



(Multistate)

FRANCHISE DISCLOSURE DOCUMENT

BAB SYSTEMS, INC.

500 Lake Cook Road, Suite 475

Deerfield, Illinois 60015

Toll Free #: 800/251-6101

Website: www.bigapplebagelsfranchising.com

**Email: Once on the website, click on the “Apply”
Area on the Home Page.**

The franchisee will engage in the business of owning and operating a bagel store which has the capacity for selling bagels, cream cheese spreads, muffins, breakfast and lunch sandwiches and coffee beverages.

The total investment necessary to begin operation of your first BAB Production Store ranges from \$478,000 - \$685,000. This includes \$32,500 you must pay the franchisor or its affiliates. The total investment necessary to begin operation of your first BAB Satellite Store ranges from \$306,500 - \$513,500. This includes \$18,000 you must pay the franchisor or its affiliates.

The total investment necessary to begin operation of your franchised BAB Area Development business is from \$45,000 to \$205,000, all of which you must pay the franchisor. That investment is in addition to the initial investment for your BAB Store. Under the Area Development Agreement, you must open a minimum of 2 BAB Stores.

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

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability in different formats, contact the Franchise Development Department at 500 Lake Cook Road, Suite 475, Deerfield, Illinois 60015 and 800/251-6101.

The terms of your contract will govern your franchise relationship. Don't rely on the Disclosure Document alone to understand your contract. Read all of your contract carefully. Show your contract and this Disclosure Document to an advisor, like a lawyer or accountant.

Buying a franchise is a complex investment. The information in this Disclosure Document can help you make up your mind. More information on franchising, such as “A Consumer's Guide to Buying a Franchise,” which can help you understand how to use this Disclosure Document, is available from the Federal Trade Commission (“FTC”). You can contact the FTC at 1-888-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, DC 20580. You can also visit the FTC's home page at www.ftc.gov for additional information. Call your state agency or visit your public library for other sources of information on franchising.

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

The Issuance Date of this Franchise Disclosure Document is February 3, 2025.

STATE COVER PAGES

How to Use This Franchise Disclosure Document

Here are some questions you may be asking about buying a franchise and tips on how to find more information:

QUESTION	WHERE TO FIND INFORMATION
How much can I earn?	Item 19 may give you information about outlet sales, costs, profits or losses. You should also try to obtain this information from others, like current and former franchisees. You can find their names and contact information in Item 20 or Exhibits H and I.
How much will I need to invest?	Items 5 and 6 list fees you will be paying to the franchisor or at the franchisor's direction. Item 7 lists the initial investment to open. Item 8 describes the suppliers you must use.
Does the franchisor have the financial ability to provide support to my business?	Item 21 or Exhibit P includes financial statements. Review these statements carefully.
Is the franchise system stable, growing, or shrinking?	Item 20 summarizes the recent history of the number of company-owned and franchised outlets.
Will my business be the only BAB Systems business in my area?	Item 12 and the "territory" provisions in the franchise agreement describe whether the franchisor and other franchisees can compete with you.
Does the franchisor have a troubled legal history?	Items 3 and 4 tell you whether the franchisor or its management have been involved in material litigation or bankruptcy proceedings.
What's it like to be a BAB Systems franchisee?	Item 20 or Exhibits H and I list current and former franchisees. You can contact them to ask about their experiences.

What else should I know?	These questions are only a few things you should look for. Review all 23 Items and all Exhibits in this disclosure document to better understand this franchise opportunity. See the table of contents.
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What You Need to Know About Franchising *Generally*

Continuing responsibility to pay fees. You may have to pay royalties and other fees even if you are losing money.

Business model can change. The franchise agreement may allow the franchisor to change its manuals and business model without your consent. These changes may require you to make additional investments in your franchise business or may harm your franchise business.

Supplier restrictions. You may have to buy or lease items from the franchisor or a limited group of suppliers the franchisor designates. These items may be more expensive than similar items you could buy on your own.

Operating restrictions. The franchise agreement may prohibit you from operating a similar business during the term of the franchise. There are usually other restrictions. Some examples may include controlling your location, your access to customers, what you sell, how you market, and your hours of operation.

Competition from franchisor. Even if the franchise agreement grants you a territory, the franchisor may have the right to compete with you in your territory.

Renewal. Your franchise agreement may not permit you to renew. Even if it does, you may have to sign a new agreement with different terms and conditions in order to continue to operate your franchise business.

When your franchise ends. The franchise agreement may prohibit you from operating a similar business after your franchise ends even if you still have obligations to your landlord or other creditors.

Some States Require Registration

Your state may have a franchise law, or other law, that requires franchisors to register before offering or selling franchises in the state. Registration does not mean that the state recommends the franchise or has verified the information in this document. To find out if your state has a registration requirement, or to contact your state, use the agency information in Exhibit J.

Your state also may have laws that require special disclosures or amendments be made to your franchise agreement. If so, you should check the State Specific Addenda. See the Table of Contents for the location of the State Specific Addenda.

Special Risks to Consider About *This* Franchise

Certain states require that the following risk(s) be highlighted:

1. **Out-of-State Dispute Resolution.** The franchise agreement and area development agreement permit you to resolve disputes with the franchisor only by arbitration in the major city nearest where the franchisor's principal business address is then location. Currently, that would be Chicago, Illinois. Out-of-state arbitration may force you to accept a less favorable settlement for disputes. It may also cost more to arbitrate with the franchisor in the Chicago, Illinois area than in your own state.

Certain states may require other risks to be highlighted. Check the State Specific Addenda (if any) to see whether your state requires other risks to be highlighted.

ADDENDUM FOR STATE OF MICHIGAN

THE STATE OF MICHIGAN PROHIBITS CERTAIN UNFAIR PROVISIONS THAT ARE SOMETIMES IN FRANCHISE DOCUMENTS. IF ANY OF THE FOLLOWING PROVISIONS ARE IN THESE FRANCHISE DOCUMENTS, THE PROVISIONS ARE VOID AND CANNOT BE ENFORCED AGAINST YOU:

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

- (i) Failure of the proposed transferee to meet the franchisor's then current reasonable qualifications or standards.
 - (ii) The fact that the proposed transferee is a competitor of the franchisor or subfranchisor.
 - (iii) The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.
 - (iv) The failure of the franchisee or proposed transferee to pay any sums owing to the franchisor or to cure any default in the franchise agreement existing at the time of the proposed transfer.
- (h) A provision that requires the franchisee to resell to the franchisor items that are not uniquely identified with the franchisor. This subdivision does not prohibit a provision that grants to a franchisor a right of first refusal to purchase the assets of a franchise on the same terms and conditions as a bona fide third party willing and able to purchase those assets, nor does this subdivision prohibit a provision that grants the franchisor the right to acquire the assets of a franchise for the market or appraised value of such assets if the franchisee has breached the lawful provisions of the franchise agreement and has failed to cure the breach in the manner provided in subdivision (c).
- (i) A provision which permits the franchisor to directly or indirectly convey, assign, or otherwise transfer its obligations to fulfill contractual obligations to the franchisee unless provision has been made for providing the required contractual services.

THE FACT THAT THERE IS A NOTICE OF THIS OFFERING ON FILE WITH THE ATTORNEY GENERAL DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION, OR ENFORCEMENT BY THE ATTORNEY GENERAL.

If the franchisor's most recent financial statements are unaudited and show a net worth of less than \$100,000.00, franchisee has the right to request an escrow arrangement.

Any questions regarding the notice of this Offering should be directed to:

CONSUMER PROTECTION DIVISION
Michigan Attorney General's Office
Attn: Franchise Section
525 W. Ottawa Street
G. Mennen Williams Building, 1st Floor
P.O. Box 30213
Lansing, MI 48909
(517) 335-7567

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Minnesota, New York, North Dakota, Rhode Island, Virginia, and Wisconsin
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Item 1. THE FRANCHISOR, AND ANY PARENTS, PREDECESSORS AND AFFILIATE

To simplify the language in this Franchise Disclosure Document, the Franchisor, BAB Systems, Inc. will be identified as “BAB” or “We.” “You” means the person (or owners) individually and collectively, who buy the franchise to own and operate a BAB Store under the mark “Big Apple Bagels.”

“Big Apple Bagels Franchisees shall be referred to as “BAGELS Franchisees,” and their Stores will be referred to as “ BAGELS Stores.”

A BAGELS Store is either a BAGELS Production Store or a BAGELS Satellite Store, which are described in greater detail below in this Item 1.

BAB is an Illinois corporation formed in December 1992; its principal address is 500 Lake Cook Road, Suite 475, Deerfield, Illinois 60015. Prior to May 1, 2004, it was 8501 W. Higgins, Suite 320, Chicago, Illinois 60631. BAB is in the business of selling franchises and developing branded products under the names “Big Apple Bagels,” “My Favorite Muffin,” “Brewster’s” coffee, and “SweetDuet.” This disclosure document is for the Big Apple Bagels” or BAGELS Franchise only; BAB has a separate disclosure document for its “My Favorite Muffin” Store franchises. BAB’s primary business is offering and selling franchises. BAB operates a franchise distribution system under License Agreements dated November 30, 2003 and February 1, 2006 (as described in Item 13) with BAB, Inc. The agent for service of process on BAB is listed on Exhibit K.

BAB’s Parent Company

Our parent is BAB, Inc., whose principal address is 500 Lake Cook Road, Suite 475, Deerfield, Illinois 60015.

BAB’s Predecessors

BAB has no predecessors that must be disclosed in this disclosure document.

BAB’s Affiliates

BAB, Inc. is both our parent and our affiliate. BAB, Inc. is a holding company, whose principal address is 500 Lake Cook Road, Suite 475, Deerfield, Illinois 60015. BAB Holdings, Inc. was the predecessor of BAB, Inc. BAB, Inc. owns the trademarks and service marks “Big Apple Bagels,” “My Favorite Muffin,” “Brewster’s,” and “SweetDuet.” BAB, Inc. also has License Agreements described in this Item 1 (with BAB Systems, Inc. and BAB Operations, Inc.). BAB, Inc. also owns the subsidiary corporations described in this Item 1 (BAB Systems, Inc., and BAB Operations, Inc.). Beginning December 1, 2004, BAB, Inc. derived revenue from franchisees’ purchases of coffee, muffin and bakery products, cream cheese, and frozen bagels from BAB’s

designated suppliers. Beginning in 2016, BAB, Inc. derived revenue from franchisees' purchases of fountain soft drinks from BAB's designated supplier.

BAB Operations, Inc. is a wholly owned subsidiary of BAB, Inc. Its principal address is 500 Lake Cook Road, Suite 475, Deerfield, Illinois 60015. It was originally established on August 30, 1995 as a wholly owned subsidiary of BAB Holdings, Inc., primarily to operate company-owned Stores. As of the date of this Franchise Disclosure Document, BAB Operations, Inc. does not own or operate any Big Apple Bagels or My Favorite Muffin Stores, although it may open stores in the future. BAB Operations, Inc. is one of the approved suppliers of signs, menu panels, and printed promotional tools for BAB's Franchisees.

Between 1995 and 2000, BAB Operations, Inc. entered into license agreements with third parties, which granted the third parties the right to sell Branded Products at their retail locations. "Branded Products" are bagels, muffins and bakery products, and coffee retailed and sold to the public under the "Big Apple Bagels," "My Favorite Muffin," and "Brewster's" trademarks, respectively. Currently there are no license agreements with BAB Operations, Inc. for Branded Products.

Description of the Franchise

BAGELS Franchisees all offer similar products primarily through retail distribution, under the trademarks "Big Apple Bagels," "My Favorite Muffin," and "Brewster's," plus designs, and such other trademarks, service marks and commercial symbols (the "Marks") as BAB authorizes from time to time.

A BAGELS Store may sell "Big Apple Bagels" branded bagels and cream cheese spreads, "My Favorite Muffin" branded muffins, and "Brewster's" branded coffee to the public. BAGELS Stores display signage for all 3 branded items. However, the primary exterior sign will be 1 and only: "Big Apple Bagels."

You may be in competition with others offering comparable services and products to retail consumers. You will have to compete with other specialty retail bagel stores and bakery cafes and to an extent, with other outlets offering similar products. You should realize that this industry, including the retail sale of bagels, is highly competitive and such competition affects both BAB and its franchisees.

There are no regulations specific to the retail bagel and muffin business. You must comply with all local, state and federal health and sanitation laws in operating your BAGELS Store. As a seller of food and beverage items, your activities are regulated by, and you are solely responsible for complying with, at your own expense, the Food and Drug Administration ("FDA") and the United States Department of Agriculture and those federal and state laws and regulations relating to food and nutrition labeling and claims, including the Federal Food, Drug and Cosmetic Act, 21 U.S.C. §101 et seq. (the "Act"), as amended by the Affordable Care Act of 2010 and the regulations promulgated

thereunder, including the rule mandating calorie content on menus and complete nutritional information available in the Store. The FDA mandate for calories and nutritional information went into effect on May 7, 2018. You must also comply with any and all nutrition labeling requirements imposed by federal, state or local law which may be enacted after the issuance date of this disclosure document. You must also at your own expense comply with security standards established by the Payment Card Industry Security Standards Council, in connection with credit card transactions.

A. BAGELS Production Store Franchise

BAB will grant to certain qualified persons ("you") franchises to own and operate a BAGELS Production Store at a specific location, under the BAB Marks in accordance with the terms of its standard Franchise Agreement (the "Franchise Agreement") attached as Exhibit B.

A "BAGELS Production Store" is a store which has the capacity for the production, baking, retail and wholesale distribution, and on-site consumption of bagels and muffins, and the production, retail distribution and on-site consumption of cream cheese spreads, breakfast and lunch sandwiches, coffee beverages and soft drinks.

Other than Brewster's branded coffee and My Favorite Muffin branded muffins, the food and drink products utilized in the BAGELS Production Store must be purchased from approved suppliers and/or must meet established standards and specifications. You must purchase coffee and muffin mix from either BAB or its designated supplier.

The franchise is primarily to operate a retail business. However, you may also be granted rights to wholesale certain products under the Wholesale Program Addendum attached as Exhibit F.

B. BAGELS Satellite Store Franchise

Under certain circumstances, BAB may permit you to sell Branded Products from 1 or more BAGELS Satellite Stores. In this event, you must sign the then-current BAGELS Satellite Store Franchise Agreement granting you the right to own and operate a BAGELS Satellite Store. The current Franchise Agreement for the grant of a BAGELS Satellite Store is attached as Exhibit B.

A "BAGELS Satellite Store" is a store which has the capacity for baking, retail and wholesale distribution of bagels and muffins, and the production and retail distribution of cream cheese spreads, breakfast and lunch sandwiches, coffee beverages and soft drinks. The bagels and muffins sold in the BAGELS Satellite Store will be fresh baked and supplied by your own BAGELS Production Store. If you have a BAGELS Production Store that furnishes bagels and muffins to your BAGELS Satellite Store, you must facilitate the timely delivery of products requiring, among other items, additional vehicles, higher insurance coverages, and storage bins. The BAGELS Satellite Store may have a more limited menu than a BAGELS Production Store and may or may not have seating for on-site consumption.

Other than Brewster's branded coffee and My Favorite Muffin branded muffins, the food and drink products utilized in the BAGELS Satellite Store must be purchased from approved suppliers and/or must meet established standards and specifications. You must purchase coffee and muffin mix from either BAB or its designated supplier.

C. Wholesale Program Addendum

If you are in good standing, you may, at the sole and exclusive discretion of BAB, be permitted to sell unbranded bagels and muffins ("Wholesale Unbranded Products") or "Jacobs Bros.®" branded bagels on a wholesale basis by executing the Wholesale Program Addendum attached as Exhibit F. "Wholesale Unbranded Products" are bagels and muffins sold without any identification regarding their source; they are sold as generic products. At your sole option, you may brand the wholesale bagels as "Jacobs Bros.®" Jacobs Bros. is a brand acquired by an affiliate of BAB in 1999, and your use of that brand name for wholesale bagels is authorized. The Wholesale Program Addendum permits you to sell from your BAGELS Production Store certain products, primarily bagels and muffins, but excluding coffee and cream cheese, to retailers or other distribution parties for resale to the ultimate consumer in the Wholesale Market Area. Your Wholesale Marketing Area is defined in the Wholesale Program Addendum, and it is not exclusive. However, you are prohibited from soliciting or delivering Wholesale Unbranded Products outside your Wholesale Marketing Area, which Area is subject to change. There is no initial fee payable to BAB under the Wholesale Program Addendum. The wholesale business is subject to the terms and conditions of the Franchise Agreement as described in this Franchise Disclosure Document.

D. Catering Program Addendum

If you are in good standing, you may, at the sole and exclusive discretion of BAB, be permitted to do catering by executing the Catering Program Addendum attached as Exhibit G to this Franchise Disclosure Document. The Catering Program Addendum permits you to sell from your BAGELS Production Store, within your Catering Marketing Area, Big Apple Bagels® brand bagels, sandwiches and cream cheeses, Brewster's® brand coffee, and My Favorite Muffin® brand muffins. Your Catering Marketing Area is defined in the Catering Program Addendum, and it is not exclusive. However, you are prohibited from soliciting or delivering Catering products outside your Catering Marketing Area, which Area is subject to change. There is no initial fee payable to BAB under the Catering Program Addendum. The catering business is subject to the terms and conditions of the Franchise Agreement as described in this Franchise Disclosure Document.

E. Area Development Rights

BAB, under its standard Area Development Agreement (the "Area Development Agreement"), also grants to certain qualified persons ("Developers") the right, subject to certain terms and conditions, to develop and operate BAGELS Stores within defined geographical areas.

A Developer is obligated to open certain cumulative numbers of BAGELS Production Stores and/or BAGELS Satellite Stores ("Minimum Development Quota") over a number of development

periods, each of which is approximately 6 months in duration (“Development Periods”). Minimum Development Quota and Development Periods are determined by BAB and the Developer on the basis of the market potential, size of the designated area, and through an analysis of the financial and operational capabilities of Developer. With respect to each BAGELS Production Store and BAGELS Satellite Store opened by Developer in his designated area, Developer must sign BAB’s then current form of Franchise Agreement, which may differ from the current Franchise Agreement included in this disclosure document. The amount of the initial franchise fee will be described in Item 5, and will not be subject to increase. Subject to certain terms and conditions, Developer’s right to own and operate Stores within the designated area is exclusive so long as the Area Development Agreement is in effect.

BAB’s Franchising and Licensing History

BAB has never operated a business of the type to be operated by you or in any other line of business. BAB has offered Big Apple Bagels franchises since March 30, 1993 and My Favorite Muffin franchises since 1998. Until September of 2018, BAB offered both franchise brands under one franchise disclosure document. In that disclosure document Big Apple Bagels franchisees and My Favorite Muffin franchisees were collectively referred to as “BAB/MFM Franchisees.” BAB/MFM Franchisees offered bagels, cream cheese spreads, muffins, and coffee primarily through retail distribution, under the trademarks “Big Apple Bagels,” “My Favorite Muffin,” and “Brewster’s.” Starting in September of 2018, BAB discontinued offering the My Favorite Muffin brand under the franchise disclosure document that covered both franchise brands. Instead, BAB created a separate franchise disclosure document for the two types of My Favorite Muffin Stores, which are “My Favorite Muffin Gourmet Muffin Bakery” and “My Favorite Muffin Your All Day Bakery Cafe.” As of November 30, 2024, our last fiscal year-end, there were 12 My Favorite Muffin franchises operating. BAB offered SweetDuet Frozen Yogurt & Gourmet Muffins (under a separate disclosure document) beginning in May 2012. BAB did not sell any stand-alone SweetDuet franchises. In December of 2014 BAB discontinued offering the stand-alone SweetDuet Frozen Yogurt & Gourmet Muffins concept and instead offered SweetDuet as a Dual-Concept. Beginning in January of 2016, BAB no longer offered the SweetDuet frozen yogurt Dual-Concept for BAGELS Stores, but allows franchisees to sell SweetDuet frozen yogurt if they agree to equip their BAGELS Stores to accommodate those additional products. As of the issuance date of this disclosure document, there are no ~~is-4~~ BAGELS Store that sell SweetDuet branded frozen yogurt products.

As of the date of this disclosure document, there are 3 license agreements between BAB and 3 licensees for a Big Apple Bagels Store; those stores are located in Naperville, Illinois, Sun Prairie, Wisconsin, and Castro Valley, California. The Big Apple Bagels store in Naperville, Illinois was originally owned by the founder of the Big Apple Bagels proprietary bagel recipes and cream cheese spread recipes as well as the brand name. The license agreement, when the franchise concept was launched, provided that the Naperville store would continue to be able to operate and use all the Marks in use by BAGELS franchisees without paying any royalties or Marketing Fees. The Wisconsin licensee was originally a BAB franchisee, but converted to a licensee in 2019 upon expiration of its franchise agreement with BAB. The California licensee was originally a BAB franchisee, but

converted to a licensee in 2023 upon expiration of its franchise agreement with BAB. None of the 3 licensees pays BAB royalties or Marketing Fees.

BAB is also the licensor of 1 License Agreement for a My Favorite Muffin Store located in North Brunswick, New Jersey.

As of the issuance date of this disclosure document, we do not offer license agreements for any brands.

BAB may in the future enter into license agreements with third parties granting them the right to sell one or more Branded Products within an area of their outlets devoted to the sale of Branded Products. The sale of Branded Products by such third parties will constitute a relatively small percentage (less than 20%) of their total sales.

BAB's supplier, with BAB's consent, sells proprietary product (muffin mix) to a non-franchised third party.

Affiliates' Franchising History

BAB, Inc. has never offered a franchise business or conducted a business of the type to be operated by you. BAB Operations, Inc. has never offered franchises in this line of business. BAB, BAB, Inc., and BAB Operations, Inc. have never offered franchises in other lines of business.

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Item 2. BUSINESS EXPERIENCE

President, Chief Executive Officer and Director – MICHAEL W. EVANS

Mr. Evans has been Chief Executive Officer and Director of BAB in Deerfield, Illinois, since January of 1993. In February of 1996 he became President of BAB and its affiliates.

Vice President, General Counsel and Director – MICHAEL K. MURTAUGH

Mr. Murtaugh has been a Director of BAB in Deerfield, Illinois, since January of 1993. In January of 1994 he became Vice President and General Counsel of BAB and its affiliates.

Chief Financial Officer – GERALDINE CONN

Ms. Conn has been Chief Financial Officer and Treasurer of BAB and its affiliates in Deerfield, Illinois, since March 2014. From April 2008 to March 2014, she was Controller of BAB.

Director – STEVEN G. FELDMAN

Mr. Feldman has been a Director of BAB in Deerfield, Illinois, since May of 2003. From 2011 to the present, he has been self-employed in Chicago, Illinois, as a consultant and investor in entrepreneurial opportunities.

Director – JAMES A. LENTZ

Mr. Lentz has been a Director of BAB in Deerfield, Illinois, since May of 2004. He is currently retired.

Staff Attorney/Franchise Development Manager – BRIAN J. EVANS

Mr. Evans has been Staff Attorney/Franchise Development Manager of BAB in Deerfield, Illinois, since March of 2017.

Director of Marketing – LESLIE WALTERS

Ms. Walters has been Director of Marketing of BAB in Deerfield, Illinois, since June of 1996.

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Item 3. LITIGATION

No litigation is required to be disclosed in this Item.

Item 4. BANKRUPTCY

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

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Item 5. INITIAL FEES

A. BAGELS Production Store Franchise

Your first BAGELS Store must be a BAGELS Production Store. You must pay an initial non-refundable franchise fee of \$25,000 for your first BAGELS Production Store, payable upon execution of the Franchise Agreement. The initial franchise fee shall be fully earned when you pay it to BAB.

For each subsequent store, the franchise fee will be as follows:

2 nd and subsequent BAGELS Production Stores	\$20,000
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B. BAGELS Satellite Store Franchise

The initial franchise fee for a BAGELS Satellite Store franchise is currently \$15,000, payable upon the execution of the Franchise Agreement.

The initial franchise fee for a BAGELS Satellite Store is non-refundable and shall be fully earned by BAB upon its payment.

In the event, subsequent to execution of your Franchise Agreement, you change your BAGELS Store from 1 type to another (for example, from a BAGELS Satellite Store to a BAGELS Production Store), you must pay BAB the amount by which the franchise fee for the upgraded store (as in effect when you signed the Franchise Agreement) exceeds the amount you paid in connection with the store you originally contracted for.

C. Area Development Agreement

BAB charges a non-recurring and non-refundable Development Fee which you must pay in a lump sum when you sign the Area Development Agreement. This fee is determined by multiplying the aggregate Minimum Development Quota by \$5,000 (but not counting your 1st BAGELS Production Store). The amount of the Development Fee will be inserted in Rider B to the Area Development Agreement before you sign the Area Development Agreement.

Developer is required, if he is not already a BAGELS Franchisee, to sign 1 Franchise Agreement and pay the \$25,000 franchise fee, simultaneously with the execution of the Area Development Agreement.

With respect to each BAGELS Production Store or BAGELS Satellite Store Developer opens under the Area Development Agreement, he must sign BAB's then current standard Franchise Agreement and pay BAB the initial franchise fee shown above in this Item 5. The Development Fee

is not applied to the franchise fees for each unit developed. The initial franchise fees for BAGELS Production Stores opened by Developer are:

2 nd and subsequent BAGELS Production Stores	\$15,000
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The initial franchise fee for each BAGELS Satellite Store opened by Developer is \$10,000.

The initial franchise fees for BAGELS Production Stores and BAGELS Satellite Stores, up to the number of Stores required by Developer's Minimum Development Quota, are not subject to increase, even if BAB in the future increases the initial franchise fees for new franchisees. In the event Developer opens more than the number of Stores required to meet his Minimum Development Quota, either within or outside his Exclusive Development Area, the Developer will pay then-current initial franchise fee, which may be different than the \$15,000 initial franchise fee noted above. The "Minimum Development Quota" is the cumulative number of signed leases Developer must have within the Exclusive Development Area for BAGELS Production Stores or BAGELS Satellite Stores.

D. Preliminary Agreement

You may, but are not required to, sign a Preliminary Agreement (attached as Exhibit A) and pay a \$10,000 deposit for a BAGELS Franchise. You would sign it if you do not have a location for a BAGELS Store and you want to locate your site prior to the execution of a Franchise Agreement. The Preliminary Agreement gives the prospective franchisee a period of 60 days in which to locate a site. If you submit at least 1 site to BAB within the 60 days, but the site is not approved, BAB may, at any time thereafter at its sole discretion, either grant an extension to the above referenced 60 day period or terminate the Preliminary Agreement. If BAB elects to terminate the Preliminary Agreement, it will refund all but \$3,000 of the deposit. If you fail to submit even 1 site to BAB within the 60 days, you will not be entitled to a refund of any of the deposit. If you locate a site and sign a Franchise Agreement, the \$10,000 deposit will be applied toward the initial franchise fee. If you locate a site and it is approved by BAB within the 60 days but you fail to sign a Franchise Agreement within 14 days of the approval, BAB may terminate the Preliminary Agreement and you will not be entitled to any refund of the \$10,000 deposit.

E. Wholesale Program Addendum and Catering Program Addendum

There is no initial fee payable to BAB under the Wholesale Program Addendum or under the Catering Program Addendum.

F. Store Opening Marketing Fee

In addition to the initial franchise fee, you must pay BAB a Store Opening Marketing Fee when you sign the Franchise Agreement. The Store Opening Marketing Fee is \$7,500 for a BAGELS Production Store, and \$3,000 for a BAGELS Satellite Store. For a Franchisee who purchases an existing BAGELS Store, the Store Opening Marketing Fee is \$1,000. The Store Opening Marketing Fee will be used in connection with your grand opening as well as for local advertising for your Store during the initial few months of operation. The Store Opening Marketing Fee is not refundable under any conditions.

G. Veterans Discount Program

To provide support to past veteran and current veterans being released from active service we offer all qualifying veterans a discount of \$10,000 from the Initial \$25,000 Franchise Fee off your first BAGELS Production Store Franchise. This discount does not apply to the Satellite Store franchise, or to your 2nd or subsequent franchises. To qualify for this program, you must be a veteran who has received an honorable discharge from the U.S. Military, and you must provide a copy of your form DD 214 showing your status as a veteran.

H. Variances in Franchise Fees.

During our most recent fiscal year (2024), the franchise fee was applied uniformly to all franchises offered or granted.

At our discretion, we may waive some or all of the Store Opening Marketing Fee. In our most recent fiscal year (2024), the Store Opening Marketing Fee had been waived in certain instances.

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Item 6. OTHER FEES

A. FRANCHISE AGREEMENT

Type of Fee	Amount	Due Date	Remarks
Royalty Fee	5% of Gross Revenues	Every Wednesday for the preceding Reporting Week (Monday through Sunday).	Gross Revenues is the entire amount of all gross sales and business receipts, including direct or indirect barter transactions, catering accounts, proceeds of business interruption insurance policies, wholesale accounts (both on and off premises) from the operation of the Store, whether for cash or credit. It does not include (1) sales, use or service taxes or customer refunds and (2) approved rebates, discounts and allowances. Your POS (Point-of-Sale) System may be polled by BAB. You must make payments by electronic bank draft. Gross Revenues are based on retail prices (unless the purchaser has an arrangement for wholesale purchases, in which event Gross Revenues are based on wholesale prices), subject only to the exclusions noted in (1) and (2) of this paragraph. The inclusion in or exclusion from Gross Revenues of any fees paid by Franchisees to Third Party Delivery Services will be determined by BAB and published in BAB's Operations Manual or as promulgated in a Policy Statement issued by BAB. A "Third Party Delivery Service" is a company or business through which customers purchase menu items from Franchisee's Store, that delivers the menu items to the customers at a location other than Franchisee's Store. Third Party Delivery Services typically charge the Franchisee a fee for this service, which may be automatically deducted from the funds that are collected from the customer prior to disbursement of the funds by the Third Party Delivery Service to the Franchisee. Examples of Third Party Delivery Services include, but are not limited to Grub Hub, DoorDash, UberEats, ezCater
Marketing Fund Contribution	3% of Gross Revenues. Subject to increase by BAB, but not to exceed 5% of Gross Revenues.	Every Wednesday for the preceding Reporting Week.	Gross Revenues calculated in the same manner as for Royalty Fee, except that receipts from wholesale accounts are excluded.
Store Opening Marketing Fee	\$7,500 for Production Store, \$3,000 for Satellite Store; \$1,000 for a transferee	Upon signing Franchise Agreement	The Store Opening Marketing Fee will be used in connection with your grand opening as well as for local advertising for your Store during the initial few months of operation.

Type of Fee	Amount	Due Date	Remarks
Transfer Fee	\$5,000 for Production Store and Satellite Store	Before training of transferee.	Payable if you sell a controlling interest in your franchise. If a proposed sale is not completed, you must reimburse BAB for its reasonable expenses relating to the transfer request. Note: you cannot transfer a Satellite unless your buyer has a Production Store to supply it.
Additional Fee if Transfer is to our Existing Prospect	10% of Sale Price, not to exceed our then-current initial Franchise Fee	Before transfer	Payable if you transfer your franchise to a person with whom we had prior contact with respect to a franchise opportunity.
Document Name Change Fee	\$250	Upon BAB's approval to change Franchisee's name on Franchise Agreement	Payable if you request and BAB approves any alteration, addition, or modification in the name or identity of the Franchisee on your Franchise Agreement.
Renewal	\$2,500	30 days after billing.	Payable if you renew your franchise at the end of the initial term.
Additional Assistance	Reimbursement of our out-of-pocket costs in providing you on-site assistance, including travel and salaries In our last fiscal year we did not charge for Additional Assistance, but we reserve the right to do. The amount will vary depending on our out-pocket costs.	As incurred.	Payable only if BAB provides operating assistance as a result of your failure to comply with any provision of the Franchise Agreement or any specification, standard or operating procedure prescribed by us, or if you request operating assistance in excess of what BAB normally provides.
Testing	\$1,000 - \$5,000	30 days after billing.	To cover costs for testing products, supplies, or materials you request BAB to approve.
Relocation Expenses	Reimbursement of our Costs	30 days after billing.	If you relocate your store, you must reimburse us all our costs including the costs for reviewing and approving your new location and the costs for construction drawings for the Store at its new location.
New Manager Training	\$1,500	Due before training	If you request BAB to train your new Store Manager, you must pay this fee.
Interest	Lower of 2% per month or highest contract rate allowed by law	Upon billing	On late payments. We may compound interest on a monthly basis.

Big Apple Bagels

Type of Fee	Amount	Due Date	Remarks
Assessment for Electronic bank draft being Dishonored	\$25 or \$50	On demand	You must pay a \$25 assessment fee for each of the 1 st 3 times in any calendar year an electronic bank draft we attempt is dishonored, due to insufficient funds or a change in your bank account; after the 1 st 3 transactions per calendar year, the assessment fee is \$50 each
Fee for Default in Paying Fees	\$100 per day	Beginning on 15 th day after default	You must pay a \$100 per day fee if you fail to pay amounts when due
Fee for Default in Reporting Gross Revenues	\$10 per day	Beginning on 8 th day after default	You must pay a \$10 per day fee if you fail to report Gross Revenues. You must report your Gross Sales electronically (email)
Fee for Default in Submitting Register Tapes or Reports, Financial Statements, or Tax Returns	\$100 per day	Beginning on 15 th day after default	You must pay a \$100 per day fee if you fail to submit POS System tapes or reports, financial statements, or tax returns when due. If you are opening a new Store, your POS System will not have paper tapes. Register tapes apply only to existing Stores that were not required to have the current POS System.
Fee for Failure to Properly Use Proprietary Products	\$100 per day	On demand, beginning on the 1 st day of default	You must pay a \$100 per day fee if you fail to properly use proprietary products at your Store as specified in the Franchise Agreement and/or BAGELS Operations Manual.
Fee for Failure to Comply with Specific Operating Standards	\$100 per day	On demand, beginning on the 1 st day of default	You must pay a \$100 per day fee if your Store fails to comply with the following specific Operating Standards: (i) all employees wearing required uniforms; (ii) using approved suppliers; (iii) complying with the insurance requirements, and (iv) always having a manager in the Store who has been trained to our satisfaction..
Fee for Failure to Keep Store Open During Hours Required	\$100 per day	Fee for Failure to Keep Store Open During Hours Required	You must pay a \$100 per day fee if you fail, without obtaining our prior written consent, to keep your Store open during the days and hours (including opening and closing) we require.
Fee for Unauthorized Use of Marks	\$100 per day	On demand, beginning on the 1 st day of default	You must pay a \$100 per day fee if you make any unauthorized use of the Marks in any manner or in any media, including but not limited to signage, menus, advertising, or Internet, and including unauthorized use during the term of the Franchise Agreement, or subsequent to its expiration or termination for any reason.

Type of Fee	Amount	Due Date	Remarks
Fee for Failure to Cooperate with Audit	\$20 per day	On demand, beginning on the 1 st day of default	You must pay a \$20 per day fee if you fail to provide us complete information (business records, bookkeeping and accounting records, bank statements, sales and income tax records and returns, POS System tapes or reports, and other books and records of the BAGELS Store) that we request in connection with an audit of your Store.
Audit	Cost of examination or audit, including charges of independent accountants and travel expenses, room and board, compensation of BAB employees.	30 days after billing.	If audit is necessary due to your failure to furnish reports or if audit shows an under-reporting of 2% or more of Gross Revenues.
Reimbursement of Local or State License Fees	Costs	30 days after billing.	Payable if BAB pays for licenses required by the Franchise Agreement when you fail to do so.
Management Fee	\$250 per day. Subject to increase.	30 days after billing.	Payable if BAB appoints a manager for the Store when the Store is not being managed by you or a qualified manager.
Attorneys' Fees and Costs	Varies	As incurred.	Payable to BAB if BAB prevails in any action.
Indemnification	Varies	As incurred.	You must reimburse BAB for any liability or cost incurred by it by reason of your operation of the Store or your offer or sale of securities.
Liquidated Damages	5% times average Gross Revenues over previous 36 months, discounted to present value based on 4% interest	On demand	Payable if you terminate without good cause, if we terminate for cause, you abandon your Store or you transfer it without our consent
Royalty Fee After Franchise Expires	7% of Gross Revenues	Every Wednesday for the preceding Reporting Week (Monday through Sunday).	If you fail to sign the Renewal Franchise Agreement after the expiration of the Initial Term, and you continue to accept any of the benefits of the franchise, you must pay us a royalty fee equal to 7% of your Gross Revenues

All fees are imposed by and are payable to BAB. All fees are non-refundable. The Royalty Fees and the Marketing Fund Contributions for all Stores, and the Store Opening Marketing Fee for new Production Stores are uniformly imposed. BAB has in certain instances waived the other fees listed in Item 6.

B. AREA DEVELOPMENT AGREEMENT

Type of Fee	Amount	Due Date	Remarks
Indemnification	Varies	As incurred.	You must reimburse BAB for any liability and costs incurred by it by reason of your operation of the development business or your offer or sale of securities.
Transfer Fee	\$2,500	Before transfer.	Payable if you sell any portion of your Area Development rights. If a proposed sale is not completed, you must reimburse BAB for its reasonable expenses relating to the transfer request.
Attorneys' Fees and Costs	Varies	As incurred.	Payable to BAB if BAB prevails in any action.

All fees are imposed by and are payable to BAB. All fees are non-refundable.

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Item 7. ESTIMATED INITIAL INVESTMENT**YOUR ESTIMATED INITIAL INVESTMENT****BAB Production Store Franchise**

Type of Expenditure	Estimated Amount or Estimated High-Low Range	Method of Payment	When Due	To Whom Paid
Initial Franchise Fee ^(1,2)	\$25,000	Lump Sum less Franchise Fee Deposit paid	When you sign the Franchise Agreement	BAB
Store Opening Marketing Fee ⁽³⁾	\$7,500	Lump Sum	Upon signing Franchise Agreement	BAB (BAGELS Marketing Fund)
Professional Fees ⁽⁴⁾	\$5,000 - \$10,000	As Agreed	As incurred	Professionals
First Month's Rent and Security Deposit ⁽⁵⁾	\$4,000 - \$9,000	As agreed in lease	As agreed in lease	Lessor
Insurance ⁽⁶⁾	\$5,000-\$9,000	Lump Sum	As incurred	Insurance Company
Leasehold Improvements ⁽⁷⁾	\$170,000 - \$292,000	As agreed	As incurred	Suppliers
Exterior and Interior Signage and Display ⁽⁸⁾	\$6,000 - \$12,000	As agreed	As incurred	Designated Supplier
Furniture, Fixtures, Equipment ⁽⁹⁾	\$226,000 - \$270,000	As agreed	As incurred	Approved Suppliers
Training ⁽¹⁰⁾	\$2,000 - \$5,000	As incurred	Before Opening	Hotels; Transportation Lines; Car; Restaurants
Prepaid Expenses, Deposits ⁽¹¹⁾	\$500 - \$1,500	Lump Sum	As incurred	Third Parties
Opening Inventory, Supplies ⁽¹²⁾	\$15,000-\$23,000	As agreed	As incurred	Approved Suppliers
Additional Funds - 3 months ⁽¹³⁾	\$12,000 - \$18,000	Varies	As incurred	Third Parties
TOTALS	\$478,000-\$685,000			

Except for the Franchise Fee Deposit, the payments in the table above are non-refundable. The refundability of the Franchise Fee Deposit under the Preliminary Agreement is as follows: If you submit at least 1 site to BAB within the 60 days, but the site is not approved, BAB will refund all but \$3,000 of the deposit. If you fail to submit even 1 site to BAB within the 60 days, you will not be entitled to a refund of any of the deposit. If you locate a site and sign a Franchise Agreement, the \$10,000 deposit will be applied toward the initial franchise fee. If you locate a site and it is approved by BAB within the 60 days but you fail to sign a Franchise Agreement within 14 days of the approval, BAB may terminate the Preliminary Agreement and you will not be entitled to any refund of the \$10,000 deposit.

Neither BAB nor any affiliate finances part of the initial investment.

NOTES:

(1, 2) Initial Franchise Fee. The initial franchise fee is \$25,000. If you enter into a Preliminary Agreement, you must pay BAB a deposit in the amount of \$10,000. If you ultimately sign a Franchise Agreement, you must pay BAB the balance of the applicable initial franchise fee at the time you sign the Franchise Agreement. You must sign the Franchise Agreement within 14 days after we approve your site, or we may terminate the Preliminary Agreement. See Item 5 concerning the refund of your deposit. The \$25,000 is for your first Franchise Agreement; if you sign more than 1 Franchise Agreement, the franchise fee is \$20,000 for your 2nd and subsequent BAGELS Production Stores.

If you are a Developer, for each subsequent store developed under an Area Development Agreement, the franchise fee is \$15,000 for your 2nd and subsequent BAGELS Production Stores.

(3) Store Opening Marketing Fee

You must pay the Marketing Fund a \$7,500 Store Opening Marketing Fee when you sign your Franchise Agreement. The Store Opening Marketing Fee will be used in connection with your grand opening as well as for local advertising for your Store during the initial few months of operation.

(4) Professional Fees

You will need to employ a local architect, and may employ an attorney, accountant or other consultants.

(5) First Month's Rent and Security Deposit

The estimate is for the first month's rent and security deposit typically required to be paid when you sign a lease. The amount will vary depending on the location of the premises, the size of the Store, and the then current rental market.

(6) Insurance

The estimate is for a 1 year premium for the following types of insurance: Workers Compensation including Employers Liability, Comprehensive General Liability; Products Liability; Employment Practices Liability; Cyber Liability; Property Insurance; Business Interruption; and an Umbrella Policy. The cost of insurance will vary based on the types and limits of the insurance you purchase and other factors affecting risk exposure.

(7) Leasehold Improvements

The leasehold improvements you must make include, but are not limited to, flooring, ceiling, lighting, plumbing (including compliance with the Americans with Disabilities Act), electrical upgrades and services, telephone line and Internet connection for the Store and for the POS (Point-of-Sale) System, and cabinetry. The cost of leasehold improvements will vary depending upon the size, condition and location of the premises, price differences between suppliers and terms negotiated with the lessor.

(8) Exterior and Interior Signage and Display Items

You must obtain exterior and interior signage and menu panels from our designated supplier.

(9) Furniture, Fixtures, Equipment

This estimate is for, but is not limited to, the purchase of the following items: large bagel mixer, ovens, bagel divider/former, coffee equipment, muffin mixer, walk-in cooler, shelves, tables, chairs, counters and fax machine. You must also purchase a POS System, credit card processor, computer, monitor and printer that meet BAB's specifications. All equipment must be in operating condition throughout the term of your franchise. Your fax machine must have a dedicated line in your Store. These estimates do not include sales taxes, which vary from state to state or shipping costs. You should factor in sales taxes and shipping costs to these estimates.

(10) Training Expenses

We do not charge you an additional fee for your initial training. You are responsible for transportation and paying the expenses for your meals and lodging while you attend the training program. These costs will depend on your method of transportation, airfare costs (if applicable), whether you rent a car, and the type of accommodations you choose. We based the estimates on 2 persons attending the training.

(11) Prepaid Expenses, Deposits

This estimate covers utility deposits, and license and permit fees.

(12) Opening Inventory, Supplies

This estimate is for initial basic inventory, BAB's proprietary muffin mix, and miscellaneous supplies necessary to begin operating the Store, including but not limited to coffee, teas, other drinks, food products, paper goods, private label disposables, catering packaging, gift cards, gift packaging, branded coffee mugs and employee uniforms. These estimates do not include sales taxes, which vary from state to state or shipping costs. You should factor in sales taxes and shipping costs to these estimates.

(13) Additional Funds - 3 Months

This estimate covers business operating costs including payroll, rent, utilities, other initial costs and expenses for the first 3 months. We compiled these estimates based on our franchisees' recent experience in opening their stores. We based rent estimates on leases, when available. You should not assume that you will break even by the end of the 3 month period, and you may need amounts in excess of the estimated amounts before your business breaks even. NOTE: These figures do not include draw or salary for you. You should have additional sources for payment of personal living expenses.

These figures are estimates for your Production Store, and BAB cannot guarantee that you will not have additional expenses in starting your Production Store. Your costs will depend on factors such as how closely you follow BAB's methods and procedures, your business management and marketing experience, local economic conditions, the local market for your products and services, the prevailing wage rates, competition, and the sales level reached during the first 3 months.

You should review these figures carefully with a business or financial advisor before making any decision to purchase a franchise.

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BAB Satellite Store Franchise

Type of Expenditure	Estimated Amount or Estimated High-Low Range	Method of Payment	When Due	To Whom Paid
Initial Franchise Fee ⁽¹⁾	\$15,000	Lump Sum	When you sign the Franchise Agreement	BAB
Store Opening Marketing Fee ⁽²⁾	\$3,000	Lump Sum	Upon signing Franchise Agreement	BAB (BAGELS Marketing Fund)
Professional Fees ⁽³⁾	\$4,000-\$8,000	As agreed	As incurred	Professionals
First Month's Rent and Security Deposit ⁽⁴⁾	\$4,000-\$8,000	As agreed in lease	As agreed in lease	Lessor
Insurance ⁽⁵⁾	\$4,000-\$8,000	Lump Sum	As incurred	Insurance Company
Leasehold Improvements ⁽⁶⁾	\$130,000 - \$217,000	As agreed	As incurred	Suppliers
Exterior and Interior Signage and Display ⁽⁷⁾	\$5,000 - \$10,000	As agreed	As incurred	Designated Supplier
Furniture, Fixtures, Equipment, ⁽⁸⁾	\$124,000-\$190,000	As agreed	As incurred	Approved Suppliers
Training ⁽⁹⁾	\$0 - \$4,000	As incurred	Before Opening	Hotels; Transportation Lines; Restaurants
Prepaid Expenses, Deposits ⁽¹⁰⁾	\$500 - \$1,500	Lump Sum	As incurred	Third Parties
Opening Inventory, Supplies ⁽¹¹⁾	\$7,000-\$14,000	As agreed	As incurred	Approved Suppliers
Vehicle ⁽¹²⁾	\$2,000 - \$20,000	As agreed	As incurred	Third Parties
Additional Funds - 3 months ⁽¹³⁾	\$8,000-\$15,000	Varies	As incurred	Third Parties
TOTALS	\$306,500-\$513,500			

None of the payments in the above table are refundable.

Neither BAB nor any affiliate finances part of the initial investment.

NOTES:

(1) Initial Franchise Fee

You will pay an initial franchise fee of \$15,000 when you sign the Franchise Agreement for the BAGELS Satellite Store. If you are signing a Franchise Agreement under an Area Development Agreement, your franchise fee will be \$10,000.

(2) Store Opening Marketing Fee

You must pay the Marketing Fund a \$3,000 Store Opening Marketing Fee when you sign your Franchise Agreement for a Satellite Store. The Store Opening Marketing Fee will be used in connection with your grand opening as well as for local advertising for your Store during the initial few months of operation.

(3) Professional Fees

You will need to employ a local architect, and may employ an attorney, accountant or other consultants.

(4) First Month's Rent and Security Deposit

The estimate is for the first month's rent and security deposit typically required to be paid when you sign a lease. The amount will vary depending on the location of the premises, the size of the Store, and the then current rental market.

(5) Insurance

The estimate is for a 1 year premium for the following types of insurance: Workers Compensation including Employers Liability, Comprehensive General Liability; Products Liability; Employment Practices Liability; Cyber Liability; Property Insurance; Business Interruption; and an Umbrella Policy. The cost of insurance will vary based on the types and limits of the insurance you purchase and other factors affecting risk exposure.

(6) Leasehold Improvements

The leasehold improvements you must make include, but are not limited to, flooring, ceiling, lighting, plumbing (including compliance with the Americans with Disabilities Act), electrical upgrades and services, telephone line and Internet connection for the Store and for the POS (Point-of-Sale) System, and cabinetry. The cost of leasehold improvements will vary depending upon the size, condition and location of the premises, price differences between suppliers and terms negotiated

with the lessor.

(7) Exterior and Interior Signage and Display Items

You must obtain exterior and interior signage and menu panels from our designated supplier.

(8) Furniture, Fixtures, Equipment

This estimate is for, but is not limited to, the purchase of the following: small mixer, convection oven, refrigeration equipment, shelves, tables, chairs, counters and fax machine. You must also purchase a POS System, credit card processor, computer, monitor and printer that meet BAB's specifications. All equipment must be in operating condition throughout the term of your franchise. Your fax machine must have a dedicated line in your Store. These estimates do not include sales taxes, which vary from state to state or shipping costs. You should factor in sales taxes and shipping costs to these estimates.

(9) Training Expenses

We do not charge you an additional fee for your initial training. You are responsible for transportation and paying the expenses for your meals and lodging while you attend the training program. These costs will depend on your method of transportation, airfare costs (if applicable), whether you rent a car, and the type of accommodations you choose. We based the estimates on 2 persons attending the training.

For Satellite Stores the low range of \$0 applies for existing franchisees opening a Satellite Store, who have demonstrated to our satisfaction that they are proficient in operating their Production Store and do not need in-person training at our Training Facility.

(10) Prepaid Expenses, Deposits

This estimate covers utility deposits, and license and permit fees.

(11) Opening Inventory, Supplies

This estimate is for initial basic inventory, BAB's proprietary muffin mix, and miscellaneous supplies necessary to begin operating the Store, including but not limited to coffee, teas, other drinks, food products, paper goods, private label disposables, catering packaging, gift cards, gift packaging, branded coffee mugs and employee uniforms. These estimates do not include sales taxes, which vary from state to state or shipping costs. You should factor in sales taxes and shipping costs to these estimates.

(12) Vehicle

You may need a vehicle for your BAGELS Satellite Store, depending on your source of supply for bagels and other food products. The estimates shown are based on leasing and insuring a vehicle for the first 3 months (\$2,000 to \$2,500), and for purchasing a new vehicle and insuring it for 3 months (\$15,000 to \$20,000).

(13) Additional Funds - 3 Months

This estimate covers business operating costs including payroll, rent, utilities, other initial costs and expenses for the first 3 months. We compiled these estimates based on our franchisees' recent experience in opening their stores. We based rent estimates on leases, when available. You should not assume that you will break even by the end of the 3 month period, and you may need amounts in excess of the estimated amounts before your business breaks even. NOTE: These figures do not include draw or salary for you. You should have additional sources for payment of personal living expenses.

These figures are estimates for your Satellite Store, and BAB cannot guarantee that you will not have additional expenses in starting your Satellite Store. Your costs will depend on factors such as how closely you follow BAB's methods and procedures, your business management and marketing experience, local economic conditions, the local market for your products and services, the prevailing wage rates, competition, and the sales level reached during the first 3 months.

You should review these figures carefully with a business or financial advisor before making any decision to purchase a franchise.

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Area Development Agreement

Type of Expenditure	Estimated Amount or Estimated High-Low Range	Method of Payment	When Due	To Whom Paid
Development Fee ⁽¹⁾	\$5,000 - \$45,000	Lump Sum	When you sign the Area Development Agreement	BAB
Initial Franchise Fees ⁽²⁾	\$40,000 - \$160,000	Lump Sum	When you sign the Franchise Agreement	BAB
Totals ⁽³⁾	\$45,000 - \$205,000			

None of the payments in the above table are refundable.

Neither BAB nor any affiliate finances part of the initial investment.

NOTES:

(1) Development Fee.

Developer must pay a Development Fee calculated by multiplying the aggregate Minimum Development Quota by \$5,000. The estimates shown are based on the Minimum Development Quota from 2 to 10 Stores.

(2) Initial Franchise Fees.

For the first BAGELS Production Store, Developer will pay a franchise fee of \$25,000. For subsequent BAGELS Production Stores, the franchise fee will be \$15,000. For BAGELS Satellite Stores the franchise fee will be \$10,000.

The estimates shown are based on the Minimum Development Quota from 2 to 10 Stores.

(3) Totals.

In addition to the Development Fee and Initial Franchise Fees, Developer will incur initial investment costs for each BAGELS Production Store and/or BAGELS Satellite Store described above for each type of Store.

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Item 8. RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

A. FRANCHISE AGREEMENT

You must purchase all your coffee, which is branded in your store as Brewster's, from our designated supplier. The term "supplier" in this disclosure document, when used in connection with our right to designate or approve suppliers from whom Franchisee must purchase products or services, includes not only the manufacturer, but also the distributor of those products or services. BAB, Inc. will derive revenue in the form of a license fee on your purchases of coffee from the designated source under a trademark licensing agreement between BAB, Inc., an affiliate of BAB, and the designated source. The license fee is a certain amount for each pound of coffee purchased by you from the designated source.

You must purchase your cream cheese, either in block form or prepackaged spreads, from our designated supplier. BAB, Inc. will derive revenue in the form of a license fee on your purchases of cream cheese from the designated source under a licensing agreement between BAB, Inc., an affiliate of BAB, and the designated source. The license fee is a certain amount for each pound of cream cheese purchased by you from the designated source.

If you are a BAGELS Satellite Store franchisee, the bagels sold in your Store must be supplied by your own BAGELS Production Store.

You must purchase BAB's proprietary muffin mix for My Favorite Muffin branded muffins. You must purchase this proprietary muffin mix and other bakery products from suppliers designated by BAB. The only exception is if you produce muffins at your BAGELS Production Store, you may supply the unbaked muffin batter to your own BAGELS Satellite Stores. BAB provides its proprietary recipes and processes for the products to manufacturers chosen by BAB. The manufacturers only sell the proprietary products to suppliers approved by BAB. These requirements are imposed by BAB in order to protect its proprietary recipes and processes. BAB, Inc. will derive revenue in the form of a license fee on your purchases of proprietary muffin mix and other bakery products from the designated source under a licensing agreement between BAB, Inc., an affiliate of BAB, and the designated source.

You must purchase from BAB's designated supplier your initial and ongoing inventory of private label items, including but not limited to branded disposables and catering packaging.

In its fiscal year ended November 30, 2024, BAB, Inc. derived license fee revenue of \$80,490 from coffee purchases, \$2,849 from cream cheese purchases, \$3,797 from frozen bagels purchases, and \$93,646 from purchases of muffin mix and bakery products by Franchisees, including My Favorite Muffin Franchisees as well as BAGELS Franchisees.

You must obtain exterior and interior signage, menu panels and certain printed promotional tools from our designated supplier, which is an independent third party. Prior to December 2017, our designated supplier for these same items was BAB Operations, Inc., an affiliate of BAB, which

derived revenue from franchisee purchases of said services. A small selection of these items continue to be supplied by BAB Operations, Inc. In its fiscal year ended November 30, 2024, BAB Operations, Inc. derived \$1,379 in revenue from these purchases

If you purchase equipment from a certain supplier approved by BAB, which supplier furnishes BAB blueprints for your Store (at BAB's expense), BAB may derive revenue or other material consideration from that supplier, either in the form of a partial reimbursement of the cost of the blueprints, or a credit toward future obligations of BAB to that supplier.

You must purchase fountain beverage products from an authorized distributor of Coca-Cola. BAB, Inc. entered into a beverage marketing agreement (the "Beverage Marketing Agreement") with Coca-Cola on December 9, 2015. You will have the right to purchase fountain beverage products at Coca-Cola's then-current published chain account prices, which prices are subject to change from time to time. In its fiscal year ended November 30, 2024, BAB, Inc. derived revenue of \$21,722 from Coca-Cola.

As of the date of this Franchise Disclosure Document, there are no other goods, services, supplies, fixtures, equipment, inventory, computer systems or real estate which you must purchase from BAB or any designees. However, BAB reserves the right to require you to purchase additional items from BAB or its designated source in the future. BAB or its affiliates may derive revenue or other material consideration from your purchases from BAB or its designated source in the future.

In its fiscal year ended November 30, 2024 BAB did not derive any revenue or other material consideration from your other purchases or leases. However, some suppliers pay a rebate to the Marketing Fund from purchases made by My Favorite Muffin Franchisees, based on the agreed-upon dollar amount of rebate per specific quantities of products purchased.

In order to maintain the high standards of the BAB Stores, you must use in the development and operation of the Store only those brands and models of equipment, fixtures, furniture, POS (Point-of-Sale) Systems, fax machines, credit card processor, exterior and interior signs, decor items, tableware, merchandise, materials and supplies for use in operation of the Store which meet BAB's specifications and quality standards and/or are purchased from suppliers approved by BAB. You must purchase all food and drink products (other than bagels, coffee, cream cheese, muffin mix and Coca-Cola described above) from suppliers approved by BAB. BAB reserves the right to require that certain food and drink products or additional food and drink products be purchased exclusively from BAB, its affiliates or other designated sources in the future.

For each Store you own, you must purchase a POS System, credit card processor, computer, monitor and Internet service provider that meet BAB's standards and specifications. BAB may require you to lease proprietary software from BAB or a third party designated by BAB, and to enter into a software License Agreement with BAB or such third party. Upon BAB's request, you must purchase our designated equipment and/or software that will process BAB authorized gift cards and/or the BAB loyalty program ("Gift Card/Loyalty Program"), as well as credit card transactions and mobile pay.

Except as described above, neither BAB nor any of its affiliates are currently approved suppliers of any other equipment, fixtures, furniture, decor items, tableware, merchandise, material, supplies, POS System, credit card processor, computer, monitor, software, terminal, or food or drink products. Other than the revenue and rebates described above, neither BAB nor its affiliates has derived revenue or other material consideration from these required purchases.

These purchases which must be made in accordance with BAB's specifications or from suppliers approved by BAB represents approximately 90% of your total purchases in establishing your Store and approximately 35% of your total expenses in operating the Store.

We will provide you, in the Operations Manuals and the training materials, standards, specifications and names of approved suppliers. BAB may modify the standards and specifications and the list of approved suppliers. We notify you of updates and modifications to our standards and specifications by mailed bulletins and/or broadcast electronic mail.

If you propose to purchase or lease any equipment, fixtures, furniture, POS Systems, signs, decor items, tableware, merchandise, materials, products, supplies or services not previously approved by BAB or from suppliers not previously approved by BAB, you must submit a written request to BAB for approval prior to your use of the item. BAB will consider any request by you for approval of a potential supplier or modification of a standard or specification. If BAB requests you to do so, you must also submit to BAB sufficient specifications, photographs and/or other information or samples for examination and/or testing. BAB will communicate to you within 60 days its determination on whether it approves the supplier or item for your use. BAB can charge you a fee between \$1,000 to \$5,000 to cover its expenses in testing or inspecting any item. BAB will issue you its criteria for approving suppliers upon written request.

BAB reserves the right to revoke its approval of any food products at any time upon written notice to you, provided that you may continue to offer and sell all remaining on-hand or ordered inventory of such product as of the date of receipt of written notice from BAB.

BAB and BAB, Inc. are not approved suppliers of any products or services you must purchase. BAB Operations, Inc. is an approved supplier, but not the only approved supplier of exterior and interior signage, menu panels and certain printed promotional tools.

There are no approved suppliers in which any of our officers has an ownership interest.

There are no purchasing or distribution cooperatives. BAB has negotiated from time to time, and may in the future negotiate, arrangements with suppliers for the purchase of food products to be offered by its franchisees. BAB reserves the right to arrange with said suppliers to pay a rebate to the Marketing Fund from purchases made by BAGELS Franchisees and if any are developed in the future, Company-owned Stores.

BAB does not provide material benefits to you based on your purchase of particular products or services or use of particular suppliers.

The insurance policies you must purchase and maintain throughout the term of the franchise must be issued by an insurance carrier duly admitted in the Store's state, with an A.M. Best rating not less than A-, and acceptable to BAB. You must maintain coverage for: Workers Compensation including Employers Liability in the limit of no less than \$500,000; Comprehensive General Liability of no less than \$1,000,000 per occurrence with a General Aggregate of no less than \$2,000,000; Products Liability of \$2,000,000; Employment Practices Liability of no less than \$500,000; Cyber Liability of no less than \$1,000,000; Property Insurance in the amount of the replacement cost for stock, inventory, equipment and improvements and betterments; Business Interruption in an amount equal to at least 12 months of your gross revenue, and coverage for equipment breakdown in the minimum amount of \$25,000; and an Umbrella Policy of no less than \$1,000,000. In addition, if you use a vehicle to deliver product or supplies, you must maintain coverage for Comprehensive Auto Liability coverage of no less than \$1,000,000. Further, if any of your employees ever use a vehicle for company business, the Comprehensive General Liability insurance must include "Hired and Non-Owned" automobile liability coverage of no less than \$1,000,000. The cost of insurance will vary based on the types and limits of the insurance you purchase and other factors affecting risk exposure. BAB may periodically increase the amounts of coverage required under such insurance policies and require different or additional kinds of insurance at any time, including excess liability insurance, to reflect inflation, identification of new risks, changes in law or standards of liability, higher damage awards or other relevant changes in circumstances. You must name on each insurance policy described in this paragraph BAB Systems, Inc. (500 Lake Cook Road, Suite 475, Deerfield, Illinois 60015) as additional insured on a primary and noncontributory basis. The policy must provide for 30 days' prior written notice to BAB of any material modification, cancellation or expiration of the policy unless prohibited by local insurance regulations. All policies must have a waiver of subrogation in favor of BAB

B. AREA DEVELOPMENT AGREEMENT

The Area Development Agreement does not contain any provisions requiring you as Developer to purchase or lease in accordance with specifications or from approved suppliers. As to each BAGELS Store you open, you will have the obligation to purchase or lease in accordance with BAB's specifications or from approved suppliers as are in the then current standard form of Franchise Agreement. The obligations under the current Franchise Agreement are discussed above.

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Item 9. FRANCHISEE'S OBLIGATIONS

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

A. FRANCHISE AGREEMENT

Obligation	Section in Franchise Agreement (unless otherwise specified)	Item in Franchise Disclosure Document
a. Site Selection and acquisition/lease	3.a.	11
b. Pre-opening purchases/leases	3.a., 3.b., 3.c.	7, 8
c. Site development and other pre-opening requirements	3.b., 3.c.	7, 11
d. Initial and ongoing training	4.a., 4.b.	6, 11, 15
e. Opening	3.e.	11
f. Fees	8, 13	5, 6, 7
g. Compliance standards /Operations Manual	4.c., 9	8, 11, 14, 16
h. Trademarks and proprietary information	5, 6	11, 13, 14
i. Restrictions on products/services	9.a., 9.b., 9.c.	8, 16
j. Warranty and customer service requirements	9.c., 9.d.	16
k. Territorial development	Not Applicable	Not Applicable
l. Ongoing product/service purchases	9.a., 9.b.	8, 16
m. Maintenance, appearance and remodeling	3.d., 9.a., 9.b., 9.c.	16
n. Insurance	9.g.	6, 7, 8
o. Advertising	9.d., 10	6, 7, 11
p. Indemnification	7.d., 7.e., 9.b.viii	6, 13
q. Owner's participation/ management staffing	4.a., 4.b., 9.e.	15
r. Records/reports	11	6
s. Inspections/audits	12	6, 11
t. Transfer	14	6, 17
u. Renewal	2.b.	6, 17
v. Post-termination obligations	17	17
w. Non-competition covenants	9.f., 17.d.	17

Obligation	Section in Franchise Agreement (unless otherwise specified)	Item in Franchise Disclosure Document
x. Dispute resolution	18	6, 17
y. Liquidated damages	17.g.	6
z. Guarantee of franchisee obligations	Rider C	15

B. AREA DEVELOPMENT AGREEMENT

Obligation	Section in Area Development Agreement	Item in Franchise Disclosure Document
a. Site Selection and acquisition/lease	2.A., 5.A.	11
b. Pre-opening purchases/leases	3.C.	1, 8, 12
c. Site development and other pre- opening requirements	Not Applicable	Not Applicable
d. Initial and ongoing training	Not Applicable	Not Applicable
e. Opening	Not Applicable	11
f. Fees	6	5, 6, 7
g. Compliance with standards and policies/Operations Manual	Not Applicable	Not Applicable
h. Trademarks and proprietary information	8	13
i. Restrictions on products/services	Not Applicable	16
j. Warranty and customer service requirements	Not Applicable	Not Applicable
k. Territorial development and sales quotas	3.C.	1, 11, 12
l. Ongoing product/service purchases	Not Applicable	Not Applicable
m. Maintenance, appearance and remodeling requirements	Not Applicable	Not Applicable
n. Insurance	Not Applicable	Not Applicable
o. Advertising	Not Applicable	Not Applicable
p. Indemnification	14	6
q. Owner's participation/ management/staffing	9	15
r. Record/reports	Not Applicable	Not Applicable
s. Inspections/audits	Not Applicable	Not Applicable

Obligation	Section in Area Development Agreement	Item in Franchise Disclosure Document
t. Transfer	12.A., 12.B., 12.C	6, 17
u. Renewal	Not Applicable	17
v. Post-termination obligations	11	17
w. Non-competition covenants	7.C, 11.C.	15, 17
x. Dispute resolution	13.G.	6, 17
y. Liquidated damages	Not applicable	Not applicable
z. Guarantee of franchisee obligations	Rider C	15

Item 10. FINANCING

BAB does not offer direct or indirect financing to you. BAB does not guarantee your note, lease or obligations.

