

September 20, 2013

Via Certified Mail, Return Receipt Requested

Via Email: mark@stratusgreenclean.com

Mr. Mark Bashforth, Founder and President
Camino Real Ventures, LLC
2537 South Gessner Road, Suite 121
Houston, Texas 77063

Re: NOTICE OF VIOLATION OF THE TEXAS DECEPTIVE TRADE PRACTICES ACT RELATED TO
YOUR SALE OF A STRATUS BUILDING SOLUTIONS® MASTER FRANCHISE TO ECHO GREEN
CLEANING, LLC AND TOM BAKER

Dear Mr. Bashforth:

The undersigned and the law firm of Munsch Hardt Kopf & Harr, P.C., represent Echo Green Cleaning, LLC and Tom Baker in their claims against you and your company, Camino Real Ventures, LLC, related to their purchase of a Stratus Building Solutions® master franchise from you. Please direct all future correspondence to my attention.

The Fort Worth Territory

As you are aware, in early 2011, Mr. Baker and you began engaging in discussions which led to his decision to purchase a Stratus Building Solutions® master franchise business from you in August 2011. The business is operated in and located in Irving, Dallas County, Texas.

On August 2 and 3, 2011, Mr. Baker travelled to Houston, Texas and met with you in person in furtherance of your discussions regarding the potential sale of a master franchise business. During this discussion, you made various oral representations to Mr. Baker and you provided Mr. Baker with a spreadsheet projecting the first three years of revenues and expenses of the master franchised business¹, including the following:

First Year:

- Total Gross Revenue: \$805,300
- Estimated Gross Profit: \$127,975 (after loan payments: \$107,245.44)

Second Year:

- Total Gross Revenue: \$2,584,200
- Estimated Gross Profit: \$390,542

¹ A copy of the spreadsheet is enclosed with this letter.

Third Year:

- Total Gross Revenue: \$5,023,200
- Estimated Gross Profit: \$818,615

The representations included "Year 1 Assumptions" of:

- \$10,000/month in new account sales = 2 x salesperson
- \$25,000/month in franchise sales based on selling 5 x SBS 30 per month or the equivalent in \$10,000/month business owed
- \$4,000/month in franchise upgrades financed at 75% = \$1,000/month in new franchise cash

The numbers provided in this spreadsheet were false and misleading. In reliance on the above-described and numerous unlawful and fraudulent pre-sale financial performance representations, Mr. Baker made the decision to sign the 15-year master franchise agreement, buy the master franchise rights to the Fort Worth area, and to otherwise invest over \$200,000 of his personal savings into the development and operation of a Stratus Building Solutions® master franchise in Fort Worth, Texas. He was also induced into signing a \$75,000 promissory note.

The Dallas Territory

In further reliance on the above-described fraudulent misrepresentations, on or about September 19, 2011, Camino Real Ventures, LLC and Echo Green Cleaning, LLC entered into an Addendum to the Master Franchise Agreement, whereby Echo Green Cleaning, LLC bought the master franchise rights to Dallas, Delta, Ellis, Johnson, Henderson, Hill, Hood, Hunt, Kaufman, Parker, Rockwall, and Van Zandt Counties, Texas. The initial franchisee fee for the Dallas Territory was \$400,000, which was calculated by multiplying \$20,000 by 40 (e.g., territory population of 4 million divided by 100,000), for a total of \$800,000. The initial fee was then discounted by 50% to \$400,000. However, this was a significant material change from the Franchise Disclosure Document and Master Franchise Agreement, which only called for a fee of \$18,000, for an estimated overpayment of at least \$40,000. Further, Mr. Baker was induced into paying an additional \$100,000 of his personal savings and signing \$300,000 in promissory notes.

Federal Franchise Rule Violations

On or about July 8, 2011, Mr. Bashforth sent Mr. Baker a copy of the Camino Real Ventures, LLC Franchise Disclosure Document ("FDD"). The FDD provided to Mr. Baker was from 2010 and was not an updated 2011 document. Further, upon information and belief, neither Camino Real Ventures, LLC nor Stratus Franchising, LLC had filed a Business Opportunity Exemption Notice with the Secretary of State of Texas' Office in accordance with the Texas Business Opportunity Act.

