



FRANCHISE DISCLOSURE DOCUMENT

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The franchises offered are for retail sales of craft beverages, various size bottles to fill beer, cider, kombucha and other beverages, glasses and mugs to serve beverages in, and related products and accessories such as beer caps, hard ciders and sangria, coffee, specialty bottled beer, Crowler cans, T-shirts, hats, and proprietary food menu items, under the trade name “The Growler Guys.” Two types of franchises are offered: (i) the standard The Growler Guys; and (ii) The Growler Guys Express. A franchise for the standard The Growler Guys offers 37 or more taps. A franchise for The Growler Guys Express offers 36 or less taps. If you sign a Franchise Agreement for The Growler Guys, you will pay an initial franchise fee of \$30,000.00. If you sign a Franchise Agreement for The Growler Guys Express, you will pay an initial franchise fee of \$25,000.00. If you sign a Development Agreement to develop a number of standard The Growler Guys franchises, the initial franchise fee for The Growler Guys franchise will be \$30,000 for the first store, \$25,000 per store for stores 2 through 5, \$15,000 per store for stores 6 through 20 and \$10,000 per store for 21 or more stores. Under a Development Agreement for The Growler Guys Express, the initial franchise fee will be \$25,000 each for the first and second store, \$15,000 per store for stores 3 through 20, and \$10,000 per store for 21 or more stores. The total investment necessary to begin operation of a single standard The Growler Guys ranges from \$211,900 to \$448,500. This includes \$30,000 that must be paid to the franchisor. The total investment necessary to begin operation of a single The Growler Guys Express ranges from \$131,700 to \$287,195. This includes \$25,000 that must be paid to the franchisor.

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 affiliate in connection with the proposed franchise sale. **Note, however, that no governmental agency has verified the information contained in this document.**

You may wish to receive your disclosure document in another format that is more convenient to you. To discuss the availability of disclosures in different formats, contact Butch Price at 901 NW E St., Grants Pass, OR 97526, (541) 476-1387, butch@thegrowlerguys.com.

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 an 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. You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, D.C. 20580. You can also visit the FTC's home page at www.ftc.gov 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. See Exhibit N for state effective dates.

The issuance date of this Franchise Disclosure Document is: April 15, 2025.

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 Exhibit J.
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 A 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 Growler Guys 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 Growler Guys franchisee?	Item 20 or Exhibit J lists 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.

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 H.

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 developer agreement require you to resolve disputes with the franchisor by mediation, arbitration and/or litigation only in Josephine County, Oregon. Out-of-state mediation, arbitration, or litigation may force you to accept a less favorable settlement for disputes. It may also cost more to mediate, arbitrate, or litigate with the franchisor in Oregon than in your own state.
2. **Financial Condition.** The franchisor's financial condition, as reflected in its financial statements (see Item 21), calls into question the franchisor's financial ability to provide services and support to you.

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.

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ITEM 1

THE FRANCHISOR AND ANY PARENTS, PREDECESSORS, AND AFFILIATES

To simplify the language in this Disclosure Document, “we,” “us,” and “our” means the franchisor, Black Beer, LLC “You” and “your” means the person who purchases Black Beer, LLC franchise, as well as, in the case of a corporation, limited liability company, partnership or other legal entity, your shareholders, directors, officers, members, partners and owners, as applicable.

FRANCHISOR: We were incorporated under the laws of the State of Oregon on September 6, 2019. Other than offering our franchises, we do not offer our growler store services and products to the public. However, our affiliate, Southern Oregon Growlers, LLC, an Oregon limited liability company, conducts business as a franchisee under the name The Growler Guys and offers substantially similar growler store services and products to the public as those offered through our franchises. We have been offering franchises for growler stores to the public since 2019. Our predecessor, The Growler Guys, LLC, operated business under the name The Growler Guys and offered growler stores to the public since 2012.

We have been offering franchises under the name The Growler Guys since October 1, 2019. Two types of franchises are offered: (i) the standard The Growler Guys; and (ii) The Growler Guys Express. A franchise for the standard The Growler Guys offers 37 or more taps. A franchise for The Growler Guys Express offers 36 or less taps. We offer retail store services featuring craft beverages, various size bottles to fill beer, cider, kombucha and other beverages, glasses and mugs to serve beer in, and related products and accessories such as beer caps, hard ciders and sangria, coffee, and specialty bottled beer, Crowler cans, T-shirts, hats, and proprietary food menu items. The franchised growler stores will feature the trademark The Growler Guys (see Item 13). This principal mark and all other marks that may be designated by us in the future in writing for use with the franchise business are referred to in this Disclosure Document as the “Mark.” We have also been offering area franchises, under which an area franchisor is given the right to sell and support unit franchises that operate under the trade name “The Growler Guys”, since 2022.

Today, “The Growler Guys” has nine stores in four states. Two of those growler stores are Express locations. There are not currently any area franchises. Our corporate headquarters is located at 901 NW E Street, Grants Pass, OR 97526. Our agents for service of process is listed in Exhibit K.

We have written the Disclosure Document in “plain English” to comply with legal requirements. Any differences in the language in this Disclosure Document describing the terms, conditions or obligations under the Franchise Agreement or any other agreement is not intended to alter in any way your or our rights or obligations under the particular agreement.

AFFILIATES:

Southern Oregon Growlers, LLC is owned by our member, Franklin “Butch” Price. Southern Oregon Growlers, LLC owns and operates growler store locations of The Growler Guys in Ashland, Oregon and Klamath Falls, Oregon. Other than what is described in this

disclosure document, no other growler stores or businesses carry our proprietary products or use our Marks. We have arranged to conduct all of our training of new franchisees at one of the The Growler Guys retail growler stores owned and operated by either Black Beer, LLC or by Southern Oregon Growlers, LLC.

PREDECESSORS: We have one predecessor. In September 2019, we acquired substantially all of the assets of The Growler Guys, LLC, which was the founding franchisor of The Growler Guys. Our predecessor's business address is 450 Powerhouse Drive, Suite 429, Bend, Oregon 97702. Our predecessor was one of the early pioneers of growler stores commencing business in 2012. Our predecessor commenced franchising The Growler Guys System in 2013. We acquired the ownership in all Marks and other intellectual property, all The Growler Guys trade secrets, all rights to the Franchise System, including existing franchise agreements. Our predecessor's entity still exists but does not operate any business. Our predecessor, and its members, executed a non-competition agreement and may not operate any The Growler Guys location (except under a Franchise Agreement with us) or any growler business under any name. An affiliated entity, Couch Investments, LLC, of some of our predecessor's members, Kent Couch and Kizer Couch, have ownership in and operate The Growler Guys business in Bend, Oregon. This entity has as its principal address the address of its unit, listed at Item 20. Other than The Growler Guys, LLC, during the ten-year period immediately before the close of our most recent fiscal year, we did not acquire the major portion of our assets from any person or entity.

FRANCHISOR'S BUSINESS: We sell individual franchises for retail store services featuring craft beverages, various size bottles to fill beer, cider, kombucha and other beverages, glasses and mugs to serve beer in, and related products and accessories such as beer caps, hard ciders and sangria, coffee, and specialty bottled beer, Crowler cans, T-shirts, hats, and proprietary food menu items, under the trade name The Growler Guys. We also sell area franchises under which an area franchisor is given the right to sell and support unit franchises that operate under the trade name The Growler Guys.

If you purchase a franchise from us, subject to the terms and conditions of the Franchise Agreement, you will be entitled to offer the identical products, including our proprietary products and recipes, and retail services as we offer and our affiliate Southern Oregon Growlers, LLC currently offers, utilizing the same trade names and marks, including The Growler Guys name. We only offer The Growler Guys franchises.

THE GROWLER GUYS FRANCHISE: The Growler Guys franchise will grant you the right to offer through a growler store location, our proprietary products and recipes including craft beverages, various size bottles to fill beer, cider, kombucha and other beverages, glasses and mugs to serve beer in, and related products and accessories such as beer caps, hard ciders and sangria, coffee, and specialty bottled beer, Crowler cans, T-shirts, hats, and proprietary food menu items, under the trade name The Growler Guys. A franchise for the standard The Growler Guys offers 37 or more taps. A franchise for The Growler Guys Express offers 36 or less taps.

Your competitors will include both franchised and non-franchised growler stores of all types. Direct competitors are other growler stores, however other locations that dispense beer,

such as bars, tap rooms, and breweries whose primary product is beer, may be secondary competitors.

We offer The Growler Guys franchise to be operated as an independent business under our Marks. You will do business as a separate entity, but will be licensed to use the name The Growler Guys and you must operate in compliance with the Franchise Agreement.

The Growler Guys growler stores are primarily located in suburban and urban areas of average income. The Growler Guys growler store is usually between 1,800 to 3,500 square feet, and located in storefronts, strip centers or within a convenience store environment for The Growler Guys Express. We look to put The Growler Guys growler stores in areas with high population density, on a street with high traffic and on a commuter route. The Growler Guys Express franchise is identical to The Growler Guys franchise except that each The Growler Guys Express franchise offers no more than 36 taps, is generally smaller, located inside of another retail operation (such as a convenience store), may not have a separate entrance from the other businesses in which it is located, and the initial franchise fee is reduced. A franchisee purchasing The Growler Guys Express franchise must sign The Growler Guys Express Addendum to the franchise agreement. You will be required to utilize The Growler Guys Construction Site Manager to oversee the construction of your franchised location. A fee of \$7,000 will be paid to the Construction Site Manager for those services.

We do not expect to open up any additional company-owned The Growler Guys growler stores. We expect to add at least one (1) new franchisee, of the type of franchises that are offered, during fiscal year 2025. We also expect to add at least one (1) area franchise during fiscal year 2025.

The franchises are established and operated under a comprehensive and unique system (the “System”) that includes distinctive exterior and interior design, décor, color scheme, and furnishings; proprietary recipes, proprietary products, uniform standards, specifications, and procedures for operations; quality uniformity of products and services offered; procedures for inventory, management and financial control; training and assistance; and advertising and promotional programs; all of which may change, improve, and further develop in our discretion. Certain aspects of the system are more fully described in this Disclosure Document and the Manuals that are provided to you (described in Item 11).

We primarily offer the right to establish and operate a business under the mark, The Growler Guys, under the terms of a single unit franchise agreement (the “Franchise Agreement”). The Franchise Agreement that you must sign is attached as Exhibit B to this Disclosure Document. You may be an individual or legal entity that enters into the Franchise Agreement with us. By signing the Franchise Agreement, you agree to be bound by certain obligations in the Franchise Agreement, including covenants concerning confidentiality and non-competition, and to personally guarantee your performance under the Franchise Agreement (see Item 15).

