchise shall pay 1/2% of its monthly sales (or 1% in the case of resales of existing franchises) into the Fund until the required account balance has been paid by each franchise to a minimum of \$11,000 or any other amount stipulated in its franchise agreement.
 - 1.4.1.3.2.1 The Executive Finance Committee ("EFC") may, at its discretion, increase the monthly contribution from 1/2% to 1% of monthly sales for a franchise that has not reached the required account balance and has a claim paid on its behalf. This does not alter the franchise's responsibility to reimburse the full amount of the claim in accordance with sections 1.4.1.8.4 through 1.4.1.8.4.4.
 - 1.4.1.3.3 C. In the event the fund falls below the minimum level of the required account balance per franchise, then the Board of Directors shall have the authority, in their sole discretion, to assess the franchises for the amount of such deficit, provided, however, that no assessment shall be made if the deficit resulted from payment of a claim or judgment in excess of the stated maximum amount of a Guarantee Certificate or if the fund balance has been fully depleted. Any such assessments shall be considered as loans from the franchises and shall be repaid as rapidly as possible from the earnings of the fund.
 - 1.4.1.3.4 D. These assessments shall be made by the Board of Directors as follows:
 - 1.4.1.3.4.1 1. The total deficit in the Fund shall be determined.
 - 1.4.1.3.4.2 2. Each franchise shall be assessed an equal share of the deficit.
 - 1.4.1.3.4.3 3. The assessed share shall be paid in monthly installments equal to 1/4% of each previous month's sales, until paid in full.

- 1.4.1.3.4.4 4. Each of these 1/4% of sales payments shall be recorded as loans by CSI and repaid from the first available profits.
- 1.4.1.3.5 E. All new franchises shall be considered operational when an office is opened, telephones are installed, and sales calls are being made.
- 1.4.1.3.6 F. CSI shall refund a Franchisee's deposit two (2) years following the date of the last to occur of: (1) the termination or transfer of the franchise, (2) the completion of all the franchise's work in progress, or (3) the cessation of franchise operations. The deposit shall be adjusted for the franchise's proportionate share of any accrued fund deficit or surplus as of the date of the termination or transfer. A franchise may assign the payout of its deposit to a purchasing franchisee but such assignment shall not effect the purchasing franchisee's obligation to establish a separate CSI account balance as set forth in B above.
- 1.4.1.3.7 G. The following provisions shall be included in the Tri-Party Agreement required by the Franchisor for the transfer of a franchise and shall govern the transfer of and reimbursement for Franchisee deposits held by CSI:
- 1.4.1.3.7.1 "7.a. Pursuant to the terms of the Purchaser's Franchise Agreement, all franchisees are required to maintain a deposit account balance in the Job Completion and Payment Guarantee Fund maintained by CSI (the "CSI Account"). The required amount of the CSI Account balance for each franchisee shall be determined from time to time by the Board of Directors of CSI. Purchasing Franchisee shall, on a month-to-month basis, pay one percent (1%) of its previous month's sales to CSI. until Purchasing Franchisee's CSI Account balance equals the required account balance.
- 1.4.1.3.7.2 7.b. Selling Franchisee's CSI Account balance is \$_____ as of _____, 200_. CSI shall retain Selling Franchisee's CSI Account balance until the second anniversary date of this Agreement and CSI shall pay out Selling Franchisee's CSI Account balance, subject to adjustment as provided in paragraphs 7.c. and 8 below and for any other sums Selling Franchisee may owe PDRI or CSI, on _____, 200_.
- 1.4.1.3.7.3 7.c. If there is either a positive or a negative retained earnings, including current profit or loss, shown on the most recent financial statement of CSI prior to the signing of this Agreement, the sum shown as Selling Franchisee's CSI Account balance shall be adjusted as follows:

- 1.4.1.3.7.3.1 (1) For a positive retained earning balance, the CSI Account balance shall remain unchanged and Selling Franchisee's pro rata share of such positive retained earnings shall be paid by CSI to Selling Franchisee no more than thirty (30) days after notification, by Selling Franchisee, of the sale.
- 1.4.1.3.7.3.2 (2) For a negative retained earning balance, the CSI Account balance shall be reduced by Selling Franchisee's pro rata share of such negative retained earning and such reduction shall be entered into all books and records maintained by CSI, PDRI, and the Franchisee
- 1.4.1.3.7.3.2 (3) In the event the franchise closes prior to the Payout Date, then the Payout Date shall be extended until the second anniversary date of the completion of the last open job and any warranty claims arising from Purchasing Franchisee's operation of the franchise shall be satisfied first from the Purchasing Franchisee's CSI Account and then from the Selling Franchisee's CSI Account.
- 1.4.1.3.7.4 7.d. In the event Selling Franchisee is selling only a portion of the franchise territory rather than the entire franchise, then section 7.b. and 7.c. shall not apply.
- 1.4.1.3.7.5 8. Funds for the full payment of warranty claims arising from Selling Franchisee's operation of the Franchise shall come from the following sources in CSI's discretion:
- 1.4.1.3.7.5.1 a. Purchasing Franchisee using sums due Selling Franchisee under any right of set-off until such right is exhausted;
- 1.4.1.3.7.5.2 b. Selling Franchisee's CSI Account balance;
- 1.4.1.3.7.5.3 c. Selling Franchisee; and
- 1.4.1.3.7.5.4 d. General funds of Purchasing Franchisee."
- 1.4.1.3.8 H. The account records for all Canadian Franchisees shall be recorded and maintained in Canadian currency. Each Canadian Franchisee's pro rata share of any deficit or surplus shall be converted to Canadian currency using the conversion rate on the date of the distribution of the deficit or surplus share.
- 1.4.1.4IV. Fund Depository:
- 1.4.1.4.1 A. The EFC shall:

- 1.4.1.4.1.1 1. Maintain and deposit the Fund in accounts with approved financial institutions.
- 1.4.1.4.1.2 2. Maintain current checking account balances required to conduct normal business.
- 1.4.1.4.1.3 3. Invest the balance of the Fund in accordance with the CSI investment policies.
- 1.4.1.4.1.4 4. Provide semi-annual reports to the Board of Directors, the NEC, and its CPA, with all stockholders receiving annual reports.
- 1.4.1.4.1.5 5. Determine who shall sign and countersign checks.
- 1.4.1.4.1.6 6. Maintain a reserve account to protect the integrity of the Fund and support the original intent of the Fund, which is to guarantee payment and completion of jobs.
- 1.4.1.4.1.7 7. Make other investments only when approved by 80% of the EFC.
- 1.4.1.4.2 B. CSI shall have prepared annual compilation statements and a certified audit every four years, performed by an independent accounting firm, to ensure adherence to an established set of controls and acceptable accounting procedures.
- 1.4.1.5 V. The EFC:
- 1.4.1.5.1 A. The EFC shall consist of five members: (1) the NEC President; (2) the NEC Treasurer; (3) the NEC Assistant Treasurer; (4) an NEC member at large; and (5) one Franchisor representative. The Treasurer of the NEC shall be the chairman of the EFC. In order to familiarize themselves with the operation of the EFC, EFC members-elect may attend the Fall EFC meeting immediately prior to the start of their terms as non-voting observers.
- 1.4.1.5.2 B. The duties of the EFC shall be:
 - 1.4.1.5.2.1 1. To approve the hiring, and monitor the daily operation, of all CSI employees.
 - 1.4.1.5.2.2 2. To determine the validity of each claim made against the Fund on a case-by-case basis giving due consideration to the wording of the CSI Guarantee Certificate and to approve or deny payment

of claims after proper consideration and arrange acceptable reimbursement of such payments from the franchise on whose behalf the claim was paid.

1.4.1.5.2.3 3. To defuse situations that, although not necessarily claims, are deemed damaging to the good of the network as a whole. At the request of the Franchisor and with the concurrence of the EFC, approve an expenditure to be limited per "claim" of up to \$2000 on the cognizance of the CSI manager, and a further \$3000 if approved by the EFC. All monies paid out to be initially funded equally by the Franchisor and CSI, and any reimbursements from whatever source or sources would be paid back equally to each paying party.

1.4.1.5.2.4 4. To respond to claims made by an insurer, as a result of a lien or threat of a lien by a tradesman, by asserting that:

1.4.1.5.2.4.1 (a) Our Franchisees may be required to place funds in escrow to cover the amount of the lien if it is perfected, an action which will fully protect the interest of the property owner.

1.4.1.5.2.4.2 (b) In the event the Franchisee is unable to escrow the funds, CSI may provide the insurer with a letter guaranteeing the amount of the lien if it is perfected.

1.4.1.6 VI. Employee Personnel

1.4.1.6.1 A. It is anticipated that one well-qualified person, who will be referred to as the office manager, will be responsible for all work required in the office and the necessary business for CSI's officers, directors and committees.

1.4.1.6.2 B. It shall be the responsibility of the office manager to:

1.4.1.6.2.1 1. Maintain accurate records of all income and expenses.

1.4.1.6.2.2 2. Prepare an annual budget for the Fund and the administrative office of CSI and report on budget variances historically and prospectively for the Fund and the administrative office on a quarterly basis.

1.4.1.6.2.3 3. Keep accurate account records of the total dollar amounts paid into the Fund by each Franchisee.

1.4.1.6.2.4 4. Work in close cooperation with the Board of Directors, the EFC, and PDRI.

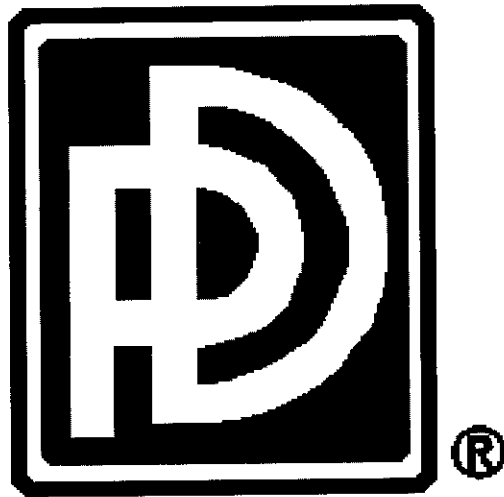
- 1.4.1.6.2.5 5. Make all arrangements for meetings of the Board of Directors and the EFC.
- 1.4.1.6.2.6 6. Handle all correspondence required in distributing information concerning the guarantee program or concerning claims against the program.
- 1.4.1.6.2.7 7. Work closely with the selected CPA in obtaining the required quarterly reports and the required annual audited report on the fund.
- 1.4.1.6.2.8 8. Issue all Guarantee Certificates and stock certificates.
- 1.4.1.6.3 C. The office manager shall be bonded.
- 1.4.1.6.4 D. An eighty percent (80%) vote of the EFC shall be required for approval of the office manager and compensation of CSI's employees.
- 1.4.1.7 VII. The position of the Franchisor:
 - 1.4.1.7.1 A. The Franchisor's President or CEO shall serve on CSI's Board of Directors and on the EFC, but a representative of the Franchisor corporation may serve in the place of the President or CEO on the EFC.
 - 1.4.1.7.2 B. In the event a claim is made against the Fund requiring completion of a job the Franchisor shall assist in finding or provide supervisory personnel to go to the job site and supervise the completion of the job, the Franchisor being reimbursed by the Fund as a part of the overall claim for all cost of any nature incurred in the performance of these duties.
 - 1.4.1.7.3 C. In the event that claims paid on behalf of a terminated franchise exceed the amount of that franchise's account balance, then the Fund shall be reimbursed for such deficit by all royalties collected by the Franchisor from any new franchise established in the terminated franchise's former territory unless agreed upon otherwise by the EFC.
- 1.4.1.8 VIII. Responsibilities of individual franchise owners to CSI:
 - 1.4.1.8.1 A. To make all required contributions to the Fund as required in 1.4.1.3.2 through 1.4.1.3.3.
 - 1.4.1.8.2 B. To provide financial statements prepared by an outside CPA, if requested.

- 1.4.1.8.3 C. To provide corporate guarantees, including the franchise instrument itself, as security for any funds owed to CSI by that particular franchise for contributions or claims.
- 1.4.1.8.4 D. In the event a claim is paid by CSI on any job for a particular Franchisee, then that Franchisee shall either:
 - 1.4.1.8.4.1 1. Reimburse the full amount of the claim within thirty (30) days. After thirty (30) days, outstanding balances will be charged interest at prime plus one and one-half (1½) percent, or
 - 1.4.1.8.4.2 2. Provide a note to CSI bearing interest at two percent (2%) above prime at an institution where CSI has deposits, payable in twelve (12) equal installments, or
 - 1.4.1.8.4.3 3. Obtain permission from the EFC for another method of reimbursement.
- 1.4.1.8.4.4 NOTE: Full amount of the claim, as stated in 1.4.1.8.4.1 above, shall include a charge of \$75 per hour to cover the expense of investigating and paying said claim.
- 1.4.1.8.5 E. To name CSI as an additional insured on its general liability policy and to provide a copy of such certificate to CSI within 10 days of the renewal date (as stated in 3.5).
- 1.4.1.9 IX. Cost of Operations:
 - 1.4.1.9.1 A. The office manager is authorized under the supervision of the EFC to pay all normal operating costs out of the Fund proceeds for:
 - 1.4.1.9.1.1 1. Office space
 - 1.4.1.9.1.2 2. Telephone
 - 1.4.1.9.1.3 3. Filing systems
 - 1.4.1.9.1.4 4. Computer hardware and software
 - 1.4.1.9.1.5 5. Furniture
 - 1.4.1.9.1.6 6. Accounting
 - 1.4.1.9.1.7 7. Legal fees
 - 1.4.1.9.1.8 8. Postage, printing, stationery, etc.
 - 1.4.1.9.1.9 9. Expenses of the members of the Board of Directors, the NEC and the EFC related to attendance of meetings
 - 1.4.1.9.1.10 10. Miscellaneous justifiable expenses

- 1.4.1.10 X. Letter of Credit:
 - 1.4.1.10.1 A. CSI's Board of Directors is authorized to obtain:
 - 1.4.1.10.1.1 1. Letters of credit
 - 1.4.1.10.1.2 2. Lines of credit
 - 1.4.1.10.1.3 3. Loans and notes
 - 1.4.1.10.1.4 The cost of all such items shall be considered as a normal cost of doing business for CSI.
- 1.4.1.11 XI. Certificates to Insurance Companies:
 - 1.4.1.11.1 A. Each Franchisee shall notify the office manager of all companies, adjusters, and agents to whom the Guarantee Certificate will be mailed. The office manager shall mail such certificates with a cover letter to the Franchisee. The office manager shall maintain an accurate and current list of all persons and companies to whom the certificate has been mailed.
 - 1.4.1.11.2 B. A copy of the Guarantee Certificate is available upon request from the office manager.
 - 1.4.1.11.3 C. Franchisees are allowed to use the Guarantee Certificate on commercial insurance losses as a closing tool by showing it to and discussing it with the owners and/or property managers of the damaged property on which they have prepared or are to prepare a bid.
 - 1.4.1.11.4 D. The Franchisor shall use the guarantee provided by CSI as a tool in obtaining national accounts with large commercial property owners and/or property managers.
- 1.4.1.12 XII. It is anticipated that the Fund shall reach a total sum that will enable it not only to cover all expenses, but to also make a profit for those who have established the Fund, so that when a profit is shown, the Board of Directors may present alternative plans for the use of such profits for final determination by the General Council.
 - 1.4.1.12.1 The funds deposited by each Franchisee shall be shown by each Franchisee as a deposit in its financial statement.

- 1.4.1.13 XIII. A copy of the stock certificate approved by the Board of Directors is available from the office manager upon request.
- 1.4.1.14 XIV. Any controversy or claim arising out of or relating to any agreement or relationship between CSI and any Franchisee, Franchisor, insurer, or stockholder which cannot be settled by the parties thereto, shall be settled by arbitration. Each party shall select one arbitrator and the two of them shall select a third party and a majority of the three shall decide the issue, and such decision shall be binding on each of the parties to the arbitration. A representative of the Franchisor shall serve as advisor to the committee but shall not be present during any deliberation of the committee. The committee shall determine which party or parties pay the expenses of the arbitration and may require at its own discretion a deposit to cover said expenses. All such arbitration shall be administered through the Franchisor in accordance with the arbitration procedures set forth in Booklet Two of the Paul Davis Restoration Operations Manual.
- 1.4.1.15 XV. Notwithstanding the provisions of paragraph 1.4.1.14 above, if either party hereto shall institute litigation against the other party to enforce any rights or obligations under this agreement, the prevailing party shall be entitled to recover from the other party all costs and expenses (including reasonable attorney's fees) incurred by the prevailing party in connection with such litigation.