By disclosing Mr. Baker with an old FDD, failing to file an exemption notice and pay the required fee, and having Mr. Baker sign the Franchise Agreement and pay you the initial franchise fee without providing him with the 2011 updated FDD, you knowingly and willingly violated the Federal Trade Commission's Franchise Rule and the Texas Business Opportunity Act.

In addition to the above-described violations, the FDD failed to disclose various key requirements of the Federal Trade Commission's Franchise Rule, 16 C.F.R §436, (the "Federal Franchise Rule") including, but not limited to:

- You disclosed a 2010 FDD instead of an updated 2011 FDD.
- *Item 1: The Franchisor, and any Parents, Predecessors, and Affiliates*
 - You state in the first paragraph that in order "to simplify the language in the [FDD]" the terms "us," "we," "our," "BSB," "Stratus," or "Stratus Building Solutions" means Camino Real Ventures, L.L.C. Yet, throughout the FDD, you use these same terms to include Stratus Franchising, LLC and/or Stratus Building Solutions, Inc. Your intentional misuse of these defined terms leads the reader to believe that Camino Real Ventures, LLC is the same entity as Stratus Franchising, LLC and/or Stratus Building Solutions, Inc., which is deceptive, confusing, and unlawful.
 - You improperly state that Stratus Franchising, LLC is a predecessor and affiliate of Camino Real Ventures, LLC, which is not true and is misleading.
 - You fail to disclose that Simpatico, Inc. is the owner of Stratus Franchising, LLC.
 - You incorrectly state that Camino Real Ventures, LLC was formed in October of 2006, and that Camino Real Ventures, LLC has been offering janitorial service franchises since 2005.
 - You state that Camino Real Ventures, LLC owns and operates a Master Franchise business in St. Louis, Missouri, which is false.
 - You fail to provide the identity and principal address of Camino Real Ventures, LLC's agent for service of process, as required by the federal Franchise Rule (§ 436.5(a)(4)).
 - You fail to disclose that Camino Real Ventures, LLC owns and operates businesses of the type being franchised (§ 436.5(a)(6)(i)), and your other business activities (§ 436.5(a)(6)(ii)), as required by the federal Franchise Rule.
 - Finally, you fail to disclose the prior business experience of Camino Real Ventures, LLC (which was none) or any of its affiliates, including the length of time you conducted the type of business that Mr. Baker would operate, the length of time you have offered franchises provided the type of business that Mr. Baker would operate, and whether you had offered franchises in other lines of businesses, as required by the federal Franchise Rule (§ 436.5(a)(7)).
- *Item 2: Business Experience*
 - You failed to disclose the names and positions of all of Camino Real Ventures, LLC's directors, trustees, general partners, principal officers, and any other individuals who will have management responsibility relating to the sale or operation of the franchise offered, including Lincoln Baker, as required by the federal Franchise Rule (§ 436.5(b)).
 - You falsely and/or misleadingly state that Mr. Jarrett co-founded Camino Real Ventures, LLC (i.e., the defined term "Stratus").
 - You falsely state that Mr. Jarrett was President of Jan-Pro International, when his title was Vice President.
 - You fail to disclose Mr. Bashforth's principal positions and employers during the

past five years (2011-2007), including each position's starting date, ending date, and location, as required by the federal Franchise Rule (§ 436.5(b)). Specifically, you failed to disclose Mr. Bashforth's positions with Stratus Building Solutions of Houston, Inc., Roxar, Inc., and Roxar Software Solutions.