You must also designate an “Operating Principal” who will be the main individual responsible for your business. If you are an individual, you will be the Operating Principal. If you are not an individual, the person you designate as your Operating Principal must maintain an

equity interest in you. The Operating Principal must sign the Franchise Agreement as the Operating Principal and as one of your Controlling Principals (see Item 15). The Operating Principal must individually make certain covenants in the Franchise Agreement and must personally guarantee your performance under the Franchise Agreement and any applicable Development Agreement.

In certain limited circumstances, for either The Growler Guys franchise or The Growler Guys Express franchise, we will offer to you the right to enter into an area development agreement to develop more than one franchise within a specifically described geographic territory (the “Development Agreement”). All franchises under a Development Agreement must be of the same type. We will determine the territory before you sign the Development Agreement and it will be included in the Development Agreement (the “Territory”). Under a Development Agreement, you must establish more than one Franchise within the Territory according to a development schedule, and to enter into a separate Franchise Agreement for each Franchise established under the Development Agreement. The Franchise Agreement for the first Franchise developed under the Development Agreement will be in the form attached as Exhibit B to this Offering Circular. For each additional Franchise developed under the Development Agreement, you must sign the form of Franchise Agreement that we are then offering to new franchisees. The size of the Territory will vary depending upon local market conditions and the number of Franchises to be developed. (See Item 12).

INDUSTRY-SPECIFIC REGULATIONS: There are federal, state, and local laws, rules, regulations, and ordinances that apply to your business. These federal, state, and local laws, rules, regulations, and ordinances relate to the sale and dispensing of alcoholic beverages, including beer and wine, as well as the method of preparation and sanitation conditions applicable to businesses in the foodservice industry as well as the equipment used to process alcoholic beverages and food products. You must comply with all laws and regulations that apply to you and your franchised business. Specifically, almost all states or cities require a specific license to be able to sell beer and wine. Some states or cities may require you to get a license to conduct a business that sells food. The following are examples of some, but not all, of the types of regulations or laws that you may find are applicable to operating The Growler Guys:

- State regulations govern the licensing of businesses that sell alcoholic beverages. Many states also require server permits for individuals to serve alcohol.

- State regulations may govern the temperatures at which you store, prepare, and serve beer, wine and food.

- Many local or state jurisdictions require food and beverage service permits for those preparing and serving food and alcoholic beverages to the public. You and your employees may be required to pass a test or other certification process to obtain such a permit. There may also be local ordinances and regulations governing food storage, preparation, and serving.

- Your growler store may be subject to local food and health permits and inspection laws. Health laws are intended in part to reduce food borne illnesses and may cover

such issues as: requiring employees to take a test and obtain a license as a food service worker, having accessible sinks, bathrooms for certain size establishments, inspections for cleanliness and compliance, equipment cleaning, storage and packaging, size of facilities, allowed foods, refrigeration, etc.

- Examples of federal laws are tax, wage and hour, occupational health and safety, equal employment opportunity, hazardous waste and materials, environmental, and communication to employees.

- State laws may cover the same topics as federal laws. Examples of state laws include tax, environmental, occupational health and safety, fire, health, and building and construction laws.

- Local laws may cover the same topics as federal and state laws. Examples of local laws include tax, health and sanitation, building codes, fire codes, and waste disposal.

You should consider that certain aspects of any retail business are regulated by federal, state, and local laws, rules and ordinances in addition to the laws, regulations and ordinances applicable to business generally, such as the Americans with Disabilities Act, Federal Wage and Hour Laws and the Occupational, Health and Safety Act. You must also comply with Executive Order 13224 which prohibits transactions with suspected terrorists or persons or organizations associated with suspected terrorists and the USA Patriot Act.

You must get a license to operate a franchise in areas that require licensing. If you do not get a license where required to do so, you may not operate your franchise. The Franchise Agreement places the responsibility of complying with all applicable laws and regulation on you. You should research these requirements before you invest.

ITEM 2

BUSINESS EXPERIENCE

Member/Manager, CEO, Franchise Marketing, and Operations – Franklin “Butch” Price

Mr. Price, one of our Members, has served as our Manager and CEO since our inception on September 6, 2019. Mr. Price has served as President/CEO of Del-J, Inc. dba Double R Products from May 1999 to the present. From 1999 to the present, Mr. Price has been the President and owner of Black Beard, LLC. Since 2012, Mr. Price has been the President and owner of HCS – Hydro Cleaning Service. From October 2015 to the present, Mr. Price has been the Member/Manager and President of Southern Oregon Growlers, LLC, an affiliate of ours, which operates a The Growler Guys in Ashland, Oregon.

Member, Franchise Development Manager – Brandon Price

Mr. Price, one of our Members, has served as our Franchise Development Manager since our inception on September 6, 2019. From 2003 to the present, Mr. Price has been employed by Del-J, Inc. dba Double R Products. Mr. Price became a Partner/Owner of Double R Products in

2018. From November 2014 to the present, Mr. Price has been the President/Member of Stone Ridge, LLC.

Member – Colvin Enterprises, LLC

Lane Colvin has been the Trustee of the Lane and Riley Colvin Trust, which is the manager of Colvin Enterprises, LLC, since the company's inception in 2018. Colvin Enterprises, LLC has been a member of Black Beer, LLC since October 30, 2021. Mr. Colvin was the President of Colvin Oil for over twenty years until his retirement in 2019.

ITEM 3

LITIGATION

No litigation is required to be disclosed in this Disclosure Document.

ITEM 4

BANKRUPTCY

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

ITEM 5

INITIAL FEES

FRANCHISE AGREEMENT: The initial franchise fee for a single The Growler Guys franchise location is \$30,000. The initial franchise fee for a single The Growler Guys Express franchise location is \$25,000. You must pay the initial franchise fee in full at the time that you sign the franchise agreement. The initial franchise fee is non-refundable, except where a license or permit from a governmental agency is required for you to operate the franchised business and the agency refuses to grant you a license after you have taken all required and reasonable steps to get the license. If this happens, you will be entitled to a refund of 90% of the initial franchise fee, less travel expenses incurred by us. The typical amount of our travel expenses ranges from \$1,000 to \$1,800.

The initial franchise fee is part profit to us and is also used to pay some of the following expenses and costs to us: (1) your initial training; (2) guidance, assistance and advice provided by us for the franchised business; (3) plans and specification for your growler store and specifications for equipment and supplies used in your growler store; (4) preparation and distribution by us from time to time of operations manuals and other technical and policy bulletins and manuals; (5) enforcement and protection of our trade name, trademarks and service marks and confidential information associated with the franchise; (6) legal fees, and costs of compliance with federal, state and other laws; (7) selling, general and administrative expense, and salaries and benefits of our employees.

Initial Training Fee: We do not charge a training fee for the initial training of your Operating Principal. At your request, and if space is available, we will provide initial training to

additional members of your personnel, and we may charge a fee for that initial training. We currently charge \$1,500 per person for initial training of additional management personnel. This fee represents our cost of providing the training, including our administrative costs of making personnel available for training purposes, and the cost of materials. You must pay the initial training fee for the additional personnel before training begins and it is nonrefundable. The initial training fee is charged uniformly to all franchisees under this Disclosure Document, although actual dollar amounts may vary depending on how many additional persons are trained.

Site Evaluation Fee: We will provide you with our current written site selection guidelines and any other site selection counseling and assistance we think are advisable. Our guidelines for site selection may require that you conduct, at your expense, an evaluation of the demographics of the market area for the location (including the population and income level of residents in the market area), size and other physical attributes of the location, shopping mall, tenant mix, proximity to residential neighborhoods and other businesses that attract consumers and generate traffic. We may provide on-site evaluations of the proposed site. We will not provide an on-site evaluation for any proposed site before receiving from you the materials you must submit to us as described above. After that, if we think an on-site evaluation of your proposed site is necessary because the proposed site does not meet our guidelines, or if you reasonably request that we provide you with an on-site evaluation, we will then provide an on-site evaluation. We do not charge a fee for our first on-site evaluations. However, if we determine that a third or more on-site evaluations are necessary, or you reasonably request additional on-site evaluations, you must pay us a \$300 fee for each additional evaluation and must reimburse us for all of our reasonable expenses (such as the cost of travel, lodging, meals, and wages) incurred performing the evaluation. The site evaluation fee and reimbursed expenses must be paid within 15 days after we bill you. This fee is charged uniformly to all franchisees under this offering, although the actual dollar amounts paid may vary depending on the number of site evaluations and the expenses we incur performing the services. Site evaluation fees and expenses are nonrefundable.

Construction Site Manager Fee: You will be required to utilize The Growler Guys Construction Site Manager to oversee the construction of your franchised location. A fee of \$7,000 will be paid to the Construction Site Manager for those services.

Development Agreement: We may grant you the option to purchase the exclusive right (the "Option") to open franchises in a specific geographic area ("Exclusive Option Area"), by payment of an exclusive option fee of \$5,000 per store according to a Development Agreement. The Exclusive Option Area will be based on general market factors, demographic information and the number of competitive businesses in the area and is payable upon the execution of the Development Agreement. The size of the Option Area will depend on the number of franchises you want to develop. The Option Area can encompass several miles, the boundaries of a city, an entire state, or a region of the country. On payment of the non-refundable (except as noted below) exclusive option fee and subject to the terms of the Development Agreement, we will agree not to open any company-owned or franchised stores in the Exclusive Option Area during the option period noted in the Development Agreement. The exclusive option fee for a store will be credited against the initial franchise fee for that particular store. If you fail to open any franchise location required by the development schedule in the Development Agreement, the

number of franchise stores that you have the right to open will be reduced by 1 for each store you failed to open by the required time period, the exclusive option fee for that store will not be refunded, and you will lose rights to exclusivity in the Exclusive Option Area. But, if we give you our approval, you can keep your exclusivity rights in the Exclusive Option Area by paying a monthly extension fee of \$500 until the store is opened.

Except for the following, the franchise fee for either The Growler Guys franchise or The Growler Guys Express franchise is the same for all franchisees under this offering. We have entered into franchise arrangements for one or multiple franchises with individuals associated with the franchisor under economic terms that differ from those that you are being offered.

ITEM 6

OTHER FEES

The fees listed in this Item 6 chart are applicable to both The Growler Guys franchise as well as The Growler Guys Express franchise.