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**Item 11. FRANCHISOR'S ASSISTANCE, ADVERTISING,
COMPUTER SYSTEMS AND TRAINING**

Except as listed below, BAB need not provide any assistance to you.

Before Opening of the Store

BAB will provide the following services and guidance in connection with the establishment of your unit, whether a Production Store or a Satellite Store:

BAB or its delegate will assist you in selecting a site for the Store (Paragraph 3.a, Franchise Agreement). However, you are responsible for locating the site.

BAB provides you basic drawings and specifications for the development of a BAGELS Store. You must take these drawings and specifications to a licensed architect who will modify them, if required, to meet applicable ordinances, buildings codes or permit requirements. BAB must approve any such modifications to the drawings and specifications (Paragraph 3.b, Franchise Agreement).

For each of your Production Stores and Satellite Stores, BAB lends you a BAGELS Store Operations Manual (the "BAGELS Operations Manual"), and such related types of materials and charts (Paragraph 4.c., Franchise Agreement). The Table of Contents of the BAGELS Operations Manual is attached as Exhibit Q. As of the issuance date of this Franchise Disclosure Document, the total number of pages in the BAGELS Operations Manual was 289.

BAB furnishes an initial training program which is described in more detail later in this Item (Paragraph 4.a, Franchise Agreement).

BAB will furnish guidance to you on purchasing approved equipment, signs, fixtures, opening inventory, and supplies. BAB does not provide, deliver, or install such items directly; it only provides names of approved suppliers and/or written specifications for these items. (Paragraph 4.b., Franchise Agreement).

For each Store you own, you must purchase a POS (Point-of-Sale) System, credit card processor, computer, monitor, printer and Internet service provider that meet BAB's standards and specifications. You must record all sales on the POS System as designated by BAB. The cost to purchase a combination fax machine/printer ranges from \$150 to \$450. The POS System and software are not proprietary to BAB. The principal function of this equipment is to record sales and individual product sales, as well as sales by hour and half-hour. It is also used for computing sales tax, to provide individual and group product information and as an employee time clock. The current cost to purchase the POS System with one POS register is approximately \$2,200. The cost to purchase the POS system with two POS registers is approximately \$4,400. Both prices include the Emerge POS and thermal printer, cash drawer, software, shipping and installation. In addition there is a monthly fee of \$95 (for one POS system) or \$116 (for two POS system) for the software

license and software maintenance. The hardware and software manufacturers have no obligation to provide ongoing maintenance, repairs, upgrades or updates. The cost of the BAB arrangement with MicroSale includes the first year of hardware maintenance. Additional coverage can be purchased for subsequent years. You are under no contractual obligation to extend your maintenance coverage. You are under a contractual obligation to upgrade your computer system; we are unable at this time to predict your annual costs for possible upgrades. There are no limits on the frequency or cost of the contractual obligation to upgrade the computer systems. You shall be solely responsible for protecting the POS System and related software/hardware from viruses, computer hackers, and other computer-related and technology-related problems. A credit card processing system must be purchased at an estimated cost of \$300 to \$500.

BAB has the right to independently poll your POS System (via modem, the cloud, or any other Internet-based technology available to BAB) at any time to obtain sales data, in order to gather sales trend data, product mix information, or any other purpose BAB in its sole discretion deems appropriate.

Upon BAB's request, you must purchase our designated equipment and/or software that will process BAB authorized gift cards and/or the BAB loyalty program ("Gift Card/Loyalty Program"), as well as credit card transactions and mobile pay. Currently there is no processing equipment or software for gift cards or mobile pay, but we reserve the right in the future to require you to obtain it as it becomes available. You must offer for sale BAB Gift Cards and the Loyalty Program, which must be in the form and version we designate and approve.

We use email and fax for many of our communications with our franchisees. You must have Internet and email access with high-speed Internet service (DSL or cable). You must also maintain a fax machine in good operating condition, which must be set on "Automatic Receive," with a dedicated phone line. Unless you have another method to access Internet and e-mail, you must purchase computer hardware and software, as well as the services of an Internet provider to enable you to access BAB's intranet and use vendor on-line ordering systems. BAB may require you to lease proprietary software from BAB or a third party designated by BAB, and to enter into a software License Agreement with BAB or such third party. BAB reserves the right to access information and data pertaining to your Store produced by and/or stored on your computer system. There are no contractual limits on BAB's right to access the information. As technology advances, you must comply with our requirements, as described in the BAGELS Operations Manual or via Policy Statement, in order for us to be able to communicate with you. The information and data we may access includes that of any Third Party Delivery Service companies through which customers purchase menu items from your Store. You must, upon our request, furnish us with access information to the websites of any Third Party Delivery Service being used in order to enable us to verify your Gross Revenues from all sources.

After the Opening of the Store

During the operation of the Store:

BAB will provide additional training at your location near the time of the Store opening. Such training will be given by an employee of BAB (Paragraph 4.a, Franchise Agreement). This additional training may be conducted in different locations and ways, in the event of circumstances beyond BAB's control. For example, in the event of a pandemic or health emergency, BAB's conduct of additional training, which contemplates face-to-face contact, on-site presence, and/or travel, will be considered adequately fulfilled if BAB substitutes or modifies the activities in a manner that does not involve such face-to-face contact, on-site presence, and/or travel.

BAB continues to lend you the BAGELS Operations Manual and may provide you modifications to the manual to reflect changes in specifications, standards and operating procedures (Paragraph 4.c, Franchise Agreement).

BAB will furnish guidance to you on: (1) specifications, standards and operating procedures utilized by BAGELS Stores, and any modifications; (2) purchasing approved equipment, furniture, POS Systems, signs, operating materials and supplies; (3) methods of food preparation and sale and improvements thereon; and (4) the establishment and maintenance of administrative, bookkeeping, accounting and general operating and management procedures. This guidance may be in the form of the BAGELS Operations Manual, Franchisee intranet, bulletins, written reports and recommendations, other written materials or by consultations by telephone or consultations in person at your Store or BAB's corporate offices (Paragraph 4.b., Franchise Agreement).

BAB will defend you in any legal proceeding brought against you by reason of your proper use of the Marks (Paragraph 5.f, Franchise Agreement).

BAB may conduct market research and testing to determine consumer trends and the salability of new products and services (Paragraph 9.a, Franchise Agreement).

BAB will conduct such testing and review as necessary to determine whether a product or supplier proposed by you should be approved (Paragraph 9.b, Franchise Agreement).

BAB will administer a Marketing Fund to conduct marketing and promotional programs (Paragraph 10.a., Franchise Agreement).

BAB will review all local advertising and promotional materials which you propose to use and determine whether the advertising should be approved for use (Paragraph 10.b.iii., Franchise Agreement).

BAB will interview and evaluate any proposed purchaser of said Store to determine whether the transferee meets its then-current qualifications for franchisees (Paragraph 14.b, Franchise Agreement).

BAB reviews the raw ingredient costs of menu items and provides you suggested retail pricing. These are suggestions only, and you are free to establish your own prices.

BAB may delegate to a third party some or all of the ongoing services listed above.

Marketing and Promotion

There will be a Big Apple Bagels Marketing Fund shared by all BAGELS Franchisees, to which all BAGELS Franchisees will contribute.

You must contribute 3% of your Gross Revenues to the Marketing Fund, which is intended to maximize recognition of the Marks and patronage of BAGELS Stores. BAB can increase the amount you must contribute to the Fund, but the increased amount will not exceed the Marketing Fund contribution required of franchisees under BAB's then-current form of Franchise Agreement, and never greater than 5% of your Gross Revenues. Stores owned by BAB or its affiliates will contribute to the Fund on the same basis as franchisees.

BAB will spend a portion of your Marketing Fund Contribution on local advertising in your market. BAB will determine how and in what amounts the monies are spent, and BAB does not make any representation that any specific amount or percentage of your payments to the Marketing Fund will be used on local advertising in your market or for your Store.

Other than spending a portion of your Marketing Fund Contribution on local advertising in your market as described above, BAB is not obligated to spend any amount on advertising in the area where your Store is located.

BAB will direct all marketing programs financed by the Marketing Fund with sole discretion over the creative concepts, materials and endorsements and the geographic market and media placement and allocation. The Marketing Fund is intended to maximize recognition of the Marks and the BAGELS Stores. BAB is not obligated to make expenditures for you which are equivalent or proportionate to your contribution or to ensure that you or any particular franchisee benefits directly or proportionately from expenditures by the Marketing Fund.

The Marketing Fund may be used to pay the costs of preparing and producing video, audio and written advertising materials; employing advertising agencies; and supporting public relations, market research, customer surveys and other feedback methods, social network and technology application marketing programs, and other advertising and marketing activities.

The Marketing Fund will be accounted for separately from the other funds of BAB and will not be used to defray any of BAB's general operating expenses, except for such reasonable salaries, administrative costs and overhead as BAB may incur in activities reasonably related to the administration of the Marketing Fund and its marketing programs, including conducting market research, preparing advertising and marketing materials and collecting and accounting for contributions to the Marketing Fund.

BAB has utilized the Marketing Fund for print advertising, in-store signage, phone apps, radio, Internet (both website and social media) and billboards. The advertising materials have been generated both in-house and by an outside agency.

Marketing Expenditures: The Fund is not audited, but reports are available for review by the franchisee upon written request. In the year ending November 30, 2024, the BAB Systems Marketing Fund was expended in the following manner: 1.4% on creative, 47.5% on media, 21.6% on production, and 29.5% on administrative.

BAB's other concepts, My Favorite Muffin and SweetDuet, each have a marketing fund for its franchisees. The advertising conducted by the Big Apple Bagels Marketing Fund may promote the products of the My Favorite Muffin and the SweetDuet stores as well as your own products. Despite the "spill-over" benefit of such promotions none of the 3 Marketing Funds will pay or contribute to the other for such benefit.

Stores operating under a License Agreement (as distinguished from a Franchise Agreement) do not contribute to the Marketing Fund.

We will not use Fund contributions to create or place any advertisement that is principally a solicitation for new franchises, but we reserve the right to include in any advertising prepared from Fund contributions (including Internet advertising) information concerning franchise opportunities.

If all Marketing Fund contributions are not spent in the fiscal year in which they accrue, the monies are simply rolled over for use in the next year. BAB may terminate the marketing program by giving 30 days written notice of such termination. BAB will have the right to reinstate the marketing program under the same terms and conditions by giving you 30 days prior written notice of said reinstatement.

There is no advertising council composed of franchisees that advises us on advertising policies.

Other than utilizing the Marketing Fund as described above, BAB is not obligated to conduct advertising for the franchise system.

Local Advertising.

You must conduct a Grand Opening marketing campaign that meets our approval. It must be conducted beginning at least 4 weeks after opening for business. You must pay us the Store Opening Marketing Fee, which will be used in connection with your Grand Opening as well as for local advertising for your Store during the initial few months of operation. The Store Opening Marketing Fee is \$7,500 for a BAGELS Production Store and \$3,000 for a BAGELS Satellite Store. If you are purchasing an existing BAGELS Store (transfer), the Store Opening Marketing Fee is \$1,000, which will be used to conduct a "re-Grand Opening" within 8 weeks of re-opening the Store.

In addition to the Grand Opening, you must spend at least 2% of your Gross Revenues on ongoing local advertising. The 2% is a minimum requirement and BAB encourages you to spend more than 2% on local advertising. We may require you to submit receipts, invoices, and other documentation to verify compliance with this requirement. Payment of your 3% Marketing Fund Contribution does not fulfill this obligation. BAB will use a portion of your Store Opening Marketing Fee for local marketing during the initial few months of your Store's operation.

If at the time you sign a Franchise Agreement, a local advertising cooperative is in existence, or if after you sign a Franchise Agreement, a local advertising cooperative is formed in the area where your BAGELS Store is to be located, you must participate. Currently there are no local advertising cooperatives in existence. All aspects of the formation and operation of the cooperative are determined by the members of the cooperative who are not BAB-owned or affiliate-owned Stores; such aspects include the budget, members' contribution, area, membership of the cooperative, voting rights, responsibility for administration, the governing documents, the preparation of financial statements, and the availability of those statements for review by you. BAB does not have the power to require cooperatives to be formed or to change, dissolve, or merge existing cooperatives. BAB-owned or affiliate-owned Stores are not required to participate in any local co-operatives, however if they do participate, BAB-owned or affiliate-owned Stores shall have no voting rights or power to dictate the operation of any local advertising co-operative. Franchisor-owned outlets have no voting power on fees imposed by franchisee cooperatives.

You are permitted to use your own advertising material only after receiving written approval from BAB.

You are strictly prohibited from creating a Social Media account or posting anything on Social Media sites involving your Store or that uses our Marks. We reserve the right to require you to obtain our approval of any message involving your Store or that uses our Marks that you send or post over Social Media. We have the sole right to control all aspects of Digital Marketing, including those related to your Store. Unless we consent otherwise in writing, you may not, directly or indirectly, conduct or be involved in any Digital Marketing that uses the Marks or is related to your Store. If we do give you written consent to conduct any Digital Marketing, you must do so in compliance with our guidelines, specifications, standards, policies or procedures we may issue relating to Digital Marketing.

Site Selection and Store Opening

BAB must approve the site for your BAGELS Store. You must locate the site, using a licensed real estate broker who specializes in commercial real estate. You must submit detailed site information to BAB as BAB prescribes. BAB considers the following factors in approving a site: the demographic characteristics, traffic patterns, parking, character of neighborhood, competition from other businesses within the area, the proximity to other businesses (including other BAGELS Stores), and the size, appearance and other physical characteristics of the site. The lease for the site must include certain provisions required by BAB and stated in the Franchise Agreement. BAB does not generally own the premises for a BAB Store and lease it to a franchisee.

If you sign a Preliminary Agreement, then, under Paragraph 5 of that Agreement, BAB will expend such time and effort and incur such expense as may reasonably be required to inspect sites you propose. If you submit at least 1 site to BAB within the 60 days, but the site is not approved, BAB may, at any time thereafter at its sole discretion, either grant an extension to the above referenced 60 day period or terminate the Preliminary Agreement. If BAB elects to terminate the Preliminary Agreement, it shall refund all but \$3,000 of the deposit. If you fail to submit even 1 site to BAB within the 60 days, you will not be entitled to a refund of any of the deposit. If you fail to locate a site we approve, you will not be granted a franchise. If you and BAB cannot agree on a site, and you have signed a Preliminary Agreement, then we will not enter into a Franchise Agreement with you. Refundability of a portion of the deposit will depend on the timing and circumstances described above.

If you elect not to sign a Preliminary Agreement, BAB will approve or disapprove a site you select within 15 business days of the date we receive all the information we require regarding your proposed site, which may include a site visit. You must select a site and submit it to us for our approval within 90 days of signing the Franchise Agreement. If you fail to do so, BAB can terminate your franchise, and none of your Franchise Fee will be refunded. If you and BAB cannot agree on a site, and you have not signed a Preliminary Agreement, BAB can terminate your franchise, and none of your Franchise Fee will be refunded.

The estimated length of time from the date the Franchise Agreement is signed to the opening of the Store ranges from 6 to 12 months. If your Store is located in a center that has not yet been constructed, this time estimate may be significantly longer. Factors affecting this length of time include site selection, local ordinance compliance questions, build-out and leasehold improvements, contractor delays, delivery of inventory and equipment and successful completion of the initial training program.

By the terms of the Franchise Agreement, you must open your Store within 6 months of obtaining possession of the site and no later than 12 months of signing the Franchise Agreement.

Training

Production Store Training

You (or, if you are a corporation, partnership, or limited liability company, its controlling shareholder, managing partner, or member) must complete the Production Store initial training program to BAB's satisfaction prior to opening your business. The initial training program is held generally no more than 4-6 weeks prior to opening. It consists of classroom and/or online instruction via a telecommunication platform such as Zoom, and in-store operations experience. You may bring 1 additional individual to training, either a co-owner or employee. Additional operational training is held for you and your staff at your BAGELS Store near the time of the store opening. The total time provided for training will be for a minimum of 10 days and a maximum of 18 days. Training will be conducted as needed, so new Franchisees will not have to wait more than 1 month after they are ready for training, per BAB's criteria. Training will consist of all phases of the operation including unit operations, bookkeeping, financial controls, local Store marketing, customer service, and employee relations.

If you have purchased or are in the process of purchasing an existing Store from another franchisee in an approved transfer, the initial training program will not include topics relating to developing and opening a new store and will therefore be shorter in duration than the training chart below.

Satellite Store Training

For the Satellite Store, we reserve the right to require you to attend Satellite Store training. If we do not require you to attend it, it is then at your option to participate in either the classroom, online, or store operations training, or none of the previously listed trainings, at our discretion. The initial training program is held generally no more than 4-6 weeks prior to opening. You may bring 1 additional individual to training, either a co-owner or employee. Additional operational training is held for you and your staff at your Satellite Store around the time of the store opening. The total time provided for training will be for a minimum of 3 days and a maximum of 18 days. The training for a Satellite Store could be as short as 3 days, because the Franchisee taking this training is typically an existing franchisee opening the Satellite Store as an additional location. Training will be conducted as needed, so new Franchisees will not have to wait more than 1 month after they are ready for training, per BAB's criteria. Training will consist of all phases of the operation including unit operations, bookkeeping, financial controls, local Store marketing, customer service, and employee relations.

Although there are no additional fees for the Production or Satellite Store training program, you must pay your own travel and living expenses incurred in attending the initial training program.

The following tables summarize the Production Store and the Satellite Store training programs:

Production Store Training Program

SUBJECT	HOURS OF CLASSROOM OR ONLINE TRAINING	HOURS OF OPERATIONAL TRAINING	LOCATION*
Point of Sale/Credit Card Processing	1 – 2	5 – 12.5	Online or BAB's Training Facility; see below (*)
Store Equipment	0 – 1	2 – 4	
Bagel Preparation	0	12 – 25	
Beverages, Overview & Preparation	1 – 1.5	4 – 12	
Muffin Preparation	0	4 – 8	
Deli Product Preparation	0	14 – 28	
Store Opening Procedures	0	2	
Store Closing Procedures	0	2	
Customer Service Procedures	1.75 – 2.25	8 – 18	
Accounting/Weekly Reporting Compliance	0.5 – 0.75	1	
Insurance	0.75	0	
Daily Administration	0	2	
Marketing	2 – 3	1	
Internal Theft/Cash Management	0.25	0.5	
Financial Management Overview	0.5	0	
Cost of Goods Sold/Inventory	0.5 – 1.25	2 – 6	
Ordering	0	3 – 4	
Compliance & Franchise Relations	0.75	0	
Regulatory Compliance	1.0	1.0	

SUBJECT	HOURS OF CLASSROOM OR ONLINE TRAINING	HOURS OF OPERATIONAL TRAINING	LOCATION*
Food Safety & Sanitation	0.5 – 0.75	2	
Recruiting, Hiring Orientation and Training	1 – 1.5	1	
Vendor Orientations	0 – 1.75	0	
Time Management	0.5	0	
Labor Scheduling	0.75 – 1.25	4	
Gift Baskets	1	1	
Misc. (quizzes, working lunches, graduation, etc.	4 – 6	0	
Store Development Meetings	2 – 4	0	
Reading Homework	3 – 6	4 – 8	

Satellite Store Training Program

SUBJECT	HOURS OF CLASSROOM OR ONLINE TRAINING	HOURS OF OPERATIONAL TRAINING	LOCATION*
Point of Sale/Credit Card Processing	0 – 2	3 – 10	Online or BAB's Training Facility; see below (*)
Store Equipment	0 – 1	2 – 4	
Bagel Preparation	0	3 – 15	
Beverages, Overview & Preparation	0 – 1.5	3 – 8	
Muffin Preparation	0	4 – 8	
Deli Product Preparation	0	4 – 18	
Store Opening Procedures	0	1 – 2	

SUBJECT	HOURS OF CLASSROOM OR ONLINE TRAINING	HOURS OF OPERATIONAL TRAINING	LOCATION*
Store Closing Procedures	0	1 – 2	
Customer Service Procedures	0 – 2.25	4 – 15	
Accounting/Weekly Reporting Compliance	0 – 0.75	1	
Insurance	0 – 0.75	0	
Daily Administration	0	1 – 2	
Marketing	0 – 2	0 – 1	
Internal Theft/Cash Management	0 – 0.25	0 – 0.5	
Financial Management Overview	0 – 0.5	0	
Cost of Goods Sold/Inventory	0 – 1.25	2 – 4	
Ordering	0	1 – 3	
Compliance & Franchise Relations	0 – 0.75	0	
Regulatory Compliance	0 – 1.0	0 – 1.0	
Food Safety & Sanitation	0 – 0.75	0 – 2	
Recruiting, Hiring Orientation and Training	0 – 1.5	0 – 1	
Vendor Orientations	0 – 1.75	0	
Time Management	0 – 0.5	0	
Labor Scheduling	0 – 1.25	0 – 3	
Gift Baskets	0 – 1	0 – 1	
Misc. (quizzes, working lunches, graduation, etc.	0 – 6	0	
Store Development Order Meetings	0 – 4	0	
Reading Homework	0 – 6	0 – 8	

*Currently the training time designated as being “Classroom or Online” is held either at

BAB's corporate offices at 500 Lake Cook Road, Deerfield, Illinois or via a telecommunication platform such as Zoom. The training time designated as "Operational Training" is held at a designated operational franchise Store for the initial training and later at the franchisee's own new store. The location of the initial training program is subject to change. In addition, the training program may be conducted in different locations and ways, in the event of circumstances beyond BAB's control. For example, in the event of a pandemic or health emergency, BAB's performance of its obligations relating to the training described above, which contemplate face-to-face contact, on-site presence, and/or travel, will be considered adequately fulfilled if BAB substitutes or modifies the activities in a manner that does not involve such face-to-face contact, on-site presence, and/or travel. For transferees, some of the training may be conducted in the Store being purchased instead of in another store.

The materials used to teach these subjects are a combination of tools including the BAGELS Operations Manual, supplemental handouts, video presentations and lecture.

The training program is currently under direction of Kenneth Liczwek, Director of Operations. Ken is a business professional that has over 30 years of experience in operations and multi-unit store training. Also participating in training are staff members of BAB who provide instruction in their specific areas of expertise and the franchisee of the designated training store. Staff members have at least 5 years' experience in the field and with BAB relevant to the subject taught. The franchisee of the designated training store has over 10 years of experience operating the store. BAB reserves the right to make changes in training staff at any time.

Additional Training Programs. BAB may also provide refresher and supplemental training programs; however, none is planned at this time. You must attend the refresher or supplemental training programs. You will be responsible for your transportation and living expenses in attending training.

Regional or National Conventions. BAB may from time to time conduct regional or national conventions, which may or may not include refresher or supplemental training. You must attend such regional or national conventions. You will be responsible for your transportation and living expenses in attending conventions.

AREA DEVELOPMENT AGREEMENT

BAB must approve the site and location for each BAGELS Store that you open under the Area Development Agreement. The then-current standards for sites will apply

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Item 12. TERRITORY

A. FRANCHISE AGREEMENT

You will not receive an exclusive territory. You may face competition from other franchisees, from outlets that we own, or from other channels of distribution or competitive brands that we control. We may establish other franchised or company owned locations that may compete with your location.

You are granted the right to operate a BAGELS Store from 1 specified location only. Your franchise is for a specific location, and not for an area approved by us. There is no minimum territory granted to you.

We will approve relocation of your Store if your lease terminates without your fault or expires without any possibility of renewal on commercially reasonable terms as determined by BAB. We will also approve relocation if in our judgment there is a change in the character of your Store location sufficiently detrimental to its business to warrant relocation. You must obtain our prior written approval before opening your new Store. You may not open your new or relocated Store unless our representative is on-site at the opening, unless you request a waiver in writing, and we approve it in writing. Even if we waive the requirement of on-site presence, you must obtain our written authorization of the specific date that the Store may open. In the event of relocation, we and you will enter into an agreement which will set forth the new location for your Store and a deadline by which you must open for business at the new location, after which time you will be obligated to resume paying the royalty fee and Marketing Fund Contributions whether or not the new location has opened for business. Until such time that the new location is open for business, the amount of the royalty fee and Marketing Fund Contribution will be based on your average weekly level of Gross Revenues during the one year period prior to closing the first Store. We have the right to charge you for services we render to you in connection with your relocation, including reimbursement of our costs for reviewing and approving the new location and the construction drawings for the Store at its new location.

You have no options, rights of first refusal or similar rights to acquire additional franchises in any other locations.

BAB (on behalf of itself and its affiliates) retains the right, in its sole discretion, without restriction:

- (1) to itself operate, or to grant other persons the right to operate, BAGELS Stores at such locations and on such terms and conditions as BAB deems appropriate; and
- (2) Within your territory, to sell the products and services authorized for BAGELS Stores under the Marks through such similar and dissimilar channels of distribution (including the Internet, catalog sales, telemarketing, or other direct marketing sales) and under such terms and conditions as BAB deems appropriate

“alternative distribution channels”). You will receive no compensation for such sales by BAB.

(3) Within your territory, to sell the products and services authorized for BAGELS Stores under other trademarks, service marks and commercial symbols through such similar and dissimilar channels of distribution (including the Internet, catalog sales, telemarketing, or other direct marketing sales) and under such terms and conditions as BAB deems appropriate “alternative distribution channels”). You will receive no compensation for such sales by BAB.

(4) to acquire or be acquired by a company establishing businesses identical or similar to the BAGELS Store, even if the other business operates, franchises, and/or licenses competitive businesses anywhere, including in close proximity to the BAGELS Store.

You may not independently solicit for business, promote the business, and/or offer and sell products authorized under the Franchise Agreement through the use of a toll-free number, catalog, any electronic service including the Internet, Social Media, Mobile Application or Digital Marketing. All promotions and sales by you other than from your physical Store must be through programs or applications coordinated by BAB.

BAB currently does not have a prescribed method for resolving any conflicts between BAB and its franchisees regarding territory, customers or franchisor support. BAB anticipates that each situation would be handled on a case by case basis.

BAB may sell Branded Products via the Internet from future company-owned locations it may operate to customers regardless of their location.

C. AREA DEVELOPMENT AGREEMENT

You will receive an exclusive territory under the Area Development Agreement so long as you comply with your obligations under that Agreement, including meeting your Development Obligations by opening the required number of Stores. If you fail to meet your obligations, we have the right to terminate your Area Development Agreement. In that event, you will lose the right to open any additional BAGELS Stores. You will also lose exclusive rights to the Exclusive Area described in the Area Development Agreement, and we may thereafter grant franchises for any BAGELS Stores anywhere in said Exclusive Area. You also lose exclusive rights to any wholesale business in the Exclusive Area.

(1) Size of Protected Development Area

The Area Development Agreement grants Developer certain rights (as described below) within a designated geographical area (the "Protected Development Area") to be described in Rider A attached to the Area Development Agreement. The size of the Protected Development Area will vary,

based on the market potential and BAB's analysis of the financial and operational capabilities of Developer. It may be 1 or more counties in rural areas or a portion of a metropolitan statistical area in heavily populated major cities. The Protected Development Area is not based upon a minimum population.

(2) Rights During Development Periods

BAB: (1) will grant to Developer franchises for the ownership and operation of BAGELS Stores located within the Protected Development Area; and (2) will not operate (directly or through an affiliate), nor grant to any other franchisee a franchise for the operation of, any BAGELS Store to be located within the Protected Development Area. BAB and its affiliates specifically reserve the right to operate (directly or through an affiliate), or grant to others a nontraditional site.

(3) Development Obligation

During the term of the Area Development Agreement and any extensions, Developer must have signed leases for certain cumulative numbers of BAGELS Stores (including BAGELS Production Stores and BAGELS Satellite Stores) at the end of each Development Period ("Minimum Development Quota") and must have each Store open and operating within 120 days from the date Developer acquires possession of the site. The Development Periods and Minimum Development Quota will be determined by BAB on the basis of the market potential, size of the Protected Development Area, and BAB's analysis of the financial and operational capabilities of Developer, and will be inserted in Rider B to the Area Development Agreement prior to its execution. BAB may on occasion, in its sole discretion and on terms and conditions determined by BAB, grant extensions to the development schedule. The continuation of Developer's protected area as described above is not dependent on the achievement of a certain sales volume or market penetration or other contingency except as described above.

(4) Locations of Future Stores

BAB will approve the sites of future BAB Stores, using its then-current site criteria and standards. You do not receive any territorial designation or protection for your individual Stores.

(5) Store Closings

A BAGELS Store owned by Developer which is permanently closed with the approval of BAB after having been open shall be deemed open and in operation for purposes of the Minimum Development Quota if a substitute BAGELS Store is open and in operation within 6 months from the date of such closing. Such replacement Store shall not otherwise count toward such quotas.

C. Other Franchises or Company Owned Stores

Neither BAB, nor any of its affiliates has established franchised, company-owned, or affiliated-owned stores selling similar products or services under different service marks and trademarks, but they reserve the right to do so in the future.

Item 13. TRADEMARKS

A. FRANCHISE AGREEMENT

Under the Franchise Agreement, BAB grants you the right to use the trademarks and service marks listed below, and other such trademarks, service marks, and commercial symbols as BAB authorizes from time to time (collectively, the “Marks”).

The following marks have been registered on the Principal Register of the United States Patent and Trademark Office (“USPTO”). All required affidavits and renewal applications have been filed.

Mark/ Registration No.	Class/Goods or Services	Registration Date
BABS' CHOICE Reg. No. 3523656	30/ Bakery products, namely bagels	October 28, 2008
BABS' DELI Reg. No. 3353830	43/ Restaurant services	December 11, 2007
BABS' DELI BIG APPLE BAGELS and Design  Reg. No. 3363516	43/ Restaurant services	January 1, 2008
BIG APPLE BAGELS Reg. No. 2260385	30/ Freshly-baked bagels 35/ Retail and wholesale outlets featuring freshly-baked bagels 42/ Restaurant services	July 13, 1999
BIG APPLE BAGELS and Design	30/ Freshly baked bagels and bread 35/ Retail shops featuring freshly baked bagels 43/ Restaurants featuring freshly	December 18, 2007

Mark/ Registration No.	Class/Goods or Services	Registration Date
 Reg. No. 3355187	baked bagels	
BIG APPLE BAGELS and Design  Reg. No. 1820251	42/ Restaurants and retail shops featuring freshly-baked bagels	February 8, 1994
BIG APPLE BAGELS and Design  Reg. No. 1874045	30/ Freshly baked bagels and bread	January 17, 1995
BIG APPLE BAGELS XPRESS Reg. No. 3720614	43/ Restaurant services	December 9, 2009
BREWSTER'S Reg. No. 2869200	30/ Coffee 43/ Restaurant services; coffee shop services	August 3, 2004

Mark/ Registration No.	Class/Goods or Services	Registration Date
BREWSTER'S COFFEE FRESH ROASTED COFFEE and Design  Reg. No. 3421661	30/ Coffee 43/ Restaurant services; coffee shop services	May 6, 2008
FRENCH VELVET CREME Reg. No. 3254155	30/ Coffee	June 19, 2007
GET FRESH WITH US Reg. No. 3523657	42/ Restaurant services featuring bakery goods and coffees	October 28, 2008
ICEPRESSO Reg. No. 2261664	32/ Soft drinks and coffee-flavored soft drinks	July 13, 1999
JACOBS BROS. BAGELS Reg. No. 2611901	35/ Retail bakery store services and wholesale distributorship services in the field of bakery goods	August 27, 2002
MY FAVORITE MUFFIN Reg. No. 1514952	42/ Retail bakery store services	November 29, 1988
MY FAVORITE MUFFIN Reg. No. 2069258	30/ Bakery products, namely muffins	June 10, 1997

Mark/ Registration No.	Class/Goods or Services	Registration Date
MY FAVORITE MUFFIN and Design  Reg. No. 3705285	30/ Bakery products, namely muffins	November 3, 2009
MY FAVORITE MUFFIN and Design  Reg. No. 1878988	42/ Retail bakery store services	February 14, 1995
MY FAVORITE MUFFIN and Design (in Color)  Reg. No. 6167926	35/Retail bakery store services	October 6, 2020
PERFECTLY DELICIOUS, UNIQUELY DELIGHTFUL. Reg. No. 4738032	35/ Retail bakery store services	May 19, 2015
SOMETHING BIG IS ALWAYS BAKING. Reg. No. 4734473	43/ Restaurants featuring freshly baked bagels	May 12, 2015
SWEETDUET Reg. No. 4595650	43/ Restaurant services	September 2, 2014

Mark/ Registration No.	Class/Goods or Services	Registration Date
SWEETDUET FROZEN YOGURT & GOURMET MUFFINS Reg. No. 4339902	43/ Restaurant services	May 21, 2013
 Reg. No. 4332891	43/ Restaurant services	May 7, 2013
YOU DESERVE A BETTER BAGEL Reg. No. 3969664	43/ Restaurant services featuring bakery goods and coffees	May 31, 2011
YOU DESERVE A BETTER COFFEE Reg. No. 3969665	43/ Restaurant services featuring bakery goods and coffees	May 31, 2011
YOU DESERVE A BETTER MUFFIN Reg. No. 3969666	43/ Restaurant services featuring bakery goods and coffees	May 31, 2011

You may only use the SweetDuet Marks if you have been authorized to offer SweetDuet frozen yogurt in your BAGELS Store.

The trademark and service mark “Big Apple Bagels,” plus design, has been used by Big Apple Bagels, Inc. since October 1985 in advertising, letterhead, and signage. On November 20, 1992 Big Apple Bagels, Inc. assigned its ownership interest in the mark to BAB Holdings, Inc., the predecessor to BAB, Inc. BAB derives the right to use the “Big Apple Bagels,” “My Favorite Muffin,” and “Brewster’s” Marks under a License Agreement dated November 30, 2003 with BAB, Inc. BAB derives the right to use the “BABS’ Deli.” Marks under a License Agreement dated February 1, 2006 (“License Agreement”) with BAB, Inc. Both License Agreements are referred to as “License Agreements” in this Franchise Disclosure Document.

The License Agreements do not limit the rights of BAB or our Franchisees to use the Marks. The initial term of the License Agreements was 10 years, with 5 automatic 5-year Extension Terms. The License Agreements may be terminated by BAB, Inc. in the event BAB: (i) fails to meet the quality standards in the License Agreements, (ii) misuses the Marks, (iii) fails to make payments due BAB, Inc., (iv) files or has filed against it bankruptcy, insolvency or like proceedings, (v) files or has filed against it proceedings to dissolve its corporate structure or for winding up, (vi) merges or otherwise comes under the shared or sole control or direction of any

other party, or (vii) sells all or substantially all of its assets. Upon expiration or termination of the License Agreements for any reason, BAB, Inc. will undertake to establish a means by which you may continue to use the Marks while your Franchise Agreement is in effect, so that your rights to use the Marks will not be terminated as a result of the termination or expiration of the License Agreements. BAB, Inc. shall have sole discretion over the means it selects for you to continue to use the Marks under those circumstances.

Information Regarding All Marks

BAB has the non-exclusive right to use the Marks only in connection with the offer and sale of franchises to third parties to own and operate franchised stores under the Marks under Franchise Agreements. Under the License Agreements BAB must furnish BAB, Inc. with samples of all Franchise Agreements, literature, brochures, advertising, videos, labels, manuals, signs, contracts and other materials prepared by BAB.

BAB's licenses are not exclusive, and BAB, Inc. has licensed others, including BAB Operations, Inc. to use or license the Marks. BAB, Inc. may in the future license others to use or license the Marks.

There are no effective material determinations of the United States Patent and Trademark Office, the Trademark Trial and Appeal Board, or any state trademark administrator or court, any pending interference, opposition, or cancellation proceedings involving any of the above-referenced Trademarks. There are no other agreements currently in effect that significantly limit our rights to use or license the use of the Trademarks listed in this section in a manner material to you. There are no infringing uses or superior previous rights known to us that can materially affect your use of the Trademarks in this state of any other state in which the franchised business is to be located. There is no pending material federal or state court litigation regarding our use or ownership rights in any Trademark

Except as otherwise stated above, there are no agreements currently in effect which significantly limit the rights of BAB to use or license the use of the above mentioned trademarks, service marks, trade names, logotypes, or other commercial symbols in any manner material to the franchise.

There are no infringing uses actually known to BAB which could materially affect your use of such trademarks, service marks, trade names, logotypes or other commercial symbols in the state in which your Store is to be located.

BAB has the right to require you to use new marks and to discontinue or modify your use of any name or commercial symbol. If it becomes advisable at any time, in BAB's sole discretion, for BAB and/or you to modify or discontinue use of any Mark and/or use 1 or more additional or substitute trademarks or service marks, you agree to do so within a reasonable time after notice by BAB. In the event BAB requires you to discontinue the use of any name or commercial symbol and

to use a substitute mark or commercial symbol, BAB's sole obligation will be to reimburse you your out-of-pocket expenses of complying with this obligation.

Under the Franchise Agreement, you acknowledge that your right to use the Marks is derived solely from the Franchise Agreement and is limited to the operation of the Store under and in compliance with the Franchise Agreement and all applicable standards and operating procedures prescribed by BAB from time to time. Any unauthorized use of the Marks by you constitutes an infringement of BAB's rights in and to the Marks. You agree that your use of the Marks and any good will established thereby inure to the exclusive benefit of BAB, and you acknowledge that the Franchise Agreement does not confer any good will or other interests in the Marks upon you. You may not any time during the Franchise Agreement or after its termination or expiration, contest the validity of ownership of any of the marks or assist any others in contesting the validity or ownership of any of the Marks.

You specifically agree to use the Marks as the sole identification of the Store, but you must identify yourself as the independent owner in the manner prescribed by BAB. You may not use any mark as part of any corporate or trade name or with any prefix, suffix or other modifying words, nicknames, terms, designs or symbols, or in any modified form (including, without limitation, any local or special adaptations or artistic variations of any of the Marks), nor may you use any Mark in connection with the sale of any unauthorized product or service or in any other manner not expressly authorized in writing by BAB. You agree not to register the Marks on the Internet or any other electronic service, including Social Media and mobile marketing applications, or use or register the Marks on the Internet in any other manner. You are strictly prohibited from creating or maintaining a website for your Store, or a website that uses BAB's Marks. BAB has the sole right to create, establish, own, and control the website for your Store. You agree to display the Marks prominently and in the manner prescribed by BAB on signs, forms, and other materials and articles. Further, you agree to give such notices of trademark or service mark ownership or registration and copyrights as BAB specifies and to obtain such fictitious or assumed name registrations as may be required under applicable law. Any and all uses of the Marks will be subject to BAB's prior written approval, and a request for such approval will include such information and samples as BAB may require. You may not use the name "Big Apple Bagels," "BAB," or a derivative of those names in your corporate or other formal name.

Under the Franchise Agreement you must notify BAB immediately in writing of any apparent infringement or of challenge to your use of any Mark, or claim by any person other than BAB or its affiliates of any rights in any Mark or any similar trade name, trademark or service mark of which you become aware. You may not communicate with any person other than BAB and its counsel in connection with such infringement, challenge or claim. BAB has sole discretion to take such action as it deems appropriate and the right to control exclusively any litigation, U. S. Patent and Trademark Office proceeding or any other administrative proceeding arising out of any infringement, challenge or claim or otherwise relating to any Mark. You further agree under the Franchise Agreement to sign any and all instruments and documents, render such assistance and do whatever may be necessary or advisable to protect and maintain the interests of BAB in any such litigation, U. S. Patent and

Trademark Office proceeding or other administrative proceedings or otherwise to protect and maintain the interests of BAB in the Marks.

BAB agrees to indemnify you against and to reimburse you for all direct, but not consequential (including, but not limited to, loss of revenue and/or profits), damages for which you are held liable in any proceedings arising out of the use of any Mark under and in compliance with the Franchise Agreement, and for all costs reasonably incurred by you in the defense of any such claim brought against it or in any such proceeding in which it is named as a party, provided that you have timely notified BAB of such claim or proceeding and have otherwise complied with the Franchise Agreement.

B. AREA DEVELOPMENT AGREEMENT

Developer's right to use the Marks is derived solely from Franchise Agreements entered into between Developer and BAB for the purpose of operating BAGELS Stores as contemplated thereunder. All usage of the Marks by Developer and any goodwill established thereby inures to the exclusive benefit of BAB. After the termination or expiration of the Area Development Agreement, Developer may not, except with respect to BAB Stores operated by Developer under Franchise Agreements granted by BAB, directly or indirectly, at any time or in any manner identify himself or any business as a franchisee or former franchisee of, or otherwise associated with, BAB or use in any manner or for any purpose any Mark or other indicia of a BAB Store or any colorable imitation.

Developer may not use any Mark or a derivative of any Mark as part of any corporate or trade name or with any prefix, suffix, or other modifying words, terms, designs, or symbols, or in any modified form, nor may Developer use any Mark or derivative in connection with any business or activity, other than the business conducted by Developer under Franchise Agreements entered into between Developer and BAB, or in any other manner not explicitly authorized in writing by BAB.

Developer must immediately notify BAB in writing of any apparent infringement of or challenge to Developer's use of any Mark, or claim by any person of any rights in any Mark or similar trade name, trademark, or service mark of which Developer becomes aware. Developer may not communicate with any person other than BAB and its counsel in connection with any such infringement, challenge or claim. BAB will have sole discretion to take such action as it deems appropriate and the right to exclusively control any litigation, U.S. Patent and Trademark Office proceeding or other administrative proceeding arising out of any such infringement, challenge, or claim or otherwise relating to any Mark.

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Item 14. PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

Except as noted below, BAB does not own any rights in or to any patents or copyrights which are material to the Franchise. BAB and its affiliates claim copyrights in its BAGELS Operations Manual and related materials used in the operation of the Franchise. Such copyrights have not been registered with the United States Registrar of Copyrights but have been protected under the copyright laws of the United States by virtue of BAB and its affiliates placing the appropriate notice of copyright on such items. You may use the BAGELS Operations Manual and materials during the term of your Franchise Agreement.

There are currently no effective determinations of the United States Copyright Office or any court regarding any of our copyrights, nor are there any currently effective agreements between us and third parties pertaining to our copyrights that will or may significantly limit your use of our copyrighted materials. Furthermore, there are no infringing uses actually known to BAB which could materially affect your use of the copyrighted materials in any state where the Franchise is to be located. BAB is not obligated under any agreement to protect or defend its copyrights.

To preserve and enhance the reputation and goodwill associated with BAB's Marks, and to maintain uniform standards of operation for franchisees, you must operate the Franchise in full compliance with the BAGELS Operations Manual as amended from time to time. You also understand that the Manual and other training and operational aids contain certain proprietary and confidential information and remain the property of BAB and its affiliates. There will be no duplication or any disclosure of the proprietary and confidential information, except to your employees on a need-to-know basis, and you must take all reasonable precautions prescribed from time to time by BAB to prevent unauthorized use or disclosure of proprietary information of BAB and its affiliates. You must keep copies of the Manual current by inserting the updates furnished by BAB on an ongoing basis, and, in the event of any dispute as to the BAGELS Operations Manual's contents, BAB's master copy shall control.

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Item 15. OBLIGATION OF FRANCHISEE TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS

A. FRANCHISE AGREEMENT

BAB requires you to supervise, but not personally manage, the Store. The Store must be directly supervised "on-premises" by a manager, who has completed BAB's training program. The on-premises manager may not have an interest or business relationship with any of BAB's business competitors. The manager is not required to have any amount of equity interest in the franchised business.

The manager must sign a separate written agreement with you incorporating nondisclosure and noncompetition clauses in a form satisfactory to us, including naming BAB as an intended third party beneficiary. An example of an agreement we currently consider satisfactory, including provisions to confirm our ownership of Ideas (as defined in Section 6.c. of the Franchise Agreement) is the Confidentiality and Non-Competition Agreement attached to the Franchise Disclosure Document as Exhibit E. The requirement for the Nondisclosure and Noncompetition Agreement between you and your employees, including the provision that makes BAB an intended third party beneficiary, shall not create an employee or joint employee relationship between BAB and your employees, nor does it constitute control by BAB over your employees' conditions of employment.

If the Franchisee is a corporation, limited liability company (LLC), or partnership, all owners of the corporation, LLC or partnership must agree jointly and severally to guarantee the obligations of Franchisee under the Franchise Agreement, and must sign Rider C to the Franchise Agreement (Guaranty and Assumption of Obligations).

B. AREA DEVELOPMENT AGREEMENT

Developer must exert his full-time efforts to his obligations under the Area Development Agreement and may not engage in any other business or other activity, directly or indirectly, that requires any significant management responsibility, time commitments, or otherwise may conflict with Developer's obligations under the Area Development Agreement, without the express written consent of BAB. Developer must supervise the development and operations of BAGELS Stores franchised under the Area Development Agreement, but need not be engaged in the day-to-day operations of any specific Store. On-premise supervisors for BAB Stores established or operated under an Area Development Agreement are not required to have any amount of equity interest in the franchised business.

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Item 16. RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

You are not permitted to sell, distribute or use any products or other items not approved for the uniform operation of all BAGELS Stores in the system by BAB, and your premises may not be used for any business purpose other than the operation of the Store as authorized by BAB. You must sell all goods and services that we authorize. We have the right to add additional authorized services and products that you must offer. There are no limits on our rights to make product or service changes.

You must operate your franchise solely from the specified location and may not advertise, sell, distribute or promote any products or services authorized for the Store without BAB's prior written consent, which consent may be withdrawn upon written notice to you.

You must strictly comply with our prescribed menu items and follow the recipes and food preparation methods exactly as set forth in the BAGELS Operations Manual, for all products offered and sold in your BAGELS Store. If you deviate from the prescribed recipes, ingredients, preparation methods, or menu boards, you shall be responsible for obtaining your own nutrition information in order to comply with applicable state and federal nutrition labeling requirements. In addition, such deviation shall be a default under the Franchise Agreement.

You must, within 7 days of selling any menu items for the first time through a Third Party Delivery Service company, inform us in writing of the name of that company and as well, furnish us with access information to the websites of any Third Party Delivery Service being used in order to enable us to verify your Gross Revenues from all sources. This obligation shall apply to each Third Party Delivery Service company that submits an order to your Store for the first time.

In addition to the foregoing, you must comply with all mandatory specifications, standards and operating procedures relating to the function and operation of a Store including those relating to: (1) hours during which you shall operate the Store (as described previously); (2) methods and procedures relating to the acquisition, storage and preparation of products offered by you in the operation of his Store; (3) advertising and promotion; (4) use of standard forms; (5) the handling of customer inquiries and complaints; (6) use of approved POS System and credit card processor or mobile pay technology, (7) prohibition against smoking in the BAGELS Store, and (8) prohibition against the use or consumption of alcoholic beverages, including using alcohol in the preparation of any food or beverage items in the BAGELS Store.

As a general matter, you must secure and maintain in force in your name all required licenses, permits and certificates relating to the operation of the Store in full compliance with all applicable laws, ordinances and regulations including, without limitation, regulations relating to worker's compensation insurance, unemployment insurance and withholding and payment of federal and state income taxes, social security taxes and sales taxes. All advertising by you must be completely factual, in good taste in the judgment of BAB and must conform to the highest standards of ethical advertising. You shall in all dealings with your customers, suppliers, BAB, and public officials adhere to the highest standards of honesty, integrity, fair dealing and ethical conduct.

You must not discriminate in your dealings with customers (in the services or products you provide, in the access to your services and products, or by refusing to provide services and products) on the basis of race, color, religion, age, sex, sexual orientation, gender identity, marital status, national origin or disability, and you must comply with our antidiscrimination standards.

Under the Wholesale Program Addendum, you are only permitted to sell at wholesale from your BAGELS Production Store unbranded bagels and muffins or “Jacobs Bros.” branded bagels to customers who will sell the products to the ultimate consumer.

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Item 17. RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

THE FRANCHISE RELATIONSHIP

The following tables list certain important provision of the Preliminary Agreement, Franchise Agreement, and Area Development Agreement. You should read these provisions in the agreement attached to this Franchise Disclosure Document.

A. PRELIMINARY AGREEMENT

Provision	Provision in Franchise Agreement (unless otherwise specified)	Summary
a. Length of the Preliminary Agreement term	Paragraph 3	60 days
b. Renewal or extension of the term	Paragraph 3.c.	If you timely submit at least 1 site to us, which we do not approve, we may grant an extension of the term
c. Requirements for Franchisee to renew or extend	Paragraph 3.c.	If you timely submit at least 1 site to us, which we do not approve, we may grant an extension of the term
d. Termination by Franchisee	Paragraphs 3.a, 5.a	You may withdraw your application for a franchise during term of agreement You may terminate the agreement under any grounds permitted by law.
e. Termination by Franchisor without cause	Not Applicable	BAB cannot terminate your Franchise Agreement without cause
f. Termination by Franchisor with cause	Paragraph 5, Signature page	If you fail to sign a Franchise Agreement within 14 days of BAB's approval of your site, BAB may terminate the agreement; if you fail to sign the Preliminary Agreement and pay the deposit within 14 days of the date BAB furnishes you the Preliminary Agreement, BAB's offer to enter into that Agreement is null and void
g. "Cause" defined – curable faults	Paragraph 5	Failure to sign a Franchise Agreement within 14 days of BAB's approval of your site
h. "Cause" defined – non-curable defaults	Paragraph 5	Failure to sign a Franchise Agreement within 14 days of BAB's approval of your site
i. Franchisee's obligations on termination/ nonrenewal	Not applicable	
j. Assignment of contract by Franchisor	Not applicable	
k. "Transfer" by Franchisee	Paragraph 6	You may not assign the Preliminary Agreement

Provision	Provision in Franchise Agreement (unless otherwise specified)	Summary
– definition		
l. Franchisor's approval of transfer by Franchisee	Not applicable	
m. Conditions for Franchisor's approval of transfer	Not applicable	
n. Franchisor's right of first refusal to acquire Franchisee's business	Not applicable	
o. Franchisor's option to purchase Franchisee's business	Not applicable	
p. Death or disability or Franchisee	Not applicable	
q. Non-competition covenants during the term of the franchise	Not applicable	
r. Non-competition covenants after the franchise is terminated or expires	Not applicable	
s. Modification of the agreement	Not applicable	
t. Integration/merger clause	Not applicable	
u. Dispute resolution by arbitration or mediation	Paragraph 9	In accordance with the American Arbitration Association in the major city nearest where our principal office address is then located (currently it would be Chicago, Illinois). Subject to applicable state law
v. Choice of forum	Paragraph 9	Arbitration (subject to applicable state law)
w. Choice of law	Not applicable	

B. FRANCHISE AGREEMENT

Provision	Provision in Franchise Agreement (unless otherwise specified)	Summary
a. Length of the franchise term	Paragraph 2.a.	10 years
b. Renewal or extension of the term	Paragraph 2.b.	If you are in good standing, you can renew on the then current terms
c. Requirements for Franchisee to renew or extend	Paragraph 2.b.	Pay renewal fee of \$2,500, maintain premises or secure substitute premises, remodel, sign new agreement and other documents and sign release, and agree to upgrade to then-current standards of decor, equipment, and product offerings. The renewal agreement may contain materially different terms and conditions than your original contract, but the royalty fee will not be greater than the royalty fee that we then impose on similarly-situated renewing franchisees
d. Termination by Franchisee	Section 15	Breach by BAB, you in compliance. Additionally, you may terminate the agreement under any grounds permitted by law.
e. Termination by Franchisor without cause	Not Applicable	BAB cannot terminate your Franchise Agreement without cause
f. Termination by Franchisor with cause	Section 16	BAB can terminate only if you commit any 1 of several listed violations
g. "Cause" defined – curable faults	Section 16	You have 10 days for monetary defaults and failure to maintain required insurance, and 30 days for all defaults not listed in Paragraph 16.a.
h. "Cause" defined – non-curable defaults	Section 16	Failure to submit site within 90 days, failure to open Store in 4 months of possession, failure to complete initial training, abandonment, conviction of felony, unauthorized transfers, unauthorized use or disclosure of confidential information or BAGELS Operations Manual, unauthorized use of Marks, creation of a threat to public health or safety, repeated defaults (even if cured), unapproved transfer upon your death or permanent incapacity, failure to comply with covenants in Paragraph 9.f; termination of other agreement between BAB and you.
i. Franchisee's obligations on termination/ nonrenewal	Section 17 t	Franchise Agreement: Pay outstanding amounts, complete de-identification, return confidential information, covenant not to compete, continuing obligations, BAB option to purchase.
j. Assignment of contract by Franchisor	Paragraph 14.a.	No restrictions on BAB's right to assign
k. "Transfer" by Franchisee – definition	Paragraph 14.b	Includes transfer of any interest in Franchise Agreement, assets or ownership change in you

Provision	Provision in Franchise Agreement (unless otherwise specified)	Summary
l. Franchisor's approval of transfer by Franchisee	Paragraph 14.c.	Franchise Agreement: BAB has right to approve all transfers, but will not unreasonably withhold consent.
m. Conditions for Franchisor's approval of transfer	Paragraph 14.b.,14.c.	Transferee qualifies, all obligations assumed by transferee, all amounts due BAB are paid, transferee completes training, transfer fee paid, general release signed, you agree to guarantee performance and obligations of transferee, transferee signs, at BAB's sole discretion, either: (a) BAB's assignment and assumption agreement or (b) BAB's then-current Franchise Agreement, which may contain materially different terms than your Franchise Agreement
n. Franchisor's right of first refusal to acquire Franchisee's business	Paragraph 14.e.	BAB can match any offer for your business or an ownership interest in you
o. Franchisor's option to purchase Franchisee's business	Paragraph 17.f.	BAB can purchase tangible assets, assignment of all licenses and permits, on termination or expiration for the formula price described in the Franchise Agreement
p. Death or disability or Franchisee	Paragraph 14.c.	Franchise or ownership interest in you must be assigned to approved buyer within 6 months
q. Non-competition covenants during the term of the franchise	Paragraph 9.f.	No involvement in competing business anywhere
r. Non-competition covenants after the franchise is terminated or expires	Paragraph 17.d.	No competing business for 2 years at the Store location or within 10 miles of your Store or any other BAGELS Store or My Favorite Muffin Store (same restrictions after assignment)
s. Modification of the agreement	Paragraph 18.b. and 18.i.	No modifications generally, but BAGELS Operations Manual and standards and specifications subject to change
t. Integration/merger clause	Paragraph 18.j.	Terms of Franchise Agreement (including exhibits, attachments, BAGELS Operations Manual, and other written materials) are binding (subject to state law). Any representations or promises made outside the disclosure document, franchise agreement and development agreement may not be enforceable. Notwithstanding the foregoing, nothing in any agreement is intended to disclaim the express representations made in the Franchise Disclosure Documents, its exhibits and amendments. (subject to applicable state law)
u. Dispute resolution by arbitration or mediation	Paragraph 18.l.	In accordance with the American Arbitration Association in the major city nearest where our principal office address is then located (currently it would be Chicago, Illinois). Subject to applicable state law
v. Choice of forum	Paragraph 18.l.	Arbitration must be in Illinois (subject to applicable state law)

Provision	Provision in Franchise Agreement (unless otherwise specified)	Summary
w. Choice of law	Paragraph 18.e.	Governed by state of Illinois law except when US Trademark Act or other federal law governs (subject to applicable state law)

C. AREA DEVELOPMENT AGREEMENT

Provision	Provision in Area Development Agreement	Summary
a. Length of Area Development Agreement term	Section 3.A.	Term is generally from 6 months to 2 years. Expiration is last day of last development period
b. Renewal or extension of the term	Not Applicable	No renewal but BAB will negotiate additional development rights with Developer if deemed mutually beneficial
c. Requirements for Franchisee to renew or extend	Not Applicable	Not Applicable
d. Termination by Franchisee	Not Applicable	You may terminate the agreement under any grounds permitted by law.
e. Termination by Franchisor without cause	Not Applicable	Not Applicable
f. Termination by Franchisor with cause	Section 10	Can terminate if you commit any of several listed violations. BAB can terminate the Area Development Agreement if you receive 2 or more notices of default of a Franchise Agreement with BAB.
g. "Cause" defined – curable faults	Section 10(A)(5)	You have 30 days after notice to cure a breach for defaults noted in Section 10(A)(5).
h. "Cause" defined – non-curable defaults	Section 10(A)(1) – (4), 10(A)(6)-(9)	Unauthorized assignment or transfer, general partnership in Developer is terminated, material misrepresentation or omission in the Area Development Agreement application, conviction or plea of no contest to felony or crime or offense that adversely affects Marks, unauthorized use of marks or disclosure of proprietary information, 3 or more defaults even if cured, BAB has delivered notice of termination of a Franchise Agreement in accordance with its terms and conditions or Developer has terminated a Franchise Agreement without cause as defined in such Agreement; failure to meet Minimum Development quota; failure to pay loans guaranteed or made by BAB. The Area Development Agreement is subject to termination if you receive 2 or more notices of default of a Franchise Agreement between

Provision	Provision in Area Development Agreement	Summary
		you and BAB, or if you terminate a Franchise Agreement without cause, Termination of the Area Development Agreement which does not involve a default of a Franchise Agreement does not subject the Franchise Agreement to termination by BAB.
i. Franchisee's obligations on termination/ nonrenewal	Section 11	All of which expressly or by nature survive expiration or termination and covenant not to compete
j. Assignment of contract by Franchisor	Paragraph 12.A.	No restriction on BAB's right to assign
k. Transfer by Franchisee – definition	Not Applicable	Not Applicable
l. Franchisor's approval of assignment by Franchisee	Paragraph 12.B.	Only with prior written approval by BAB
m. Conditions for Franchisor's approval of transfer	Paragraph 12.B.	Conditions not specified.
n. Franchisor's right of first refusal to acquire Franchisee's business	Paragraph 12.D.	BAB can match any offer for your Area Development rights or an ownership interest in you
o. Franchisor's option to purchase Franchisee's business	Not Applicable	Not Applicable
p. Death or disability of Developer	Paragraph 12.B.	Conditions not specified.
q. Non-competition covenants during the term of the franchise	Paragraph 7.C.	No competing business anywhere
r. Non-competition covenants after the franchise is terminated or expires	Section 11.C.	No competing business for 2 years at the Store location or within a 10 mile radius of the Exclusive Development Area or within 10 miles of any BAGELS Store or My Favorite Muffin Store
s. Modification of agreement	Section 13.A, B	Only by written agreement of parties.
t. Integration/ merger clause	Paragraph 13.L.(1)	Any representations or promises made outside the disclosure document, franchise agreement and development agreement may not be enforceable. Subject to applicable state law. Notwithstanding the foregoing, nothing in any agreement is intended to disclaim the express representations made in the Franchise Disclosure Documents, its exhibits and amendments. (subject to applicable state law)

Provision	Provision in Area Development Agreement	Summary
u. Dispute resolution by arbitration or mediation	Paragraph 13.G.	In accordance with the American Arbitration Association in the major city nearest where our principal office address is then located (currently it would be Chicago, Illinois) Subject to applicable state law
v. Choice of forum	Paragraph 13.G.	Arbitration (subject to applicable state law)
w. Choice of law	Section 13.E.	Governed by State of Illinois except when U.S. Trademark Act or other federal law governs (subject to applicable state law)

18. PUBLIC FIGURES

BAB does not use any public figure to promote its franchise.

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19. **FINANCIAL PERFORMANCE REPRESENTATIONS**

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

The information included in the Table 1 below is based on reports submitted to us by 48 (for 2024 and 2023) fully-reporting franchised BAGELS Stores located in the United States that were operated for the entire 2023 and 2024 Fiscal Years. For 2023 and 2024, the Franchised Stores include 48 BAGELS Production Stores and 0 BAGELS Satellite Store (collectively the "Franchised Stores"). The Table does not include any company-owned or affiliate-owned stores. Any franchised BAGELS Stores that either opened or closed during the 2023 or 2024 Fiscal Years, or failed to submit all 52 weeks of reporting during the 2023 or 2024 Fiscal Years, have been excluded from the information contained in these Tables. During the 2023 Fiscal Year, 1 BAGELS Store was converted to a licensed unit. During the 2024 Fiscal Year, 1 BAGELS Store was opened and one was closed. The information was collected by us, but has not been independently audited or verified.