PAUL DAVIS RESTORATION OPERATIONS MANUAL



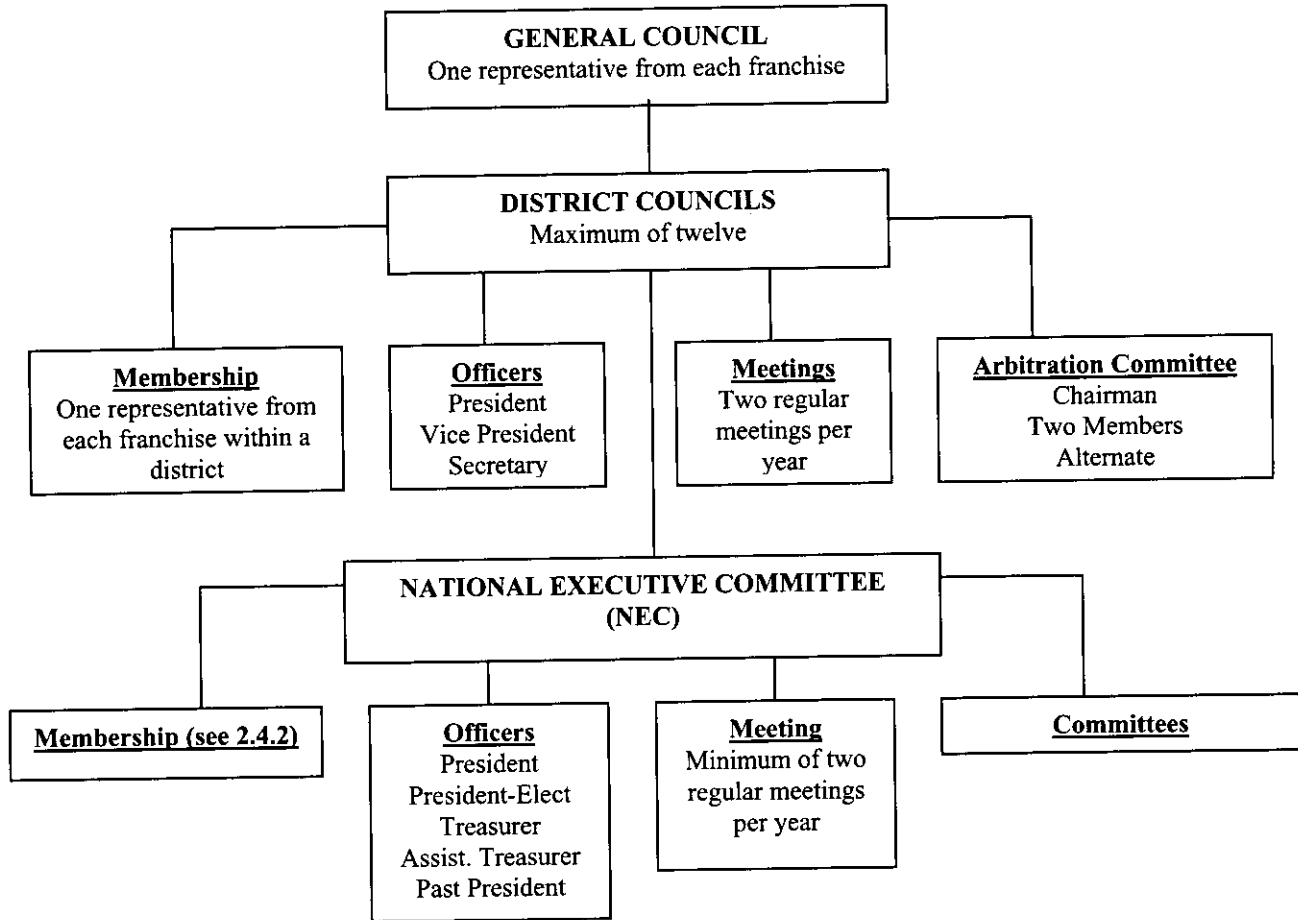
BOOKLET TWO COUNCIL PLAN OF OPERATION

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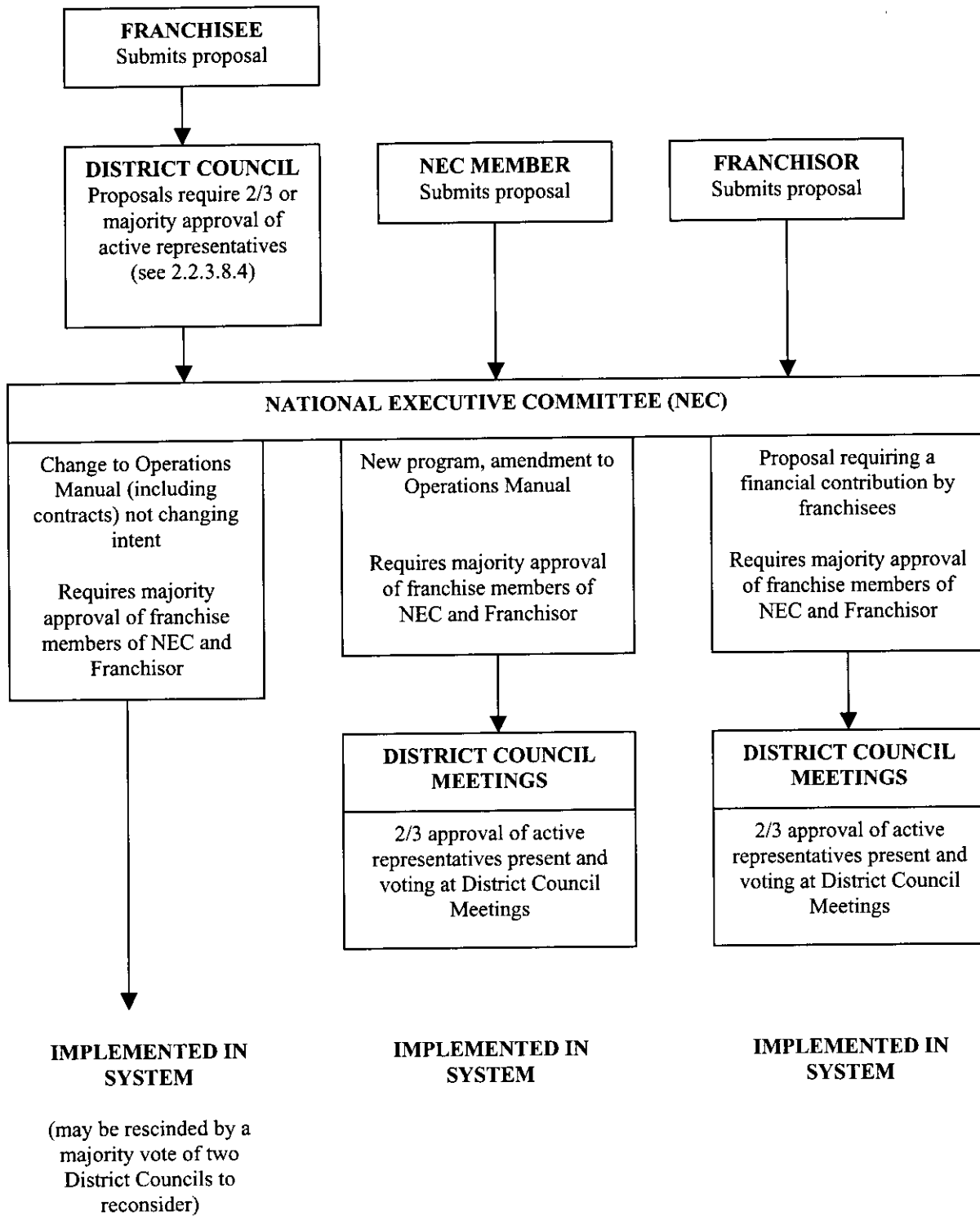
BOOKLET TWO TABLE OF CONTENTS

COUNCIL SYSTEM CHARTS	iv
PDR Council Structure	iv
PDR Legislative Track	v
PDR Arbitration Process	vi
PLAN OF OPERATION	1
ARTICLE I CREATION	1
ARTICLE II DISTRICT COUNCILS	3
ARTICLE III OFFICERS OF DISTRICT COUNCILS	8
ARTICLE IV NATIONAL EXECUTIVE COMMITTEE (NEC)	11
ARTICLE V OFFICERS OF THE NEC	15
ARTICLE VI GENERAL COUNCIL	19
ARTICLE VII ASSESSMENTS	22
ARTICLE VIII PROCEDURES FOR RECOMMENDATIONS	23
ARTICLE IX AMENDMENTS	26
ARTICLE X SAVINGS CLAUSE	27
ARTICLE XI EFFECTIVE DATE	28
ARTICLE XII ARBITRATION – GENERAL	29
ARTICLE XIII ORGANIZATION OF ARBITRATION COMMITTEES	36

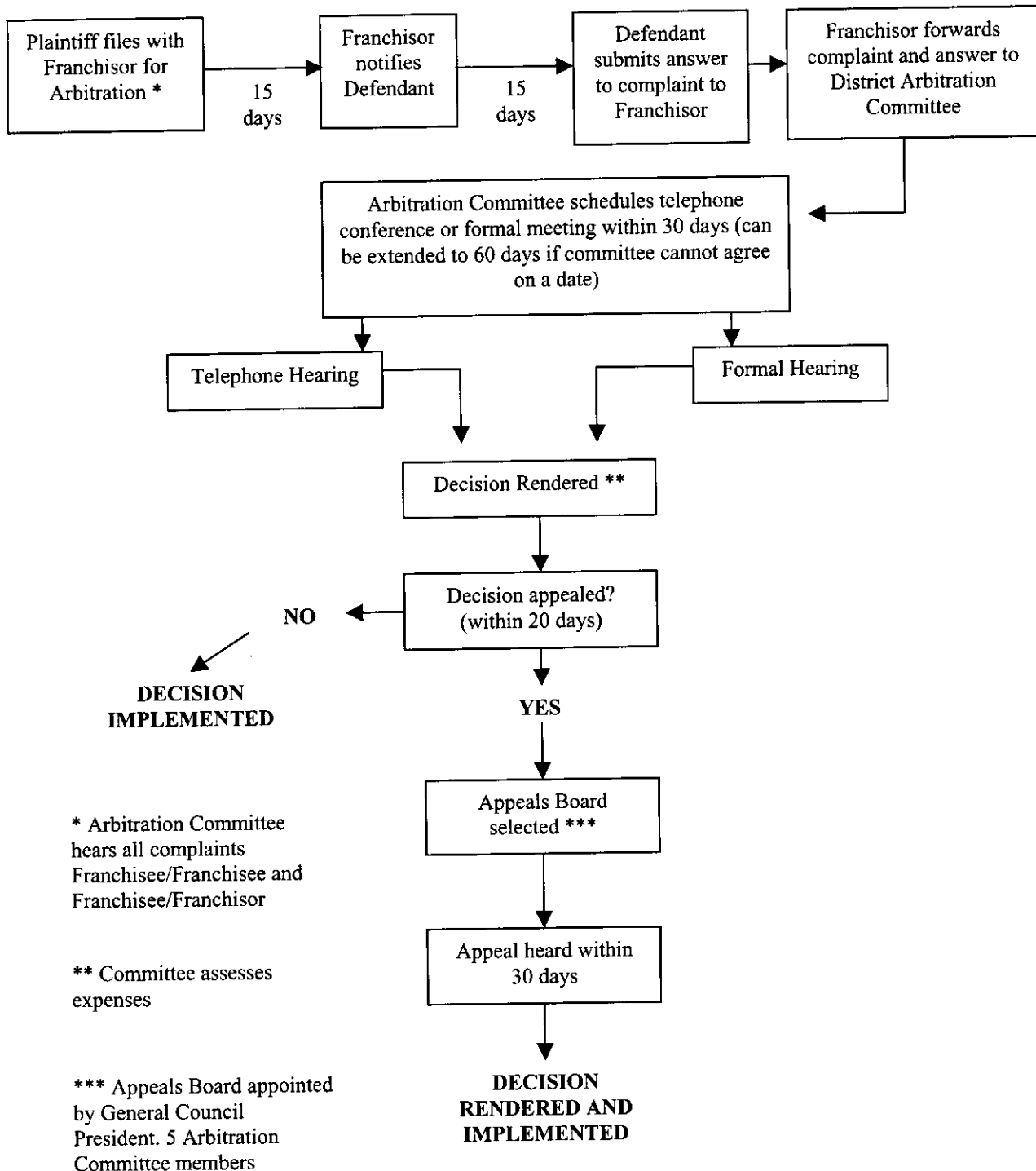
PAUL DAVIS RESTORATION FRANCHISE COUNCIL STRUCTURE



PAUL DAVIS RESTORATION LEGISLATIVE TRACK



PAUL DAVIS RESTORATION ARBITRATION PROCESS



PLAN OF OPERATION FOR THE PDR COUNCIL

ARTICLE I CREATION

2.1.1 **Background**

2.1.1.1 Under the terms of Franchise Agreements between the Franchisor and its various Franchisees, it is provided that the Franchisor shall establish a District Council for each operating district that is established by the Franchisor.

2.1.1.2 This Booklet Two has been adopted to provide rules and regulations for the governance and operation of the General Council, NEC, District Councils, and system of arbitration for Paul Davis Restoration franchisees and the Franchisor.

2.1.2 **District Councils**

2.1.2.1 The Franchisor shall create District Councils consisting of one (1) active representative for each of the operating franchises located as close geographically to one another as is practicable.

2.1.2.2 Franchisees shall be assigned to District Councils by the Franchisor and, if requested by a Franchisee, the Franchisor shall, if operationally practical, change a Franchisee to such different District Council as shall be agreeable to the requesting Franchisee and the Franchisor.

2.1.2.3 The powers, duties, and functions of the District Councils are set forth in Article II (District Councils).

2.1.3 **National Executive Committee (NEC)**

2.1.3.1 A National Executive Committee, consisting of a representative of the Franchisor, a representative of the Canadian Master Franchisor, and active representatives from each District Council to be elected in accordance with and to have the powers, duties, and functions set forth in Article IV (National Executive Committee), is hereby created.

2.1.4 **General Council**

2.1.4.1 A General Council, consisting of one active representative from each operating franchise, as well as one representative of the Franchisor and one representative

of the Canadian Franchisor, to have the powers, duties, and functions set forth in Article VI (General Council), is hereby created.

2.1.5

Arbitration Committees

2.1.5.1

Arbitration Committees for each District Council, consisting of three (3) active and one (1) alternate member of each District Council, to have the power, duties, and function set forth in Article XIII (Organization of Arbitration Committees), are hereby created.

ARTICLE II DISTRICT COUNCILS

2.2.1 **Functions**

2.2.1.1 The purpose of each District Council shall be to:

2.2.1.2 (a) Discuss, review, and consider new and improved methods of operations for the franchise network.

2.2.1.3 (b) Submit recommendations for amendments to the Operations Manual.

2.2.1.4 (c) Hear reports.

2.2.1.5 (d) Consider and act upon new programs.

2.2.1.6 (e) Vote on all Proposals submitted to it under Article VIII (Procedures for Recommendations).

2.2.1.7 (f) Discuss issues affecting franchises with the Franchisor.

2.2.1.8 (g) Engage in such other activities as shall further the foregoing purposes.

2.2.1.9 (h) Propose, discuss, and accept District Cooperative Programs pertaining only to the members of the specific district voting on such proposal, provided each such District Cooperative Program is approved by the Franchisor and the NEC.

2.2.1.10 (i) Any District Cooperative Program approved by district vote as outlined in 2.2.3.8 shall be binding on all members of the district.

2.2.2 **Qualifications**

2.2.2.1 Membership in each District Council shall be limited to each operating franchise in the district.

2.2.2.2 Each operating franchise shall be represented on the District Council by one (1) active representative from such franchise or by one active member of multiple franchises owned by the same owner(s).

2.2.2.2.1 No operating franchisee shall have more than one (1) vote per franchise owned, but can vote one (1) vote per each franchise owned.

2.2.3 **Meetings**

2.2.3.1 **Time**

2.2.3.1.1 Meetings shall be held as follows:

2.2.3.1.1.1 One (1) regular meeting of each District Council each year between April 15 and June 15 designated as the "spring meeting."

2.2.3.1.1.2 One (1) regular meeting of each District Council each year between October 15 and December 15 designated as the "fall meeting."

2.2.3.1.1.3 Special meetings of the District Council shall be held upon call of the District President or the District Executive Committee.

2.2.3.2 **Attendance**

2.2.3.2.1 An active representative of an operating franchise shall be entitled to attend meetings of its District Council.

2.2.3.2.1.1 The only persons allowed to attend a District Council meeting are:

2.2.3.2.1.1.1 (a) Duly appointed franchise representatives, with spouses if so desired.

2.2.3.2.1.1.2 (b) Co-equal owners of a franchise, so long as one of these owners is the only duly appointed "franchise representative."

2.2.3.2.1.1.3 (c) A Franchisor representative.

2.2.3.2.1.1.4 (d) Guests invited by the District President and/or the Franchisor.

2.2.3.3 **Place**

2.2.3.3.1 Regular district meeting locations are at the discretion of the district. Any meeting that takes place outside of the geographical territory of the district requires the agreement of two-thirds (2/3) of the franchises present at any regular or special meeting of a District Council.

2.2.3.3.2 Special meetings shall be held at a place selected by the District Executive Committee within the geographic territory of the District Council.

2.2.3.4 **Notice**

2.2.3.4.1 A District Council Officer shall give written notice of all District Council meetings to the Franchisor and all franchisees in the District at least thirty (30) days prior to such meetings.

2.2.3.5 **Conduct of Meetings**

2.2.3.5.1 Meetings of the District Council shall be presided over by the District President, the District Vice President or, in their absence, the District Secretary.

2.2.3.5.2 The District Secretary shall keep accurate minutes of all matters considered and acted upon at the meeting.

2.2.3.6 **Proxies**

2.2.3.6.1 Only an active representative who is present in person shall be counted for the purposes of determining a quorum.

2.2.3.6.2 No active representative of an operating franchise may authorize any proxy or attorney-in-fact to act for him on any matter to come before a meeting of the District Council.

2.2.3.7 **Quorum**

2.2.3.7.1 Those members present at any regular meeting of a District Council shall constitute a quorum for the purpose of conducting any business that shall have appeared on the written agenda, which was prepared and distributed to the district members prior to the meeting.

2.2.3.7.2 For any special meeting or teleconference, a quorum consisting of sixty percent (60%) of the qualified members of the district shall be present in person in order to conduct any item of business other than to adjourn the meeting.

2.2.3.8 **Voting**

2.2.3.8.1 District Councils may vote on any matters presented by the NEC at any regular meeting or at any special meeting:

2.2.3.8.2 Only a duly appointed franchise representative may vote.

2.2.3.8.3 At the discretion of the Franchisor, a Franchisor representative may attend any district meeting and be present for all discussions.

2.2.3.8.4 The following votes shall be required on the following described actions:

- 2.2.3.8.4.1 (a) Two-thirds (2/3) of the vote of the active representatives present and voting at all meetings of the District Councils shall be required to approve any proposal involving:
 - 2.2.3.8.4.1.1 (i) The adoption of a new program.
 - 2.2.3.8.4.1.2 (ii) An amendment to the Operations Manual.
 - 2.2.3.8.4.1.3 (iii) The alteration, modification, or rejection of any action taken by an Arbitration Committee.
 - 2.2.3.8.4.1.4 (iv) A financial contribution by franchises.
- 2.2.3.8.4.2 (b) A majority vote of the active representatives present and voting at all meetings of the District Councils shall be required for approval of all other actions.
- 2.2.3.8.5 A secret written ballot may be taken on any proposal or other matter coming before a District Council for vote when such ballot shall be requested by any active representative qualified to vote.
 - 2.2.3.8.5.1 (a) The District President shall announce at the beginning of the meeting that requests for secret ballots may be made privately by any member and shall ask prior to each vote if a secret ballot is desired.
- 2.2.3.8.6 All ballots, secret or open, shall be tabulated and the results announced as each item is voted.
- 2.2.3.8.7 District Councils may vote on District Cooperative Programs at any regular or special meeting or by the following procedure:
 - 2.2.3.8.7.1 (a) The District President shall mail to each Active Representative a description of the proposed District Cooperative Program and a voting ballot.
 - 2.2.3.8.7.2 (b) Each Active representative shall consider the proposal and return the ballot to the District President by mail or fax within 10 days.
 - 2.2.3.8.7.3 (c) Failure to return the ballot within 10 days shall be deemed a vote of approval.
 - 2.2.3.8.7.4 (d) Upon approval of the required percentage of Active Representatives, the District Cooperative Program must be submitted to the NEC and the Franchisor for approval before implementation.