NAME OF FEE	AMOUNT	DUE DATE	REMARKS
Royalty – The Growler Guys (1)	The greater of \$900 or 6% of the total Gross Revenue (2)	Monthly on the 10 th day of each month that the franchise agreement is in effect.	Gross Revenue includes all revenue from the franchise location. Amounts due will be withdrawn by EFT from your designated bank account (3).
Grand Opening (series of events)	\$6,000	Must be spent within 30 days of the opening of each growler store.	Grand Opening expenditures will not be credited to any required payments under the Marketing or Local Advertising Funds.
Marketing Fund (1)	Maximum of 2% of Gross Revenue.	Same as royalty fee.	We currently have a fund and require you to contribute 1% of Gross Revenue. Amounts due will be withdrawn by EFT from your designated bank account.
Local Advertising	The greater of \$300 or 1% of the total Gross Revenue per month.	As incurred by you.	You must spend 1% of Gross Revenues on local advertising.
Advertising and Promotional Materials	Cost generally ranges from \$500 to \$3000, but varies depending on your advertising needs.	When billed.	See Items 7 and 11.
Transfer Fee (1)	\$10,000 or 35% of the then current franchise fee, whichever is greater.	At the time of sale, assignment or transfer.	Sale, transfer, or assignment is subject to our approval. The prospective franchisee must be acceptable to us. No fee is charged if the franchise is transferred to an entity controlled by us.
Interest (1)	18% or highest rate allowed by applicable law.	On demand.	Interest may be charged on all overdue amounts.
Initial Training of additional or replacement personnel (1).	\$1,500 per management person.	Before training.	No charge for initial training of two people.

NAME OF FEE	AMOUNT	DUE DATE	REMARKS
Additional or Remedial Training	Our cost in providing the training.	Before additional training.	We reserve the right to charge a fee for additional or remedial training that is not mandatory. Cost will vary based on the type of training being offered.
Renewal Fee (1)	25% of the then current franchise fee	Upon signing.	You must remodel your growler store to the standard then in effect. You must sign the current franchise agreement, and must provide not less than 4 or more than 12 months' written notice to us of your intent to renew your franchise. You must sign a release with us for any claims you may have up to the renewal date.
Periodic Training (1) at Franchisee's request	Your cost of travel, room and board.	When billed.	Not more frequently than one time a year.
Additional Assistance (1)	Our cost in providing the additional assistance generally charged as a per diem fee, which is currently \$300.	When billed.	Any additional assistance is charged at the current per diem rate plus travel expenses.
Audit Costs (1)	Cost of audit.	When billed.	Payable only if we find after an audit that you have understated any amount you owe us by more than 1.5%.
Late Payment or Reporting Fee (1)	\$50 per day	Daily.	If you fail to pay royalties when due, or fail to submit royalty reports as required, we may charge you \$50 per day until the payment or report is received.
Public Offering	Our reasonable costs and expenses.	When billed.	This covers our cost to review the proposed offering of your securities.
Support Fee	\$100 per week.	Weekly	If you fail to have a replacement General Manager trained to meet our standards a General Manager leaves, we may charge you this fee until your replacement manager is trained, as applicable.
Site Evaluation	No charge for 1 st and 2 nd visits; each additional visit \$300 per visit, plus expenses.	When billed.	See Items 5 and 11.
Indemnification	Varies according to loss.	On demand.	You must indemnify us when certain of your actions result in loss to us under the Agreement (see Item 9).
Manual Replacement Fee	\$1,000	When billed.	If you request additional or

NAME OF FEE	AMOUNT	DUE DATE	REMARKS
(2) if a physical manual has been provided.			replacement copies of our manuals.
Attorney Fees and other Costs	Depending on circumstances, will vary.	As incurred.	

Footnotes:

- (1) All fees are charged by and payable to us. All fees are nonrefundable. The initial franchise fee is non-refundable, except where a license or permit from a governmental agency is required for you to operate the franchised business and the agency refuses to grant you a license after you have taken all required and reasonable steps to get the license. If this happens, you will be entitled to a refund of 90% of the initial franchise fee, less travel expenses incurred by us. The typical amount of our travel expenses ranges from \$1,000 to \$1,800. Except described in this chart, we impose all fees and expenses listed and you must pay them to us. At the present time, we have no plans to increase payments over which we have control. Any payment made by you to us that is late or overdue shall bear interest at the rate of 18% per annum per month, from the due date until payment is made, or the maximum allowable rate allowed by law, if less than 18% per annum per month.
- (2) Gross Revenue includes all revenue earned by the Franchisee at the franchised location without deduction for any cost or fee related to such revenue from operation of the Franchised Business. Without restricting the generality of the foregoing, Gross Revenue shall include: the total selling price of all services and products and all income of every other kind and nature related to the Franchise (including, without limitation, income related to food and delivery activities, and any sales or orders of food products or food preparation services provided from or related to the Franchise), whether for cash or credit and regardless of collection in the case of credit. Notwithstanding the foregoing, Gross Revenue shall be reduced by discounts and coupons.
- (3) The royalty fee may be withdrawn from your designated bank account by electronic fund transfer (“EFT”) monthly based on Gross Revenue from the preceding accounting period, unless we require otherwise. You must maintain sufficient funds in the designated bank account to pay royalty fee contributions.

ITEM 7

ESTIMATED INITIAL INVESTMENT

THE GROWLER GUYS LOCATION

EXPENDITURE	ACTUAL OR ESTIMATED AMOUNT LOW	ACTUAL OR ESTIMATED AMOUNT HIGH	METHOD OF PAYMENT	WHEN DUE	TO WHOM PAYMENT IS TO BE MADE
Initial Franchise Fee (1)*	\$30,000	\$30,000	Lump Sum	At signing of franchise agreement.	Us.

EXPENDITURE	ACTUAL OR ESTIMATED AMOUNT LOW	ACTUAL OR ESTIMATED AMOUNT HIGH	METHOD OF PAYMENT	WHEN DUE	TO WHOM PAYMENT IS TO BE MADE
Leasehold Improvements (2)	\$13,000	\$108,000	As incurred.	Before Opening.	Contractors, suppliers, utilities, etc.
Equipment, Furniture & Fixtures (3)	\$87,700	\$160,695	As incurred.	Before Opening.	Contractors, suppliers, utilities, etc.
Construction Site Manager	\$7,000	\$7,000	As incurred.	As incurred.	Construction Site Manager
Misc. Business Start-up Expenses (10)	\$8,500	\$20,605	As incurred.	As incurred.	As needed for business purposes.
Working Capital (4)	\$27,000	\$52,000	As incurred.	As incurred.	As needed for business purposes.
Travel Lodging and Meals for Initial Training (5)	\$1,000	\$1,800	As incurred.	During training	Supplier
Grand Opening	\$6,000	\$7,500	As incurred	As incurred	Supplier

EXPENDITURE	ACTUAL OR ESTIMATED AMOUNT LOW	ACTUAL OR ESTIMATED AMOUNT HIGH	METHOD OF PAYMENT	WHEN DUE	TO WHOM PAYMENT IS TO BE MADE
Insurance Deposits and Premiums for First Year (6)	\$1,200	\$3,600	As invoiced.	As arranged.	Insurance Company
Initial Inventory (7)	\$28,000	\$44,000	As incurred.	As arranged.	Suppliers
Business Supplies	\$200	\$500	As Invoiced.	As incurred.	Suppliers.
Business Licenses and Permits for First Year (9)	\$300	\$2,800	As incurred.	Before Opening.	Local and State Government.
Signage (11)	\$2,000	\$10,000	As incurred.	As arranged.	Supplier.
Total The Growler Guys Franchise	\$211,900	\$448,500			

THE GROWLER GUYS EXPRESS LOCATION

EXPENDITURE	ACTUAL OR ESTIMATED AMOUNT LOW	ACTUAL OR ESTIMATED AMOUNT HIGH	METHOD OF PAYMENT	WHEN DUE	TO WHOM PAYMENT IS TO BE MADE
Initial Franchise Fee (1)*	\$25,000	\$25,000	Lump Sum	At signing of franchise agreement.	Us.

EXPENDITURE	ACTUAL OR ESTIMATED AMOUNT LOW	ACTUAL OR ESTIMATED AMOUNT HIGH	METHOD OF PAYMENT	WHEN DUE	TO WHOM PAYMENT IS TO BE MADE
Leasehold Improvements (2)	\$10,000	\$55,000	As incurred.	Before Opening.	Contractors, suppliers, utilities, etc.
Equipment, Furniture & Fixtures (3)	\$31,000	\$80,495	As incurred.	Before Opening.	Contractors, suppliers, utilities, etc.
Construction Site Manager	\$7,000	\$7,000	As incurred.	As incurred.	Construction Site Manager
Misc. Business Start-up Expenses (10)	\$6,000	\$13,500	As incurred.	As incurred.	As needed for business purposes.
Working Capital (4)	\$27,000	\$50,000	As incurred.	As incurred.	As needed for business purposes.
Travel Lodging and Meals for Initial Training (5)	\$1,000	\$1,800	As incurred.	During training	Supplier
Grand Opening	\$6,000	\$7,500	As incurred	As incurred	Supplier
Insurance Deposits and Premiums for First Year (6)	\$1,200	\$3,600	As invoiced.	As arranged.	Insurance Company
Initial Inventory (7)	\$15,000	\$30,000	As incurred.	As arranged.	Suppliers
Business Supplies	\$200	\$500	As Invoiced.	As incurred.	Suppliers.
Business Licenses and Permits for First Year (9)	\$300	\$2,800	As incurred.	Before Opening.	Local and State Government.

EXPENDITURE	ACTUAL OR ESTIMATED AMOUNT LOW	ACTUAL OR ESTIMATED AMOUNT HIGH	METHOD OF PAYMENT	WHEN DUE	TO WHOM PAYMENT IS TO BE MADE
Signage (11)	\$2,000	\$10,000	As incurred.	As arranged.	Supplier.
Total The Growler Guys Express Franchise	\$131,700	\$287,195			

Footnotes:

*None of the payments made to us are refundable. Amounts paid to third parties may or may not be refundable depending on their respective refund policies.