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**Gross Revenues¹ of BAGELS Franchised Stores
By Quartile for 2023 and 2024 Fiscal Years**

	2023	2024	2023	2024	2023	2024	2023	2024
Quartile²	1st		2nd		3rd		4th	
# Franchises Represented	12	12	12	12	12	12	12	12
Gross Revenues Range³	\$751,743- \$1,088,909	\$755,704- \$1,249,963	\$583,965- \$732,172	\$589,737- \$751,392	\$430,796- \$582,665	\$474,744- \$556,406	\$199,509- \$426,149	\$172,671- \$466,176
Average Gross Revenues Within Quartile⁴	\$852,497	\$896,791	\$662,091	\$681,438	\$487,121	\$513,823	\$347,458	\$368,240
Number & Percentage of Franchised Stores in Each Quartile Exceeding the Average Gross Revenues for that Quartile⁵	5 or 42%	5 or 42%	7 or 58%	7 or 58%	5 or 42%	7 or 58%	8 or 67%	6 or 50%
Median Gross Revenues in Each Quartile⁶	\$847,444	\$854,997	\$685,740	\$692,760	\$477,775	\$515,027	\$369,238	\$387,587

Notes:

1. “Gross Revenues” is defined in the Franchise Agreement as the entire amount of all gross sales and business receipts, including direct or indirect barter transactions, catering accounts, proceeds of business interruption insurance policies, wholesale accounts (both on and off premises) arising out of the operation of the Store, or through or by means of the business conducted in connection therewith, whether for cash or credit, but excluding: (1) sales, use, or service taxes collected from customers and paid to the appropriate taxing authority; and (2) all bona fide customer refunds and approved rebates, discounts and allowances.
2. Quartile. “Quartile” refers to the relative performance of the Franchised Stores. Therefore, the “1st Quartile” refers to the top 25% performing Franchised Stores, based on Gross Revenues, the “2nd Quartile” refers to the next highest 25% performing Franchised Stores, and so on.
3. Gross Revenues Range for 2023. The 2023 figures in the Table are based on the 2023 Fiscal Year Gross Revenues of the 48 fully-reporting Franchised Stores located in the United States that were operated for the entire 2023 Fiscal Year. The Table lists the high and low end of the Gross Revenues Range for each Quartile. There are a total of 48 Franchised Stores, with 12 Franchised Stores in the First, Second, Third and Fourth Quartiles. The Gross Revenues Range shows the highest and lowest Gross Revenues within each Quartile. For example, the high end of the 1st Quartile of Franchised Stores (\$1,088,909) is the Franchised Store having the highest Gross Revenues in 2023. The low end of the 1st Quartile of Franchised Stores (\$751,743) is the Franchised Store having the 12th highest Gross Revenues in 2023. The high end of the 2nd Quartile of Franchised Stores (\$732,172) is the Franchised Store having the 13th highest Gross Revenues in 2023. The low end of the 2nd Quartile of Franchised Stores (\$583,965) is the Franchised Store having the 24th highest Gross Revenues in 2023. And so on for each Quartile.
4. Gross Revenues Range for 2024. The 2024 figures in the Table are based on the 2024 Fiscal Year Gross Revenues of the 48 fully-reporting Franchised Stores located in the United States that were operated for the entire 2024 Fiscal Year. The Table lists the high and low end of the Gross Revenues Range for each Quartile. There are a total of 48 Franchised Stores, with 12 Franchised Stores in the First, Second, Third and Fourth Quartiles. The Gross Revenues Range shows the highest and lowest Gross Revenues within each Quartile. For example, the high end of the 1st Quartile of Franchised Stores (\$1,249,963) is the Franchised Store having the highest Gross Revenues in 2024. The low end of the 1st Quartile of Franchised Stores (\$755,704) is the Franchised Store having the 12th highest Gross Revenues in 2024. The high end of the 2nd Quartile of Franchised Stores (\$751,392) is the Franchised Store having the 13th highest Gross Revenues in 2024. The low end of the 2nd Quartile of Franchised Stores (\$589,737) is the Franchised Store having the 24th highest Gross Revenues in 2024. And so on for each Quartile.
5. Average Gross Revenues Within Quartile. The Table discloses the average Gross Revenues

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of the Franchised Stores within each Quartile for 2023 and 2024. The average was calculated by adding the Gross Revenues of all Franchised Stores within each Quartile and then dividing that total by the number of Franchised Stores within each Quartile. For example, the Gross Revenues in 2023 of the 1st Quartile (the top 12 Franchised Stores) have an average Gross Revenues of \$852,497. The Gross Revenues in 2024 of the 1st Quartile (the top 12 Franchised Stores) have an average Gross Revenues of \$896,791. The same mathematical calculation was used for each of the other Quartiles in the Table.

6. Number & Percentage of Franchised Stores in Each Quartile Exceeding Average Gross Revenues for that Quartile. For each Quartile, the Table shows the actual number of Franchised Stores within that Quartile that exceeded the Average Gross Revenues for that Quartile. For example, for 2023, of the 12 Franchised Stores in the 1st Quartile, 5 Franchised Stores, or 42%, of the Franchised Stores exceeded the Average Gross Revenues of \$852,497. For 2024, of the 12 Franchised Stores in the 1st Quartile, 5 Franchised Stores, or 42%, of the Franchised Stores exceeded the Average Gross Revenues of \$896,791.
7. Median Gross Revenues in Each Quartile. The tables show the median Gross Revenues in each Quartile. The “median” is the middle number within each Quartile. If there are an even number of Franchised Stores within a Quartile (which is the case for the First, Second and Third and Fourth Quartile of the Franchised Stores in 2024, with 12 in that Quartile), the median is the average of the Gross Revenues of the Franchised Stores having the 6th and 7th highest Gross Revenues in that Quartile.

Material Bases and Assumptions

The Franchised Stores represented in the Table above are substantially similar to the concept being offered to you.

The Franchised Stores are primarily located in strip shopping centers, with a small percentage in free-standing locations.

The Gross Revenues are NOT net of costs of goods sold, other operating expenses or other costs or expenses that must be deducted from the gross revenues figures to obtain your net income or profit. We have not provided information regarding costs and expenses because we do not regularly collect that data from franchisees from which we could present reliable figures, and we do not operate any company-owned stores.

You will incur at least the following expenses, and possibly more: inventory, labor, occupancy costs, pre-opening expenses, depreciation and amortization, taxes, insurance, operating expenses, royalty fees to us, advertising fees to us, other fees to us in the Franchise Agreement, professional fees, bank charges, telephone, repairs. All of your expenses will affect the operating profit, net income and/or cash flow of your BAGELS Store and should be carefully considered and evaluated.

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Prospective franchisees or sellers of franchises should be advised that no Certified Public Accountant has audited these figures or expressed his/her opinion with regard to their content of form. The amounts have not been audited or reviewed for reasonableness by independent auditors.

Some outlets have sold this amount. Your individual results may differ. There is no assurance that you'll sell as much.

You should conduct an independent investigation of the costs and expenses you will incur in operating your BAGELS Store. We encourage you to consult with your own accounting, business, and legal advisors to assist you to prepare your budgets and projections, and to assess the likely or potential financial performance of your BAGELS Store. We also encourage you to contact existing BAGELS Store operators to discuss their experiences with the system and their Store business. Existing franchisees are your best source of information.

Written substantiation of the data we used in preparing this statement will be made available upon reasonable request.

Other than the preceding financial performance representation, BAB Systems, Inc. does not make any financial performance representations. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor's management by contacting Michael Murtaugh, 500 Lake Cook Road, Suite 475, Deerfield, Illinois 60015, phone: 800/251-6101, the Federal Trade Commission, and the appropriate state regulatory agencies.

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Item 20. OUTLETS AND FRANCHISEE INFORMATION

**Systemwide Outlet Summary
For years 2022 to 2024**

All figures in Tables 1 - 4 are as of November 30, which is the Franchisor's fiscal year end

Table No. 1

Column 1	Column 2	Column 3	Column 4	Column 5
Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
Franchised	2022	52	50	-2
	2023	50	49	-1
	2024	49	49	0
Company- Owned	2022	0	0	0
	2023	0	0	0
	2024	0	0	0
Total Outlets	2022	52	50	-2
	2023	50	49	-1
	2024	49	49	0

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Table No. 2

**Transfers of Outlets from Franchisees to New Owners (other than the Franchisor)
For years 2022 to 2024**

Column 1	Column 2	Column 3
State	Year	Number of Transfers
Indiana	2022	1
	2023	0
	2024	0
Michigan	2022	2
	2023	2
	2024	0
Minnesota	2022	0
	2023	0
	2024	0
California	2022	1
	2023	0
	2024	0
Wisconsin	2022	2
	2023	2
	2024	0
Totals	2022	6
	2023	4
	2024	0

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Table No. 3
Status Franchised Outlets
For years 2022 to 2024

Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8	Col. 9
State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non- Renewals	Reacquired by Franchisor	Ceased Operations Other Reasons	Outlets at End of the Year
California	2022	3	0	0	0	0	0	3
	2023	3	0	0	0	0	1	2
	2024	2	1	0	0	0	0	3
Florida	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
	2024	1	0	0	0	0	0	1
Illinois	2022	3	0	0	0	0	0	3
	2023	3	0	0	0	0	0	3
	2024	3	0	0	0	0	0	3
Indiana	2022	3	0	0	0	0	0	3
	2023	3	0	0	0	0	0	3
	2024	3	0	0	0	0	0	3
Iowa	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
	2024	1	0	0	0	0	0	1
Michigan	2022	23	0	0	0	0	1	22
	2023	22	0	0	0	0	0	22
	2024	22	0	0	0	0	0	22
Minnesota	2022	2	0	0	0	0	0	2
	2023	2	0	0	0	0	0	2
	2024	2	0	0	0	0	0	2
Nebraska	2022	2	0	0	0	0	0	2
	2023	2	0	0	0	0	0	2
	2024	2	0	0	0	0	0	2
Nevada	2022	1	0	0	0	0	1	0
	2023	0	0	0	0	0	0	0
	2024	0	0	0	0	0	0	0
Ohio	2022	1	0	0	0	0	0	1

Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8	Col. 9
State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non- Renewals	Reacquired by Franchisor	Ceased Operations Other Reasons	Outlets at End of the Year
Pennsylvania	2023	1	0	0	0	0	0	1
	2024	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
	2024	1	0	0	0	0	0	1
South Carolina	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
	2024	1	0	0	0	0	0	1
Washington	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
	2024	1	0	0	0	0	1	0
Wisconsin	2022	9	0	0	0	0	0	9
	2023	9	0	0	0	0	0	9
	2024	9	0	0	0	0	0	9
Wyoming	2020	0	0	0	0	0	0	0
	2023	0	0	0	0	0	0	0
	2024	0	0	0	0	0	0	0
All States and Totals	2022	52	0	0	0	0	2	50
	2023	50	0	0	0	0	1	49
	2024	49	1	0	0	0	1	49

The remainder of this page is left blank intentionally.

Table No. 4
Status of Company-Owned Outlets
For years 2022 to 2024

Col.1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8
State	Year	Outlets at Start of the Year	Outlets Opened	Outlets Reacquired From Franchisee	Outlets Closed	Outlets Sold to Franchisee	Outlets at End of the Year
All States and Totals	2022	0	0	0	0	0	0
	2023	0	0	0	0	0	0
	2024	0	0	0	0	0	0

Table 5
Projected Openings For One-Year Period as of December 1, 2024

STATE	FRANCHISE AGREEMENTS SIGNED BUT STORE NOT OPEN	PROJECTED FRANCHISED NEW STORES IN THE NEXT FISCAL YEAR	PROJECTED COMPANY OR AFFILIATE OWNED OPENINGS IN NEXT YEAR

We have not had any Area Development Agreements in effect during the past 3 fiscal years, nor do we project to have any signed in the one-year period beginning December 1, 2024.

Exhibit H is the list of current franchises (49) as of November 30, 2024.

Exhibit I lists the name and last known city, state and business telephone number of every franchisee who has had an outlet terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business (collectively, “closures”) under the Franchise Agreement during the most recently completed fiscal year or who has not communicated with the franchisor within 10 weeks of the issuance date of this Franchise Disclosure Document (1 closure plus 4 transfers).

If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

Within the last 3 fiscal years, we have on occasion in certain circumstances entered into agreements containing confidentiality clauses signed with former franchisees. In some instances, current and former franchisees sign provisions restricting their ability to speak openly about their experience with BAB Systems, Inc. You may wish to speak with current and former franchisees, but be aware that not all of those franchisees will be able to communicate with you.

We have not created, sponsored, or endorsed any franchisee associations. There are no franchisee associations that have asked to be disclosed in our Disclosure Document.

21. FINANCIAL STATEMENTS

Attached as Exhibit P are the Audited Financial Statements of BAB as of November 30, 2024, November 30, 2023, and for the year ended November 30, 2022.

Our fiscal year end is November 30.

22. CONTRACTS

Attached are the following contracts:

Exhibit A Preliminary Agreement

Exhibit B with Riders	Franchise Agreement for BAGELS Production Store and BAGELS Satellite Store,
Exhibit C	Area Development Agreement
Exhibit D	Disclosure Acknowledgement Statement
Exhibit F	Wholesale Program Addendum
Exhibit G	Catering Program Addendum
Exhibit L	General Release (to be signed upon renewal or assignment of the franchise)
Exhibit M	Assignment Agreement (applies only if you are assigning your franchise to a corporation, limited liability company, or other entity controlled by you)
Exhibit N	Assignment Agreement (applies if you are assigning your franchise to a franchisee unrelated to you)
Exhibit O	Transferee's Waiver and Release (applies only if you are buying a BAGELS Store from an existing franchisee)
Exhibit R	State Addenda (if applicable)

The following language is required by the NASAA Statement of Policy Regarding the Use of Franchise Questionnaires and Acknowledgments, as it relates to Exhibit D to this FDD, the Disclosure Acknowledgement Statement.

No statement, questionnaire, or acknowledgment signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the franchisor. This provision supersedes any other term of any document executed in connection with the franchise

23. RECEIPTS

You will find copies of a detachable receipt at the very end of this Disclosure Document.

The remainder of this page is left blank intentionally.

EXHIBIT A TO FRANCHISE DISCLOSURE DOCUMENT

Preliminary Agreement

BAB SYSTEMS, INC.

PRELIMINARY AGREEMENT

THIS AGREEMENT is made and entered into this _____ day of _____, 20____, by and between BAB SYSTEMS, INC., an Illinois corporation, (hereinafter referred to as "BAB") and _____ (hereinafter referred to as "PROSPECTIVE FRANCHISEE").

RECITALS

A. BAB has developed stores that are operated utilizing BAB's distinctive business formats, signs, equipment, layouts, systems, methods, specifications, standards, operating procedures and designs and advertising. Among these are stores that operate under the name "Big Apple Bagels" known as "BAGELS Stores." BAB owns, uses, promotes and licenses certain trademarks and service marks and other commercial symbols, including "Big Apple Bagels" and certain associated logos (the "Marks"). BAB has experience in and the ability to provide assistance and guidance in connection with the operation thereof. BAB grants to qualified persons franchises to own and operate BAGELS Stores ("BAGELS Franchises") selling products and services authorized and approved by BAB and utilizing BAB's business formats, systems, methods, specifications, standards, operating procedures, guidance advertising services, and the Marks;

B. PROSPECTIVE FRANCHISEE desires to obtain a Franchise from BAB for the operation of a BAGELS Store;

C. PROSPECTIVE FRANCHISEE has submitted to BAB an application for a BAGELS Franchise;

D. PROSPECTIVE FRANCHISEE has received and reviewed BAB's BAGELS Franchise Disclosure Document; and

E. BAB shall consider, subject to the terms and conditions hereof, granting a BAGELS Franchise to PROSPECTIVE FRANCHISEE.

F. Under a separate offering and disclosure document, Franchisor, BAB Systems, Inc., operates a franchise distribution system to own and operate stores ("My Favorite Muffin Stores") for retail distribution of "My Favorite Muffin" branded muffins and Brewster's branded coffee. These Stores are operated under the trademarks and service marks "My Favorite Muffin Gourmet Muffin Bakery" or "My Favorite Muffin Your All Day Bakery Cafe," one of which is their primary identifying brand.

THEREFORE, the parties agree as follows:

1. PROSPECTIVE FRANCHISEE has, contemporaneously with the execution of this Preliminary Agreement, deposited with BAB the sum of Ten Thousand (\$10,000.00) Dollars ("Deposit") to be applied against the initial franchise fee payable by PROSPECTIVE FRANCHISEE if a BAGELS Franchise shall subsequently be granted.

2. Upon execution of this Agreement, BAB will furnish PROSPECTIVE FRANCHISEE its written criteria for site selection, which must be returned to BAB upon termination of this Agreement.

3. It shall be the obligation of PROSPECTIVE FRANCHISEE to search for, locate, and submit in writing to BAB for approval, within sixty (60) days after execution of this Preliminary Agreement, a site suitable for the operation of a BAGELS Store acceptable to BAB within the following area: _____ (the "Area").

a. The Area is not exclusive or protected either during the term of this Agreement or in the event a franchise is granted. BAB has the right to offer and grant a franchise to any other party within the Area. In the event BAB grants a franchise, whether a franchise for a BAGELS Franchise of a "My Favorite Muffin Store" to another party within the Area during the term of this Agreement, PROSPECTIVE FRANCHISEE may terminate this Agreement and obtain a full refund of the Deposit. In the event PROSPECTIVE FRANCHISEE enters into an Area Development Agreement with BAB, and becomes an Area Developer, he will have a protected territory, as set forth in the Area Development Agreement.

b. BAB has the right to withhold approval of sites, based on its standards for general location, physical and demographic characteristics of the neighborhood, traffic pattern, parking, competition, proximity to other businesses (including other BAGELS Stores), the nature of other businesses in proximity to the site, layout and other physical characteristics, rental, lease duration and other lease terms and conditions for the BAGELS Store.

c. If PROSPECTIVE FRANCHISEE, within the 60 day period specified in Paragraph 3 above, submits at least 1 site to BAB, which site BAB does not approve, BAB may, at any time thereafter at its sole discretion, either grant an extension to the above referenced 60 day period or terminate this Preliminary Agreement provided it shall refund PROSPECTIVE FRANCHISEE's Deposit less Three Thousand (\$3,000.00) Dollars.

d. If PROSPECTIVE FRANCHISEE fails to submit any sites to BAB within the 60 day period specified in Paragraph 3 above, BAB may, at any time thereafter, terminate this Preliminary Agreement, in which event PROSPECTIVE FRANCHISEE shall not be entitled to any refund of the Deposit.

4. PROSPECTIVE FRANCHISEE acknowledges and agrees that BAB's approval of the premises for the BAGELS Store and any information communicated to PROSPECTIVE

FRANCHISEE regarding the premises for the BAGELS Store do not constitute a representation or warranty of any kind, expressed or implied, as to the suitability of the premises for BAGELS Store or for any other purpose. BAB's approval of the premises indicates only that BAB believes that the premises fall within the acceptable criteria established by BAB as of the time period encompassing the evaluation. Both PROSPECTIVE FRANCHISEE and BAB acknowledge that application of criteria that have been effective with respect to other sites and premises may not be predictive of potential for all sites and premises and that, subsequent to BAB's approval of a site and premises, demographic and/or economic factors, including competition from other businesses, included in or excluded from BAB's criteria could change, thereby altering the potential of a site and premises. The uncertainty and instability of such criteria are beyond BAB's control and PROSPECTIVE FRANCHISEE agrees that BAB shall not be responsible for the failure of a site and premises approved by BAB to meet PROSPECTIVE FRANCHISEE's expectations as to potential revenue or operational criteria. PROSPECTIVE FRANCHISEE further acknowledges and agrees that his acceptance of a Franchise for the operation of a BAGELS Store at the premises is based on his own independent investigation of the suitability of the premises.

5. BAB agrees to expend such time and effort and to incur such expense as may reasonably be required to inspect sites proposed by PROSPECTIVE FRANCHISEE for a BAGELS Store to be operated by PROSPECTIVE FRANCHISEE. Unless PROSPECTIVE FRANCHISEE withdraws his application for a Franchise as hereinafter provided, PROSPECTIVE FRANCHISEE agrees that within fourteen (14) days of approval by BAB of a site for PROSPECTIVE FRANCHISEE's BAGELS Store, PROSPECTIVE FRANCHISEE will execute BAB's Franchise Agreement, in the form delivered to PROSPECTIVE FRANCHISEE. In the event PROSPECTIVE FRANCHISEE fails to execute BAB's Franchise Agreement within said fourteen (14) days, BAB may, at its sole option, terminate this Preliminary Agreement, in which event PROSPECTIVE FRANCHISEE shall not be entitled to any refund of the Deposit.

a. PROSPECTIVE FRANCHISEE may withdraw his application for a Franchise and terminate this Preliminary Agreement by a written notice of termination delivered to BAB at any time prior to the submission by PROSPECTIVE FRANCHISEE of a proposed site and the approval by BAB of said site. Upon termination prior to the approval by BAB of a site, BAB shall refund PROSPECTIVE FRANCHISEE's Deposit less Three Thousand (\$3,000.00) Dollars.

b. Any refund of deposit is conditioned on PROSPECTIVE FRANCHISEE returning to BAB any written criteria for site selection referred to in Paragraph 3 above. The amount withheld by BAB is to compensate the expenses incurred by BAB in connection with PROSPECTIVE FRANCHISEE's proposed purchase of a BAGELS Franchise, including, without limitation, those expenses related to research, demographics data, preliminary layouts, inspection of a site for PROSPECTIVE FRANCHISEE's BAGELS Store, travel and living expenses, compensation of employees of BAB and legal fees and expenses.

6. PROSPECTIVE FRANCHISEE's rights under this Preliminary Agreement are personal in nature and are not transferable by assignment, will or operation of law.

7. Notwithstanding the expiration of this Agreement, the parties agree that in the event PROSPECTIVE FRANCHISEE submits a proposed site to BAB within twenty (20) days prior to the expiration date, this Agreement will not expire until BAB has had a reasonable opportunity to evaluate the site to determine whether the site meets BAB's standards and criteria described in Paragraph 3 above.

8. NOTICES. All notices permitted or required under this Agreement must be in writing. Email and facsimile transmissions are considered written notice, provided that the sender confirms transmission of said email or facsimile transmission. "Confirming transmission" is accomplished by the sender printing a paper copy showing that the document was sent via email or facsimile, and upon request by the recipient, furnishing said paper copy to the recipient. Verbal, oral, or in-person communications are not considered effective notice, unless the sender follows up on said communications in writing. Notices shall be deemed delivered (a) at the time if delivered in person; (b) the day of transmission if by facsimile or by another electronic system, provided that the transmission is done on a business day during the hours of 8:00 a.m. and 5:00 p.m. Chicago time; otherwise, delivery is the next business day; (c) one (1) business day after being placed in the hands of a commercial courier service for overnight delivery; or (d) three (3) business days after placement in the United States Mail by Registered or Certified Mail, Return Receipt Requested, postage prepaid and addressed to the parties as referenced above.

9. All disputes, controversies or claims arising out of or relating to this Agreement, shall be submitted for arbitration to the American Arbitration Association on demand of either party. The demand shall be submitted to, and the arbitration proceedings shall be conducted in the major city nearest where Franchisor's principal business address is then located, and shall be heard by one arbitrator in accordance with the then current Commercial Arbitration Rules of the American Arbitration Association. All matters within the scope of the Federal Arbitration Act (9 U.S.C. §§ 1 et seq.) shall be governed by it. This provision shall continue in full force and effect subsequent to and notwithstanding the expiration or termination of this Agreement.

10. The preambles set forth above are incorporated herein by reference.

PROSPECTIVE FRANCHISEE ACKNOWLEDGES THAT HE HAS READ THIS PRELIMINARY AGREEMENT AND BAB'S FRANCHISE DISCLOSURE DOCUMENT IN THEIR ENTIRETY AND THAT HE HAS BEEN GIVEN THE OPPORTUNITY TO CLARIFY ANY PROVISIONS THAT HE DID NOT UNDERSTAND AND TO CONSULT WITH AN ATTORNEY OR OTHER PROFESSIONAL ADVISOR. PROSPECTIVE FRANCHISEE REPRESENTS THAT HE UNDERSTANDS THE TERMS, CONDITIONS AND OBLIGATIONS OF THIS PRELIMINARY AGREEMENT AND AGREES TO BE BOUND THEREBY.

NOTE: BAB'S OFFER TO ENTER INTO THIS PRELIMINARY AGREEMENT SHALL BE NULL AND VOID IN THE EVENT PROSPECTIVE FRANCHISEE FAILS TO SIGN THIS AGREEMENT AND SUBMIT IT TO BAB, ALONG WITH THE \$10,000 DEPOSIT, WITHIN FOURTEEN (14) DAYS OF THE DATE BAB FURNISHES THIS AGREEMENT TO

PROSPECTIVE FRANCHISEE. IN SUCH EVENT, THE OFFER OF THIS PRELIMINARY AGREEMENT SHALL BE NULL AND VOID, AND PROSPECTIVE FRANCHISEE SHALL HAVE NO RIGHTS UNDER THIS AGREEMENT.

BAB SYSTEMS, INC.
An Illinois corporation

PROSPECTIVE FRANCHISEE

By: _____

By: _____

Address: _____

EXHIBIT B TO FRANCHISE DISCLOSURE DOCUMENT

Franchise Agreement

EXHIBIT B

FRANCHISE AGREEMENT

between

BAB SYSTEMS, INC.

AND

FRANCHISEE: _____

DATED: _____

LOCATION OF STORE: _____

A. This Franchise Agreement is for a (check one):

_____ **Big Apple Bagels Production Store**

_____ **Big Apple Bagels Satellite Store**

NOTE: In this document, for convenience sake only, pronouns used in referring to the Franchisee are "he," "him," or "his." Franchisor does not in any manner wish to imply that only males are qualified, suitable, or appropriate for the Franchise described in this Franchise Agreement. Franchisor does not intend by its use of male pronouns to exclude females from consideration, and it encourages applicants of both genders.

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Rider A - Location of Store
 Rider B - Collateral Assignment of Lease
 Rider C - Guaranty and Assumption of Obligations
 Rider D - Electronic Bank Draft Authorization Form
 Rider E - Security Agreement
 Rider F - Uniform Commercial Code Financing Statement
 Rider G – Authorization to Accountant
 Rider H - State Addendum (if applicable)

Glossary of Terms

The following terms are defined in this Agreement in the Sections or Paragraphs noted:

Abandon	16.a.ii.
Act	9.d.
Affiliate	18.j.
App	9.p.
Attorneys' fees	18.j.
BAGELS Operations Manual	4.c.
BAGELS Production Store	Recitals, Paragraph B
BAGELS Satellite Store	Recitals, Paragraph B
BAGELS Store	Recitals, Paragraph A
Big Apple Bagels	Recitals, Paragraph A
Book Value	17.f.ii
Branded Products	Recitals, Paragraph F
Brewster's	Recitals, Paragraph A
Catering	Recitals, Paragraph F
Collateral	18.m.
Competitive Business	9.f., 17.d
Confirming transmission	19.
Controlling Interest	18.j.
Digital Marketing	9.0(i)(d)
FDA	9.d.
Franchise	Recitals, Paragraph C, 1.a.
Franchisee	Heading
Franchisor	Heading
Fundamental rights	4.c.
Grand Opening	10.b.
Gross Revenues	8.c.
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LLC	12.a.i.
Marketing Fund	10.a.
Marks	Recitals, Paragraph A
Mobile Application	9.0(i)(c)
My Favorite Muffin	Recitals, Paragraphs A, F and G
My Favorite Muffin Gourmet Muffin Bakery	Recitals, Paragraph G

My Favorite Muffin Your All Day Bakery Cafe	Recitals, Paragraph G
Official Gift Card/Loyalty Program.....	9.1.i.
Operations Manual.....	4.c.
Permanent disability.....	15.c.iii.
Premises	Rider B
POS System	3.c.
Proprietary Information	6.a.
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Register tapes	11.b.
Re-Grand Opening.....	10.b.
Renewal Date	2.b.iv.
Reporting Week	8.b.
Social Media	9.0(i)(b)
Store	1.a.
Supplier	9.a.
System	Recitals, Paragraph A
Technology	9.0.
Term	2.a.
Third Party Delivery Service	8.c.
Useful Life	17.f.iii.
Website	9.0
Wholesale	Recitals, Paragraph E

BAB SYSTEMS, INC.
FRANCHISE AGREEMENT

THIS FRANCHISE AGREEMENT ("Agreement") with effective date of _____ (acceptance date by Franchisor), is by and between BAB Systems, Inc., an Illinois corporation ("Franchisor"), whose principal address is 500 Lake Cook Road, Suite 475, Deerfield, Illinois 60015, and _____ ("Franchisee"), whose principal address is _____.

RECITALS:

A. Franchisor operates a franchise distribution system pursuant to a trademark licensing agreement with BAB, Inc. ("Licensor"), a Delaware corporation, to own and operate Big Apple Bagels Stores ("BAGELS Stores") for retail distribution of "Big Apple Bagels" branded bagels and cream cheese spreads, "My Favorite Muffin" branded muffins, and "Brewster's" branded coffee. A "BAGELS Store" means, generically, collectively or individually, a BAGELS Production Store or a BAGELS Satellite Store, which are described in Paragraph B below. These Stores will be operated under the trademark and service mark "Big Apple Bagels" plus logos, designs, and such other trademarks, service marks and commercial symbols ("Marks") as will be authorized from time to time by Franchisor. Such Stores will also be operated in accordance with certain required formats, systems, methods of distribution, standards and procedures, and trade dress, all of which may be improved, further developed or otherwise modified from time to time by Franchisor ("System").

B. BAGELS Stores may be either a BAGELS Production Store or a BAGELS Satellite Store. A "BAGELS Production Store" is a store which has the capacity for the production, baking, retail and wholesale distribution, and on-site consumption of bagels and muffins, and the production, retail distribution and on-site consumption of cream cheese spreads, breakfast and lunch sandwiches, coffee beverages, and soft drinks. A "BAGELS Satellite Store" is a store which has the capacity for baking, retail and wholesale distribution of bagels and muffins, and the production and retail distribution of cream cheese spreads, breakfast and lunch sandwiches, coffee beverages, and soft drinks. BAGELS Satellite Stores may or may not have the capacity for on-site consumption of these menu items. All mixing/production of bagel dough, muffin batters and other specialty bakery products is performed at Franchisee's BAGELS Production Store. The BAGELS Satellite Store may have a more limited menu than a BAGELS Production Store.

C. Franchisor grants to certain persons who meet Franchisor's qualifications a franchise ("Franchise") to own and operate a BAGELS Store utilizing the Marks and System.

D. Franchisee has applied for a license to own and operate a BAGELS Store at the location described in Rider A to this Agreement. Such application has been approved by Franchisor in reliance upon all of the representations made therein. Franchisee represents to Franchisor, as an

inducement to Franchisor's entry into this Agreement, that Franchisee has made no misrepresentations in obtaining the Franchise herein granted.

E. The grant of the right of Franchisee to distribute unbranded (or "Jacobs Bros.[®]" branded) bagel products through non-retail channels of distribution ("Wholesale") is strictly at the discretion of Franchisor, and shall be by execution of the Wholesale Program Addendum to this Franchise Agreement. Jacobs Bros. is a brand acquired by an affiliate of Franchisor in 1999, and the use of that brand name by Franchisee for wholesale products is authorized.

F. The grant of the right of Franchisee to distribute Branded Products under a catering program is strictly at the discretion of Franchisor, and shall be by execution of the Catering Program Addendum to this Franchise Agreement. "Branded Products" are those bagels, cream cheese spreads, muffins and bakery products, sandwiches and coffee retailed and sold to the public under the "Big Apple Bagels," "My Favorite Muffin," and "Brewster's" trademarks, respectively.

G. Under a separate offering and disclosure document, Franchisor, BAB Systems, Inc., operates a franchise distribution system to own and operate stores ("My Favorite Muffin Stores") for retail distribution of "My Favorite Muffin" branded muffins and Brewster's branded coffee. These Stores are operated under the trademarks and service marks "My Favorite Muffin Gourmet Muffin Bakery" or "My Favorite Muffin Your All Day Bakery Cafe," one of which is their primary identifying brand. BAB Systems, Inc. has offered My Favorite Muffin franchises since 1998 and currently there are 18 My Favorite Muffin franchised stores in operation throughout the United States.

1. **GRANT OF FRANCHISE.**

- a. **Grant.** Subject to the provisions of this Agreement, Franchisor hereby grants to Franchisee a franchise ("Franchise") to operate a:

_____ BAGELS Production Store

_____ BAGELS Satellite Store

("Store") in or at the following general location (when the exact location is determined, the parties will complete Rider A):

and to use the Marks and the System in the operation thereof. Termination or expiration of this Agreement shall constitute a termination or expiration of the Franchise. Franchisee agrees that he will at all times faithfully, honestly and diligently perform his obligations hereunder, and that he will continuously exert his

best efforts to promote and enhance the business of the Store and the goodwill of the Marks.

- b. **Restrictions Upon Franchisee's Channels of Distribution.** Franchisee is restricted solely to the retail sale of products sold under this Agreement. Franchisee is expressly prohibited from engaging in the wholesale distribution of products under this Agreement, unless Franchisee and Franchisor have entered into a Wholesale Program Addendum. Franchisee is expressly prohibited from engaging in a catering service selling Branded Products under this Agreement, unless Franchisee and Franchisor have entered into a Catering Program Addendum. The rights herein granted to Franchisee are specifically limited to the operation of business from the BAGELS Store location. Franchisee shall not independently solicit for business, promote the business, and/or offer and sell products authorized under this Agreement through the use of a toll-free number, catalog, any electronic service including the Internet, Social Media, Mobile Application or Digital Marketing (as defined below in Paragraph 9.o).
- c. **Rights Reserved By Franchisor.** Except as otherwise provided herein, Franchisor (on behalf of itself and its Affiliates) retains the right, in its sole discretion and without granting any rights to Franchisee:
 - i. to operate, or to grant other persons the right to operate, BAGELS Stores at such locations and on such terms and conditions as Franchisor deems appropriate; and
 - ii. to sell the products and services authorized for BAGELS Stores under the Marks or other trademarks, service marks and commercial symbols through similar or dissimilar channels of distribution and pursuant to such terms and conditions as Franchisor deems appropriate.
 - iii. to acquire or be acquired by a company establishing businesses identical or similar to the BAGELS Store, even if the other business operates, franchises, and/or licenses competitive businesses anywhere, including in close proximity to the BAGELS Store.

2. **TERM AND RENEWAL.**

- a. **Term.** If this Agreement is for the grant of a BAGELS Production Store Franchise, the term of this Agreement (the "Term") shall commence on the date of this Agreement and expire ten (10) years from such date, unless sooner terminated as provided in Sections 15 and 16 hereof. If this Agreement is for the grant of a BAGELS Satellite Store, the term of this Agreement shall commence on the date of this Agreement and expire at the earlier of: (i) ten (10) years from such date; or

(ii) on the expiration or termination of the Franchise Agreement of Franchisee's BAGELS Production Store, unless sooner terminated as provided in Sections 15 and 16 hereof.

b. **Renewal.**

- i. For a BAGELS Production Store Franchise or a BAGELS Satellite Store Franchise, Franchisee may, at his option, renew the Franchise for two additional ten (10) year terms, provided that:
 - (a) Franchisee has given Franchisor written notice of his election to renew not less than six (6) months nor more than twelve (12) months prior to the end of the then-current term. An election by Franchisee to renew the lease or sublease for the premises of the Store or to execute a new lease or sublease for such premises shall, at the sole option of Franchisor, be deemed an election by Franchisee to extend the franchise for the initial term of the lease or sublease, plus the term of any options and/or extensions, of such lease or sublease;
 - (b) Franchisee is not at such time in material breach of any of his obligations under this Agreement or any other agreement between Franchisee and Franchisor or any of its Affiliates;
 - (c) Franchisee has substantially complied with all the terms and conditions of this Agreement and has met the operating and quality standards and procedures prescribed by Franchisor for BAGELS Stores during the Term;
 - (d) Franchisee has satisfied all monetary obligations owed to Franchisor, its Affiliates and designated suppliers, and has timely met these obligations throughout the Term;
 - (e) Franchisee's store location and lease have been approved by Franchisor;
 - (f) Franchisee has agreed to upgrade the Store to Franchisor's then-current standards of decor, equipment, and product offerings;
 - (g) Franchisee has paid Franchisor the renewal fee of Two Thousand Five Hundred Dollars (\$2,500.00);
 - (h) Franchisee complies with Franchisor's then-current qualification and training requirements; and

- (i) Franchisee executes a general release, in a form prescribed by Franchisor, of any claims against Franchisor and its officers, directors, agents and employees.
- ii. Renewal of this Agreement shall be effectuated by the execution by Franchisor and Franchisee of the then current form of standard Franchise Agreement and all other agreements and legal instruments and documents then customarily used by Franchisor in the granting of Franchises for BAGELS Stores, which may contain substantially different provisions from this Agreement, including higher or lower royalty fees and Marketing Fund contributions, and new fees not contained in this Agreement.
- iii. In the event Franchisee fails to give Franchisor notice as provided in Paragraph 2.b.i(a) of his intent to renew the franchise, Franchisor need not renew the Franchise Agreement. Further, in said event Franchisor has the right to commence measures to seek another franchisee for the Store, including but not limited to advertising or contracting with a business broker.
- iv. In the event Franchisee does not intend to renew, Franchisee has a mandatory obligation to give Franchisor written notice of Franchisee's intent not to renew the franchise at least six (6) months prior to the expiration date of this Agreement. If Franchisee fails to give Franchisor at least six (6) months' notice of its intent not to renew, notwithstanding anything to the contrary contained in this Agreement, Franchisor has the right to impose an automatic renewal of this Agreement, effective on this Agreement's scheduled expiration date ("Renewal Date"), for a renewal term of ten (10) years. In all events, upon renewal, Franchisee shall be obligated to pay Franchisor, as of the Renewal Date, the Renewal Fee set forth in Paragraph 2.b.i.(g).
- v. Franchisor may in its sole discretion extend this Agreement's term for the time period necessary to either give Franchisee reasonable time to correct deficiencies or to give Franchisor adequate time to give notice to Franchisee of Franchisor's refusal to grant a successor franchise as required under this Agreement or under applicable law.
- vi. In the event Franchisee does not execute the Renewal Franchise Agreement after the expiration of the Initial Term, and continues to accept any of the benefits of this Agreement after the expiration of the Initial Term, then at Franchisor's option, this Agreement may be treated either as: (i) expired as of the date of the expiration with Franchisee then operating without a franchise to do so and in violation of Franchisor's right; or (ii) continued on a month-to-month basis (the "Interim Term") until either party provides the

other party with written notice of such party's intention to terminate the Interim Term. In the latter case, all of Franchisee's obligations shall remain in full force and effect during the Interim Term as if this Agreement had not expired, and all obligations and restrictions imposed on Franchisee upon expiration of this Agreement shall be deemed to take effect upon termination of the Interim Term. In the event of either (i) or (ii) of this Paragraph, Franchisee shall be obligated to pay a weekly royalty fee in the amount of seven percent (7%) of the Gross Revenues of the Store (as defined in Paragraph 8.c. hereof).

3. **LOCATION AND DEVELOPMENT OF STORE**

a. **Location and Lease.**

- i. The location of Franchisee's Store must be approved by Franchisor. Franchisee may operate the Store only at the location specified in Paragraph 1.a. and Rider A to this Agreement and may not relocate the Store except with Franchisor's prior written consent. If the site for the Store has not been located by Franchisee at the time of execution of this Agreement, Franchisee agrees to locate and submit to Franchisor for approval, within ninety (90) days after the date of execution of this Agreement, a site suitable for the operation of a BAGELS Store and acceptable to Franchisor. Franchisee must use a licensed real estate broker who specializes in commercial real estate. Franchisee must locate the site for his Store and provide written detailed site information to Franchisor as Franchisor prescribes. Franchisor shall assist Franchisee in the selection of the site. Franchisor has the right to withhold its approval of a site.
- ii. Franchisee shall submit the lease for the premises of the Store to Franchisor prior to its execution for Franchisor's examination and approval. The lease for the premises of the Store shall state that the premises shall be used only for a BAGELS Store and contain substantially the following provisions:

"Anything contained in this lease to the contrary notwithstanding, Lessor agrees that, without its consent, this lease and the right, title and interest of the Lessee thereunder, may be assigned by the Lessee to BAB Systems, Inc., an Illinois Corporation, or its designee, provided that said BAB Systems, Inc. or its designee shall execute such documents evidencing its agreement to thereafter keep and perform, or cause to be kept or performed, all of the obligations of the Lessee arising under this lease from and after the time of such assignment."

"Lessor agrees that Lessor shall, upon written request of BAB Systems, Inc., disclose to said corporation, all reports, information or data in Lessor's possession with respect to sales made in, upon or from the leased premises."

"Lessor shall give written notice to BAB Systems, Inc., an Illinois corporation (concurrently with the giving of such notice to Lessee), of any default by Lessee under the lease and the said BAB Systems, Inc. shall have, after the expiration of the period during which the Lessee may cure such default, an additional thirty (30) days to cure, at its sole option, any such default."

"Lessor agrees it will not, without the prior written consent of BAB Systems, Inc., modify or terminate this lease. Lessor further agrees it will not grant its consent to the assignment by Lessee of this lease without the prior written consent of BAB Systems, Inc."

"BAB Systems, Inc. or its appointed representatives have the right to enter the leased premises to make any modification necessary to protect the Trademarks of BAB Systems, Inc., or to cure any default under the Franchise Agreement or the Lease."

"In the event the Lessee does not exercise any options or rights to renew or extend the Lease, Lessor shall give BAB Systems, Inc. notice of such failure by Lessee to exercise such options or rights."

- iii. Franchisee agrees that he will not execute a lease which has for any reason been disapproved by Franchisor. Franchisee shall deliver a copy of the signed lease to Franchisor within fifteen (15) days of execution thereof.
- iv. Franchisee shall execute a Collateral Assignment of Lease, attached hereto as Rider B, by which Franchisee assigns to Franchisor all of his right, title and interest as tenant under the lease for the BAGELS Store premises. The assignment is for collateral purposes and may be exercised only upon a default by Franchisee under his lease or under this Agreement. Franchisor's approval of Franchisee's lease is conditioned on receipt of the signed Collateral Assignment.

- v. Franchisee's execution of a lease for a site for the BAGELS Store shall constitute acceptance by Franchisee of such site and location and of the terms of such lease, sublease or purchase.
 - vi. Franchisor's approval of the lease or sublease does not constitute a warranty or representation of any kind, express or implied, as to its fairness, suitability or profitability or as to Franchisee's ability to comply with its terms.
- b. **Store Development.** Franchisee agrees that prior to obtaining possession of the site for the BAGELS Store, he shall secure all financing required to fully develop the BAGELS Store. Franchisee further agrees that, promptly after obtaining possession of the site for the Store, he will: (i) cause to be prepared and submit for approval by Franchisor a site plan. Franchisor shall then provide basic drawings and specifications, including requirements for dimensions, exterior design, materials, interior layout, equipment, fixtures, furniture, signs, and decorating required for the development of a BAGELS Store; Franchisee is required to take these drawings and specifications to a licensed architect who will modify them, if required, to meet applicable ordinances, building codes or permit requirements (Franchisor must approve any such modifications to the drawings and specifications); (ii) obtain all required zoning changes, all required building, utility, health, sanitation and sign permits and any other required permits and licenses; (iii) purchase or lease equipment, fixtures, furniture and signs as hereinafter provided; (iv) complete the construction and/or remodeling, equip, furnish and decorate the BAGELS Store in full and strict compliance with plans and specifications approved by Franchisor and all applicable ordinances, building codes and permit requirements; (v) obtain all customary contractors' sworn statements and partial and final waivers of lien for construction, remodeling, decorating and installation services; and (vi) upon completion of construction, furnish Franchisor final costs for the construction, equipment, build-out, deposits, and total development of the BAGELS Store. Once the BAGELS Store is established and approved by Franchisor, no changes in the interior or exterior design of the BAGELS Store or the equipment or fixtures used within may be made without prior written consent of Franchisor.
- c. **Equipment, Fixtures, Furniture, POS (Point-of-Sale) Systems and Signs.** Franchisee agrees to use in the operation of the BAGELS Store only those brands and models of equipment, fixtures, furniture, POS (Point-of-Sale) Systems ("POS System"), fax machines, credit card processor, exterior and interior signs, decor items and tableware that Franchisor has approved for use in BAGELS Stores as meeting its requirements for performance, warranties, design and appearance. Franchisee may purchase or lease original and replacement equipment, fixtures, furniture, POS System, fax machine, credit card processor, signs, decor items or tableware meeting such specifications from any source approved by Franchisor

(which may include Franchisor and/or its Affiliates). All such equipment must be kept in operating condition throughout the term of the franchise. Franchisee shall record all sales the POS System, as required by the BAGELS Operations Manual or as otherwise approved in writing by Franchisor. The approved POS System consists of the Emerge i3 Point of Sale System, loaded with the MicroSale POS software and equipped with a receipt printer, sold by MicroSale 1221 West Brandon Blvd; Brandon FL 33511. If Franchisee proposes to purchase or lease any item of equipment, fixtures, furniture, POS System, fax machines, credit card processor, signs, decor items or tableware not theretofore approved by Franchisor as meeting its specifications, Franchisee shall first notify Franchisor, and Franchisor may require submission of sufficient specifications, photographs, drawings and/or other information and samples to determine whether such items meet its specifications. Franchisor shall have the right to charge Franchisee a reasonable fee to cover Franchisor's costs incurred in making such determination. Franchisor shall advise Franchisee within sixty (60) days whether such item meets its specifications. No vending machines, unapproved newspapers or periodicals, juke boxes or other music producing machines, gum or candy machines, games, pinball machines or other mechanical devices (including pay telephones and cigarette vending machines) shall be installed or operated at the Store without Franchisor's prior written consent.

d. **Store Refurbishing.**

- i. Subject to the terms and conditions hereinafter set forth, Franchisee agrees to effect such refurbishing of the BAGELS Store (in addition to regular maintenance and repair) as Franchisor from time to time reasonably requires to maintain or improve the appearance and efficient operation of the BAGELS Store, to comply with Franchisor's then-current standards for a BAGELS Store, and/or to accommodate new products and services that Franchisor requires Franchisee to offer. Refurbishing may include: (a) the substitution or addition of new or improved equipment; (b) the substitution or addition of new or improved fixtures, furniture and signs; (c) replacement of worn out or obsolete equipment, fixtures, furniture and signs; (d) redecorating; (e) repair of the interior and exterior of the premises; and (f) structural modifications and remodeling of the premises.
- ii. Franchisee's obligation to refurbish the Store as hereinabove provided shall be subject to the following terms and conditions: (a) Franchisee shall not be required to make aggregate expenditures for refurbishing described in items (b) through (f) of Paragraph 3.d.i. above in excess of two percent (2%) of the cumulative Gross Revenues of the BAGELS Store of the four preceding years to the date of any such required refurbishing; (b) Franchisee shall not be required to effect any refurbishing of the BAGELS Store during the last twelve (12) months of the initial or any renewal term of the

Franchise except in connection with a renewal of the Franchise; and (c) the substitution or addition of new or improved equipment shall be completed within six (6) months of Franchisee's receipt of notice thereof from Franchisor. All other refurbishing shall be completed within twelve (12) months of Franchisee's receipt of notice thereof from Franchisor.

- e. **Store Opening.** Franchisee shall complete development of the BAGELS Store, obtain all licenses required by Franchisor for the operation of the BAGELS Store and have the BAGELS Store ready to open and commence the conduct of its business by the earlier of

- i. six (6) months after Franchisee obtains possession of such site or
- ii. six (6) months from the date of this Agreement if Franchisee has possession of such site on the date hereof, or
- iii. twelve (12) months from the date of this Agreement.

If Franchisee fails to commence the conduct of business by the deadline set forth above in this Subparagraph 3.e., then this Agreement and the Franchise granted hereby may, at the sole option of Franchisor, be terminated upon the giving of written notice to Franchisee by Franchisor. A new BAGELS Store may not open for business without the prior written approval of Franchisor. Franchisee may not open a new or relocated BAGELS Store without the on-site presence of Franchisor's representative, unless a waiver is requested in writing by Franchisee and approved in writing by Franchisor. Even if the aforementioned request and approval are granted, Franchisee must obtain Franchisor's written authorization, in its sole discretion, of the specific date that the Store may open. For a BAGELS Store that had been closed by a franchisee and is being reopened by a new franchisee (for example, in a transfer), Franchisor's written approval is required prior to the reopening of the BAGELS Store. The reopening of a previously-closed BAGELS Store may or may not, at Franchisor's sole option, include an on-site inspection by a representative of BAB.

- f. **Store Opening Marketing Fee.** Upon execution of this Agreement, Franchisee shall deposit with the Franchisor a non-refundable Store Opening Marketing Fee in the amount of Seven Thousand Five Hundred Dollars (\$7,500) if Franchisee is establishing a BAGELS Production Store. If Franchisee is establishing a BAGELS Satellite Store the Store Opening Marketing Fee will be Three Thousand Dollars (\$3,000.00). Franchisor shall expend the Store Opening Marketing Fee in connection with the grand opening of Franchisee's BAGELS Store, as well as for local advertising for the BAGELS Store during the initial few months of operation. If Franchisee is purchasing an existing BAGELS Store (transfer), the Store Opening Marketing Fee is One Thousand Dollars (\$1,000).

g. **Relocation of Store.**

- i. If Franchisee's lease for the premise of the BAGELS Store terminates without fault of Franchisee, or expires without any possibility of renewal by Franchisee on commercially reasonable terms as determined by Franchisor, or if in the judgment of Franchisor and Franchisee there is a change in the character of the location of the BAGELS Store sufficiently detrimental to its business potential to warrant its relocation, Franchisor shall grant permission for relocation of the BAGELS Store to a location approved by Franchisor. Franchisee may not open a relocated BAGELS Store without the on-site presence of Franchisor's representative, unless a waiver is requested in writing by Franchisee and approved in writing by Franchisor. Even if the aforementioned request and approval are granted, Franchisee must obtain Franchisor's written authorization, in its sole discretion, of the specific date that the Store may open. In the event of relocation, the parties will enter into an agreement which will set forth the new location for Franchisee's BAGELS Store and a deadline by which Franchisee must open for business at the new location, after which time Franchisee will be obligated to resume paying the royalty fee and Marketing Fund Contributions whether or not the new location has opened for business. Until such time that the new location is open for business, the amount of the royalty fee and Marketing Fund Contribution will be based on the Franchisee's average weekly level of Gross Revenues during the one year period prior to closing the first BAGELS Store. Any such relocation shall be at Franchisee's sole expense, and shall not be undertaken without Franchisor's prior written consent. Franchisor shall have the right to charge Franchisee for services Franchisor renders to Franchisee in connection with such relocation, including reimbursement of its costs for reviewing and approving the new location and the costs for construction drawings for the Store at its new location. Franchisor shall also have the right to require Franchisee to upgrade the relocated Store to conform to Franchisor's then current image, standards, and specifications for construction and equipment for all new BAGELS Stores.
- ii. In the event of a relocation of the BAGELS Store, Franchisee shall promptly remove from the former BAGELS Store premises any and all signs, fixtures, furniture, posters, furnishings, equipment, menus, advertising materials, stationery, supplies, forms and other articles which display any of the Marks and distinctive features or designs associated with the System. Any articles which display any of the Marks or any distinctive features or designs associated with the System which are not used by Franchisee at the new BAGELS Store location shall be disposed of by Franchisee as directed by Franchisor following notice to Franchisor to the effect such articles will not

be used at the new BAGELS Store. Furthermore, Franchisee shall, at Franchisee's expense, immediately make such modifications or alterations as may be necessary to distinguish the former BAGELS Store premises so clearly from its former appearance and from other BAGELS Stores so to prevent any possibility of confusion by the public (including, without limitation, removal of all distinctive physical and structural features identifying BAGELS Stores and removal of all distinctive signs and emblems). Franchisee shall, at Franchisee's expense, make such specific additional changes as Franchisor may reasonably request for this purpose. If Franchisee fails to initiate immediately or complete such alterations within such period of time as Franchisor deems appropriate, Franchisee agrees that Franchisor or its designated agents may enter the premises of the former Store and adjacent areas at any time to make such alterations as Franchisor deems appropriate to distinguish Franchisee's former BAGELS Store premises, without liability for trespass. Franchisee expressly acknowledges that failure to make such alterations will cause irreparable injury to Franchisor and hereby consents to entry, at Franchisee's expense, of any ex parte order by any court of competent jurisdiction authorizing Franchisor or its agents to take such action, if Franchisor seeks such an order. Compliance with the foregoing shall be a condition subsequent to Franchisor's approval of any relocation request by Franchisee, and in the event complete de-identification of the former BAGELS Store premises is not properly and completely undertaken, Franchisor may then revoke its permission for relocation and declare a default under this Agreement.

- iii. In the event Franchisee loses possession of the BAGELS Store for whatever reason prior to the expiration of the term of this Agreement, Franchisee is required to diligently search for a new location and open and operate the BAGELS Store as promptly as commercially practicable. In the event Franchisee fails to diligently pursue a new location and open a new BAGELS Store, Franchisee shall be liable to Franchisor for Franchisor's lost royalties and other damages for the remainder of the franchise term.

4. **TRAINING AND GUIDANCE.**

- a. **Training.** Franchisor shall furnish to Franchisee and one additional person designated by Franchisee an initial training program in all phases of the operations of a BAGELS Store, including unit operations, bookkeeping, inventory management, and local Store marketing. Franchisee shall complete the training program to the satisfaction of Franchisor. Such training program shall be for a minimum of ten (10) days at a designated Store location, at Franchisor's corporate location and/or held virtually via a telecommunication platform (e.g. Zoom), and at Franchisee's Store near the time of the Store opening. For a Satellite Store,

Franchisor reserves the right to require that Franchisee attend Satellite Store training. If not required, Franchisee may, at his option, participate in Satellite Store training. The total time provided for Satellite Store training shall be for a minimum of three (3) days, since the Franchisee taking this training may be an existing franchisee opening the Satellite Store as an additional location. If Franchisee has purchased or is in the process of purchasing an existing BAGELS Store from another franchisee in an approved transfer, the initial training program will not include topics relating to developing and opening a new store and will therefore be shorter in duration than the training chart in Item 11 of the disclosure document indicates. In addition, for transferees, some of the training may be conducted in the Store being purchased instead of in another store. If Franchisor provides refresher and supplemental training programs or regional or national conventions, Franchisee is required to attend such training and/or conventions. Franchisee shall be responsible for the travel and living expenses (including local transportation expenses) incurred while attending the initial training program and any refresher training programs and/or conventions.

- b. **Guidance and Assistance.** Franchisor shall furnish guidance to Franchisee with respect to: (1) specifications, standards and operating procedures utilized by BAGELS Stores, and any modifications thereof; (2) purchasing approved equipment, furniture, POS Systems, signs, operating materials and supplies; (3) methods of food preparation and sale and improvements thereon; and (4) the establishment and maintenance of administrative, bookkeeping, accounting and general operating and management procedures. Such guidance shall, in the discretion of Franchisor, be furnished in or supplemented by the BAGELS Operations Manual, Franchisee intranet, bulletins, written reports and recommendations, other written materials, and/or telephonic consultations or consultations at the offices of Franchisor or at Franchisee's location. Franchisor shall make no separate charge to Franchisee for such operating assistance, provided that Franchisor may make reasonable charges for forms and other materials supplied to Franchisee and for operating assistance made necessary in the judgment of Franchisor as a result of Franchisee's failure to comply with any provision of this Agreement or any specification, standard or operating procedure prescribed by Franchisor or operating assistance requested by Franchisee in excess of that normally provided by Franchisor.
- c. **BAGELS Operations Manual.** Franchisor will lend to Franchisee during the term of the Franchise one copy of the BAGELS Operations Manual (the "BAGELS Operations Manual"). The BAGELS Operations Manual contains mandatory and suggested specifications, standards, and operating procedures prescribed from time to time by Franchisor for a BAGELS Store and information relative to other obligations of Franchisee hereunder. Franchisee must comply with all mandatory specifications, standards and procedures set forth in the BAGELS Operations

Manual. Franchisor may make reasonable modifications to the BAGELS Operations Manual from time to time to reflect changes in the specifications, standards and operating procedures of BAGELS Stores. No such modification shall alter Franchisee's fundamental rights under this Agreement. For purposes of this Paragraph, "fundamental rights" shall mean the rights of Franchisee with respect to the financial terms specified in this Agreement, Franchisee's territorial rights (if any), and Franchisee's right to operate its business in the manner set forth in this Agreement and in the BAGELS Manual. Franchisee shall keep his copy of the BAGELS Operations Manual current by immediately inserting all modified pages furnished by Franchisor for the BAGELS Operations Manual and received by Franchisee. In the event of a dispute relative to the contents of the BAGELS Operations Manual, the master copy maintained by Franchisor at its principal office shall be controlling. Franchisee may not at any time copy any part of the BAGELS Operations Manual or remove any Manual from Franchisee's place of business.

5. **MARKS.**

- a. **Ownership and Goodwill of Marks.** Franchisee acknowledges that Licensor owns the Marks and that Franchisor has been authorized by Licensor to use the Marks in connection with its franchise program. Franchisee's right to use the Marks is derived solely from this Agreement and is limited to the conduct of business pursuant to and in compliance with this Agreement and all applicable specifications, standards and operating procedures prescribed by Franchisor from time to time during the Term. Any unauthorized use of the Marks by Franchisee shall constitute an infringement of the rights of Franchisor and Licensor in and to the Marks. At Franchisor's sole option, Franchisor may pursue the remedies available under trademark counterfeiting laws, in addition to or instead of trademark infringement. Franchisee agrees that all usage of the Marks by Franchisee and any goodwill established thereby shall inure to the exclusive benefit of Franchisor and Licensor, and Franchisee acknowledges that this Agreement does not confer any goodwill or other interests in the Marks upon Franchisee. Franchisee shall not, at any time during the term of this Agreement or after its termination or expiration, contest the validity or ownership of any of the Marks or assist any others in contesting the validity or ownership of any of the Marks. All provisions of this Agreement applicable to the Marks shall apply to any additional trademarks, service marks, logo forms and commercial symbols hereafter authorized for use by and licensed to Franchisee pursuant to this Agreement.
- b. **Limitations on Use of Marks.** Franchisee agrees to use the Marks as the sole identification of the Store, provided that Franchisee shall identify itself as the independent owner thereof in the manner prescribed by Franchisor. Franchisee shall not use any Mark as part of any corporate or trade name or with any prefix,

suffix or other modifying words, nicknames, terms, designs or symbols, or in any modified form (including, without limitation, any local or special adaptations or artistic variations of any of the Marks), nor may Franchisee use any Mark in connection with the sale of any unauthorized product or service or in any other manner not expressly authorized in writing by Franchisor. Franchisee shall not for his own account register the Marks or use the Marks on any form of technology, including, but not limited to, websites, Social Media, or Mobile Applications. Franchisee agrees to display the Marks prominently and in the manner prescribed by Franchisor on signs, forms, and other materials and articles. Further, Franchisee agrees to give such notices of trademark or service mark ownership or registration and copyrights as Franchisor specifies and to obtain such fictitious or assumed name registrations as may be required under applicable law. Any and all uses of any of the Marks shall include such information and samples as Franchisor may require. Franchisee may not use "Big Apple Bagels," "BAB," "My Favorite Muffin," "MFM," "Brewster's," or a derivative thereof in its corporate, assumed, or other formal name.

- c. In the event Franchisor deems it advisable, Franchisee shall file for and maintain a "certificate of trade name" in the county or other appropriate jurisdiction in which Franchisee's Store is located. If Franchisor requests, Franchisee must also sign such other documents as Franchisor reasonably requires in order to allow others in Franchisee's state to use Franchisor's Names and Marks, including without limitation any documents required by the applicable Secretary of State or Department of Commerce located in Franchisee's state.
- d. **Notification of Infringements and Claims.** Franchisee shall notify Franchisor immediately in writing of any apparent infringement of or challenge to Franchisee's use of any Mark, or claim by any person other than Franchisor or its Affiliates of any rights in any Mark or any similar trade name, trademark, or service mark of which Franchisee becomes aware. Franchisee shall not communicate with any person other than Franchisor, Licensor and their counsel in connection with any such infringement, challenge or claim. Franchisor has sole discretion to take such action as it deems appropriate and to control exclusively any litigation, U. S. Patent and Trademark Office proceeding or any other administrative proceeding arising out of any infringement, challenge or claim or otherwise relating to any Mark. Franchisee agrees to execute any and all instruments and documents, render such assistance and do such acts and things as may, in the opinion of counsel for Franchisor, be necessary or advisable to protect and maintain the interests of Franchisor and Licensor in any such litigation, U.S. Patent and Trademark Office proceeding or other administrative proceedings or otherwise to protect and maintain the interests of Franchisor and Licensor in the Marks.

- e. **Discontinuance of Use of Marks.** If it becomes advisable at any time, in Franchisor's sole discretion, for Franchisor and/or Franchisee to modify or discontinue use of any Mark, and/or use one or more substitute trademarks or service marks, Franchisee agrees to comply therewith within a reasonable time after notice thereof by Franchisor and Franchisor's sole obligation shall be to reimburse Franchisee for his out-of-pocket expenses of complying with these obligations.
- f. **Indemnification of Franchisee.** Franchisor agrees to indemnify Franchisee against and to reimburse Franchisee for all direct, but not consequential (including, but not limited to, loss of revenue and/or profits), damages for which Franchisee is held liable in any proceeding arising out of the use of any Mark pursuant to and in compliance with this Agreement, and for all costs reasonably incurred by Franchisee in the defense of any such claim brought against it or in any such proceeding in which it is named as a party, provided that Franchisee has timely notified Franchisor of such claim or proceeding and has otherwise complied with this Agreement, and that Franchisor shall have the right to defend any such claim. If Franchisor defends such claim, Franchisor shall have no obligation to indemnify or reimburse Franchisee with respect to any fees or disbursements of any attorney retained by Franchisee.

6. **PROPRIETARY INFORMATION.**

- a. **The Proprietary Information.** Franchisor possesses certain proprietary information, some of which constitutes trade secrets under applicable law (the "Proprietary Information") relating to developing and operating BAGELS Stores, including (without limitation):

site selection criteria;

training and operations materials and manuals;

recipes of products sold in BAGELS Stores;

methods, formats, specifications, standards, systems, procedures, sales and marketing techniques, knowledge, and experience used in developing and operating BAGELS Stores;

marketing and advertising programs for BAGELS Stores;

knowledge of, specifications for, and suppliers of inventory other products and supplies;

customer data and customer lists, including names, addresses and other information;

knowledge of the operating results and financial performance of BAGELS Stores other than Franchisee's Store; and

graphic designs, proprietary software, and related intellectual property

Any and all information, processes or techniques which Franchisor designates as confidential or proprietary shall be deemed Proprietary Information. Franchisor may disclose the Proprietary Information to Franchisee through furnishing Franchisee sample drawings and specifications for development and operation of the Store, training programs, the BAGELS Operations Manual, and through guidance furnished to Franchisee during the term of this Agreement.

Proprietary Information does not include information, knowledge, or know-how which Franchisee can demonstrate lawfully came to Franchisee's attention before Franchisor provided it to Franchisee directly or indirectly; which, at the time Franchisor disclosed it to Franchisee, already had lawfully become generally known in the industry through publication or communication by others (without violating an obligation to Franchisor); or which, after Franchisor disclosed it to Franchisee, lawfully becomes generally known in the industry through publication or communication by others (without violating an obligation to Franchisor). However, if Franchisor designates any material as Proprietary Information, anyone who claims that it is not Proprietary Information must prove that one of the exclusions provided in this Paragraph is fulfilled.

- b. **Limitations on Franchisee's Use.** Franchisee acknowledges and agrees that it will not acquire any interest in the Proprietary Information, other than the right to utilize the same in the development and operation of the Store pursuant to this Agreement and in accordance with the terms of this Agreement or other agreements between Franchisee and Franchisor or its Affiliates, and that the use or duplication of the Proprietary Information in any other business would constitute an unfair method of competition. Franchisee hereby agrees that Franchisee and its affiliates, officers, directors, partners and all owners of any interest in Franchisee and/or the Store: (a) will not use the Proprietary Information in any other business or capacity; (b) will maintain the absolute confidentiality of the Proprietary Information during and after the Term; (c) will not make unauthorized copies of any portion of the Proprietary Information disclosed in written, visual, electronic, auditory or any other form; and (d) will adopt and implement all reasonable procedures prescribed from time to time by Franchisor to prevent unauthorized use or disclosure of the Proprietary Information including, without limitation, restrictions on disclosure thereof to employees and the use of a separate written agreement with employees and agents incorporating nondisclosure and noncompetition clauses in a form satisfactory to Franchisor, including naming Franchisor as an intended third party beneficiary. In

connection with this obligation, Franchisee shall notify Franchisor of the name and address of each affiliate, officer, director, partner, supervisory employee and owner of Franchisee and shall update such information whenever necessary. Such notification shall contain and have annexed thereto a copy of the written agreement executed by the individual at the time he or she acquires an interest in or becomes associated with or employed by Franchisee in which such individual consents to be bound by the restrictive covenants contained in said agreement and to Franchisor's and Franchisee's enforcement of such covenants. An example of a separate written agreement currently considered satisfactory to Franchisor, including provisions to confirm Franchisor's ownership of Ideas (as defined in Paragraph 6.c.) is the Confidentiality and Non-Competition Agreement attached to the Franchise Disclosure Document as Exhibit E. Franchisee is solely responsible for making certain that the terms of said Confidentiality and Non-Competition Agreement are enforceable in Franchisee's state, and if Franchisee's legal counsel advises revisions to comply with the laws of the state in which Franchisee conducts business, Franchisee shall furnish Franchisor a copy of the revised document prior to using it with any of Franchisee's employees. Franchisee shall retain all written Confidentiality and Non-competition Agreements with his business records for the time period specified in the BAGELS Operations Manual or under applicable law. Franchisee shall enforce all covenants and give Franchisor notice of any breach or suspected breach of which Franchisee has knowledge. The requirement for the Nondisclosure and Noncompetition Agreement between Franchisee and its employees, including the provision that makes Franchisor an intended third party beneficiary, shall not create an employee or joint employee relationship between Franchisor and Franchisee's employees, nor does it constitute control by Franchisor over Franchisee's employees' conditions of employment. The obligations of Franchisee pursuant to this Paragraph 6.b. shall survive the termination or expiration of this Agreement.