2.2.4 **Limitations of Powers**

2.2.4.1 No proposal shall be effective until the vote required by all District Councils in accordance with 2.8.5 (Vote Required) shall have been cast.

2.2.4.2 All franchises shall be bound by any action taken in accordance with this section.

ARTICLE III OFFICERS OF DISTRICT COUNCILS

2.3.1 **General**

2.3.1.1 The officers of the District Council shall consist of a District President, a District Vice President, and a District Secretary.

2.3.1.2 No two (2) offices shall be held by the same person.

2.3.2 **Election and Term**

2.3.2.1 All officers of the District Council shall be elected at the spring District Council meeting. All such officers shall hold office for a two (2) year period, beginning January 1 of the year immediately following the year in which they are elected.

2.3.2.2 No officer may be elected to more than two successive terms to the same office.

2.3.2.3 District Council Presidents-elect shall attend the NEC meeting prior to the commencement of their terms of service as observers and shall be entitled to receive standard reimbursement for their expenses.

2.3.3 **Election Year**

2.3.3.1 Even numbered councils shall elect officers in even numbered years and odd numbered councils shall elect officers in odd numbered years.

2.3.4 **Qualifications**

2.3.4.1 No person shall be eligible to become or remain an officer who is not an active representative of an operating franchise.

2.3.4.2 No employee, officer, or consultant to the Franchisor shall serve as a District Council Officer.

2.3.5 **Duties**

2.3.5.1 The following officers shall have the following duties:

2.3.5.1.1 (a) **District President** - The District President shall:

2.3.5.1.1.1 (I) Call and preside over all District Council meetings and District Executive Committee meetings.

2.3.5.1.1.2 (ii) Serve as a member of the NEC.

2.3.5.1.1.3 (iii) Serve as a representative of his district, expressing the views, suggestions, and problems of its members.

2.3.5.1.2 (b) **District Vice President** - The District Vice President shall:

2.3.5.1.2.1 (i) Preside in the absence of the President.

2.3.5.1.2.2 (ii) Be responsible for all preparations for district meetings.

2.3.5.1.2.3 (iii) Perform the duties of the President in the event the District President is the NEC President.

2.3.5.1.3 (c) **District Secretary** - The District Secretary shall:

2.3.5.1.3.1 (i) Attend and keep complete and accurate records of all meetings of the District Council and the District Executive Committee.

2.3.5.1.3.2 (ii) Handle all correspondence.

2.3.5.1.3.3 (iii) Perform such other duties as shall be imposed upon him by the District Executive Committee or the District President.

2.3.6 **Vacancies**

2.3.6.1 Vacancies in any office due to death, resignation, removal, or disqualification shall be filled by the District Council at any regular meeting or special meeting.

2.3.6.2 Election or appointment to fill a vacant office or position shall not count in the calculation of the time limit for service in that particular office or position.

2.3.6.3 A district may, at the option of its President, choose to fill a vacancy by a telephone conference call, in which all members have been invited to participate, at a date set no less than five (5) days in advance. The cost of such telephone

conference call shall be borne equally by the members of the district filling the vacancy.

2.3.7 **Notification**

2.3.7.1 Each District Secretary shall notify the Franchisor of the name of all officers elected by the District Council within ten (10) days after their election.

2.3.8 **District Executive Committee**

2.3.8.1 Each District Council shall have a District Executive Committee consisting of the District President, the District Vice President, and the District Secretary.

2.3.8.2 The term of each member of the District Executive Committee shall coincide with his or her term of office.

2.3.8.3 The District Executive Committee shall have and exercise the full power of the District Council in the management of the business and affairs of the District Council during the interim between meetings of the District Council, provided however, that the District Executive Committee shall not be empowered to take any action requiring a vote of the District Council under 2.2.3.8 (District Councils: Meetings: Voting).

2.3.8.4 A majority of the District Executive Committee shall be necessary to constitute and shall constitute a quorum for the transaction of all business.

ARTICLE IV NATIONAL EXECUTIVE COMMITTEE (NEC)

2.4.1 **Function**

2.4.1.1 The NEC shall have the power to make changes, additions, and deletions to the Paul Davis Restoration Operations Manual so long as such changes, additions, or deletions do not substantially change the intent of the Council in establishing the Operations Manual as the basis of operations for Paul Davis Restoration franchises.

2.4.1.2 All Franchisees shall be notified in writing of such approved changes, additions, or deletions.

2.4.1.3 The approved changes, additions, or deletions shall become effective upon approval but shall be rescinded if any two District Councils receive objections from within their membership and cast a majority vote to reconsider.

2.4.1.4 In case of such vote to reconsider being cast by two District Councils, the NEC shall reconsider the questioned item(s) at its next meeting and if it feels the questioned change, addition, or deletion is still valid, shall submit such item(s) to all District Councils for vote.

2.4.2 **Membership**

2.4.2.1 The NEC shall consist of:

2.4.2.1.1 (a) The District President of each District Council.

2.4.2.1.2 (b) The NEC President, if not a District President.

2.4.2.1.3 (c) The Vice President of the NEC President's district, if the NEC President is the President of his/her district (see 2.5.1.3).

2.4.2.1.4 (d) A representative of the Canadian Franchisor, with privileges equal to other NEC members but without veto power.

2.4.2.1.5 (e) A representative of the U.S. Franchisor.

2.4.2.1.6 (f) The SMP Chairperson, if not already an NEC member (see Booklet I, III.C)

2.4.2.1.7 (g) The NEC Treasurer, if not a District Representative (see 2.5.3.2).

- 2.4.2.2 When the most recent past President of the NEC is not a franchisee member of the NEC, he or she serves as an “ex-officio” member, attending meetings and participating but only voting when serving in the absence of the President.

2.4.3 **Election and Term**

- 2.4.3.1 The term of office of each franchise member of the NEC shall coincide with his/her term of office as a District Council Officer, with the exception of the following positions, which may be filled by at-large members (as referred to in the stated section numbers):

- 2.4.3.1.1 (a) NEC President (see 2.5.3.3)
- 2.4.3.1.2 (b) SMP member (see Booklet I, section III.C)
- 2.4.3.1.3 (c) NEC Treasurer (see 2.5.3.2)

- 2.4.3.2 No franchise member shall serve more than two (2) consecutive terms.

2.4.4 **Vacancies**

- 2.4.4.1 If the office of any franchise member of the NEC shall become vacant by reason of death, resignation, disqualification, or removal, the District Council that such franchise member represents shall elect a successor.

- 2.4.4.1.1 The election of the successor may be accomplished by telephone conference call provided each district representative has been notified, in writing, of the conference call time no less than five (5) days prior to the call and that at least a majority of the district representatives participate in the conference call.

- 2.4.4.2 Election or appointment to fill a vacant office or position shall not count in the calculation of the time limit for service in that particular office or position.

2.4.5 **Removal**

- 2.4.5.1 Any franchise member of the NEC may be removed from office with or without cause by the District Council that such franchise member represents.

2.4.6 **Meetings**

2.4.6.1 **Frequency**

- 2.4.6.1.1 The NEC shall meet once a year between January 15 and March 1 and once each year between August 5 and September 20. In addition to these two meetings there may be a third meeting held during the PDR National Convention.

2.4.6.2 **Notice**

2.4.6.2.1 At least five (5) days notice shall be given to the Franchisor and to each franchise member in advance of any annual, regular, or special meeting of the NEC. Special meetings of the NEC shall be held upon request of the NEC President or the Franchisor. These meetings may be held by teleconference.

2.4.6.3 **Attendance**

2.4.6.3.1 Attendance in person at any meeting shall constitute waiver of notice of such meeting.

2.4.6.3.2 If a regular member cannot attend, their place shall be taken by the Vice President of the District Council.

2.4.6.3.3 In order to familiarize themselves with the operation of the NEC, District Presidents-Elect may attend the Fall NEC meeting immediately prior to the start of their terms as non-voting observers.

2.4.6.4 **Time and Place**

2.4.6.1 The time, date, and place of each meeting shall be held at such place as the NEC President and a majority of the Franchisee members shall determine.

2.4.6.5 **Procedure**

2.4.6.5.1 The NEC President shall preside at all meetings of the NEC, and in his absence the Past President shall preside. In the absence of both the NEC President and the NEC Past President, the NEC President-elect shall preside.

2.4.6.5.3 An employee of CSI will, while transcribing the minutes of each meeting, note action required and notify each person responsible for such action.

2.4.6.6 **Quorum**

2.4.6.6.1 A representative of the Franchisor and a majority of the franchise members of the NEC shall constitute a quorum for the transaction of all business to come before any meeting.

2.4.6.7 **Voting**

2.4.6.7.1 The vote of the Franchisor and a majority of all franchise members of the NEC present and voting at a meeting shall be required on all matters, except that a vote of the Franchisor and a majority of the franchise members present and voting at a

meeting shall be required for the presentation of a proposal to the District Councils.

2.4.6.7.2 The Past President will only vote when serving as a representative of his/her district.

2.4.7 **Expenses**

2.4.7.1 Reimbursement of expenses incurred or authorized by the NEC in each calendar year, as set forth in the Plan of Operation for the Paul Davis Restoration General Council, shall be paid from the general fund of Completion Services, Inc., the cost shared equally by all Paul Davis Restoration Franchisees in existence on December 31st of that calendar year.

2.4.7.2 Said cost shall be charged to each Franchisee as either a reduction of its share of net earnings or an increase in its share of net cost for the operation of Completion Services, Inc. for that year.

ARTICLE V OFFICERS OF THE NEC

2.5.1 **Officers**

2.5.1.1 The officers of the NEC shall consist of:

- 2.5.1.1.1 (a) An NEC President.
- 2.5.1.1.2 (b) An NEC President-elect.
- 2.5.1.1.3 (c) An NEC Treasurer.
- 2.5.1.1.4 (d) An NEC Assistant Treasurer
- 2.5.1.1.5 (e) An NEC Past President

2.5.1.2 No two (2) offices may be held by the same person.

2.5.1.3 When the NEC President assumes office, that person will no longer serve as his district's representative on the NEC. The Vice President of the district that the NEC President is in will become that district's NEC representative, and as such, will attend the NEC meetings and be the voting member for that district. The NEC President will run the business of the NEC, and the Vice President of the NEC President's district will run the business of that district. The district will not have two votes in the NEC meetings; the NEC President will only vote as a tie-breaker.

2.5.2 **Membership on Franchisor's Board**

2.5.2.1 The duly elected and acting NEC President shall be elected to the Board of Directors of the Franchisor for a term corresponding to his/her term as NEC President.

2.5.3 **Qualifications**

2.5.3.1 To be eligible to become an NEC officer, one must be an elected member to the NEC.

2.5.3.2 Nominees to the NEC/CSI Treasurer position shall be any past or present member of the EFC. If the nominee is not a member of the NEC, the nominee would not have voting rights on the NEC.

2.5.3.3 The NEC president shall be nominated and elected from any past or present NEC member in good standing.

2.5.4 **Election and Term**

2.5.4.1 Officers of the NEC shall be elected by the General Council.

2.5.4.2 Each officer of the NEC shall hold office for a term of one (1) year commencing January 1 and ending December 31 two years after he/she is elected.

2.5.5 **Nominating Committee**

2.5.5.1 Each year at its fall meeting, the NEC shall appoint a five-member nominating committee to serve through its spring meeting of the next year.

2.5.5.2 The committee shall consist of:

2.5.5.2.1 (a) Three (3) franchise members of the NEC.

2.5.5.2.2 (b) The Canadian Franchisor representative.

2.5.5.2.3 (c) The US Franchisor representative.

2.5.5.3 The committee shall elect a chairman from its own ranks who shall be responsible for coordinating and recording all actions taken by the committee.

2.5.5.3.1 The chairman or the executive director will, as soon as practical after the final District Council spring meeting, obtain and distribute to each committee member a list of NEC members for the following year.

2.5.5.4 Each district at its spring meeting shall have an opportunity to discuss and suggest names for consideration by the committee.

2.5.5.5 The committee will conduct its meeting by mail, email and/or telephone prior to the spring NEC meeting of its service year.

2.5.5.6 At the spring NEC meeting of the committee's service year, the committee shall meet at whatever times are necessary to formulate and approve the slate of officers to be presented at the General Council meeting.

2.5.5.6.1 The slate of officers shall be presented to the NEC at its spring meeting and ratified prior to presentation at the General Council meeting.

2.5.6 **Duties of Officers**

2.5.6.1 The officers of the NEC shall have the following duties:

2.5.6.1.1 (a) **NEC President** - the NEC President shall:

- 2.5.6.1.1.1 (i) Call meetings of the NEC at the request of three (3) or more franchise members of the NEC.
- 2.5.6.1.1.2 (ii) Preside at all NEC meetings.
- 2.5.6.1.1.3 (iii) Report annually to the General Council on the activities of the NEC for that year.
- 2.5.6.1.1.4 (iv) In general, supervise the business, affairs, and operations of the NEC.
- 2.5.6.1.1.5 (v) Set the agendas for meeting in cooperation with the PDR Franchisor.
- 2.5.6.1.2 (b) **NEC President-elect** - The NEC President-elect shall:
 - 2.5.6.1.2.1 (i) Preside at all meetings of the NEC in the absence of the NEC President and NEC Past President.
 - 2.5.6.1.2.2 (ii) Maintain order in the conduct of all meetings.
 - 2.5.6.1.2.3 (iii) Preside over all Compliance and Procedures Committee meetings and activities.
 - 2.5.6.1.2.4 (iv) Perform such other duties as shall be assigned to him by the NEC.
- 2.5.6.1.3 (d) **NEC Treasurer** - The NEC Treasurer shall:
 - 2.5.6.1.3.1 (i) Be responsible for all assessments turned over to him/her by the NEC in accordance with Article VII (Assessments).
 - 2.5.6.1.3.2 (ii) Make annual reports to the General Council of all receipts and disbursements and other duties performed as NEC Treasurer during the calendar year.
 - 2.5.6.1.3.3 (iii) Preside over EFC meetings and activities.
 - 2.5.6.1.3.4 (iv) Perform such other duties as assigned to him/her by the NEC or the CSI Board.
 - 2.5.6.1.3.5 (v) Serve as NEC Secretary.
- 2.5.6.1.4 (e) **NEC Assistant Treasurer** - The NEC Assistant Treasurer shall assist the NEC Treasurer in the performance of the duties of that office.

- 2.5.6.1.5 (f) **NEC Past President** - The NEC Past-President shall:
 - 2.5.6.1.5.1 (i) Serve as advisor to the NEC President.
 - 2.5.6.1.5.2 (ii) Preside in the absence of the NEC President.
 - 2.5.6.1.5.3 (iii) Participate in NEC discussions, offering opinions and recommendations.

2.5.7 **Vacancies**

- 2.5.7.1 Vacancies in any office due to death, resignation, removal, or disqualification shall be filled by majority vote of the NEC for the unexpired term of such office.
- 2.5.7.2 Election or appointment to fill a vacant office or position shall not count in the calculation of the time limit for service in that particular office or position.

ARTICLE VI GENERAL COUNCIL

2.6.1 Function

2.6.1.1 The General Council shall:

2.6.1.1.1 Provide a forum for all operating franchises to hear reports, attend seminars and panel discussions, learn new and improve existing skills, and participate in annual award banquets.

2.6.1.1.2 Formulate, consider, and review new programs, new marketing plans, and joint venture operations with the Franchisor for the benefit of all Franchisees.

2.6.1.1.3 Generally provide a means for Franchisees to keep themselves informed about matters of common interest to the franchise network.

2.6.2 Powers

2.6.2.1 The General Council shall have and exercise only the following powers:

2.6.2.1.1 (a) To elect officers of the NEC.

2.6.2.1.3 (b) To levy assessments in accordance with Article VII (Assessments).

2.6.3 Qualification

2.6.3.1 Each operating franchise that is a member of a District Council shall be qualified to be a member of the General Council, and one (1) active representative from each operating franchise shall be qualified to attend all meetings of the General Council.

2.6.4 Agenda

2.6.4.1 The agenda for all meetings of the General Council shall be prepared by the NEC President in cooperation with the PDR Franchisor, and submitted to each member of the General Council at least fifteen (15) days prior to such meeting.

2.6.5 Meetings

2.6.5.1 The following provisions shall govern all General Council meetings:

2.6.5.1.1 (a) **Time**

- 2.6.5.1.1.1 Annual meetings of the General Council shall be held at a time and date each year selected by the NEC.
- 2.6.5.1.1.2 Special meetings of the General Council may be called upon thirty (30) days' prior written notice by the NEC President or the PDR Franchisor.
- 2.6.5.1.2 (b) **Place**
- 2.6.5.1.2.1 The place of all annual meetings shall be selected by the NEC.
- 2.6.5.1.2.2 The place of all special meetings shall be selected by the Franchisor in consultation with the NEC President.
- 2.6.5.1.3 (c) **Conduct of Meetings**
- 2.6.5.1.3.1 The NEC President shall preside at all meetings of the General Council, or in his absence, the NEC Past President shall preside, or in his absence the NEC President-elect, or if none of them is present and acting, then such person as shall be chosen by a majority of the active representatives present shall preside.
- 2.6.5.1.3.2 The Executive Director shall keep accurate minutes of all action and matters considered at the meetings.
- 2.6.5.1.4 (d) **Proxies**
- 2.6.5.1.4.1 Only active representatives of operating franchises who are present in person shall be counted for the purpose of determining a quorum.
- 2.6.5.1.4.2 No member or active representative may authorize any proxy or attorney-in-fact to act for him/her in any matter to come before a meeting of the General Council.
- 2.6.5.1.5 (e) **Quorum**
- 2.6.5.1.5.1 The presence of a duly authorized representative of the Franchisor and all present active representatives of members of the General Council shall constitute a quorum at any meeting of the General Council.
- 2.6.5.1.5.2 The active representatives present, though less than a majority, may adjourn a meeting of the General Council or recess the meeting to a certain day.
- 2.6.5.1.6 (f) **Voting**

2.6.5.1.6.1 The following votes shall be required on the following actions:

2.6.5.1.6.1.1 (i) Two-thirds (2/3) of the vote of the active representatives present and voting at a meeting shall be required to approve any assessment made under Article VII (Assessments).

2.6.5.1.6.1.2 (ii) Two-thirds (2/3) of the active representatives present and voting at a meeting shall be required for all other actions.