- (1) This fee is not refundable. Also see Item 5 for reduced fees under a Development Agreement. If you sign a Development Agreement, the initial franchise fee for The Growler Guys franchise will be \$30,000 for the first store, \$20,000 per store for stores 2 through 5, \$15,000 per store for stores 6 through 20 and \$10,000 per store for 21 or more stores. Under a Development Agreement for The Growler Guys Express, the initial franchise fee will be \$25,000 each for the first and second store, \$15,000 per store for stores 3 through 20, and \$10,000 per store for 21 or more stores.
- (2) You are responsible to prepare your location to be suitable as a The Growler Guys location. You must either purchase or lease your location. An acceptable location would be, depending upon layout, between 1,800 and 3,500 useable square feet and will rent for between approximately \$1,500 and \$4,500 per month, depending upon location and condition. The square footage and rent for The Growler Guys Express franchise location may be less, especially if located within another retail outlet, such as a convenience store. These rates are for a retail space in a city. Rental rates may be similar or less in suburban centers or in non-center locations. If you purchase your location, the costs will be significantly higher. The cost of leasehold improvements will vary depending on (i) the size and configuration of the premises; (ii) pre-construction costs (e.g. demolition of existing walls and removal of existing improvements and fixtures); (iii) cost of materials and labor which may vary based on geography and location; and (iv) whether you operate in an urban or suburban location (free-standing, strip center, downtown location, etc.). You must adapt our prototypical plans and specifications for the construction and finish-out of your growler store. These amounts include an estimate of your costs in getting any necessary architectural and design services. These figures are our best estimate based on construction/finish-out rates and conditions most locations that we operate growler stores. Those amounts may vary substantially based on local conditions, including the availability and prices of labor and materials. These costs may also vary depending on whether certain of these costs will be incurred by the landlord and allocated over the term of the lease.
- (3) You must purchase certain equipment meeting our specifications to be used in the Franchise, including, computers, televisions, security cameras, food service equipment, etc. We have established relationships with equipment vendors for certain equipment used in the Franchise that meets our specifications. We may require you to purchase from these vendors.
- (4) This category represents additional funds set aside to pay business expenses until the business is capable of paying all expenses. This covers approximately 3 months' lease payments; promotional expenditure and advertising; five months' payroll for staff; utilities and telephone service and other costs. This is only an estimate of what you may need. Typically, a franchise will maintain working capital for several months of expenses. Based on your operations, you may wish to increase or decrease this amount. The figures also include the first month's rent and assume that the growler store will be between 1,800 and 3,500 square feet. The figures assume a base annual rental rate of approximately \$12-24 per square foot for a retail space in a strip center in a city. Rental rates may be similar or less in suburban centers or in non-center locations. Landlords may also vary the base rental rate and charge rent based on a percentage of Gross Revenue. In addition to base rent, the lease may require you to pay the common area maintenance charges ("CAM Charges") of the center as well as

your pro rata share of the real estate taxes and insurance for the center. The actual amount you pay under the lease will vary depending on the size of the growler store, the types of charges that are allocated to tenants under the lease, your ability to negotiate with landlords, and the prevailing rental rates in the geographic region.

- (5) We provide initial training to you at no additional charge (included in the initial franchise fee). These estimates include only your out-of-pocket costs associated with your training or your manager's training (including travel, room and board, and wages). These amounts do not include any fees or expenses for training other personnel. Training is for 9 days. These costs will vary depending on your selection of lodging and dining facilities and mode and distance of transportation. At least one franchise owner and the store manager are also required to obtain their training certification through an authorized source before the franchise opens or at least within six months of franchise opening. There will likely be a fee paid, which may be paid to us, for this training. That fee will likely not be more than \$300. All prices are subject to change by the training provider.
- (6) These figures are estimates of the cost of the annual premiums for the insurance you must get and maintain for the franchised business as described in Item 8.
- (7) These amounts represent your initial inventory of beverage and food supplies, merchandise, containers and paper goods for use in the first month of operating the franchise business.
- (8) You must have printed various supplies including business cards, customer forms, and other written materials for use in the franchise business. You will typically purchase amounts that may last as long as 6 months.
- (9) These are estimates of the costs for getting local permits, business licenses and state licenses for conducting your specific type of business. These permits and licenses typically remain in effect for one year. These figures do not include occupancy and construction permits.
- (10) These amounts are our estimate of the amount needed to cover your expenses for the start-up phase of your business, including professional fees in connection with getting and establishing the franchise business (such as legal and accounting). These figures are estimates and we cannot assure you that you will not have additional expenses starting the business. These amounts do not include any estimate for debt service. Except as specifically stated above, the amounts given may be subject to increases based on changes in market conditions, our cost of providing services and future policy changes. At the present time, we have no plans to increase payments over which we have control.
- (11) These amounts represent your cost for exterior, interior, and window signs. Each location has different restrictions on exterior and interior signage that may affect your costs.

Except as specifically stated above, the amounts given may be subject to increases based on changes in market conditions, our cost of providing services and future policy changes. At the present time, we have no plans to increase payments over which we have control.

ITEM 8

RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

You must purchase or lease and install all fixtures, furnishings, equipment, decor items, signs and related items we require, all of which must conform to the standards and specifications in our Manuals (as defined in Item 11) or in any other written format. You may not install or permit to be installed on the premises any fixtures, furnishings, equipment, decor items, signs, games, vending machines or other items not approved by us.

A licensed architect must be used to design the build out of the franchised location. You may use our licensed architect or have your licensed architect consult with our architect to design the build out of the franchise location. The design of the franchise location must conform to our design standards exactly and may not be changed without our written permission.

To maintain the highest degree of quality and service, you must operate the franchise in strict conformity with the methods, standards, and specifications that we set forth in the Manuals or in other written material. You must maintain in sufficient supply and use and sell at all times only those food and beverage items, ingredients, products, materials, supplies and paper goods that meet our standards and specifications. All food items must be prepared according to the recipes and procedures specified in the Manuals or other written materials. You must not deviate from these standards and specifications by the use or offer of non-conforming items or differing amounts of any items. You must sell and offer for sale only those beverage and food items, products and services that we have expressly approved for sale in writing. You must sell and offer for sale only those products and services that we have expressly approved for sale in writing. You must offer for sale all products and services required by us in the manner and style we require. You must not deviate from our standards and specifications. You must discontinue offering for sale any items, products, and services we may disapprove in writing at any time. You cannot sell any food ingredient separate from the finished food product authorized by us. We can, and expect to, modify our standards and specifications as we deem necessary.

You must obtain a license to use our proprietary electronic menu system from our approved vendor. Currently, the cost of the license is \$100 per month. A standard store must purchase a minimum of one "Menu Computer" per menu screen, three promo computers, three promo TVs and one spare computer for use with equipment in the store.

You must permit us or our agents, at any reasonable time, to remove a reasonable number of samples of beverages and food or nonfood items from your inventory or from the Franchise free of charge for testing by us or by an independent laboratory, to determine whether the samples meet our then-current standards and specifications. Besides any other remedies we may have, we may require you to pay for the testing if we have not previously approved the supplier of the item or if the sample fails to conform to our specifications (see Item 6).

Except for proprietary products and promotional materials provided by us or our designated suppliers, you must obtain all food and beverage items, ingredients, products, supplies, materials, fixtures, furnishings, equipment, and other products used or offered for sale at the franchise premises solely from suppliers, including manufacturers, wholesalers and distributors who have been pre-approved by us. We estimate that these purchases and leases will be approximately 30% to 70% of your costs to establish and operate the franchised business. If you desire approval of other suppliers, you must get our written consent, which may be revoked at any time by us if we determine that the supplier no longer meets our standards. The supplier must demonstrate, to our continuing reasonable satisfaction, the ability to meet our then-current standards or in accordance our standards and specifications. Our criteria for supplier approval may be found in the Operation Manual. Among other things, the suppliers must have adequate quality controls and the capacity to supply your needs promptly and reliably. If you wish to purchase, lease or use any products or other items from an unapproved supplier, you must submit a written request for approval, or must request the supplier to do so. We have to approve any supplier in writing before you make any purchases from that supplier. Our supplier approval procedure does not obligate us to approve any particular supplier. There are no fees associated with getting supplier approvals from us.

You may offer only products and services approved by us and may only offer them from the franchised location. We do not derive any monetary consideration from agreements that you enter into with any third parties.

We have and may continue to develop for use in the System certain products that are prepared from our proprietary recipes and that bear the Marks. Because of the importance of quality and uniformity of production and the significance of those products in the System, it is to your and our benefit that we closely control the production and distribution of those products. Accordingly, if those products become a part of the System whether or not these products are proprietary, you will use only products manufactured by or on behalf of us and will purchase those items solely from us or from a source designated by us.

All advertising and promotional materials, signs, decorations, paper goods and other items we designate must bear the Marks (see Item 13) in the form, color, location and manner we prescribe. In addition, all your advertising and promotion in any medium must be conducted in a dignified manner and must conform to the standards and requirements in the Manuals or other written materials. You must submit to us for approval samples of all advertising and promotional plans and materials and public relations programs that you desire to use, including any materials in digital, electronic or computerized form, or in any form of media now existing or that may be developed in the future, that we have not either provided or previously approved. You also must participate in all advertising and promotional campaigns according to the terms and conditions we establish for these campaigns. We will approve or disapprove your proposed advertising plans and materials within 15 business days after receipt of these plans and materials.

You must get our consent to the site for the franchise before you acquire the site. You must also get our consent to any contract of sale or lease for the franchise before you sign the contract or lease. We will not consent to any lease unless you sign a collateral assignment of lease in substantially the form attached as Attachment B to the Franchise Agreement.

Before you open the franchise for business, you must get the insurance coverage for the franchise specified in the Franchise Agreement and the Manual, including comprehensive general liability insurance, worker's compensation insurance, employee liability insurance and business interruption insurance. Also, related to any construction, renovation or remodeling of the franchise, you must maintain builder's risks insurance and performance and completion bonds. You must get the policies from an insurance company we approve. The policies must include, at a minimum, the insurance coverage and policy limits we specify. We may change the coverage requirements and the amounts, in our discretion, and will advise you of the changes in the Manuals or in writing. You may, after getting our written consent, elect to have reasonable deductibles under certain of the coverages.

We may negotiate purchase arrangements, including price terms, with designated and approved suppliers on behalf of the System. As of the date of this Disclosure Document, there are no purchasing or distribution cooperatives for any of the items described above in which we require you to participate.

We may receive discounts on purchases of equipment or products from approved suppliers, which discounts are also made available to you if you purchase through these suppliers. We currently have several purchasing or distribution cooperatives.

We do not anticipate receiving rebates from our designated or approved suppliers. Instead, we attempt to negotiate reductions in the invoice price of the products sold to us and our franchisees. We do not undertake any obligation to negotiate price reductions as each supplier has their own position on the granting (and tracking/accounting for) of price reductions. We did not receive any rebates in our most prior fiscal year and we do not expect to receive any rebates in our current or upcoming fiscal years.

When determining whether to grant new or additional franchises, we consider many factors, including compliance with the foregoing requirements.

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.

(The Franchise Agreement is abbreviated in this table as “FA”)
(The Development Agreement is abbreviated in this table as “DA”).