- c. **Innovations.** All ideas, concepts, techniques, and marketing, advertising or other materials ("Ideas") relating to a bagel, muffin, deli, and/or coffee store, whether or not protectable intellectual property and whether created by or for Franchisee or Franchisee's owners or employees, must be promptly disclosed to Franchisor and will be deemed to be Franchisor's sole and exclusive property, part of Franchisor's System, and works made-for-hire for Franchisor. To the extent that any item does not qualify as a "work made-for-hire" for Franchisor, by this Paragraph Franchisee assigns ownership of that item, and all related rights to that item, to Franchisor and agree to take whatever action (including signing assignment or other documents) Franchisor requests to evidence Franchisor's ownership or to help Franchisor in this regard. Franchisee agrees that Franchisor shall have the perpetual right to use and authorize other BAGELS Stores to use such ideas, concepts, methods and techniques without further consideration to Franchisee.
- d. **Customer List.** The list of customers that Franchisee services during the term of this Franchise Agreement is the Franchisor's Proprietary Information and property.

At the expiration or termination of this Franchise Agreement for any reason, Franchisee will promptly turn over to Franchisor the entire list of customers and Franchisee will make no further use of that list for any purpose whatsoever.

7. **RELATIONSHIP OF THE PARTIES.**

- a. **Independent Contractors.** It is understood and agreed by the parties that this Agreement does not create a fiduciary relationship between them, that Franchisor and Franchisee shall be independent contractors and that nothing in this Agreement is intended to make either party a general or special agent, legal representative, subsidiary, joint venturer, partner, employee or servant of the other for any purpose. Franchisor and Franchisee are independent contractors and no training, assistance or supervision, which Franchisor may give or offer to Franchisee will defeat their relationship as independent contractors. Franchisor will not be liable for damages to any person or property arising directly or indirectly out of the operation of the Franchised Business. Franchisor will not be liable for taxes levied upon Franchisee or the Franchised Business. Franchisee acknowledges that Franchisor's training, guidance, advice and assistance, Franchisee's obligations under this Agreement and the standards, specifications, policies and procedures required by Franchisor hereunder and in the BAGELS Operations Manual are imposed not for the purpose of exercising control over Franchisee but rather for the limited purpose of protecting the Marks and confidential information, goodwill and brand consistency.
- b. **Franchisee's Obligations.** Franchisee shall conspicuously identify himself in all dealings with customers, suppliers, public officials and others as the owner of the Store under a Franchise granted from Franchisor, and shall place such notices of independent ownership on such forms, business cards, stationery, advertising and other materials as Franchisor may require from time to time. Franchisor has not authorized or empowered Franchisee to use the Marks except as provided by this Agreement, and Franchisee shall not employ any Mark in signing any contract, check, purchase agreement, negotiable instrument or other legal obligation without the prior written consent of Franchisor or employ any Mark in a manner that may result in liability of Franchisor for any indebtedness or obligation of Franchisee.
- c. **Negation of Liability.** Neither Franchisor nor Franchisee shall make any express or implied agreements, guaranties or representations or incur any debt in the name of or on behalf of the other or represent that their relationship is other than that of franchisor and franchisee. Neither Franchisor nor Franchisee shall be obligated by or have any liability under any agreements or representations made by the other. Franchisor shall have no liability or obligation for any damages to any person or property directly or indirectly arising out of the development or operation of the Store, whether or not caused by Franchisee's negligent or willful action or failure to act. Franchisor shall have no liability for any sales, use, excise, gross receipts, property or other taxes of Franchisee or the Store.

- d. **Indemnification.** Franchisee agrees to indemnify Franchisor and its subsidiaries, Affiliates, stockholders, directors, officers, employees, agents, successors, and assignees against and to reimburse them for all obligations, damages, and taxes set forth in this Agreement for which they are held liable and for all costs reasonably incurred by them in the defense of any claims brought against them or in any action in which they are named as a party, including without limitation, reasonable attorneys' and expert witness fees, costs of investigation and proof of facts, court costs, other litigation expenses, and travel and living expenses as a result of or related in any way to the operation of the Store, except to the extent caused by Franchisor's negligent or willful action or failure to act. Franchisor has the right to defend any such claim against it. Franchisee shall also indemnify and hold Franchisor and its officers, directors, employees and agents harmless from any and all claims, demands or liabilities arising from the offer or sale of securities, whether asserted by a purchaser of any security or by a governmental agency. Franchisor has the right to defend any such claims.
- e. **Survival.** The indemnities and assumptions of liabilities and obligations herein shall continue in full force and effect subsequent to and notwithstanding the expiration or termination of this Agreement.

8. **FRANCHISE AND OTHER FEES.**

- a. **Initial Franchise Fee.** Franchisee agrees to pay to Franchisor, upon execution of this Agreement, an initial franchise fee as follows:
- i. Franchisee (not pursuant to an Area Development Agreement):
- (1) BAGELS Production Store:
- _____ \$25,000.00 for first BAGELS Production Store
- _____ \$20,000.00 for second and subsequent BAGELS Production Stores
- (2) BAGELS Satellite Store:
- _____ \$15,000.00 for BAGELS Satellite Store
- ii. Developer (pursuant to an Area Development Agreement):
- (1) BAGELS Production Store:
- _____ \$25,000.00 for first BAGELS Production Store

- _____ \$15,000.00 for second and subsequent BAGELS
Production Stores
- (2) BAGELS Satellite Store:
- _____ \$10,000.00 for BAGELS Satellite Store

The initial franchise fee shall be fully earned by Franchisor upon its payment, and shall be non-refundable.

In the event, subsequent to execution of this Franchise Agreement, Franchisee changes his BAGELS Store from one type to another (for example, from a BAGELS Satellite Store to a BAGELS Production Store), Franchisee must pay Franchisor the amount by which the franchise fee for the upgraded store, in effect when this Franchise Agreement is executed) exceeds the amount paid by Franchisee in connection with the type of BAGELS Store Franchisee originally intended to open.

- b. **Royalty Fee.** Franchisee agrees to pay to Franchisor, via electronic bank draft as described below, a weekly royalty fee in the amount of five percent (5%) of the Gross Revenues of the BAGELS Store (as defined in Paragraph 8.c. hereof). The royalty fee shall be due on each Wednesday for the preceding "Reporting Week" (Monday through Sunday).
- c. **Definition of "Gross Revenues."** As used in this Agreement, the term "Gross Revenues" shall mean the entire amount of all gross sales and business receipts, including direct or indirect barter transactions, catering accounts, proceeds of business interruption insurance policies, wholesale accounts (both on and off premises) from the operation of the Store, through or by means of the business conducted in connection therewith, whether for cash or credit. It does not include: (1) sales, use, or service taxes collected from customers and paid to the appropriate taxing authority; and (2) any bona fide customer refunds and approved rebates, discounts and allowances. Franchisee agrees that Franchisee's POS (Point-of-Sale) System may be polled by Franchisor. Franchisee must make payments by electronic bank draft. Gross Revenues are based on retail prices (unless the purchaser has an arrangement for wholesale purchases, in which event Gross Revenues are based on wholesale prices), subject only to the exclusions noted in (1) and (2) of this paragraph. The inclusion in or exclusion from Gross Revenues of any fees paid by Franchisees to Third Party Delivery Services will be determined by BAB and published in BAB's Operations Manual or as promulgated in a Policy Statement issued by BAB. A "Third Party Delivery Service" is a company or business through which customers purchase menu items from Franchisee's Store, that delivers said menu items to the customer at a location other than Franchisee's Store. Third Party Delivery Services typically charge the Franchisee a fee for this

service, which may be automatically deducted from the funds that are collected from the customer prior to disbursement of the funds by the Third Party Delivery Service to the Franchisee. Examples of Third Party Delivery Services include, but are not limited to GrubHub, DoorDash, UberEats, ezCater.

- d. **Interest on Late Payments.** All royalty fees, Marketing Fund contributions and other amounts which Franchisee owes to Franchisor or its Affiliate shall bear interest after their due date at the lower of 2% per month, or the highest contract rate allowed by local law. Franchisor may compound the interest on a monthly basis. Franchisee acknowledges that this Paragraph shall not constitute Franchisor's agreement to accept such payments after same are due or a commitment by Franchisor to extend credit to, or otherwise finance, Franchisee's operation of the BAGELS Store. Further, Franchisee acknowledges that his failure to pay all such amounts when due shall constitute grounds for termination of this Agreement, as provided in Section 16 hereof, notwithstanding the provisions of this Paragraph.
- e. **Application and Set-Off of Payments.** Franchisee shall not be allowed to set off amounts owed to Franchisor or other amounts due hereunder, against any monies owed to Franchisee, nor shall Franchisee in any event withhold any amounts due to any alleged nonperformance by Franchisor hereunder, which right of set off is expressly waived by Franchisee. Franchisor shall be allowed to set off amounts owed to Franchisee against monies owed to Franchisor by Franchisee. Notwithstanding any designation by Franchisee, Franchisor shall have sole discretion to apply any payments by Franchisee to any past due indebtedness of Franchisee for royalty fees, Marketing Fund contributions, purchases from Franchisor or its Affiliates, interest or other indebtedness owed by Franchisee to Franchisor or its Affiliates.
- f. **Electronic Bank Draft Plan.** Franchisee shall make payments of the royalty fee, Marketing Fund contributions, and all other payments due Franchisor through an Electronic Bank Draft Plan on a bank account Franchisee is required to establish and maintain for the purpose of making payments to Franchisor. Franchisee shall execute such documents as may be required from time to time by Franchisor to permit Franchisor to withdraw from Franchisee's general operating checking account the amounts due Franchisor. The form authorizing the electronic bank draft is attached as Rider D.
 - i. In the event Franchisee fails to submit required sales reports to Franchisor when due, and they have the current POS system in use, Franchisor reserves the right to withdraw an amount for the royalty fee and Marketing Fund contribution that is based upon information obtained through the POS system for that week. If Franchisee was not required to update to the current POS system, then Franchisor reserves the right to withdraw an estimated amount for the royalty fee and Marketing Fund contribution, based on the

average Gross Revenues for the last ten (10) reported weeks. If Franchisee fails to report Gross Revenues for five (5) consecutive weeks, Franchisor reserves the right to withdraw an estimated amount for the royalty fee and Marketing Fund contribution, based on the average Gross Revenues, plus ten percent (10%) for the last ten (10) reported weeks.

- ii. Franchisee may not make any change in its banking relationships, including any change in the account number of its general operating account, or any change in banks, without executing all documents and paying any out-of-pocket expenses required to authorize payments to Franchisor by electronic bank draft from Franchisee's new bank account.
 - iii. In the event any electronic bank draft is declined, dishonored, or refused, due to insufficient funds, Franchisor will attempt another electronic bank draft. In the event any electronic bank draft is dishonored, Franchisee shall pay the Franchisor an assessment of Twenty-Five Dollars (\$25.00) for each of the first three (3) times payment is declined due to insufficient funds in any calendar year; after the third time in any calendar year, the assessment is Fifty Dollars (\$50.00) each. Franchisee shall also immediately remedy the reason the electronic bank draft was dishonored, and notify Franchisor that the electronic bank draft will be honored.
 - iv. In the event any electronic bank draft is declined, dishonored, or refused, due to the bank account being closed, Franchisee shall pay the Franchisor an assessment of Twenty-Five Dollars (\$25.00) per transaction for each of the first three (3) times payment is declined due to a closed bank account in any calendar year; after the third time in any calendar year, the assessment is Fifty Dollars (\$50.00) each. Franchisee shall also provide Franchisor new bank account information, execute all documents and pay any out-of-pocket expenses required to authorize payments to Franchisor by electronic bank draft from Franchisee's new bank account.
 - v. In the event an electronic bank draft is not honored after following the steps described above, Franchisee will be deemed to be in material breach of this Agreement and be subject to all the remedies available to Franchisor in this Agreement.
- g. **Document Name Change Fee.** In the event Franchisee requests and Franchisor approves any alteration, addition, or modification in the name or identity of the Franchisee on this Agreement, Franchisee agrees to pay Franchisor a Document Name Change Fee in the amount of Two Hundred Fifty Dollars (\$250.00). Provided, however, this fee shall be waived the first time a transfer is made pursuant to Paragraph 14.b.(iv).

9. **OPERATING STANDARDS.**

- a. **Image of the Store.** The presentation of an image in compliance with Franchisor's minimum standards and specifications to the public is an essential element of a successful franchise system. Franchisee shall offer for sale all products and services that Franchisor, in its sole discretion, may from time to time require, and shall make such expenditures as may be necessary to enable it to fulfill such obligation, including, without limitation, the purchase or lease of new equipment or services, and the hiring and training of suitable personnel. Franchisee further agrees that the BAGELS Store will not, without prior written approval by Franchisor, provide and/or offer for sale any products or services not then authorized by Franchisor for BAGELS Stores. Franchisor reserves the right to revoke its approval of any products or suppliers previously authorized at any time upon written notice to Franchisee, provided that Franchisee may continue to offer and sell all remaining on-hand or ordered non-cancelable inventory of such products or from such suppliers as of the date of receipt of written notice from Franchisor. The term "supplier" in this Agreement, when used to refer to Franchisor's right to designate or approve suppliers from whom Franchisee must purchase products or services, includes not only the manufacturer, but also the distributor of those products or services. Franchisor may, from time to time, conduct market research and testing to determine consumer trends and the salability of new food and beverage products and services. Franchisee agrees to cooperate by participating in Franchisor's market research programs, test marketing of new services and products in the BAGELS Store, customer feedback programs, and providing Franchisor with timely reports and other relevant information regarding such market research. In connection with any such test marketing, Franchisee shall purchase a reasonable quantity of tested products and effectively promote and make a reasonable effort to sell such products.
- b. **Standards and Sources of Supplies and Compliance with Preparation Methods, Recipes, and Menu.**
- i. Franchisee is required to obtain all his coffee, muffin mix and cream cheese from Franchisor or Franchisor's designated supplier. Franchisee is also required to purchase from Franchisor's designated suppliers a mandatory initial inventory of private label items, including, but not limited to branded disposables, catering packaging and coffee mugs, which will be shipped and billed by Franchisor's designated suppliers. Franchisor also reserves the right to require that other items be purchased exclusively from Franchisor or its designees, in which event Franchisor or its designees may derive revenue from said purchases.
- ii. Other than products which must be purchased from Franchisor, its Affiliates or its designated supplier pursuant to Paragraph 9.b.i. herein, Franchisee agrees that the BAGELS Store will

- (1) use ingredients and prepare and offer for sale other beverages and food products
- (2) use cups, utensils, uniforms, menus, forms, packaging materials, labels and other supplies, and
- (3) offer for sale other products and services

which conform to Franchisor's specifications and quality standards and/or are purchased from suppliers approved from time to time by Franchisor (which may include Franchisor and/or its Affiliates).

- iii. Franchisee agrees to use in the operation of the BAGELS Store only signs, equipment, merchandise, materials and supplies that conform to Franchisor's minimum specifications and quality standards and/or are purchased from suppliers approved from time to time by Franchisor (which may include Franchisor and/or its Affiliates).
- iv. Franchisor may, from time to time, modify the minimum standards and specifications and/or the list of approved brands and/or suppliers. If Franchisee proposes to use or offer any food products or beverages, other products or services, ingredients or supplies (other than those which must be purchased pursuant to Paragraph 9.b.i.) which do not comply with Franchisor's then-current minimum standards or specifications or which are purchased from a supplier that has not been approved, Franchisee shall first notify Franchisor in writing and submit sufficient information, specifications and samples concerning such item or supplier for determination by Franchisor as to whether such item complies with Franchisor's specifications and standards, and/or whether the supplier meets Franchisor's approved supplier criteria. Franchisor shall have the right to charge Franchisee a reasonable fee to cover Franchisor's costs incurred in making such determination. Franchisor shall, within sixty (60) days, notify Franchisee whether or not such proposed item or supplier is approved. Franchisor may from time to time prescribe procedures for submission of requests for approval of items or suppliers and obligations which approved suppliers must assume (which may be incorporated into a written agreement to be executed by approved suppliers). Franchisor may impose limits on the number of suppliers and/or brands for any ingredient or food or beverage product used or served by the BAGELS Store. Franchisor may collect a service fee on items purchased by Franchisee through national marketing contracts negotiated and maintained by Franchisor. Such service fee shall be established and paid to the Marketing Fund in the manner prescribed from time to time by Franchisor.

- v. Franchisee shall not offer and sell any branded items (other than “Branded Products” as defined in Paragraph F of the Recitals) in the BAGELS Store without the prior written consent of Franchisor. Franchisee shall offer and sell branded items which have been approved by Franchisor only in the manner prescribed by Franchisor from time to time. Franchisor reserves the right to revoke the approval of a previously authorized branded item.
 - vi. Franchisee shall at all times maintain an inventory of approved food products, beverages and ingredients and other products sufficient in quantity and variety to realize the full potential of the BAGELS Store.
 - vii. Franchisee acknowledges and agrees that the Franchisor and its Affiliates have proprietary products, including but not limited to coffee products, muffin mix, cream cheese spreads, branded packaging, and other proprietary mixtures and products. Franchisor reserves the right to require Franchisee to use such proprietary mixtures and products in the BAGELS Store.
 - viii. Franchisee acknowledges and agrees to strictly comply with the Franchisor’s prescribed menu items, and to follow the recipes and food preparation methods exactly as set forth in the BAGELS Operations Manual, for all products offered and sold in Franchisee’s BAGELS Store. In the event Franchisee deviates from the prescribed recipes, ingredients, preparation methods, or menu boards, Franchisee shall be responsible for obtaining his/her own nutrition information in order to comply with applicable state and federal nutrition labeling requirements. The previous sentence shall not be construed to permit Franchisee to deviate from said items, and such deviation shall be a default under this Franchise Agreement. Franchisee shall indemnify Franchisor for any claims, damages, suits, judgments, fines, or any other losses incurred by Franchisor by virtue of Franchisee’s failure to comply with this subparagraph.
 - ix. Franchisee hereby consents to and authorizes Franchisor to obtain credit information regarding Franchisee from any approved suppliers.
 - x. Franchisee must sell all goods and services that Franchisor authorizes. Franchisor has the right to add additional authorized services and products that Franchisee must offer. There are no limits on Franchisor’s rights to make product or service changes.
- c. **Operating Procedures.** Franchisee acknowledges that each and every detail of the appearance and operation of the BAGELS Store in compliance with Franchisor's high standards is important. Franchisee agrees to cooperate with Franchisor by maintaining such high standards in the operation of the BAGELS Store. Franchisee agrees to comply with all mandatory specifications, standards and operating

procedures relating to the function and operation of a BAGELS Store including, without limitation, specifications, standards and operating procedures and rules relating to: (1) hours during which Franchisee shall operate the Store; (2) methods and procedures relating to the acquisition, storage and preparation of products offered by Franchisee in the operation of the BAGELS Store; (3) advertising and promotion; (4) use of standard forms; (5) the handling of customer inquiries and complaints; (6) use of approved POS System and credit card processor or mobile pay technology, (7) prohibition against smoking in the BAGELS Store, and (8) prohibition against the use or consumption of alcoholic beverages, including using alcohol in the preparation of any food or beverage items in the BAGELS Store. Franchisor reserves the right to approve all menu items and final copy of Franchisee's menu prior to printing. Mandatory specifications, standards and operating procedures prescribed from time to time by Franchisor in the BAGELS Operations Manual or otherwise communicated to Franchisee in writing, shall constitute provisions of this Agreement as if fully set forth herein. All references herein to this Agreement shall include all such mandatory specifications, standards and operating procedures.

- d. **Compliance with Laws and Good Business Practices.** Franchisee shall secure and maintain in force in its name all required licenses, permits and certificates relating to the operation of the BAGELS Store. Franchisee shall operate the BAGELS Store in full compliance with all applicable laws, ordinances and regulations including, without limitation, all government regulations relating to health and safety, federal labeling laws, workers' compensation insurance, unemployment insurance and withholding and payment of federal and state income taxes, social security taxes and sales taxes. Franchisee acknowledges that it is solely responsible at its own expense for complying with the Food and Drug Administration ("FDA") and the United States Department of Agriculture and those federal and state laws and regulations relating to food and nutrition labeling and claims, including the Federal Food, Drug and Cosmetic Act, 21 U.S.C. §101 et seq. (the "Act"), as amended by the Affordable Care Act of 2010 and the regulations promulgated thereunder, including the rule mandating calorie content on menus and complete nutritional information available in the BAGELS Store. Franchisee shall also comply with any and all nutrition labeling requirements imposed by federal, state or local law which may be enacted after the effective date of this Franchise Agreement. Franchisee must also at its own expense comply with security standards established by the Payment Card Industry Security Standards Council, in connection with credit card transactions. All advertising by Franchisee shall be completely factual, in good taste in the judgment of Franchisor, and shall conform to the highest standards of ethical advertising. Franchisee shall in all dealings with its customers, suppliers, employees, and public officials adhere to the highest standards of honesty, integrity, fair dealing and ethical conduct. Franchisee agrees to refrain from any business or advertising practice which may be injurious to Franchisor and the goodwill associated with the Marks and other BAGELS Stores. In the event Franchisee shall fail to secure any license or permit required for the operation of the BAGELS Store,

Franchisor, at its option and in addition to its other rights and remedies hereunder, may obtain such license or permit on behalf of Franchisee and Franchisee shall fully cooperate with Franchisor in its efforts to obtain such license or permit on behalf of Franchisee and shall pay to Franchisor, on demand, all costs and charges incurred by Franchisor. Franchisor's option not to obtain a license or permit on behalf of Franchisee, as set forth in the preceding sentence, shall not be considered a "failure to act" within the meaning of Paragraph 7.d. (Franchisee's indemnification). Franchisee is solely responsible for its own investigation of and compliance with all laws and regulations to which Franchisee or the Franchised Business is subject, and if Franchisee's or the Franchised Business's compliance with such laws or regulations require, Franchisee shall automatically be entitled to a variance of any standard, specification, requirement, term or condition imposed hereunder for such compliance. Franchisor does not represent that any of the training, guidance, advice or recommendations which it provides, or the standards, specifications, requirements or restrictions which it imposes (all of which are provided or imposed for the protection of the proprietary marks, goodwill and brand consistency) comply with the laws and regulations to which Franchisee or the Franchised Business may be subject. The indemnification in Paragraph 7.d. applies to Franchisee's obligations under this Paragraph 9.d.

- e. **Management and Personnel of the Business.** Franchisee shall devote his full time and best efforts to the BAGELS Store and shall not engage in any other business or other activity, directly or indirectly, that requires any significant management responsibility, time commitments, or otherwise may conflict with Franchisee's obligations hereunder, without the express written consent of Franchisor. The BAGELS Store shall at all times be under the direct personal supervision of Franchisee, and shall at all times be under the full-time management of Franchisee or a qualified manager who has successfully completed Franchisor's training program. Franchisee or his manager shall hire all employees of the BAGELS Store and shall be exclusively responsible for the hiring, retention, firing, scheduling, wages, benefits, vacations, discipline, performance evaluations, awards, promotions, demotions, work assignments, time off, and all other terms of their employment and compensation and for the proper training of such employees. Franchisee is solely responsible for establishing its own employee relations policies and the handling any disciplinary matters that may arise with Franchisee's employees. If Franchisee requests Franchisor to train Franchisee's manager, Franchisee shall pay Franchisor its then-current Manager Training Fee. Franchisee shall establish at the BAGELS Store for all employees a training program meeting the standards prescribed by Franchisor. Franchisee shall require all managers of the BAGELS Store to execute Franchisor's then current form of Confidentiality and Non-Competition Agreement and shall provide Franchisor a copy of the executed agreement for each manager of the BAGELS Store, as provided in Paragraph 6.b. Franchisee shall require all employees to maintain a neat and clean appearance and to conform to the employee uniform requirements as specified by Franchisor from time to time. Franchisee must, on all employment applications he gives out to

employee applicants, have printed on said applications: *“You are applying for a job to work for an independently owned Franchisee and not for the Franchisor.”* Franchisee shall notify and communicate clearly with its employees in all dealings, including without limitation, its written and electronic correspondence, paychecks, employee handbooks, employment policies and procedures, other materials, that Franchisee (and only Franchisee) is their employer, and that Franchisor is not their employer. If the BAGELS Store at any time is not being managed by Franchisee or a qualified, trained, full-time manager, Franchisor may appoint a manager for the BAGELS Store and charge a reasonable management fee during the period in which Franchisor manages the BAGELS Store.

- f. **Exclusive Relationship.** Franchisor has entered into this Agreement with Franchisee on the express condition that Franchisee and its owners will deal exclusively with Franchisor. Franchisee therefore agrees that during the term of this Agreement, except for the BAGELS Store and other BAGELS Stores operated under Franchise Agreements with Franchisor, neither Franchisee nor any of its owners shall (1) have any direct or indirect ownership interest in any Competitive Business located or operating anywhere in the world; (2) have any direct or indirect ownership interest in any entity which is granting franchises or licenses or establishing joint ventures for operation of Competitive Business anywhere in the world; (3) perform services as a director, officer, manager, employee, consultant, representative, agent, lessor, lender, or otherwise for any Competitive Business or any business which is granting franchises or licenses or establishing joint ventures for the operation of Competitive Businesses anywhere in the world, or (4) directly or indirectly, for Franchisee or for any other person or entity, alone or through or on behalf of others, own, engage in, be employed by, advise, assist, lease or sublease to, invest in, franchise, lend money to, sell or lease the assets of the BAGELS Store to, or have any financial or other interest in, a Competitive Business anywhere in the world. The restrictions of this Paragraph shall not be applicable to the ownership of shares of a class of securities listed on a stock exchange or traded on an over-the-counter market that represent three percent (3%) or less of the number of shares of that class of securities issued and outstanding. To the extent that any provision of this Paragraph 9.f. is deemed unenforceable by virtue of its scope in terms of area, business activity prohibited and/or length of time, but could be enforceable by reducing any or all thereof, Franchisee and Franchisor agree that same shall be enforced to the fullest extent permissible under the laws and public policies applied in the jurisdiction in which enforcement is sought. For purposes of this Paragraph 9.f, the term "Competitive Business" shall mean the sale of bagels, cream cheese, muffins, sandwiches, and/or coffee, as well as any other items or products that Franchisee is authorized to sell subsequent to the date of this Agreement, to the public through retail or wholesale channels of distribution.
- g. **Insurance.**

- i. During the term of the Franchise, Franchisee shall maintain in force, under policies of insurance issued by carriers duly admitted in the Store's state, with an A.M. Best rating not less than A-, and acceptable to Franchisor, comprehensive general liability and property damage insurance against claims for bodily and personal injury, death and property damage caused by or occurring in conjunction with the operation of the BAGELS Store, or otherwise in conjunction with the conduct of business by Franchisee pursuant to the Franchise Agreement, under one or more policies of insurance containing coverage for: Workers Compensation including Employers Liability in the limit of no less than \$500,000; Comprehensive General Liability of no less than \$1,000,000 per occurrence with a General Aggregate of no less than \$2,000,000.00; Products Liability of \$2,000,000; Employment Practices Liability of no less than \$500,000, Cyber Liability of no less than \$1,000,000; Property Insurance in the amount of the replacement cost for stock, inventory, equipment and improvements and betterments; Business Interruption in an amount equal to at least twelve (12) months of gross revenue; and coverage for equipment breakdown in the minimum amount of \$25,000, and an Umbrella Policy of no less than \$1,000,000. In addition, if Franchisee uses a vehicle to deliver product or supplies, he must maintain Comprehensive Auto Liability coverage of no less than \$1,000,000. Further, if any employee of Franchisee ever uses a vehicle for company business, the Comprehensive General Liability insurance must include "Hired and Non-Owned" automobile liability coverage of no less than \$1,000,000. The cost of insurance will vary based on the types and limits of the insurance Franchisee purchases and other factors affecting risk exposure. Franchisor may periodically increase the amounts of coverage required under such insurance policies and require different or additional kinds of insurance at any time, including excess liability insurance, to reflect inflation, identification of new risks, changes in law or standards of liability, higher damage awards or other relevant changes in circumstances. Each insurance policy described in this Section shall name BAB Systems, Inc. (500 Lake Cook Road, Suite 475, Deerfield, Illinois 60015) as additional insured on a primary and noncontributory basis, with respect to policies secured, and shall provide for thirty (30) days' prior written notice to Franchisor of any material modification, cancellation or expiration of such policy, unless prohibited by local insurance regulation. All policies must have a waiver of subrogation in favor of the Franchisor.
- ii. Prior to the opening of the BAGELS Store and prior to the expiration of the term of each insurance policy, Franchisee shall furnish Franchisor with a copy of each insurance policy to be maintained by Franchisee for the immediately following term and evidence of the payment of the premium therefor.

- iii. Franchisee's obligations to maintain insurance coverage as herein described shall not be affected in any manner by reason of any separate insurance maintained by Franchisor, nor shall the maintenance of such insurance relieve Franchisee of any obligations under Section 7 of this Agreement.
- iv. If this Agreement is for a BAGELS Satellite Store, the insurance requirements may be higher than for a BAGELS Production Store, due to increased vehicle use.
- h. **Delivery of Products to BAGELS Satellite Store.** If this Agreement is for the grant of a BAGELS Satellite Store, the bagels sold in Franchisee's Store will be fresh baked bagels supplied by Franchisee's own BAGELS Production Store. If Franchisee has a BAGELS Production Store that furnishes bagels to Franchisee's BAGELS Satellite Store, Franchisee must facilitate the timely delivery of products requiring among other items, additional vehicles, higher insurance coverages, and storage bins.
- i. **Cooperation with Communication of Franchisor's Franchising Information.** Franchisee agrees to cooperate with Franchisor in communication of Franchisor's franchising information such as displaying franchising information within the BAGELS Store and/or including a franchising tag line on local advertising. Franchisee will not be responsible for paying for any such communication that has been implemented by Franchisor.
- j. **Computer.** Franchisee shall, throughout the term of this Agreement, maintain an active e-mail account and shall have access to the Internet for receiving bulletins, updates, and other information from Franchisor, accessing the Franchisor's intranet site and using vendor on-line ordering systems. Franchisee must already have or arrange for Internet access with a form of high-speed service (DSL or cable). Franchisee must have or purchase computer hardware and software, a monitor and a printer. Franchisor may require Franchisee to lease proprietary software from Franchisor or a third party designated by Franchisor, and to enter into a software License Agreement with Franchisor or such third party. Franchisor reserves the right to access information and data pertaining to the BAGELS Store produced by and/or stored on Franchisee's computer system. Franchisee shall be solely responsible for protecting Franchisee's POS System and computer systems from viruses, computer hackers and other computer-related and technology-related problems, and Franchisee releases Franchisor from all claims it may have as result of viruses, hackers or other computer-related or technology-related problems. As technology advances, Franchisee must comply with Franchisor's requirements, as described in the BAGELS Operations Manual or via Policy Statement, in order for Franchisor to be able to communicate with Franchisee. The information and data Franchisor may access includes that of any Third Party Delivery Service companies through which customers purchase menu items from Franchisee's Store. Franchisee must, upon Franchisor's request, furnish Franchisor with access

information to the websites of any Third Party Delivery Service being used in order to enable Franchisor to verify Franchisee's Gross Revenues from all sources.

- k. **Communication with Franchisor.** In order for Franchisor to be able to communicate effectively with its franchisees on a bulk and/or individual basis, Franchisee agrees to maintain the equipment necessary for such communication. Currently, Franchisor relies on fax transmission and email communications, as well as other methods of communication. Franchisee agrees to maintain in the BAGELS Store at all times during the term of this Agreement, a fax machine in good operating condition, which must be set on "Automatic Receive," with a dedicated phone line. As technology advances, Franchisee will comply with Franchisor's requirements, as set forth in the BAGELS Operations Manual, in order for Franchisor to be able to communicate with Franchisee. Franchisee acknowledges that Franchisor has the absolute right to monitor, access, collect, and use any information sent, received, and stored through the system. Franchisee has no expectation of privacy in his or her use of the email systems.
- l. **Gift Cards/Loyalty Program.** Franchisee agrees:
- i. to offer for sale gift cards and/or the loyalty program, which must be in the form and version designated by Franchisor ("Official Gift Card/Loyalty Program"), as it may be amended from time to time;
 - ii. not to offer for sale or give away any form of Gift Card or Loyalty Program other than the Official Gift Card/Loyalty Program;
 - iii. not to create Franchisee's own Gift Card or Loyalty Program;
 - iv. to accept and honor the Official Gift Card/Loyalty Program in exchange for product when presented for redemption at Franchisee's Store;
 - v. to obtain and maintain whatever is the currently designated equipment and/or software necessary to process the authorized Gift Cards/Loyalty Program, which may be through a Mobile Application; and
 - vi. to comply with any policy promulgated by Franchisor regarding changes to the form and use of Gift Card/Loyalty Program, including transition periods for the phasing in of modifications to the Official Gift Card/Loyalty Program.
- m. **Variation of Standards.** Because complete and detailed uniformity under many varying conditions might not be possible or practical, Franchisee acknowledges that Franchisor specifically reserves the right and privilege, as Franchisor considers to be best, to vary standards described in this Agreement for any franchise owner based upon the peculiarities of any condition that Franchisor considers important

to that franchise owner's successful operation. Franchisee has no right to require Franchisor to grant Franchisee a similar variation or accommodation.

- n. **Restrictions Against Potentially Offensive Items.** Franchisee is prohibited from displaying in the BAGELS Store, or allowing any employees to wear, items that are potentially offensive to customers or other employees. By way of example only and not limiting the scope or applicability of this provision, such items include those that express any religious, political, or personal views. The Franchisor's determination in this regard shall be final.
- o. **Technology.**
 - i. Definitions: "Technology" includes Websites, Social Media, Mobile Applications, and Digital Marketing, as defined below.
 - (a) Website. As used in this Agreement, a "website" is a collection of related web pages, including multimedia content, which is accessible via the Internet, that Franchisor operates or authorizes others to operate and that refers to the BAGELS Stores, Proprietary Marks, Franchisor and/or the System.
 - (b) Social Media. As used in this Agreement, the phrase "Social Media" means interactive computer-mediated technologies that facilitate the creation and sharing of information, ideas, career interests and other forms of expression via virtual communities and networks, such as Facebook, You Tube, LinkedIn, Twitter, Instagram, Pinterest, blogs, or other similar communication methods.
 - (c) Mobile Application. As used in this Agreement, a "Mobile Application" or Mobile App is a software application designed for use on mobile devices, such as smartphones and tablets, rather than desktop or laptop computers.
 - (d) Digital Marketing. As used in this Agreement, "Digital Marketing" means the integrated marketing services used to attract, engage and convert customers online. Digital Marketing utilizes multiple channels such as content marketing, influencer marketing, SEO, social media and online advertising to help brands connect with customers.
 - ii. In connection with any website, Social Media, and/or Digital Marketing, Franchisee agrees to the following:
 - (a) Franchisee is strictly prohibited from establishing or maintaining any websites, social media accounts or domain names which

incorporate any of the Marks, name or initials into its web address. Franchisee is prohibited from establishing websites or domain names linking to the BAB websites without the prior written authorization of BAB.

- (b) Franchisor will have the sole right to create, establish, own, and control the website for Franchisee's BAGELS Store.
 - (c) Franchisor will have the sole right to create, establish, own, and monitor all Social Media postings for Franchisee's BAGELS Store. Franchisee may participate in the content and maintenance of Social Media for Franchisee's BAGELS Store, only in accordance with Franchisor's guidelines and subject to Franchisor's right to alter or delete postings made by Franchisee.
 - (d) Franchisor will have the sole right to control all aspects of Digital Marketing, including those related to Franchisee's BIG APPLE BAGELS Store. Unless Franchisor consents otherwise in writing, Franchisee may not, directly or indirectly, conduct or be involved in any Digital Marketing that uses the Marks or is related to Franchisee's BIG APPLE BAGELS Store. If Franchisor does give Franchisee written consent to conduct any Digital Marketing, Franchisee must do so in compliance with Franchisor's guidelines, specifications, standards, policies or procedures Franchisor may issue from time to time on Digital Marketing.
- p. **Mobile Applications and On-line Ordering Programs.** Franchisee must participate in Mobile Application ("App") and On-line Ordering Programs required by Franchisor and may not, without the prior written authorization of BAB, use any Mobile Apps or participate in any programs that are not coordinated by BAB.
- q. **Food Safety Issues.**
 - i. Franchisor has the right to require Franchisee to close its BAGELS Store if Franchisor determines that Franchisee's BAGELS Store has deficiencies relating to food safety and cleanliness; Franchisee may not reopen the BAGELS Store until Franchisor has re-inspected it and determined that it meets Franchisor's standards.
 - ii. Franchisee is strictly prohibited from speaking or communicating with the media in the event of an outbreak of a food borne illness, whether at Franchisee's BAGELS Store or at any other BAGELS Store. Franchisor has the right to be the sole spokesperson on these issues.

- r. **Anti-Discrimination.** Franchisee shall not discriminate against any customers (in the products or services that Franchisee provides or by refusing to provide products or services) on the basis of race, color, religion, age, sex, sexual orientation, gender identity, marital status, national origin, or disability. Franchisee will further comply with any anti-discrimination policies in the BAGELS Operations Manual.
- s. **Compliance With Lease.** Franchisee shall comply with its obligations under its lease for the BAGELS Store premises, including the timely payment of rent.
- t. **Third Party Delivery Services.** Franchisee shall, within seven (7) days of selling any menu items for the first time through a Third Party Delivery Service company, inform Franchisor in writing of the name of said company and as well, furnish Franchisor with access information to the websites of any Third Party Delivery Service being used in order to enable Franchisor to verify Franchisee's Gross Revenues from all sources. This obligation shall apply to each Third Party Delivery Service company that submits an order to Franchisee's Store for the first time.

10. **MARKETING AND PROMOTION.**

- a. **By Franchisor.**
 - i. Recognizing the value of advertising to the goodwill and public image of BAGELS Stores, Franchisor shall establish, maintain and administer a BAGELS marketing fund (the "Marketing Fund") for such marketing and related programs as Franchisor may deem necessary or appropriate, in its sole discretion. Franchisee shall contribute to the Marketing Fund an amount equal to three percent (3%) of the Gross Revenues of the BAGELS Store [except that receipts from wholesale accounts are excluded from Gross Revenues for purposes of calculating Marketing Fund contributions only]. Such Marketing Fund contributions shall be payable weekly together with the royalty fees due hereunder. Franchisor shall have the right from time to time to increase Franchisee's Marketing Fund contributions hereunder to an amount not to exceed the Marketing Fund contribution charged under Franchisor's then-current form of Franchise Agreement, but never to exceed five percent (5%) of Gross Revenues. Franchisor may from time to time, but is not required to, institute a policy to reduce, rebate, or modify Franchisee's contribution to the Marketing Fund, which policy is subject to rescission at any time during the term of this Franchise Agreement. However, no such policy shall increase the amount of Franchisee's contribution to the Marketing Fund greater than five percent (5%) of the Gross Revenues of the BAGELS Store.

- ii. Franchisee acknowledges that the advertising of the Marketing Fund may promote the products of the My Favorite Muffin stores as well as their own products. Despite the "spill-over" benefit of such promotions, Franchisee acknowledges that none of the Marketing Funds will pay or contribute to the other for such benefit.
- iii. Franchisor shall direct all marketing programs financed by the Marketing Fund, with sole discretion over the creative concepts, materials and endorsements used therein, and the geographic, market, and media placement and allocation thereof. Franchisee agrees that the Marketing Fund may be used to pay the costs of preparing and producing video, audio and written advertising materials and electronic media, developing, implementing, and maintaining an electronic commerce website and/or related strategies; administering multi-regional, regional, and local advertising programs, including without limitation, purchasing direct mail and other media advertising and employing advertising agencies to assist therewith; and supporting public relations, market research and other advertising and marketing activities. The Marketing Fund shall furnish Franchisee with existing marketing, advertising and promotional formats and sample materials without charge.
- iv. The Marketing Fund is not Franchisor's asset. Although the Marketing Fund is not a trust, Franchisor will hold all Marketing Fund contributions for the benefit of the contributors and use contributions only for the purposes described in this Agreement. Franchisor does not owe any fiduciary obligation to Franchisee for administering the Marketing Fund or for any other reason. The Marketing Fund shall be accounted for separately from the other funds of Franchisor and shall not be used to defray any of Franchisor's general operating expenses, except for such reasonable salaries, administrative costs and overhead as Franchisor may incur in activities reasonably related to the administration of the Marketing Fund and its marketing programs (including without limitation, conducting market research, preparing advertising and marketing materials and collecting and accounting for contributions to the Marketing Fund). Franchisor may spend in any fiscal year an amount greater or less than the aggregate contribution of all BAGELS Stores to the Marketing Fund in that year and the Marketing Fund may borrow from Franchisor or other lenders to cover deficits of the Marketing Fund or cause the Marketing Fund to invest any surplus for future use by the Marketing Fund. Franchisee authorizes Franchisor to collect for remission to the Marketing Fund any advertising or promotional monies or credits offered by any supplier based upon purchases by Franchisee. All interest earned on monies contributed to the Marketing Fund will be used to pay advertising costs of the Marketing Fund before other assets of the Marketing Fund are expended. A statement of monies collected and costs incurred by the Marketing Fund shall be

prepared annually by Franchisor and shall be furnished to Franchisee upon written request.

- v. Franchisee understands and acknowledges that the Marketing Fund is intended to maximize recognition of the Marks and patronage of BAGELS Stores. Although Franchisor will endeavor to utilize the Marketing Fund to develop advertising and marketing materials and programs, and to place advertising that will benefit all BAGELS Stores, Franchisor undertakes no obligation to ensure that expenditures by the Marketing Fund in or affecting any geographic area are proportionate or equivalent to the contributions to the Marketing Fund by BAGELS Stores operating in that geographic area or, that any BAGELS Stores will benefit directly or in proportion to its contribution to the Marketing Fund from the development of advertising and marketing materials or the placement of advertising.
- vi. Franchisor will not use Fund contributions to create or place any advertisement that is principally a solicitation for new franchises, but Franchisor reserves the right to include in any advertising prepared from Fund contributions (including Internet advertising) information concerning franchise opportunities.
- vii. Franchisor reserves the right, in its sole discretion, to terminate or discontinue the Marketing Fund upon thirty (30) days' written notice to Franchisee. All unspent monies on the date of termination or discontinuance shall be distributed to franchisees of Franchisor in proportion to their respective contributions made to the Marketing Fund during the previous twelve (12) month period. Franchisor shall have the right to reinstate the Marketing Fund upon the same terms and conditions herein set forth upon thirty (30) days' prior written notice to Franchisee.
- viii. Franchisor assumes no direct or indirect liability or obligation to Franchisee or to the Marketing Fund with respect to any failure by any franchisees of Franchisor to make any contributions to the Fund.

b. By Franchisee.

- i. Grand Opening. Franchisee must conduct a Grand Opening marketing campaign that meets Franchisor's prior written approval. It must be conducted beginning no later than four (4) weeks after opening for business. The Store Opening Marketing Fee required under Paragraph 3.f. above will be used in connection with Franchisee's Grand Opening as well as for local advertising for Franchisee's Store during the initial few months of operation. If Franchisee is purchasing an existing BAGELS Store (transfer), the Store Opening Marketing Fee will be used to conduct a "re-Grand Opening" within eight (8) weeks of re-opening the Store.

- ii. On an ongoing basis, Franchisee will spend not less than two percent (2%) of Franchisee's Gross Revenues on local advertising and promotion. This expenditure is in addition to the Marketing Fund contribution required in Paragraph 10.a. Franchisor may require Franchisee to submit receipts, invoices, and other documentation to verify compliance with this requirement. Franchisee acknowledges that the 2% is a minimum requirement, and Franchisor recommends additional expenditures by Franchisee on local advertising.
 - iii. Franchisee shall join any local advertising co-operative which has been or may be formed consisting of franchisees and/or Franchisor-owned or Affiliate-owned BAGELS Stores in his area. Franchisor assumes no direct or indirect liability or obligation to Franchisee or to any local co-operative with respect to the maintenance, direction, or administration of the co-operative, including without limitation, any failure by any franchisees to make any contributions to the co-operative.
 - iv. Franchisee must obtain Franchisor's prior approval of both the content and context of Franchisee's advertising, including the placement, medium, specific programming, and other details where advertising will run. Prior to their use by Franchisee, samples of all local advertising and promotional materials not prepared or previously approved by Franchisor shall be submitted to Franchisor for approval. If written disapproval is not received by Franchisee within fifteen (15) days from the date of receipt by Franchisor of such materials, Franchisor shall be deemed to have given the required approval. Franchisee shall not use any advertising or promotional material that Franchisor has disapproved.
- c. **Technology.** Franchisee acknowledges and agrees that the restrictions set forth in Paragraphs 9.o. and 9.p of this Agreement apply to Franchisee's advertising and marketing activities.

11. **RECORDS AND REPORTS.**

- a. **Accounting and Records.** During the Term, Franchisee agrees, at his expense: (i) to establish and maintain record keeping and accounting systems conforming to the requirements prescribed by Franchisor from time to time; (ii) to either formally engage a competent accountant to prepare Franchisee's financial records and reports (in which event Franchisee will comply with Paragraph 11.d below), or to utilize an accounting software system on which Franchisee is proficient; and (iii) to prepare and preserve for seven (7) years from the date of their preparation full, complete and accurate books, records and accounts prepared pursuant to such accounting procedures as may be prescribed by Franchisor from time to time,

copies of sales tax returns and copies of such portions of Franchisee's state and federal income tax returns as reflect the operation of the BAGELS Store.

- b. **Reports and Tax Returns to be Furnished to Franchisor.** Franchisee shall furnish to Franchisor the following: (i) on or before 5:00 p.m. on Monday of each week, an electronic (email) report of the Gross Revenues of the BAGELS Store for the preceding week, (ii) on or before 5:00 p.m. on Monday of each week, a mailed or faxed copy of the BAGELS Store's register tape or report (as applicable) used as the basis for the sales that were reported for the preceding week, (iii) by the thirtieth (30th) day of each quarter a profit and loss statement as of the end of the preceding quarter, a year-to-date profit and loss statement and a balance sheet as of the end of the preceding month; (iv) within ninety (90) days after the end of each fiscal year of the BAGELS Store, an annual profit and loss statement and source and use of funds statement for the BAGELS Store and a balance sheet for the BAGELS Store as of the end of each fiscal year, reviewed by an independent certified public accountant, or, if requested by Franchisor, accompanied by an opinion of a certified public accountant or firm of certified public accountants selected by Franchisee and approved by Franchisor, which opinion may be qualified only to the extent reasonably acceptable to Franchisor; and (v) by the due date by which Franchisee is required to file with applicable governmental agency each of the following tax returns, exact copies of all state sales tax returns and such portions of Franchisee's federal and state income tax returns as reflect the operation of the BAGELS Store. Further, Franchisee shall furnish to Franchisor copies of other reports designated by Franchisor and such other forms, reports, records, financial statements, register tapes or reports, supporting records and other information as Franchisor from time to time prescribes. All such financial statements, reports and information shall be on forms approved by Franchisor and shall be signed and verified by Franchisee. The reference to "register tapes" or "tapes" in any provisions of this Franchise Agreement applies only to BAGELS Stores that were not required to update to the current POS System, which generates reports by means other than a register tape. Franchisee agrees that his POS System will be polled by Franchisor to verify Gross Revenues. Franchisor may access Franchisee's POS System by electronic means, including remote access, modem, the cloud, or any other Internet-based technology available to Franchisor, without Franchisee's knowledge or consent. Franchisor reserves the right to download sales, other data and communications from Franchisee's POS System. Franchisor shall also have the right to obtain other sales data, in order to gather sales trend data, product mix information, or any other purpose Franchisor in its sole discretion deems appropriate. Franchisee must afford Franchisor unimpeded access to Franchisee's POS System as Franchisor may request, in the manner, form, and at the times requested by Franchisor. Franchisor (and its accountant and/or other designee) shall have the right to make extracts from the copies of all such documents and information.
- c. **Use of Data, Name, Photograph, and Biographical Information.** Franchisee consents to the use of Franchisee's name, photograph, and biographical and financial data concerning the operation of Franchisee's business, as well as photographs of the

interior and exterior of Franchisee's BAGELS Store, in Franchisor's advertising and other literature promoting Franchisor..

- d. **Consent and Authorization for Accountant to Furnish Data to Franchisor.** Franchisee shall furnish Franchisor the identity and contact information for Franchisee's accountant. Franchisee hereby consents, authorizes, and instructs Franchisee's accountant to furnish Franchisor, upon written request of Franchisor, copies of Franchisee's financial records, sales information, financial reports, or any other data in the possession of the Franchisee's accountant, relating to Franchisee's business. In connection with this obligation, Franchisee shall execute the authorization to Franchisee's accountant attached to this Agreement as Rider G.
- e. **Franchisor's Right to Furnish Data to Governmental Agencies.** Franchisee agrees that Franchisor has the right, without Franchisee's prior consent or knowledge to furnish Franchisee's financial records that are in the possession of Franchisor, to governmental agencies that request said information from Franchisor.
- f. **Franchisor's Right to Use Franchisee's Information.** Franchisee authorizes Franchisor to use information concerning Franchisee and the BAGELS Store for business purposes relating to the administration of this Agreement, the operation of Franchisor, and disclosures required or permitted by federal or state laws or regulations in connection with the sale of franchises. This information includes Franchisee's name, business and home addresses, home or mobile telephone numbers, email addresses, business financial information, results of inspections and business records. Franchisor may identify Franchisee as the source of the information. The persons Franchisor may disclose this information to include prospective and existing franchisees, vendors, landlords, financial institutions, local purchasing cooperatives and advertising funds and includes the right, but not the obligation, to disclose information regarding Franchisee's compliance, any defaults and the termination of this Agreement.

12. **INSPECTIONS AND AUDITS.**

- a. **Examinations of Books and Records.**
 - i. **Franchisor's Right to Examine and Audit.** Franchisor shall have the right at any time, and without prior notice to Franchisee, to examine or audit or cause to be examined or audited the business records, bookkeeping and accounting records, bank statements, sales and income tax records and returns, POS System tapes or reports, and other books and records of the BAGELS Store and the books and records of any corporation, limited liability company ("LLC"), or partnership which is the Franchisee under this Agreement or which is otherwise involved in the operation of the BAGELS Store. Franchisee shall maintain all such books, records and

supporting documents at all times at his business office. Franchisee shall fully cooperate with representatives of Franchisor and accountants hired by Franchisor to conduct any such examination or audit. The examination or audit contemplated by this Paragraph may be conducted at Franchisee's business office or, if Franchisee has submitted materials to Franchisor at Franchisor's request, at Franchisor's offices.

- ii. **Audit Fees.** In the event any such examination or audit shall disclose an understatement of Gross Revenues of the BAGELS Store, Franchisee shall pay to Franchisor, within fifteen (15) days after receipt of the examination or audit report, the royalty fees and any Marketing Fund contributions due on the amount of such understatement, plus interest (at the rate and on the terms provided in Paragraph 8.d. hereof) from the date originally due until the date of payment. Further, in the event such examination or audit is made necessary by the failure of Franchisee to furnish reports, supporting records, financial statements or other documents or information, as herein required, or failure of Franchisee to furnish such reports, records, financial statements, documents or information on a timely basis, or if an understatement of the Gross Revenues of the BAGELS Store for any period is determined by any such examination or audit to be two percent (2%) or greater, Franchisee shall reimburse Franchisor for the cost of such audit or examination, including, without limiting, the charges and disbursements of any independent accountants and the travel expenses, room and board (if any) and compensation of employees of Franchisor in connection with such audit or examination. The foregoing remedies shall be in addition to all other remedies and rights of Franchisor hereunder or under applicable law.

- b. **Right to Inspect the Store.** To determine whether Franchisee is complying with this Agreement, Franchisor or its designee shall have the right at any time during business hours, and without prior notice to Franchisee, to: (a) inspect the BAGELS Store; (b) photograph the BAGELS Store and observe and videotape the BAGELS Store's operation for consecutive or intermittent periods Franchisor deems necessary; (c) remove samples of any products and supplies; and (d) interview the BAGELS Store's personnel and customers. Franchisee agrees to cooperate with Franchisor or its designee fully. If Franchisor or its designee exercises any of these rights, Franchisor or its designee will not interfere unreasonably with the BAGELS Store's operation.

13. **MONETARY FEES FOR NON-COMPLIANCE.**

- a. If Franchisee commits any of the defaults described in this Paragraph 13, Franchisor may impose monetary fees on Franchisee, in addition to the other remedies set forth in this Paragraph 13 and elsewhere in this Agreement. The imposition of a fee under this Paragraph 13 in no manner limits Franchisor's right to exercise any other remedy available under this Agreement or in law.

- b. Failure to Report Gross Revenues. Franchisee shall pay Franchisor a fee of Ten Dollars (\$10) per day, beginning on the eighth (8th) day from the date performance is due, up through and including the day the default is cured, if he fails to report the Gross Revenues of the BAGELS Store as set forth in Subparagraph 11.b.i. by the stated deadline.
- c. Failure to Furnish Register Tapes or Reports, Financial Statements and Tax Returns. Franchisee shall pay Franchisor a fee of One Hundred Dollars (\$100) per day, beginning on the fifteenth (15th) day from the date performance is due, up through and including the day the default is cured, if he fails to furnish the register tapes or reports, financial statements, and/or tax returns as set forth in Subparagraphs 11.b.ii – v by the stated deadlines.
- d. Failure to Pay Royalty Fees or Marketing Fund contributions. Franchisee shall pay Franchisor a fee of One Hundred Dollars (\$100) per day, beginning on the fifteenth (15th) day from the date performance is due, up through and including the day the default is cured, if Franchisee is in default in the payment of the royalty fee required under Subparagraph 8.b. or Marketing Fund contribution under Subparagraph 10.a.i.
- e. Failure to Properly Use Proprietary Products. Franchisee shall pay Franchisor a fee of One Hundred Dollars (\$100) per day for each and every day, beginning with the first day that he fails to properly use proprietary products as described in Paragraph 9.b.vii. of this Agreement and/or as set forth in the BAGELS Operations Manual.
- f. Failure to Comply with Specific Operating Standards. Franchisee shall pay Franchisor a fee of One Hundred Dollars (\$100) for each and every day, beginning with the first day up through and including the day the default is cured, that his BAGELS Store fails to comply with the following specific Operating Standards, as set forth in this Agreement or in the BAGELS Operations Manual, and of which the Franchisor has given Franchisee at least fifteen (15) days' notice: (i) all employees wearing required uniforms as required in Paragraph 9.e; (ii) using approved suppliers as required in Paragraph 9.b.iii; (iii) complying with the insurance requirements set forth in Paragraph 9.g; and (iv) always having a manager in the BAGELS Store who has been trained to Franchisor's satisfaction, as required in Paragraph 9.e. The imposition of this fee does not limit Franchisor from any other remedies available to it under this Agreement or under applicable law.
- g. Failure to Keep Store Open During Hours Required. Franchisee shall pay Franchisor a fee of One Hundred Dollars (\$100) for each and every day, beginning with the first day up through and including the day the default is cured, that his BAGELS Store fails to be open for business for all the days and hours that are required, pursuant to Paragraph 9.c.(1). The hours include the time of opening and closing for business. This fee shall not apply in the event that Franchisee obtains

Franchisor's prior written consent to close his Store for specific days or hours. Such consent shall apply only to each request Franchisee submits to Franchisor, which request shall include the specific dates and hours that Franchisee wishes to close his Store.

- h. **Unauthorized Use of Marks.** Franchisee shall pay Franchisor a fee of One Hundred Dollars (\$100) for each and every day, beginning with the first day up through and including the day the default is cured, that Franchisee makes any unauthorized use of the Marks in any manner or in any media, including but not limited to signage, menus, advertising, or Internet, and including during the term of this Agreement, or subsequent to its expiration or termination for any reason.
- i. **Failure to Comply with Audit.** Franchisee shall pay Franchisor a fee of Twenty Dollars (\$20) per day, for each and every day, beginning with the first day up through and including the day the default is completely cured, that Franchisee fails to provide all the information, records, and documents that Franchisor requests in connection with an audit of Franchisee's Store under Section 12.a. of this Agreement.

14. **TRANSFER**

- a. **By Franchisor.** This Agreement is fully transferable by Franchisor and shall inure to the benefit of any transferee or other legal successor to the interests of Franchisor herein.
- b. **By Franchisee.**
 - i. **Franchisee May Not Transfer Without Approval of Franchisor.** Franchisee understands and acknowledges that the rights and duties created by this Agreement are personal to Franchisee (and its owners) and that Franchisor has granted the Franchise to Franchisee (and its owners) in reliance upon the individual or collective character, skill, aptitude, attitude, business ability and financial capacity of Franchisee (and its owners). Accordingly, neither this Agreement nor the Franchise (or any interest therein), nor any part or all of the ownership of Franchisee or of the assets of Franchisee or the BAGELS Store (or any interest therein) may be transferred, sold, assigned, pledged, mortgaged or liened without the prior written approval of Franchisor, and any such transfer or attempt to transfer without such approval shall constitute a breach hereof, such be null and void, and shall convey no rights to or interests in this Agreement, the Franchise, Franchisee, the BAGELS Store or its assets.
 - ii. **Conditions for Approval of Transfer.** If Franchisee and its owners are in full compliance with this Agreement, Franchisor shall not unreasonably withhold its approval of a transfer that meets all the applicable requirements of this Paragraph. The proposed transferee and its owners must be

individuals of good moral character and otherwise meet Franchisor's then applicable standards for BAGELS Store franchisees. Franchisor shall interview and evaluate the proposed transferee at Franchisor's principal place of business or at such other location that Franchisor designates. A transfer of ownership in the BAGELS Store may only be made in conjunction with a transfer of this Franchise Agreement. All of the following conditions must be met prior to or concurrently with the effective date of the transfer (unless otherwise specified):

- (1) the assignee, transferee or purchaser shall have been approved by Franchisor for financial responsibility, good moral character and suitability as an operator of a BAGELS Store;
- (2) Franchisee shall pay to Franchisor prior to transferee attending the required training program a transfer fee of Five Thousand Dollars (\$5,000.00), which is not refundable in whole or in part under any circumstances;
- (3) the assignee, transferee or purchaser shall not be engaged in any activity which would be prohibited by Paragraph 9.f. of this Agreement;
- (4) Franchisee shall have paid all outstanding debts and obligations to Franchisor and its Affiliates, including the royalty fees and all amounts due the Marketing Fund, and to its designated suppliers;
- (5) Franchisee and its owners, and the transferee (if it has had any previous relationship with Franchisor or Franchisor's affiliates), shall execute a release of any and all claims against Franchisor, and Franchisor's officers, directors, agents, employees and Affiliates, arising out of or related to this Agreement, as well as claims arising out of or related to the relationship of the parties created under this Agreement, which release shall contain language and be of the form prescribed by Franchisor;
- (6) the assignee, transferee or purchaser (and its owners) shall, at Franchisor's sole discretion, have executed and agreed to be bound by: (i) an assignment and assumption agreement satisfactory to the Franchisor, whereby the transferee assumes the obligations of Franchisee under this Agreement; or (ii) Franchisor's then-current form of Franchise Agreement, for a new term (not equal to the remaining term of the assignor's franchise), which may provide for a different rate for royalty fees and Marketing Fund contributions required hereunder;

- (7) if required, the lessor of the premises of the BAGELS Store has consented to Franchisee's assignment or sublease of said premises to the proposed transferee;
- (8) Franchisor shall have approved the material terms and conditions of such assignment;
- (9) Franchisee shall have entered into an agreement with Franchisor agreeing to that any obligations of transferee to Franchisee (such as any obligations of such transferee to make installment payments of the purchase price to Franchisee) shall be subordinate to all of transferee's obligations to Franchisor;
- (10) the assignee, transferee or purchaser shall complete to Franchisor's satisfaction, at transferee's expense and upon such terms and conditions as Franchisor may reasonably require, the Franchisor's training programs modified to be applicable for transferees, at such time and place designated by Franchisor;
- (11) if the transfer is of a BAGELS Satellite Store, the transferee must have a BAGELS Production Store.
- (12) if the transferee, prior to his or her initial contact with Franchisee, had contact with Franchisor with respect to a franchise opportunity, Franchisee shall pay Franchisor, in addition to the transfer fee described in Paragraph 14.b.ii.(2) above, a sum equal to ten percent (10%) of the gross sales price relating to the transaction between Franchisee and transferee, but in no event shall such sum be greater than Franchisor's then-current initial Franchise Fee;
- (13) the transferor and its owners will remain liable (and will execute a guaranty if requested by Franchisor) for the performance by the transferee of its obligations under the Franchise Agreement, for a duration, not to exceed the remainder of the term of the transferor's Franchise Agreement, as determined by Franchisor;
- (14) the transferee must submit a Store Opening Marketing Fee in the amount of One Thousand Dollars (\$1,000), to conduct a "re-Grand Opening," to be expended in the same manner as the Store Opening Marketing Fee described in the Paragraph 3.f. above, except that references to the date the BAGELS Store opens shall be replaced with the date the transferee re-opens the BAGELS Store; and
- (15) the transferee must execute the Transferee's Waiver and Release, attached as Exhibit O to Franchisor's disclosure document.