ARTICLE VII ASSESSMENTS

2.7.1 General

2.7.1.1 The General Council shall have sole authority to levy assessments of franchises for the purpose of paying the cost, fees, and expenses of any experts retained or hired by the NEC and for paying the reasonable out-of-pocket expenses incurred by the franchise members and officers of the NEC in connection with their attendance at meetings of the NEC, if such expenses are for any reason not covered under the provisions of 2.4.7 (National Executive Committee: Expenses).

2.7.1.2 Assessments may also be levied for such other purposes as two-thirds (2/3) of all operating franchises present and voting shall approve, as defined under 2.6.5.1.6.1.1.

2.7.2 Procedure

2.7.2.1 Any proposed assessment shall be presented to the NEC and, if approved, shall be submitted to the annual meeting or any special meeting of the General Council.

2.7.2.2 No assessment shall be effective unless approved by the vote of two-thirds (2/3) of all active representatives of operating franchises present and voting at such annual or special meeting, as defined in 2.6.5.1.6.1.1.

2.7.2.3 Any assessment so approved shall be payable equally by each franchise in such installments and at such times as the NEC or the General Council shall approve.

2.7.3 Collection

2.7.3.1 After approval of an assessment, the NEC Treasurer may request the Franchisor to include billings for the same in the Franchisor's regular billings.

2.7.3.2 The Franchisor shall forward to the NEC Treasurer any payments received by Franchisor during the preceding month on said assessment on or before the fifteenth (15th) day of the following month.

2.7.3.3 The Franchisor shall incur no liability for the nonpayment by any franchise of its assessment, and all collection proceedings shall be handled by the Executive Finance Committee.

ARTICLE VIII PROCEDURES FOR RECOMMENDATIONS

2.8.1 General

- 2.8.1.1 Recommendations for new programs, for amendments to the Operations Manual, and for any other change in the operations of the franchises (any such recommendation being herein called a "Proposal") may be submitted by District Councils, by the Franchisor, or by any Franchisee.
- 2.8.1.2 All such proposals shall be transmitted to the Executive Director and shall be included in the agenda for the next meeting of the NEC.
- 2.8.1.3 Any Franchisee may submit a proposal by the following procedure:
- 2.8.1.3.1 a. Request that the District Council President include the proposal on the agenda for the next District Council meeting.
- 2.8.1.3.2 b. Present the proposal to the District Council and obtain a majority vote of the active representatives in favor of its consideration by the NEC.
- 2.8.1.3.3 c. If approved at the District Council meeting, the District Secretary will forward the proposal to the Executive Director, noting the above approval, with the request that the proposal be placed on the agenda for the next NEC meeting.
- 2.8.1.3.4 d. The Franchisor, if requested, shall assist in preparing the format and content of the proposal for submission to the NEC

2.8.2 Special Action by the NEC

- 2.8.2.1 At Franchisor's discretion, the Franchisor shall mail to each franchise member a description of the proposal to be considered.
- 2.8.2.2 Each franchise member shall consider the proposal and notify the Franchisor within ten (10) days of his approval or disapproval thereof.
- 2.8.2.3 The failure by any franchise member to approve or disapprove the same within such ten (10) day period shall be deemed approval.
- 2.8.2.4 Upon approval of two-thirds (2/3) of the franchise members of the NEC and the Franchisor, the proposal shall then be submitted to all District Councils for their consideration.

2.8.3 **Meeting to Consider Recommendations**

2.8.3.1 At a meeting of the NEC called to consider a proposal, a vote of the Franchisor and two-thirds (2/3) of the franchise members present and voting at a meeting shall be required for the presentation of a proposal to the District Council.

2.8.3.2 If the proposal is not approved by such vote, the Franchisor may either cancel all efforts to seek approval of the proposal or, if the Franchisor feels that the proposal would be in the best interests of the Franchisees, the Franchisor may present the proposal to all Franchisees for vote at District Council meetings with a notice in bold fact type stating: **"THIS PROPOSAL HAS BEEN REJECTED BY THE NATIONAL EXECUTIVE COMMITTEE BY A VOTE OF _____ FOR AND _____ AGAINST THE SAME."**

2.8.4 **Approval by the NEC**

2.8.4.1 If the NEC and the Franchisor approve a proposal and determine that the same would be beneficial and acceptable to the Franchisees or if the Franchisor has submitted the proposal to a vote of all Franchisees under Article VIII (Procedures for Recommendations) the Franchisor shall submit the proposal in writing to all District Councils not less than fifteen (15) days prior to any meeting at which a vote is to be taken on the matter. At the discretion of the Franchisor, a Franchisor representative may attend the meeting of each District Council for discussion on the proposal.

2.8.5 **Vote Required**

2.8.5.1 The following votes at District Council meetings shall be required for any proposal to become effective:

2.8.5.1.1 (a) If the proposal requires a financial contribution by franchises, the vote of two-thirds (2/3) of all active representatives voting at District Council meetings shall be required.

2.8.5.1.2 (b) If the proposal involves a new program, an amendment to the Operations Manual, or the rejection of any action that was approved by a four-fifths (4/5) vote, the vote of two-thirds (2/3) of all active representatives voting at District Council meetings shall be required.

2.8.5.1.3 (c) If the proposal involves any other matter than those set forth in (a) and (b) above, the vote of a majority of all active representatives voting at District Council meetings shall be required.

2.8.6 **Effective Date**

2.8.6.1 Proposals appropriately approved by the NEC, General Council, or District Councils shall become effective on the first day of the month following one complete calendar month after the NEC, General Council, or last District Council meeting to approve said proposals.

2.8.6.2 The Franchisor shall within thirty (30) days of the last notification, notify all Franchisees in writing of the result and shall prepare all necessary forms, manual amendments, contracts, and other documents to carry out such vote.

2.8.7 **Changes to Operations Manual**

2.8.7.1 The NEC may by two-thirds (2/3) vote of its members present and voting, without approval by the District Councils, change wording in the Operations Manual concerning contracts, where it deems such change to offer greater protection, ease of operation, or profitability to the Franchisees so long as such change does not change the intent of the Council in establishing the Operations Manual.

ARTICLE IX AMENDMENTS

- 2.9.1 Anything herein to the contrary notwithstanding, no amendment to the Operations Manual or to the provisions of this Plan of Operation shall become effective until approved by the Franchisor and by two-thirds (2/3) of all District Council members voting who have approved it in accordance with Articles II (District Councils) and VIII (Procedures for Recommendations) hereof.

ARTICLE X SAVINGS CLAUSE

- 2.10.1 Nothing herein shall be deemed to alter or amend any provision in the Franchise Agreements between the Franchisor and the Franchisees, and in the event of a conflict between any such provisions and the provision of this Plan of Operation, the Franchise Agreements shall govern.

ARTICLE XI EFFECTIVE DATE

- 2.11.1 This Plan of Operation shall become effective upon approval by two-thirds (2/3) majority vote of those member representatives of franchises present and voting at the February 1986 meeting of the Paul Davis Restoration Council and shall become Booklet Two of the Operations Manual.

ARTICLE XII ARBITRATION - GENERAL

2.12.1 **Definitions**

2.12.1.1 As used in this part, the following terms shall have the meaning set opposite each:

- 2.12.1.1.1 (a) "**Alternate**" - The non-voting representative of a franchise elected to an Arbitration Committee.
- 2.12.1.1.2 (b) "**Appeals Board**" - The National Arbitration Board established by the President of the NEC in accordance with 2.13.3.2 (Organization of Arbitration Committees: Appeals Board) hereof to hear appeals from an Arbitration Committee or an Interdistrict Committee.
- 2.12.1.1.3 (c) "**Arbitration Committee**" - A District Arbitration Committee created in accordance with 2.13.2 (Organization of Arbitration Committees: Arbitration Committees) hereof.
- 2.12.1.1.4 (d) "**Arbitration Coordinator**" - The individual to whom the Franchisor has assigned the responsibility for performing the ministerial tasks of the arbitration process. This individual may be an employee of the Franchisor or an outside party.
- 2.12.1.1.5 (e) "**Arbitration Proceeding**" - Any hearing, action, appeal, or other proceeding initiated by a party and submitted to an Arbitration Committee, an Interdistrict Committee, or an Appeals Board in accordance with this part, for the purpose of resolving any claim or dispute by, between, and among parties.
- 2.12.1.1.6 (f) "**CSI**" - Completion Services, Inc., a Florida corporation and the successors and assigns thereof. (See Booklet One, Article IV).
- 2.12.1.1.7 (g) "**Districts**" - Geographical areas in the United States or Canada in which operating Franchisees, located contiguous to one another, are grouped together by the Franchisor for administrative purposes.
- 2.12.1.1.8 (h) "**District Councils**" - The administrative body made up of all the franchises in a district in accordance with 2.1.2 (Creation: District Councils).
- 2.12.1.1.9 (i) "**Franchisee**" - Any person to whom a franchise has been granted by the Franchisor and who has entered into and executed a Franchise Agreement with the Franchisor.

- 2.12.1.1.10 (j) "**Franchisor**" - Paul Davis Restoration, Inc., a Florida corporation and the successor and assigns thereof.
- 2.12.1.1.11 (k) "**Franchise Advisor**" - The nonvoting representative designated by the Franchisor to sit on an Arbitration Committee, an Interdistrict Committee, or an Appeals Board.
- 2.12.1.1.12 (l) "**General Council**" - The General Council consisting of all Franchisees, created in accordance with 2.1.4 (Creation: General Council).
- 2.12.1.1.13 (m) "**Indemnified Party**" - A person who is indemnified under 2.12.4.1 (Arbitration - General: Hold Harmless) hereof.
- 2.12.1.1.14 (n) "**Interdistrict Committee**" - An Arbitration Committee set up in accordance with 2.13.3.1 (Organization of Arbitration Committees: National Committees: Interdistrict Committee) hereof to hear and determine claims or disputes between Franchisees who are located in different districts.
- 2.12.1.1.15 (o) "**Legal Costs**" - The costs, fees, and expenses more particularly described in 2.12.4 (Arbitration - General: Hold Harmless) hereof.
- 2.12.1.1.16 (p) "**Master Franchisor**" - A Franchisor licensed to franchise Paul Davis Restoration franchises in specific geographic areas.
- 2.12.1.1.17 (q) "**Member**" - A voting representative of a franchise elected to an Arbitration Committee who is authorized to hear, determine, and vote on any issues submitted to an Arbitration Committee.
- 2.12.1.1.17.1 "Member" shall also include a member of an Interdistrict Committee and the Appeals Board.
- 2.12.1.1.18 (r) "**National Executive Committee**" or "**NEC**" - The committee consisting of representatives from each district and a representative of the Franchisor created in accordance with 2.1.3 (Creation: National Executive Committee).
- 2.12.1.1.19 (s) "**PDR Franchise System**" - The insurance restoration system developed by the Franchisor and all support services, organizations, and persons comprising the same, including without limitation, all persons qualifying as "party" under 2.12.1.1.20 ("Party").
- 2.12.1.1.20 (t) "**Party**" - Any person who initiates or against whom is initiated an arbitration proceeding.

- 2.12.1.1.20.1 The class of persons who, for purposes hereof, are included within the term "party" are Franchisees, prospective Franchisees, former Franchisees, the Franchisor, and Master Franchisors.
- 2.12.1.1.21 (u) "**Person**" - A natural person or a firm, association, partnership, corporation, trust, joint venture, or other entity, including, without limitation, a Franchisee, a party, a prospective Franchisee, former Franchisees, the Franchisor, and any and all of the foregoing who make up or comprise the PDR Franchise System.
- 2.12.1.1.22 (v) "**Prospective Franchisee**" - A person who has received disclosure material issued by the Franchisor and proposed to become a Franchisee by the execution of a Franchise Agreement.
- 2.12.1.1.23 (w) "**Representative**" - The person designated by a Franchisee, the Franchisor, CSI, a prospective Franchisee, or any other person, comprising the PDR Franchise System to speak for and on behalf of that party in connection with any arbitration proceeding and any matter related directly or indirectly thereto.

2.12.2 **Resolution of Disputes and Claims**

- 2.12.2.1 Any and all disputes or claims between two or more persons involving the application, interpretation, or meaning of or the rights, duties, obligations, or privileges of any person under any receipt, Franchise Agreement, Operations Manual, contract, agreement, certificate, bond, or other instrument growing out of the operation of the PDR Franchise System or entered into between any two or more persons, whether involving a claim or dispute in tort, in contract, or otherwise, including, without limitation, any claim or dispute arising out of the operation of a franchise shall be settled by arbitration in accordance with the provisions of Article XII (Arbitration - General) and XIII (Organization of Arbitration Committees) hereof.
- 2.12.2.2 The provisions of Article XII (Arbitration – General) and Article XIII (Organization of Arbitration Committees) shall be governed by the Federal Arbitration Act, 9 U.S.C section 1, et. seq.
- 2.12.2.3 Arbitration procedures not covered in Booklet Two of this Operations Manual shall be as set forth in the American Arbitration Association Commercial Arbitration Rules.
- 2.12.2.4 Before filing a request for arbitration, the party seeking dispute resolution shall confer with the opposing party or parties in good faith to resolve the disputed issues.

2.12.2.5 In the event the parties are not able to resolve the issues, the party requesting arbitration shall include in the Statement of Claim a statement certifying that he or she has conferred with the opposing party or parties in and they have been unable to reach an agreement.

2.12.3 **Binding Nature of Arbitration**

2.12.3.1 The adoption of these Articles XII and XIII or the execution and delivery of a Franchise Agreement by the Franchisor and a prospective Franchisee at any time after such adoption or the written consent to these Articles XII (Arbitration - General) and XIII (Organization of Arbitration Committees) by a Franchisee or the participation by a party in an arbitration proceeding or the assent to these Articles XII (Arbitration -General) and XIII (Organization of Arbitration Committees), however expressed, by any Franchisee shall be deemed the agreement of each Franchisee, party, or other persons comprising the PDR Franchise System subject to the following:

- 2.12.3.1.1 (a) Arbitration in accordance with these Articles XII (Arbitration - General) and XIII (Organization of Arbitration Committees) shall be the sole and exclusive method of settling and resolving any and all disputes or claims arising between any persons in the PDR Franchise System.
- 2.12.3.1.2 (b) No action, suit, proceeding, or other claim of any nature involving any matter, whether in tort, contract, or otherwise, shall be brought by any person in any court or administrative agency having jurisdiction over any matter covered hereby.
- 2.12.3.1.3 (c) Any decision, ruling, or finding by an Arbitration Committee, an Interdistrict Committee, an Interdistrict Committee, or the Appeals Board shall be final and binding on the parties thereto, subject to, in case of any decision, ruling, or finding by an Arbitration Committee or an Interdistrict Committee, any appeal rights set forth in 2.13.3.2 (Organization of Arbitration Committees: National Committees: Appeals Board) hereof.
- 2.12.3.1.4 (d) Any decision or ruling, by an Arbitration Committee, Interdistrict Committee, or the Appeals Board shall be final, may be entered in any court having jurisdiction thereof, and shall be appealable in accordance with the laws of that jurisdiction.

2.12.4 **Hold Harmless**

- 2.12.4.1 (a) Each Franchisee and each party to an arbitration proceeding and all other persons affected by an arbitration proceeding shall be deemed to have released each member, alternate, and the Franchisor Advisor of each Arbitration Committee, Interdistrict Committee, Appeals Board and Special Arbitration Board; each member and officer of the NEC and the

Compliance and Procedures Committee; Completion Services, Inc. ("CSI"), and each of its officers and directors; and the Arbitration Coordinator (each of the foregoing members, alternates, officers, directors, Franchisor Advisors, and Arbitration Coordinators are hereafter referred to as an "Indemnified Party"); and the estate, personal representative, successors, legatees, and devisees of any Indemnified Party, of and from any liability of any nature for and on account of any decision, ruling, or finding rendered by an Indemnified Party or any act or things performed or omitted by an Indemnified Party, if done or omitted in good faith and for a purpose which the Indemnified Party believed to be in the best interest of the Paul Davis Restoration Franchise System.

- 2.12.4.1.1 CSI shall indemnify and hold harmless each Indemnified Party against all judgments, including interest, fines, amounts paid, or agreed upon in settlement, reasonable costs, and expenses, including attorneys fees and any other liability, cost, fee, or expense that may be paid or incurred by an Indemnified Party as a result of any claim, action, suit, or proceeding, whether civil, criminal, administrative, or otherwise, prosecuted or threatened to be prosecuted (collectively, the "Legal Costs").
- 2.12.4.2 (b) Such indemnification shall not depend upon whether or not the Indemnified Party is a member, alternate, officer, director, Franchisor Advisor, or Arbitration Coordinator at the time of such claim, action, suit, or proceeding is begun, prosecuted, or threatened, nor on whether or not the liability to be indemnified was incurred or the act or omission occurred prior to the adoption of these Articles XII (Arbitration - General) and XIII (Organization of Arbitration Committees).
- 2.12.4.3 (c) In addition to, and not in derogation of any rights to indemnification hereunder, CSI shall be fully authorized to advance legal costs to every Indemnified Party at such times, in such amounts, and in such manner as CSI, in its discretion, shall determine, provided however, that legal costs shall not be advanced if CSI determines that the facts then known to it preclude the Indemnified Party from indemnification under these Articles XII (Arbitration - General) and XIII (Organization of Arbitration Committees).

2.12.5 **Effective Date**

2.12.5.1 Articles XII (Arbitration - General) and XIII (Organization of Arbitration Committees) shall become effective upon the last to occur of the following:

- 2.12.5.1.1 (a) Approval, in accordance with the procedures set forth in Booklet Two, by the NEC and the General Council.
- 2.12.5.1.2 (b) Approval by the Board of Directors of CSI.

- 2.12.5.1.3 (c) Approval by the Board of Directors of the Franchisor.

2.12.6 **Time Limitation**

2.12.6.1 Any dispute or claim which is subject to arbitration hereunder shall be filed with the Arbitration Committee as follows:

- 2.12.6.1.1 (a) If the law of the state of the party filing the claim so allows, then within two (2) years of the date of the occurrence or event giving rise to the dispute or claim.
- 2.12.6.1.2 (b) If the law of the state of the party filing the claim prohibits a contractual limitation on the statute of limitations for actions, then within a reasonable time of the occurrence or event giving rise to the dispute or claim and in no event later than the last day allowed under the applicable statute of limitations of the state of the filing party.