Obligation	Section in the Franchise Agreement and Development Agreement	Item in Disclosure Document
a. Site Selection and acquisition/lease	Article II of FA and Articles I, III, and X of DA	Items 8 and 11
b. Pre-opening purchases/leases	Articles V, VII and VIII of FA	Items 5, 6, 7, 8 and 11
c. Site development and other pre-opening requirements	Article II of FA and Articles I, III, and X of DA	Items 1, 8 and 11
d. Initial and ongoing training	Article V of FA and Articles VI, and IX of DA	Items 5, 6 and 11
e. Opening	Article V of FA and Article II of DA	Items 7 and 11
f. Fees	Articles IV and VIII of FA and Articles II, III, and VIII of DA	Items 5 and 6
g. Compliance with standards and policies/Manuals	Articles II, III, VI, VII, VIII, IX, X, XI and XII of FA and Articles IV, VI, and VIII of DA	Items 11 and 14
h. Trademarks and proprietary information	Articles IX and X and Attachment C of FA and Attachment B to DA	Items 11, 13 and 14
i. Restrictions on products/services offered	Article VII of FA	Items 8 and 16
j. Warranty and customer service	Article VII of FA	Item 8
k. Territorial development and sales quotas	Article III of DA	Item 12
l. Ongoing product/service purchases	Article VII of FA	Items 6 and 8

Obligation	Section in the Franchise Agreement and Development Agreement	Item in Disclosure Document
m. Maintenance, appearance and remodeling	Articles II, VII, and XIV of FA	Items 8 and 11
n. Insurance	Article XII of FA	Items 7 and 8
o. Advertising	Article XIII of FA	Items 6, 8 and 11
p. Indemnification	Article XV of FA and Article X of DA	Item 6
q. Owner's participation/management/staffing	Articles VI, XIV, XV and XVIII of FA and Article VI of DA	Items 1, 11, and 15
r. Records and reports	Articles IV, VII and XI of FA	Item 6
s. Inspections and audits	Articles II, VII and XI of FA	Items 6, 8, and 11
t. Transfer	Article XIV of FA and Article VIII of DA	Items 6 and 17
u. Renewal or Extension of Rights	Article III of FA and Article III of DA	Items 6 and 17
v. Post-termination obligations	Article XVII of FA and Article VII of DA	Items 6 and 17
w. Noncompetition covenants	Article X and Attachment C of FA and Article IX and Attachment B of DA	Item 17
x. Dispute resolution	Article XVIII of FA and Article XI of DA	Item 17

ITEM 10

FINANCING

We do not offer direct or indirect financing, nor do we guarantee your lease or other obligations.

ITEM 11

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

Except as listed below, we are not required to provide you with any assistance.

Pre-Opening Obligations: Before the opening of a Franchise we will provide the following assistance and services:

1. Our written site selection guidelines and the site selection assistance we deem advisable. (Franchise Agreement, Section 5.1(a)). We will designate your franchise area. (Franchise Agreement, Section 1.3; Development Agreement, Section 1.1).

2. On-site evaluations as we deem necessary or in response to your reasonable request for site approval. (Franchise Agreement, Section 5.1(b); Development Agreement, Section 1.3). Once we receive the required information on a possible site from you, we have 30 days to consent to the location. You may not open a franchise in a location that we have not consented to. Your growler store location will be purchased or leased by you from independent third parties.

3. On loan, 1 set of prototypical design plans and specifications for a Franchise for adaptation by you, at your expense. (Franchise Agreement, Section 5.1(c)).

4. On loan, access to our online Manuals (as described below) which we may revise. (Franchise Agreement, Section 5.1(d)).

5. A list of required equipment, inventory and supplies and a list of our approved suppliers. (Franchise Agreement, Section 5.1(i)).

6. An initial training program for you and one other person. This training is provided without additional charge; however, you will be responsible for payment of travel and living expenses during the training. If you wish to have additional management personnel trained we charge \$1,500 per person. (See Item 6). (Franchise Agreement, Section 5.1(j)).

7. At least three days of on-site pre-opening assistance at the Franchise location. (Franchise Agreement, Sections 5.1(k) and 6.5(d)).

8. Samples of camera-ready artwork of certain advertising and promotional materials and information we may develop for use in the pre-opening promotion of the Franchise. (Franchise Agreement, Section 5.1(f)).

We provide all of the assistance listed above to your franchise. We are not required to provide any other service or assistance to you before the opening of your Franchise.

Post-Opening Obligations: We must provide the following services and assistance after the opening of the Franchise:

1. As we reasonably determine necessary, visits to, and evaluations of, the Franchise and the products and services provided there to ensure that the high standards of quality, appearance and service of the System are maintained. (Franchise Agreement, Section 5.1(e)).

2. Samples of camera ready artwork of certain advertising and promotional materials we may develop for in-growler store marketing and Local Advertising for the Franchise. (Franchise Agreement, Section 5.1(f)).

3. Advice and written materials (including updates to the online Manuals) concerning techniques of managing and operating the Franchise, including new developments and improvements in equipment. (Franchise Agreement, Section 5.1(g)).

4. Certain merchandise, including promotional products, for use in the Franchise and for resale to your customers, in quantities sufficient to meet your customer demand, at a reasonable cost may be made available to franchisees in the System. We also, at our option, may make available to you certain other equipment, inventory and decor items at a reasonable cost. (Franchise Agreement, Section 5.1(h)).

5. On-site post-opening assistance at the Franchise as we find appropriate. (Franchise Agreement, Sections 5.1(k) and 6.5(d)).

6. Training programs and other related activities regarding the operating of the Franchise as we may conduct for you, or Franchise personnel generally, which you and other Franchise personnel may attend. (Franchise Agreement, Section 6.5(c)).

7. Certain optional on-site remedial training for your Franchise personnel when you reasonably request it or as we find appropriate. If the remedial training is requested by you, we may require you to pay the per diem of our employee(s) providing the training and our expenses in providing the training (see Item 6). (Franchise Agreement, Section 6.5(f)).

8. Administration of the advertising fund, if established. (Franchise Agreement, Sections 8.3 and 8.4).

9. Indemnification against and reimbursement for all damages for which you are held liable in any proceeding arising out of your use of the Marks (including settlement amounts), provided that you and your Controlling Principals have fully complied with the terms of the Franchise Agreement. (Franchise Agreement, Section 9.4).

10. We have the right to step in and operate the franchise business if you or your manager is (a) absent or incapacitated by reason of illness or death, (b) you have failed to pay all taxes and assessments against the business inventory and equipment, (c) you have failed to pay when due any and all liens or encumbrances placed against the business, (d) you have lost or had suspended your license or permit to operate, or (e) we determine that there are operational problems that could imperil the franchise business or its assets. (Franchise Agreement, Section 7.6).

We provide all of the assistance listed above to your franchise. We are not required to provide any other service or assistance to you for the continuing operation of your Franchise.

Computer Software and Equipment:

You must purchase, license, or lease the following:

- The Growler Guys Electronic Menu System/Orders Dot software
- “TV Menu Computers” (minimum of 8)
- Food Service Menu System

Advertising:

At your sole cost and expense, you must conduct a grand opening promotional program for your growler store commencing within the first month of operation and you must spend a minimum of \$6,000 on the grand opening, which constitutes a series of events including a marketing and advertising campaign, growler bottle giveaway, as well as on-site training, unless we agree to a lesser amount. No amount you pay for the grand opening program will be credited towards any other obligations or required expenditures. We will consult with and advise you on

your program, and you must submit the advertising program and any promotional advertising items to us for approval before use.

You must spend annually throughout the term of the Franchise Agreement, the greater of 1% of the Gross Revenue of the Franchise or \$300 per month on advertising for the Franchise in your area for Local Advertising. This amount is not paid to us, but rather is spent by you. If your landlord requires you to participate in any marketing or promotion fund, the amounts you pay may be applied towards satisfying your Local Advertising obligations. We must approve all advertising before you use it. You must not advertise or use the Marks in any fashion on the Internet, World Wide Web or via other means of advertising through telecommunication without our express written consent. Costs and expenditures you incur with any of the following are not to be included in your expenditures on Local Advertising unless we approve in advance in writing:

1. Incentive programs for your employees or agents, including the cost of honoring any coupons distributed in connection with the programs;
2. Research expenditures;
3. Salaries and expenses of your employees, including salaries or expenses for attendance at advertising meetings or activities;
4. Charitable, political or other contributions or donations;
5. In-store materials consisting of fixtures or equipment; and
6. Seminar and educational costs and expenses of your employees.

We administer a marketing fund (the "Fund") on behalf of the System for advertising and marketing. You must contribute to the Fund a specified percentage (up to a maximum of 2%) of the Gross Revenue of the Franchise for each Accounting Period to be paid in the same manner as the royalty payments. During the term of the Franchise Agreement, we may require you to allocate to the Fund all or part of your required Local Advertising expenditures (described below).

The Fund is maintained and administered by us or our designee as follows:

1. We direct all advertising and marketing programs and have sole discretion to approve the creative concepts, materials, and media used in the programs and their placement and allocation. The Fund is intended to maximize general public recognition and acceptance of the Marks and improve the collective success of all Franchises operating under the System. For Franchises operated by us, we will contribute to the Fund generally on the same basis as you. In administering the Fund, we and our designees are not required to make expenditures for you that are equivalent or proportionate to your contribution or to ensure that any particular franchisee benefits direction or pro rata from the placement of advertising.
2. The Fund may be used to satisfy the costs of developing, preparing,

administering, conducting and disseminating advertising, marketing, promotional and public relations materials, programs, campaigns, sales and marketing seminars and training programs and activities of every kind and nature, through media now existing or that may be developed in the future, including the cost of preparing and conducting television, radio, magazine, newspaper and electronic advertising and marketing campaigns; direct mail and outdoor billboard advertising; public relations activities; conducting marketing research; employing advertising agencies; and costs of our personnel and other departmental costs for advertising that we administer or prepare internally. All sums you pay to the Fund will be maintained in a separate account and we may use them to defray our reasonable administrative costs and overhead that we may incur in the administration or direction of the Fund and advertising and marketing programs for you and the System. The Fund and its earnings will not benefit us in any other way. The Fund is operated solely as a conduit for collecting and expending the advertising fees as outlined above. Any sums paid to the fund that are not spent in the year they are collected will be spent in the following year or returned to the contributors in proportion to the amounts paid by them, without interest.

3. We will prepare an annual statement of the operations of the Fund that will be made available to you if you request it. We are not required to have the Fund statements audited.