- iii. In the event Franchisee shall request consent to a transfer of this Agreement or a controlling interest in Franchisee and for any reason such transfer is not completed or consummated, Franchisor shall be entitled to reimbursement of its reasonable expenses incurred in connection with such proposed transfer in the manner and in accordance with the procedures set forth herein, including, without limitation, expenses related to investigating, processing and training any proposed transferee.
 - iv. **Transfer to a Wholly-owned Corporation.** If Franchisee is in full compliance with this Agreement, Franchisor shall not unreasonably withhold its approval of a transfer in the case of a proposed assignment or transfer of this Agreement and the Franchise to a corporation, LLC, or partnership which conducts no business other than the BAGELS Store, which is actually managed by Franchisee and in which Franchisee maintains management control and owns and controls at least fifty-one percent (51%) of the equity and voting power of all issued and outstanding capital stock, membership interest, or general partnership interest, and provided that all owners of such corporation, LLC or partnership agree jointly and severally to guarantee the obligations of Franchisee under this Agreement and to be bound by the provisions of this Agreement in the form prescribed by Franchisor. A transfer under this Paragraph 14.b.iv. will be subject to the provisions of Paragraph 14.b.ii., except that the transfer fee required under Paragraph 14.b.ii.(2) shall be waived. Franchisee shall notify Franchisor in writing of the name and address of each and every shareholder, officer, member, partner, director, manager, and supervisory employees of any such corporation, LLC or partnership and any changes thereto.
- c. **Death or Disability of Franchisee.**
- i. **Transfer of Interest.** Upon the death or permanent disability of Franchisee or the owner of a controlling interest in Franchisee, the executor, administrator, conservator, guardian or other personal representative of such person shall transfer his interest in this Agreement and the Franchise, or such interest in Franchisee, to a third party approved by Franchisor. Such disposition of this Agreement and the Franchise, or such interest in Franchisee (including without limitation, transfer by bequest or inheritance), shall be completed within a reasonable time, not to exceed six (6) months from the date of death or permanent disability and shall be subject to all the terms and conditions applicable to transfers contained in this Section 14. Failure to so transfer the interest in this Agreement and the Franchise or such interest in Franchisee within said period of time shall constitute a breach of this Agreement.

- ii. **Operation After Death or Permanent Disability.** Upon the death or permanent disability of Franchisee or the owner of a controlling interest in Franchisee, the executor, administrator, conservator, guardian or other personal representative of such person shall appoint a manager to operate the BAGELS Store within a reasonable time, not to exceed thirty (30) days from the date of death or permanent disability of such person. The appointment of such manager shall be subject to the prior written approval of Franchisor and, if requested by Franchisor, such manager shall attend and complete Franchisor's training program for franchisees. Such manager shall execute Franchisor's then-current form of Confidentiality and Non-Competition Agreement. If in the judgment of Franchisor, the BAGELS Store is not being managed properly after the death or permanent disability of Franchisee or the owner of a controlling interest in Franchisee, Franchisor shall have the right to appoint a manager for the BAGELS Store to manage the BAGELS Store for up to thirty (30) days. During that period, Franchisee shall either cause its manager to attend additional training, or appoint another manager. If Franchisee fails to do so, Franchisor may terminate this Agreement. Franchisor shall periodically discuss the status with the Franchisee or the Franchisee's representative during such period of interim management. All funds from the operation of the BAGELS Store during the management by Franchisor's appointed manager will be kept in a separate bank account, and all expenses of the BAGELS Store including compensation, other costs, and travel and living expenses of Franchisee's manager will be charged to this account. Franchisor shall have the right to charge a reasonable management fee (in addition to the royalty fee and Marketing Fund contributions payable under this Agreement) during the period in which Franchisor manages the BAGELS Store as herein provided.
- iii. **Definition of Permanent Disability.** Franchisee or the owner of a controlling interest in Franchisee will be deemed to have a "permanent disability" if his usual, active participation in the BAGELS Store as contemplated by this Agreement is for any reason curtailed for a continuous period of three (3) months.
- d. **Effect of Consent to Transfer.** Franchisor's consent to a transfer of this Agreement and the Franchise, or any interest in Franchisee or the BAGELS Store or its assets, shall not constitute a waiver of any claims it may have against Franchisee (or its owners), nor shall it be deemed a waiver of Franchisor's right to demand exact compliance with any of the terms or conditions of this Agreement by the transferee.
- e. **Franchisor's Right of First Refusal.** If Franchisee or its owners shall at any time determine to sell an interest in this Agreement, the Franchise, the BAGELS Store or an ownership interest in Franchisee, Franchisee or its owners shall obtain a bona fide, executed written offer from a responsible and fully disclosed purchaser and

shall immediately submit an exact copy of the offer to Franchisor. To be a valid, bona fide offer, the proposed purchase price must be in a dollar amount, and the proposed buyer must submit with its offer an earnest money deposit equal to at least five percent (5%) or more of the offering price. Franchisor shall have the right, exercisable by written notice delivered to Franchisee or its owners within thirty (30) days from the date of delivery of an exact copy of such offer to Franchisor, to purchase such interest for the price and on the terms and conditions contained in such offer, provided that Franchisor may substitute cash for any form of payment proposed in such offer. Franchisor's credit shall be deemed equal to the credit of any proposed purchaser. Franchisor shall have not less than sixty (60) days from the date of exercise of its right of first refusal to prepare for closing. Franchisor shall be entitled to purchase such interest subject to all customary representations and warranties given by the seller of the assets of a business or voting stock of an incorporated business, as applicable, including without limitation, representations and warranties as to ownership, condition and title to stock and/or assets. If Franchisor does not exercise its right of first refusal, Franchisee or its owners may complete the sale to such purchaser pursuant to and on the exact terms of such offer, subject to Franchisor's approval of the transfer, as provided in Paragraphs 14.b.i. and 14.b.ii. If the sale to such purchaser is not completed within ninety (90) days after delivery of such offer to Franchisor, or if there is a material change in the terms of the sale, Franchisor shall have an additional right of first refusal for thirty (30) days on the same terms and conditions as are applicable to the initial right of first refusal.

15. **TERMINATION BY FRANCHISEE.** If Franchisee is in substantial compliance with this Agreement and Franchisor materially breaches this Agreement and fails to cure such breach within thirty (30) days after written notice thereof is delivered to Franchisor, or if such breach cannot reasonably be cured within such thirty (30) day period, and Franchisor fails to commence a bona fide program to cure such material breach within such thirty (30) day period, or fails to continue to complete such cure, then Franchisee may terminate the Franchise effective ten (10) days after delivery to Franchisor of written notice of termination. A termination of this Agreement for any other reason than breach of this Agreement by Franchisor, and Franchisor's failure to cure such breach within the time period specified herein, shall be deemed a termination by Franchisee without cause and shall constitute a material breach of this Agreement.

16. **TERMINATION BY FRANCHISOR.**

- a. Franchisor shall have the right to terminate this Agreement effective upon delivery of notice to Franchisee, and without an opportunity to cure, if:
 - i. Franchisee fails, except for delays which are beyond Franchisee's reasonable control, to have a site selected and approved by Franchisor within ninety (90) days following execution of this Agreement, to have the BAGELS Store open for business within four (4) months from the date of

possession by Franchisee of the approved site, or within ten (10) months from the date of this Agreement;

- ii. Franchisee abandons, surrenders, transfers control of, loses the right to occupy the premises of the BAGELS Store, or fails to actively operate the BAGELS Store [for purposes of this Section, “abandon” shall mean failing to be open for business for three (3) or more consecutive days];
- iii. Franchisee or Franchisee's owners assign or transfer this Agreement or any interest therein or in the Franchise, the BAGELS Store, or the assets of the BAGELS Store without compliance with the provisions of this Agreement;
- iv. Franchisee is adjudged bankrupt, becomes insolvent or makes a general assignment for the benefit of creditors;
- v. Franchisee or any of its owners is convicted of or pleads no contest to a felony or is convicted or pleads no contest to any crime or offense that is likely to adversely affect the reputation of the BAGELS Store or the goodwill associated with the Marks;
- vi. Franchisee's operation of the BAGELS Store would result in a threat or danger to the public health and safety;
- vii. Franchisee fails on three (3) or more separate occasions within the term of the franchise to submit when due financial statements, reports or other data, information or supporting records; to pay when due the royalty fees, Marketing Fund contributions, amounts due for purchases from Franchisor or its Affiliates or other payments due to Franchisor or its Affiliates; or otherwise fails to comply with this Agreement, whether or not such failures to comply are corrected after notice thereof is given to Franchisee;
- viii. Franchisee or any of its owners fails to comply with the covenants contained in Paragraph 9.f. of this Agreement;
- ix. Franchisee or any of its owners discloses or divulges the contents of the BAGELS Operations Manual, or other trade secret, Proprietary Information, or other confidential information provided to Franchisee by Franchisor contrary to provisions of this Agreement, or makes any unauthorized use of the Marks;
- x. Franchisee fails to satisfactorily complete the Production or Satellite training program (as applicable) in which event none of the initial franchise fee shall be refunded to Franchisee;

- xi. Upon the death or permanent incapacity of Franchisee or owner of a controlling interest in Franchisee, an approved transfer is not effected as provided in Section 14 of this Agreement;
 - xii. Franchisee fails to timely pay any lender to whom Franchisor has guaranteed Franchisee's obligations, or Franchisor if Franchisee has entered into a financing arrangement with Franchisor:
 - (1) more than three (3) times if the defaults are cured, or
 - (2) one (1) time if the default is not curedduring the financing term;
 - xiii. Franchisee fails to timely pay any vendors, suppliers, or landlord more than three (3) times during the term of the franchise;
 - xiv. Franchisee's lease or sublease for the BAGELS Store is terminated or expires and Franchisee is unable to retain possession of the BAGELS Store and fails to relocate in accordance with Paragraph 3.g. of this Agreement; or
 - xv. Any other agreement between Franchisor and Franchisee (or related entities, of which any one or more parties, whether individual, corporate or otherwise, is a party to or guarantor of said other agreement) is terminated, which termination is a result of Franchisee's default and failure to cure as provided under said agreement. However, this Subparagraph 16.a.xv. shall not apply in the event of a termination of an Area Development Agreement between Franchisor and Franchisee.
- b. Franchisor shall have the further right to terminate this Agreement, effective upon the delivery of notice of termination to Franchisee, if Franchisee fails to pay when due any monies owed to Franchisor, or its Affiliates or designated suppliers, or fails to maintain the insurance required under Paragraph 9.g., and does not correct such failure within ten (10) days after written notice thereof is given to Franchisee, or fails to comply with any other provision of this Agreement or any mandatory specification, standard or operating procedure prescribed by Franchisor and does not correct such failure within thirty (30) days after written notice of such failure to comply is given to Franchisee.
 - c. A default under this Agreement shall also constitute a default under any and all other agreements entered into between Franchisor and Franchisee (or related entities, of which any one or more parties, whether individual, corporate or otherwise, is a party to or guarantor of said other agreement), with the right to

terminate the other agreement(s) in accordance with the provisions of those agreement(s).

17. **RIGHTS OF FRANCHISOR AND OBLIGATIONS OF FRANCHISEE UPON TERMINATION OR EXPIRATION OF THE FRANCHISE**

- a. **Payment of Amounts Owed to Franchisor.** Franchisee agrees to pay to Franchisor within fifteen (15) days after the effective date of termination or expiration of the Franchise, or such later date that the amounts due to Franchisor are determined, such royalty fees, Marketing Fund contributions, amounts owed for purchases by Franchisee from Franchisor, its Affiliates, or designated suppliers, interest due on any of the foregoing and all other amounts owed to Franchisor, its Affiliates, or designated suppliers which are then unpaid.
- b. **Marks.** Franchisee agrees that after the termination or expiration of the Franchise he will: (i) not directly or indirectly at any time or in any manner identify himself or any business as a current or former BAGELS Store, or as a franchisee or licensee of or as otherwise associated with Franchisor, use any Mark or any colorable imitation thereof in any manner or for any purpose or utilize for any purpose any trade name, trade or service mark or other commercial symbol that suggests or indicates a connection or association with Franchisor; (ii) return to Franchisor or destroy all forms and materials containing any Mark or otherwise identifying or relating to a BAGELS Store; (iii) return to Franchisor all inventory bearing the Marks at Franchisee's cost; (iv) take such action as may be required to cancel all fictitious or assumed name or equivalent registrations relating to his use of any Mark; (v) change the telephone number of the BAGELS Store and instruct all telephone directory publishers to modify all telephone directory listings of the BAGELS Store associated with any Marks when the directories are next published; (vi) if requested by Franchisor, transfer to Franchisor or Franchisor's designee the telephone number of the BAGELS Store and all telephone directory listings associated with the Marks; and (vii) furnish to Franchisor, within thirty (30) days after the effective date of termination or expiration, evidence satisfactory to Franchisor of Franchisee's compliance with the foregoing obligations. Upon request by Franchisor, Franchisee will furnish Franchisor photographs of the BAGELS Store as evidence of the removal of Franchisor's Marks and, if Franchisor has so requested, modification of the BAGELS Store to distinguish its appearance from that of a BAGELS Store.
- c. **Proprietary Information.** Franchisee agrees that, upon termination or expiration of the Franchise, he will immediately cease to use any Proprietary Information of Franchisor disclosed to or otherwise learned or acquired by Franchisee in any business or otherwise and return to Franchisor all copies of the BAGELS Operations Manual and any other confidential materials which have been loaned or made available to him by Franchisor.

- d. **Covenant Not to Compete.** Upon termination of this Agreement by Franchisor in accordance with its terms and conditions or by Franchisee without cause, or upon expiration of this Agreement, Franchisee and its owners agree that for a period of two (2) years, commencing on the effective date of termination or expiration or the date on which all persons restricted by this Paragraph begin to comply with this Paragraph, whichever is later, neither Franchisee nor its owners shall (i) have any direct or indirect ownership interest in any Competitive Business located or operating at the BAGELS Store location or within ten (10) miles of the BAGELS Store or within ten (10) miles of any other franchisee of Franchisor, or of any company-owned or Affiliate-owned BAGELS Store or My Favorite Muffin Store; (ii) have any direct or indirect ownership interest in any entity which has granted or during such two (2) year period grants franchises or licenses for the location or operation of Competitive Businesses at the BAGELS Store location or within ten (10) miles of the BAGELS Store or within ten (10) miles of any other franchisee of Franchisor, or of any company-owned or Affiliate-owned BAGELS Store or My Favorite Muffin Store; (iii) perform services as a director, officer, manager, employee, consultant, representative, agent, lender, lessor, or otherwise for any Competitive Business located or operating at the BAGELS Store location or within ten (10) miles of the BAGELS Store or within ten (10) miles of any other franchisee of Franchisor, or of any company-owned or Affiliate-owned BAGELS Store or My Favorite Muffin Store, or (iv) directly or indirectly, for Franchisee or for any other person or entity, alone or through or on behalf of others, own, engage in, be employed by, advise, assist, lease or sublease to, invest in, franchise, lend money to, sell or lease the assets of the BAGELS Store to, or have any financial or other interest in, a Competitive Business at the BAGELS Store location or within ten (10) miles of the BAGELS Store or ten (10) miles of any other franchisee of Franchisor, or of any company-owned or Affiliate-owned BAGELS Stores or My Favorite Muffin Store. Franchisee acknowledges that after his BAGELS Store is open, other franchisees may open new units, which may significantly increase the prohibited geographical area than what is applicable as of the date of this Franchise Agreement, The restrictions of this Section shall not be applicable to the ownership of shares of a class of securities listed on a stock exchange or traded on the over-the-counter market that represent three percent (3%) or less of the number of shares of that class of securities issued and outstanding. To the extent that any provision of this Paragraph 17.d. is deemed unenforceable by virtue of its scope in terms of area, business activity prohibited and/or length of time, but could be enforceable by reducing any or all thereof, Franchisee and Franchisor agree that same shall be enforced to the fullest extent permissible under the laws and public policies applied in the jurisdiction in which enforcement is sought. For purposes of this Paragraph 17.d., "Competitive Business" shall mean the sale of bagels, cream cheese, muffins, sandwiches, and/or coffee, as well as any other items or products that Franchisee is authorized to sell subsequent to the date of this Agreement, to the public through retail or wholesale channels of distribution.

- e. **Continuing Obligations.** All obligations of Franchisor and Franchisee which expressly or by their nature survive the expiration or termination of this Agreement shall continue in full force and effect subsequent to and notwithstanding its expiration or termination and until they are satisfied in full or by their nature expire.
- f. **Franchisor's Option To Purchase.**
 - i. If this Agreement expires (without renewal) or is terminated by Franchisor in accordance with its provisions or by Franchisee without cause, then Franchisor shall have the option, exercisable by giving written notice thereof within sixty (60) days from the date of such expiration or termination, to purchase from Franchisee any or all the tangible assets (including, without limitation, inventory of saleable products, equipment, fixtures, furniture, signs, POS Systems, fax machines, computers, leasehold improvements and any other assets of the BAGELS Store owned by Franchisee, but excluding any unamortized portion of the initial franchise fee, cash, goodwill, short-term investments and accounts receivable) of the BAGELS Store (collectively, the "Purchased Assets") and to an assignment of Franchisee's lease for (a) the premises of the BAGELS Store (or, if an assignment is prohibited, a sublease for the full remaining term and on the same terms and conditions as Franchisee's lease) and (b) any other tangible assets used in connection with the BAGELS Store. Franchisor may exclude from the assets purchased any items that Franchisor determines are not reasonably necessary (in function or quality) to the Store's operation or that Franchisor has not approved as meeting its standards for BAGELS Stores, and the purchase price will reflect these exclusions. Franchisor shall have the unrestricted right to assign this option to purchase and assignment of leases separate and apart from the remainder of this Agreement.
 - ii. The purchase price for the BAGELS Store (except for the signage, the purchase price of which is \$100) shall be either, at Franchisor's option: (a) the Book Value (as defined below) of the Purchased Assets, or (b) the Forced Liquidation Value of the Purchased Assets, as determined by a neutral appraiser. Both the Franchisor and the Franchisee shall select an appraiser, whose sole function would be to select a third, neutral appraiser, who would determine the Forced Liquidation Value of the Purchased Assets. The fees and costs of the neutral appraiser shall be shared equally by Franchisor and Franchisee. "Book Value" shall mean the net book value of the Purchased Assets, as disclosed by the balance sheet of the last monthly statement of the BAGELS Store required to have been submitted to Franchisor pursuant to Paragraph 11.b. hereof prior to such termination or expiration, provided, however, that: (1) each depreciable asset shall be valued as if it had been depreciated on a "straight-line" basis from the date of its acquisition over its Useful Life (defined below) without provision for salvage value; and (2) Franchisor may exclude from the Purchased Assets

any inventory, equipment, fixtures, furniture, signs, POS Systems, fax machines, computers, or leasehold improvements of the BAGELS Store that have not been acquired in compliance with this Agreement. No value shall be attributed to goodwill of the BAGELS Store, the assignment of lease (or sublease) for the premises of the BAGELS Store, or the assignment of any lease for any other tangible assets used in connection with the BAGELS Store, and Franchisor shall not be required to pay any separate consideration for any such assignment or sublease.

iii. For purposes of this Paragraph 17.f., "Useful Life" shall be as follows:

Furniture, fixtures, signs: 7 years

Equipment (including electronic equipment): 5 years

Leasehold improvements: 10 years

iv. If Franchisee has not furnished Franchisor a balance sheet of the last monthly statement of the BAGELS Store, Franchisor may establish Book Value of the Purchased Assets based on Franchisee's initial cost, depreciated on a "straight-line" basis as described above. If evidence of Franchisee's initial cost for any Purchased Asset is not proven by actual receipts, Franchisor will assign an initial cost based on its best information for like items being sold at the time Franchisee opened his BAGELS Store.

v. The purchase price, as determined above, shall be paid in cash at the closing of the purchase, which shall take place no later than sixty (60) days after the delivery of Franchisor's notice of its election to purchase the BAGELS Store, at which time Franchisee shall: (1) deliver instruments transferring good and merchantable title to the assets purchased, free and clear of all liens, encumbrances and liabilities to Franchisor or its designee, with all sales and other transfer taxes paid by Franchisee; (2) transfer or assign all licenses or permits which may be assigned or transferred; (3) assign to Franchisor or its designee Franchisee's leasehold interest in the premises of the BAGELS Store or, if an assignment is prohibited, sublease same to Franchisor or its nominee for the full remaining term and on the same terms and conditions as Franchisee's lease, including renewal and/or purchase options; and (4) assign to Franchisor or its designee any leases for any other tangible assets used in connection with the BAGELS Store. In the event that Franchisee cannot deliver clear title to all of the Purchased Assets as aforesaid, or in the event there shall be other unresolved issues, the closing of the sale shall, at Franchisor's option, be accomplished through an escrow. Further, Franchisee and Franchisor shall, prior to closing, comply with the Bulk Sales provisions of the Uniform Commercial Code as enacted or previously in force in the state where the BAGELS Store is located. Franchisor shall have the right to set off against and reduce the purchase

price by any and all amounts owed by Franchisee to Franchisor or any of its Affiliates.

- vi. If Franchisor exercises the foregoing option to purchase the BAGELS Store, Franchisor shall have the right pending the closing of such purchase to appoint a manager to maintain the operation of the BAGELS Store in accordance with the relevant provisions of 9.e. hereof. Alternatively, Franchisor may require Franchisee to close the BAGELS Store during such time period without removing any assets of the BAGELS Store.
- g. **Liquidated Damages.** Franchisor shall have the right to impose liquidated damages against Franchisee in the following events: (a) Franchisee terminates this Agreement without good cause, (b) Franchisor terminates this Agreement based on Franchisee's material breaches under this Agreement, (c) Franchisee abandons the BAGELS Store, which for purposes of this Section is failing to open or operate the BAGELS Store for more than three (3) consecutive days, or (d) Franchisee transfers an interest in the BAGELS Store or the ownership of Franchisee or of the assets of Franchisee or the BAGELS Store (or any interest therein) without fully complying with Paragraph 14.b. of this Agreement, whether or not Franchisor terminates this Agreement. The amount of liquidated damages shall be equal to (i) the number of months remaining in the term of this Agreement, times (ii) the average Gross Revenues of Franchisee's Store during the thirty-six (36) month period immediately preceding the date of termination (or if Franchisee has been in business less than 36 months, then during the entire period Franchisee has been in business), times (iii) five percent (5%), times (iv) the present value factor based on an interest rate of four percent (4%) per year (4/12% per month), using the Present Value of an Annuity. This remedy is in addition to Franchisor's other rights and remedies set forth in this Agreement. The liquidated damages are not a penalty or forfeiture, but are a reasonable measure of damages where the exact amount of actual damages would be difficult to ascertain. Franchisee also agrees to pay the Company's costs and attorney's fees in connection with enforcing this Liquidated Damages provision.
- h. Franchisor reserves the right to enforce all the obligations of Franchisee under each paragraph of this Section 17 in the event Franchisee abandons the BAGELS Store, even if Franchisor has not exercised its right to terminate the Franchise Agreement pursuant to Paragraph 16.a.ii.

18. **ENFORCEMENT.**

- a. **Severability and Substitution of Valid Provisions.** Except as expressly provided to the contrary herein, each article, section, paragraph, term, and provision of this Agreement, and any portion thereof, shall be considered severable and if for any reason any such provision of this Agreement is held to be invalid, contrary to or in conflict with any applicable present or future law or regulation in a final,

unappealable ruling issued by any court, agency or tribunal with competent jurisdiction in a proceeding to which Franchisor is a party, that ruling shall not impair the operation of, or have any other effect upon, such other portions of this Agreement as may remain otherwise intelligible, which shall continue to be given full force and effect and bind the parties hereto. If any applicable and binding law or rule of any jurisdiction requires a greater prior notice of the termination of or refusal to renew this Agreement than is required hereunder, or the taking of some other action not required hereunder, or if, under any applicable and binding law or rule of any jurisdiction, any provision of this Agreement or any specification, standard or operating procedure prescribed by Franchisor is invalid or unenforceable, the prior notice and/or other action required by such law or rule shall be substituted for the comparable provisions hereof, and Franchisor shall have the right, in its sole discretion, to modify such invalid or unenforceable provision, specification, standard or operating procedure to the extent required to be valid and enforceable. Such modifications to this Agreement shall be effective only in such jurisdiction, unless Franchisor elects to give them greater applicability, and shall be enforced as originally made and entered into in all other jurisdictions.

b. **Waiver of Obligations.**

- i. Franchisor and Franchisee may by written instrument unilaterally waive or reduce any obligation of or restriction upon the other under this Agreement, effective upon delivery of written notice thereof to the other or such other effective date stated in the notice of waiver. Any waiver granted by Franchisor shall be without prejudice to any other rights Franchisor may have, will be subject to continuing review by Franchisor and may be revoked, in Franchisor's sole discretion, at any time and for any reason, effective upon delivery to Franchisee of ten (10) days' prior written notice. Franchisor and Franchisee shall not be deemed to have waived or impaired any right, power or option reserved by this Agreement (including, without limitation, the right to demand exact compliance with every term, condition and covenant herein or to declare any breach thereof to be a default and to terminate the Franchise prior to the expiration of its term) by virtue of any custom or practice of the parties at variance with the terms hereof; any failure, refusal or neglect of Franchisor or Franchisee to exercise any right under this Agreement or to insist upon exact compliance by the other with its obligations hereunder including, without limitation, any mandatory specification, standard or operating procedure; any waiver, forbearance, delay, failure or omission by Franchisor to exercise any right, power or option, whether of the same, similar or different nature, with respect to any other BAGELS Store; or the acceptance by Franchisor of any payments from Franchisee after any breach by Franchisee of this Agreement.
- ii. Franchisor makes no warranties or guaranties upon which Franchisee may rely, and assumes no liability or obligation to Franchisee, by granting any

waiver, approval or consent to Franchisee, or by reason of any neglect, delay or denial of any request therefor.

- iii. Neither Franchisor nor Franchisee shall be liable for loss or damage or deemed to be in breach of this Agreement if its failure to perform its obligations results from: (1) compliance with any law, ruling, order, regulation, requirement or instruction of any federal, state, or municipal government or any department or agency thereof; (2) acts of God; (3) fires, strikes, embargoes, war, or riot; (4) pandemic or health emergencies resulting in widespread shut-downs of businesses, travel, and/or other activities, whether or not mandated by any governmental agencies or occurring based on general population response; (5) widespread breach or shutdown of technology or of other infrastructure that substantially affects the ability of commerce to be conducted in its normal course, or (6) any other similar event or cause. Any delay resulting from any of said causes shall extend performance accordingly or excuse performance, in whole or in part, as may be reasonable.

In addition, upon the occurrence of the events described in the paragraph immediately above, the Franchisor's performance of its obligations relating to activities that contemplate face-to-face contact, on-site presence, and/or travel will be considered adequately fulfilled if the Franchisor substitutes or modifies the activities in a manner that does not involve such face-to-face contact, on-site presence, and/or travel. Such excuse of literal performance applies to, but is not limited to, Franchisor's training of Franchisees and on-site assistance upon Franchisee's store opening.

- c. **Rights of Parties are Cumulative.** The rights of Franchisor and Franchisee hereunder are cumulative and no exercise or enforcement by Franchisor or Franchisee of any right or remedy hereunder shall preclude the exercise or enforcement by Franchisor or Franchisee of any other right or remedy hereunder or which Franchisor or Franchisee is entitled by law to enforce.
- d. **Costs and Attorneys' Fees.** If Franchisor incurs attorney's fees in connection with collecting delinquent payments from Franchisee and/or enforcing compliance with this Agreement (whether or not legal proceedings are filed), Franchisee shall reimburse Franchisor its reasonable legal fees and costs so incurred. If a claim for amounts owed by Franchisee to Franchisor is asserted in any arbitration or judicial proceeding or appeal thereof, or if Franchisor or Franchisee is required to enforce this Agreement in an arbitration or judicial proceeding or appeal thereof, the party prevailing in such proceeding shall be entitled to reimbursement of its costs and expenses including, but not limited to, reasonable accounting, legal and attorneys' fees.

- e. **Governing Law/Consent to Jurisdiction.** All matters relating to arbitration shall be governed by the Federal Arbitration Act (9 U.S.C. §1 et. seq.). Except to the extent governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. Sections 1051 et seq.) or other federal law, this Agreement and the Franchise shall be governed by the laws of the State of Illinois without reference to its choice of law principles. Franchisee agrees that Franchisor has the right to institute any action against Franchisee to enforce the provisions of this Agreement in any state or federal court of general jurisdiction in the State of Illinois, and Franchisee irrevocably submits to the exclusive jurisdiction of such Illinois courts and waives any objection he may have to either the jurisdiction or venue of such courts. Franchisee further agrees that the state or federal courts of general jurisdiction in the State of Illinois are the exclusive venues where Franchisee may bring litigation (subject to the arbitration clause). The parties further agree that, in the event of such litigation, they will not contest or challenge the jurisdiction or venue of the Illinois courts. Nothing set forth herein shall permit the application of the Illinois Franchise Disclosure Act or any similar law regulating the sale of franchises or governing the relationship of a franchisor and franchisee, unless its jurisdictional requirements are met independently without reference to this Paragraph.
- f. **Waiver of Jury Trial.** Each party irrevocably waives trial by jury in any action, proceeding or counterclaim, whether at law or in equity, brought by either party.
- g. **Limitations of Claims.** Except for claims against Franchisee concerning the under-reporting of gross revenue and/or the payment of monies due Franchisor from Franchisee, any and all claims arising out of or relating to this Agreement or the relationship among the parties hereto shall be barred unless an action or legal or arbitration proceeding is commenced within one (1) year from the date Franchisee or Franchisor knew of the facts giving rise to such claims. In addition, Franchisee must give Franchisor written notice of at least fourteen (14) days prior to filing arbitration or litigation. In the event Franchisee fails to give said notice, Franchisor is entitled to dismissal of the action, without prejudice, and Franchisee must reimburse Franchisor its costs and expenses incurred in connection with the action.
- h. **Binding Effect.** This Agreement is binding upon the parties hereto, and their respective executors, administrators, heirs, assigns and successors in interest.
- i. **Modification.** This Agreement shall not be modified except by written agreement signed by both Franchisee and Franchisor. Notwithstanding the preceding sentence, Franchisor may modify the BAGELS Operations Manual to Paragraph 4.c.
- j. **Construction.** The preambles and riders are a part of this Agreement, which constitutes the entire agreement of the parties, and there are no other oral, electronic, or written understandings or agreements between Franchisor and

Franchisee relating to the subject matter of this Agreement. Provided, however, nothing in this Agreement or in any related agreement is intended to disclaim Franchisor's representations made in the franchise disclosure document. Except as provided in Paragraph 7.d. (Indemnification), nothing in this Agreement is intended, nor shall be deemed, to confer any rights or remedies upon any person or legal entity not a party hereto. Except where this Agreement expressly obligates Franchisor reasonably to approve or not unreasonably to withhold its approval of any action or request by Franchisee, Franchisor has the absolute right to refuse any request by Franchisee or to withhold its approval of any action or omission by Franchisee. The headings of the several sections and paragraphs hereof are for convenience only and do not define, limit or construe the contents of such sections or paragraphs. Any policies that Franchisor adopts and implements from time to time, including policies to guide Franchisor in Franchisor's decision-making, are subject to change, are not a part of this Agreement, and are not binding on Franchisor. The term "attorneys' fees" shall include, without limitation, reasonable legal fees, whether incurred prior to, in preparation for or in contemplation of the filing of any written demand or claim, action, hearing or proceeding to enforce the obligations of this Agreement. The term "Affiliate" as used herein is applicable to any company directly or indirectly owned or controlled by Franchisor, under common control with Franchisor or any principal of Franchisor. References to a "controlling interest" in Franchisee shall mean more than fifty percent (50+%) of the voting control of Franchisee. The term "Franchisee" as used herein is applicable to one or more persons, a corporation, an LLC, or a partnership, as the case may be, and the singular usage includes the plural and the masculine and neuter usages include the other and the feminine. If two or more persons are at any time Franchisee hereunder, whether or not as partners or joint venturers, their obligations and liabilities to Franchisor shall be joint and several. This Agreement shall be executed in multiple copies, each of which shall be deemed an original. The language of all provisions of this Franchise Agreement shall be construed simply according to its fair meaning and not strictly against the Franchisor or the Franchisee. It is the desire and intent of the parties that the provisions of this Franchise Agreement be enforced to the fullest extent possible under the laws and public policies applied in each jurisdiction in which enforcement is sought. Whenever this Agreement or any related agreement grants, confers or reserves to Franchisor the right to take action, refrain from taking action, grant or withhold Franchisor's consent or grant or withhold Franchisor's approval, unless the provision specifically states otherwise, Franchisor will have the right to engage in such activity at Franchisor's option taking into consideration Franchisor's assessment of the long term interests of the System overall. Franchisee and Franchisor recognize, and any court or judge or arbitrator is affirmatively advised, that if those activities and/or decisions are supported by Franchisor's business judgment, neither said court, said judge, said arbitrator, nor any other person reviewing those activities or decisions will substitute his, her or its judgment for Franchisor's judgment. When the terms of this Agreement specifically require that Franchisor not unreasonably withhold Franchisor's approval or consent, if

Franchisee is in default or breach under this Agreement, any withholding of Franchisor's approval or consent will be considered reasonable.

k. **Time is of the Essence.** Time is of the essence of this Agreement.

l. **Mandatory and Binding Arbitration.**

- i. All disputes, controversies or claims arising out of or relating to this Agreement, except for issues relating to the ownership, validity or registration of any name or Mark licensed hereunder, shall be submitted for arbitration to the American Arbitration Association on demand of either party. The demand shall be submitted to, and the arbitration proceedings shall be conducted in the major city nearest where Franchisor's principal business address is then located, and shall be heard by one arbitrator in accordance with the then current Commercial Arbitration Rules of the American Arbitration Association. All matters within the scope of the Federal Arbitration Act (9 U.S.C. §§ 1 et seq.) shall be governed by it. This provision shall continue in full force and effect subsequent to and notwithstanding the expiration or termination of this Agreement.
- ii. The arbitrator shall have the right to award or include in his award any relief which he deems proper in the circumstances, including, without limitation, money damages (with interest on unpaid amounts from the date due), specific performance, injunctive relief and attorneys' fees and costs, in accordance with Paragraph 18.d., provided that the arbitrator shall not have the authority to award exemplary or punitive damages. The award and decision of the arbitrator shall be conclusive and binding upon all parties hereto and judgment upon the award may be entered in any court of competent jurisdiction. Each party waives any right to contest the validity or enforceability of such award. The parties agree to be bound by the provisions of any limitation on the period of time by which claims must be brought. The parties further agree that, in connection with any such arbitration proceeding, each shall submit or file any claim which would constitute a compulsory counterclaim (as defined by rule 13 of the Federal Rules of Civil Procedure) within the same proceeding as the claim to which it relates. Any such claim which is not submitted or filed in such proceeding shall be barred.
- iii. Franchisor and Franchisee agree that arbitration shall be conducted on an individual, not a class-wide, basis, that only Franchisor (and its affiliates and their respective owners, officers, directors, agents and employees, as applicable) and Franchisee (and its affiliates and their respective owners, officers and directors, as applicable) may be the parties to any arbitration proceeding described in this Section, and that no such arbitration proceeding shall be consolidated with any other arbitration proceeding

involving Franchisor and/or any other person. Notwithstanding the foregoing or anything to the contrary in this Section or Paragraph 18.a, if any court or arbitrator determines that all or any part of the preceding sentence is unenforceable with respect to a dispute that otherwise would be subject to arbitration under this Paragraph 18.l, then Franchisor and Franchisee agree that this arbitration clause shall not apply to that dispute and that such dispute shall be resolved in a judicial proceeding in accordance with this Section 18 (excluding this Paragraph 18.l).

- iv. Notwithstanding the above and foregoing, Franchisor shall have the right to apply directly to a court of competent jurisdiction for a temporary restraining order, preliminary injunction or other emergency relief which may be available to protect the name, Marks or System licensed hereunder, or to enforce the post-termination obligations set forth in Section 17 of this Agreement, without the necessity of first filing an arbitration demand.
- m. **Security Agreement.** As security for payment of all sums due to Franchisor from Franchisee, and to secure the performance of any and all obligations of Franchisee as set forth in this Franchise Agreement, Franchisee shall and hereby does grant to Franchisor a continuing security interest in certain property of Franchisee ("Collateral") as more particularly described on Rider E to this Franchise Agreement. Franchisee shall execute the Security Agreement in substantially the form set forth in Rider E hereto. Franchisee consents to Franchisor filing a Uniform Commercial Code Financing Statement in the form attached as Rider F hereto against the Collateral described on Rider E. Franchisee shall permit no other financing statement or lien to be filed or recorded against the Collateral without Franchisor's prior written consent. However, Franchisor will not unreasonably withhold its consent to the filing of a lien against the Collateral by a lender from whom Franchisee obtains financing in connection with the establishment of the Franchised Business. Franchisor will in such cases agree to subordinate its lien to that of the lender. Upon Franchisee's failure to perform any obligation or pay any sum due under this Franchise Agreement, Franchisor shall have the right, without notice to Franchisee, to take immediate possession of the Collateral.
- n. **Waiver of Collateral Estoppel.** The parties agree that they should each be able to settle, mediate, litigate, arbitrate, or compromise disputes in which they are involved with third parties, without having the disposition of such disputes directly affect the contract or relationship between the parties. Franchisor and Franchisee therefore each agree that a decision of an arbitrator or of a court of law in litigation to which one of them is not a party shall not in any manner prevent the person that was a party to such action from making similar arguments, or taking similar positions, in any action between Franchisor and Franchisee. The parties, therefore, waive the right to assert the principles of collateral estoppel in any action between the parties to this Franchise Agreement so that one party is prevented from raising

against the other party to this Franchise Agreement the loss by that party of a similar claim or defense in another action.

- o. **Beneficiaries.** The parties intend to confer no benefit or right on any person or entity not a party to this Agreement and no third parties shall have any right or claims, benefit, or right as a third-party beneficiary under this Agreement or any provision hereof. Similarly, Franchisee is not entitled to claim any rights or benefits including those of a third-party beneficiary, under any contract, understanding or agreement between Franchisor and any other person or entities, unless that contract, understanding or agreement specifically refers to Franchisee by name or to a class which Franchisee belongs and specifically grants rights or benefits to Franchisee or to the concerned class.

19. **NOTICES AND PAYMENTS.** All notices permitted or required under this Agreement, and/or the BAGELS Operations Manual must be in writing. Email and facsimile transmissions are considered written notice, provided that the sender confirms transmission of said email or facsimile transmission. "Confirming transmission" is accomplished by the sender printing a paper copy showing that the document was sent via email or facsimile, and upon request by the recipient, furnishing said paper copy to the recipient. Verbal, oral, or in-person communications are not considered effective notice, unless the sender follows up on said communications in writing. Notices shall be deemed delivered (a) at the time if delivered in person; (b) the day of transmission if by facsimile or by another electronic system, provided that the transmission is done on a business day during the hours of 8:00 a.m. and 5:00 p.m. Chicago time; otherwise, delivery is the next business day; (c) one (1) business day after being placed in the hands of a commercial courier service for overnight delivery; or (d) three (3) business days after placement in the United States Mail by Registered or Certified Mail, Return Receipt Requested, postage prepaid and addressed to the parties as follows:

Franchisor: 500 Lake Cook Road, Suite 475
Deerfield, Illinois 60015

Franchisee: Name and Address of Person to Receive Notice for Franchise Owner.

- (a) Name: _____
- (b) Postal Address: _____
- (c) Email address: _____

or at the most current principal business address of which the notifying party has been notified. Any required payment or report not actually received by Franchisor during regular business hours on the date due (or postmarked by postal authorities at least two (2) days prior thereto) shall be deemed delinquent.

Any notice that Franchisor sends to Franchisee may be sent only to the one (1) person identified above, even if Franchisee has multiple owners. Franchisee acknowledges and agrees that notice to the person identified above constitutes notice to Franchisee and to all the owners of Franchisee.

20. **ACKNOWLEDGEMENTS and REPRESENTATIONS.** Franchisee acknowledges and/or represents the following:

- a. That the terms, conditions and covenants contained in this Agreement are reasonably necessary to maintain Franchisor's high standards of quality and service and thereby to protect and preserve the goodwill of the Marks and the System;
- b. That he has conducted an independent investigation of the business venture contemplated by this Agreement and recognizes that it involves business risks;
- c. That Franchisor is primarily engaged in the business of licensing rights and is not engaged in the business of owning or operating a "Big Apple Bagels."
- d. That Franchisee shall operate the Franchised Business for itself and not for Franchisor, and that Franchisee shall provide products and services for its customers and not for Franchisor;
- e. That Franchisor is not Franchisee's employer or an employer of any of Franchisee's employees, and further, that Franchisor is not a "joint employer" with Franchisee.
- f. That Franchisee shall be sole employer of its employees and unless a critical need arises, Franchisor shall not have access to Franchisee's employer or employee records;
- g. That Franchisee's use of the POS System and its capability to report labor cost as a percentage of sales does not constitute any control or influence by Franchisor over the Franchisee's employees' terms or conditions of employment;
- h. That Franchisor and/or its affiliates periodically may make available to Franchisee goods, products and/or services for use in Franchisee's Store, on the sale of which Franchisor and/or its affiliates may make a profit and/or receive a credit, rebate or other incentive; and that Franchisor and/or its affiliates periodically may receive consideration (including credits, rebates and incentives) from suppliers and manufacturers respecting sales of goods, products or services to Franchisee or in consideration for products or services provided or rights licensed to such persons; and Franchisee agrees that Franchisor and/or its affiliates will be entitled to such profits and consideration; and

- i. Franchisee further represents to Franchisor, as an inducement to its entry into this Agreement, that Franchisee has made no misrepresentations in obtaining the Franchise.

21. **MISCELLANEOUS**

- a. **Executive Order 13224.** To enable Franchisor to comply with U.S. Executive Order 13224, Franchisee hereby represents and warrants to Franchisor that neither Franchisee, nor any of its equity owners, directors, officers, employees, representatives, and agents (collectively, the “Included People”): (a) is, or is owned or controlled by, a suspected terrorist or foreign terrorist, as those terms are used, contemplated, and/or implied in Executive Order 13224, and (b) to the best of Franchisee’s knowledge, has any of the Included People been designated a suspected terrorist or foreign terrorist as those terms are used, contemplated, and/or implied in Executive Order 13224.
- b. **Delegation.** Franchisee agrees that Franchisor shall have the right to delegate to third- party designees, whether Franchisor’s agents or independent contractors with whom Franchisor has contracted, the performance of any portion or all of Franchisor’s obligations under this Agreement, and any right Franchisor has under this Agreement. If Franchisor does so, such third-party designees will be obligated to perform the delegated functions for Franchisor in compliance with this Agreement.
- c. No statement, questionnaire, or acknowledgment signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

Signature Page Follows

IN WITNESS WHEREOF the parties hereto have executed, sealed, and delivered this Agreement in 2 counterparts effective on the day and year first above written.

NOT EFFECTIVE UNLESS AND UNTIL ACCEPTED BY THE FRANCHISOR, AS EVIDENCED BY DATING AND SIGNING BY AN OFFICER OF FRANCHISOR.

Franchisor:
BAB SYSTEMS, INC.
an Illinois corporation

Franchisee:
Corporate/LLC Signature:

a _____ corporation/LLC

By: _____
Title: _____
Date Accepted: _____

By: _____
Title: _____
Date Signed: _____

Individual Signatures:

Rider A

TO THAT CERTAIN
BAB SYSTEMS FRANCHISE AGREEMENT
BY AND BETWEEN BAB SYSTEMS, INC.
AND _____
DATED _____, 20____
(the "Franchise Agreement")

The parties hereto agree that the BAGELS Store to be operated by Franchisee pursuant to the Franchise Agreement shall be located at the following premises:

Franchisor's approval of the premises for the BAGELS Store and any information communicated to Franchisee regarding the premises for the BAGELS Store do not constitute a representation or warranty of any kind, expressed or implied, as to the suitability of the premises for a BAGELS Store, of the economic terms of the lease or sublease, or for any other purpose. Franchisor's approval indicates only that Franchisor believes that the site meets Franchisor's then acceptable criteria. Applying criteria that have appeared effective with other sites and premises might not accurately reflect the potential for all sites and premises. Demographic and/or other factors, including competition from other businesses, whether included in or excluded from Franchisor's criteria, could change, altering the potential of a site and premises. The uncertainty and instability of such factors are beyond Franchisor's control. Franchisee's acceptance of a franchise for the operation of a BAGELS Store at the above premises is based on his own independent investigation of the suitability of the premises.

Franchisor:
BAB SYSTEMS, INC.
an Illinois corporation

By: _____
Title: _____

Franchisee:
Corporate/LLC Signature:

a _____ corporation/LLC

By: _____
Title: _____

Individual Signatures of Franchisee:

Rider B

TO THAT CERTAIN
BAB SYSTEMS FRANCHISE AGREEMENT
BY AND BETWEEN BAB SYSTEMS, INC.
AND _____
DATED _____, 20____
(the "Franchise Agreement")

COLLATERAL ASSIGNMENT OF LEASE

1. FOR VALUE RECEIVED, the undersigned ("Assignor") hereby assigns, transfers and sets over unto BAB SYSTEMS, INC., an Illinois corporation ("Assignee") all of Assignor's right, title and interest as tenant in, to and under that certain lease, a copy of which is attached hereto (the "Lease") respecting premises commonly known as _____ (the "Premises"). This Assignment is for collateral purposes only and except as specified herein, Assignee shall have no liability or obligation of any kind whatsoever arising from or in connection with this Assignment or the Lease unless Assignee shall take possession of the premises demised by the Lease pursuant to the terms hereof and shall expressly agree in writing to assume the obligations of Assignor thereunder.
2. In the event Assignor owns the land and/or building in which the BAGELS Store is located, Assignor does hereby grant an option to Assignee or its designee to lease such premises on a triple-net basis for the remainder of the then-current term of the Franchise Agreement, at a reasonable commercial rental rate, as determined by a licensed commercial real estate broker selected by Assignee.
3. Assignor represents and warrants to Assignee that it has full power and authority to so assign the Lease and its interest therein and that Assignor has not previously, and is not obligated to, assign or transfer any of its interest in the Lease or the premises demised thereby.
4. Upon a default by Assignor under the Lease or under the Franchise Agreement for a BAGELS Store to be operated at the Premises, between Assignee and Assignor (the "Franchise Agreement"), or in the event of a default by Assignor under any document or instrument securing said Franchise Agreement, Assignee shall have the right and is hereby empowered to take possession of the Premises, expel Assignor therefrom, and, in such event, Assignor shall have no further right, title or interest in the Lease.
5. Assignor agrees that it will not suffer or permit any surrender, termination, amendment or modification of the Lease without the prior written consent of Assignee. Throughout the term of the Franchise Agreement and any renewals thereof, Assignor agrees that it shall elect and exercise all options to extend the term of or renew the Lease not less than thirty (30) days prior to the last day that said option must be exercised, unless Assignee otherwise agrees in writing, and upon failure of Assignor to so elect to extend or renew the Lease as aforesaid, Assignor hereby appoints

Assignee as its true and lawful attorney-in-fact to exercise such extension or renewal options in the name, place and stead of Assignor for the sole purpose of effecting such extension or renewal.

6. Assignor acknowledges and agrees that BAB Systems, Inc. is an intended third party beneficiary of this instrument, and as such may enforce its terms, and effect the assignment from Assignor contemplated in Paragraph 4 above without the requirement of obtaining Assignor’s written consent or assent to such assignment.

IN WITNESS WHEREOF, the parties hereto have set their hands and seals this _____ day of _____, 20_____.

Assignor:
Corporate/LLC Signature:

a _____ corporation/LLC

By: _____
Title: _____

Individual Signatures:

Rider C

TO THE BAB SYSTEMS, INC. FRANCHISE AGREEMENT

GUARANTY AND ASSUMPTION OF OBLIGATIONS

THIS GUARANTY AND ASSUMPTION OF OBLIGATIONS is given this _____ day of _____, 20____, by _____

In consideration of, and as an inducement to, the execution of that certain BAB SYSTEMS, INC. Franchise Agreement of even date herewith (the "Agreement") by BAB Systems, Inc. (the "Franchisor"), each of the undersigned hereby personally and unconditionally (a) guarantees to Franchisor, and its successors and assigns, for the term of the Agreement and thereafter as provided in the Agreement, that _____ ("Franchisee") shall punctually pay and perform each and every undertaking, agreement and covenant set forth in the Agreement; and (b) agrees to be personally bound by, and personally liable for the breach of, each and every provision in the Agreement, both monetary obligations and obligations to take or refrain from taking specific actions or to engage or refrain from engaging in specific activities, including without limitation the provisions of Paragraph 9.f. and 17.d.

The undersigned further acknowledge and agree that this Guaranty and Assumption of Obligations applies to the Security Agreement executed by Franchisee, attached as Rider E to the Franchise Agreement, and that they are bound by each and every undertaking, agreement and covenant set forth in said Security Agreement.

Each of the undersigned waives: (1) acceptance and notice of acceptance by Franchisor of the foregoing undertakings; (2) notice of demand for payment of any indebtedness or nonperformance of any obligations hereby guaranteed; (3) protest and notice of default to any party with respect to the indebtedness or nonperformance of obligations hereby guaranteed; (4) any right he may have to require that an action be brought against Franchisee or any other person as a condition of liability; and (5) any and all other notices and legal or equitable defenses to which he may be entitled.

Each of the undersigned consents and agrees that: (1) his direct and immediate liability under this guaranty shall be joint and several; (2) he shall render any payment or performance required under the Agreement upon demand if Franchisee fails or refuses punctually to do so; (3) such liability shall not be contingent or conditioned upon pursuit by Franchisor of any remedies against Franchisee or any other person; and (4) such liability shall not be diminished, relieved or otherwise affected by any extension of time, credit or other indulgence which Franchisor may from time to time grant to Franchisee or to any other person, including without limitation the acceptance of any partial payment or performance, or the compromise or release of any claims, none of which shall in any way modify or amend his guaranty, which shall be continuing and irrevocable during the term of the Agreement.

Each of the undersigned consents and agrees that the arbitration, injunctive relief, governing law and jurisdiction provisions contained in the Franchise Agreement shall govern this guaranty and such provisions are incorporated into this guaranty by reference.

IN WITNESS WHEREOF, each of the undersigned has hereunto affixed his signature on the same day and year as the Agreement was executed.

<u>GUARANTOR(S)</u>	<u>PERCENTAGE OF OWNERSHIP OF FRANCHISEE</u>
_____	_____ %
_____	_____ %
_____	_____ %
_____	_____ %
_____	_____ %

Rider D
Electronic Bank Draft Authorization

AUTHORIZATION TO HONOR CHECKS OR ELECTRONIC FUNDS TRANSFER DRAWN BY AND PAYABLE TO **BAB SYSTEMS, INC.**

BANK ACCOUNT IN THE NAME OF 1.	STORE # 2.	BANK ACCOUNT NUMBER 3.
		ROUTING NUMBER 4.

To the Bank Designated:

You are hereby requested and authorized to honor and to charge to the account described, checks or electronic funds transfer ("EFT") drawn on such account which are payable to the above named Payee. The name(s) of the depositor(s) on such checks will be printed by standard business machines. It is agreed that your rights with respect to each such check or EFT shall be the same as if it bore a signature authorized for such account. It is further agreed that if any such check or EFT is not honored, whether with or without cause you shall be under no liability whatsoever. This authorization shall continue in force until revocation in writing is received by you.

Date: _____

Franchisee:

Corporate/LLC Signature:

_____ a _____ corporation/LLC

By: _____

Title: _____

Individual Signatures:

FULL NAME OF BANK 5.
STREET ADDRESS 6.
CITY, STATE, ZIP CODE 7.

Drawee Bank Please Note: There is an Indemnification Agreement below.

Indemnification Agreement
 To the Bank Designated:

In consideration of your compliance with the request and authorization printed on the Authorization Form hereof, the Payee agrees with respect to any such action:

- (1) To Indemnify you and hold you harmless from any loss you may suffer as a consequence of your actions resulting from or in connection with the execution and issuance of any check, EFT, draft or order, whether or not genuine, purporting to be executed by the Payee and received by you in the regular course of business for the purpose of payment, including any costs or expenses reasonably incurred in connection herewith.
- (2) To Indemnify you for any loss arising in the event that any such check, EFT, draft or order shall be dishonored, whether with or without cause and whether intentionally or inadvertently.
- (3) To defend at our own cost and expenses any action which might be brought by any depositor or any other persons because of your actions taken pursuant to the foregoing request, or in any manner arising by reason of your participation.

NOTICE TO OWNER

1. ATTACH ONE VOIDED CHECK HERE.
2. BE SURE ALL 7 ITEMS SHOWN ABOVE ARE COMPLETED.
3. SIGN YOUR NAME WHERE INDICATED.

Rider E

TO THE BAB SYSTEMS, INC. FRANCHISE AGREEMENT

SECURITY AGREEMENT

This Security Agreement dated _____ is by and between BAB Systems, Inc., an Illinois corporation, of 500 Lake Cook Road, Suite 475, Deerfield, Illinois 60015 ("Secured Party") and _____, whose principal place of business is _____ ("Debtor").

RECITALS

- A. Debtor is a franchisee under a Franchise Agreement dated _____ ("Franchise Agreement") with Secured Party as Franchisor, pursuant to which Franchise Agreement Debtor has ongoing monetary and non-monetary obligations to Secured Party.
- B. Debtor has _____ locations at which Debtor operates businesses known as "Big Apple Bagels" ("BAGELS Stores"), pursuant to the Franchise Agreement; the addresses of the _____ locations are listed on Schedule "A" attached hereto and incorporated herein by reference.
- C. Debtor is giving Secured Party a security interest in the collateral described in this Agreement.

NOW THEREFORE, in consideration of the several and mutual covenants set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. The Recitals set forth above shall be incorporated into this part of the Agreement as though they were fully set forth herein.
2. Description of Collateral: the following property located at or relating to the BAGELS Stores noted on Schedule A:

all equipment, furniture, fixtures, inventory, personal property, supplies, general intangibles, accounts receivable, accounts, contract rights, chattel paper and instruments, now owned or hereafter acquired by the Debtor, and all additions and accessions to, and all proceeds and products of the foregoing ("Collateral").
3. Debtor hereby grants to Secured Party a security interest in the Collateral described in paragraph 2 above, to secure all debts, obligations and liabilities of Debtor to Secured Party arising out of the Franchise Agreement described in Paragraph A of the Recitals.

4. The Collateral will be located at the addresses noted on Schedule A hereto. Debtor will not, without Secured Party's consent, remove the Collateral from the locations noted on Schedule A
5. Debtor will not, without Secured Party's consent: (i) allow the Collateral to become an accession to other goods; (ii) sell, lease, otherwise transfer, manufacture, process, assemble, or furnish under contracts of service, the Collateral, except goods identified herein as inventory and sold in the ordinary course of business; or (iii) allow the Collateral to be affixed to real estate, except goods identified herein as fixtures.
6. Debtor hereby authorizes Secured Party to file Uniform Commercial Code ("UCC") Financing Statements to enable Secured Party to perfect this security interest by filing pursuant to the Uniform Commercial Code as adopted by the state where the BAGELS Stores noted on Schedule A are located. Debtor hereby waives any requirement or custom requiring Debtor to execute said UCC Financing Statements.
7. Debtor hereby authorizes Secured Party to obtain a credit report on Debtor at any time Debtor defaults under its Franchise Agreement, including but not limited to delinquency in a payment due Secured Party, a dishonored electronic bank draft, cancellation of Debtor's insurance for non-payment, or nonpayment to a vendor or Debtor's landlord of an undisputed amount.
8. Upon default under the Franchise Agreement, Secured Party shall have all the rights available to it under the Commercial Code of the state where the BAGELS Stores noted on Schedule A are located.
9. The parties acknowledge that the Collateral is used for business, and not personal, family, or household purposes.

IN WITNESS WHEREOF, the parties hereto have set their hands and seals the date first above written.

Secured Party:
BAB SYSTEMS, INC.
an Illinois corporation

By: _____
Title: _____

Debtor:
Corporate/LLC Signature:

a _____ corporation/LLC

By: _____
Title: _____

Individual Signatures of Debtor:

Schedule A to Security Agreement
BAGELS Stores of Debtor

Rider F

TO THE BAB SYSTEMS, INC. FRANCHISE AGREEMENT

Uniform Commercial Code Financing Statement

Rider G

TO THE BAB SYSTEMS, INC. FRANCHISE AGREEMENT

AUTHORIZATION TO FRANCHISEE'S ACCOUNTANT

To: _____ (Name of Franchisee's Accountant)
 _____ (Address)

 _____ (Telephone #)

This letter is my written consent, authorization and instruction to you to furnish to my Franchisor, BAB Systems, Inc., upon its written request, copies of my financial records, sales information, financial reports, or any other data in your possession relating to my business.

You may rely on this letter in furnishing such data, unless and until I revoke the authorization in writing to you, with a copy to my Franchisor.

Date: _____

Signature of Franchisee

Rider H

TO THE BAB SYSTEMS, INC. FRANCHISE AGREEMENT

See Exhibit R to the Franchise Disclosure Statement for applicable state addenda to the Franchise Agreement.

EXHIBIT C TO FRANCHISE DISCLOSURE DOCUMENT

Area Development Agreement

AREA DEVELOPMENT AGREEMENT

BAB SYSTEMS, INC.

DEVELOPER

DATE OF AGREEMENT

NOTE: In this document, for convenience sake only, pronouns used in referring to Developer are "he," "him," or "his." Franchisor does not in any manner wish to imply that only males are qualified, suitable, or appropriate for the franchise described in this Area Development Agreement. Franchisor does not intend by its use of male pronouns to exclude females from consideration, and it encourages applicants of both genders.

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EXHIBIT C

AREA DEVELOPMENT AGREEMENT

THIS AGREEMENT is made and entered into this _____ day of _____, 20_____, by and between BAB SYSTEMS, INC., an Illinois corporation with its principal office at 500 Lake Cook Road, Suite 475, Deerfield, Illinois 60015 (the "Franchisor") and _____ whose principal address is _____ ("Developer").

1. RECITALS

A. Franchisor franchises certain Stores known as BAGELS Stores, devoted primarily to owning and operating stores that offer and sell "Big Apple Bagels" branded bagels and cream cheeses, "My Favorite Muffin" branded muffins, and "Brewster's" branded coffee for on premises consumption and retail and wholesale distribution. A "BAGELS Store" means, generically, collectively or individually, a BAGELS Production Store or a BAGELS Satellite Store, which are described in Paragraph B below. These Stores will be operated under the trademark and service mark "Big Apple Bagels" plus logos, designs, and such other trademarks, service marks and commercial symbols ("Marks") as will be authorized from time to time by Franchisor. Such Stores will also be operated in accordance with certain required formats, systems, methods of distribution, standards and procedures, and trade dress, all of which may be improved, further developed or otherwise modified from time to time by Franchisor ("System").

B. BAGELS Stores may be either a BAGELS Production Store or a BAGELS Satellite Store. A "BAGELS Production Store" is a store which has the capacity for the production, baking, retail and wholesale distribution, and on-site consumption of bagels and muffins, and the production, retail distribution and on-site consumption of cream cheese spreads, breakfast and lunch sandwiches, coffee beverages, and soft drinks. A "BAGELS Satellite Store" is a store which has the capacity for baking, retail and wholesale distribution of bagels and muffins, and the production and retail distribution of cream cheese spreads, breakfast and lunch sandwiches, coffee beverages, and soft drinks. BAGELS Satellite Stores may or may not have the capacity for on-site consumption of these menu items. All mixing/production of bagel dough, muffin batters and other specialty bakery products is performed at Franchisee's BAGELS Production Store. The BAGELS Satellite Store may have a more limited menu than a BAGELS Production Store.

C. Franchisor has decided to grant to persons who meet Franchisor's qualifications and who are willing to undertake the investment and effort, the right to establish and develop a number of BAGELS Stores within a defined geographical area.

D. Developer acknowledges that he has read this Agreement and Franchisor's Franchise Disclosure Document and that he understands and accepts the terms, conditions and covenants contained in this Agreement as being reasonably necessary to maintain Franchisor's high standards

of quality and service and the uniformity of those standards at all BAGELS Stores in order to protect and preserve the goodwill of the Marks.

E. Developer acknowledges that he has conducted an independent investigation of the business contemplated by this Agreement and recognizes that, like any other business, the nature of the business conducted by BAGELS Stores may evolve and change over time, that an investment in a BAGELS Store involves business risks and that the success of the venture is largely dependent upon the business abilities and efforts of Developer.

F. Franchisor expressly disclaims the making of, and Developer acknowledges that he has not received or relied upon, any warranty or guaranty, express or implied, as to the revenues, profits or success of the business venture contemplated by this Agreement. Developer acknowledges that he has not received or relied on any representations, written or oral, about the franchise by Franchisor, or its officers, directors, employees or agents, that are contrary to the statements made in Franchisor's Franchise Disclosure Document or to the terms herein, and further represents to Franchisor, as an inducement to its entry into this Agreement that Developer has made no misrepresentations, written or oral, to Franchisor in his application for the development rights granted hereunder.

G. Under a separate offering and disclosure document, Franchisor, BAB Systems, Inc., operates a franchise distribution system to own and operate stores ("My Favorite Muffin Stores") for retail distribution of "My Favorite Muffin" branded muffins and Brewster's branded coffee. These Stores are operated under the trademarks and service marks "My Favorite Muffin Gourmet Muffin Bakery" or "My Favorite Muffin Your All Day Bakery Cafe," one of which is their primary identifying brand. BAB Systems, Inc. has offered My Favorite Muffin franchises since 1998 and currently there are 18 My Favorite Muffin franchised stores in operation throughout the United States.

2. DEFINITIONS

A. Exclusive Area. "Exclusive Area" shall mean the geographical area described in Rider A, attached hereto and incorporated herein by reference. The Exclusive Area as described in Rider A may be, at the request of Developer, replaced with another area deemed available for development by Franchisor in its sole judgment. In such event, Rider A shall be amended to describe the substituted area and all development rights and exclusivity granted hereunder for the original area defined on Rider A will terminate and shall be extended to the new Exclusive Area.

B. Development Period. "Development Period" shall mean each period of time defined as a Development Period in Section 4 of Rider B, attached hereto and incorporated herein by reference.

C. Franchise Agreement. "Franchise Agreement" shall mean the then current form of agreements (including without limitation, franchise agreement and any exhibits, riders, subleases or collateral assignments of leases or subleases, shareholder guarantees and preliminary agreements

used in connection therewith) customarily used by Franchisor in the granting of a franchise for the ownership and operation of a BAGELS Store except the initial franchise fee shall be as set forth in Paragraph 6.B. below. Attached to Franchisor's Franchise Disclosure Document is a copy of the current form of Franchise Agreement. DEVELOPER ACKNOWLEDGES THAT THE AGREEMENT ATTACHED TO FRANCHISOR'S FRANCHISE DISCLOSURE DOCUMENT IS THE CURRENT FORM OF FRANCHISE AGREEMENT AND THAT FRANCHISOR, AT ITS SOLE DISCRETION BUT SUBJECT TO THE EXPRESS PROVISIONS CONTAINED HEREIN, MAY FROM TIME TO TIME MODIFY OR AMEND IN ANY RESPECT THE STANDARD FORM OF FRANCHISE AGREEMENT CUSTOMARILY USED IN GRANTING A "BAGELS STORE" FRANCHISE.

3. DEVELOPMENT RIGHTS AND OBLIGATIONS

A. Term of Agreement/Reservation of Rights

(1) Subject to the provisions contained herein, this Agreement shall be for a term commencing on the date hereof and expiring on the last day of the last Development Period.

(2) Franchisor (on behalf of itself and its affiliates) retains the right, in its sole discretion and without granting any rights to Developer: (a) to itself own and operate, or to grant other persons the right to own and operate, BAGELS Stores at such locations outside the Exclusive Area and on such terms and conditions as Franchisor deems appropriate in its sole discretion; and (b) to sell outside the Exclusive Area the services and products authorized for BAGELS Stores under the Marks or other trademarks, service marks and commercial symbols through dissimilar channels of distribution and pursuant to such terms and conditions as Franchisor deems appropriate.