2.12.7 **Amendment**

2.12.7.1 Articles XII (Arbitration - General) and XIII (Organization of Arbitration Committees) or any part of them may be altered, amended, modified, or canceled upon approval of the alteration, amendment, or modification by the persons specified in 2.12.5 (Arbitration - General: Effective Date) hereof.

2.12.7.2 By the adoption of Articles XII (Arbitration - General) and XIII (Organization of Arbitration Committees), all arbitration proceedings hereafter instituted will be conducted in accordance with Articles XII and XIII.

2.12.8 **Library of Arbitration Rulings**

2.12.8.1 All records of and rulings for all arbitration claims shall become a part of and serve as non-binding historical precedents for the benefit of all District Arbitration Committees, the Interdistrict Arbitration and Appeals Committee, the Franchisor, and the franchisees. Such data and findings shall be perpetually archived and available for use of each duly elected Arbitration Committee. A quarterly report shall be issued by the Franchisor, providing a listing of complaint findings as follows:

- | | |
|------------------------------|-------------------------------|
| (1) District # | (4) Party defending complaint |
| (2) Party bringing complaint | (5) Finding of committee |
| (3) Nature of complaint | |

2.12.8.2 Records and rulings shall be made available to a District Arbitration Committee and the Interdistrict Arbitration and Appeals committee upon request. Records

and rulings shall also be available to individual franchisees if the request comes from the majority owner of the requesting franchise.

- 2.12.8.3 The library will be maintained by the Franchisor and funded by (1) a \$50.00 filing fee payable by the party filing a complaint and (2) by \$25.00 request fee from the franchise requesting the finding. There shall be no charge to an Arbitration Committee.

ARTICLE XIII

ORGANIZATION OF ARBITRATION COMMITTEES

2.13.1 Structure

2.13.1.1 The arbitration committees of the PDR Franchise System shall consist of a District Arbitration Committee for each district (the "Arbitration Committee"), an Interdistrict Arbitration Committee (the "Interdistrict Committee"), and a National Appeals Board (the "Appeals Board"), each of which shall have the powers, duties, obligations, and privileges set forth in this Article.

2.13.1.2 Each district shall establish an Arbitration Committee.

2.13.1.3 Arbitration claims shall be assigned, in the order received, to Arbitration Committees on a rotational basis using District number sequence (i.e. the first claim received is assigned to District 1, the second claim to District 2, and so on), except in cases where the claim involves Franchisees in different districts and such assignment would result in the arbitration being heard by either Franchisee's own District, then the claim shall be assigned to an Interdistrict Committee. In order to implement this provision, the first claim received following adoption of this assignment system shall be assigned to District 1.

2.13.1.4 Where the claim or dispute involves Franchisees in different districts, the Interdistrict Committee shall be created in accordance with 2.13.3.1 (Organization of Arbitration Committees: National Committees: Interdistrict Committee) hereof.

2.13.1.5 The General Council President shall establish Appeals Boards.

2.13.1.6 The District Committees shall be permanent standing committees and Appeals Boards shall be ad hoc committees.

2.13.1.7 Interdistrict Committees shall be temporary, ad hoc committees, created solely for the purpose of hearing an Interdistrict claim or dispute.

2.13.2 Arbitration Committees

2.13.2.1 (a) Composition

2.13.2.1.1 Each Arbitration Committee shall consist of three (3) members and one (1) alternate.

2.13.2.1.2 Each member shall serve for a three (3) year term and the expiration of each such term shall be staggered over a three (3) year period so that only one (1) member's term shall expire each year.

- 2.13.2.1.3 The member with the greatest seniority on the Arbitration Committee shall be the chair.
- 2.13.2.1.4 The vacancy created by the expiration of a member's term shall be filled by the alternate.
- 2.13.2.1.5 A Franchisor advisor shall serve as a nonvoting member of each Arbitration Committee during the committee deliberation, except in any case where the Franchisor is a party to the arbitration.
- 2.13.2.1.6 Franchisor advisor shall not be present during any voting by the Arbitration Committee.
- 2.13.2.1.7 No single franchise shall have more than one (1) member on an Arbitration Committee.
- 2.13.2.1.8 Seniority on an Arbitration Committee shall be based on the date of election to an Arbitration Committee.
- 2.13.2.1.9 On the initial creation of an Arbitration Committee, seniority shall be based on the date of execution of a Franchise Agreement between the Franchisor and the franchise with which the member is affiliated.
- 2.13.2.2 (b) **Election**
- 2.13.2.2.1 Three (3) members and one (1) alternate shall be elected initially to an Arbitration Committee by each district at the fall district meeting in which an Arbitration Committee is created.
- 2.13.2.2.2 An alternate shall be elected at each fall district meeting thereafter.
- 2.13.2.2.3 All elections shall be by majority vote of the Franchisees in that district present and voting at the district fall meeting.
- 2.13.2.3 (c) **Vacancy**
- 2.13.2.3.1 (i) If a vacancy occurs on an Arbitration Committee, each member shall move up to the next senior position and the most junior position shall be filled by the alternate.
- 2.13.2.3.1.1 If the vacancy occurs because the claim or dispute to be heard involves the franchise with which the member is affiliated, the alternate shall sit in the stead of the disqualified member until that matter is finally settled.

- 2.13.2.3.1.1.1 The disqualified member shall not be prohibited from acting on any other matters not involving his franchise brought before the Arbitration Committee during his term of office.
- 2.13.2.3.2 (ii) Any vacancy occurring on an Arbitration Committee, including any vacancy resulting from the promotion of an alternate to a member, may be filled between biannual meetings of the district, by affirmative vote of a majority of the Franchisees in the district conducted by means of a telephone, mail, or email poll by the President of the District Council and confirmed in writing, by the President, to the Franchisor.
- 2.13.2.3.3 (iii) Election or appointment to fill a vacant office or position shall not count in the calculation of the time limit for service in that particular office or position.
- 2.13.2.4 (d) **Disqualification**
- 2.13.2.4.1 (i) A member shall be disqualified to hear and determine any claim or dispute if:
- 2.13.2.4.1.1 (A) The member has an interest as a shareholder, officer, director, or employee, in the franchise involved in such claim or dispute.
- 2.13.2.4.1.2 (B) The member reasonably believes he or she will be unable to render an objective and impartial decision or has discussed the matter before the Arbitration Committee with anyone, including any party, other than another Arbitration Committee member or the Franchisor advisor to the Arbitration Committee.
- 2.13.2.4.1.3 (C) The member is related by blood or marriage to a party to an arbitration proceeding.
- 2.13.2.4.1.4 (D) The franchise that the member represents is not in full compliance with all mandatory operational requirements at the time of the presentation of the arbitration file for a particular arbitration proceeding.
- 2.13.2.4.1.5 (E) The member is excused according to the following procedure:
- 2.13.2.4.1.5.1 (1) Any party to an arbitration may, within fifteen (15) days of receipt of notice of the identity of the

arbitration panel members, excuse any member without cause.

2.13.2.4.1.5.2

- (2) When such an excuse is timely made, the Arbitration Coordinator must notify the current NEC President who, within five (5) business days of notification, shall appoint any other qualified Franchisee from any district to serve on the panel.

2.13.2.4.1.5.3

- (3) Within five (5) business days after the NEC President has made his/her appointment, either party to a proceeding may challenge a member for good cause, which decision shall be determined by the Compliance and Procedures Committee of the NEC.

2.13.2.4.2

- (ii) A member shall be permanently disqualified if:

2.13.2.4.2.1

- (A) He/she ceases to be affiliated as a shareholder, officer, director, or employee of a franchise, or he/she ceases to serve as its District Council representative.

2.13.2.4.2.2

- (B) The Franchisee with which he is affiliated ceases to be the holder of a franchise.

2.13.2.4.2.3

- (C) The franchise that the member represents is not in full compliance with all mandatory operational requirements at the time of the presentation of the arbitration file for a particular arbitration proceeding.

2.13.2.4.2.4

- (D) The Arbitration Committee of the district to which he belongs determines that he is guilty of a dishonest act or of bringing ill repute on the PDR Franchise System.

2.13.2.5

- (e) **Conduct of Arbitration Proceedings**

2.13.2.5.1

- (i) An arbitration proceeding shall be commenced by filing with the Franchisor, who shall forward to the Arbitration Coordinator, a \$50 filing fee, a written Statement of Claim setting out the relevant facts and the remedies sought, and an arbitration expense deposit payable to CSI. The Statement of Claim shall include a remark certifying all parties to the arbitration conferred in a good faith effort to resolve the dispute but could not reach an agreement. No party nor potential party to arbitration shall knowingly discuss any aspect of the arbitration or potential arbitration with any member of an Arbitration Committee. The arbitration expense deposit shall

be \$2,500 for all arbitrations other than requests for Voluntary Closure and \$1,250 for arbitrations in which Voluntary Closure is the sole relief requested, of which \$250 shall be retained by CSI as a nonrefundable fee for its administrative expense. The deposit (net of the \$250 administrative fee) shall be used by CSI to pay arbitration expenses as incurred; with final responsibility for arbitration expenses determined by the Arbitration Committee as provided in this Article. When the deposit is 75% expended, CSI may notify the Arbitration Committee Chair and the Chair shall determine whether to require an additional deposit and whether to suspend the arbitration pending receipt of the additional deposit.

- 2.13.2.5.1.1 All arbitration submissions (including Statements of Claim and Answers) exceeding twenty five pages, or which are tabbed, bound, oversized, or in color, shall be submitted in sufficient copies to provide a copy for the other party, the arbitration file, and each of the Arbitration Committee or Appeal Board Members.
- 2.13.2.5.1.2 Copies of all relevant documents relating to the claim shall be attached to the statement.
- 2.13.2.5.1.3 The Arbitration Coordinator shall make a cursory review of the Statement of Claim and if it appears incomplete (due to missing pages, exhibits and the like), then the Arbitration Coordinator shall return it to the complaining party with appropriate explanation. This review is not a substantive review.
- 2.13.2.5.1.4 A copy of the final statement of claims shall be sent by the Arbitration Coordinator to the other party within fifteen (15) days of receipt or, if corrected, within fifteen (15) days of receipt of corrected statement of claim. At the same time, the Arbitration Coordinator shall notify both parties of the assigned arbitration panel, identifying the names of the Arbitrators and the name and location of each Arbitrator's franchise, and the parties shall have fifteen (15) days from receipt of such notice to excuse any Arbitrators pursuant to 2.13.2.4.1.5.1.
- 2.13.2.5.1.5 The other party shall file an Answer, and may file a Counterclaim, within fifteen (15) days of receipt of the Statement of Claim. If the Answer or Counterclaim contains a request for any relief other than the denial of the relief requested in the Statement of Claim, then an expense deposit shall be required as set forth in 2.13.2.5.1.
- 2.13.2.5.1.6 An arbitration proceeding shall be held on or before thirty (30) days after receipt of such answer, if reasonable practical, but such time period may be extended by the Arbitration Committee.

- 2.13.2.5.1.6.1 The date, time, and place of an arbitration proceeding shall be determined by a majority of the Arbitration Committee, and notice specifying such date, time, and place shall be sent to all parties at least fifteen (15) days before the scheduled hearing date, unless waived by them in writing.
- 2.13.2.5.1.6.2 It shall be the responsibility of the Arbitration Coordinator to poll the parties to determine an acceptable date and place to hold the arbitration proceedings.
- 2.13.2.5.2 (ii) The chairman shall preside at all arbitration proceedings and shall have full power to make all evidentiary and procedural rulings and control and direct the conduct of all such arbitration proceedings.
- 2.13.2.5.3 (iii) The Arbitration Committee shall have authority to establish appropriate rules and regulations to govern all arbitration proceedings.
- 2.13.2.5.3.1 Parties to arbitration hearings may be represented in person or by counsel of their choice.
- 2.13.2.5.4 (iv) Unless otherwise agreed by the parties, the Arbitration Committee shall consider only the issue before it as set forth in the Statement of Claim and Answer and shall not rule on or suggest that the parties arbitrate issues or other ancillary matters not before it.
- 2.13.2.5.5 (v) All documents and instruments involved in an arbitration proceeding shall be considered as honorable engagements entered into in good faith, rather than merely legal obligations, provided however, that the Operations Manual, the standard contracts used in the PDR Franchise System, and the standard Franchise Agreement shall have precedence over all other documents and shall be interpreted in such manner as shall further the reputation, integrity, and good standing of the PDR Franchise System.
- 2.13.2.5.5.1 No materials concerning an arbitration proceeding shall be sent to any member of the Arbitration Committee until all expected material is in hand, at which time the Arbitration Coordinator shall forward complete packages of all materials to each active Arbitration Committee Member and the parties to the arbitration.
- 2.13.2.5.5.2 Upon receipt of a request for arbitration, the chairman of the Arbitration Committee to which a request for arbitration is directed may, at the chairman's option:

- 2.13.2.5.5.2.1 (A) Conduct a telephone conference call among the committee members in which they reach a unanimous decision concerning the issue or agree to hear or not to hear the issue at a final meeting. The parties to arbitration shall be included when the hearing is conducted. If the committee reaches a decision with which either party disagrees or decides not to hear the issue, the parties shall be notified by telephone or email and in writing and shall have the right to demand the arbitration hearing be held. This right must be executed within 10 days of written notification of the Arbitration Committee's decision, unless the facts of the case, as perceived by the Arbitration Committee have changed.
- 2.13.2.5.5.2.1.1 The telephone conference is not to be interpreted as a replacement of the formal hearing, but is meant as an option to be used to reach agreement, if possible, thereby saving the expense of a formal hearing. The timely request by either party to have the formal hearing shall not change the original structure of the arbitration as to the identity of the party who first requested the arbitration.
- 2.13.2.5.5.2.1.2 No formal written notice is required for the telephone conference provided the full Arbitration Committee and all parties to the arbitration participate.
- 2.13.2.5.5.2.2 (B) Set a hearing date.
- 2.13.2.5.5.2.3 (C) Determine the anticipated cost of arbitration and require a deposit, to cover such expenses, from the person filing for arbitration, prior to setting the date for arbitration, the person of whom a deposit is required having ten (10) calendar days from notification of the committee's decision to make the deposit.
- 2.13.2.5.6 (vi) In the conduct of arbitration proceedings, the Arbitration Committee shall be relieved of all judicial formalities, including rules of evidence and may abstain from following the strict rule of law as to such judicial formalities.
- 2.13.2.5.6.1 Fairness and consideration shall be observed in all arbitration proceedings so that each party shall have an opportunity to be heard and to present his view. The chairman shall first examine his ability to act in total fairness and, after having made a positive determination, shall then question each member of the Arbitration Committee to assure their fairness. If a member is biased against

either party or the issue before the Arbitration Committee, that member shall be excused from acting as a committee member to the arbitration.

2.13.2.5.7 (vii) The Arbitration Committee or its representative has the right to inspect all records and books of the franchise, including access to the premises of the Franchisee involved in arbitration. No Franchisee is allowed access to the premises of another Franchisee without his permission.

2.13.2.5.7.1 Each party shall make available at the arbitration proceeding, all employees, agents, representatives, subcontractors, tradesmen, or other persons having any knowledge of the subject matter of the arbitration proceeding.

2.13.2.5.7.2 Such persons shall not be required to travel more than fifty (50) miles to participate in an arbitration proceeding and the Arbitration Committee may interview such persons by telephone if the hearing is not within this distance.

2.13.2.5.7.3 The party that seeks the testimony of these persons is responsible for all expenses incurred by that person, but the Arbitration Committee shall have the discretion to charge these costs to the unsuccessful party.

2.13.2.5.7.4 No party shall be penalized if circumstances prevent production of such persons, beyond the loss of evidence that could have been presented through said testimony.

2.13.2.5.8 (viii) The decision of a majority of the Arbitration Committee shall be final and binding on the parties, and a judgment upon the award rendered by the Arbitration Committee may be entered in any court having jurisdiction thereof and subject to appeal as set forth in 2.12.3.1.4.

2.13.2.5.8.1 All such decisions shall be in writing, prepared and signed by the chairman and shall be rendered on or before thirty (30) days after the conclusion of an arbitration proceeding.

2.13.2.5.8.2 If, however, the decision affects the rights of insurers or property owners, the general counsel of CSI shall prepare an opinion reflecting the views of a majority of the Arbitration Committee.

2.13.2.5.9 (ix) Copies of decisions of the Arbitration Committee shall be distributed by the Arbitration Coordinator to each party to the

proceeding: the members of the NEC, CSI, the Franchisor, each member, and the alternate committee member.

2.13.2.5.9.1 If the decision affects CSI's Guarantee Fund or a Franchisee, only that portion of the decision requiring restitution from the Guarantee Fund or protecting the reputation, integrity, and good standing of the PDR Franchise System shall be made available to the persons other than those set forth in the previous sentence.

2.13.2.5.9.2 Any payments from the Guarantee Fund mandated by a decision shall be made upon requisition by the chairman of the Arbitration Committee or a representative of the Franchisor.

2.13.2.6 (f) **Expenses**

2.13.2.6.1 (i) All actual expenses incurred by each arbitration committee member, the alternate, the Arbitration Coordinator, the Franchisor, and the Franchisor advisor in connection with an arbitration proceeding shall be advanced by CSI, provided, however, that such reimbursable expenses shall not include expenses incurred by the Franchisor as a party to the arbitration. In the case of in-person arbitration or appeal hearings, each arbitration committee member shall be paid a fee of \$400 per day, in addition to actual expenses.

2.13.2.6.1.1 When requesting payment of expenses from CSI, the chairman of the Arbitration Committee shall submit an itemized invoice, with documentation reasonably acceptable to the Executive Finance Committee of CSI.

2.13.2.6.2 (ii) CSI shall be repaid for expenses advanced by it in such manner and subject to such terms and conditions and by such party as a majority of the Arbitration Committee shall determine. In making such decision, the Arbitration Committee shall be guided by the following:

2.13.2.6.2.1 (A) If the claim or dispute is brought against a Franchisee by a person not affiliated with a Franchisee or with the PDR Franchise System, the Franchisee involved in the arbitration proceeding shall pay such expenses.

2.13.2.6.2.2 (B) If the claim or dispute is among Franchisees or between a Franchisee and the Franchisor, the expenses shall be paid by the losing party or, if neither party is the losing party, then against the party initiating the arbitration proceeding.