4. Although the Fund is intended to be perpetual, we may terminate the Fund at any time. The Fund will not be terminated, however, until all monies in the Fund have been spent for advertising or promotional purposes or returned to contributors on the basis described in paragraph 2, above.

We currently advertise the Franchises and the products offered by the Franchises primarily using point of purchase advertising materials and print media. As the number of Franchises in the System expands, we envision using other forms of media, including: television, radio, magazine, newspaper and electronic advertising campaigns; and direct mail advertising. The majority of our advertising is developed by members of our staff. We currently conduct advertising on a local basis. Once the franchise program has been established, we contemplate advertising on a national, regional, and local basis through the use of the Fund and Local Advertising (described below).

We currently do not have a National Advertising Council nor have we collected any money on behalf of the Fund.

Your total required contribution to the Fund and expenditure for Local Advertising will not exceed 4 percent of your Gross Revenue. Any advertising funds not spent in any fiscal year shall accrue and be carried forward for expenditure in later years.

The Fund will not use any funds for advertising that is principally a solicitation for the sale of Franchises.

You must also place and pay the cost of a trademark listing in any medium that allows for the listing of the business operations, such as the local yellow pages or its functional equivalent,

in the geographic area in which the franchised business is located by placing an advertisement in the form, of the type and under the heading Franchisor approves or designates. Any amount you pay for such a listing may not be applied by you toward satisfaction of your Local Advertising requirement.

Except as described above, we are not obligated to spend any amount on advertising in the area where your Franchise is located.

Training: No sooner than 16 days before the date the Franchise begins operation, you must attend and complete, to our satisfaction, our initial training program. We will conduct this training at our corporate headquarters and/or a location operated by us, or at another location we designate. Initial training programs will be offered at various times during the year depending on the number of new franchisees entering the System, replacement principals needing training, the number of new Franchises being opened and the timing of the scheduled openings of Franchises to be operated by franchisees generally. The initial training program will generally last nine days. We will provide instructors and training materials for the initial training of you at no charge to you. You may also have additional personnel trained by us for the Franchise, although we may charge \$1,500 per person for that training. We will determine whether you have satisfactorily completed the initial training. If you do not satisfactorily complete the initial training program or if we determine that you cannot satisfactorily complete the training program, you must designate a replacement to satisfactorily complete the training. Any individual who you choose must also receive and complete the initial training. We reserve the right to charge a reasonable fee for the initial training we provide to a replacement or successor individual. You must pay for all expenses you and your other personnel incur for any training program, including costs of travel, lodging, meals and wages (see Item 6).

You must attend and complete, to our satisfaction, an online training course relating to serving beer, styles, flavor, evaluation, ingredients, the brewing process, and how to pair beer with food. Both individuals must successfully complete the online training and obtain the certification from the training provider. We do not provide this online training, but will provide you with the information to obtain this training. The online training is typically six to ten hours over a 2-5 day period. This training should be completed within 30 days of signing the Franchise Agreement. At least one franchise owner is required to attend class and obtain their training certification through an authorized source before the franchise opens or at least within six months of franchise opening. There will likely be a fee paid, which may be paid to us, for this training. That fee will likely not be more than \$300. All prices are subject to change by the training provider.

You must attend the additional training programs and seminars we offer if required to do so. For all of these programs and seminars, we will provide the instructors and training materials. If the training is mandatory, we will not charge you a fee for attending the training. We reserve the right to charge a reasonable fee for the additional training programs and seminars that we provide on an optional basis. You must also pay for all expenses you or your other personnel incur in participating in any additional training, including costs of travel, lodging, meals, and wages (see Item 6).

For the opening of the Franchise, we will provide you with at least one of our trained

representatives. The trained representative will provide on-site pre-opening and opening training, supervision, and assistance to you for 3 days. This training and assistance will be provided to you at no additional expense. For any additional assistance requested by you and any similar assistance that we provide to a replacement Franchise, if the premises are destroyed or the Franchise is required to be closed for any other reason, we reserve the right to require you to pay us the per diem fee then being charged to franchisees generally for trained representative assistance, including payment of any expenses the trained representative incurs, such as costs of travel, lodging, meals and wages (see Item 6).

Butch Price, our CEO, (see Item 2) will oversee training. Cody Beam and Kayla Watne, who have been our trainers since our inception on September 6, 2019, will conduct training on all other aspects. Mr. Beam has managed The Growler Guys location owned by our affiliate, Southern Oregon Growlers, LLC, from May 2017 to the present. Ms. Watne has been the assistant manager at The Growler Guys location owned by a franchisee, Couch Investments, LLC, from 2018 to the present. Ms. Watne was the operations trainer for our predecessor, The Growler Guys, LLC, training new and existing franchisees from July 2016 to 2018. The instructional materials used in the initial training consist of our Operations Manual, the “MashTun” Franchisee Portal, employee training tools, and other written directives related to the operation of the Franchise (collectively, the “Manuals”).

The subjects covered, hours of classroom and on the job training and instructions provided in the initial training program are described below:

Subject	Hours of Classroom Training	Hours of On-the-Job Training	Location of Training	Instructional Material
How to run a successful growler store - Acquiring licenses/certifications - Hiring and managing staff -Promoting your store -Becoming proficient with technology-based systems -Understanding how to acquire, maintain and deliver craft beer -Tap system -Inventory control - Being mindful of franchisor policies - Being administratively and financially responsible	4 hours		The Growler Guys Corporate	Written online materials and staff training tools
How to create the right environment, team & processes - Craft beer culture and its language - The Growler Guys customer experience -Connect with local beer community and local marketing opportunities - Expand your knowledge on beer styles, pairings and breweries	1 hour			Written online materials and staff training tools
What you can expect from franchisor's team	1 hour			Written online materials
Information Download -Craft beer delivery -Working with POS platform -Cooler organization -Keg organization -Working with a growler -Working with customers -Merchandising -Trouble-shooting	6 hours		The Growler Guys Corporate	Information sharing; hands-on
Learning how to interface with real customers		2 full days	Onsite at franchisor's designated location	Information sharing
Preparing staff for opening. Also reviewing "Best Tips" for:		3 full days	Onsite at franchisee's location	Information sharing; handouts
-Merchandising -Making good first impression -Customer service				

Subject	Hours of Classroom Training	Hours of On-the-Job Training	Location of Training	Instructional Material
-Filling -Ringing up customer -Maintaining CO ₂ supply -Maintaining cooler -Troubleshooting				

The entire training program may be changed due to updates in materials, methods, manuals and personnel without notice to you.

The subjects and times allocated to the subjects actually taught to you and your personnel may vary based on the experience of those persons being trained.

If you reasonably request or as we deem appropriate, we will, during the term of the Franchise Agreement, when our personnel is available, provide you with additional trained representatives who will provide on-site optional remedial training to your Franchise personnel. For additional training that you request, you may be required to pay the per diem fee then being charged to franchisees under the System for the services of our trained representatives, plus their costs of travel, lodging, meals, and wages. The per diem fee will not be charged if the assistance is provided based on our determination that the training is necessary; however, we reserve the right to charge for our reasonable expenses incurred in providing the assistance.

The Table of Contents for our Operations Manual is attached as Exhibit I to this Disclosure Document.

Site Selection: You must assume all costs, liabilities, expenses, and responsibility for locating, getting and developing a site for the Franchise within the area chosen for your growler store and for constructing and equipping the Franchise at the accepted site. You will select the site for the Franchise subject to our written consent. The Franchise may not be relocated without first getting our written consent. Before you lease or purchase the site for the Franchise, you must locate a site that satisfies our site selection guidelines. You must submit to us in the form we specify a description of the site, including evidence that the site satisfies our site selection guidelines, together with other information and materials that we may reasonably require, including a letter of intent or other evidence that confirms your favorable prospects for getting the site. You must get our consent of any sale or lease contract before you sign it (see Item 8).

We will provide you with our current written site selection guidelines and any other site selection counseling and assistance we think are advisable. Our guidelines for site selection may require that you conduct, at your expense, an evaluation of the demographics of the market area for the location (including the population and income level of residents in the market area), size and other physical attributes of the location, shopping mall, tenant mix, proximity to residential neighborhoods and other businesses that attract consumers and generate traffic.

We may provide on-site evaluations of the proposed site. We will not provide an on-site evaluation for any proposed site before receiving from you the materials you must submit to us

as described above. After that, if we think an on-site evaluation of your proposed site is necessary or if you reasonably request, we will provide an on-site evaluation. We will not charge for the first and second site evaluations, but shall charge a reasonable fee of \$300 for each subsequent evaluation as well as a fee for our reasonable expenses including the cost of travel, lodging, meals and wages (see Item 6). Once we receive the required information on a possible site from you, we have 30 days to consent to the location. You may not open a franchise in a location that we have not consented to.

We estimate that the time from the signing of the Franchise Agreement to the commencement of operations of the Franchise will be approximately 4 to 6 months. This time may be shorter or longer depending on the time necessary to get an accepted site, to get financing, to get the permits and licenses for the construction and operation of the Franchise, to complete construction or remodeling as it may be affected by weather conditions, shortages, delivery schedules and other similar factors, to complete the interior and exterior of the Franchise, including decorating, purchasing and installing fixtures, equipment and signs, and to complete preparation for operating the Franchise, including purchasing inventory and supplies. You must open the Franchise and begin business within 90 days after you get possession of the accepted location, unless you get a written extension from us. If you do not find a site that we accept, and construct the growler store within 180 days of the date of the Franchise Agreement, we may terminate the Franchise Agreement. For additional stores that are to be opened under the Development Agreement, the time period to find and construct a store site will vary based on the number of franchises purchased in the Development Agreement and those dates will be described in a Development Schedule, which is attached to the Development Agreement.

If your franchise is located in an area in which a governmental license is required, you must apply for the license within 15 days after execution of the lease agreement and the franchise growler store site must open and commence operations at the earlier of 90 days after execution of the lease or 10 days after receipt of the license. For all other franchised businesses, you must open the franchise within 90 days after execution of your lease agreement.

ITEM 12

TERRITORY

The Franchise Agreement grants you the right to operate a franchise at a single location that you select within the area that was approved by us (“Assigned Area”). Attachment A to the Franchise Agreement lists the specific street address of the accepted location. You must operate the franchise only at this accepted location and may not relocate the franchise without first obtaining our written consent. You may not establish or operate another of our franchised businesses unless you enter into a separate Franchise Agreement.

