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| 4 | | v. |
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| 7 | STATE OF WASHINGTON KING COUNTY SUPERIOR COURT | |
| 8 | IN RE: FRANCHISE NO POACHING | NO. 19-2-26213-3 SEA |
| 9 10 | PROVISIONS (FIVE STAR PAINTING, LLC) | FIVE STAR PAINTING, LLC ASSURANCE OF |
| 11 | | DISCONTINUANCE |
| 12 | The State of Washington, by and through its attor | rneys, Robert W. Ferguson, Attorney General, |
| 13 | and Justin Wade, Assistant Attorney General, files this Assurance of Discontinuance (AOD) | |
| 14 | under RCW 19.86.100. | |
| 15 | I. PAF | RTIES |
| 16 | 1.1. In August 2019, the Attorney Gen | eral initiated an investigation into Five Star |
| ۱7 | Painting, LLC ("Five Star") relating to the hiring practices of Five Star's franchisees. | |
| 18 | 1.2. Five Star is a Delaware limited liability company with its principal office or place | |
| 19 | of business in Waco, Texas. Five Star is in the business of licensing independent franchisees to | |
| 20 | operate a business identified by the FIVE STAR PAINTING® trademarks or PROTECT | |
| 21 | PAINTERS® trademarks that engages in residential and commercial painting services in a | |
| 22 | defined territory. | |
| 23 | 1.3. For the purposes of this AOD, "7 | The Five Star Parties" means Five Star, its |
| 24 | directors, officers, managers, agents, and employees (all of the foregoing, as acting within the | |
| 25 | scope of their duties to Five Star) as well as its successor and assigns, and controlled subsidiaries | |

II. INVESTIGATION

2.1. Five Star has five franchisees with the right and license to operate FIVE STAR PAINTING® franchised businesses in Washington in a combined seven territories, which those franchisees independently own and operate. Five Star does not have any franchisees operating a PROTECT PAINTERS® franchised business in Washington. Five Star does not own or operate any locations in Washington.

During a portion of the period of the State of Washington's investigation, Five 2.2. Star included language in its franchise agreements in Washington that restricted a franchisee's ability to solicit or hire workers from another franchisee for a limited time-period. ("No-Poaching Provision"). Specifically, from May 6, 2016, until April 9, 2018, the standard Five Star franchise agreement registered in Washington contained a provision stating that, "you agree that during the term of this Agreement and for one year thereafter, you will not, without our prior written consent, directly or indirectly, for yourself or on behalf of any other person . . . employ or seek to employ any person who is at that time employed by us, our affiliate or another FIVE STAR PAINTING franchisee or otherwise directly or indirectly induce or seek to induce the person to leave his or her employment." In addition, from the beginning of the relevant time period until May 6, 2016, the standard Five Star franchise agreement registered in Washington contained a provision stating that the franchisee shall not, directly or indirectly, during the term of the franchise agreement and for a period of two (2) years immediately following the later of expiration, termination, or non-renewal of the franchise agreement "employ, seek to employ or otherwise induce any person to leave his employment who is then employed by any other franchisee or by Franchisor, unless, in the case of any employee of Franchisor, Franchisee has obtained Franchisor's prior written consent and paid the then current Franchisor Employee Training Fee set forth in Exhibit '1B' hereto, which Franchisee acknowledges and agrees is reasonable and necessary to compensate Franchisor for a portion of the costs of training such

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employee." In summary, the No-Poaching Provisions restricted franchisees from hiring employees of Five Star, an affiliate of Five Star, or another franchisee.

- 2.3. Prior to the initiation of the State of Washington's investigation in 2019, in Five Star's April 2018 renewal of its franchise disclosure documents ("FDD"), Five Star removed the No-Poaching Provision from its U.S. form franchise agreement. Five Star's form franchise agreement registered in Washington has not included the No-Poaching Provision since April 9, 2018.
- 2.4. The Attorney General asserts that the No-Poaching Provision in franchise agreements that Five Star entered with Washington franchisees, prior to the issuance of the April 2018 renewal FDD, constitutes a contract, combination, or conspiracy in restraint of trade in violation of the Consumer Protection Act, RCW 19.86.030.
- 2.5. The Five Star Parties expressly deny that the conduct described above constitutes a contract, combination, or conspiracy in restraint of trade in violation of the Consumer Protection Act, RCW 19.86.030, or any other law, and expressly deny they have engaged in conduct that constitutes a contract, combination, or conspiracy in restraint of trade. Five Star viewed the No-Poaching Provision in Five Star's form franchise agreement as a way to reduce potential conflicts among its franchisees that could disrupt the franchise system and the franchisor-franchisee relationship that Five Star has with each of its franchisees. However, the No-Poaching Provision has not been the subject of any dispute in any legal proceeding in Washington. Five Star has never attempted to enforce a No-Poaching Provision with any of its franchisees and is not aware of any of its franchisees in Washington enforcing or attempting to enforce any No-Poaching Provision in their franchise agreements. Five Star nevertheless enters into this AOD to avoid protracted and expensive litigation. Pursuant to RCW 19.86.100, neither this AOD nor its terms shall be construed as an admission of law, fact, liability, misconduct, or wrongdoing on the part of The Five Star Parties.