- 2.13.2.6.2.3 (C) In determining who shall pay the expenses of an appeal of implementation of penalties or cancellation of a franchise due to failure to meet mandatory operating requirements, the following shall govern:
- 2.13.2.6.2.3.1 (1) If the Franchisor has implemented such penalties on cancellation in accordance with the requirements of the Paul Davis Restoration Operations Manual, then all costs shall be paid by the franchise.
- 2.13.2.6.2.3.2 (2) If the Franchisor is determined to have acted unfairly or has maliciously ignored the provisions of the Paul Davis Restoration Operations Manual, all expenses shall be paid by the Franchisor.
- 2.13.2.6.3 (iii) In the case of an arbitration or appeal which is withdrawn, settled, or otherwise does not result in a final decision, or in the case of any decision which does not specify responsibility for arbitration expenses, the party initiating the arbitration or appeal shall be responsible for arbitration expenses, provided, however, that the parties may agree to an allocation of arbitration expenses and submit such agreement in writing to CSI.
- 2.13.2.7 (g) **Special Provisions**
- 2.13.2.7.1 (I) If any provision of Article XII (Arbitration – General) and Article XIII (Organization of Arbitration Committees) of Booklet Two shall be held invalid for any reason whatsoever or in violation of any law of the United States of America, the District of Columbia, or any state, Article XII and Article XIII shall be considered divisible as to such provision; such provision shall be deemed deleted from Article XII and Article XIII, and the remainder of Article XII and Article XIII shall be valid and binding. In the event the composition of the arbitration committee shall be held to be biased or otherwise invalid, three commercial arbitrators shall be selected as follows: Each party shall select an arbitrator and the two of them shall select a third. Unless prohibited by applicable state law, the rules set forth in Article XII and Article XIII shall govern all arbitrations by commercial arbitrators (except with respect to the selection and removal of arbitration committee members). If such selection methodology shall be ruled to be invalid under applicable state law, any controversy or claim shall be settled by arbitration in accordance with the Commercial rules of the American Arbitration Association (“AAA”) utilizing AAA arbitrators.

2.13.3 **National Committees**

2.13.3.1 (a) **Interdistrict Committee**

2.13.3.1.1 (i) If a claim or dispute involves franchises from two districts, then the chairmen of the Arbitration Committees in each such district shall serve as members of an Interdistrict Committee along with a chairman for said committee chosen by the President of the council from a neutral district.

2.13.3.1.1.1 A Franchisor Advisor shall also serve as a nonvoting member thereof, except in any case where the Franchisor is a party to the arbitration.

2.13.3.1.2 (ii) All arbitration proceedings before an Interdistrict Committee shall be governed by the provisions of 2.13.2.4, 2.13.2.5 and 2.13.2.6, thereof.

2.13.3.2 (b) **Appeals Board**

2.13.3.2.1 (i) The President of the NEC is authorized to create an Appeals Board, consisting of the chairman of five (5) Arbitration Committees, to hear and determine appeals from the decision of an Arbitration Committee or an Interdistrict Committee. If insufficient Arbitration Committee Chairmen are willing or able to serve, the President may select any Arbitration Committee member to participate on the Appeals Board.

2.13.3.2.1.1 The President shall designate one of such members as chairman of the Appeals Board.

2.13.3.2.1.2 No Arbitration Committee chairman shall serve on an Appeals Board to consider an appeal from a decision of an Arbitration Committee or an Interdistrict Committee wherein he acted as a member or chairman during such decision.

2.13.3.2.1.3 A Franchisor advisor shall also serve as a nonvoting member thereof, except in any case where the Franchisor is a party to the arbitration.

2.13.3.2.1.4 The Appeals Board shall have authority to overrule, confirm, modify, or amend a decision of an Arbitration Committee or an Interdistrict Committee or increase or decrease any sums awarded in connection therewith.

2.13.3.2.2 (ii) An appeal of an Arbitration Committee or an Interdistrict Committee arbitration decision shall be commenced by filing with the Arbitration Coordinator, within twenty (20) calendar days of the receipt of the arbitration decision by the appealing party: (a) a written Notice of Appeal, of not more than five (5) pages, setting forth the basis of the appeal, (b) an additional arbitration expense deposit of \$1,000, and (c) payment of any arbitration expenses assessed against the appealing party by the Arbitration Committee or Interdistrict Committee. Within fifteen (15) days of receipt of the Notice of Appeal, the other party may file a Response to Notice of Appeal of not more than five (5) pages. The Arbitration Coordinator shall forward the Notice of Appeal, the Response to Notice of Appeal, and all written matters considered by the Arbitration Committee to the Appeal Board, who, within twenty (20) days, and without further participation by the parties, shall rule either: (a) to conduct an appeal hearing, or (b) to deny the appeal, in which case the arbitration decision shall be final and binding. If the Appeal Board rules to conduct an appeal hearing, then the Appeal Board chair shall determine the amount of the additional expense deposit required from the appealing party and the appealing party shall submit such deposit within ten (10) days. Failure to submit any additional expense deposit so required shall result in the denial of the appeal and the arbitration decision shall be final and binding.

2.13.3.2.2.1 The Appeals Board may review all written matters considered by the Arbitration Committee or the Interdistrict Committee and shall base its decision on the record before the Arbitration Committee or the Interdistrict Committee and on arguments presented to it orally or in writing by the parties to the appeal.

2.13.3.2.2.2 The provisions of 2.13.2.4, 2.13.2.5.2 through 2.13.2.5.8 and of 2.13.2.6 hereof shall govern such appeals.

2.13.3.3 (c) **Special Arbitration Board**

2.13.3.3.1 All Chairmen of the Arbitration Committees shall serve as a Special Arbitration Board.

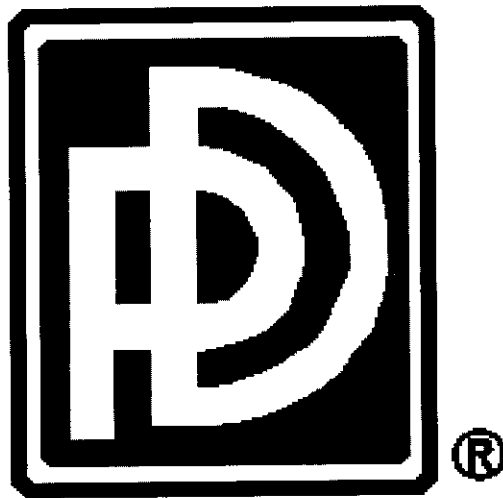
2.13.3.3.2 The President of the NEC shall appoint one District Arbitration Committee Chairman to serve as Chairman of the Special Arbitration Board.

2.13.3.3.3 The Special Arbitration Board shall hear all issues concerning the Franchisor, a franchisee, a group of franchisees, or any other party

subject to PDR arbitration, which will affect a multi-district segment of the PDR organization.

- 2.13.3.3.4 Any franchisee, group of franchisees, or the Franchisor may request arbitration by the Special Arbitration Board on any issue wherein a multi-district segment of the PDR organization could be affected by the outcome.
- 2.13.3.3.4.1 For a Special Arbitration to proceed, a majority of the members of the Special Arbitration Board shall agree the issue will affect a multi-district segment of the PDR organization.
- 2.13.3.3.5 Filing of a request for arbitration by the Special Arbitration Board will be according to 2.13.2.5.
- 2.13.3.3.6 In all Special Arbitration Board arbitration proceedings, the NEC shall serve as the representative of the PDR franchise organization.
- 2.13.3.3.7 A Franchisor representative shall serve as a nonvoting member of the Special Arbitration Board and may not be excused, except in any case where the Franchisor is a party to the arbitration.
- 2.13.3.3.8 The decision of the Special Arbitration Board shall be binding on all parties.
- 2.13.3.3.8.1 Appeals to any decision of the Special Arbitration Board will be heard by the American Arbitration Association (AAA).
- 2.13.3.3.9 Any party to Special Arbitration shall have the right to excuse, without cause, any member of the Special Arbitration Board as it exists at the time a request for Special Arbitration is filed.
- 2.13.3.3.9.1 Any excused member of the standing Special Arbitration Board will be replaced by a three-fourths majority vote of the Special Arbitration Board members.
- 2.13.3.3.9.2 Any Special Arbitration Board replacement member selected may be excused by either party for due cause, if a majority of the other members of the Special Arbitration Board determine the moving party has established such due cause.

PAUL DAVIS RESTORATION OPERATIONS MANUAL



BOOKLET THREE COVENANTS AND AGREEMENTS

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Revised November 2005

BOOKLET THREE TABLE OF CONTENTS

ARTICLE I	MUTUAL COVENANTS	1
	A. Background.....	1
	B. Covenants.....	1
	1. Franchise Territory	
	2. Franchisees Soliciting Outside of Their Franchise Territory	
	3. Franchisees Contracting Outside of Their Own Territories	
	4. Special Procedures for CATs	
	C. Trade Secrets	4
	1. Trade Secrets Defined	
	2. Right of Use of Trade Secrets	
	3. Covenant Not to Disclose	
	4. Covenant to Secure Materials	
	5. Changes to Trade Secrets	
	6. Covenant Not to Compete	
	D. Dispute Resolution	6
	E. Covenants to Share Contracts	7
ARTICLE II	STATEMENT OF PRINCIPLES	8
ARTICLE III	CATASTROPHE RESPONSE STRATEGY FOR LOCAL FRANCHISE OPERATORS	9
ARTICLE IV	THE PAUL DAVIS RESTORATION STRATEGY STATEMENT	10
	A. Focus	
	B. Purpose	
	C. Objective	
	D. Method	
	E. Resources	
	F. Business Plan	
ARTICLE V	MANDATORY REQUIREMENTS FOR PAUL DAVIS RESTORATION FRANCHISES	11
	A. Mandatory Operating Requirements	11
	1. Franchise Office	
	2. Franchise Insurance	
	3. Financial Reporting Requirements	
	4. Job Cost Accountant	
	5. Communication/Telephones	
	6. Contracts	
	7. Use of Tradename and Logo	
	8. Servicing Franchise Territory	
	9. PDR Software	
	10. Performance of Work	
	11. Payments of Sums Due to Franchisor	

- 12. Franchise General Manager
- 13. Required Certifications
- 14. Third-Party Customer Satisfaction/Quality Survey
- 15. Vehicles
- 16. Applied Structural Drying (ASD) Minimum Standards
- B. Penalties for Failure to Comply.....16
 - 1. Monetary Penalties
 - 2. Network Participation Penalties
 - 3. Franchise Termination
 - 4. Penalties Nonexclusive; No Release of Obligation
- C. Procedure for Implementation of Penalties17
 - 1. Monetary and Network Participation Penalties
 - 2. Franchise Terminations

- ARTICLE VI PROCEDURE FOR INSTITUTING PENALTIES 18**
- ARTICLE VII COMPLIANCE AND PROCEDURES COMMITTEE20**
- ARTICLE VIII PROCEDURE FOR CLOSING A FRANCHISE BY FRANCHISE
OWNER24**
- ARTICLE IX OTHER CAUSES OF TERMINATION.....26**

ARTICLE I MUTUAL COVENANTS

3.1.1 A. **Background**

3.1.1.1 Under the terms of the Franchise Agreements between the Franchisor and the Franchisees, the Franchisor and each Franchisee have made certain commitments that are essential to the operation of the franchise network. These commitments include but are not limited to a covenant by the Franchisor to grant to the Franchisee an exclusive territory (the "Exclusive Territory"), which represents the geographic boundaries within which the Franchisee may do business undisturbed by other existing or potential Franchisees and a covenant by the Franchisee not to compete with the Franchisor or other Franchisees through the unauthorized use of information imparted during the course of dealing as a franchise. The National Executive Committee has determined that it is in the best interest of the franchise network to establish that these covenants bind the Franchisor as well as the Franchisees and each Franchisee as related to every other Franchisee.

3.1.2 B. **Franchise Territories and Cross Territory Procedures**

3.1.2.1 1. **Franchise Territory.** The Franchisor has granted to each Franchisee an exclusive Franchise Territory within which the Franchisee promises to operate the franchise. These Cross Territory procedures have been established to provide a fair and equitable method of servicing accounts and contracting jobs across established Franchise Territory lines. The goal of these procedures is to provide the most responsive service possible to the insurance industry while at the same time respecting each Franchisee's right to the economic benefits of their Franchise Territory.

3.1.2.2 2. **Franchisees Soliciting Outside of Their Franchise Territory.** Contacts for sales and marketing calls, including agents, adjusters, claim centers and other insurance company personnel or other business sources, may be located within the Franchise Territory of another Franchisee. Franchisees may make sales and marketing calls in any Franchise Territory for the purpose of soliciting business within their own Franchise Territory or in open territories. Although permission to make such calls is not required, good business practice and common courtesy suggest that joint marketing calls with the local Franchisee should be considered for economy and efficiency.

3.1.2.3 3. **Franchisees Contracting Outside of Their Own Territories**

3.1.2.3.1

a. Cross Territory Fees. Cross Territory fees shall be due on all services performed within the Franchise Territory of another Franchisee unless specifically exempted in subsection 3.d below. The Cross Territory fee for residential services is five percent (5%) of the total sale amount. "Residential services" are defined as services performed on a structure covered by a residential policy (regardless of whether such services are related to the residential policy). The Cross Territory fee for commercial services is two percent (2%) of the total sale amount. "Commercial services" are defined as services performed on a structure covered by a commercial policy (regardless of whether such services are related to the commercial policy). Cross Territory fees are due on the earlier of: (i) the day the first draw or payment is received, or (ii) forty five (45) days after the day the work is commenced.

3.1.2.3.2

b. Cross Territory Reporting. All estimates made or contracts signed by any Franchisee in the Franchise Territory of another Franchisee shall be reported within five (5) business days on a Cross Territory Form (located in Chapter 4 of the PDR Procedures Manual) to the Franchisee in whose Franchise Territory the services are to be provided.

3.1.2.3.3

c. Cross Territory Penalties. Failure to report Cross Territory infringements and / or pay Cross Territory fees shall result in the following penalties:

3.1.2.3.3.1

(1) The penalty for failure to report within five (5) business days shall be 5% of the gross sale.

3.1.2.3.3.2

(2) The penalty for failure to report within thirty (30) days of a sale (which shall be deemed to be intent to evade the Cross Territory fee) shall be (in addition to all other charges and penalties) 10% of the gross sale amount.

3.1.2.3.3.3

(3) The penalty for failure to pay Cross Territory fee when due shall be 1 and 1/2% per month of the amount due.

3.1.2.3.3.4

(4) In any case in which an Arbitration Committee shall determine that a franchise or its representative(s) have violated the intent of this section, a mandatory penalty of 35% of all jobs contracted through such violation shall be imposed. This penalty shall be in addition to all other penalties called for in this section.

3.1.2.3.3.5

(5) If any franchise shall be found to have intentionally violated the intent of this agreement at a second and separate

arbitration proceeding, the penalty, in addition to the above, shall be termination of the franchise.

3.1.2.3.3.6 (6) A Franchisee who is owed Cross Territory fees and penalties shall have a right of lien on any CSI deposit funds of the owing Franchisee, subject to all conditions of access to those funds stated on the reverse side of the CSI stock certificate.

3.1.2.3.3.7 (7) Any claim for Cross Territory fees or penalties must be brought within one year of the date a Franchisee has information that a violation has occurred.

3.1.2.3.4 **d. Exemptions from Cross Territory Fees.** The following situations are exempt from Cross Territory fees:

3.1.2.3.4.1 (1) Services done in any territory which is not part of a Franchise Territory.

3.1.2.3.4.2 (2) Services done in any territory where the Franchisee has not yet commenced operating, is under a Voluntary Closure, or has been terminated.

3.1.2.3.4.3 (3) Services completed in the territory of a Franchisee that has been officially removed from a Franchisor organized and/or coordinated program, from any third party network program and/or any other organized program for failure to perform, with such removal initiated by the company representative, the adjuster, agent or any other approved representative, and approved by the District Executive Committee, but only for services requested by the particular company representatives who have removed the Franchisee in whose territory the services are to be performed.

3.1.2.3.4.4 (4) In any case where a Franchisee has referred the request to the local Franchisee and the local Franchisee declines the request or is not available to respond to the request.

3.1.2.3.4.5 (5) In any case where individual franchises have agreed in writing to waive Cross Territory fees.

3.1.2.3.4.6 (6) Services done for a 3rd party network or insurer DRP in the territory of a Franchisee that has been removed from that 3rd party's network (such as Contractor Connection) or

that insurer's DRP for failure to meet that insurer's standards of performance. This exception shall not apply in any case where the Franchisee has elected to not participate in a network or has not been selected to be in the network.

3.1.2.3.4.7

(7) Effective July 1, 2005 (or 18 months after start-up for new franchises), drying jobs performed in compliance with the Applied Structural Drying ("ASD") MOR are exempt from cross-territory fees if done in the territory of a franchise that has failed to comply with the ASD minimum standards. To qualify for this exemption the Franchisor must have issued notice that the failing franchise has been assessed the monetary penalty for failing to comply with the ASD MOR. Reinstatement of the cross-territory fees would begin immediately after the offending franchise has approval from the C&PC that they are in compliance.

3.1.2.4

4. **Special Procedures for CATs.** A Franchisee may, with the permission of the local Franchisee, establish an office and conduct business in any Franchise Territory that is in an area declared a catastrophe area by the insurance industry. The insurance industry as used herein consists of those companies that insure residential and commercial property against loss caused by sudden and accidental events, and the industry standard for a catastrophe is an event identified with a CAT serial number by Property Claims Services (PCS), a division of American Insurance Services, Inc., wherein losses will exceed \$5 million and claims will exceed 1,000.

3.1.2.4.1

This right is subject to the prior approval of the District Executive Committee in whose area the catastrophe has been declared. Applicable fees must be paid to local Franchisees in whose Franchise Territory work is performed. Renewal of District Executive Committee approval must be obtained every six months. The District Executive Committee may require, at any time, that the visiting Franchisee cease accepting new contracts, complete all unfinished contracts, pay all bills, and withdraw from the territory.

3.1.2.4.2

The Franchisee establishing an office in another territory as a result of a catastrophe shall deposit 2% of all collections for services performed in said territory with CSI for a period ending two years after the completion of the final contract signed in said territory. The cost of warranty work on said territory shall be covered by the 2% fund so long as there is a positive balance. The cost of any warranty work not covered by the 2% fund shall be paid by the Franchisee contracting the work in said territory. Two

years after the completion of the final contract signed in said territory, the balance of the 2% fund shall be returned to the Franchisee.

3.1.3 C. **Trade Secrets**

3.1.3.1 1. **Trade Secrets Defined.** The Franchisor and each Franchisee possess certain secret and confidential information which relates to and is an essential part of an operating franchise, including, but not limited to, contract forms, job cost accounting techniques, customer lists, appraisal techniques, data contained in Franchisor's computer software, sales techniques as applied to the insurance industry, and sources of construction suppliers, methods, techniques, formulas, and data now existing or hereinafter developed or acquired relating to the operation of a franchise but not including information or techniques in the public domain and generally known and used by general contractors other than through disclosure by the Franchisor or a Franchisee. All of the foregoing are hereinafter referred to as the "Trade Secrets."