During the term of the Franchise Agreement, if you are in compliance with the Franchise Agreement, we will not operate any company-owned or affiliate-owned growler stores, or grant any other franchisee the right to operate a franchised growler store within the Assigned Area. The Assigned Area will be described in Attachment A to the Franchise Agreement. The size of the Assigned Area may vary based on a number of criteria such as density of population, demographics, distance from other franchise and company-owned growler stores, number of

competitors, etc. The average size of an Assigned Area is a one-mile radius from your franchise business. For example, in that case, your franchise business would be at the center of a circle and it would be one mile to the edge of the circle; the entire area inside the circle would be your protected Assigned Area. In some circumstances, we may identify the boundaries of your Assigned Area by using a street map as part of Attachment A to the Franchise Agreement and outlining on the map the street boundaries of your Assigned Area. We will determine the Assigned Area as soon as a particular location for the franchise has been identified. We will determine the Assigned Area based on various market and economic factors such as an evaluation of market demographics, the market penetration of the System and similar businesses, the availability of appropriate sites, and the growth trends in the market.

The territorial rights granted to you under the Franchise Agreement are not dependent on the achievement of a certain sales volume, market penetration, or other contingency except as stated below.

You will receive an exclusive territory. Your territorial exclusivity is limited to the extent set forth in this section. You do not receive the right to acquire additional franchised locations within your defined territory, contiguous territories, or otherwise. We do not reserve the right to unilaterally modify your defined territory before the Franchise Agreement expires or terminates.

With the exception of The Growler Guys retail operations conducted by us or our affiliate Southern Oregon Growlers, LLC (see Item 1), neither we nor our affiliates currently operate, franchise, or conduct business through alternative channels of distribution offering services similar to those offered in your franchise under different marks. There are, however, no restrictions in the Franchise Agreement that would restrict our ability to do so. Neither we nor our affiliates currently intend to solicit business from within your Assigned Area. There are, however, no restrictions in the Franchise Agreement that would restrict our ability to do so and any compensation that we receive from that business is solely earned by us.

After you establish your growler store, you may choose to relocate your business location to a new site either inside your Assigned Area or to any other area not previously assigned to a franchise or company-owned unit, all subject to our exclusive approval. You must give us notice of your intent to relocate, specifying the exact new location, no later than 60 days before you want to relocate.

Development Agreement

For certain market areas, we offer prospective franchisees the right to acquire an exclusive option to open more than one franchise location in an Exclusive Option Area according to the terms of a Development Agreement. The size of the Option Area will depend on the number of franchises you want to develop. The Option Area can encompass several miles, the boundaries of a city, an entire state, or a region of the country. You will receive an exclusive development rights in an assigned territory. During the term of the Development Agreement, neither we nor our affiliates will open or operate or license others to open or operate The Growler Guys locations within the Exclusive Option Area. However, we currently may operate and may acquire and operate (through merger or other business combination) businesses that sell

products and services that may be similar to those offered by you under names or marks different than The Growler Guys in the Exclusive Option Area. If applicable, the terms of the Development Agreement provide that your exclusive right to open franchised stores within the Exclusive Option Area will terminate unless you comply with the agreed schedule for opening and operating the additional franchise locations. We have no obligation under any circumstances to alter or extend the agreed upon schedule. However, you may maintain your rights to exclusivity in the Exclusive Option Area by paying a monthly extension fee of \$500 until the franchise is opened.

ITEM 13

TRADEMARKS

The Franchise Agreement grants you the right to use certain trademarks, trade names, service marks, symbols, emblems, logos and indicia of origin designated by us, including the Marks described in Item 1. These Marks may be used only in the manner we authorize and only for the operation of your franchise at the location specified in the Franchise Agreement.

The franchise entitles you to operate your business under the name The Growler Guys. You will also be entitled to use other trademarks in the operation of your franchised business. We have registered the following proprietary marks with the United States Patent and Trademark Office. The marks are registered on the Principal Register:

<u>Mark</u>	<u>Registration Number</u>	<u>Registration Date</u>
The Growler Guys	4,466,403	January 14, 2014
The Original Growler Guys	4,470,996	January 21, 2014
The Original Growler Guys (logo)	4,475,390	January 28, 2014



You must abide by our rules while using our proprietary marks. You may not use a name or mark as part of a corporate or other legal name or with modifying words, designs or symbols except for those that we license to you. You must comply with our instructions in filing and maintaining trade name or fictitious name registrations. You must sign any documents we require to protect the Marks or to maintain their continued validity of our ownership in and to the Marks.

There are no currently effective determination of the U.S. Patent and Trademark Office, the trademark trial and appeal board, the trademark administrator of any state or any court, no pending infringement, opposition or cancellation proceedings and no pending litigation involving any of the Marks that may significantly affect the ownership or use of any Mark listed above.

There are no agreements currently in effect that limit our rights to use or license the use of the Mark. We know of no superior rights or infringing uses of any Mark that could materially affect your use of the Mark in your state or in any other state.

You must notify us immediately by telephone, and thereafter in writing, of any apparent infringement of or challenge to your use of any of our proprietary marks, of any claim by any person of any rights in any of our proprietary marks, and you must not communicate with any person other than us or any affiliate which we designate, their counsel and your counsel in connection with any such infringement, challenge or claim. We will have complete discretion to take such action as we deem appropriate in connection with the foregoing, and the right to control exclusively, or to delegate control to any of our affiliates of, any settlement, litigation or Patent and Trademark Office or other proceeding arising out of any such alleged infringement, challenge or claim or otherwise relating to any of our proprietary marks. You must execute any and all instruments and documents, render such assistance, and do such acts or things as may, in our opinion, reasonably be necessary or advisable to protect and maintain the interests of us or any affiliate in any litigation or other proceeding or to otherwise protect and maintain the interests of us or any other interested party in our proprietary mark.

We are not obligated to protect any rights that you have to use the Mark or to protect you against claims of infringement or unfair competition with respect to the Mark. We reserve the right to substitute different proprietary marks for use in identifying the business and the products and services offered by it. As such, we may require you, at your expense, to discontinue or modify your use of any of the proprietary marks or to use one or more additional or substitute proprietary marks.

To protect the goodwill and integrity associated with the Mark, you are required, in conducting your business, to conform to our specifications as to business hours and days, items and services offered for sale, inventory, supplies and equipment used, the artwork, lettering, colors, size, construction, content and overall appearance of your growler store, signs, emblems and advertising. The Franchise Agreement requires you to use only trade names, trademarks, service marks and logos currently approved by us and promotional and marketing materials approved by us. Any materials used to advertise or promote the franchise business and/or which use new trade names, trademarks, service marks and logos of The Growler Guys must be provided by us or you must get our prior written consent. Our specifications may be contained in the Manuals, which will be provided to you after payment of the initial franchise fee. In the absence of applicable published specifications regarding the use of the Mark, the Franchise Agreement requires you to get our prior written consent for any proposed use.

We have the right to inspect your franchise location to verify that you are using the Mark properly.

ITEM 14

PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

We do not own any patents that are material to your business.

We claim a copyright for our operations manual and training manual, and the information contained within the manuals are proprietary. To supplement our existing copyright, we intend to file an application for federal copyright registration for these manuals. You must take all reasonable steps necessary to assure that the manuals and the proprietary information that they

contain remain confidential, are not published, communicated or disclosed without our express authorization.

You may not disclose any of the proprietary information, use it in any way, or assist any other person to use it either during the term of your franchise or at any time thereafter. All Manuals that we provide you, online or otherwise, remain our sole property and all printed copies must be promptly returned upon expiration of your franchise.

We may revise the contents of the Manuals and you must comply with each new or changed standard. You must also ensure that the Manuals are kept current at all times. If there is a dispute as to the contents of the Manuals, the terms of the master copy maintained by us at our home office will be controlling.

We claim proprietary rights in certain of our recipes which are included in the online Manuals and which are our trade secrets. You are prohibited, during and after the term of the Franchise Agreement, from communicating, or using for the benefit of any other person or entity, and, after the term of the Franchise Agreement, from using for your or their own benefit, any confidential information, knowledge or know-how concerning the methods of operation of the franchise that may be communicated to you or that you may learn about, including these trade secrets. You can divulge this confidential information to your employees who must have access to it to operate the franchise. Any and all information, knowledge, know-how, and techniques related to the System that we communicate to you, including the online Manuals, plans and specifications, marketing information and strategies and site evaluation, selection guidelines and techniques, are considered confidential.

There are no currently effective determinations of the Copyright Office or any court, no pending infringement, opposition or cancellation proceedings and no pending litigation involving any of the copyrights that may significantly affect the ownership or use of any copyright described above. There are no effective agreements that will affect your use or our use of the copyrights.

You must notify us immediately by telephone, and thereafter in writing, of any apparent infringement of or challenge to your use of any of our copyrights, of any claim by any person of any rights in any of our copyrights, and you must not communicate with any person other than us or any affiliate which we designate, their counsel and your counsel in connection with any such infringement, challenge or claim. We will have complete discretion to take such action as we deem appropriate in connection with the foregoing, and the right to control exclusively, or to delegate control to any of our affiliates of, any settlement, litigation or other proceeding arising out of any such alleged infringement, challenge or claim or otherwise relating to any of our copyrights. You must execute any and all instruments and documents, render such assistance, and do such acts or things as may, in our opinion, reasonably be necessary or advisable to protect and maintain the interests of us or any affiliate in any litigation or other proceeding or to otherwise protect and maintain the interests of us or any other interested party in our copyrights. We are not obligated to protect any rights that you have to use the copyrights or to protect you against claims of infringement or unfair competition with respect to the copyrights. We reserve the right to substitute different copyrighted material for your use in the business. You agree not to contest the validity or ownership of any of our copyrights.

ITEM 15

OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS

You are not required to personally participate in the day-to-day operations of your franchised business. If you choose not to participate personally in the running of the business, you must designate a manager to do so for you. You must complete our initial training program before you will be eligible to transact business under your franchise. Your manager is not required to be an owner or to have any stake in your business. Our only requirements are that either your manager or you, depending upon who is running the business on a day-to-day basis, be at the franchised premises on a full-time basis, and have successfully completed our training program.

When you sign the Agreements, you must designate and retain at all times an individual to serve as the “Operating Principal” under the Agreements. If you are an individual, you must be the Operating Principal. If you are an entity, the Operating Principal must be one of your Controlling Principals, as defined below, and must hold an ownership interest in you or any entity that directly or indirectly controls you. Except as may be provided in the Agreements, the Operating Principal's interest in you must remain free of any pledge, lien, encumbrance, voting agreement, proxy, or purchase right or option.