B. Rights During Development Periods. Provided Developer: (i) is in full compliance with the terms and conditions contained in this Agreement, including without limitation, the development obligations contained in Paragraph C of this Section 3; and (ii) is in full compliance with all obligations under all Franchise Agreements heretofore or hereafter entered into with Franchisor; then during the Development Periods, Franchisor: (1) will grant to Developer, in accordance with the provisions of Section 5 hereof, franchises for the ownership and operation of BAGELS Stores located within the Exclusive Area; and (2) will not operate (directly or through an affiliate), nor grant a franchise for the operation of, any BAGELS Stores to be located within the Exclusive Area, except such franchises as are granted to Developer.

C. Development Obligations. Developer agrees during the term of this Agreement and any extensions thereof that he will at all times faithfully, honestly, and diligently perform his obligations hereunder and that he will continuously exert his best efforts to promote and enhance the development of BAGELS Stores within the Exclusive Area. Without limiting the foregoing obligation, Developer agrees to have signed leases within the Exclusive Area for the cumulative number of BAGELS Production Stores or BAGELS Satellite Stores at the end of each Development Period set forth in Section 4 of Rider B hereof ("Minimum Development Quota") and to have each

such Store open and operating within four (4) months from the date of possession. If Developer fails at any time to meet any Minimum Development Quota, Franchisor shall have the right to terminate this Agreement by delivering a notice to Developer stating that Franchisor elects to terminate this agreement as a result of such failure. Such termination shall be effective upon delivery of such notice of termination. Franchisor's right to terminate this Agreement shall be the sole and exclusive remedy of Franchisor for Developer's failure to meet a Minimum Development Quota.

4. STORE CLOSINGS

A BAGELS Store which is permanently closed with the approval of Franchisor after having been open shall be deemed open and in operation for purposes of the Minimum Development Quota if a substitute BAGELS Store is open and in operation within six (6) months from the date of such closing. Such replacement Store shall not otherwise count toward such quotas.

5. GRANT OF FRANCHISES TO DEVELOPER

A. Subject to the provisions of Section 3 hereof, Franchisor agrees to grant franchises to Developer for the operation of BAGELS Stores located within the Exclusive Area, subject to the following:

(1) Developer must execute a franchise agreement and pay the applicable franchise fee before Franchisor will approve a site.

(2) When Developer selects a site under a franchise agreement, he shall submit to Franchisor a complete site report (containing such demographic, commercial, and other information and photographs as Franchisor may reasonably require) for each site at which Developer proposes to establish and operate a BAGELS Store and which Developer reasonably believes to conform to site selection criteria established by Franchisor from time to time. Such proposed site shall be subject to Franchisor's prior written approval. In approving or disapproving any proposed site, Franchisor will consider such matters as it deems material, including without limitation, demographic characteristics of the proposed site, traffic patterns, parking, the predominant character of the neighborhood, competition from other similar stores, the proximity to other businesses (including other BAGELS Stores), and other commercial characteristics (including the purchase price or rental obligations and other lease terms for the proposed site) and the size of premises, appearance, and other physical characteristics; and

(3) Developer acknowledges that in order to preserve and enhance the reputation and goodwill of all Stores and the goodwill of the Marks, all BAGELS Stores must be properly developed and operated. Accordingly, Developer agrees that Franchisor may refuse to grant to Developer a franchise for a proposed BAGELS Store, unless in Franchisor's reasonable judgment demonstrates sufficient financial capabilities to properly develop and operate the BAGELS Store. To this end, Developer shall furnish to Franchisor such financial statements and development plans and other information regarding Developer

in the development and operation of the proposed BAGELS Stores (including, without limitation pro forma statements and investment and financing plans for the proposed BAGELS Store) as Franchisor may reasonably require.

B. By delivery of written notice to Developer, Franchisor will approve or disapprove sites proposed by Developer for the operation of a BAGELS Store. Franchisor agrees to exert its best efforts to deliver such notification to Developer within thirty (30) days of receipt by Franchisor of the complete site reports and the financial statements and other materials reasonably required by Franchisor. If Developer shall fail to execute a lease within thirty (30) days after delivery of Franchisor's approval thereof, Franchisor may, at its sole discretion, withdraw approval of such site.

6. DEVELOPMENT FEE AND FRANCHISE FEES

A. Development Fee. Concurrently with the execution of this Agreement, Developer shall pay to Franchisor the sum set forth in Paragraph 1 of Rider B hereof as a nonrefundable Development Fee which shall be deemed fully earned by Franchisor upon execution of this Agreement.

B. Franchise Fees.

(1) BAGELS Production Store Franchise

Developer is required, if he is not already a BAB Systems franchisee, to execute one franchise agreement for a BAGELS Production Store Franchise and pay the \$25,000 franchise fee, simultaneously with the execution of this Agreement.

For each subsequent BAGELS Production Store developed pursuant to this Agreement, the franchise fee will be Fifteen Thousand Dollars (\$15,000).

In the event Developer opens more than the number of Stores required to meet his Minimum Development Quota, either within or outside his Exclusive Area, the then-current initial franchise fee for the cumulative number of BAGELS Production Stores will apply.

(2) BAGELS Satellite Store Franchise. The franchise fee for each BAGELS Satellite Store developed pursuant to this Agreement is \$10,000.

7. PROPRIETARY INFORMATION

A. The Proprietary Information. Franchisor possesses certain proprietary information, some of which constitutes trade secrets under applicable law ("the Proprietary Information") relating to developing and operating BAGELS Stores, including (without limitation):

site selection criteria;

training and operations materials and manuals;

recipes of products sold in BAGELS Stores;

methods, formats, specifications, standards, systems, procedures, sales and marketing techniques, knowledge, and experience used in developing and operating BAGELS Stores;

marketing and advertising programs for BAGELS Stores;

knowledge of, specifications for, and suppliers of inventory other products and supplies;

customer data and customer lists, including names, addresses and other information;

knowledge of the operating results and financial performance of BAGELS Stores other than Developer's Stores; and

graphic designs, proprietary software, and related intellectual property

Franchisor will disclose the Proprietary Information to Developer in providing guidance and assistance to Developer under Franchise Agreements.

Any and all information, processes or techniques which Franchisor designates as confidential or proprietary shall be deemed Proprietary Information. Franchisor may disclose the Proprietary Information to Developer through furnishing Developer sample drawings and specifications for development and operation of the Stores, training programs, the Operations Manual, and through guidance furnished to Developer during the term of this Agreement.

Proprietary Information does not include information, knowledge, or know-how which Developer can demonstrate lawfully came to Developer's attention before Franchisor provided it to Developer directly or indirectly; which, at the time Franchisor disclosed it to Developer, already had lawfully become generally known in the industry through publication or communication by others (without violating an obligation to Franchisor); or which, after Franchisor disclosed it to Developer, lawfully becomes generally known in the industry through publication or communication by others (without violating an obligation to Franchisor). However, if Franchisor includes any matter in Proprietary Information, anyone who claims that it is not Proprietary Information must prove that one of the exclusions provided in this paragraph is fulfilled.

B. **Limitations on Developer's Use.** Developer acknowledges and agrees that he will not acquire any interest in the Proprietary Information, other than the right to utilize it in the

development and operation of Stores pursuant to this Agreement, and that the use or duplication of the Proprietary Information in any other business would constitute an unfair method of competition. Developer acknowledges and agrees that the Proprietary Information is confidential and a trade secret of Franchisor and is disclosed to Developer solely on the condition that Developer agrees, and Developer does hereby agree, that he: (1) will not use the Proprietary Information in any other business or capacity; (2) will maintain the absolute confidentiality of the Proprietary Information during and after the term of this Agreement; (3) will not make unauthorized copies of any portion of the Proprietary Information disclosed in written, visual, or electronic form; and (4) will adopt and implement all reasonable procedures prescribed from time to time by Franchisor to prevent unauthorized use or disclosure of the Proprietary Information, including without limitation, restrictions on disclosure thereof to employees of BAGELS Stores and the use of nondisclosure and noncompetition clauses in employment agreements with employees and agents in the form prescribed by Franchisor, including naming Franchisor as an intended third party beneficiary.

C. Developer acknowledges and agrees that Franchisor would be unable to protect its trade secrets against unauthorized use or disclosure and would be unable to encourage a free exchange of ideas and information among BAGELS Stores if owners of BAGELS Stores were permitted to hold interests in any other bagel or coffee store business. Developer acknowledges that Franchisor has granted the development rights to Developer herein set forth in part in consideration of, and in reliance upon, Developer's agreement to deal exclusively with Franchisor. Therefore, during the term of this Agreement, neither Developer, any shareholder, partner, or member (in the event Developer is a corporation, partnership, or limited liability company), nor any member of his or their immediate families shall have any interest as an owner, investor, partner, director, officer, employee, consultant representative, agent, lender, lessor or in any other capacity, in any business engaged in the bagel or coffee industry except for BAGELS Stores or My Favorite Muffin Stores operated under Franchise Agreements granted by Franchisor and the ownership of securities listed on a stock exchange or traded on the over-the-counter market that represent three percent (3%) or less of that class of securities.

D. **Innovations.** All ideas, concepts, techniques, and marketing, advertising or other materials relating to a bagel, muffin, and/or coffee store, whether or not protectable intellectual property and whether created by or for Developer or Developer's owners or employees, must be promptly disclosed to Franchisor and will be deemed to be Franchisor's sole and exclusive property, part of Franchisor's System, and works made-for-hire for Franchisor. To the extent that any item does not qualify as a "work made-for-hire" for Franchisor, by this paragraph Developer assign ownership of that item, and all related rights to that item, to Franchisor and agree to take whatever action (including signing assignment or other documents) Franchisor requests to evidence Franchisor's ownership or to help Franchisor. Developer agrees that Franchisor shall have the perpetual right to use and authorize other BAGELS Stores to use such ideas, concepts, methods and techniques without further consideration to Developer. Developer shall fully and promptly disclose to Franchisor all ideas, concepts, methods and techniques relating to the development and/or operation of a bagel store conceived or developed by Developer and/or his employees during the term of this Agreement. Developer agrees that Franchisor shall have the perpetual right to use and authorize other BAGELS Stores to use such ideas, concepts, methods and

techniques and if incorporated into Franchisor's System for the development and/or operation of BAGELS Stores, such ideas, concepts, methods and techniques will become the sole and exclusive property of Franchisor without further consideration to Developer.

8. MARKS

A. Developer acknowledges that Developer has no interest whatsoever in or to the Marks and that Developer's right to use the Marks is derived solely from Franchise Agreements entered into between Developer and Franchisor for the purpose of operating BAGELS Stores as contemplated thereunder. Developer agrees that all usage of the Marks by Developer and any goodwill established thereby shall inure to the exclusive benefit of Franchisor and its licensor. Developer further agrees that after the termination or expiration of this Agreement, he will not, except with respect to BAGELS Stores operated by Developer pursuant to Franchise Agreements granted by Franchisor, directly or indirectly, at any time or in any manner identify himself or any business as a franchisee or former franchisee of, or otherwise associated with, Franchisor or use in any manner or for any purpose any Mark or other indicia of a BAGELS Stores or any colorable imitation thereof.

B. Developer shall not use any Mark as part of any corporate or trade name or with any prefix, suffix, or other modifying words, terms, designs, or symbols, or in any modifying words, terms, designs, or symbols, or in any modified form, nor may Developer use any Mark in connection with any business or activity, other than the business conducted by Developer pursuant to Franchise Agreements entered into between Developer and Franchisor, or in any other manner not explicitly authorized in writing by Franchisor. Developer shall not register the Marks on the Internet or any other computer on-line service, and shall not use the Marks on the Internet in any manner.

C. Developer shall immediately notify Franchisor in writing of any apparent infringement of or challenge to Developer's use of any Mark, or claim by any person of any rights in any Mark or similar trade name, trademark, or service mark of which Developer becomes aware. Developer shall not communicate with any person other than Franchisor and its counsel in connection with any such infringement challenge or claim. Franchisor shall have sole discretion to take such action as it deems appropriate and the right to exclusively control any litigation, U.S. Patent and Trademark Office proceeding or other administrative proceeding arising out of any such infringement, challenge, or claim or otherwise relating to any Mark.

9. MANAGEMENT OF BUSINESS

Developer (or a managing partner or shareholder approved by Franchisor) shall exert his full-time efforts to his obligations hereunder and shall not engage in any other business or other activity, directly or indirectly, that requires any significant management responsibility, time commitments, or otherwise may conflict with Developer's obligations hereunder, without the express written consent of Franchisor. Developer (or such managing partner or shareholder) shall supervise the development and operation of BAGELS Stores franchised pursuant hereto, but need

not be engaged in the day-to-day operations of any such Store

10. TERMINATION BY FRANCHISOR

A. In addition to Franchisor's right to terminate under Paragraph C of Section 3 hereof, Franchisor shall have the right to terminate this Agreement by delivering a notice to Developer stating that Franchisor elects to terminate this Agreement as a result of any of the breaches set forth below. Such termination shall be effective upon delivery of such notice of termination or, if applicable, upon failure to cure (to Franchisor's satisfaction) any such breach by the expiration of any period of time within which such breach may be cured in accordance with the provisions set forth below. It shall be a material breach of this Agreement if:

(1) Developer (or any shareholder, partner, or member, if Developer is a corporation, partnership, or limited liability company) makes an unauthorized assignment or transfer of this Agreement or an ownership interest in Developer;

(2) a general partnership interest in Developer (if Developer is a limited partnership) is terminated, for whatever reason;

(3) Developer (or any shareholder, partner, or member, if Developer is a corporation, partnership, or limited liability company) has made any material misrepresentation or omission in its application for the development rights conferred by this Agreement or is convicted of or pleads no contest to a felony or other crime or offense that may adversely affect the goodwill associated with the Marks;

(4) Developer (or any shareholder, partner, or member, if Developer is a corporation, partnership, or limited liability company) makes any unauthorized use of the Marks or unauthorized use or disclosure of the Proprietary Information;

(5) Developer fails to comply with any other provision of this Agreement;

(6) Developer fails on three (3) or more separate occasions within any twelve (12) consecutive month period to comply with this Agreement, whether or not such failures to comply are corrected after notice thereof is delivered to Developer;

(7) Franchisor has delivered two or more notices of default of a Franchise Agreement to which Developer or any owner of Developer is a party, whether or not Developer cures the defaults noted in the notices of default, or Developer has terminated a Franchise Agreement without cause, as defined in such agreement;

(8) Developer fails to meet the Minimum Development Quota set forth in Paragraph 3.C.; and

(9) Developer fails to timely pay any lender to whom Franchisor has guaranteed

Developer's obligations, or Franchisor if Developer has entered into a financing arrangement with Franchisor:

- a. more than three (3) times if the defaults are cured, or
 - b. one (1) time if the default is not cured
- during the financing term.

B. Developer shall have the right to cure a breach under Paragraph 10.A.(5) within thirty (30) days after delivery of Franchisor's notice of termination.

11. EFFECTS OF TERMINATION AND EXPIRATION

A. Loss of Rights and Exclusivity. Upon termination or expiration of this Agreement, Developer loses the right to open any additional BAGELS Stores. Developer also loses exclusive rights to the Exclusive Area described in Paragraph 2.A. and Rider A, and Franchisor may thereafter grant franchises for any BAGELS Stores anywhere in said Exclusive Area. Developer also loses exclusive rights to any wholesale business in the Exclusive Area. Developer is not entitled a refund or credit of his Development Fee.

B. Continuing Obligations. All obligations of Franchisor and Developer under this Agreement which expressly or by their nature survive the expiration or termination of this Agreement shall continue in full force and effect subsequent to and notwithstanding the expiration or termination of this Agreement and until they are satisfied in full or by their nature expire.

C. Covenant Not To Compete. Upon termination or expiration of this Agreement, Developer agrees that for a period of two (2) years, commencing on the effective date of expiration or termination of this Agreement, or the date on which all persons restricted by this Paragraph begin to comply with this Paragraph, whichever is later, Developer (and its shareholders, partners, or member) will not have any interest as an owner, partner, director, officer, employee, consultant, representative, agent, lender, lessor, or in any other capacity, in any Competitive Business operating within a ten (10) mile radius of the Exclusive Area or within ten (10) miles of any other franchisee of Franchisor, or of any company-owned or affiliate-owned BAGELS Store or My Favorite Muffin Store, except for BAGELS Stores and My Favorite Muffin Stores operated under Franchise Agreements granted by Franchisor and the ownership of securities listed on a stock exchange or traded on the over-the-counter market that represent three percent (3%) or less of that class of securities. For purposes of this Paragraph 11, "Competitive Business" shall mean the sale of sale of bagels, cream cheeses, muffins, sandwiches, and/or coffee, as well as any other items or products that Developer is authorized to sell subsequent to the date of this Agreement, to the public through retail or wholesale channels of distribution.

Notwithstanding anything contained in this Agreement to the contrary, or in the event of termination or expiration of this Agreement, the covenants not to compete set forth in each franchise agreement

executed by Developer shall continue in full force and effect for the duration of the time periods and for the geographic limits applicable to each such franchise agreement.

12. ASSIGNMENT

A. By Franchisor. This Agreement is fully assignable by Franchisor and shall inure to the benefit of any assignee or other legal successor to the interests of Franchisor herein.

B. Developer and Its Owners May Not Assign Without Approval of Franchisor. Developer understands and acknowledges that the rights and duties created by this Agreement are personal to Developer and that Franchisor has granted this Agreement in reliance upon the individual or collective character, skill, aptitude, attitude, business ability, and financial capacity of Developer (or its shareholders, partners, or members if Developer is a corporation, partnership, or limited liability company). Therefore, neither this Agreement (or any interest therein), nor any part or all of the ownership of Developer may be voluntarily, involuntarily, directly or indirectly, assigned, sold, subdivided, subfranchised, or otherwise transferred by Developer or its owners (including without limitation, by consolidation or merger, by issuance of securities representing an ownership interest in Developer, by conversion of a general partnership to a limited partnership, by transfer or creation of an interest as a general partner of a limited partnership, by transfer of an interest in Developer or in this Agreement in a divorce proceeding, or in the event of the death of Developer or an owner of Developer, by will, declaration of or transfer in trust or the laws of intestate succession), without the prior written approval of Franchisor. Any such assignment or transfer without such approval shall constitute a breach hereof and shall convey no rights to or interest in this Agreement to such assignee. In addition, Developer shall pay to Franchisor a transfer fee of Two Thousand Five Hundred Dollars (\$2,500); in the event Developer shall request consent to a transfer of this Agreement or a controlling interest in Developer, and for any reason such transfer is not completed or consummated, Franchisor shall be entitled to reimbursement of its reasonable expenses incurred in connection with such proposed transfer in the manner and in accordance with the procedures set forth herein, including, without limitation, expenses related to investigating, processing and training any proposed transferee.

C. Public or Private Offerings

(1) In the event Developer (or any of its owners) shall, subject to the restrictions and conditions of transfer contained in Paragraph B of Section 12 of this Agreement, attempt to raise or secure funds by the sale of securities (including, without limitation, common or preferred stock, bonds, debentures or general or limited partnership interests) in Developer or any affiliate of Developer, Developer, recognizing that the written information used with respect thereto may reflect upon Franchisor, agrees to submit any such written information to Franchisor prior to its inclusion in any registration statement, Franchise Disclosure Document, offering circular, or similar prospectus or memorandum and must obtain the written consent of Franchisor to the method of financing prior to any offering or sale of such securities. The written consent of Franchisor shall not imply or constitute the

approval of Franchisor with respect to the method of financing, the offering literature submitted to Franchisor or any other aspect of the offering. No information respecting Franchisor or any of its affiliates shall be included in any securities disclosure document, unless such information has been furnished by Franchisor, in writing pursuant to the written request of Developer, in which Developer states the specific purposes for which the information is to be used. Should Franchisor, in its sole discretion object to any reference to Franchisor or any of its affiliates or to any of their franchisees in such offering literature or prospectus, such literature or prospectus shall not be used unless and until the objections of Franchisor are withdrawn. Franchisor assumes no responsibility for the offering whatsoever.

(2) The prospectus or other literature utilized in any such offering shall contain the following language in bold-face type on the first textual page thereof:

"NEITHER BAB SYSTEMS, INC. NOR ANY OF ITS AFFILIATES IS DIRECTLY OR INDIRECTLY THE ISSUER OF THE SECURITIES OFFERED HEREBY. NEITHER BAB SYSTEMS, INC. NOR ANY OF ITS AFFILIATES ASSUMES ANY RESPONSIBILITY WITH RESPECT TO THIS OFFERING AND/OR THE ADEQUACY OR ACCURACY OF THE INFORMATION SET FORTH HEREIN, INCLUDING ANY STATEMENTS MADE WITH RESPECT TO ANY OF THEM. NEITHER BAB SYSTEMS, INC. NOR ANY OF ITS AFFILIATES ENDORSES OR MAKES ANY RECOMMENDATION WITH RESPECT TO THE INVESTMENT CONTEMPLATED BY THIS OFFERING."

(3) Developer and each of its owners must indemnify, defend and hold harmless Franchisor and its affiliates, and their respective officers, directors, employees and agents, from any and all claims, demands, liabilities, and all costs and expenses (including, without limitation, reasonable attorneys' fees) incurred in the defense of such claims, demands or liabilities, arising from the offer or sale of such securities, whether asserted by a purchaser of any such security or by a governmental agency. Franchisor shall have the right (but not the obligation) to defend any such claims, demands or liabilities and/or to participate in the defense of any action to which Franchisor or any of its affiliates or any of their respective officers, directors, employees or agents is named as a party.

D. Franchisor's Right of First Refusal. If Developer or its owners shall at any time determine to sell an interest in this Agreement or a controlling ownership interest in Developer, Developer or its owners shall obtain a bona fide, executed written offer from a responsible and fully disclosed purchaser and shall immediately submit an exact copy of the offer to Franchisor. To be a valid, bona fide offer, the proposed purchase price must be in a dollar amount, and the proposed buyer must submit with its offer an earnest money deposit equal to at least five percent (5%) or more of the offering price. Franchisor shall have the right, exercisable by written notice delivered to Developer or its owners within thirty (30) days from the date of delivery of an exact copy of such offer to Franchisor, to purchase such interest for the price and on the terms and conditions contained

in such offer, provided that Franchisor may substitute cash for any form of payment proposed in such offer. Franchisor's credit shall be deemed equal to the credit of any proposed purchaser. Franchisor shall have not less than sixty (60) days from the date of exercise of its right of first refusal to prepare for closing. Franchisor shall be entitled to purchase such interest subject to all customary representations and warranties given by the seller of the assets of a business or voting stock of an incorporated business, as applicable, including without limitation, representations and warranties as to ownership, condition and title to stock and/or assets. If Franchisor does not exercise its right of first refusal, Developer or its owners may complete the sale to such purchaser pursuant to and on the exact terms of such offer, subject to Franchisor's approval of the transfer, as provided in Paragraph 12.B. If the sale to such purchaser is not completed within ninety (90) days after delivery of such offer to Franchisor, or if there is a material change in the terms of the sale, Franchisor shall have an additional right of first refusal for thirty (30) days on the same terms and conditions as are applicable to the initial right of first refusal.

13. ENFORCEMENT

A. Severability and Substitution of Valid Provisions

(1) To the extent that either Paragraph 7.C or Paragraph 11.C. is deemed unenforceable by virtue of its scope in terms of area, business activity prohibited, or length of time, but may be made enforceable by reductions of any or all thereof, Developer and Franchisor agree that same shall be enforced to the fullest extent permissible under the laws and public policies applied in the jurisdiction in which enforcement is sought.

(2) If any applicable and binding law or rule of any jurisdiction requires a greater prior notice of the termination of or non-renewal of this Agreement than is required hereunder, or the taking of some other action not required hereunder, or if under any applicable and binding law or rule of any jurisdiction, any provision of this Agreement or any specification, standard or operating procedure prescribed by Franchisor is invalid or unenforceable, the prior notice and/or other action required by such law or rule shall be substituted for the comparable provisions hereof, and Franchisor shall have the right, in its sole discretion, to modify such invalid or unenforceable provision, specification, standard or operating procedure to the extent required to be valid and enforceable. Developer agrees to be bound by any promise or covenant imposing the maximum duty permitted by law which is subsumed within the terms of any provision hereof, as though it were separately articulated in and made a part of this Agreement, that may result from striking from any of the provisions hereof, or any specification, standard or operating procedure prescribed by Franchisor, any portion or portions which a court may hold to be unenforceable in a final decision to which Franchisor is a party, or from reducing the scope of any promise or covenant to the extent required to comply with such court order. Such modifications to this Agreement shall be effective only in such jurisdiction unless Franchisor elects to give them greater applicability and this Agreement shall be enforced as originally made and entered into in all other jurisdictions.

B. Waiver of Obligations

(1) Franchisor and Developer may by written instrument unilaterally waive or reduce any obligation of or restriction upon the other under this Agreement, effective upon delivery of written notice thereof to the other or such other effective date stated in the notice of waiver. Whenever this Agreement requires Franchisor's prior approval or consent, Developer shall make a timely written request therefor, and such approval, shall be obtained in writing.

(2) Franchisor makes no warranties or guarantees upon which Developer may rely, and assumes no liability or obligation to Developer, by granting any waiver, approval, or consent to Developer, or by reason of any neglect, delay, or denial of any request therefor. Any waiver granted by Franchisor shall be without prejudice to any other rights Franchisor may have, will be subject to continuing review by Franchisor, and may be revoked, in Franchisor's sole discretion, at any time and for any reason, effective upon delivery to Developer of ten (10) days' prior written notice.

(3) Franchisor and Developer shall not be deemed to have waived or impaired any right, power or option reserved by this Agreement (including, without limitation, the right to demand exact compliance with every term, condition and covenant herein, or to declare any breach thereof to be a default and to terminate this Agreement prior to the expiration of its term), by virtue of any custom or practice of the parties at variance with the terms hereof; any failure, refusal, or neglect of Franchisor or Developer to exercise any right under this Agreement or to insist upon exact compliance by the other with its obligations hereunder; any waiver, forbearance, delay, failure, or omission by Franchisor to exercise any right, power, or option, whether of the same, similar or different nature with respect to any BAGELS Stores or any development or franchise agreements therefor; any grant of a Franchise Agreement to Developer; or the acceptance by Franchisor of any payment from Developer after any breach of this Agreement.

(4) Neither Franchisor nor Developer shall be liable for loss or damage or deemed to be in breach of this Agreement if its failure to perform its obligations results from: (a) compliance with any law, ruling, order, regulation, requirement, or instruction of any federal, state, or municipal government or any department or agency thereof; (b) acts of God; (c) acts or omissions of the other party; (d) fires, strikes, embargoes, war, or riot; or (e) any other similar event or cause. Any delay resulting from any of said causes shall extend performance accordingly or excuse performance, in whole or in part, as may be reasonable.

C. Specific Performance/Injunctive Relief. Nothing herein contained shall bar Franchisor's right to obtain specific performance of the provisions of this Agreement and injunctive relief against threatened conduct that will cause it loss or damages, under customary equity rules, including applicable rules for obtaining restraining orders and preliminary injunctions. Developer agrees that Franchisor may have such injunctive relief, without bond, but upon due notice, in

addition to such further and other relief as may be available at equity or law.

D. Rights of Parties Are Cumulative. The rights of Franchisor and Developer hereunder are cumulative and no exercise or enforcement by Franchisor or Developer of any right or remedy hereunder shall preclude the exercise or enforcement by Franchisor or Developer of any other right or remedy hereunder or which Franchisor or Developer is entitled by law or equity to enforce.

E. Governing Law. Except to the extent governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. Sections 1051 et seq.) or other federal law, this Agreement and the offer or sale of this Agreement and Franchise shall be governed by the laws of the State of Illinois.

F. Exclusive Jurisdiction. Developer and Franchisor agree that any action arising out of or relating to this Agreement (including, without limitation, the offer and sale of this Agreement) shall be instituted and maintained in any state or federal court of general jurisdiction in the State of Illinois, and Developer irrevocably submits to the jurisdiction of such courts and waives any objection he may have to either the jurisdiction or venue of such court.

G. Mandatory and Binding Arbitration.

(1) All disputes, controversies or claims arising out of or relating to this Agreement shall be submitted for arbitration to the American Arbitration Association on demand of either party. The demand shall be submitted to, and the arbitration proceedings shall be conducted in the major city nearest where Franchisor's principal business address is then located, and shall be heard by one arbitrator in accordance with the then current Commercial Arbitration Rules of the American Arbitration Association. All matters within the scope of the Federal Arbitration Act (9 U.S.C. §§ 1 et seq.) shall be governed by it.

(2) The arbitrator shall have the right to award or include in his award any relief which he deems proper in the circumstances, including, without limitation, money damages (with interest on unpaid amounts from the date due), specific performance, injunctive relief and attorneys' fees and costs, provided that the arbitrator shall not have the authority to award exemplary or punitive damages, nor shall he have jurisdiction over any dispute relating the ownership, validity or registration of any name or Mark licensed hereunder. The award and decision of the arbitrator shall be conclusive and binding upon all parties hereto and judgment upon the award may be entered in any court of competent jurisdiction. Each party waives any right to contest the validity or enforceability of such award. The parties agree to be bound by the provisions of any limitation on the period of time by which claims must be brought. The parties further agree that, in connection with any such arbitration proceeding, each shall submit or file any claim which would constitute a compulsory counterclaim (as defined by rule 13 of the Federal Rules of Civil Procedure) within the same proceeding as the claim to which it relates. Any such claim which is not submitted or filed in such proceeding shall be barred.

(3) Franchisor and Developer agree that arbitration shall be conducted on an individual, not a class-wide, basis and that an arbitration proceeding between Franchisor and Developer shall not be consolidated with any other arbitration proceeding involving Franchisor and any other person, corporation or partnership.

(4) This provision shall continue in full force and effect subsequent to and notwithstanding the expiration or termination of this Agreement.

(5) Notwithstanding the above and foregoing, Franchisor shall have the right to apply directly to a court of competent jurisdiction for a temporary restraining order, preliminary injunction or other emergency relief which may be available to protect the name, Marks or System licensed hereunder, without the necessity of first filing an arbitration demand.

H. Costs and Attorneys' Fees. If Franchisor incurs attorney's fees in connection with collecting delinquent payments from Developer and/or enforcing compliance with this Agreement (whether or not legal proceedings are files), Developer shall reimburse Franchisor its reasonable legal fees and costs so incurred. If a claim for amounts owed by Developer to Franchisor is asserted in any arbitration or judicial proceeding or appeal thereof, or if Franchisor or Developer is required to enforce this Agreement in an arbitration or judicial proceeding or appeal thereof, the party prevailing in such proceeding shall be entitled to reimbursement of its costs and expenses including, but not limited to, reasonable accounting, legal and attorneys' fees.

I. Waiver of Jury Trial. Each party irrevocably waives trial by jury in any action, proceeding or counterclaim, whether at law or in equity, brought by either party.

J. Limitations of Claims. Except for claims against Developer concerning the under-reporting of gross revenue, any and all claims arising out of or relating to this agreement or the relationship among the parties hereto shall be barred unless an action or legal or arbitration proceeding is commenced within one (1) year from the date Developer or Franchisor knew of the facts giving rise to such claims.

K. Binding Effect. This Agreement is binding upon the parties hereto and their respective executors, administrators, heirs, assigns, and successors in interest, and shall not be modified except by written agreement signed by both Developer and Franchisor.

L. Construction

(1) The preambles, riders and exhibit(s) are a part of this Agreement, which constitutes the entire agreement of the parties, and there are no other oral or written understandings or agreements between Franchisor and Developer relating to the subject matter of this Agreement. Provided, however, nothing in this Agreement or in any related agreement is intended to disclaim Franchisor's representations made in the franchise

disclosure document.

(2) Nothing in this Agreement is intended, nor shall be deemed to confer any rights or remedies upon any person or legal entity not a party hereto.

(3) The headings of the several sections and paragraphs hereof are for convenience only and do not define, limit or construe the contents of such sections or paragraphs.

(4) The term "Developer" as used herein is applicable to one or more persons, a corporation or a partnership, as the case may be, and the singular usage includes the plural and the masculine and neuter usages include the other and the feminine. If two or more persons are at any time Developer hereunder, their obligations and liabilities to Franchisor shall be joint and several. References to "Developer" and "assignee" which are applicable to an individual or individuals shall mean the owner(s) of the equity or operating control of Developer or the assignee, if Developer or the assignee is a corporation or partnership.

(5) This Agreement shall be executed in multiple copies, each of which shall be deemed an original.

(6) Time is of the essence of this Agreement.

14. INDEPENDENT CONTRACTORS/INDEMNIFICATION

Franchisor and Developer are independent contractors. Neither Franchisor nor Developer shall be obligated by or have any liability under any agreements, representations, or warranties made by the other that are not expressly authorized hereunder, nor shall Franchisor be obligated for any damages to any person or property directly or indirectly arising out of the operation of Developer's business conducted pursuant to this Agreement, whether or not caused by Developer's negligent or willful action or failure to act. Franchisor shall have no liability for any sales, use, excise, income, gross receipts, property, or other taxes levied upon Developer or its assets or upon Franchisor in connection with the business conducted by Developer, or any payments made by Developer to Franchisor pursuant to this Agreement or any Franchise Agreement. Developer agrees to indemnify Franchisor and its subsidiaries, affiliates, stockholders, directors, officers, employees, agents and assignees against and to reimburse them for all such obligations, damages, and taxes for which they are held liable and for all costs reasonably incurred by them in the defense of any such claim brought against them or in any action in which they are named as a party, including without limitation reasonable attorneys' and expert witness fees, cost of investigation and proof of facts, court costs, other litigation expenses, and travel and living expenses. Franchisor shall have the right to defend any such claim against it. The indemnities and assumptions of liabilities and obligations herein shall continue in full force and effect subsequent to and notwithstanding the expiration or termination of this Agreement.

15. NOTICES AND PAYMENTS

All notices permitted or required under this Agreement, and/or the Operations Manual must be in writing. Email and facsimile transmissions are considered written notice, provided that the sender confirms transmission of said email or facsimile transmission. "Confirming transmission" is accomplished by the sender printing a paper copy showing that the document was sent via email or facsimile, and upon request by the recipient, furnishing said paper copy to the recipient. Verbal, oral, or in-person communications are not considered effective notice, unless the sender follows up on said communications in writing. Notices shall be deemed delivered (a) at the time if delivered in person; (b) the day of transmission if by facsimile or by another electronic system, provided that the transmission is done on a business day during the hours of 8:00 a.m. and 5:00 p.m. Chicago time; otherwise, delivery is the next business day; (c) one (1) business day after being placed in the hands of a commercial courier service for overnight delivery; or (d) three (3) business days after placement in the United States Mail by Registered or Certified Mail, Return Receipt Requested, postage prepaid and addressed to the parties as follows:

Franchisor: 500 Lake Cook Road, Suite 475
Deerfield, Illinois 60015

Developer: Name and Address of Person to Receive Notice for Developer.

- (a) Name: _____
(b) Postal Address: _____

(c) Email address: _____

or at the most current principal business address of which the notifying party has been notified. Any required payment or report not actually received by Franchisor during regular business hours on the date due (or postmarked by postal authorities at least two (2) days prior thereto) shall be deemed delinquent.

Any notice that Franchisor sends to Developer may be sent only to the one (1) person identified above, even if Developer has multiple owners. Developer acknowledges and agrees that notice to the person identified above constitutes notice to Developer and to all the owners of Developer.

(Signature Page to Follow)

IN WITNESS WHEREOF, the parties hereto have executed, sealed and delivered this Agreement in 2 counterparts on the day and year first above written.

NOT EFFECTIVE UNLESS AND UNTIL ACCEPTED BY THE FRANCHISOR, AS EVIDENCED BY DATING AND SIGNING BY AN OFFICER OF FRANCHISOR.

Franchisor:
BAB SYSTEMS, INC.
an Illinois corporation

Developer:
Corporate/LLC Signature:

a _____ corporation/LLC

By: _____
Title: _____
Date Accepted: _____

By: _____
Title: _____
Date Accepted: _____

Individual Signatures:

RIDER A

TO THE BAB SYSTEMS, INC. AREA DEVELOPMENT
AGREEMENT BY AND BETWEEN BAB SYSTEMS, INC.
AND _____
DATED _____

The Exclusive Area referred to in Paragraph 2.A. of the captioned agreement shall be for BAGELS Stores(s) (including BAGELS Production Stores and BAGELS Satellite Stores only) to be located within :

BAB SYSTEMS, INC.
an Illinois corporation

By _____
Title _____

By: _____
Title: _____

RIDER B
TO THE AREA DEVELOPMENT
AGREEMENT BY AND BETWEEN BAB SYSTEMS, INC.
AND
DATED _____

1. The Development Fee referred to in Section 6 of the captioned agreement shall be _____ **Dollars** (\$_____).
2. The initial franchise fee shall be Twenty Five Thousand Dollars (\$25,000) for the first Franchise Agreement for a BAGELS Production Store, payable upon execution of said agreement. For subsequent BAGELS Production Stores developed pursuant to this Area Development Agreement, the franchise fee will be Fifteen Thousand Dollars (\$15,000).
3. The initial franchise fee for each BAGELS Satellite Store developed by Developer pursuant to this Area Development Agreement is \$10,000, payable upon execution of the franchise agreement.
4. Developer agrees to have signed leases for the following cumulative number of BAGELS Stores at the end of each Development Period and to have each Store open and operating within four (4) months from the date Developer obtains possession of the premises for each such Store:

Cumulative Number of Signed Leases (including Initial) BAGELS Store)	Last Day Development Period	
<u> 1 </u>	<u>not applicable</u>	Initial BAGELS Store
<u> 2 </u>	_____	First Development Period
_____	_____	Second Development Period
_____	_____	Third Development Period
_____	_____	Fourth Development Period
_____	_____	Fifth Development Period

The First Development Period commences on the date of the Area Development Agreement and expires on the date shown above; each subsequent Development Period commences on the date succeeding the last day of the preceding Development Period and expires on the date shown above.

BAB SYSTEMS, INC.
an Illinois corporation

DEVELOPER

By _____
 Title _____

By: _____
 Title: _____

RIDER C
TO THE BAB SYSTEMS, INC. AREA DEVELOPMENT AGREEMENT
GUARANTY AND ASSUMPTION OF OBLIGATIONS

THIS GUARANTY AND ASSUMPTION OF OBLIGATIONS is given this ____ day of _____, 20 ____ by _____.

In consideration of, and as an inducement to, the execution of that certain BAB SYSTEMS, INC. Area Development Agreement of even date herewith (the "Agreement") by BAB Systems, Inc. (the "Franchisor"), each of the undersigned hereby personally and unconditionally (a) guarantees to Franchisor, and its successors and assigns, for the term of the Agreement and thereafter as provided in the Agreement, that _____ ("Developer") shall punctually pay and perform each and every undertaking, agreement and covenant set forth in the Agreement; and (b) agrees to be personally bound by, and personally liable for the breach of, each and every provision in the Agreement, both monetary obligations and obligations to take or refrain from taking specific actions or to engage or refrain from engaging in specific activities, including without limitation the provisions of Section 7 and Paragraph C of Section 11.

Each of the undersigned waives: (1) acceptance and notice of acceptance by Franchisor of the foregoing undertakings; (2) notice of demand for payment of any indebtedness or nonperformance of any obligations hereby guaranteed; (3) protest and notice of default to any party with respect to the indebtedness or nonperformance of obligations hereby guaranteed; (4) any right he may have to require that an action be brought against Developer or any other person as a condition of liability; (5) all right to payment and claims for reimbursement or subrogation which any of the undersigned may have against Developer arising as a result of the undersigned's execution of and performance under this Guaranty and Assumption of Obligations; and (6) any and all other notices and legal or equitable defenses to which he may be entitled.

Each of the undersigned consents and agrees that: (1) his direct and immediate liability under this guaranty shall be joint and several; (2) he shall render any payment or performance required under the Agreement upon demand if Developer fails or refuses punctually to do so; (3) such liability shall not be contingent or conditioned upon pursuit by Franchisor of any remedies against Developer or any other person; and (4) such liability shall not be diminished, relieved or otherwise affected by any extension of time, credit or other indulgence which Franchisor may from time to time grant to Developer or to any other person, including without limitation the acceptance

Big Apple Bagels

of any partial payment or performance, or the compromise or release of any claims, none of which shall in any way modify or amend his guaranty, which shall be continuing and irrevocable during the term of the Agreement.

IN WITNESS WHEREOF, each of the undersigned has hereunto affixed his signature on the same day and year as the Agreement was executed.

<u>GUARANTOR(S)</u>	<u>PERCENTAGE OF OWNERSHIP OF DEVELOPER</u>
_____	_____ %
_____	_____ %
_____	_____ %
_____	_____ %
_____	_____ %

Rider D

TO THE BAB SYSTEMS, INC. AREA DEVELOPMENT AGREEMENT

See Exhibit R to the Franchise Disclosure Statement for applicable state addenda to the Area Development Agreement.

EXHIBIT D TO FRANCHISE DISCLOSURE DOCUMENT
BAB SYSTEMS, INC.
DISCLOSURE ACKNOWLEDGEMENT STATEMENT

BAB Systems, Inc. ("we" or "us"), through the use of this Disclosure Acknowledgement Statement, wishes to ascertain that _____ ("you") fully understand that your execution of a Franchise Agreement and/or an Area Development Agreement for a franchise to own and operate a BAGELS Store is a business decision, complete with associated risks. You make the following representations to us; if any statement is not correct, or if you are aware of exceptions to them, note them in #7 below.

If you are referred to us by one of our franchisees, we may pay the referring franchisee a one-time referral fee.

1. You acknowledge that you have received the BAGELS Franchise Disclosure Document ("FDD") at least 14 calendar days prior to the date you executed the Franchise Agreement and/or the Area Development Agreement or paid us any money, and you have received the final form of Franchise Agreement and/or Area Development Agreement at least 7 calendar days prior to the date you executed said Agreement(s) or paid us any money.

2. You acknowledge that you have independently evaluated and investigated the Store site and the lease or purchase agreement for the Store site.

3. You acknowledge that, although we will provide you with the basic drawings and specifications for the Store, will specify certain furniture, fixtures and equipment for the Store, and will maintain certain rights of review and/or approval under our Franchise Agreement with you, we have not made, and you have not received or relied upon any warranty concerning the Store or the drawings, specifications, furniture, fixtures and equipment. You acknowledge that, except as may otherwise be provided in the Franchise Agreement, it is your sole responsibility to insure that the Store's construction or conversion remodeling complies with any and all laws, codes or regulations. You acknowledge that, except as may otherwise be provided in the Franchise Agreement, you are solely responsible for and we will have no liability or obligation in connection with the plans or the construction or conversion remodeling of the Store.

4. You acknowledge that the initial investment costs in Item 7 of the FDD are based on our current design concept, which is always subject to change, and that if we change the design concept after you sign your Franchise Agreement, your investment costs may be affected.

5. You acknowledge that you were advised, prior to receiving the Franchise Disclosure Document, of the various ways you could be furnished the Franchise Disclosure Document.

6. You acknowledge that you have received the receipt page with the names completely filled in of all the franchise sellers that were involved in your purchase of the franchise.

7. **THE FOLLOWING CORRECTIONS AND/OR EXCEPTIONS TO THE ABOVE STATEMENTS ARE AS FOLLOWS (IF NO CORRECTIONS OR EXCEPTIONS, WRITE "NONE" AND INITIAL):**

Description or Write "None"

Initial

Dated this _____ day of _____, 20____.

Franchisor:
BAB SYSTEMS, INC.
an Illinois corporation

Franchisee:
Corporate/LLC Signature:

a _____ corporation/LLC

By: _____
Title: _____

By: _____
Title: _____

Individual Signatures:

EXHIBIT E to FRANCHISE DISCLOSURE DOCUMENT

Confidentiality and Non-Competition Agreement

EXHIBIT E to FRANCHISE DISCLOSURE DOCUMENT

Confidentiality and Non-Competition Agreement

NOTE to Franchisee: You must have this agreement reviewed by local counsel before using it to make sure that it complies with local law.

EXHIBIT E TO FRANCHISE DISCLOSURE DOCUMENT

CONFIDENTIALITY AND NON-COMPETITION AGREEMENT

This Agreement is made as of _____, 20____. The parties to this Agreement are _____ ("Employer") and _____, an individual ("Employee").

RECITALS:

A. Employer is a Franchisee of BAB Systems, Inc. ("BAB"), an Illinois corporation, pursuant to a Franchise Agreement ("Franchise Agreement") with BAB. BAB is in the business of operating a franchise distribution system related to owning and operating certain Stores under the name "Big Apple Bagels" or "My Favorite Muffin" that offer and sell "Big Apple Bagels" branded bagels and cream cheese spreads, "My Favorite Muffin" branded muffins, and "Brewster's" branded coffee for on premises consumption and retail and (except for Brewster's coffee) wholesale distribution. Employer operates a "Big Apple Bagels" Store pursuant to the Franchise Agreement. In connection with Employer's business, Employer will be using various techniques, systems, procedures, standards, manuals, data, specifications, and other materials, all of which are considered the proprietary and confidential information ("Proprietary Information") of BAB.

B. Employer will also develop or acquire the right to the use of important information relating to the identity of its customers, the nature and amount of their purchases, pricing practices, receipts, ingredients, the identity of suppliers, sales volumes, costs, expenses and other information. All of the above methods, materials and information are referred to as "Confidential Information."

C. During the course of Employee's employment with Employer, Employee will have access and learn from Employer much or all of the Proprietary Information and the Confidential Information.

D. In light of the above facts and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. **Importance of Proprietary Information and Confidential Information.** Employee acknowledges that: (a) Employee has learned and/or will learn Proprietary Information and Confidential Information during Employee's employment with Employer; (b) this Proprietary Information and Confidential Information is an important asset of Employer; and (c) it is important to keep the Proprietary Information and Confidential Information confidential in order for Employer to protect its business and to maintain its competitive advantage.

2. **Agreement to Maintain Confidentiality.** Employee agrees that both during and after the termination of Employee's employment with Employer, Employee will: (a) guard and protect the

Proprietary Information and Confidential Information so it does not fall into the hands of Employer's competitors or potential competitors; (b) refrain from using the Proprietary Information or Confidential Information for Employee's own benefit or that of any other person or entity; (c) refrain from disclosing the Proprietary Information and Confidential Information to any other person or entity, unless authorized by Employer. Employee agrees that "use" and "disclosure" of the Proprietary Information and Confidential Information include use and disclosure through memorization, and not only through use or disclosure of written material.

3. **Exceptions.** Employer agrees that the Proprietary Information and Confidential Information does not include information which Employee can demonstrate came to Employee's attention before Employee learned from Employer or which has become, through disclosure by others, "public domain" information (i.e., information freely available to everyone).

4. **Return of Materials.** If Employee's relationship with Employer ends for any reason, Employee agrees to immediately return to Employer any of the Proprietary Information and Confidential Information in Employee's possession or under Employee's control.

5. **Non-Competition.** Employee agrees that in order to guard against the improper use of the Proprietary Information and Confidential Information and to avoid unfair competition with Employer, Employee will not:

- a. during the term of this Agreement and for a period of eighteen (18) months following the termination of Employee's employment with Employer, for whatever reason, within a radius of ten (10) miles of the location of any and all of Employer's Big Apple Bagels or My Favorite Muffin stores (or other name by which Employer is conducting business pursuant to its Franchise Agreement with BAB), which locations are listed on Exhibit A, directly or indirectly, manage, operate, control, be employed by, participate in or be connected in any manner with the ownership, management, control, or operation of any business similar to the type of business conducted by Employer as aforesaid.
- b. during the term of this Agreement, and for a period eighteen (18) months following the termination of Employee's employment with Employer, for whatever reason, either directly or indirectly, for Employee's own account, or as an employee, consultant, partner, joint venturer, owner, officer, director or stockholder of any person, firm, partnership, corporation, limited liability company, or any other entity or in any other capacity, in any way, assist in soliciting, diverting, taking away or interfering with any of Employer's business, customers, trade or patronage.
- c. The Employee agrees the restrictive covenants set forth above should not be construed to prevent Employee from being gainfully employed either in a non-competing business anywhere, or in a competing business that is outside the geographical limitation set forth in paragraph 5.a., or after the restricted time period set forth in paragraphs 5.a and 5.b.

6. **Discoveries, Inventions and Improvements.** Employee agrees that because of Employee's employment with Employer, Employee may from time to time develop discoveries, inventions, improvements and ideas (collectively called "New Ideas") relating to Employer's business. Employee agrees to disclose Employee's New Ideas to Employer and agrees that any of those New Ideas which are applicable to Employer's business will belong solely to BAB Systems, Inc.

7. **Remedies.** Employee agrees that in order to protect Employer's interests if there is a breach or threatened breach of this Agreement, Employer will be entitled to obtain, in addition to any other remedy, a temporary or permanent injunction and consent order for specific performance of this Agreement, without being required to furnish a bond or other security. If an injunction is issued, but is later vacated, Employee agrees to waive any claim for damages as a result of the issuance of the injunction. Employee agrees that if Employee has any claims or causes of action against Employer arising out of Employee's employment with Employer, such claims or causes of action will not constitute defenses to Employer's enforcement of this Agreement. Employee further agrees to indemnify and hold Employer harmless from any loss or expense (including attorney's fees) Employer incurs as a result of Employee's breach of this Agreement.

8. **Enforceability.** Employer and Employee both agree that if any provision of this Agreement is deemed too restrictive in scope, it will be deemed modified to be enforceable to the greatest extent permitted by law.

9. **Third Party Beneficiary.** The parties acknowledge and agree that Employer's franchisor, BAB Systems, Inc., is an intended third party beneficiary of this Agreement, and accordingly, that said BAB Systems, Inc., as well as Employer, shall have the right to enforce the provisions of this Agreement against Employee. Neither this Nondisclosure and Noncompetition Agreement between Employer and Employee, nor this Paragraph 9, which makes Franchisor an intended third party beneficiary, constitutes control by Franchisor over the Employee's conditions of employment, or creates an employee or joint employee relationship between BAB Systems, Inc. and Employee.

10. **Waiver.** If at any time with respect to any particular incident or breach, Employer or BAB does not exercise its rights under this or any similar Agreement, it will not preclude Employer or BAB from doing so in any same or similar situation that subsequently occurs.

EMPLOYER:

EMPLOYEE:

By: _____
Title: _____

EXHIBIT F TO FRANCHISE DISCLOSURE DOCUMENT

Wholesale Program Addendum

EXHIBIT F

WHOLESALE PROGRAM ADDENDUM

This is an Addendum to the BAB Systems, Inc. Franchise Agreement granted to _____ dated _____, 20____ (the "Franchise Agreement") and is considered to be part of that agreement. All capitalized or initially capitalized terms used in this Addendum but not defined herein shall have the same meaning as ascribed to them in the Franchise Agreement. The Wholesale Program contemplated by this Addendum will be subject to all of the provisions contained in the Franchise Agreement, as modified by this Addendum, and shall apply only to the wholesale distribution of bagels and muffins produced in a BAGELS Production Store ("BAGELS Production Store"). A BAGELS Production Store is distinguished from a BAGELS Satellite Store. Collectively, BAGELS Production Stores and BAGELS Satellite Stores are referred to as "BAGELS Stores." The bagels and muffins shall be unbranded, unless, at Franchisee's option, Franchisee elects to brand the bagels "Jacobs Bros."

1. Franchisee is granted the right to sell at wholesale unbranded bagels and muffins or "Jacobs Bros." branded bagels ("Wholesale Products") produced in the BAGELS Production Store on a nonexclusive basis outside of the BAGELS Production Store under the conditions as set forth herein. The right of Franchisee to participate in this Wholesale Program is expressly conditioned upon Franchisee being in good standing.

2. Franchisee must obtain Franchisor's prior written approval for each wholesale customer to whom Franchisee wishes to sell Wholesale Products. Franchisee must submit to Franchisor the name of each proposed wholesale customer, including the customer's address and purchase requirements. Franchisee may not sell Wholesale Products to any customer until Franchisor gives its approval in writing.

3. Franchisee explicitly acknowledges and agrees that any delivery of Wholesale Products is his sole and exclusive responsibility. Franchisee is to determine whether customers are to pick up Wholesale Products at the BAGELS Production Store or Franchisee may deliver Wholesale Products to customers. Franchisee is responsible for conforming to all applicable health, sanitation, food handling, and food transportation requirements and the condition of Wholesale Products delivered by Franchisee to customer or picked up by customers at the BAGELS Production Store. At no time should bagels or muffins that are not freshly baked be delivered to or picked up by customers. Franchisee is strictly prohibited from selling anything other than finished products. In the event Franchisee distributes Wholesale Products in such a manner so as to result in the Wholesale Products being resold in another franchisee's Wholesale Market Area as defined herein, Franchisor may, in its sole and absolute discretion, elect to: (a) terminate Franchisee's right to sell under this Wholesale Program; (b) terminate Franchisee's Franchise Agreement; or (c) take other appropriate action.

4. This Wholesale Program must be operated in strict conformance with provisions of the Franchise Agreement and the Operations Manual. All wholesale sales will be subject to Paragraph 8.b. of the Franchise Agreement (pertaining to the royalty fees). Franchisee acknowledges and agrees that any breach of any provision of this Addendum shall be deemed a breach of the Franchise

Agreement, conferring upon Franchisor the remedies set forth in the Franchise Agreement.

5. Wholesale sales conducted in compliance with this Addendum are included in Gross Revenues, but are not subject to the Marketing Fund contributions described in Paragraph 10.a. of the Franchise Agreement.

6. Franchisee may solicit or deliver Wholesale Products only to retailers or other distribution parties for resale or distribution to the ultimate consumer in a Wholesale Market Area determined as follows: (a) if Franchisee has a protected area under an existing Area Development Agreement, anywhere within that protected area; (b) for areas outside any existing Area Development Agreement, within a Thiessen Polygon drawn around the BAGELS Production Store, the boundaries of which define the area that is closest to the BAGELS Store relative to all BAGELS Stores, wherever located and whenever developed. The resulting polygon encompasses all the space that lies less than half-way between the BAGELS Production Store and any other BAGELS Store. In the event a new BAGELS Store is opened by another franchisee which subsequently reduces the Wholesale Market Area of a previously existing BAGELS Store, Franchisee's Wholesale Market Area shall be reduced accordingly. A Franchisee shall not acquire any right or interest in any customer's business or any location simply by virtue of participation in the Wholesale Program. Under no circumstances may Franchisee combine Wholesale Market Areas and work in concert with other franchisees without the prior written consent of Franchisor. In the event a franchisee reaches an agreement or arrangement with another franchisee relating to the servicing of a wholesale account that is not consistent with the Wholesale Market Area restriction described above, that agreement or arrangement must be approved in writing by Franchisor before it may be implemented. Franchisor is under no obligation to approve any such agreement or arrangement. In addition, even if Franchisor does approve such agreement or arrangement, Franchisor may withdraw its approval at any time by giving the affected franchisees 14 days notice.

6. Franchisor reserves the absolute right at any time, at its sole discretion, upon ten days prior notice:

- a. to change Franchisee's Wholesale Market Area;
- b. to modify or terminate Franchisee's right to participate in the Wholesale Program.
- c. to require Franchisee to suspend or cease sales to any customer as described below in Paragraph 8.
- d. to discontinue any aspect or all of the Wholesale Program due to a variety of reasons, some of which may not be known at this time.

Under no circumstances shall Franchisor be liable to Franchisee for any modification of, restriction under, or termination of Franchisee's participation in the Wholesale Program.

7. Franchisee shall exercise care and attention to the quality of the customers selected. Franchisee should work only with those establishments which would favorably reflect the System

image. The customers selected by Franchisee shall resell the Wholesale Products in a manner consistent with the image and standards of the BAGELS Store. Franchisor's trademarks are not to be used in association with the Wholesale Products at any time. Each sale by Franchisee shall be made in accordance with local health department requirements, as such requirements control the sale of Wholesale Products by Franchisee and the customer's facility. From time to time Franchisor may advise Franchisee that selected customers or types and categories of customers are not authorized under this Program, and, in such event, Franchisee shall not solicit or continue sales to those selected customers or types and categories of customers. At any time, Franchisor may request a list, or updated list, of all customers serviced by Franchisee under the Wholesale Program, and Franchisee is required to immediately furnish such a list.

8. As a condition for Franchisee being given the right to participate in this Wholesale Program, he must first obtain product liability and delivery vehicle and umbrella insurance coverages in amounts determined by Franchisor as set forth in the Operations Manual.

9. In the event Franchisee's BAGELS Production Store is sold or assigned, the right to distribute Wholesale Products under this Addendum is not automatically assignable with the BAGELS Production Store. Franchisor in its sole discretion may terminate Franchisee's participation in the Wholesale Program upon assignment. The right to distribute Wholesale Products under this Program may not be severed from other rights set forth in the Franchise Agreement; when said Franchise agreement is terminated or expires, this Addendum also terminates or expires.

10. Franchisee is expressly prohibited from selling cream cheese, coffee, or coffee products on a wholesale basis.

11. The sale of Wholesale Products is only authorized for BAGELS Production Stores.

This Addendum is executed as of this ____ day of _____, 20_____.

Franchisor:
BAB SYSTEMS, INC.

Franchisee:

By: _____ By: _____
Title: _____ Title: _____

EXHIBIT G TO FRANCHISE DISCLOSURE DOCUMENT

Catering Program Addendum

EXHIBIT G

CATERING PROGRAM ADDENDUM

This is an Addendum to the BAB Systems, Inc. Franchise Agreement granted to _____ dated _____, 20____ (the "Franchise Agreement") and is considered to be part of that agreement. All capitalized or initially capitalized terms used in this Addendum but not defined herein shall have the same meaning as ascribed to them in the Franchise Agreement. The Catering Program contemplated by this Addendum will be subject to all of the provisions contained in the Franchise Agreement, as modified by this Addendum, and shall apply only to the delivery of catered branded bagels, sandwiches, cream cheese, coffee, and muffins produced in a BAGELS Store.

1. Franchisee is granted the right to sell and deliver on a catered basis Big Apple Bagel, Brewster's, and My Favorite Muffin branded bagels, sandwiches, cream cheese, coffee, and muffins ("Catered Products") produced in the BAGELS Store on a nonexclusive basis outside of the BAGELS Store under the conditions as set forth herein. The right of Franchisee to participate in this Catering Program is expressly conditioned upon Franchisee being in good standing.

2. Franchisee explicitly acknowledges and agrees that any delivery of Catered Products is his sole and exclusive responsibility. Franchisee is to determine whether customers are to pick up Catered Products at the BAGELS Store or Franchisee may deliver Catered Products to customers. Franchisee is responsible for conforming to all applicable health, sanitation, food handling, and food transportation requirements and the condition of Catered Products delivered by Franchisee to customer or picked up by customers at the BAGELS Store. At no time should bagels or muffins that are not freshly baked be delivered to or picked up by customers. Franchisee is strictly prohibited from selling anything other than finished products.

3. This Catering Program must be operated in strict conformance with provisions of the Franchise Agreement and the Operations Manual. All catering sales will be subject to Paragraph 8.b. and 10.a. of the Franchise Agreement (pertaining to the royalty fees and Marketing Fund contributions). Franchisee acknowledges and agrees that any breach of any provision of this Addendum shall be deemed a breach of the Franchise Agreement, conferring upon Franchisor the remedies set forth in the Franchise Agreement.

4. Franchisee may solicit or deliver Catered Products only to customers in a Catering Market Area determined as follows: (a) if Franchisee has a protected area under an existing Area Development Agreement, anywhere within that protected area; (b) for areas outside any existing Area Development Agreement, within a Thiessen Polygon drawn around the BAGELS Store, the boundaries of which define the area that is closest to the BAGELS Store relative to all BAGELS Stores, wherever located and whenever developed. The resulting polygon encompasses all the space that lies less than half-way between the BAGELS Store and any other BAGELS Store. In the event a new BAGELS Store is opened by another franchisee which subsequently reduces the Catering Market Area of a previously existing BAGELS Store, Franchisee's Catering Market Area shall be reduced accordingly. A Franchisee shall not acquire any right or interest in any customer's business

or any location simply by virtue of participation in the Catering Program. Under no circumstances may Franchisee combine Catering Market Areas and work in concert with other franchisees without the prior written consent of Franchisor. In the event a franchisee reaches an agreement or arrangement with another franchisee relating to the servicing of a catering customer that is not consistent with the Catering Market Area restriction described above, that agreement or arrangement must be approved in writing by Franchisor before it may be implemented. Franchisor is under no obligation to approve any such agreement or arrangement. In addition, even if Franchisor does approve such agreement or arrangement, Franchisor may withdraw its approval at any time by giving the affected franchisees 14 days' notice.

5. Franchisor reserves the absolute right at any time, at its sole discretion, upon ten days prior notice:

- a. to change Franchisee's Catering Market Area;
- b. to modify or terminate Franchisee's right to participate in the Catering Program.
- c. to discontinue any aspect or all of the Catering Program due to a variety of reasons, some of which may not be known at this time.

Under no circumstances shall Franchisor be liable to Franchisee for any modification of, restriction under, or termination of Franchisee's participation in the Catering Program.

6. As a condition for Franchisee being given the right to participate in this Catering Program, he must first obtain product liability and delivery vehicle and umbrella insurance coverages in amounts determined by Franchisor as set forth in the Operations Manual.

7. In the event Franchisee's BAGELS Store is sold or assigned, the right to distribute Catered Products under this Addendum is not automatically assignable with the BAGELS Store. Franchisor in its sole discretion may terminate Franchisee's participation in the Catering Program upon assignment. The right to distribute Catered Products under this Program may not be severed from other rights set forth in the Franchise Agreement; when said Franchise Agreement is terminated or expires, this Addendum also terminates or expires.

This Addendum is executed as of this ____ day of _____, 20_____.

Franchisor:
BAB SYSTEMS, INC.