3.1.3.1.1 Trade Secrets shall be defined to include the Job Cost Accounting System but shall not be defined to include the Estimating System nor shall it include any subsequent revisions or modifications to such Estimating System.

3.1.3.2 2. **Right of Use of Trade Secrets.** The Franchisor is the sole owner of the Trade Secrets but has authorized the General Council to oversee the operation of the franchise network, including the use of Trade Secrets by the franchises and modification of any Trade Secret in the ordinary course of business or for the benefit of the franchise network and to make no use thereof which may reasonably be expected to cause harm to the franchise network, the Franchisor, or any Franchisee.

3.1.3.3 3. **Covenant Not to Disclose.** Each party acknowledges the value of the Trade Secrets to the franchise network and hereby covenants to:

3.1.3.3.1 (a) Use the Trade Secrets in strict accordance with the Procedures Manual and with directions given from time to time by the Franchisor.

3.1.3.3.2 (b) Not use the Trade Secrets in any other business or capacity during or after the term of this agreement.

- 3.1.3.3.3 (c) Maintain the absolute confidentiality of the Trade Secrets during and after the term of this agreement.
- 3.1.3.3.4 (d) Not duplicate, copy, or otherwise reproduce any written or software materials containing the Trade Secrets without prior authorization.
- 3.1.3.3.5 (e) Observe and implement those procedures established by the General Council and set forth in the Procedures Manual to control the use and disclosure of Trade Secrets by employees and Associates.
- 3.1.3.3.6 (f) Immediately notify Franchisor or the General Council in writing of any suspected or actual unauthorized use of the Trade Secrets by a third party.
- 3.1.3.3.7 Nothing contained in these covenants shall preclude the Franchisor from using the Estimating System in any other business or capacity whatsoever.
- 3.1.3.4 **4. Covenant to Secure Materials.** The Franchisor and Franchisee shall keep all Operations Manuals, Procedures Manuals, other written materials, and computer software containing the Trade Secrets in a secure location and shall maintain control over such materials at all times. Franchisee shall disclose the Trade Secrets to employees only to the extent required for such employees to perform their duties of employment. The Franchisor and each Franchisee agree that the Franchisee will require any employee or Associate who has access to the Trade Secrets to enter into an agreement that binds the employee or Associate to the covenants and restrictions set forth in this section.
- 3.1.3.5 **5. Changes to Trade Secrets.** The NEC retains the right to make additions, deletions, and revisions to the Trade Secrets. Such changes shall become binding upon the parties upon notification thereof, and each party agrees to take all steps necessary to implement such changes and to update all written materials evidencing such changes.
- 3.1.3.6 **6. Covenant Not to Compete.** Both the Franchisor and the Franchisee acknowledge that operation or ownership of a competitive business would threaten the security of the Trade Secrets and the success of the franchise network. The parties further acknowledge that, having received access to and use of the Trade Secrets, neither the Franchisor nor the Franchisee could operate a competitive business offering insurance restoration of homes or commercial

buildings or offering home improvements without making use of the Trade Secrets. The Franchisor and the Franchisee further covenant to abide by the non-competition terms set forth in the Franchise Agreement.

3.1.4 **D. Dispute Resolution**

3.1.4.1 The breach of any covenant contained in this Booklet Three shall be resolved pursuant to the arbitration provisions set forth in 2.7 and 2.8 of the Operations Manual.

3.1.5 **E. Covenants to Share Contracts**

The Franchisees agree to provide copies of all contracts containing non-competition and trade secrets clauses to the Franchisor. Copies of said contracts shall be made available to and collected by quality control inspectors on each visit to each franchise. The purpose of this provision is to provide security against theft.

ARTICLE II STATEMENT OF PRINCIPLES

- 3.2.1 We adhere to the truth, "There is Strength in Unity." Although we are proud of our individual ownership, we are equally proud of and dedicated to the concept of oneness as an organization.
- 3.2.2 We feel strongly that while the entire organization should care for each individual member, the well-being of the organization transcends that of any single member.
- 3.2.3 We recognize that, of all the parties in our marketplace, none is so important as the property insurance industry and its individual field claims personnel and management. We will conduct our business in such a way as to be an invaluable asset to them in their efforts to settle property losses. To accomplish this, we commit ourselves without reservation to the following pledge:
- 3.2.3.1 ■ **We will approach every task you assign us with absolute honesty and integrity.**
- 3.2.3.2 ■ **We will put your interest above all others including our own.**
- 3.2.3.3 ■ **Our purpose in preparing an appraisal will always be to arrive at the lowest equitable price the adjuster and property owner can use to settle the claim.**
- 3.2.3.4 ■ **We will never misrepresent the scope or cause of loss in order to obtain an authorization to make repairs.**
- 3.2.3.5 ■ **We will provide any service you need at no cost, having proved over the years that sales is a natural by-product of our service.**
- 3.2.3.6 ■ **We believe and practice the old Rotary motto: "He profits most who serves the best."**
- 3.2.4 We acknowledge the four requisites to fulfilling this pledge are:
- 3.2.4.1 1. Total honesty and integrity in all relationships.
- 3.2.4.2 2. Professionalism in every aspect of business.
- 3.2.4.3 3. Sound business management and accountability through adherence to the Paul Davis Restoration operational system.
- 3.2.4.4 4. Commitment to continuing industry-related education.
- 3.2.5 By making this "Statement of Principles" a part of our written council organizational structure, we signify our acceptance of and pledge our adherence to the principles contained herein.

ARTICLE III CATASTROPHE RESPONSE STRATEGY FOR LOCAL FRANCHISE OPERATORS

- 3.3.1 The PDR organization, being aware of the special needs of its insurer clients in catastrophe situations, pledges its efforts in such cases to:
- 3.3.1.1 1. Place the interest of those insurers who have a formal relationship with the PDR organization first in its priority list when the local insurer personnel are in agreement and have been consistently working with franchise operators in the catastrophe area.
 - 3.3.1.2 2. Dedicate our estimating efforts toward providing as many estimates as practical under the circumstances to all insurer personnel.
 - 3.3.1.2.1 If the insurer is willing to pay for appraisals, then local franchise operators will endeavor to bring in qualified, outside, insured (including E&O coverage) help to provide these appraisals.
 - 3.3.1.3 3. Dedicate our work force to providing "Emergency Services" to policy holders of our insurer clients on the following bases:
 - 3.3.1.3.1 a. When the insurer is willing to make payment directly to the contractor without withholding the deductible, the franchise operator will perform the emergency service at the insurer's request.
 - 3.3.1.3.2 b. When the insurer will not accept payment responsibility, the franchise operator will only perform the emergency services when paid in advance by the property owner.
 - 3.3.1.3.3 c. Having given its best efforts to meeting the service needs of its insurer clients, the PDR organization local franchise operators will turn their attention to sales.
- 3.3.2 Nothing herein written is meant to infer that local franchise operators will forego sales efforts in the early stages of a catastrophe. They will simply be the third priority.

ARTICLE IV THE PAUL DAVIS RESTORATION STRATEGY STATEMENT

- 3.4.1 **A. FOCUS.** Paul Davis Restoration is a group of individually owned and operated businesses working interdependently under an umbrella organization in a "niche" market, which is insurance restoration contracting.
- 3.4.2 **B. PURPOSE.** The primary purpose is to differentiate ourselves in the marketplace by placing emphasis on providing honesty, integrity, dedicated service, competitive pricing, and quality workmanship to the property insurance industry, while placing the interest of the insurer above all others, including our own.
- 3.4.3 **C. OBJECTIVE.** The objective is to obtain a minimum ten percent share of the total property insurance loss market.
- 3.4.4 **D. METHOD.** Our method is to work in a spirit of ever-increasing unity through the Paul Davis Restoration General Council, building credibility and influence in the market place far beyond the ability of any individual business by continually contributing value to the loss management process.
- 3.4.5 **E. RESOURCES.** Our resources are the people who work with us as managers, Associates, Job Cost Accountants and tradesmen. Success in accomplishing our objective depends to a very large degree on how we manage these resources.
- 3.4.6 **F. BUSINESS PLAN.** The business plan is to increase our market share through the use of lower unit prices, more conservative scopes, better service, and better workmanship than our competitors can provide. This combination will provide the largest volume of business which, when combined with a guaranteed percentage of gross profit and low overhead, will produce the highest percentage of before tax profit.

ARTICLE V
MANDATORY OPERATING REQUIREMENTS FOR PAUL DAVIS
RESTORATION FRANCHISES

3.5.1 **A. Mandatory Operating Requirements**

3.5.1.1 **1. Franchise Office**

3.5.1.1.1 Each Franchise shall at all times maintain a properly furnished office with exterior signage identifying the franchise and appropriate for the office location. The franchise office shall be located in a commercial location within the boundaries of the franchise territory and not within a residence. The franchise office shall be staffed and open to the public at least eight daytime hours of each normal business day and shall be dedicated solely to the operation of the Paul Davis Restoration franchise.

3.5.1.1.2 All Canadian offices shall locate a professional Paul Davis Systems sign on the exterior of the office location to be seen by the public. This will include signs at the end of a driveway or on the painted surface of the outside office door. This should be visible for the JQR review.

3.5.1.2 **2. Franchise Insurance**

3.5.1.2.1 Each Franchise shall provide to the Franchisor Certificates of Insurance evidencing that the Franchise has at all times obtained general liability and auto insurance with the following minimum coverage:

- | | | | |
|-------------|----|-------------|---|
| 3.5.1.2.1.1 | 1. | \$2,000,000 | General Aggregate |
| 3.5.1.2.1.2 | 2. | \$1,000,000 | Occurrence |
| 3.5.1.2.1.3 | 3. | \$2,000,000 | Products Completed Operations Aggregate |
| 3.5.1.2.1.4 | 4. | \$1,000,000 | Personal Injury |
| 3.5.1.2.1.5 | 5. | \$50,000 | Fire Legal Liability |
| 3.5.1.2.1.6 | 6. | \$5,000 | Medical Payment |

3.5.1.2.2 and has obtained Workers' Compensation Insurance to meet all statutory requirements or minimum coverage available if statutory requirements do not apply.

3.5.1.2.3 The Certificates of Insurance shall name both the Franchisor and CSI as additional insureds as follows:

3.5.1.2.3.1 U.S. Franchises: **Paul Davis Restoration, Inc.**, One Independent Drive, Suite 2300, Jacksonville, Florida 32202, and

Completion Services, Inc., 221 North Hogan Street,
#234, Jacksonville, Florida 32202

3.5.1.2.3.2 Canadian Franchises: **Paul Davis Systems Canada, Ltd.**, 10-5240 Finch Avenue East, Toronto, Ontario, M1S 5A3, and **Completion Services, Inc.**, 221 North Hogan Street, #234, Jacksonville, Florida 32202.

3.5.1.2.4 And provide a 30-day cancellation notice, if available in the policy provisions.

3.5.1.2.5 In the event a Franchise fails to obtain the above-required insurance coverage, Completion Services, Inc, or the Franchisor may obtain such insurance coverage and the Franchise shall be obligated for the cost of obtaining such insurance.

3.5.1.3 **3. Financial Reporting Requirements**

3.5.1.3.1 Each Franchise shall provide the following financial reports to the Franchisor:

3.5.1.3.1.1 1. Monthly: Gross sales for the previous month shall be reported on or before the seventh (7th) calendar day of each month.

3.5.1.3.1.2 2. Quarterly: Financial statements (including Income Statement and Balance Sheet) shall be submitted within thirty (30) days of the end of each quarter.

3.5.1.3.1.3 3. Annually: Financial statements (including Income Statement, Balance Sheet, and Statement of Cash Flow), together with corporate tax returns (or extension), shall be submitted within ninety (90) days of the end of the franchise's fiscal year. (If an income tax return extension has been filed then the actual return shall be due at the end of the extension period.) Annual financial statements shall be compiled by a CPA.

3.5.1.4 **4. Job Cost Accountant**

3.5.1.4.1 Each franchise shall at all times employ a full-time Job Cost Accountant ("JCA") who has either been trained or approved by the Franchisor. New franchises are required to have a full-time JCA prior to making sales. All job cost functions shall be performed on-site in the Franchise office.

3.5.1.4.2 In cases where two or more Franchises are owned by the same owner, the Franchisor may, in writing, allow this requirement to be met by a centralized

JCA function with such additional requirements as the Franchisor deems appropriate.

3.5.1.5

5. Communication/Telephone System

3.5.1.5.1

Each Franchise shall maintain a telephone system with a sufficient number of land lines to allow simultaneous receipt of fax, two incoming voice calls, and internet/e-mail communication (if via telephone). Each Franchise shall maintain internet access and e-mail capability.

3.5.1.5.2

Franchise telephones must be answered either "Paul Davis Restoration" or "PDR" by franchise personnel during office hours. Voice mail systems may be used so long as the caller may "escape out" and speak with an employee.

3.5.1.5.3

During all non-office hours, the Franchise telephones must be answered either via roll-over to employee home or cell telephones or via an answering service with franchise personnel assigned to receive all calls. Answering machines may not be used.

3.5.1.6

6. Contracts

3.5.1.6.1

Each Franchise shall require all franchise employees to execute the Non-Solicitation, Non-Competition and Non-Disclosure Agreement (as modified to comply with applicable local law) found in Chapter IV of the Paul Davis Restoration Procedures Manual.

3.5.1.7

7. Use of Tradename and Logo

3.5.1.7.1

Each Franchise shall operate exclusively under the tradename "Paul Davis Restoration" and such other tradenames as approved in writing by the Franchisor. Each Franchise shall use the Franchisor's trademarks and logos only in accordance with the SMP Tool Box or other instruction found on the Franchisor's web site.

3.5.1.8

8. Servicing Franchise Territory

3.5.1.8.1

Each Franchise is required to provide insurance restoration, cleaning, loss mitigation, and 24 hour - 7 day per week emergency services for its entire franchise territory.

3.5.1.8.2

In the case of Franchisor sponsored or organized national or regional programs, if a Franchise has chosen not to participate in the program or does not meet program requirements (a "Non-Participating Franchise"), then a neighboring participating Franchise may have its service territory expanded to include some or all of the Non-Participating Franchise's franchise territory, but only for the specific program for which the Franchise is not

participating and only for such period of time as the Franchise is not participating. All such expansions of service territory must be approved by the PDRI Regional Manager of Vice president of Operations.

3.5.1.9 **9. PDR Software**

3.5.1.9.1 Each franchise shall, within ninety (90) days of its availability as a general release, install and maintain on the Franchise computer system the latest version/update of the PDR Software.

3.5.1.9.2 Each franchise must participate in PDEXchange (by September 30, 2004), or successor system, and synchronize monthly at a minimum.

3.5.1.10 **10. Performance of Work**

3.5.1.10.1 To protect the entire franchise network against the loss of "independent contractual agent" status for tradesmen and recognizing that this status is the one single means whereby we can be guaranteed a "fixed production cost," the General Council has required that all work contracted by a Paul Davis Restoration franchise must be performed in one of three ways:

3.5.1.10.1.1 1. By qualified tradesmen who have executed a current valid Tradesman Agreement with the franchise, using at least minimum job cost percentage guidelines for each work trade specialty code as approved by the General Council.

3.5.1.10.1.2 2. By qualified tradesmen or contractors who have submitted a written proposal and signed jointly with the Franchisee an individual contract, with specifications, for each job undertaken on any job on which the minimum job cost percentage guidelines approved by the General Council are not used.

3.5.1.10.1.3 3. By employees who have signed an employee contract and on whom all required insurances and taxes are paid on a regular basis, with full disclosure and reporting filed with the appropriate agencies and copies maintained in the Franchisee files.

3.5.1.10.2 All employees shall be identified in the vendor file or other appropriate files as such.

3.5.1.10.3 Because of the great danger to which the entire franchise system is exposed by dishonesty or deception in these areas, the failure to meet this requirement, when discovered, shall be reported immediately to the Franchisor for immediate hearing. If corrections are not made, the franchise may be subject to termination.

3.5.1.11 **11. Payments of Sums Due to Franchisor**

3.5.1.11.1 Each Franchise shall pay all sums due to the Franchisor and to Completion Services, Inc., as and when due.

3.5.1.12 **12. Franchise General Manager**

3.5.1.12.1 Each Franchise shall employ a full-time General Manager. The General Manager may be a franchise owner who has completed the full new owner program or a franchise employee who has successfully completed either Training Program A or B below.

3.5.1.12.1.1 **Training Program A:** This abridged GM training is targeted to individuals with a minimum of two years successful experience as a full functioned Associate in a PDR office having sold and managed including at least 80 separate projects totaling in excess of \$600K. These individuals will attend the following portions of the PDR New Owners Training School: job costing, financial management, business plan review, OSHA, hazardous materials, safety, human resource management, sales and marketing and demonstrate proficiency in the core competencies by scoring at least 70% on a written exam. Individual must also obtain IICRC Water Damage certification to be qualified as a General Manager.

3.5.1.12.1.2 **Training Program B:** For all others, the individual must complete the entire PDR New Owners Training School and pass all tests. Individual must also obtain IICRC Water Damage certification to be qualified as a General Manager.

3.5.1.13 **13. Required Certifications**

3.5.1.13.1 Each franchise shall have at least one owner or employee with the following certifications:

- 3.5.1.13.1.1 1. IICRC Water Damage Restoration (WRT),
- 3.5.1.13.1.2 2. IICRC Fire and Smoke Restoration (SRT),
- 3.5.1.13.1.3 3. Either IAQA, IICRC, or ASCR Mold Remediation or shall meet the requirements of the franchise's state for a Mold Remediation Contractor, provided that such state requirements meets or exceeds the minimum standards, including a written exam, of IAQA, IICRC or ASCR certification,
- 3.5.1.13.1.4 4. Either IICRC Applied Structural Drying (ASD) or Vortex Drying

3.5.1.13.2 This requirement must be met by new franchises within twelve months of completion of New Owners School.

3.5.1.14 **14. Third-Party Customer Satisfaction/Quality Survey**

3.5.1.14.1 Each franchise shall participate in the SMP's national third-party customer satisfaction/quality survey. Participation will become mandatory effective July 1, 2003. All PDR offices that join the network subsequent to the July 1, 2003 effective date will be required to begin participating within 30 days of opening their office for business.