- *Item 5: Initial Fees*
 - You failed to disclose that the formula for calculating the Initial Fee included up to \$20,000 (instead of \$18,000) for each population of 100,000 people in the exclusive territory, which is the amount that was paid by Echo Green Cleaning, LLC for the Dallas territory in September 2011, as required by the federal Franchise Rule (§ 436.5(e)).
- *Item 6: Other Fees*
 - You failed to disclose the royalty fee and other payments due for a master franchise that is found in Section IV of the Franchise Agreement, as required by the federal Franchise Rule (§ 436.5(f)).
- *Item 7: Estimated Initial Investment*
 - You fail to disclose whom payment is to be made for training expenses, as required by the Federal Franchise Rule (§ 436.5(g)(i)(B)). Further, in footnote 9, you falsely state that Camino Real Ventures, LLC (i.e., "Stratus") is located in St. Louis, Missouri.
- *Item 11: Franchisor's Assistance, Advertising, Computer Systems, and Training*
 - You incorrectly state that Camino Real Ventures, LLC's headquarters is located in St. Louis, Missouri, and that Camino Real Ventures, LLC's instructors would train Mr. Baker. Further, you falsely state that the instructors, Mr. Jarrett and Mr. Frese, are executives with Camino Real Ventures, LLC.
- *Item 13: Trademarks*
 - You falsely state that Camino Real Ventures, LLC (i.e., "Stratus") has a registration on the Principal Register for "Stratus Building Solutions."
- *Item 19: Financial Performance Representations*
 - You falsely state that you do not make any representations about a franchisee's future financial performance or the past financial performance of company-owned or franchised outlets. Yet you were aware that you had provided Mr. Baker with multiple financial performance representations, as described in detail above.
- *Item 20: Outlets and Franchisee Information*
 - You failed to disclose any outlet information for the calendar years 2010 and 2009.
- *Item 21: Financial Statements*
 - You failed to provide audited financials and statements for Stratus Franchising, LLC for the fiscal year 2010, as required by the federal Franchise Rule (§

436.5(u)).

- o You failed to provide an unaudited opening balance sheet for Camino Real Ventures, LLC, as required by the federal Franchise Rule (§ 436.5(u)).

Texas Business Opportunity Act Violations

You are also subject to the rules and regulations of the Texas Business Opportunity Act. See Texas Business and Commerce Code §51.001, *et seq.* ("TBOA").

Under the TBOA, you were required to provide Mr. Baker with an updated 2011 written disclosure document at least 10 days before the earlier of (a) Mr. Baker signed the Franchise Agreement, or (b) you received any consideration. See TBOA, §51.151. Your acts were in violation of this disclosure rule.

Further, the TBOA provides specific requirements for disclosures that must be made, many of which the FDD did not contain.

The TBOA also prohibits you from:

- 1) Employing a representation, device, scheme or artifice to deceive a purchaser;
- 2) Making an untrue statement of material fact or omitting to state a material fact in connection with the documents and information required to be provided to the secretary of state or purchaser;
- 3) Representing that the business opportunity provides or will provide income or earning potential unless the seller has:
 - a. Documented data to substantiate the representation of income or earning potential; and
 - b. Discloses the data to the purchaser when the representation is made; or
- 4) Making a claim or representation that is inconsistent with the information required to be disclosed by the TBOA in:
 - a. Advertising or other promotional material; or
 - b. Any oral sales presentation, solicitation, or discussion between the seller and purchaser.

See TBOA, § 51.301-302.

Notice of Demand Pursuant to Texas Deceptive Trade Practices Act

The types of patterns and practices described in this letter violate the Texas Deceptive Trade Practices Act (the "DTPA"). Specifically, you have violated the following DTPA provisions:

- Causing confusion or misunderstanding as to affiliation, connection, or association with, or certification by, another [TEX. BUS. & COMM. CODE § 17.46(b)(3)];
- Representing that good or services have sponsorship, approval, characteristics, ingredients, uses, benefits or quantities which they do not have [TEX. BUS. & COMM. CODE § 17.46(b)(5)];
- Representing that goods or services are of a particular standard, quality, or grade, or that goods are of a particular style or model, when they were of another [TEX. BUS. & COMM. CODE § 17.46(b)(7)];
- Advertising goods or services with intent not to sell them as advertised [TEX. BUS. & COMM. CODE § 17.46(b)(9)];
- Representing that an agreement confers or involves rights, remedies, or obligations that it does not, or that are prohibited by law [TEX. BUS. & COMM. CODE § 17.46(b)(12)];
- Failing to disclose information concerning good or services which was known at the time of the transaction if such failure to disclose such information was intended to induce the purchaser into a transaction in which they would not have entered had the information been disclosed [TEX. BUS. & COMM. CODE § 17.46(b)(24)];
- Violation of the Texas Business Opportunity Act [See TEX. BUS. & COMM. CODE §§ 17.46, 17.50(h), and 51.302].