Franchisee:

By: _____
Title: _____

By: _____
Title: _____

EXHIBIT H TO FRANCHISE DISCLOSURE DOCUMENT

**List of Current Franchisees and
Company/Affiliate-Owned Stores as of November 30, 2024**

Franchised Stores: see following pages

Company and Affiliate-Owned Stores: None

FRANCHISE STORES**11/30/2024****EXHIBIT H**

Store#	Franchise Name	Store Address		City	Sta Zip	Phone
<u>CALIFORNIA</u>						
425-01	RB FAMILY LLC	727 W. SAN MARCOS BLVD. #107		SAN MARCOS	CA	92078 760-510-9190
393-01	SMITHERS FOODS OF EDH (EL DORADO HILLS) LI 2209 FRANCISCO DRIVE, BLDG 1D			EL DORADO HILLS	CA	95762 916-936-4343
393-02	SMITHERS FOODS OF EDH (EL DORADO HILLS) LI 711 EAST BIDWELL			FOLSOM	CA	95630 916-358-9052
<u>FLORIDA</u>						
312-01	G.H.K.B. ENTERPRISES, LLC.	23908 STATE ROAD 54		LUTZ	FL	33559 813-948-3187
<u>ILLINOIS</u>						
80-02	PEGGY PHILLIPS	WING PARK SHOPPING CENTER	561 N. MCLEAN BLVD.	ELGIN	IL	60123 847-697-9730
209-01	H&M BAGEL ENTERPRISES, INC.	WHITE PLAINS SHOPPING CENTER	3137 1/2 DUNDEE RD.	NORTHBROOK	IL	60062 847-498-7850
320-01	AHMED ELGINDY	2616-A OGDEN AVENUE		AURORA	IL	60504 630-375-9822
<u>INDIANA</u>						
429-01	CEV ENTERPRISES	GEIST LANDING	11675 OLIO ROAD	FISHERS	IN	46037 317-827-2706
327-01	AAG BAGEL & DELI, INC.	8115 E. U.S. HWY 36		AVON	IN	46123 317-272-1430
423-01	JUSTIN AND KARMA LLC	PARKSIDE SHOPPES	9528 E. 126TH STREET	FISHERS	IN	46038 317-915-9195
<u>IOWA</u>						
166-01	J & J BAGELS, LTD.	1675 JFK ROAD		DUBUQUE	IA	52002 319-557-3170

FRANCHISE STORES
11/30/2024
EXHIBIT H

Store#	Franchise Name	Store Address	City	Sta Zip	Phone
<u>MICHIGAN</u>					
69-03	RENAISSANCE FOOD CORP.	248 E. SAGINAW	EAST LANSING	MI	48823 517-324-4400
422-01	SUNNY SIDE UP NORTH, LLC	1125 N. U.S. HIGHWAY 31	PETOSKY	MI	49770 231-348-1110
199-01	APPLE CART INVESTMENTS, LLC.	15 S. WAVERLY ROAD	HOLLAND	MI	49423 616-394-0470
199-02	APPLE CART INVESTMENTS, LLC.	306 BALDWIN STREET	JENISON	MI	49428 616-667-2243
199-03	APPLE CART INVESTMENTS, LLC.	1191 S. WASHINGTON AVE.	HOLLAND	MI	49423 616-355-0277
285-01	LOTI, INC	4408 W. MAIN STREET	KALAMAZOO	MI	49007 616-381-9100
285-02	LOTI LINC, INC	3838 W. CENTRE, STE. 100	PORTAGE	MI	49002 269-321-3688
343-01	ENRIQUE VAZQUEZ SANTIAGO 7 SONYA VAZQUE	8226 23 MILE ROAD	SHELBY TOWNSHIP	MI	48316 810-739-9916
350-01	BMR/EMR, Inc.	36741 GARFIELD ROAD	CLINTON TOWNSHIP	MI	48035 810-790-1340
356-02	JA HOFFMAN FAMILY, LLC	5622 STATE STREET	SAGINAW	MI	48603 517-799-1600
426-01	THE CLARIDGE RESTAURANT GROUP	1133 S. AIRPORT ROAD	TRAVERSE CITY	MI	49686 231-929-9866
430-01	EMMA LOU WHO S BAKERY LLC	9434 LAPEER RD., UNIT B	DAVISON	MI	48423 810-653-9966
388-02	NEIGHBORHOOD BAGEL GB, LLC	8185 HOLLY ROAD	GRAND BLANC	MI	48439 810-695-6063
399-01	JAMAL AOUN	22320 FORD ROAD	DEARBORN HEIGHTS	MI	48127-2421 313-406-2938
401-01	INSPIRED CONCEPTS, LLC	318 S. SAGINAW ROAD	MIDLAND	MI	48640 989-631-2400
401-02	INSPIRED CONCEPTS, LLC	2024 S. MISSION STREET	MT. PLEASANT	MI	48858 989-772-9955
404-01	B&L BAKERY CAFÉ, L.L.C.	3915 B PLAINFIELD N.E.	GRAND RAPIDS	MI	49505 616-364-1919
404-02	B&L BAKERY CAFÉ, L.L.C.	2058 LAKE MICHIGAN DR. NW.	GRAND RAPIDS	MI	49504 616-735-2390
409-01	JISI FOOD SERVICES L.L.C.	1911 25 MILE ROAD	SHELBY TOWNSHIP	MI	48316 248-650-1306
416-01	ALYGATOR & CHARBEAR BAKERY LLC	4013 OWEN RD.	FENTON	MI	48430 810-208-0409
417-01	TBEETZ, INC,	5487 W. U.S. HIGHWAY 10	LUDINGTON	MI	49431 231-843-9111
431-01	DELIGHT BAGELS LLC	6670 KALAMAZOO AVE.	GRAND RAPIDS	MI	49508 616-554-7915
<u>MINNESOTA</u>					
365-01	BULMER LLC	508 S. LAKE STREET	FOREST LAKE	MN	55025 651-464-4997
421-01	NORTHSTAR UNLIMITED LLC	1710 PAUL BUNYAN DRIVE N.W.	BEMIDJI	MN	56601 218-444-7840
<u>NEBRASKA</u>					
406-01	ON POINT BAKERY, L.L.C.	3341 W. STATE STREET, STE. A	GRAND ISLAND	NE	68803 308-389-3720
411-01	MTBAB, LLC	4471 41ST AVENUE	COLUMBUS	NE	68601 531-230-7155

FRANCHISE STORES

11/30/2024

EXHIBIT H

Store#	Franchise Name	Store Address		City	Sta Zip	Phone
<u>OHIO</u>						
262-01	ALL FAMILY CAFÉ INC.	7157 BEECHMONT AVENUE		CINCINNATI	OH	45230 513-232-9900
<u>PENNSYLVANIA</u>						
195-01	BUCKA BAGELS, INC.	HAINES ACRES SHOPPING CTR.	1021 HAINES ROAD	YORK	PA	17402 717-755-9930
<u>SOUTH CAROLINA</u>						
270-01	JOSE CARROCA	SURFSIDE SHOPPING CENTER	116 HIGHWAY 17 SOUTH	SURFSIDE BEACH	SC	29575 843-238-5311
<u>WISCONSIN</u>						
433-01	JOJO & CO LLC	2619 CALUMET DRIVE		SHEBOYGAN	WI	53083 920-451-7003
427-01	FUE & PAM ENTERPRISES,LLC	RADFORD SQUARE	60 WISCONSIN STREET	OSHKOSH	WI	54901 920-230-2243
428-01	4EMPOWERMENT LLC	2321 S. ONEIDA ST., #10		ASHWAUBENON	WI	54304 920-497-6039
268-02	JEN4 ENTERPRISES INC.	400 REID STREET		DE PERE	WI	54115 920-336-2275
282-01	JW FOOD COMPANY, LLC.	1961 WISCONSIN AVE.		GRAFTON	WI	53024 414-376-9920
385-01	NORSTAR INVESTMENTS, LLC	1224 BELKNAP STREET		SUPERIOR	WI	54880 715-718-0051
391-01	BAGELS & YOU, LLC	3105 CALUMET AVE.		MANITOWOC	WI	54220 920-682-8810
432-01	JBCO ENTERPRISES, LLC	2400 S. KENSINGTON DR., #200		APPLETON	WI	54915 920-733-3120
420-01	MAA UMIYA BAGELS INC.	5710 S. 108th ST.		HALES CORNERS	WI	53130 414-529-3050

SIGNED FRANCHISE AGREEMENTS, UNITS PROJECTED TO OPEN BY 11/30/25

None

EXHIBIT I TO FRANCHISE DISCLOSURE DOCUMENT

List of Former or Inactive Franchisees

As of November 30, 2024

See following page

[illegible]

[illegible]

[illegible]

Exhibit J
STATE FRANCHISE ADMINISTRATORS

We intend to register this disclosure document as a franchise in some of or all the following states, in accordance with applicable state law. The following are the state administrators responsible for the review, registration and oversight of franchises in these states:

California:

Commissioner of the Department
of Financial Protection and
Innovation
2101 Arena Blvd.
Sacramento, CA 95834
(866) 275-2677

New York:

NYS Department of Law
Investor Protection Bureau
28 Liberty St., 21st Flr.
New York, NY 10005-1495
(212) 416-8285

Hawaii:

Commissioner of Securities,
Dept. of Commerce and Consumer
Affairs, Business Registration Div.,
Securities Compliance Branch
335 Merchant St., Rm. 203
Honolulu, HI 96813-2921
(808) 586-2722

North Dakota:

Securities Department
600 E. Boulevard Ave.
State Capitol
14th. Flr. Dept. 414
Bismarck, ND 58505-0510
(701) 328-4712

Illinois:

Office of the Attorney General
Franchise Division
500 S. 2nd St.
Springfield, IL 62701-1771
(217) 782-4465

Rhode Island:

Dept. of Business Regulations
Division of Securities
1511 Pontiac Ave., Bldg. 69-1
Cranston, RI 02920-4407
(401) 462-9527

Indiana:

Indiana Securities Division
Franchise Section
302 W. Washington St., Rm. E111
Indianapolis, IN 46204-2738
(317) 232-6681

South Dakota:

Division of Insurance
Securities Regulation
124 S. Euclid Ave., Ste. 104
Pierre, SD 57501-3168
(605) 773-3563

Maryland:

Office of the Attorney General
Division of Securities
200 Saint Paul Pl.
Baltimore, MD 21202-2020
(410) 576-6360

Virginia:

State Corporation Commission
Div. of Securities & Retail Franchising
1300 E. Main St., 9th Flr.
Richmond, VA 23219-3630
(804) 371-9051

Michigan:

Michigan Attorney General
Consumer Protection Division
PO Box 30213
Lansing, MI 48909-7713
(517) 373-7117

Washington:

Dept. of Financial Institutions
Securities Division
150 Israel Rd. SW
Tumwater, WA 98501-6456
(360) 902-8760

Minnesota:

Commissioner of Commerce
85 7th Pl. E., Ste. 280
Saint Paul, MN 55101-3165
(651) 539-1600

Wisconsin:

Securities Division
201 W. Washington Ave., Ste. 300
Madison, WI 53703-2640
(608) 266-8557

Exhibit K

AGENTS FOR SERVICE OF PROCESS

We intend to register this disclosure document as a franchise in some of or all the following states, in accordance with applicable state law. If we register the franchise (or otherwise comply with the franchise investment laws) in any of these states, we will designate the following state offices or officials as our agents for service of process in those states:

California:

Commissioner of the Department
of Financial Protection and
Innovation
2101 Arena Blvd.
Sacramento, CA 95834
(866) 275-2677

Hawaii:

Hawaii Commissioner of Securities,
Dept. of Commerce and Consumer
Affairs, Business Registration Div.
335 Merchant St., Rm. 205
Honolulu, HI 96813
(808) 586-2744

Illinois:

Illinois Attorney General
500 S. 2nd St.
Springfield, IL 62701
(217) 782-4465

Indiana:

Indiana Secretary of State
200 W. Washington St., Rm. 201
Indianapolis, IN
46204 (317) 232-
6681

Maryland:

Maryland Securities Commissioner
200 Saint Paul Pl.
Baltimore, MD
21202 (410) 576-
6360

Michigan:

Michigan Corporation & Securities
Bureau
Department of Commerce
6546 Mercantile Way
Lansing, MI
48911 (517) 373-
7117

Minnesota:

Minnesota Commissioner of Commerce
85 7th Pl. E., Ste. 280
Saint Paul, MN
55101 (651) 539-
1600

New York:

New York Secretary of State
One Commerce Plaza
99 Washington Ave., 6th Flr.
Albany, NY 12231-0001
(518) 473-2492

North Dakota:

North Dakota Securities Commissioner
600 E. Boulevard Ave., 14th. Flr.
Bismarck, ND 58505
(701) 328-4712

Rhode Island:

Director, Rhode Island Department of
Business Regulations
1511 Pontiac Ave., Bldg. 69-1
Cranston, RI 02920
(401) 462-9527

South Dakota:

Division of Insurance
Securities Regulation
124 S. Euclid Ave., Ste. 104
Pierre, SD 57501-
3168 (605) 773-
3563

Virginia:

Clerk, Virginia State Corporation
Commission
1300 E. Main St.,
1st Flr. Richmond,
VA 23219 (804)
371-9733

Washington:

Dept. of Financial Institutions
Securities Division – 3rd Flr.
150 Israel Rd.
SW Tumwater,
WA 98501 (360)
902-8760

Wisconsin:

Administrator, Wisconsin
Division of Securities
201 W. Washington
Ave. Madison, WI
53703
(608) 261-9555

**EXHIBIT L TO FRANCHISE DISCLOSURE DOCUMENT
GENERAL RELEASE**

(to be signed upon renewal or assignment of the franchise)

In consideration of the consent by BAB Systems, Inc. ("Franchisor") to the assignment by _____ ("Franchisee") of Franchisee's franchise rights under the Franchise Agreement dated _____ to _____ ("Assignee"), and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Franchisee and Franchisee's Guarantors do hereby forever release, discharge and hold Franchisor, its officers, agents, employees, shareholders, guarantors, successors, and assigns, on behalf of themselves, their heirs, executors, administrators, officers, agents, employees, shareholders, guarantors, successors and assigns, harmless from and against any and all claims, causes of action, demands, damages, costs, suits, obligations, negligence, misrepresentations, omissions, and fraud, whatsoever, in law or in equity, arising out of any relationship with one another whether contractual, or otherwise which they now have, for, upon, or by reason of any matter, cause or thing whatsoever, at any time prior to the date of this General Release, which release is not limited to claims relating to the franchise agreement being assigned by the Franchisee.

This general release extends to any and all claims, known or unknown, the existence of which Franchisee may not know or suspect as of the date of executing this document, it being Franchisee's understanding and intent that Franchisee is releasing Franchisor from any and all liability to Franchisee. Further, Franchisee has had an opportunity to seek advice from legal counsel and is executing this general release with full knowledge of its legal effect.

DATE: _____

FRANCHISEE: _____

By: _____

Name: _____

Title: _____

FRANCHISEE'S GUARANTORS:

Signature: _____

Printed Name: _____

Signature: _____

Printed Name: _____

Signature: _____

Printed Name: _____

Signature: _____

Printed Name: _____

WITNESS: _____

EXHIBIT M TO FRANCHISE DISCLOSURE DOCUMENT
Assignment Agreement

Sample only: subject to revisions depending on the specific circumstances of the assignment.

**ASSIGNMENT TO CORPORATION OR LIMITED LIABILITY COMPANY
OR OTHER ENTITY, FOR BENEFIT OF FRANCHISEE/DEVELOPER**

THIS AGREEMENT is made and entered into effective as of the _____ day of _____, 200____, by and among BAB Systems, Inc., an Illinois corporation having its principal place of business at 500 Lake Cook Road, Suite 475, Deerfield, Illinois 60015 (the “COMPANY”) and _____, individuals (“ASSIGNOR”), and _____, a corporation/limited liability company formed under the laws of the State of _____ (“ASSIGNEE”), *wherein* the parties agree as follows:

1. Agreement Assigned. ASSIGNOR hereby sells, assigns, and conveys to ASSIGNEE all interest in and to that certain **Franchise Agreement** made and entered into as of _____, 20____ for the development and/or operation of the BIG APPLE BAGELS store located at _____ (the “AGREEMENT”), to have and to hold said interest for the term of the AGREEMENT and any renewal thereof consistent with its terms and conditions. The COMPANY hereby grants its permission for the assignment of the AGREEMENT upon the terms and conditions herein set forth.
2. Rights and Obligations. ASSIGNEE’S rights under the AGREEMENT shall be subject to the terms thereof, and ASSIGNEE shall and does hereby agree to duly assume, keep, and perform all of ASSIGNOR’S obligations and covenants as Franchisee or Developer under the AGREEMENT.
3. Assignor Primary Liability. ASSIGNOR shall at all times remain primarily liable to the COMPANY for the performance and keeping of all obligations and covenants required to be kept or performed by the Franchisee or Developer under the AGREEMENT, including payment of all monies owed the COMPANY and its affiliates, and ASSIGNEE hereby agrees to indemnify and hold ASSIGNOR harmless from all claims, causes of action, actions and judgment which may be made, had, commenced or entered against ASSIGNOR on account of the AGREEMENT arising after the date hereof.
4. Control Person. ASSIGNOR hereby designates _____, as the “control person” of ASSIGNEE. For purposes of this Agreement, the control person shall be the person who has the authority to actively direct the affairs of the ASSIGNEE, the relinquishment with ASSIGNEE, either voluntarily or involuntarily, by the control person without the prior written approval of the COMPANY shall constitute a material breach of the AGREEMENT and this

Assignment permitting the COMPANY, at its sole option, to terminate the AGREEMENT; provided, however, that in the event of death or disability of the control person that the provisions of Section 14.c of the Franchise Agreement and Section 12.B of the Area Development Agreement shall control to the same extent as if the control person were the franchisee under the AGREEMENT.

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound hereby, have executed this Agreement effective as of the date first above written.

ASSIGNOR:

COMPANY: BAB SYSTEMS, INC.

By: _____

Title: _____

ASSIGNEE:

A corporation/limited liability

Formed under the laws of _____

By: _____

Title: _____

**(ALL ASSIGNORS SHALL SIGN THE GUARANTY AND ASSUMPTION OF
OBLIGATIONS ATTACHED TO THE FRANCHISE AGREEMENT AS RIDER C)**

Rider C

TO THE BAB SYSTEMS, INC. FRANCHISE AGREEMENT

GUARANTY AND ASSUMPTION OF OBLIGATIONS

In consideration of, and as an inducement to, the execution of that certain BAB SYSTEMS, INC. Franchise Agreement of even date herewith (the "Agreement") by BAB Systems, Inc. (the "Franchisor"), each of the undersigned hereby personally and unconditionally (a) guarantees to Franchisor, and its successors and assigns, for the term of the Agreement and thereafter as provided in the Agreement, that _____ ("Franchisee") shall punctually pay and perform each and every undertaking, agreement and covenant set forth in the Agreement; and (b) agrees to be personally bound by, and personally liable for the breach of, each and every provision in the Agreement, both monetary obligations and obligations to take or refrain from taking specific actions or to engage or refrain from engaging in specific activities, including without limitation the provisions of Paragraph 9.f. and 17.d.

The undersigned further acknowledge and agree that this Guaranty and Assumption of Obligations applies to the Security Agreement executed by Franchisee, attached as Rider E to the Franchise Agreement, and that they are bound by each and every undertaking, agreement and covenant set forth in said Security Agreement.

Each of the undersigned waives: (1) acceptance and notice of acceptance by Franchisor of the foregoing undertakings; (2) notice of demand for payment of any indebtedness or nonperformance of any obligations hereby guaranteed; (3) protest and notice of default to any party with respect to the indebtedness or nonperformance of obligations hereby guaranteed; (4) any right he may have to require that an action be brought against Franchisee or any other person as a condition of liability; and (5) any and all other notices and legal or equitable defenses to which he may be entitled.

Each of the undersigned consents and agrees that: (1) his direct and immediate liability under this guaranty shall be joint and several; (2) he shall render any payment or performance required under the Agreement upon demand if Franchisee fails or refuses punctually to do so; (3) such liability shall not be contingent or conditioned upon pursuit by Franchisor of any remedies against Franchisee or any other person; and (4) such liability shall not be diminished, relieved or otherwise affected by any extension of time, credit or other indulgence which Franchisor may from time to time grant to Franchisee or to any other person, including without limitation the acceptance of any partial payment or performance, or the compromise or release of any claims, none of which shall in any way modify or amend his guaranty, which shall be continuing and irrevocable during the term of the Agreement.

IN WITNESS WHEREOF, each of the undersigned has hereunto affixed his signature on the same day and year as the Agreement was executed.

GUARANTOR(S)

PERCENTAGE OF
OWNERSHIP OF FRANCHISEE

_____ %

_____ %

_____ %

_____ %

EXHIBIT N TO FRANCHISE DISCLOSURE DOCUMENT

ASSIGNMENT AGREEMENT

(between unrelated Franchisees)

Sample only: subject to revisions depending on the specific circumstances of the assignment.

FOR VALUE RECEIVED, the undersigned, _____
("Assignor"), jointly and severally, do hereby assign all right, title and interest in its or their
(depending upon if an entity or multiple individuals) franchise rights in connection with the BAGELS
franchise formerly associated with the location at _____

("the Franchise"), pursuant to a franchise agreement between Assignor and BAB Systems, Inc. dated
_____ ("Assignor's Franchise Agreement").
Assignor acknowledges and agrees that, upon the assignment of the foregoing franchise rights to
Assignee, the Assignor's Franchise Agreement shall be terminated effective upon execution of this
document by all parties.

Assignor and Assignor's owners do hereby guarantee the obligations of Assignee for the performance
by Assignee of its obligations as Franchisee under the Assignee's Franchise Agreement, including
the total amount of damages (including future royalties) for a period beginning with the effective
date of the transfer and ending on the expiration date of the Assignor's original Franchise
Agreement. Assignor and Assignor's owners shall execute the Corporate and Personal Guaranty
on the following two (2) pages.

WITNESS our hands this _____ day of _____, 20_____.

Assignor:

Corporate/LLC Signature:

a _____ corporation/LLC

By: _____

Title: _____

Individual Signatures:

CORPORATE AND PERSONAL GUARANTY

By Assignor and Assignor's Owners

THIS CORPORATE and PERSONAL GUARANTY is given this _____ day of _____, 20____, by _____, a(n) _____ (corporation/limited liability/other) organized under the laws of the State of _____ ("Assignor Entity") and by the undersigned owners of Assignor Entity ("Assignor Owners").

In consideration of, and as an inducement to, the consent to the assignment of the Assignor's rights under the Franchise Agreement dated _____ ("Assignor's Franchise Agreement") with BAB Systems, Inc., to _____, ("Assignee"), each of the undersigned hereby personally and unconditionally (a) guarantees to BAB Systems, Inc. ("Franchisor") and its successors and assigns, for the period beginning on the effective of the assignment and ending on the expiration date of the Assignor's original Franchise Agreement ("Guaranty Period"), that Assignee shall punctually pay and perform each and every undertaking, agreement and covenant set forth in the Assignee's Franchise Agreement; (b) guarantees the payment by Assignee of the total amount of damages (including future royalties), if applicable, for the Guaranty Period, and (c) agrees to be personally bound by, and personally liable for the breach of, each and every provision in the Assignee's Franchise Agreement.

Each of the undersigned waives: (1) acceptance and notice of acceptance by Franchisor of the foregoing undertakings; (2) notice of demand for payment of any indebtedness or nonperformance of any obligations hereby guaranteed; (3) protest and notice of default to any party with respect to the indebtedness or nonperformance of obligations hereby guaranteed; (4) any right he may have to require that an action be brought against Assignor or any other person as a condition of liability; and (5) any and all other notices and legal or equitable defenses to which it or he may be entitled.

Each of the undersigned consents and agrees that: (1) its or his direct and immediate liability under this guaranty shall be joint and several; (2) it or he shall render any payment or performance required under the Assignee's Franchise Agreement upon demand if Assignee fails or refuses punctually to do so; (3) such liability shall not be contingent or conditioned upon pursuit by Assignor of any remedies against Assignee or any other person; and (4) such liability shall not be diminished, relieved or otherwise affected by any extension of time, credit or other indulgence which Assignor may from time to time grant to Assignee or to any other person, including without limitation the acceptance of any partial payment or performance, or the compromise or release of any claims, none of which shall in any way modify or amend his guaranty, which shall be continuing and irrevocable during the Guaranty Period set forth above.

IN WITNESS WHEREOF, each of the undersigned has hereunto affixed its, his or her signature this ____ day of _____, 20____.

**Assignor Entity
Corporate/LLC Signature:**

a _____ corporation/LLC

By: _____

Title: _____

ASSIGNOR'S OWNERS:

GUARANTOR(S)

**PERCENTAGE OF
OWNERSHIP
OF ASSIGNOR ENTITY**

_____%
_____%
_____%

CONSENT TO ASSIGNMENT BY ASSIGNOR

IN CONSIDERATION of the above Assignment and of the covenants, promises and agreements of the Assignee and other good and valuable consideration, BAB Systems, Inc. hereby consents to the above assignment of the franchise rights for the aforesaid Franchise from Assignor to Assignee. BAB Systems, Inc. hereby acknowledges and agrees that the Assignor's Franchise Agreement between Assignor and BAB Systems, Inc. is terminated effective upon execution of this document by all parties.

WITNESS our hands this _____ day of _____, 20_____.

BAB SYSTEMS, INC.

An Illinois corporation:

By: _____

Name: _____

Title: _____

ASSUMPTION BY ASSIGNEE

IN CONSIDERATION of the above Assignment and other good and valuable consideration, the undersigned, _____, jointly and severally do hereby assume and agree to accept the assignment of all franchise rights for the Franchise and to make all payments, to perform and keep all promises, covenants, conditions and agreements of the franchisee under the Franchise Agreement executed by Assignee and BAB Systems, Inc. ("Assignee's Franchise Agreement") on _____ (date), in connection with the Franchise.

If Assignee is not an individual, Assignee shall cause its owners to execute the Guaranty and Assumption of Obligations attached as Rider C to Assignee's Franchise Agreement.

WITNESS our hands this _____ day of _____, 20_____.

Assignee:

Corporate/LLC Signature:

a _____ corporation/LLC

By: _____

Title: _____

Individual Signatures:

CONSENT TO ASSUMPTION BY ASSIGNEE

IN CONSIDERATION of the above Assignment and of the covenants, promises and agreements of the Assignee and other good and valuable consideration, BAB Systems, Inc. hereby consents to the above assumption of the Assignor's franchise rights by Assignee. BAB Systems, Inc. hereby acknowledges and agrees that the Assignee's Franchise Agreement between Assignee and BAB Systems, Inc. is in full force and effect.

WITNESS our hands this _____ day of _____, 20_____.

BAB SYSTEMS, INC.

An Illinois corporation:

By: _____

Name: _____

Title: _____

EXHIBIT O TO FRANCHISE DISCLOSURE DOCUMENT
Transferee's Waiver and Release

This instrument is by and between BAB Systems, Inc. ("BAB"), an Illinois corporation, whose principal address is 500 Lake Cook Road, Suite 475, Deerfield, Illinois 60015, and _____ ("Transferee"), whose principal address is _____.

Recitals

- A. _____ ("Seller") is a Franchisee of BAB under a Franchise Agreement between Seller and BAB dated _____ ("Seller's Franchise Agreement").
- B. Pursuant to Seller's Franchise Agreement, Seller operates a BAGELS Store located at _____ ("Subject Store").
- C. Seller has notified BAB that Seller proposes to transfer to Transferee Seller's interest in the Subject Store, along with Seller's franchise rights under Seller's Franchise Agreement.
- D. Pursuant to Seller's Franchise Agreement, BAB must consent to any transfer of Seller's rights, and BAB further has a right of first refusal which BAB may exercise in order to acquire the Subject Store.

In consideration of the conditional consent by BAB Systems, Inc. to the transfer by Seller to the Transferee, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows.

- 1. BAB hereby waives its right of first refusal in connection with the sale of the Subject Store.
- 2. Transferee makes the following acknowledgements and statements, with the express understanding that BAB is relying on such statements in giving its consent and in waiving its right of first refusal:
 - a. Transferee will be required to sign a new Franchise Agreement ("Transferee's Franchise Agreement") with BAB, and will not be assuming the Seller's Franchise Agreement. Transferee's Franchise Agreement will be for a new term as described in Transferee's Franchise Agreement, and will not be the remaining term of Seller's Franchise Agreement. Transferee's Franchise Agreement may contain materially different terms than in the Seller's Franchise Agreement, including a different rate for royalty fees and Marketing Fund contributions.
 - b. The Seller is not an agent or representative of BAB, and any information, statistics or representations concerning the Subject Store, its value, or the BAB Franchise, made to Transferee by the Seller, are not to be considered as being made by, or imputed to, BAB.
 - c. No statements or representations made to Transferee by the Seller as to the operation of the Subject Store, including expected sales volume, profitability or income, have been authorized by BAB.
 - d. Transferee or its agents have examined the books and records of the Seller covering the Seller's operations of the Subject Store.

- e. In agreeing with the Seller to acquire Seller's interest in the Subject Store, Transferee has relied on its own investigation and evaluation of such operation and/or upon the advice and opinion of Transferee's accountant, banker, or other advisor; and has considered whether there is a reasonable prospect that the Subject Store will yield a profit to Transferee commensurate with Transferee's investment therein, including, but not limited to, compensation for Transferee's labor in operating the Subject Store.

3. Transferee's Franchise Agreement, if executed prior to the closing of Transferee's purchase of the Seller's interest in the Subject Store, is contingent on the following conditions and events occurring:

- a. Transferee must meet all of BAB's criteria to qualify as a franchisee;
- b. Transferee must complete BAB's initial training program to BAB's satisfaction;
- c. All the requirements set forth in Paragraph 14.b.ii. of Seller's Franchise Agreement relating to transfer are performed;
- d. Transferee and the Seller close on Transferee's purchase of the Subject Store; and
- e. The Seller's Franchise Agreement is terminated by mutual agreement of the Seller and BAB.

Upon completion of the conditions and events set forth above in this Paragraph 3, BAB will issue a letter to Transferee acknowledging said fact; said letter will constitute BAB's consent to Transferee's purchase of the Subject Store.

4. If all the conditions set forth in Paragraph 3 are not met within _____ days of the date of Transferee's Franchise Agreement, BAB may, in its sole discretion, revoke its approval, by written notice to Transferee and to the Seller.

5. In partial consideration for BAB consenting to the transfer of the Seller's interest in the Subject Store, Transferee agrees to and hereby waives, as against BAB, and releases BAB and its employees and agents from, any and all claims or causes of action which Transferee, Transferee's heirs, legal representatives, successors or assigns have, or which may arise at any time (a) based upon any representation made to Transferee by the Seller, or by anyone else other than BAB, directly or indirectly, concerning the Subject Store; (b) in connection with any payment made or to be made to the Seller, with respect to Transferee's purchase of the Seller's interest in the Subject Store; or (c) relating to BAB's and Transferee's respective rights or obligations under any franchise or other agreement entered into between BAB and Transferee or an affiliate of Transferee prior to the date of this Waiver and Release (Subparagraph 5(c) applies only if Transferee already has one or more franchise agreements with BAB).

IN WITNESS WHEREOF the parties hereto have executed, sealed, and delivered this Agreement effective on the day and year first above written.

Franchisor:
BAB SYSTEMS, INC.
an Illinois corporation

Proposed Transferee:

By: _____
Title: _____
Date Accepted: _____

Printed Name: _____
Date Signed: _____

EXHIBIT P TO FRANCHISE DISCLOSURE DOCUMENT

Financial Statements

Attached as Exhibit P are the Audited Financial Statements of BAB as of November 30, 2024, November 30, 2023, and November 30, 2022.

Our fiscal year ends November 30.

BAB Systems, Inc.

Years Ended

November 30, 2024, 2023 and 2022

BAB Systems, Inc.
Years Ended November 30, 2024, 2023 and 2022

C o n t e n t s

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Balance Sheets	Exhibit A	4-5
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Notes to the Financial Statements		8-19



Board of Directors
BAB Systems, Inc.
Deerfield, Illinois

INDEPENDENT AUDITORS' REPORT

Opinion

We have audited the accompanying financial statements of BAB Systems, Inc., (a wholly owned subsidiary of BAB, Inc.), which comprise the balance sheets as of November 30, 2024 and 2023, and the related statements of income and retained earnings, and cash flows for the years ended November 30, 2024, 2023, 2022, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BAB Systems, Inc as of November 30, 2024 and 2023, and the results of its operations and its cash flows for the years ended November 30, 2024, 2023, and 2022, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of BAB Systems, Inc., and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about BAB Systems, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.



- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of BAB System, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about BAB Systems, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

February 3, 2025
Oak Brook, Illinois

BAB Systems, Inc.
Balance Sheets
November 30, 2024 and 2023

Assets

	<u>2024</u>	<u>2023</u>
Current Assets		
Cash, including restricted cash of \$159,704 in 2024 and \$183,944 in 2023	\$ 2,337,289	\$ 2,034,040
Trade accounts and notes receivable (net of allowance for doubtful accounts of \$51,103 in 2024 and \$28,873 in 2023)	51,890	42,785
Marketing Fund contributions receivable from franchisees	17,394	14,995
Lease receivable	-	5,900
Prepaid expenses and other current assets	50,673	60,426
Total Current Assets	<u>2,457,246</u>	<u>2,158,146</u>
Property and Equipment		
Furniture and fixtures	18,041	18,041
Equipment	113,377	113,377
	<u>131,418</u>	<u>131,418</u>
Less accumulated depreciation and amortization	<u>(131,418)</u>	<u>(131,418)</u>
Property and Equipment, Net	<u>-</u>	<u>-</u>
Other Assets		
Lease receivable	-	32,406
Goodwill	1,260,111	1,260,111
Total Other Assets	<u>1,260,111</u>	<u>1,292,517</u>
Total Assets	<u><u>\$ 3,717,357</u></u>	<u><u>\$ 3,450,663</u></u>

See accompanying notes

BAB Systems, Inc.
Balance Sheets
November 30, 2024 and 2023

Liabilities and Stockholders' Equity

	<u>2024</u>	<u>2023</u>
Current Liabilities		
Accounts payable and accrued expenses	\$ 405,343	\$ 326,176
Unexpended Marketing Fund franchisee contributions	164,756	201,824
Deferred franchise fee revenue	21,353	30,094
Total Current Liabilities	<u>591,452</u>	<u>558,094</u>
Other Non-current Liabilities		
Deferred franchise fee revenue	130,094	162,026
Deferred income taxes	190,450	186,300
Total Non-Current Liabilities	<u>320,544</u>	<u>348,326</u>
Total Liabilities	<u>911,996</u>	<u>906,420</u>
Commitments and contingencies		
Stockholders' Equity		
Common stock - No par value, 1,000 shares authorized, issued and outstanding	1,071,002	1,071,002
Additional paid-in-capital	192,500	192,500
Retained earnings (Exhibit B)	9,293,571	8,859,801
Due from BAB, Inc.	(5,036,875)	(5,021,579)
Due from BAB Operations	<u>(2,714,837)</u>	<u>(2,557,481)</u>
Total Stockholders' Equity	<u>2,805,361</u>	<u>2,544,243</u>
Total Liabilities and Stockholders' Equity	<u>\$ 3,717,357</u>	<u>\$ 3,450,663</u>

See accompanying notes

Exhibit B

BAB Systems, Inc.
Statements of Income and Retained Earnings
Years Ended November 30, 2024, 2023 and 2022

	2024	2023	2022
Revenues			
Royalty fees from franchised stores	\$ 1,994,814	\$ 1,944,894	\$ 1,838,276
Franchise fees and other	160,133	98,773	97,626
Marketing fund revenue	1,176,663	1,243,890	1,081,320
Total Revenues	<u>3,331,610</u>	<u>3,287,557</u>	<u>3,017,222</u>
Operating Costs and Expenses			
License fee	603,385	572,227	540,564
Payroll and related expenses	601,402	536,846	471,779
Professional service fees	70,367	60,934	59,380
Advertising and promotion expense	1,903	12,186	14,801
Franchise-related expenses	10,893	4,515	17,771
Travel	16,514	23,331	16,332
Bad debt expense (recoveries)	22,355	18,081	(3,005)
Depreciation and amortization	-	-	749
Occupancy	67,589	68,263	65,548
Insurance expense	25,320	27,649	30,789
Employee benefit expense	87,604	72,539	76,249
Loss on sales-type lease termination	11,659	-	-
Other	34,253	36,628	47,099
Marketing fund expense	1,176,663	1,243,890	1,081,320
Total Operating Costs and Expenses	<u>2,729,907</u>	<u>2,677,089</u>	<u>2,419,376</u>
Income from Operations	601,703	610,468	597,846
Interest Income	<u>2,074</u>	<u>456</u>	<u>412</u>
Income before Income Taxes	603,777	610,924	598,258
Provision/(Benefit) for Income Taxes			
Current	165,857	158,549	92,341
Deferred	4,150	19,448	75,966
Total Tax Provision	<u>170,007</u>	<u>177,997</u>	<u>168,307</u>
Net Income	433,770	432,927	429,951
Retained Earnings, Beginning of Year	<u>8,859,801</u>	<u>8,426,874</u>	<u>7,996,923</u>
Retained Earnings, End of Year (Exhibit A)	<u><u>\$ 9,293,571</u></u>	<u><u>\$ 8,859,801</u></u>	<u><u>\$ 8,426,874</u></u>

See accompanying notes

Exhibit C

BAB Systems, Inc.
Statements of Cash Flows
Years Ended November 30, 2024, 2023 and 2022

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Operating Activities			
Net Income	\$ 433,770	\$ 432,927	\$ 429,951
Adjustments to reconcile net income to cash flows provided by operating activities:			
Depreciation	-	-	748
Provision for doubtful accounts (recoveries)	22,230	18,000	(3,005)
Loss on sales-type lease termination	11,659	-	(5,319)
Deferred income tax (benefit)/expense	4,150	19,448	75,966
Changes in:			
Trade accounts, notes and lease receivable	(278)	(32,537)	(28,999)
Marketing Fund contributions receivable	(2,399)	(2,184)	13,275
Prepaid expenses and other assets	14,253	23,594	(12,186)
Accounts payable and accrued expenses	79,167	7,312	8,680
Unexpended Marketing Fund franchisee contributions	(37,068)	(89,563)	(329,148)
Deferred franchise fee revenue	(40,673)	50,168	16,850
Net Cash Provided by Operating Activities	<u>484,811</u>	<u>427,165</u>	<u>166,813</u>
Investing Activities			
Sale of equipment	16,700	-	-
Advances to affiliates (net of repayments)	(172,652)	(276,802)	(324,240)
Issuance of note receivable	(25,610)	-	-
Net Cash Used in Investing Activities	<u>(181,562)</u>	<u>(276,802)</u>	<u>(324,240)</u>
(Decrease)/Increase in Cash	303,249	150,363	(157,427)
Cash and Restricted Cash, Beginning of Year	<u>2,034,040</u>	<u>1,883,677</u>	<u>2,041,104</u>
Cash and Restricted Cash, End of Year	<u><u>\$ 2,337,289</u></u>	<u><u>\$ 2,034,040</u></u>	<u><u>\$ 1,883,677</u></u>
Supplemental disclosure of cash flow information:			
Taxes paid (recorded through inter-company account)	<u>\$ 165,857</u>	<u>\$ 158,550</u>	<u>\$ 117,841</u>
Interest paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Non-cash operating and investing activities			
Asset held for resale offsetting lease termination loss	<u><u>\$ 4,500</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See accompanying notes

BAB Systems, Inc.
Notes to the Financial Statements
November 30, 2024, 2023 and 2022

Note 1 - Nature of Operations

BAB Systems, Inc. (the “Company”) franchises and licenses Big Apple Bagels® (“BAB”), My Favorite Muffin® (“MFM”) and SweetDuet Frozen Yogurt & Gourmet Muffins® (“SD”) concepts located in the United States. The franchised units operating as “Big Apple Bagels®,” featuring daily baked bagels, flavored cream cheeses, premium coffees, gourmet bagel sandwiches and other related products. The BAB units are primarily concentrated in the Midwest and Western United States. The MFM brand consists of units operating as “My Favorite Muffin Gourmet Muffin Bakery™” (“MFM Bakery”), featuring a large variety of freshly baked muffins and coffees and units operating as “My Favorite Muffin Your All-Day Bakery Café®” (“MFM Cafe”) featuring these products as well as a variety of specialty bagel sandwiches and related products. Although the Company doesn't actively market Brewster's stand-alone franchises, Brewster's coffee products are sold in most franchised units.

The Company, an Illinois Corporation, incorporated on December 2, 1992, was capitalized with a cash contribution by BAB, Inc. (“Inc”), a publicly traded Company, and was originally established to franchise “Big Apple Bagels®” stores.

Note 2 - Summary of Significant Accounting Policies

Use of Estimates

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

Adopted Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The standard’s main goal is to improve financial reporting by requiring earlier recognition of credit losses on financing receivables and other financial assets in scope, including trade receivables. The amendments in this update broaden the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually. The guidance in ASU 2016-13 is effective for public companies for fiscal years and for interim periods with those fiscal years beginning after December 15, 2022. The Company adopted ASU 2016-13 in fiscal 2024 using the modified retrospective method. The adoption did not have a material impact to the financial statements.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and demand deposits with banks with original maturities of less than 90 days. The balances of bank accounts may, at times, exceed federally insured credit limits. The Company has not experienced any loss in such accounts and believes it is not subject to any significant credit risk related to cash at November 30, 2024.

BAB Systems, Inc.
Notes to the Financial Statements
November 30, 2024, 2023 and 2022

Note 2 - Summary of Significant Accounting Policies (continued)

Advertising Costs

The Company expenses advertising and promotion costs as incurred. Advertising and promotion expense for the years ended November 30, 2024, 2023 and 2022 was \$1,900, \$12,200, and \$14,800, respectively.

Marketing Fund

Three Marketing Funds have been established for BAB, MFM and SD. Franchised stores are required to contribute a fixed percentage of their net retail sales to the Marketing Fund. Liabilities for unexpended funds received from franchisees are included as a separate line item in accrued expenses and Marketing Fund cash accounts are included in restricted funds in the accompanying Balance Sheet. The Marketing Fund also derives revenues from rebates paid by certain vendors on the sale of BAB and MFM licensed products to franchisees.

Accounts Receivable and Notes Receivable

The Company adopted FASB ASC Topic 326, Financial Instruments - Credit Losses, ("CECL") with an adoption date of December 1, 2023. As a result, the Company changed its accounting policy for allowance for credit losses and the policy pursuant to CECL is disclosed below.

The CECL reserve methodology requires companies to measure expected credit losses on financial instruments based on the total estimated amount to be collected over the lifetime of the instrument. Under the CECL model, reserves may be established against financial asset balances even if the risk of loss is remote or has not yet manifested itself. The Company records specific reserves against account balances of franchisees deemed at-risk when a potential loss is likely or imminent as a result of prolonged payment delinquency (greater than 90 days past due) and where notable credit deterioration has become evident. For financial assets that are not currently deemed at-risk, an allowance is recorded based on expected loss rates derived pursuant to the Company's CECL methodology that assesses four components - historical losses, current conditions, reasonable and supportable forecasts, and a reversion to history, if applicable.

The Company considers its portfolio segments to be the following:

Accounts Receivable (Franchise-Related): Most of the Company's short-term receivables due from franchisees are derived from royalty, marketing and other franchise-related fees.

Notes Receivable: Notes receivable balances primarily relate to the conversion of (1) certain past due franchisee accounts receivable or (2) early franchise termination fees, to notes receivable. These notes are usually not collateralized. The notes receivable outstanding at November 30, 2024 have specific reserves recorded against them, reserving each note in full, amounting to \$51,103.

Leases Receivable: Leases receivable had no equipment leases at November 30, 2024 and a single equipment lease receivable at November 30, 2023. The Company purchased equipment and leased the equipment to a franchisee. The equipment lease was collateralized by the equipment, which was sold at a loss at the termination of the lease.

BAB Systems, Inc.
Notes to the Financial Statements
November 30, 2024, 2023 and 2022

Note 2 - Summary of Significant Accounting Policies (continued)

Accounts Receivable and Notes Receivable (continued)

Receivable balances by portfolio segment as of November 30, 2024 and November 30, 2023 are as follows:

	November 30, 2024	November 30, 2023
Accounts Receivable (Franchise Related)	\$ 69,285	\$ 55,781
Notes Receivable	51,103	30,873
Lease Receivable, Net of Unamortized Interest	-	38,306
	<u>120,388</u>	<u>124,960</u>
Less: Allowance for Credit Losses	(51,103)	(28,873)
Total Receivables	<u>69,285</u>	<u>96,087</u>
Less: Current Portion	(69,285)	(92,576)
Long-Term Receivables	<u>\$ -</u>	<u>\$ 3,511</u>

The Company's internal credit quality indicators for all portfolio segments primarily consider delinquency. Current and collateralized lease receivables have an internal risk rating of Grade I. The Company does not currently have any uncollateralized lease receivables. Past due lease receivables would be assigned an internal risk rating of Grade II-IV, depending on significance of delinquency. For uncollateralized notes receivable, the Company also considers the status of the franchisee note holder and the term of the note. Notes receivable from current franchisees are considered to have an elevated risk of credit loss based on their common origination from past due franchise accounts receivable but have some indication of collectability given ongoing operations (Internal Grade II). Notes receivable due from payers who no longer have an operating franchise are considered to have a high likelihood of credit loss (Internal Grade III). That likelihood increases if the note is outstanding for longer than one year (Internal Grade IV). At November 30, 2024, all notes receivable were due from former franchisees and had an original term over one year.

Changes in the allowance for credit losses during the fiscal year ended November 30, 2024 were as follows:

	Accounts Receivable (Franchise Related)	Accounts Receivable (Vendor Related)	Notes Receivable	Lease Receivable, Net	Total
Balance at November 30, 2023	\$ -	\$ -	\$ 28,873	\$ -	\$ 28,873
Adjustments to Allowance for Adoption of ASU 2016-13	-	-	-	-	-
Write-offs	-	-	-	-	-
Recoveries	-	-	(5,380)	-	(5,380)
Provision for Credit Losses	-	-	27,610	-	27,610
Balance at November 30, 2024	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,103</u>	<u>\$ -</u>	<u>\$ 51,103</u>

BAB Systems, Inc.
Notes to the Financial Statements
November 30, 2024, 2023 and 2022

Note 2 - Summary of Significant Accounting Policies (continued)

Accounts Receivable and Notes Receivable (continued)

The Company considers a receivable past due 31 days after the payment due date. The delinquency status of receivables (other than accounts receivable) at November 30, 2024 was as follows:

	Current	0-30 days Past Due	30-60 days Past Due	60-90 days past due	Over 90 days past due	Total
Notes Receivable	\$ 39,307	\$ 733	\$ 190	\$ -	\$ 10,873	\$51,103
Lease Receivable, Net of Unamortized Interest	-	-	-	-	-	-
	<u>\$ 39,307</u>	<u>\$ 733</u>	<u>\$ 190</u>	<u>\$ -</u>	<u>\$ 10,873</u>	<u>\$51,103</u>

The fiscal year of origination of the Company's gross notes receivable and lease receivables by risk rating are as follows:

	2024	2023	2022	2021	2020	Prior	Total
Risk rating							
Internal Grade I	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Internal Grade II	-	-	-	-	-	-	-
Internal Grade III	22,163	18,067	-	-	-	-	40,230
Internal Grade IV	-	-	-	-	-	10,873	10,873
Notes and Lease Receivables, Net of Unamortized Interest	<u>\$ 22,163</u>	<u>\$ 18,067</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,873</u>	<u>\$ 51,103</u>

Property and Equipment

Property and equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives are 3-7 years for machinery, equipment and fixtures and 10 years or term of lease, if less, for leasehold improvements. Maintenance and repairs are charged to expense as incurred. Expenditures that materially extend the useful lives of assets are capitalized.

BAB Systems, Inc.
Notes to the Financial Statements
November 30, 2024, 2023 and 2022

Note 2 - Summary of Significant Accounting Policies (continued)

Lease Receivable

The Company leases restaurant equipment to a certain franchisee under a sales-type lease agreement. Under the terms of the agreement, title to the equipment passes to the customer once all lease payments have been made and a reasonable buy-out fee is paid. The Company retains title or a security interest in the equipment until such time. The sales and cost of sales are recognized at the inception of the lease. The profit or loss on the issuance of the lease is recorded in the period of commencement. The investment in sales-type leases consists of the sum of the minimum lease payments receivable less unearned interest income and, if applicable, estimated executory cost. Minimum lease payments are part of the lease agreement between the Company (as the lessor) and the franchisee (as the lessee). The discount rate implicit in the lease is used to calculate the present value of minimum lease payments. The minimum lease payments consist of the gross lease payments net of executory costs, if any. Unearned interest income is amortized to income over the lease term to produce a constant periodic rate of return on net investment in the lease. While revenue is recognized at the inception of the lease, the cash flow from the sales-type lease occurs over the course of the lease, which results in interest income and reduction of receivables.

Recent Accounting Pronouncements

In December 2023, the FASB issued ASU 2023-09, “*Improvements to Income Tax Disclosures*” which is intended to simplify various aspects related to accounting for income taxes. ASU 2023-09 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. The amendments in ASU 2023-09 are effective for public business entities for fiscal years beginning after December 15, 2024, including interim periods therein. Early adoption of the standard is permitted, including adoption in interim or annual periods for which financial statements have not yet been issued. The Company will adopt ASU 2023-09 for fiscal year ending November 30, 2026.

Management does not believe that there are any recently issued and effective or not yet effective accounting pronouncements as of November 30, 2024 that would have or are expected to have any significant effect on the Company’s financial position, cash flows or income statement.

Allocation of Certain Expenses

The Company initially makes payments for certain payroll, related benefits and administrative expenses which benefit Inc and BAB Operations, Inc. (“Operations”). Pursuant to agreements with Inc and Operations, these expenditures are allocated to each of the benefited entities. See Note 8.

Income Taxes

The Company is a member of a group that files a consolidated tax return. These financial statements reflect the accounting for income taxes as if the Company were filing a separate return. Income taxes are provided for on the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the book and tax basis of fixed assets and intangibles, deferred franchise fees, Marketing Fund contributions and allowance for doubtful accounts.

BAB Systems, Inc.
Notes to the Financial Statements
November 30, 2024, 2023 and 2022

Note 2 - Summary of Significant Accounting Policies (continued)

Income Taxes (continued)

The Company's income tax returns, which are filed as a consolidated return under Inc. for the years ending November 30, 2021, 2022 and 2023 are subject to examination by the IRS and corresponding states, generally for three years after they are filed.

ASC 740 – "Income Taxes", clarifies the accounting and reporting for uncertainties in interpretations of the income tax law. It prescribes a comprehensive model for the financial statement recognition, measurement, presentation, and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. Review of the Company's possible tax uncertainties as of November 30, 2024 did not result in any positions requiring disclosure. Should the Company need to record interest and/or penalties related to uncertain tax positions or other tax authority assessments, it would classify such expenses as part of the income tax provision. The Company has not changed any of its tax policies or adopted any new positions during the fiscal year ended November 30, 2024 and believes it has filed appropriate tax returns in all jurisdictions for which it has nexus.

Subsequent Event

The Company has evaluated subsequent events through February 3, 2025, the date of the financial statements.

Note 3 - Revenue Recognition

The following table presents disaggregation of revenue from contracts with customers for fiscal years ended November 30, 2024, 2023 and 2022:

	For fiscal November 30, 2024	For fiscal November 30, 2023	For fiscal November 30, 2022
Revenue recognized at a point in time			
Settlement and other revenue	\$ 76,610	\$ 33,500	\$ 16,750
Lease income	-	-	5,319
Total revenue at a point in time	76,610	33,500	22,069
Revenue recognized over time			
Royalty revenue	1,994,814	1,944,894	1,838,276
Franchise fees	55,673	26,999	53,149
License fees	23,912	17,145	17,743
Gift card revenue	3,938	21,129	4,665
Marketing fund revenue	1,176,663	1,243,890	1,081,320
Total revenue over time	3,255,000	3,254,057	2,995,153
Grand Total	\$ 3,331,610	\$ 3,287,557	\$ 3,017,222

BAB Systems, Inc.
Notes to the Financial Statements
November 30, 2024, 2023 and 2022

Note 3 - Revenue Recognition (continued)

Franchise and related revenue

The Company sells individual franchises. The franchise agreements typically require the franchisee to pay an initial, non-refundable fee prior to opening the respective location(s), and continuing royalty fees on a weekly basis based upon a percentage of franchisee net sales. The initial term of franchise agreements are typically 10 years. Subject to the Company's approval, a franchisee may generally renew the franchise agreement upon its expiration. If approved, a franchisee may transfer a franchise agreement to a new or existing franchisee, at which point a transfer fee is typically paid by the current owner which then terminates that franchise agreement. A franchise agreement is signed with the new franchisee with no franchise fee required. If a contract is terminated prior to its term, it is a breach of contract and a penalty is assessed based on a formula reviewed and approved by management. Revenue generated from a contract breach is termed settlement income by the Company and included in licensing fees and other income.

Under the terms of our franchise agreements, the Company typically promises to provide franchise rights, pre-opening services such as blueprints, operational materials, planning and functional training courses, and ongoing services, such as management of the marketing fund. The Company considers certain pre-opening activities and the franchise rights and related ongoing services to represent two separate performance obligations. The franchise fee revenue has been allocated to the two separate performance obligations using a residual approach. The Company has estimated the value of performance obligations related to certain pre-opening activities deemed to be distinct based on cost plus an applicable margin, and assigned the remaining amount of the initial franchise fee to the franchise rights and ongoing services. Revenue allocated to preopening activities is recognized when (or as) these services are performed. Revenue allocated to franchise rights and ongoing services is deferred until the store opens, and recognized on a straight-line basis over the duration of the agreement, as this ensures that revenue recognition aligns with the customer's access to the franchise right.

Royalty fees from franchised stores represent a 5% fee on net retail and wholesale sales of franchised units. Royalty revenues are recognized on an accrual basis using actual franchise receipts. Generally, franchisees report and remit royalties on a weekly basis. The majority of month-end receipts are recorded on an accrual basis based on actual numbers from reports received from franchisees shortly after the month-end. Estimates are utilized in certain instances where actual numbers have not been received and such estimates are based on the average of the last 10 weeks' actual reported sales.

Royalty revenue is recognized during the respective franchise agreement based on the royalties earned each period as the underlying franchise store sales occur.

There are two items involving revenue recognition of contracts that require us to make subjective judgments: the determination of which performance obligations are distinct within the context of the overall contract and the estimated standalone selling price of each obligation. In instances where our contract includes significant customization or modification services, the customization and modification services are generally combined and recorded as one distinct performance obligation.

BAB Systems, Inc.
Notes to the Financial Statements
November 30, 2024, 2023 and 2022

Note 3 - Revenue Recognition (continued)

Gift Card Breakage Revenue

The Company sells gift cards to its customers in its retail stores and through its Corporate office. The Company's gift cards do not have an expiration date and are not redeemable for cash except where required by law. Revenue from gift cards is recognized upon redemption in exchange for product and reported within franchisee store revenue and the royalty and marketing fees are paid and shown in the Condensed Consolidated Statements of Income. Until redemption, outstanding customer balances are recorded as a liability. An obligation is recorded at the time of sale of the gift card and it is included in accrued expenses on the Company's Condensed Consolidated Balance Sheets.

The liability is reduced when the gift cards are redeemed by a franchise. Although there are no expiration dates for our gift cards, based on our analysis of historical gift card redemption patterns, we can reasonably estimate the amount of gift cards for which redemption is remote, which is referred to as "breakage." The Company recognizes gift card breakage proportional to actual gift card redemptions on a quarterly basis and the corresponding revenue is included in licensing fees and other revenue. Significant judgments and estimates are required in determining the breakage rate and will be reassessed each quarter.

Marketing Fund

Franchise agreements require the franchisee to pay continuing marketing fees on a weekly basis, based on a percentage of franchisee sales. Marketing fees are not paid on franchise wholesale sales. The balance sheet includes marketing fund cash, which is the restricted cash, accounts receivable and unexpended marketing fund contributions. Although the marketing fees are not separate performance obligations distinct from the underlying franchise right, the Company acts as the principal as it is primarily responsible for the fulfillment and control of the marketing services. As a result, the Company records marketing fees in revenues and related marketing fund expenditures in expenses in the Condensed Consolidated Statement of Income. The Company historically presented the net activities of the marketing fund within the balance sheet in the Condensed Consolidated Balance Sheet. While this reclassification impacts the gross amount of reported revenue and expenses the amounts will be offsetting, and there is no impact on net income.

Contract Balances

Information about contract balances subject to ASC 606 is as follows:

	November 30, 2024	November 30, 2023
Assets		
Accounts Receivable	\$ 51,890	\$ 40,786
Total Assets	<u>51,890</u>	<u>40,786</u>
Liabilities		
Contract liabilities-current	420,379	458,162
Contract liabilities-long-term	130,094	162,026
Total Contract Liabilities	<u>\$ 550,473</u>	<u>\$ 620,188</u>

BAB Systems, Inc.
Notes to the Financial Statements
November 30, 2024, 2023 and 2022

Note 3 - Revenue Recognition (continued)

Contract Balances (continued)

Accounts receivable represent weekly royalty payments that represent billed and unbilled receivables due as of November 30, 2024, 2023 and 2022. The balance of contract liabilities includes franchise fees and license fees that have ongoing contract rights and the fees are being straight lined over the contract life. Contract liabilities also include marketing fund balances and gift card liability balances.

	Accounts Receivable	Contract Liabilities
Balance at November 30, 2022	\$ 42,422	\$ 692,062
Revenue recognized	487,572	(1,655,144)
Amounts (collected) or invoiced, net	(489,208)	1,583,270
Balance at November 30, 2023	\$ 40,786	\$ 620,188
Revenue recognized	448,350	(1,499,334)
Amounts (collected) or invoiced, net	(437,246)	1,429,619
Balance at November 30, 2024	\$ 51,890	\$ 550,473

Transaction price allocated to remaining performance obligations:

2025	21,353
2026	21,218
2027	14,508
2028	22,599
2029	14,191
Thereafter	57,577
Total	\$ 151,447

The Company has elected to apply certain practical expedients as defined in ASC 606-10-50-14 through 606-10-50-14A, including (i) performance obligations that are a part of a contract that has an original expected duration of one year or less; (ii) the right to invoice practical expedient; and (iii) variable consideration related to unsatisfied performance obligations that is allocated entirely to a wholly unsatisfied promise to transfer a distinct service that forms part of a single performance obligation, and the terms of that variable consideration relate specifically to our efforts to transfer the distinct service, or to a specific outcome from transferring the distinct service. As such, sales-based royalty and marketing income, as well as gift card breakage revenue, is not included in the above transaction price chart.

BAB Systems, Inc.
Notes to the Financial Statements
November 30, 2024, 2023 and 2022

Note 4 – Units Open, Licensed and Under Development

Big Apple Bagels®, and My Favorite Muffin® opened, licensed units and unopened stores for which a Franchise Agreement has been executed are as follows:

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Franchisee-owned stores	61	63	68
Licensed Units	<u>4</u>	<u>4</u>	<u>4</u>
Total Units	<u>65</u>	<u>67</u>	<u>72</u>
Unopened stores with Franchise Agreements:	<u>4</u>	<u>5</u>	<u>2</u>
Total operating units and units Franchise Agreements	<u><u>69</u></u>	<u><u>72</u></u>	<u><u>74</u></u>

Note 5 – Goodwill

Accounting Standard Codification (“ASC”) 350 “Goodwill and Other Intangible Assets” requires that assets with indefinite lives no longer be amortized, but instead be subject to annual impairment tests. The Company follows this guidance.

Following the guidelines contained in ASC 350, the Company tests goodwill and intangible assets that are not subject to amortization for impairment annually or more frequently if events or circumstances indicate that impairment is possible. The Company has elected to conduct its annual test during the first quarter. During the quarters ended February 28, 2024, 2023 and 2022, management qualitatively assessed goodwill to determine whether testing was necessary. Factors that management considers in this assessment include macroeconomic conditions, industry and market considerations, overall financial performance (both current and projected), changes in management and strategy, and changes in the composition and carrying amounts of net assets. If this qualitative assessment indicates that it is more likely than not that the fair value of a reporting unit is less than it’s carrying value, a quantitative assessment is then performed.

Management reviewed and updated the qualitative assessment conducted during the first quarter 2024 at year end and does not believe that any impairment exists at November 30, 2024.

BAB Systems, Inc.
Notes to the Financial Statements
November 30, 2024, 2023 and 2022

Note 6 – Lease Receivable Commitments

In November 2024, the equipment lease with a franchisee was terminated, and the equipment securing the lease was sold. As a result, the Company recorded a loss of approximately \$11,700 on the lease termination after the sale of the equipment.

As of November 30, 2023, the lease was recorded as a lease receivable of \$38,306. During fiscal 2024, the Company collected \$5,446 in principal payments and \$354 in interest income related to the lease.

Proceeds received from the sale of the equipment were \$16,700 during the year ended November 30, 2024. Equipment held for sale at year-end of \$4,500 is included in Prepaids and other current assets. The equipment was sold subsequent to year-end.

Note 7 – Income Tax

The components of income tax expense for the years ended November 30, 2024, 2023 and 2022 are as follows:

	2024	2023	2022
Current			
Federal	\$ 123,906	\$ 118,446	\$ 68,985
State	41,951	40,103	23,356
Deferred	4,150	19,448	75,966
Income tax expense	<u>\$ 170,007</u>	<u>\$ 177,997</u>	<u>\$ 168,307</u>

Deferred tax assets (liabilities) are as follows at November 30:

	2024	2023
Franchise fee revenue	\$ 42,572	\$ 54,005
Marketing Fund net contributions	44,880	50,094
Allowance for doubtful accounts	14,365	8,116
Other accrued liabilities	61,950	55,702
Total Deferred Income Tax Assets	<u>163,767</u>	<u>167,917</u>
Depreciation and amortization	<u>(354,217)</u>	<u>(354,217)</u>
Total Deferred Income Tax Liabilities	<u>(354,217)</u>	<u>(354,217)</u>
Total Net Deferred Tax Liabilities	<u>\$ (190,450)</u>	<u>\$ (186,300)</u>

In fiscal 2024 the Company's effective tax rate including permanent differences used to compute income tax expense was 21.1% for the federal rate and a state rate of 7.1%, which is net of the federal tax effect.

In fiscal 2023 the Company's effective tax rate including permanent differences used to compute income tax expense was 21.7% for the federal rate and a state rate of 7.4%, which is net of the federal tax effect.

In fiscal 2022 the Company's effective tax rate including permanent differences used to compute income tax expense was 21.0% for the federal rate and a state rate of 7.1%, which is net of the federal tax effect.

BAB Systems, Inc.
Notes to the Financial Statements
November 30, 2024, 2023 and 2022

Note 8 – Related Party and Affiliate Transactions

Allocations for payroll and certain overhead expenses are charged from the Company to Inc and Operations. The allocation percentages are determined annually by management. Allocations from the Company to Inc for November 2024, 2023 and 2022 were \$548,200, \$577,900 and \$584,900, respectively. Allocations to Operations for November 2024, 2023 and 2022 were \$9,800, \$14,600 and \$19,200, respectively.

A License Agreement between the Company and Inc for the Company's use of the BAB trademark owned by Inc commenced on December 1, 2003 for a term of 10 years with automatic renewals for a five-year period until the Company notifies Inc in writing 120 days prior to renewal that it wishes to terminate the Agreement. The Agreement was automatically renewed through December 1, 2023. The Company is to pay Inc a license fee of 28% on the first \$3,000,000 of revenue earned by the Company for each fiscal year and 50% for any revenue in excess of \$3,000,000. All revenues are subject to a license fee. The expense in connection with this License Agreement to the Company for 2024, 2023 and 2022 was \$603,400, \$572,200, and \$540,600, respectively.

The balances owed to the Company by Operations and Inc. are considered contra-equity accounts because funds in Operations and Inc are limited. Amounts owed from Operations are reduced by the utilization of net operating loss carryovers that were generated by Operations. Balances are increased by allocations of expenses and reduced by the tax effect of net operating loss utilization. At November 30, 2024 and 2023, Operations owed the Company \$2,714,800 and \$2,557,500, respectively. Amounts owed the Company from Inc are reduced by the license fee expenses as explained above, rent expense allocated from BAB, Inc. for its office space, and funds received by Inc and transferred to the Company from nontraditional license fees. Balances are increased by allocations and reduced by license fees and any nontraditional income earned. At November 30, 2024 and 2023, Inc owed the Company \$5,036,900 and \$5,021,600, respectively.

Note 9 – Employee Benefits

The Company maintains a qualified 401(k) plan which allows participants to make pretax contributions and is established as a Safe Harbor plan. Employee contributions are matched by the Company in accordance with the Plan up to a maximum of 4% of employee earnings. The Company may also make discretionary contributions to the Plan. In fiscal 2024, 2023 and 2022 the Company's employer match was \$41,477, \$38,800 and \$40,100, respectively. There were no Company discretionary contributions in 2024, 2023 or 2022.