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- Subject to paragraph 2.5 above, The Five Star Parties agree:
- 3.1.1 Five Star will no longer include no-poaching provisions in any of its future U.S. franchise agreements.
- 3.1.2 Five Star will continue not enforcing no-poaching provisions in any of its existing franchise agreements, and will not seek to intervene or defend in any way the legality of any no-poaching provision in any litigation in which a franchisee may claim third-party beneficiary status rights to enforce an existing no-poaching provision;
- 3.1.3 Five Star will make all of its U.S. franchisees aware of the entry of this agreement with the State, and provide them a copy of the AOD upon request;
- 3.1.4 Five Star will notify the Attorney General's Office if it learns of any effort by a franchisee in Washington to enforce any existing no-poaching provision.
- 3.2. Within 60 days of entry of this AOD, Five Star will exercise all reasonable commercial efforts to amend all existing franchise agreements with entities in Washington to remove any no-poaching provisions in its existing franchise agreements. Five Star is under no obligation to offer any franchisee any monetary or non-monetary consideration to induce them to accept the proposed amendment of the franchise, and it shall be under no obligation to take any coercive action against a franchisee that may refuse or decline to agree to any amendment of its franchise agreement. If any franchise owner is unwilling to consent to the change to its franchise agreement, prior to the 60-day deadline, Five Star shall provide the name and address of the resisting franchisee and the name and address of the franchisee's registered agent to the Office of the Attorney General.
- 3.3. In April 2018, Five Star modified its form franchise agreement on a nationwide basis to remove any no-poaching provision. Any existing franchisee that renews a franchise agreement will be party to a franchise agreement without a no-poaching provision.

3.4. Within 30 days of the conclusion of the time period referenced in Section 3.2, Five Star will submit a declaration to the Attorney General's Office signed under penalty of perjury stating that Section 3.1.3 and 3.2 of this agreement have been satisfied.

IV. ADDITIONAL PROVISIONS

- 4.1. This AOD is binding on, and applies to Five Star, including each of its respective directors, officers, managers, agents, and employees (all of the foregoing, acting within the scope of their duties to Five Star), as well as their respective successors and assigns, and controlled subsidiaries through which Five Star may now or hereafter act with respect to the conduct alleged in this AOD.
- 4.2. This is a voluntary agreement and it shall not be construed as an admission of law, fact, liability, misconduct, or wrongdoing on the part of The Five Star Parties, and it is not an order, injunction, or decree. By entering into this AOD, The Five Star Parties neither agree nor concede that the claims, allegations and/or causes of action which have or could have been asserted by the Attorney General have merit and The Five Star Parties expressly deny any such claims, allegations, and/or causes of action. However, proof of failure to comply with this AOD shall be *prima facie* evidence of a violation of RCW 19.86.030, thereby placing upon the violator the burden of defending against imposition by the Court of injunctions, restitution, costs and reasonable attorney's fees, and appropriate civil penalties under the Consumer Protection Act.
- 4.3. Five Star will not, nor will it authorize any of its officers, employees, representatives, or agents to state or otherwise contend that the State of Washington or the Attorney General has approved of, or has otherwise sanctioned, the conduct described in Paragraph 2.2 with respect to the No-Poaching Provision in Five Star's form franchise agreement.
- 4.4. This AOD resolves all issues raised by the State of Washington and the Antitrust Division of the Attorney General's Office under the Consumer Protection Act and any other related statutes pertaining to the acts set forth in paragraph 2.1 2.4 above that may have

| 1 | occurred before the date of entry of this AOD and concludes the investigation thereof. Subject | | |
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| 2 | to paragraph 4.2, the State of Washington and the Antitrust Division of the Attorney General's | | |
| 3 | Office shall not file suit or take any further investigative or enforcement action with respect to | | |
| 4 | the acts set forth above that occurred before the date of entry of this AOD. | | |
| 5 | APPROVED ON this day of, 2019. | | |
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| 1 | Presented by: | • |
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| 12 | Agreed to and approved for entry by: | |
| 13 | Five Star Painting, LLC | |
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