The foregoing violations were committed knowingly and/or intentionally; and Mr. Baker justifiably relied on your representations, acts, and omissions to his damage and detriment.

Further, the representations, acts, and omissions made by you in your dealings with Mr. Baker constituted an "unconscionable action or course of action" as such term is defined in Section 17.45(5) of the Texas Business and Commerce Code. Mr. Baker asserts that each of you, as professionals in the commercial janitorial industry, took advantage of Mr. Baker's lack of knowledge and expertise in orchestrating this deception. As further example of your unconscionable actions and course of actions, upon information and belief you are currently being sued by your business partner, Lincoln Baker, for similar actions related to his investment in Camino Real Ventures, LLC.

As a direct result of your wrongful acts and omissions, Mr. Baker and Echo Green Cleaning, LLC has been compelled to retain the services of this law firm to seek redress for the damages they have suffered.

Your violations of the DTPA entitle Mr. Baker and Echo Green Cleaning, LLC to the following in damages:

Economic damages:	\$11,043,262.44 ²
Mental Anguish damages:	\$25,000.00
Reasonable and necessary attorneys' fees:	\$10,000.00
Total	\$11,078,262.44

Pursuant to Section 17.505 of the Texas Business and Commerce Code, please be advised that the legal claim will include a request that additional relief be granted under the provisions of Section 17.50 of the Texas Business and Commerce Code. Because your misrepresentations and actions were committed knowingly and intentionally, Mr. Baker and Echo Green Cleaning, LLC are entitled to receive mental anguish damages and an award of three times economic damages (treble damages).

DEMAND IS HEREBY MADE UPON YOU TO IMMEDIATELY PAY THE TOTAL AMOUNT OF DAMAGES SUSTAINED, \$11,078,262.44, TO MR. BAKER AND ECHO GREEN CLEANING, LLC. YOU MAY FORWARD PAYMENT TO MY ATTENTION AT THIS LAW FIRM.

This letter constitutes notice pursuant to the DTPA that, unless we receive a ***certified check, cashier's check, or money order for such full amount, \$11,078,262.44, on or before Friday, November 19, 2013***, this law firm has been instructed to assert claims in a lawsuit against each of you and against your company that you have violated the DTPA.

In connection with those claims, we are instructed to pursue direct and consequential **damages in the amount of at least \$11,078,262.44**, penalties as provided by the DTPA (treble damages), all attorney' fees that are incurred through the conclusion of this dispute, pre-judgment and post-judgment interest, and court costs.

NO FURTHER DEMAND WILL BE MADE.

Be advised that necessary and reasonable attorneys' fees will continue to accrue as we investigate and pursue this claim. Please pay this claim now or contact me regarding settlement in order to avoid further expense.

² The Franchise Agreement has a term of fifteen (15) years with the right to automatically renew for up to two successive periods of 15-years. Economic damages are calculated, conservatively with the first two years of net revenues represented plus 13 years multiplied by the represented net revenues for the third year. $\$107,245.44 + \$390,542 + (13 * \$818,615 = \$10,641,995) = \$11,043,262.44$.

Camino Real Ventures, LLC
September 20, 2013
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Sincerely yours,

MUNSCH HARDT KOPF & HARR, P.C.

By: Kelly (Ganzberger/wpp)
Kelly Ganzberger

cc: Client (via email)

Via Certified Mail, Return Receipt Requested
Via Email: d.jarrett@stratusclean.com

Mr. Dennis Jarrett, CEO
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St. Louis, Missouri 63114