EXHIBIT Q TO FRANCHISE DISCLOSURE DOCUMENT

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EXHIBIT R TO FRANCHISE DISCLOSURE DOCUMENT

STATE ADDENDUM

Some administrators of franchise registration states may require BAB to enter into an addendum to the BAB SYSTEMS, INC. Franchise Disclosure Document and Franchise Agreement describing certain state laws or regulations which may supersede the Franchise Disclosure Document or Franchise Agreement. If you are in a registration state which requires an addendum, it will follow this page.

Attached are the state addenda for California, Illinois, Indiana, Maryland, Minnesota, New York, North Dakota, Rhode Island, Virginia, and Wisconsin.

No statement, questionnaire, or acknowledgment signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the franchisor. This provision supersedes any other term of any document executed in connection with the franchise

EXHIBIT R
BAB SYSTEMS, INC.
ADDENDUM TO FRANCHISE DISCLOSURE DOCUMENT
FOR THE STATE OF CALIFORNIA

The BAB Systems, Inc. Franchise Disclosure Document (“FDD”) for use in the State of California is modified in accordance with the following:

1. ALTHOUGH THESE FRANCHISES HAVE BEEN REGISTERED UNDER THE FRANCHISE INVESTMENT LAW OF THE STATE OF CALIFORNIA, SUCH REGISTRATION DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION OR ENDORSEMENT BY THE COMMISSIONER OF THE DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION NOR A FINDING BY THE COMMISSIONER THAT THE INFORMATION PROVIDED HEREIN IS TRUE, COMPLETE AND NOT MISLEADING.
2. THE CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES THAT A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE FRANCHISE DISCLOSURE DOCUMENT.
3. OUR WEBSITE HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION. ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION at www.dfpi.ca.gov.
4. FRANCHISEE MUST SIGN A PERSONAL GUARANTEE TO AGREE TO BE PERSONALLY LIABLE FOR THE FRANCHISEE’S OBLIGATIONS MAKING YOU AND YOUR SPOUSE INDIVIDUALLY LIABLE FOR YOUR FINANCIAL OBLIGATIONS UNDER THE AGREEMENT IF YOU ARE MARRIED. THE GUARANTEE WILL PLACE YOUR AND YOUR SPOUSE’S MARITAL AND PERSONAL ASSETS AT RISK IF YOUR FRANCHISE FAILS.
5. YOU WILL NOT RECEIVE AN EXCLUSIVE TERRITORY. YOU MAY FACE COMPETITION FROM OTHER FRANCHISEES, FROM OUTLETS THAT WE OWN, OR FROM OTHER CHANNELS OF DISTRIBUTION OR COMPETITIVE BRANDS THAT WE CONTROL.
6. THE BAGELS FRANCHISE AGREEMENT AND THE BAGELS AREA DEVELOPMENT AGREEMENT CONTAIN PROVISIONS WHICH MAY LIMIT FRANCHISEE’S RIGHTS INCLUDING BUT NOT LIMITED TO: A LIMITATION OF ACTIONS, WAIVER OF PUNITIVE DAMAGES, WAIVER OF JURY TRIAL AND CLASS ACTION WAIVER.
7. AS SECURITY FOR PAYMENT OF ALL SUMS DUE TO FRANCHISOR FROM FRANCHISEE, FRANCHISEE GRANTS A CONTINUING SECURITY INTEREST IN FRANCHISEE’S PROPERTY.
8. Item 3 of the Franchise Disclosure Document on "Litigation" is amended by the addition of the following:

Neither BAB, nor any person or franchise broker in Item 2 of the FDD is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities Exchange Act of 1934, 15 U.S.C.A. 78a et seq., suspending or expelling such persons from membership in such association or exchange.

9. Item 17 of the Franchise Disclosure Document on "Renewal, Termination, Transfer and Dispute Resolution" is amended by the addition of the following:

California Business and Professions Code Sections 20000 through 20043 provide rights to the franchisee concerning termination, transfer, or nonrenewal of a franchise. If the BAGELS Franchise Agreement contains a provision that is inconsistent with the law, the law will control.

The BAGELS Franchise Agreement provides for termination upon bankruptcy. This provision may not be enforceable under federal bankruptcy law (11 U.S.C.A. Sec. 101 et seq.).

The BAGELS Franchise Agreement contains a covenant not to compete which extends beyond the termination of the franchise. This provision may not be enforceable under California law.

The BAGELS Franchise Agreement contains a liquidated damages clause. Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable.

The BAGELS Franchise Agreement contains a waiver of jury trial clause. This provision may not be enforceable under California law."

The BAGELS Franchise Agreement requires binding arbitration. The arbitration will occur in Chicago, Illinois with the costs being borne by the losing party. Prospective franchisees are encouraged to consult private legal counsel to determine the applicability of California and federal laws (such as Business and Professions Code Section 20040.05, Code of Civil Procedure Section 1281, and the Federal Arbitration Act) to any provisions of a BAGELS Franchise Agreement restricting venue to a forum outside the State of California.

The BAGELS Franchise Agreement requires that litigation of disputes (those not required to be arbitrated) will occur in the State of Illinois with the costs being borne by the losing party. This provision may not be enforceable under California law.

The BAGELS Franchise Agreement requires application of the laws of the State of Illinois. This provision may not be enforceable under California law.

10. Section 31125 of the California Corporations Code requires us to give you a disclosure document, in a form containing the information that the commissioner may by rule or order require, before a solicitation of a proposed material modification of an existing franchise.

11. You must sign a general release if you renew or transfer your franchise. California Corporations Code Section 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code Sections 31000 through 31516). Business and Professions Code Section 20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code Sections 20000 through 20043).

**BAB SYSTEMS, INC.
ADDENDUM TO THE BAGELS FRANCHISE AGREEMENT
FOR THE STATE OF CALIFORNIA**

This addendum to the BAGELS Franchise Agreement is agreed to this _____ day of _____, 20____, between BAB SYSTEMS, INC. (Franchisor) and _____ (Franchisee) to amend said Agreement as follows:

1. Paragraph 18.g. of the BAGELS Franchise Agreement on Limitation of Claims is amended by the addition of the following language to the original language that appears therein:

“The BAGELS Franchise Agreement provides that the Franchisee must give Franchisor written notice of at least fourteen (14) days prior to filing arbitration or litigation. This provision may not be enforceable under California law.”

In witness whereof, each of the undersigned hereby acknowledges having read this Addendum, understands and consents to be bound by all of its terms, and agrees it shall become effective the _____ day of _____, 20____.

Franchisor:
BAB SYSTEMS, INC.
an Illinois corporation

Franchisee:
Corporate/LLC Signature:

a _____ corporation/LLC

By: _____
Title: _____
Date Accepted: _____

By: _____
Title: _____
Date Accepted: _____

Individual Signatures:

Exhibit R
BAB SYSTEMS, INC.
ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT
FOR THE STATE OF ILLINOIS

The following RISK FACTORS are added to the State Cover Page:

BAB, INC., THE FRANCHISOR'S PARENT COMPANY, IS THE OWNER OF THE TRADEMARKS.

THERE MAY BE OTHER RISKS GOVERNING THIS FRANCHISE.

The following are added to the Franchise Disclosure Document:

Illinois law governs the BAGELS Franchise Agreements.

In conformance with Section 4 of the Illinois Franchise Disclosure Act, any provision in a BAGELS Franchise Agreement that designates jurisdiction and venue in a forum outside of the State of Illinois is void. However, a BAGELS Franchise Agreement may provide for arbitration to take place outside of Illinois.

Franchisee's rights upon termination and non-renewal are set forth in Sections 19 and 20 of the Illinois Franchise Disclosure Act.

In conformance with Section 41 of the Illinois Franchise Disclosure Act, any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with the Illinois Franchise Disclosure Act or any other law of Illinois is void.

BAB SYSTEMS, INC.
ADDENDUM TO THE BAGELS FRANCHISE AGREEMENT
FOR THE STATE OF ILLINOIS

This Addendum is to a BAGELS Franchise Agreement dated _____, 20__ between BAB Systems, Inc. and _____(Franchisee) to amend said Agreement to add the following:

Illinois law governs the BAGELS Franchise Agreement.

In conformance with Section 4 of the Illinois Franchise Disclosure Act, any provision in a BAGELS Franchise Agreement that designates jurisdiction and venue in a forum outside of the State of Illinois is void. However, a BAGELS Franchise Agreement may provide for arbitration to take place outside of Illinois.

Franchisee's rights upon termination and non-renewal are set forth in Sections 19 and 20 of the Illinois Franchise Disclosure Act.

In conformance with Section 41 of the Illinois Franchise Disclosure Act, any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with the Illinois Franchise Disclosure Act or any other law of Illinois is void.

In witness whereof, each of the undersigned hereby acknowledges having read this Addendum, understands and consents to be bound by all of its terms, and agrees it shall become effective the _____ day of _____, 20____.

Franchisor:
BAB SYSTEMS, INC.
an Illinois corporation

Franchisee:
Corporate/LLC Signature:

a _____ corporation/LLC

By: _____
Title: _____
Date Accepted: _____

By: _____
Title: _____
Date Accepted: _____

Individual Signatures:

Rider A to BAGELS Franchise Agreement
(for use in Illinois)

TO THAT CERTAIN
BAB SYSTEMS BAGELS FRANCHISE AGREEMENT
BY AND BETWEEN BAB SYSTEMS, INC.
AND _____
DATED _____, 20____
(the "BAGELS Franchise Agreement")

The parties hereto agree that the BAB Systems Store to be operated by Franchisee pursuant to the BAGELS Franchise Agreement shall be located at the following premises:

Dated: _____

Franchisor:
BAB SYSTEMS, INC.
an Illinois corporation

Franchisee:
Corporate/LLC Signature:

a _____ corporation/LLC

By: _____
Title: _____
Date Accepted: _____

By: _____
Title: _____
Date Accepted: _____

Individual Signatures:

BAB SYSTEMS, INC.
ADDENDUM TO THE BAGELS AREA DEVELOPMENT AGREEMENT
FOR THE STATE OF ILLINOIS

This Addendum is to a BAGELS Area Development Agreement dated _____, 20__ between BAB Systems, Inc. and _____(Developer) to amend said Agreement to add the following:

Illinois law governs the BAGELS Area Development Agreement.

In conformance with Section 4 of the Illinois Franchise Disclosure Act, any provision in a BAGELS Franchise Agreement that designates jurisdiction and venue in a forum outside of the State of Illinois is void. However, a BAGELS Franchise Agreement may provide for arbitration to take place outside of Illinois.

Franchisee's rights upon termination and non-renewal are set forth in Sections 19 and 20 of the Illinois Franchise Disclosure Act.

In conformance with Section 41 of the Illinois Franchise Disclosure Act, any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with the Illinois Franchise Disclosure Act or any other law of Illinois is void.

In witness whereof, each of the undersigned hereby acknowledges having read this Addendum, understands and consents to be bound by all of its terms, and agrees it shall become effective the _____ day of _____, 20____.

Franchisor:
BAB SYSTEMS, INC.
an Illinois corporation

Developer:
Corporate/LLC Signature:

a _____ corporation/LLC

By: _____
Title: _____
Date Accepted: _____

By: _____
Title: _____
Date Accepted: _____

Individual Signatures:

Exhibit R to Franchise Disclosure Document

**BAB SYSTEMS, INC.
ADDENDUM TO THE FRANCHISE AGREEMENT
FOR THE STATE OF INDIANA**

This Addendum is to a Franchise Agreement dated _____, 20__ between BAB Systems, Inc. and _____ (Franchisee) to amend said Agreement as follows:

The Indiana Franchises Law, Title 23, Chapter 2.5, Sections 1 through 51 of the Indiana Code, supersedes any provisions of the Franchise Agreement if such provisions are in conflict with that law.

In witness whereof, each of the undersigned hereby acknowledges having read this Addendum, understands and consents to be bound by all of its terms, and agrees it shall become effective the _____ day of _____, 20__.

Franchisor:
BAB SYSTEMS, INC.
an Illinois corporation

Franchisee:
Corporate/LLC Signature:

a _____ corporation/LLC

By: _____
Title: _____
Date Accepted: _____

By: _____
Title: _____
Date Accepted: _____

Individual Signatures:

BAB SYSTEMS, INC.
ADDENDUM TO THE AREA DEVELOPMENT AGREEMENT
FOR THE STATE OF INDIANA

This Addendum is to an Area Development Agreement dated _____, 20__ between BAB Systems, Inc. and _____(Developer) to amend said Agreement as follows:

The Indiana Franchises Law, Title 23, Chapter 2.5, Sections 1 through 51 of the Indiana Code, supersedes any provisions of the Area Development Agreement if such provisions are in conflict with that law.

In witness whereof, each of the undersigned hereby acknowledges having read this Addendum, understands and consents to be bound by all of its terms, and agrees it shall become effective the _____ day of _____, 20_____.

Franchisor:
BAB SYSTEMS, INC.
an Illinois corporation

Area Developer:
Corporate/LLC Signature:

a _____ corporation/LLC

By: _____
Title: _____
Date Accepted: _____

By: _____
Title: _____
Date Accepted: _____

Individual Signatures:

EXHIBIT R
BAB SYSTEMS, INC.
ADDENDUM TO FRANCHISE DISCLOSURE DOCUMENT
FOR THE STATE OF MARYLAND

The BAB Systems, Inc. Franchise Disclosure Document (“FDD”) for use in the State of Maryland is modified in accordance with the following:

4. Item 17 of the Franchise Disclosure Document on "Renewal, Termination, Transfer and Dispute Resolution" is amended by the addition of the following:

The general release required as a condition of renewal and/or assignment/transfer shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.

Franchisee may bring a lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.

Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchise.

The provision in the BAGELS Franchise Agreement which provides for termination upon bankruptcy of the franchisee may not be enforceable under federal bankruptcy law (11. U.S.C. Section 101 et. seq.).

EXHIBIT R
BAB SYSTEMS, INC.
ADDENDUM TO THE BAGELS FRANCHISE AGREEMENT
FOR THE STATE OF MARYLAND

This Addendum is to a BAGELS Franchise Agreement dated _____, 20__ between BAB Systems, Inc. and _____(Franchisee) to amend said Agreement as follows:

1. Paragraph 2.b. of the BAGELS Franchise Agreement on Renewal, and Paragraph 14.b. of the BAGELS Franchise Agreement on Transfer by Franchisee are amended by the addition of the following language to the original language that appears therein:

"Any provision allowing Franchisee to execute a general release of any and all claims against Franchisor shall not apply to any liability under Maryland Franchise Registration and Disclosure Law."

2. Paragraph 10.a. of the BAGELS Franchise Agreement on Marketing and Promotion by Franchisor is amended by the addition of the following language to the original language that appears therein:

"Franchisor will provide Franchisee with an annual accounting of the advertising fees collected."

3. Section 16 of the BAGELS Franchise Agreement on Termination by Franchisor for Cause is amended by the addition of the following language to the original language that appears therein:

"Termination upon bankruptcy of the Franchisee may not be enforceable under federal bankruptcy law (11 U.S.C. Section 101 et seq.)."

4. Paragraph 18.e. of the BAGELS Franchise Agreement on Governing Law/Consent to Jurisdiction shall be amended by the addition of the following language to the original language that appears therein:

"Franchisee may bring a lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law."

5. Paragraph 18.g. of the BAGELS Franchise Agreement on Limitation of Claims shall be amended by the addition of the following language to the original language that appears therein:

"; provided, however, that the limitation of such claims shall not act to reduce the three (3) year statute of limitations afforded Franchisee for bringing a claim under the Maryland Franchise Registration and Disclosure Law. Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchise."

6. Section 20 of the BAGELS Franchise Agreement on Acknowledgements by Franchisee shall be amended by the addition of the following language to the original language that appears therein:

"The representations of this section are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law."

In witness whereof, each of the undersigned hereby acknowledges having read this Addendum, understands and consents to be bound by all of its terms, and agrees it shall become effective this__day of , 20__.

Franchisor:
BAB SYSTEMS, INC.
an Illinois corporation

Franchisee:
Corporate/LLC Signature:

a _____ corporation/LLC

By: _____
Title: _____
Date Accepted: _____

By: _____
Title: _____
Date Accepted: _____

Individual Signatures:

**BAB SYSTEMS, INC.
ADDENDUM TO THE BAGELS AREA DEVELOPMENT AGREEMENT
FOR THE STATE OF MARYLAND**

This Addendum is to a BAGELS Area Development Agreement dated _____, 20__ between BAB Systems, Inc. and _____(Developer) to amend said Agreement as follows:

1. Paragraph 1.E. of the BAGELS Area Development Agreement on Acknowledgements by Developer shall be amended by the addition of the following language to the original language that appears therein:

"The representations of this section are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law."

2. Paragraph 13.F. of the BAGELS Area Development Agreement on Exclusive Jurisdiction shall be amended by the addition of the following language to the original language that appears therein:

"Developer may bring a lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law."

3. Paragraph 13.J. of the BAGELS Area Development Agreement on Limitation of Claims shall be amended by the addition of the following language to the original language that appears therein:

"; provided, however, that the limitation of such claims shall not act to reduce the three (3) year statute of limitations afforded Developer for bringing a claim under the Maryland Franchise Registration and Disclosure Law. Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchise."

Signature page follows

In witness whereof, each of the undersigned hereby acknowledges having read this Addendum, understands and consents to be bound by all of its terms, and agrees it shall become effective this__ day of , 20__.

Franchisor:
BAB SYSTEMS, INC.
an Illinois corporation

Developer:
Corporate/LLC Signature:

a _____ corporation/LLC

By: _____
Title: _____
Date Accepted: _____

By: _____
Title: _____
Date Accepted: _____

Individual Signatures:

**BAB SYSTEMS, INC.
ADDENDUM TO THE ACKNOWLEDGEMENT AND DISCLOSURE STATEMENT
FOR THE STATE OF MARYLAND**

This Addendum is to an Acknowledgement and Disclosure Statement dated _____, 20____ between BAB Systems, Inc. and _____ (Franchisee) to amend said Statement as follows:

"Nothing contained in this Statement is intended to, nor shall it act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law."

Date: _____

Franchisor:
BAB SYSTEMS, INC.
an Illinois corporation

Franchisee:
Corporate/LLC Signature:

a _____ corporation/LLC

By: _____
Title: _____
Date Accepted: _____

By: _____
Title: _____
Date Accepted: _____

Individual Signatures:

EXHIBIT R
BAB SYSTEMS, INC.
ADDENDUM TO FRANCHISE DISCLOSURE DOCUMENT
FOR THE STATE OF MINNESOTA

The BAB Systems, Inc. Franchise Disclosure Document for use in the State of Minnesota is modified in accordance with the following:

1. Item 13 of the Franchise Disclosure Document on "Trademarks" is amended by the addition of the following language to the original language that appears therein:

"In the event Franchisee's right to the use of any name, mark or commercial symbol licensed hereunder is the subject of any claim, suit or demand (a "threat"), Franchisor shall either defend Franchisee against the threat or indemnify Franchisee from any loss, costs or expenses arising therefrom, provided and on condition, Franchisee:

- A. delivers to Franchisor prompt written notice of the threat;
- B. grants Franchisor written authorization to take unrestricted control over the defense and settlement of the threat with counsel of its choice;
- C. did not cause or give rise to the threat due to a material failure to comply with Franchisor's previously communicated trademark usage requirements;
- D. cooperates promptly and fully with Franchisor in the defense, mitigation, and/or settlement of the threat; and
- E. does not jeopardize or compromise any right, defense, obligation or liability of Franchisor, by making any statement to, or entering into any agreement with, the threatening party which does not have the advance written consent of Franchisor, unless required by applicable law."

2. Item 17 of the Franchise Disclosure Document is amended by the addition of the following language to the original language that appears therein:

"With respect to franchises governed by Minnesota law, Franchisor will comply with Minn. Stat. Sec. 80C.14, Subd. 3, 4 and 5 which require, except in certain specified cases, that a franchisee be given 90 days' notice of termination (with 60 days to cure) and 180 days' notice for non-renewal of the BAGELS Franchise Agreement."

"Minnesota Law prohibits franchisors from requiring its franchisees to prospectively assent to a release, assignment, novation, waiver or estoppel which purports to relieve any person from liability. Therefore, Franchisee shall not be required to agree to subsequently execute a general release of any and all claims against Franchisor and its affiliates, their officers, directors, employees and agents."

"Minn. Stat. Sec. 80C.21 and Minn. Rule Part 2860.4400J prohibit us from requiring litigation to be conducted outside Minnesota. In addition, nothing in the Franchise Disclosure Document or agreement can abrogate or reduce any of your rights as provided for in Minnesota Statutes, Chapter 80C, or your rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction."

BAB SYSTEMS, INC.
ADDENDUM TO THE BAGELS FRANCHISE AGREEMENT
FOR THE STATE OF MINNESOTA

This Addendum is to a BAGELS Franchise Agreement dated _____, 20__ between BAB Systems, Inc. and _____(Franchisee) to amend said Agreement as follows:

1. Paragraph 2.b. of the BAGELS Franchise Agreement on Renewal and Section 16 of the BAGELS Franchise Agreement on Termination is amended by the addition of the following language to the original language that appears therein:

"Minnesota law provides franchisees with certain termination and non-renewal rights. Minn. Stat. Sec. 80C.14, Subd. 3, 4 and 5 require, except in certain specified cases, that a franchisee be given 90 days' notice of termination (with 60 days to cure) and 180 days' notice for non-renewal of the BAGELS Franchise Agreement. These provisions of Minnesota law are hereby incorporated by reference in this Agreement."

2. Paragraph 2.b. of the BAGELS Franchise Agreement on renewal and Paragraph 14.b. of the BAGELS Franchise Agreement on the Transfer by Franchisee are amended by the addition of the following language to the original language that appears therein.

"Minnesota Law prohibits franchisors from requiring its franchisees to prospectively assent to a release, assignment, novation, waiver or estoppel which purports to relieve any person from liability. Therefore, Franchisee shall not be required to agree to subsequently execute a general release of any and all claims against Franchisor and its affiliates, their officers, directors, employees and agents."

3. Section 5 of the BAGELS Franchise Agreement on Marks is amended by the addition of the following language to the original language that appears therein:

"In the event Franchisee's right to the use of any name, mark or commercial symbol licensed hereunder is the subject of any claim, suit or demand (a "threat"), Franchisor shall either defend Franchisee against the threat or indemnify Franchisee from any loss, costs or expenses arising therefrom, provided and on condition, Franchisee:

- A. delivers to Franchisor prompt written notice of the threat;
- B. grants Franchisor written authorization to take unrestricted control over the defense and settlement of the threat with counsel of its choice;
- C. did not cause or give rise to the threat due to a material failure to comply with Franchisor's previously communicated trademark usage requirements;
- D. cooperates promptly and fully with Franchisor in the defense, mitigation, and/or settlement of the threat; and
- E. does not jeopardize or compromise any right, defense, obligation or liability of Franchisor, by making any statement to, or entering into any agreement with, the threatening party which does not have the advance written consent of Franchisor, unless required by applicable law."

4. Paragraph 17.d. of the BAGELS Franchise Agreement on Covenants Not to Compete is amended by the addition of the following language to the original language that appears therein:

"These provisions may not be enforceable under Minnesota law."

5. Paragraph 18.e. of the BAGELS Franchise Agreement on Governing Law/Consent to Jurisdiction is amended by the addition of the following language to the original language that appears therein:

"Minn. Stat. Sec. 80C.21 and Minn. Rule Part 2860.4400J prohibit us from requiring litigation to be conducted outside Minnesota. In addition, nothing in the Franchise Disclosure Document or agreement can abrogate or reduce any of your rights as provided for in Minnesota Statutes, Chapter 80C, or your rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction."

6. Paragraph 18.f. of the BAGELS Franchise Agreement on Waiver of Jury Trial is deleted in its entirety.

7. Paragraph 18.g. of the BAGELS Franchise Agreement on Limitations of Claims is amended by the addition of the following language to the original language that appears therein:

"The statute of limitations under the Minnesota Stat. Sec. 80C.17 Subd. 5 shall govern for actions brought under that law."

In witness whereof, each of the undersigned hereby acknowledges having read this Addendum, understands and consents to be bound by all of its terms, and agrees it shall become effective the _____ day of _____, 20____.

Franchisor:
BAB SYSTEMS, INC.
an Illinois corporation

Franchisee:
Corporate/LLC Signature:

a _____ corporation/LLC

By: _____
Title: _____
Date Accepted: _____

By: _____
Title: _____
Date Accepted: _____

Individual Signatures:

EXHIBIT R
BAB SYSTEMS, INC.
ADDENDUM TO FRANCHISE DISCLOSURE DOCUMENT
FOR THE STATE OF NEW YORK

The BAB Systems, Inc. Offering Prospectus for use in the State of New York is modified in accordance with the following:

1. All references made here to a Franchise Disclosure Document shall be amended to Offering Prospectus.
2. The following information is added to the cover page of the Franchise Disclosure Document:

INFORMATION COMPARING FRANCHISORS IS AVAILABLE. CALL THE STATE ADMINISTRATORS LISTED IN EXHIBIT J OR YOUR PUBLIC LIBRARY FOR SOURCES OF INFORMATION. REGISTRATION OF THIS FRANCHISE BY NEW YORK STATE DOES NOT MEAN THAT NEW YORK STATE RECOMMENDS IT OR HAS VERIFIED THE INFORMATION IN THIS DISCLOSURE DOCUMENT. IF YOU LEARN THAT ANYTHING IN THE FRANCHISE DISCLOSURE DOCUMENT IS UNTRUE, CONTACT THE FEDERAL TRADE COMMISSION AND NEW YORK STATE DEPARTMENT OF LAW, INVESTOR PROTECTION BUREAU, 28 LIBERTY STREET, 21ST FLOOR, NEW YORK, NEW YORK 10005. THE FRANCHISOR MAY, IF IT CHOOSES, NEGOTIATE WITH YOU ABOUT ITEMS COVERED IN THE FRANCHISE DISCLOSURE DOCUMENT. HOWEVER, THE FRANCHISOR CANNOT USE THE NEGOTIATING PROCESS TO PREVAIL UPON A PROSPECTIVE FRANCHISEE TO ACCEPT TERMS WHICH ARE LESS FAVORABLE THAN THOSE SET FORTH IN THIS FRANCHISE DISCLOSURE DOCUMENT.

3. The following is added at the end of Item 3:

Except as provided above, with regard to the franchisor, its predecessor, a person identified in Item 2, or an affiliate offering franchises under the franchisor's principal trademark:

A. No such party has an administrative, criminal or civil action pending against that person alleging: a felony, a violation of a franchise, antitrust, or securities law, fraud, embezzlement, fraudulent conversion, misappropriation of property, unfair or deceptive practices, or comparable civil or misdemeanor allegations.

B. No such party has pending actions, other than routine litigation incidental to the business, which are significant in the context of the number of franchisees and the size, nature or financial condition of the

franchise system or its business operations.

C. No such party has been convicted of a felony or pleaded nolo contendere to a felony charge or, within the 10 year period immediately preceding the application for registration, has been convicted of or pleaded nolo contendere to a misdemeanor charge or has been the subject of a civil action alleging: violation of a franchise, antifraud, or securities law; fraud; embezzlement; fraudulent conversion or misappropriation of property; or unfair or deceptive practices or comparable allegations.

D. No such party is subject to a currently effective injunctive or restrictive order or decree relating to the franchise, or under a Federal, State, or Canadian franchise, securities, antitrust, trade regulation or trade practice law, resulting from a concluded or pending action or proceeding brought by a public agency; or is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities and Exchange Act of 1934, suspending or expelling such person from membership in such association or exchange; or is subject to a currently effective injunctive or restrictive order relating to any other business activity as a result of an action brought by a public agency or department, including, without limitation, actions affecting a license as a real estate broker or sales agent.

4. The following is added to the end of Item 4:

Neither the franchisor, its affiliate, its predecessor, officers, or general partner during the 10-year period immediately before the date of the offering circular: (a) filed as debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code; (b) obtained a discharge of its debts under the bankruptcy code; or (c) was a principal officer of a company or a general partner in a partnership that either filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code or that obtained a discharge of its debts under the U.S. Bankruptcy Code during or within 1 year after that officer or general partner of the franchisor held this position in the company or partnership.

5. The following is added to the end of Item 5:

The initial franchise fee constitutes part of our general operating funds and will be used as such in our discretion.

6. The following is added to the end of the “Summary” sections of Item 17(c), titled “Requirements for franchisee to renew or extend,” and Item 17(m), entitled “Conditions for franchisor approval of transfer”:

However, to the extent required by applicable law, all rights you enjoy and any causes of action arising in your favor from the provisions of Article 33 of the General Business Law of the State of New York and the regulations issued thereunder shall remain in force; it being the intent of

this proviso that the non-waiver provisions of General Business Law Sections 687.4 and 687.5 be satisfied.

7. The following language replaces the “Summary” section of Item 17(d), titled “Termination by franchisee”:

You may terminate the agreement on any grounds available by law.

8. The following is added to the end of the “Summary” section of Item 17(j), titled “Assignment of contract by franchisor”:

However, no assignment will be made except to an assignee who in good faith and judgment of the franchisor, is willing and financially able to assume the franchisor’s obligations under the BAGELS Franchise Agreement.

9. The following is added to the end of the “Summary” sections of Item 17(v), titled “Choice of forum”, and Item 17(w), titled “Choice of law”:

The foregoing choice of law should not be considered a waiver of any right conferred upon the franchisor or upon the franchisee by Article 33 of the General Business Law of the State of New York.

BAB SYSTEMS, INC.
ADDENDUM TO THE BAGELS FRANCHISE AGREEMENT
FOR THE STATE OF NEW YORK

This Addendum is to a BAGELS Franchise Agreement dated _____, 20__ between BAB Systems, Inc. and _____(Franchisee) to amend said Agreement as follows:

1. Paragraph 2.b. of the BAGELS Franchise Agreement on Renewal and Paragraph 14.b. of the BAGELS Franchise Agreement on Transfer by Franchisee shall be amended by the addition of the following language to the original language that appears therein:

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

2. Paragraph 14.a. of the BAGELS Franchise Agreement on Transfer by Franchisor shall be amended by the addition of the following language to the original language that appears herein:

"However, Franchisor shall not assign its rights and obligations to a transferee unless in its reasonable judgment, the transferee is able to fulfill the Franchisor's obligations under its BAGELS Franchise Agreements."

3. Paragraph 18.e. of the BAGELS Franchise Agreement on Governing Law/Consent to Jurisdiction shall be amended by the addition of the following language to the original language that appears therein:

"The foregoing choice of law shall not be considered a waiver of any right conferred upon the Franchisee by the provisions of Article 33 of the General Business Law of the State of New York."

IN WITNESS WHEREOF, each of the undersigned hereby acknowledges having read this Addendum, understands and consents to be bound by all of its terms, and agrees it shall become effective this ___ day of _____, 20__.

Franchisor:
BAB SYSTEMS, INC.
an Illinois corporation

Franchisee:
Corporate/LLC Signature:

a _____ corporation/LLC

By: _____
Title: _____
Date Accepted: _____

By: _____
Title: _____
Date Accepted: _____

Individual Signatures:

BAB SYSTEMS, INC.
ADDENDUM TO THE BAGELS AREA DEVELOPMENT AGREEMENT
FOR THE STATE OF NEW YORK

This Addendum is to a BAGELS Area Development Agreement dated _____, 20__ between BAB Systems, Inc. and _____ (Franchisee) to amend said Agreement as follows:

1. Paragraph 12.B. of the BAGELS Area Development Agreement on Transfer by Developer shall be amended by the addition of the following language to the original language that appears therein:

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

"However, Franchisor shall not assign its rights and obligations to a transferee unless in its reasonable judgment, the transferee is able to fulfill the Franchisor's obligations under its BAGELS Franchise Agreements."

2. Paragraph 13.E. of the BAGELS Area Development Agreement on Governing Law shall be amended by the addition of the following language to the original language that appears therein:

"The foregoing choice of law shall not be considered a waiver of any right conferred upon the Franchisee by the provisions of Article 33 of the General Business Law of the State of New York."

IN WITNESS WHEREOF, each of the undersigned hereby acknowledges having read this Addendum, understands and consents to be bound by all of its terms, and agrees it shall become effective this ___ day of _____, 20__.

Franchisor:
BAB SYSTEMS, INC.
an Illinois corporation

Developer:
Corporate/LLC Signature:

a _____ corporation/LLC

By: _____
Title: _____
Date Accepted: _____

By: _____
Title: _____
Date Accepted: _____

Individual Signatures:

The Franchisor represents that this offering prospectus does not knowingly omit any material fact or contain any untrue statement of a material fact.

EXHIBIT R
BAB SYSTEMS, INC.
ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT
FOR THE STATE OF NORTH DAKOTA

The BAB Systems, Inc. Franchise Disclosure Document for use in the State of North Dakota is modified in accordance with the following:

1. Item 17, c. of the Franchise Disclosure Document on "Requirements for you to renew or extend" is amended by the addition of the following:

"The execution of a general release upon renewal shall be inapplicable to franchises operating under the North Dakota Franchise Investment Law."

2. Item 17, i. of the Franchise Disclosure Document on "Franchisee's obligations on termination/ nonrenewal" is amended by the addition of the following:

"The liquidated damages provisions in Section 17.g. of the Franchise Agreement (Liquidated Damages) shall not apply in the State of North Dakota."

3. Item 17, r. of the Franchise Disclosure Document on "Non-competition covenants after the franchise is terminated or expires" is amended by the addition of the following:

"Covenants not to compete such as those mentioned above are generally unenforceable in the State of North Dakota."

4. Item 17, u. of the Franchise Disclosure Document on "Dispute resolution by arbitration or mediation" shall be amended by the addition of the following:

"Arbitration of disputes with franchises operating under the North Dakota Franchise Investment Law shall be at a location mutually agreeable to the parties."

5. Item 17, v. of the Franchise Disclosure Document on "Choice of forum" shall be amended by the addition of the following:

"The consent to the jurisdiction of the courts of the state of Illinois shall be inapplicable to franchises operating under the North Dakota Franchise Investment Law."

6. Item 17, w. of the Franchise Disclosure Document on "Choice of law" shall be amended by the addition of the following:

"Section 17.e. of the BAGELS Franchise Agreement on "Governing Law/Consent to Jurisdiction" is inapplicable to franchises operating under the North Dakota Franchise Investment Law."

BAB SYSTEMS, INC.
ADDENDUM TO THE BAGELS FRANCHISE AGREEMENT
FOR THE STATE OF NORTH DAKOTA

This Addendum is to a BAGELS Franchise Agreement dated _____, 20__ between BAB Systems, Inc. and _____(Franchisee) to amend said Agreement as follows:

1. Section 2.b.i(i). of the BAGELS Franchise Agreement on "Renewal" is amended by the addition of the following language to the original language that appears therein:

"The execution of a general release upon renewal shall be inapplicable to franchises operating under the North Dakota Franchise Investment Law."

2. Section 17.d. of the BAGELS Franchise Agreement on "Covenant Not to Compete" is amended by the addition of the following language to the original language that appears therein:

"Covenants not to compete such as those mentioned above are generally unenforceable in the State of North Dakota."

3. Section 17.g. of the BAGELS Franchise Agreement on "Liquidated Damages" is deleted in its entirety.

4. Section 18.e. of the BAGELS Franchise Agreement on "Governing Law/Consent to Jurisdiction" is deleted in its entirety.

5. Section 18.f. of the BAGELS Franchise Agreement on "Waiver of Jury Trial" is deleted in its entirety.

6. Section 18.g. of the BAGELS Franchise Agreement on "Limitation of Claims" is deleted in its entirety.

7. Section 18.l.i.of the BAGELS Franchise Agreement on "Mandatory and Binding Arbitration" shall be amended in part as follows:

"Arbitration of disputes with franchises operating under the North Dakota Franchise Investment Law shall be at a location mutually agreeable to the parties."

8. Section 18.l.ii. of the BAGELS Franchise Agreement on "Mandatory and Binding Arbitration" is amended in part by deleting the following phrase: "...provided that the arbitrator shall not have the authority to award exemplary or punitive damages..."

In witness whereof, each of the undersigned hereby acknowledges having read this Addendum, understands and consents to be bound by all of its terms, and agrees it shall become effective this _____ day of _____, 20____.

Franchisor:
BAB SYSTEMS, INC.
an Illinois corporation

Franchisee:
Corporate/LLC Signature:

a _____ corporation/LLC

By: _____
Title: _____
Date Accepted: _____

By: _____
Title: _____
Date Accepted: _____

Individual Signatures:

**BAB SYSTEMS, INC.
ADDENDUM TO THE BAGELS AREA DEVELOPMENT AGREEMENT
FOR THE STATE OF NORTH DAKOTA**

This Addendum is to a BAGELS Area Development Agreement dated _____, 20____ between BAB Systems, Inc. and _____(Area Developer) to amend said Agreement as follows:

1. Section 11.C. of the BAGELS Area Development Agreement on "Covenant Not to Compete" is amended by the addition of the following language to the original language that appears therein:

"Covenants not to compete such as those mentioned above are generally unenforceable in the State of North Dakota."

2. Section 13.E. of the BAGELS Area Development Agreement on "Governing Law" is deleted in its entirety.
3. Section 13.F. of the BAGELS Area Development Agreement on "Exclusive Jurisdiction" is deleted in its entirety.
4. Section 13.G(1) of the BAGELS Area Development Agreement on "Mandatory and Binding Arbitration" shall be amended in part as follows:

"Arbitration of disputes with franchises operating under the North Dakota Franchise Investment Law shall be at a location mutually agreeable to the parties."

5. Section 13.G(2) of the BAGELS Area Development Agreement on "Mandatory and Binding Arbitration" is amended in part by deleting the following phrase: "...provided that the arbitrator shall not have the authority to award exemplary or punitive damages..."
6. Section 13.I. of the BAGELS Area Development Agreement on "Waiver of Jury Trial" is deleted in its entirety.

In witness whereof, each of the undersigned hereby acknowledges having read this Addendum, understands and consents to be bound by all of its terms, and agrees it shall become effective this ___ day of _____, 20____.

Franchisor:

Developer:

Big Apple Bagels

BAB SYSTEMS, INC.
an Illinois corporation

Corporate/LLC Signature:

a _____ corporation/LLC

By: _____
Title: _____
Date Accepted: _____

By: _____
Title: _____
Date Accepted: _____

Individual Signatures:

**EXHIBIT R to FRANCHISE DISCLOSURE DOCUMENT
BAB SYSTEMS, INC.
ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT
FOR THE STATE OF RHODE ISLAND**

1. Item 17 of the BAB Systems, Inc. Franchise Disclosure Document for use in the State of Rhode Island is modified to add the following:

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

BAB SYSTEMS, INC.
ADDENDUM TO THE BAGELS FRANCHISE AGREEMENT
FOR THE STATE OF RHODE ISLAND

This addendum to the BAGELS Franchise Agreement is agreed to this _____ day of _____, 20____, between BAB SYSTEMS, INC. (Franchisor) and _____ (Franchisee) to amend said Agreement as follows:

1. Paragraph 18.l.i. of the BAGELS Franchise Agreement on Arbitration is amended by the addition of the following language to the original language that appears therein:

"Rhode Island law provides with respect to a claim enforceable under the Rhode Island Franchise Investment Act, that any provision in a BAGELS Franchise Agreement which restricts jurisdiction or venue outside of Rhode Island is void. Accordingly arbitration of a claim enforceable under the Act will be conducted in Rhode Island unless the franchisee agrees otherwise."

2. Paragraph 18.e. of the BAGELS Franchise Agreement on Governing Law is amended by the addition of the following language to the original language that appears therein:

"The Rhode Island Franchise Investment Act provides with respect to a claim enforceable under the Act that any provision in a BAGELS Franchise Agreement requiring application of the laws of a state other than Rhode Island is void. Accordingly Rhode Island laws will apply to a claim enforceable under the Act."

In witness whereof, each of the undersigned hereby acknowledges having read this Addendum, understands and consents to be bound by all of its terms, and agrees it shall become effective the _____ day of _____, 20____.

Franchisor:
BAB SYSTEMS, INC.
an Illinois corporation

Franchisee:
Corporate/LLC Signature:

a _____ corporation/LLC

By: _____
Title: _____
Date Accepted: _____

By: _____
Title: _____
Date Accepted: _____

Individual Signatures:

EXHIBIT R
BAB SYSTEMS, INC.
ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT
FOR THE COMMONWEALTH OF VIRGINIA

This Addendum is to the Franchise Disclosure Document of BAB Systems, Inc. for the Commonwealth of Virginia.

Item 17.h. shall be amended to add the following:

Pursuant to Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a franchisor to cancel a franchise without reasonable cause. If any grounds for default or termination stated in the BAGELS Franchise Agreement or the BAGELS Area Development Agreement do not constitute “reasonable cause,” as that term may be defined in the Virginia Retail Franchising Act or the laws of Virginia, that provision may not be enforceable.

Item 20 shall be amended to replace Table 3 with the following:

Table No. 3
Status Franchised Outlets
For years 2022 to 2024

Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8	Col. 9	Col.10	Col. 11
State	Year	Outlets at Start of Year	Outlets Opened	Termi- nations	Non- Renewals	Reacquired by Franchisor	Ceased Operations Other Reasons	# Produc- tion Stores	# Satellite Stores	Outlets at End of the Year
California	2022	3	0	0	0	0	0	3	0	3
	2023	3	0	0	0	0	1	3	0	2
	2024	2	1	0	0	0	0	2	0	3
Florida	2022	1	0	0	0	0	0	1	0	1
	2023	1	0	0	0	0	0	1	0	1
	2024	1	0	0	0	0	0	1	0	1
Illinois	2022	3	0	0	0	0	0	3	0	3
	2023	3	0	0	0	0	0	3	0	3
	2024	3	0	0	0	0	0	3	0	3
Indiana	2022	3	0	0	0	0	0	3	0	3
	2023	3	0	0	0	0	0	3	0	3
	2024	3	0	0	0	0	0	3	0	3
Iowa	2022	1	0	0	0	0	0	1	0	1
	2023	1	0	0	0	0	0	1	0	1
	2024	1	0	0	0	0	0	1	0	1
Michigan	2022	23	0	0	0	0	1	23	0	22
	2023	22	0	0	0	0	0	22	0	22
	2024	22	0	0	0	0	0	22	0	22
Minnesota	2022	2	0	0	0	0	0	2	0	2
	2023	2	0	0	0	0	0	2	0	2
	2024	2	0	0	0	0	0	2	0	2
Nebraska	2022	2	0	0	0	0	0	2	0	2
	2023	2	0	0	0	0	0	2	0	2
	2024	2	0	0	0	0	0	2	0	2
Nevada	2022	1	0	0	0	0	1	0	0	0
	2023	0	0	0	0	0	0	0	0	0
	2024	0	0	0	0	0	0	0	0	0
Ohio	2022	1	0	0	0	0	0	1	0	1
	2023	1	0	0	0	0	0	1	0	1
	2024	1	0	0	0	0	0	1	0	1
Pennsylvania	2021	1	0	0	0	0	0	1	0	1

Big Apple Bagels

Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8	Col. 9	Col.10	Col. 11
State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations Other Reasons	# Production Stores	# Satellite Stores	Outlets at End of the Year
	2022	1	0	0	0	0	0	1	0	1
	2024	1	0	0	0	0	0	1	0	1
South Carolina	2022	1	0	0	0	0	0	1	0	1
	2023	1	0	0	0	0	0	1	0	1
	2024	1	0	0	0	0	0	1	0	1
Washington	2022	1	0	0	0	0	0	1	0	1
	2023	1	0	0	0	0	0	1	0	1
	2024	1	0	0	0	0	0	1	0	1
Wisconsin	2022	9	0	0	0	0	0	9	0	9
	2023	9	0	0	0	0	0	9	0	9
	2024	9	0	0	0	0	0	9	0	9
Wyoming	2020	0	0	0	0	0	1	0	0	0
	2023	0	0	0	0	0	0	0	0	0
	2024	0	0	0	0	0	0	0	0	0
All States and Totals	2022	52	0	0	0	0	2	50	0	50
	2023	50	0	0	0	0	1	49	0	49
	2024	49	1	0	0	0	1	49	0	49

EXHIBIT R
BAB SYSTEMS, INC.
ADDENDUM TO THE BAGELS FRANCHISE AGREEMENT
FOR THE COMMONWEALTH OF VIRGINIA

This Addendum is to a BAGELS Franchise Agreement dated _____, 20__ between BAB Systems, Inc. and _____ (Franchisee) to amend said Agreement as follows:

1. Paragraph 16.a.x. of the BAGELS Franchise Agreement on Termination for Failure to Complete Training is amended to read in its entirety as follows:

Successful Completion of Training. The grant of the franchise herein is conditioned upon successful completion of the sales/operations seminar and technical training seminar by Franchisee (or Franchisee's individual owner if Franchisee is a corporation, partnership, or other entity.) If during the course of the training programs or within fifteen (15) days thereafter Franchisor concludes that Franchisee has not successfully completed the sales/operations seminar and technical training seminar, Franchisor may, in its sole discretion and judgment, cancel this Agreement and all rights hereunder, where permitted by applicable law, by giving notice to Franchisee and tendering to Franchisee a refund of its initial franchise fee less an amount to cover the reasonable expenses incurred by Franchisor in connection with training Franchisee. Franchisee agrees that such refund shall be the full extent of Franchisor's liability and responsibility in the event of such cancellation, and Franchisee and its owners shall execute a general release, in a form satisfactory to Franchisor, of any and all claims against Franchisor and its affiliates, officers, directors, employees and agents. Upon cancellation of this Agreement, Franchisee shall return to Franchisor all materials, manuals, information and all other items that Franchisee received from Franchisor, including all copies thereof and notes thereon which Franchisee may have or control. Franchisee further agrees to maintain strictly the confidentiality of all information received relating to the BAB System and not to use in the operation of a food service or similar business, any trade secrets or confidential information obtained from Franchisor in the course of the training program or otherwise.

In witness whereof, each of the undersigned hereby acknowledges having read this Addendum, understands and consents to be bound by all of its terms, and agrees it shall become effective the _____ day of _____, 20_____.

Franchisor:
BAB SYSTEMS, INC.

Franchisee:

By: _____
Title: _____

By: _____
Title: _____

EXHIBIT R to FRANCHISE DISCLOSURE DOCUMENT
BAB SYSTEMS, INC.
ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT
FOR THE STATE OF WASHINGTON

This Addendum is to the Franchise Disclosure Document of BAB Systems, Inc. for the State of Washington.

1. The State of Washington has a Statute, RCW 19.100.180 which may supersede the BAGELS Franchise Agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the BAGELS Franchise Agreement in your relationship within the franchisor including the areas of termination and renewal of your franchise.
2. In any arbitration involving a franchise purchased in Washington, the arbitration site shall be either in Washington or in a place as mutually agreed upon at the time of the arbitration, or as determined by the arbitrator at the time of arbitration or mediation. In addition, if litigation is not precluded by the BAGELS Franchise Agreement, a franchisee may bring an action or proceeding arising out of or in connection with the sale of franchises, or a violation of the Washington Franchise Investment Protection Act, in Washington.
3. In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW shall prevail.
4. A release or waiver of rights executed by a franchisee shall not include rights under the Washington Franchise Investment Protection Act or any rule or order thereunder except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, rights or remedies under the Act such as a right to a jury trial, may not be enforceable.
5. Transfer fees are collectable to the extent that they reflect the franchisor's reasonable estimated or actual costs in effecting a transfer.
6. Pursuant to RCW 49.62.020, a noncompetition covenant is void and unenforceable against an employee, including an employee of a franchisee, unless the employee's earnings from the party seeking enforcement, when annualized, exceed \$100,000 per year (an amount that will be adjusted annually for inflation). In addition, a noncompetition covenant is void and unenforceable against an independent contractor of a franchisee under RCW 49.62.030 unless the independent contractor's earnings from the party seeking enforcement, when annualized, exceed \$250,000 per year (an amount that will be adjusted annually for inflation). As a result, any provisions contained in the franchise agreement or elsewhere that conflict with these

limitations are void and unenforceable in Washington.

7. RCW 49.62.060 prohibits a franchisor from restricting, restraining, or prohibiting a franchisee from (i) soliciting or hiring any employee of a franchisee of the same franchisor or a franchisee or (ii) soliciting or hiring any employee of the franchisor. As a result, any such provisions contained in the BAGELS Franchise Agreement or elsewhere are void and unenforceable in Washington.

EXHIBIT R to FRANCHISE DISCLOSURE DOCUMENT
BAB SYSTEMS, INC.
WASHINGTON ADDENDUM TO THE BAGELS PRELIMINARY
AGREEMENT, DISCLOSURE ACKNOWLEDGMENT STATEMENT,
AND RELATED AGREEMENTS

This Addendum is to an BAGELS Preliminary Agreement dated _____, 20__ between BAB Systems, Inc. and _____ (Prospective Franchisee) to amend said Agreement as follows:

1. The State of Washington has a Statute, RCW 19.100.180 which may supersede the BAGELS Preliminary Agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the BAGELS Preliminary Agreement in your relationship within the franchisor including the areas of termination and renewal of your franchise.
2. In any arbitration involving a franchise purchased in Washington, the arbitration site shall be either in Washington or in a place as mutually agreed upon at the time of the arbitration, or as determined by the arbitrator at the time of arbitration or mediation. In addition, if litigation is not precluded by the BAGELS Preliminary Agreement, a franchisee may bring an action or proceeding arising out of or in connection with the sale of franchises, or a violation of the Washington Franchise Investment Protection Act, in Washington.
3. In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW shall prevail.
4. A release or waiver of rights executed by a franchisee shall not include rights under the Washington Franchise Investment Protection Act or any rule or order thereunder except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, rights or remedies under the Act such as a right to a jury trial, may not be enforceable.
5. Transfer fees are collectable to the extent that they reflect the franchisor's reasonable estimated or actual costs in effecting a transfer.
6. Pursuant to RCW 49.62.020, a noncompetition covenant is void and unenforceable against an employee, including an employee of a franchisee, unless the employee's earnings from the party seeking enforcement, when annualized, exceed \$100,000 per year (an amount that will be adjusted annually for inflation). In addition, a noncompetition covenant is void and unenforceable against an independent contractor of a franchisee under RCW 49.62.030 unless the independent contractor's

earnings from the party seeking enforcement, when annualized, exceed \$250,000 per year (an amount that will be adjusted annually for inflation). As a result, any provisions contained in the franchise agreement or elsewhere that conflict with these limitations are void and unenforceable in Washington.

7. RCW 49.62.060 prohibits a franchisor from restricting, restraining, or prohibiting a franchisee from (i) soliciting or hiring any employee of a franchisee of the same franchisor or a franchisee or (ii) soliciting or hiring any employee of the franchisor. As a result, any such provisions contained in the BAGELS Preliminary Agreement or elsewhere are void and unenforceable in Washington.

8. The undersigned does hereby acknowledge receipt of this addendum.

In witness whereof, each of the undersigned hereby acknowledges having read this Addendum, understands and consents to be bound by all of its terms, and agrees it shall become effective the _____ day of _____, 20____.

Franchisor:
BAB SYSTEMS, INC.
an Illinois corporation

Prospective Franchisee:
Corporate/LLC Signature:

a _____ corporation/LLC

By: _____
Title: _____
Date Accepted: _____

By: _____
Title: _____
Date Accepted: _____

Individual Signatures:

EXHIBIT R to FRANCHISE DISCLOSURE DOCUMENT
BAB SYSTEMS, INC.
WASHINGTON ADDENDUM TO THE BAGELS FRANCHISE
AGREEMENT, DISCLOSURE ACKNOWLEDGMENT STATEMENT,
AND RELATED AGREEMENTS

This Addendum is to an BAGELS Franchise Agreement dated _____, 20__ between BAB Systems, Inc. and _____(Franchisee) to amend said Agreement as follows:

1. The State of Washington has a Statute, RCW 19.100.180 which may supersede the BAGELS Franchise Agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the BAGELS Franchise Agreement in your relationship within the franchisor including the areas of termination and renewal of your franchise.

2. In any arbitration involving a franchise purchased in Washington, the arbitration site shall be either in Washington or in a place as mutually agreed upon at the time of the arbitration, or as determined by the arbitrator at the time of arbitration or mediation. In addition, if litigation is not precluded by the BAGELS Franchise Agreement, a franchisee may bring an action or proceeding arising out of or in connection with the sale of franchises, or a violation of the Washington Franchise Investment Protection Act, in Washington.

3. In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW shall prevail.

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

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

6. Pursuant to RCW 49.62.020, a noncompetition covenant is void and unenforceable against an employee, including an employee of a franchisee, unless the employee's earnings from the party seeking enforcement, when annualized, exceed \$100,000 per year (an amount that will be adjusted annually for inflation). In addition, a noncompetition covenant is void and unenforceable against an independent contractor of a franchisee under RCW 49.62.030 unless the independent contractor's earnings from the party seeking enforcement, when annualized, exceed \$250,000 per year (an amount that will be adjusted annually for inflation). As a result, any provisions contained in the franchise

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agreement or elsewhere that conflict with these limitations are void and unenforceable in Washington.

7. RCW 49.62.060 prohibits a franchisor from restricting, restraining, or prohibiting a franchisee from (i) soliciting or hiring any employee of a franchisee of the same franchisor or a franchisee or (ii) soliciting or hiring any employee of the franchisor. As a result, any such provisions contained in the BAGELS Franchise Agreement or elsewhere are void and unenforceable in Washington.

8. The undersigned does hereby acknowledge receipt of this addendum.

In witness whereof, each of the undersigned hereby acknowledges having read this Addendum, understands and consents to be bound by all of its terms, and agrees it shall become effective the _____ day of _____, 20____.

Franchisor:
BAB SYSTEMS, INC.
an Illinois corporation

Franchisee:
Corporate/LLC Signature:

a _____ corporation/LLC

By: _____
Title: _____
Date Accepted: _____

By: _____
Title: _____
Date Accepted: _____

Individual Signatures:

**EXHIBIT R to FRANCHISE DISCLOSURE DOCUMENT
BAB SYSTEMS, INC.
WASHINGTON ADDENDUM TO THE BAGELS AREA
DEVELOPMENT AGREEMENT, DISCLOSURE
ACKNOWLEDGMENT STATEMENT, AND RELATED
AGREEMENTS**

This Addendum is to an BAGELS Area Development Agreement dated _____, 20____ between BAB Systems, Inc. and _____ (Developer) to amend said Agreement as follows:

1. The State of Washington has a Statute, RCW 19.100.180 which may supersede the BAGELS Area Development Agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the BAGELS Area Development Agreement in your relationship within the franchisor including the areas of termination and renewal of your franchise.
2. In any arbitration involving a franchise purchased in Washington, the arbitration site shall be either in Washington or in a place as mutually agreed upon at the time of the arbitration, or as determined by the arbitrator at the time of arbitration or mediation. In addition, if litigation is not precluded by the BAGELS Area Development Agreement, a franchisee may bring an action or proceeding arising out of or in connection with the sale of franchises, or a violation of the Washington Franchise Investment Protection Act, in Washington.
3. In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW shall prevail.
4. A release or waiver of rights executed by a franchisee shall not include rights under the Washington Franchise Investment Protection Act or any rule or order thereunder except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, rights or remedies under the Act such as a right to a jury trial, may not be enforceable.
5. Transfer fees are collectable to the extent that they reflect the franchisor's reasonable estimated or actual costs in effecting a transfer.
6. Pursuant to RCW 49.62.020, a noncompetition covenant is void and unenforceable against an employee, including an employee of a franchisee, unless the employee's earnings from the party seeking enforcement, when annualized, exceed \$100,000 per year (an amount that will be adjusted annually for inflation). In addition, a noncompetition covenant is void and unenforceable against an independent contractor of a franchisee under RCW 49.62.030 unless the independent contractor's

earnings from the party seeking enforcement, when annualized, exceed \$250,000 per year (an amount that will be adjusted annually for inflation). As a result, any provisions contained in the franchise agreement or elsewhere that conflict with these limitations are void and unenforceable in Washington.

7. RCW 49.62.060 prohibits a franchisor from restricting, restraining, or prohibiting a franchisee from (i) soliciting or hiring any employee of a franchisee of the same franchisor or a franchisee or (ii) soliciting or hiring any employee of the franchisor. As a result, any such provisions contained in the BAGELS Area Development Agreement or elsewhere are void and unenforceable in Washington.

8. Paragraph 14.B.(2) of the BAGELS Area Development Agreement shall be modified by deleting the first sentence, as follows:

~~Franchisor makes no warranties or guarantees upon which Developer may rely, and assumes no liability or obligation to Developer, by granting any waiver, approval, or consent to Developer, or by reason of any neglect, delay, or denial of any request therefor. Any waiver granted by Franchisor shall be without prejudice to any other rights Franchisor may have, will be subject to continuing review by Franchisor, and may be revoked, in Franchisor's sole discretion, at any time and for any reason, effective upon delivery to Developer of ten (10) days' prior written notice.~~

9. The undersigned does hereby acknowledge receipt of this addendum.

In witness whereof, each of the undersigned hereby acknowledges having read this Addendum, understands and consents to be bound by all of its terms, and agrees it shall become effective the _____ day of _____, 20____.

Franchisor:
BAB SYSTEMS, INC.
an Illinois corporation

By: _____
Title: _____
Date Accepted: _____

Developer:
Corporate/LLC Signature:

a _____ corporation/LLC

By: _____
Title: _____
Date Accepted: _____

Individual Signatures:

**EXHIBIT R to FRANCHISE DISCLOSURE DOCUMENT
BAB SYSTEMS, INC.
ADDENDUM TO THE BAGELS FRANCHISE AGREEMENT
FOR THE STATE OF WISCONSIN**

This Addendum is to a BAGELS Franchise Agreement dated _____, 20__ between BAB Systems, Inc. and _____ (Franchisee) to amend said Agreement by including the following language:

The Wisconsin Fair Dealership Law, Chapter 135 of the Wisconsin Statutes supersedes any provisions of the Franchise Contract or Agreement if such provisions are in conflict with that law.

In witness whereof, each of the undersigned hereby acknowledges having read this Addendum, understands and consents to be bound by all of its terms, and agrees it shall become effective the _____ day of _____, 20__.

Franchisor:
BAB SYSTEMS, INC.
an Illinois corporation

Franchisee:
Corporate/LLC Signature:

a _____ corporation/LLC

By: _____
Title: _____
Date Accepted: _____

By: _____
Title: _____
Date Accepted: _____

Individual Signatures:

EXHIBIT S TO FRANCHISE DISCLOSURE DOCUMENT**State Effective Dates**

The following states have franchise laws that require that the Franchise Disclosure Document be registered or filed with the state, or be exempt from registration: California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington, and Wisconsin.

This document is effective and may be used in the following states, where the document is filed, registered or exempt from registration, as of the Effective Date stated below:

State	Effective Date
California	Not registered
Hawaii	Not registered
Illinois	Pending
Indiana	Pending
Maryland	Pending
Michigan	Pending
Minnesota	Pending
New York	Pending
North Dakota	Pending
Rhode Island	Pending
South Dakota	Pending
Virginia	Pending
Washington	Pending
Wisconsin	Pending

Other states may require registration, filing, or exemption of a franchise under other laws, such as those that regulate the offer and sale of business opportunities or seller-assisted marketing plans.

RECEIPT (Your Copy)

This Franchise Disclosure Document summarizes certain provisions of the Franchise Agreement and other information in plain language. Read this Franchise Disclosure Document and all agreements carefully. If BAB Systems, Inc. ("BAB" or "Franchisor") offers you a franchise, it must provide this Franchise Disclosure Document to you 14 days before you sign a binding agreement or make a payment with the franchisor or an affiliate in connection with the proposed franchise sale or grant. New York state law requires a franchisor to provide the Franchise Disclosure Document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship.

If BAB does not deliver this Franchise Disclosure Document on time or if it contains a false or misleading statement, or a material omission, a violation of federal and state law may have occurred and should be reported to the Federal Trade Commission, Washington D.C. 20580 and the state agencies listed in Exhibit J. BAB authorizes the agents listed in Exhibit K to receive service of process for BAB.

The issuance date of this Franchise Disclosure Document is February 3, 2025.

The name, principal business address and telephone number of each franchise seller offering the franchise (check names that apply):

☐ Kenneth E. Liczwek, 500 Lake Cook Road, Suite 475, Deerfield, Illinois 60015, phone: 800/251-6101
☐ Geraldine Conn, 500 Lake Cook Road, Suite 475, Deerfield, Illinois 60015, phone: 800/251-6101
☐ Michael Evans, 500 Lake Cook Road, Suite 475, Deerfield, Illinois 60015, phone: 800/251-6101
☐ Michael Murtaugh, 500 Lake Cook Road, Suite 475, Deerfield, Illinois 60015, phone: 800/251-6101
☐ Leslie Walters, 500 Lake Cook Road, Suite 475, Deerfield, Illinois 60015, phone: 800/251-6101
☐ Brian Evans, 500 Lake Cook Road, Suite 475, Deerfield, Illinois 60015, phone: 800/251-6101
☐ Jerry Jurgens, 500 Lake Cook Road, Suite 475, Deerfield, Illinois 60015, phone: 800-251-6101
☐ Other: _____, 500 Lake Cook Road, Suite 475, Deerfield, Illinois 60015, phone: 800/251-6101

The names of additional franchise sellers will be provided to you prior to your signing the Franchise Agreement.

I have received a Franchise Disclosure Document with an issuance date of February 3, 2025, and an effective date for state registrations as noted on the Exhibit S of this Disclosure Document. This Franchise Disclosure Document includes the following Exhibits:

Exhibit A - Preliminary Agreement
 Exhibit B - Franchise Agreement and Riders
 Exhibit C - Area Development Agreement
 Exhibit D - Disclosure Acknowledgement Statement
 Exhibit E - Confidentiality and Non-Competition Agreement
 Exhibit F - Wholesale Program Addendum
 Exhibit G - Catering Program Addendum
 Exhibit H - List of Current Franchisees and Company Stores
 Exhibit I - List of Former or Inactive Franchisees
 Exhibit J - List of State Administrators

Exhibit K - List of Agents for Service of Process
 Exhibit L - General Release
 Exhibit M - Assignment Agreement (to entity)
 Exhibit N - Assignment Agreement (between unrelated Franchisees)
 Exhibit O - Transferee's Waiver and Release
 Exhibit P - Financial Statements
 Exhibit Q - Table of Contents of BAGELS Operations Manual
 Exhibit R - State Addenda for CA, IL, IN, MI, MD, MN, NY, ND, RI, VA, and WI
 Exhibit S - State Effective Dates

Dated: _____

By: _____
Individually and/or as an Officer or Partner of:

A _____ Corporation
 A _____ Partnership
 A _____ Limited Liability Company

(BAB FDD 2025.001 multistate, BAB FA 2025.001)

KEEP THIS COPY FOR YOUR RECORDS

RECEIPT (BAB's Copy)

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Dated: _____

By: _____
Individually and/or as an Officer or Partner of:

A _____ Corporation
 A _____ Partnership
 A _____ Limited Liability Company

(BAB FDD 2025.001 multistate, BAB FA 2025.001)

Please sign this copy of the receipt, date your signature, and return to BAB Systems, Inc.
(mail to 500 Lake Cook Road, Suite 475, Deerfield, Illinois 60015)