3.5.1.14.2 Participation shall be defined as submitting all completed jobs on a monthly basis for surveying.

3.5.1.15 **15. Vehicles**

3.5.1.15.1 All newly purchased, franchise registered, lettered vehicles shall be painted white.

3.5.1.16 **16. Applied Structural Drying Minimum Standards**

3.5.1.16.1 Effective July 1, 2005 (or 18 months after start-up for new franchise), all franchisees must meet the following Applied Structural Drying ("ASD") minimum standards.

3.5.1.16.1.1 1. All drying jobs must be supervised by a project manager who has obtained IICRC ASD certification (or Vortex Certification prior to 12/31/2004);

3.5.1.16.1.2 2. Each Franchise must possess the following meters: (a) moisture probe/detector; (b) non-penetrating moisture meter; (c) penetrating moisture meter; an (d) thermo hygrometer, and use such meters as appropriate for all drying jobs; and

3.5.1.16.1.3 3. The SMP Psychrometric/Moisture Content Log with the SMP Determining Dehumidifier Requirements sheet, or similar log required by a specific insurance company or third party must be completed for all drying jobs.

3.5.2 **B. Penalties for Failure to Comply with the Mandatory Operating Requirements**

Any Franchise failing to comply with any Mandatory Operating Requirement shall be subject to the following penalties:

3.5.2.1 **1. Monetary Penalties:** For failure to comply with any Mandatory Operating Requirement, the Franchisor may assess the Franchise a fee of one hundred dollars (\$100) per incident or per month in the case of a continuing failure (such as the failure to maintain a franchise office). **All monetary penalties shall be paid into the SMP fund or successor marketing fund, or in the case of Canadian franchises into the Canadian marketing fund.**

- 3.5.2.2 **2. Network Participation Penalties:** For failure to comply with any Mandatory Operating Requirement:
- 3.5.2.2.1 a. The Franchise shall lose its right to vote in any General Council or District Council meetings.
- 3.5.2.2.2 b. The Franchise shall not receive any services provided through the Franchisor for software and software support, marketing and advertising programs, claims assignments via toll free telephone or internet systems, consultation, etc.
- 3.5.2.2.3 c. The Franchise, its employees, and its Associates shall not be eligible to receive any awards or recognition.
- 3.5.2.3 **3. Franchise Termination:** The Franchisor, after providing the Franchise a Notice of Intent to Terminate identifying the specific default and allowing an opportunity to cure the default, may terminate the Franchise for failure to comply with any Mandatory Operating Requirement.
- 3.5.2.4 **4. Penalties Nonexclusive; No Release of Obligation:** The foregoing penalties are non-exclusive and may be implemented individually or collectively. The implementation of any or all such penalties shall not relieve the franchise of its obligation to comply with the Mandatory Operating Requirements.

3.5.3 **C. Procedure for Implementation of Penalties**

The Franchisor shall adhere to the following procedures in implementing penalties for failure to comply with a Mandatory Operating Requirement:

- 3.5.3.1 **1. Monetary and Network Participation Penalties:** The Franchisor shall provide the Franchise with a Notice of Non-Compliance and Penalty Assessment identifying the failure to comply with the Mandatory Operating Requirement and providing notice to the Franchise of the assessment of penalties. The Franchise shall have fifteen days to present evidence that the claim of non-compliance is erroneous, otherwise the penalty shall not be subject to later challenge. The Franchisor shall add any monetary penalties assessed to the Franchise's next monthly statement.
- 3.5.3.2 **2. Franchise Termination:** The Franchisor shall provide the Franchise with a Notice of Intent to Terminate identifying the failure to comply with the Mandatory Operating Requirement and notifying the Franchise of the Franchisor's intent to terminate the franchise. The Franchisee shall have fifteen days (or longer period if required by state law)

in which to cure the non-compliance. If the Franchise fails to cure the non-compliance within the specified cure period then the Franchisor may terminate the Franchise.

ARTICLE VI PROCEDURE FOR INSTITUTING PENALTIES

- 3.6.1 When any report of a failure to institute all mandatory requirements shall be called to the attention of the Franchisor, the following procedures shall be instituted:
- 3.6.1.1 1. The Franchisor shall in every case make its best effort to verify such failure prior to proceeding.
- 3.6.1.1.1 This effort may include such investigation as is necessary, and if the failure is verified, such investigation expenses shall be paid for by the non-complying Franchisee.
- 3.6.1.2 2. If the failure relates to any mandatory requirement other than insurance coverage, lack of a JCA, contract, software, performance of work, or qualifications to contract with an Associate, the procedures shall be:
- 3.6.1.2.1 (a) The Franchisor shall issue a Notice of Intent to Terminate (“NIT”).
- 3.6.1.2.2 (b) The offending Franchisee shall have fifteen (15) days to either correct the failure or file, in the office of the Franchisor, an appeal to an Arbitration Committee to either disprove the charge or obtain an extension of time, up to sixty (60) days, from the filing of the NIT.
- 3.6.1.2.3 (c) If the failure is not disproved or cured with the time allotted in this section or as granted by the Arbitration Committee, then the Franchisor shall issue final Notice of Termination of the Franchise Agreement with no provision for further arbitration.
- 3.6.1.3 3. If failure relates to lack of a JCA, contracts, software, or performance of work, the procedure shall be:
- 3.6.1.3.1 (a) Franchisor shall issue a Notice of Intent to Terminate.
- 3.6.1.3.2 (b) The offending franchise shall have fifteen (15) days to either correct the failure or initiate an arbitration to either disprove the charge or obtain an extension of time, up to sixty (60) days from the filing of the NIT.
- 3.6.1.3.3 (c) If the failure is not disproved or cured within the time allotted in this section or as granted by the Arbitration Committee, then the franchise shall be terminated, either on the date stated in the NIT or on the last day of the extension granted by the Arbitration Committee, whichever is later. No further arbitration shall be allowed.

- 3.6.1.4 4. If the failure relates to the mandatory requirement for insurance, then the procedure shall be:
- 3.6.1.4.1 (a) Completion Services, Inc. may purchase insurance coverage for the Franchisee, at the Franchisee's expense, to protect the interest of Completion Services, Inc. until the franchise is terminated or the failure is cured.
- 3.6.1.4.2 (b) The Franchisor shall issue Notice of Termination, which will become effective on the earliest day allowed by the Franchise Agreement.
- 3.6.1.4.3 (c) There shall be no rights of arbitration concerning the violation of this requirement, and no Arbitration Committee shall hear any other arbitration proceeding initiated by the offending Franchisee so long as the violation of this mandatory requirement remains uncured.
- 3.6.1.4.4 (d) The Franchisee may cure any violation of this mandatory requirement, either by providing proof of proper insurance coverage or by obtaining permission from the appropriate Arbitration Committee to reimburse CSI for its expense incurred in obtaining said insurance coverage. This reimbursement shall be on a monthly basis and shall include any past due premiums, plus the current month, and one month in advance. Failure to maintain payment of premiums one month in advance is cause to withdraw the approval for such method of curing the failure.
- 3.6.1.4.5 (e) To eliminate unnecessary risks, CSI may send Notice of Cancellation of all CSI Guarantee Certificates, either delivered or for which a guarantee has been implied, any and all lists of adjusters and agents available to CSI being permissible to use in this process.

ARTICLE VII COMPLIANCE AND PROCEDURES COMMITTEE (“C&PC”)

- 3.7.1 A. The Compliance and Procedures Committee (“C&PC”) shall consist of the President-elect of the NEC, at least 3 at-large members (NEC membership is not required), and a representative of the US or Canadian Franchisor, according to the matter to be considered.
- 3.7.1.1 **Any member of the Compliance and Procedures Committee shall be removed from office if such member’s franchise is not in compliance with the Mandatory Operating Requirements. A new member shall be elected in accordance with the procedure set forth in 2.4.5.1.1.**
- 3.7.2 B. The President-elect of the NEC shall serve as chairman of the C&PC.
- 3.7.3 C. When a circumstance exists which places the reputation or operation of the Paul Davis Restoration organization at risk or places CSI at risk and which is not specifically covered as to procedure in this Booklet Three, the C&PC shall be made aware of this circumstance.
- 3.7.4 D. The C&PC may, based on its perception of the problem:
- 3.7.4.1 1. Request the Franchisor to investigate and provide additional information.
- 3.7.4.2 2. Provide suggestions as to how to deal with the circumstance and any franchises involved to work out the problem.
- 3.7.4.3 3. Request that a special systems audit be made of any franchise involved in the situation, at that Franchisee's expense.
- 3.7.4.4 4. Recommend Notice Intent to Terminate be issued to the franchise, with the final approval of termination subject to the findings of an Arbitration Committee.
- 3.7.4.5 All business of the C&PC may, at its option, be conducted by telephone conference call.
- 3.7.4.6 All expenses authorized by the C&PC for a Franchisor or Franchisee or incurred by the C&PC, unless decided otherwise by the Committee, shall be paid by the franchise about which the question of compliance was raised.
- 3.7.4.7 If the C&PC determines a Franchisee, Franchisor, CSI, or any other party raises a question of compliance without cause, it must direct the questioning Franchisee, Franchisor, CSI or any other party to pay all expenses incurred to

investigate and decide the issue. In any event such question of compliance is raised by more than one party, the C&PC must direct that such expenses be divided evenly and paid by all parties raising the question of compliance.

3.7.5 E. Extraordinary actions:

3.7.5.1 When the circumstances indicate that CSI, the reputation and operation of the PDR organization, or an established national relationship with any insurer may be placed at risk as a result of said circumstances, the C&PC shall have full authority to recommend any action that it feels is necessary, subject to approval through a telephone conference of the appropriate Arbitration Committee. Such recommended action may include, but is not limited to:

3.7.5.1.1 1. A request for a special systems and/or financial audit of the franchise.

3.7.5.1.2 2. A survey of all agents and adjusters listed in the Franchisee's adjuster listing or with whom the Franchisee conducts business, to determine if any problems exist.

3.7.5.1.3 3. A survey of all property owners with whom the franchise has contracts, to determine if any problems exist.

3.7.5.1.4 4. A survey of all vendors with whom the franchise maintains accounts, to see if any problems exist.

3.7.5.2 If the C&PC believes that the problem is serious enough, or if it feels the situation will worsen or if the Franchisee is uncooperative, then the committee shall authorize the Franchisor to issue a Notice of Intent to Terminate to the franchise effective fifteen (15) days from receipt. The non-complying franchisee shall have fifteen (15) days from receipt of the NIT to either correct the failure or file, in the office of the Franchisor, an appeal to the appropriate Arbitration Committee, to either disprove the charge or obtain an extension of time, up to sixty (60) days, from the filing of the NIT.

3.7.5.3 The committee may, at its sole option, request a hearing by the appropriate Arbitration Committee. The hearing shall be conducted by telephone within ten days of the C&PC request.

3.7.5.4 The purpose of the committee request is to prevent a franchise from using arbitration as a delaying process, thereby allowing a situation to worsen.

3.7.5.5 This action does not take away the Franchisee's right to appeal the arbitration ruling. However, any appeal must be made within five (5) days, and the Appeals Board must hear the appeal and render a decision within ten days of the appeal.

- 3.7.6 F. In order to protect the PDR network's relationships with insurers, the C&PC shall approve the admission of a franchise previously removed from a regional or national program to a new regional or national program.
- 3.7.7 G. The C&PC may, at its sole option, suspend any franchise from any established relationship with any insurer(s) if it determines that the franchisee is not meeting PDR Organization commitments to the insurer(s). Such suspension will be effective on the date the franchise is notified of suspension. The suspended franchise may be restored to participation in the specific insurer relationship upon satisfaction of quality standards established and reviewed by the C&PC. Upon notification to the committee that the suspended franchise has taken corrective action, the committee shall investigate and determine within 30 days if reinstatement is appropriate. Otherwise such suspension may be arbitrated in due course and the franchisee reinstated if the appropriate arbitration committee so decides.
- 3.7.8 H. The Committee is required to reveal the source or sources of the complaints on which it bases an investigation and/or action.
- 3.7.9 I. Subcommittees to the C&PC shall be as follows
- 3.7.9.1 1. The name of such subcommittees shall be "Regional Compliance and Procedures Subcommittee."
- 3.7.9.2 2. There shall be one three-member Regional Compliance and Procedures Subcommittee formed to work with each Franchisor Field Representative responsible for maintaining relationships with insurer representatives of established insurer PDR relationships.
- 3.7.9.3 3. The membership of each Regional Compliance and Procedures Subcommittee will consist of two selected District Vice Presidents plus the Franchisor Field Representative. If there are not sufficient District Vice Presidents, District Secretaries may serve in their stead. These District Vice Presidents or District Secretaries will be selected by the District Presidents.
- 3.7.9.4 4. The Regional Compliance and Procedures Subcommittee shall have all powers invested in the C&PC except the following:
- 3.7.9.4.1 - Recommendation of termination.
- 3.7.9.4.2 - Request a hearing by an Arbitration Committee.
- 3.7.9.4.3 - Removal of a franchise from an established PDR/insurer relationship.

3.7.9.5

5. A Regional Compliance and Procedures Subcommittee may recommend the actions excluded in "4." above to the C&PC for implementation and the C&PC shall act on such recommendation within ten working days.

ARTICLE VIII

PROCEDURE FOR CLOSING A FRANCHISE BY FRANCHISE OWNER

- 3.8.1 A. No franchise owner may cease full time operation of the franchise without the prior written consent of the Franchisor.
- 3.8.2 B. A franchise owner wishing to cease full time operations of the franchise without suffering immediate termination shall make a written request to the Franchisor, through the Franchisor, asking for permission to cease full time operations while retaining a right to sell the franchise territory to recover funds under the following plan.
- 3.8.2.1 1. The Franchisee will:
- 3.8.2.1.1 (a) Finish all work in progress.
- 3.8.2.1.2 (b) Pay all accounts to vendors and tradesmen.
- 3.8.2.1.3 (c) Pay all accounts to Completion Services, Inc.
- 3.8.2.1.4 (d) Pay all accounts to the Franchisor.
- 3.8.2.1.5 (e) Honor all warranty work.
- 3.8.2.1.6 (f) Maintain proper insurance until all jobs are completed and paid.
- 3.8.2.2 2. The Franchisee shall cease all operations of any nature under the name of Paul Davis Restoration or Signature Professional Cleaning, or any other name that has been approved by the Franchisor.
- 3.8.2.3 3. The franchise must be listed for sale with a written agreement with a business broker or other viable means to sell within fifteen (15) days of the granting of a request to close.
- 3.8.3 C. The Franchisor may grant approval for the franchise owner to retain all interest in the franchise rights for a period of twelve (12) months from a closing date set by the Franchisor, provided the franchise remains current with all cooperative payments.
- 3.8.4 D. The Franchisor may grant approval for the franchise owner to retain all interest in the franchise rights for a period of six (6) months from the closing date set by the Franchisor, with no continuing payments to be made by the franchise.

- 3.8.5 E. Failure by a franchise to maintain full operation of the franchise for thirty (30) days or to fail to answer phones for a period of thirty (30) days, without prior approval of the Franchisor, shall be deemed as abandonment of the franchise, and that franchise shall be terminated without further rights to arbitration.
- 3.8.6 F. Should a franchisee request arbitration, the arbitration committee must do the following:
- 3.8.6.1 1. Give each consideration in a formal meeting in person or by telephone conference call, subject to all arbitration procedures outlined in Booklet Two, Articles 13 and 14.
- 3.8.6.2 2. Consider the effect of such closing on other Franchisees and/or national accounts.
- 3.8.6.3 3. Agree to monitor the performance of the franchise during the granted term and request immediate cancellation in the event obligations are not fulfilled.
- 3.8.6.4 4. Verify pre-closing compliance with the C&PC and audit insurer accounts and vendors if there is evidence of risk to the PDR organization.
- 3.8.6.5 5. Consider a request from other parties to operate within the franchise territory prior to resale.

ARTICLE IX OTHER CAUSES OF TERMINATION

- 3.9.1 A. The following list of causes for termination are taken from the Franchise Agreement and the Paul Davis Restoration Operations Manual and made a part of this Booklet Three of the Operations Manual.
- 3.9.1.1 1. Failure to report sales accurately and in timely manner
- 3.9.1.2 2. Failure to pay sums due to CSI in a timely manner
- 3.9.1.3 3. Failure to pay all cooperative programs established by the General Council in a timely manner
- 3.9.1.4 4. Failure to pay franchise renewal fee in a timely manner
- 3.9.1.5 5. Transfer of more than forty-nine percent of the Franchisee stock without the prior written approval of the Franchisor
- 3.9.1.6 6. Failure to commence operation of the franchise in a timely manner
- 3.9.1.7 7. Failure to maintain working capital equal to not less than ten percent of the previous year's sales
- 3.9.1.8 8. Failure to provide at least quarterly financial statements, prepared by an independent CPA in an acceptable form, to the Franchisor and to CSI.
- 3.9.1.9 9. Failure to pay all sums of any nature due to the Franchisor in a timely manner
- 3.9.1.10 10. Failure to maintain and operate franchise business in accordance with good business practices and in accordance with the rules, regulations, methods, and procedures contained in the Procedures Manual and this Operations Manual
- 3.9.1.11 11. Closing of the franchise office without prior written consent of the Franchisor.
- 3.9.1.12 12. Filing of bankruptcy, adjudication of bankruptcy, any assignment for the benefit of creditors, appointment of a trustee, or receiver in bankruptcy for Franchisee
- 3.9.1.13 13. A breach of the terms and conditions of the Franchise Agreement

- 3.9.1.14 14. Failure to enforce, to the fullest extent possible, the non-competition agreement and trade secrets provisions of the Franchise Agreement, the Operations Manual, the Procedures Manual, and the contracts
- 3.9.1.15 15. Making or attempting to make any payment in cash, goods, or services, which could reasonably be construed as a kick-back or pay-off, to any insurer or insurer's agent
- 3.9.1.16 16. Working with or in cooperation with any public adjuster or public adjuster's agent or representative
- 3.9.1.17 17. Offering or performing adjusting services, such as taking statements or accepting proofs of loss, etc.
- 3.9.2 B. In the case where one of the above violations occur, the Franchisor may at its option:
 - 3.9.2.1 1. Refer such violation to the C&PC for advice and counsel.
 - 3.9.2.2 2. Issue Notice of Intent to Terminate.
 - 3.9.2.3 3. Issue Notice of Termination.
 - 3.9.2.4 4. Monitor as appropriate.
- 3.9.2.2 All such actions are subject to appeal to arbitration by the Franchisee involved in such failure to comply.