The Operating Principal may, at the Principal's option, and subject to our approval, designate an individual to perform the duties and obligations of the Operating Principal described in the Agreements and in, this Disclosure Document. The Operating Principal must take all necessary action to ensure that the designee conducts and fulfills all of the Operating Principal's obligations and will remain fully responsible for the Principal's performance. The Operating Principal (or the Principal's designee, if applicable) must devote substantial full time and best efforts to the supervision and performance of the Franchise under the Agreements. The Operating Principal must sign the Agreements as one of your Controlling Principals, and will individually guarantee all of your obligations, and will be jointly and severally bound by all of your obligations and the obligations of the Operating Principal and your Controlling Principals under the Agreements.

The Operating Principal (and any designee) must meet our standards for these positions, as provided in the Manuals or other written instructions. Under the Agreements, the Operating Principal (or his designee) must satisfy the training requirements stated in the Franchise Agreement.

If, during the term of the Agreements, the Operating Principal or any designee cannot serve as Operating Principal or no longer qualifies, you must promptly notify us and designate a replacement within 30 days after the Operating Principal or designee stops serving or no longer meets the requirements. Any replacement must meet the same qualifications listed above. You must provide for interim management of the Franchise until you designate a replacement. This interim management must be conducted in accordance with the Agreements.

As described in Item 1, we have identified certain persons under the Franchise

Agreement and Development Agreement that we refer to in this Disclosure Document as your Principals. Your Principals include your spouse, if you are a married individual, your Principals also include those of your business entity's officers and directors (including the officers and directors of your general partner, if applicable) whom we designate as your Principals and all holders of an ownership interest in you and in any entity that directly or indirectly controls you, and any other person or entity controlling, controlled by, or under common control with you.

If we designate certain of your Principals as Controlling Principals, they must sign the Franchise Agreement and Development Agreement, as applicable, and agree to be individually bound by certain obligations under the Agreements, including confidentiality and noncompetition covenants and to personally guarantee your performance under the Agreements. We typically designate your principal equity owners and executive officers, as well as any other affiliated entities that operate Franchises as Controlling Principals.

You must retain at all times a General Manager and the other personnel that are needed to operate and manage the Franchise. The General Manager must satisfy our educational and business criteria as provided to you in the online Manuals or other written instructions, and must be individually acceptable to us.

In addition, the General Manager must be responsible for the supervision and management of the Franchise, and must devote full time and best efforts to this activity. The General Manager also must satisfy the applicable training requirements in the Franchise Agreement. If the General Manager cannot serve in the position or does not meet the requirements, the General Manager must be replaced under the same guidelines we have for the Operating Principal.

If you employ any individual as General Manager or in a managerial position who is at the time employed in a managerial position by us or any of our affiliates, or by another of our franchisees, you must pay the former employer for the reasonable costs and expenses the employer incurred for the training of the employee.

You must also get covenants not to compete, including covenants applicable on the termination of the person's relationship with you, from your General Manager and any of your other management personnel who have received or will have access to our training before employment, and any holder of a beneficial interest in you (except for any limited partners) who is not designated as a Controlling Principal and does not sign the Franchise Agreement as a Controlling Principal. You must require all of your management personnel to sign covenants that they will maintain the confidentiality of information they receive or have access to base on their relationship with you (see Item 14). These covenants will be in substantially the same form attached to the Franchise Agreement as Attachment C. We reserve the right, in our discretion, to decrease the amount of time or geographic scope of the non-competition covenants contained in the attachments or eliminate the non-competition covenants altogether for any party that is required to sign an agreement as described in this paragraph (see Item 17).

ITEM 16

RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

You must comply with all of our standards and specifications relating to the purchase of all beer, food, food products and beverage items, ingredients, supplies, materials, fixtures, furnishings, equipment, utensils and other kitchen items and products used or sold at the Franchise (see Item 8).

You must sell or offer for sale all beer and food products, and other products and services we require, in the manner and style we require, as expressly authorized by us in writing. You must sell and offer for sale only the beverage and food items, and other products and services that we have expressly approved in writing. You must not deviate from our standards and specifications without first obtaining our written consent. You must discontinue selling and offering for sale any beverage or food items, products or services that we may disapprove in writing at any time. We have the right to change the types of beverage or food items, products and services offered by you at the Franchise at any time, and there are no limits on our right to make those changes.

You must discontinue offering for sale any items, products and services we may disapprove in writing at any time. You cannot sell any food ingredient separate from the finished beverage and food product authorized by us.

You must maintain in sufficient supply and use and sell only the beverage and food items, ingredients, products, materials, supplies, and paper goods that conform to our standards and specifications. You must prepare all food items with our recipes and procedures for preparation contained in the Manuals or other written instructions, including the measurements of ingredients. You must not deviate from our standards and specifications by the use or offer of nonconforming items or differing amounts of any items, without first obtaining our written consent.

We may offer guidance concerning the selling price for the goods, products and services offered from your Franchise. You are in no way bound to adhere to any such recommended or suggested price. You have the right to sell your products and provide services at any price that you determine. If you elect to sell any or all of your products or merchandise at any price recommended by us, we make no guarantees or warranties that offering these products or merchandise at the recommended price will enhance your sales or profits.

We have developed certain products for use in the System that are prepared from proprietary recipes and certain products that bear the Marks. Because of the importance of quality and uniformity of production and the significance of the proprietary and trademarked products in the System, it is to our and your benefit that we closely control the production and distribution of these products. You must use our recipes and certain products manufactured by or on behalf of us. You must purchase all of your requirements for these products only from us or from sources designated by us or, with respect to products manufactured by or on behalf of us, from a seller of these products.

We may make available and may require you to purchase from us for resale to your

customers certain pre-packaged beverage or food products and promotional merchandise in amounts sufficient to meet your customer demand.

We do not impose any other restrictions in the Franchise Agreement in any other manner, as to the goods or services that you may offer or sell or as to the customers to whom you may offer or sell (see Item 8).

ITEM 17

RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

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

PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
a. Term of the Franchise	3.1	10 years or termination of Franchisee's right to possess the franchise premises, whichever is earlier
b. Renewal or extension of the term	3.2	Execute Franchise Agreement in effect at that time and pay renewal fee.
c. Requirements for renewal/ extension	3.2	You must give at least 6 months' notice, repair and update equipment and premises, not be in breach of any agreement with us or our affiliates, have the right to remain in possession of premises, pay renewal fee, sign current agreement and general release, and comply with current qualification and training requirements (see applicable State Amendments to FDD and Agreements).
d. Termination by Franchisee	Not applicable	You may terminate under any grounds permitted by law.
e. Termination by Franchisor	Not applicable	Not applicable
f. Termination by Franchisor with cause	16.1, 16.2, and 16.3	Each of your obligations under the Franchise Agreement is a material and essential obligation, the breach of which may result in termination.
g. Cause defined defaults which can be cured	16.2 and 16.3	We may terminate you for cause if you fail to cure certain defaults, including: If you or any of your affiliates fail to pay any monies owed to us, or our affiliates or vendors, and do not cure within 5 days after notice (or longer period required), fail to have signed the Confidentiality and Noncompetition Covenants contained in the Franchise Agreement within 5 days after a request, fail to procure and maintain required insurance within 7 days after notice, use the Marks in an unauthorized manner and fail to cure within 24 hours after notice, fail to cure any other default that is susceptible of cure within 30 days after notice.
h. Cause defined defaults which cannot be cured	16.1 and 16.2	We may terminate you for cause if you fail to cure certain defaults, including: If you become insolvent, make a general assignment for benefit of creditors, file a petition or have a petition initiated against you under federal bankruptcy laws, have outstanding judgments

PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
		against you for over 30 days, sell unauthorized products or services, fail to acquire an accepted location within time required, fail to remodel when required, fail to open Franchise when required, abandon or lose right to the Franchise premises, are convicted of a felony or other crime that may have an adverse effect on the System or Marks, transfer any interest without our consent or maintain false books or records.
i. Franchisee obligations on termination/ non renewal	17	Obligations include: you must cease operating the Franchise and using the Marks and completely de-identify the business, pay all amounts due to us or our affiliates, return all Manuals and other proprietary materials, comply with confidentiality requirements, and at our option, sell or assign to us your rights in the Franchise premises and the equipment and fixtures used in the business.
j. Assignment of contract by franchisor	14.1	Franchisor can transfer its obligations and rights under the franchise to any person or legal entity.
k. Transfer by franchisee – definition	14.2(a)	Includes sale, assignment, conveyance, pledge, mortgage or other encumbrance of any interest in the Franchise Agreement, the Franchise or in an entity owned by you.
l. Approval of transfer by franchisor	14.2(b)	Franchisor must approve all transfer, but cannot unreasonably withhold its consent.
m. Conditions for approval of transfer	14.2(b)	Conditions include: you must pay all amounts due us or our affiliates, not otherwise be in default, sign a general release, and pay a transfer fee. Transferee must meet our criteria, attend training and sign current Franchise Agreement (see applicable State Amendments to FDD and Agreements).
n. Franchisors’ right of first refusal to acquire business.	14.4	Franchisor has first right to purchase or match offer that is received for business.
o. Franchisors’ option to purchase business	17.12 and 14.4	Other than assets on termination, nonrenewal or right of first refusal, we have no right or obligation to purchase your business.
p. Franchisees’ death or disability	14.5	If you or a Controlling Principal are a natural person, on death or permanent disability, your successor must be approved by us, or franchise must be transferred to someone approved by us within 6 months after death or notice of permanent disability.
q. Non-Competition covenants during the term of the franchise (No Conflict).	10.3(a)	You are prohibited from operating or having an interest in a similar business during the term of the franchise.
r. Non-competition covenants after the franchise is terminated or expires	10.3(b)	You and your Controlling Principals are prohibited from operating or having an interest in a similar business which is located, or is intended to be a 5-mile radius of any Franchise in existence or under construction for a period of one year from the earlier of (i) the expiration or termination of, or the transfer of all of your interest in, the franchise Agreement or (ii) the time a Controlling Principal ceases to satisfy the definition of a Controlling Principal, as applicable.

PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
		Further, you may not hire any of our employees for a period of one year.
s. Modification of the agreement	10.1(e), 10.3(e) and 18.3	Later amendments to the Franchise Agreement must be in writing and signed by both you and us. You must comply with Manuals as amended.
t. Integration/Merger clause.	18.2	Only the terms of the Franchise Agreement and other related written agreements are binding (subject to applicable state law). No other representations or promises will be binding.
u. Dispute resolution by arbitration or mediation	18.8 and 18.9	Except for actions brought by us for monies owed, injunctive or extraordinary relief, or actions involving real estate, and subject to state law, all disputes must be mediated at our headquarters or arbitrated in Josephine County, Oregon.
v. Choice of forum	18.10	The venue for all proceedings related to or arising out of the Franchise Agreement is Josephine County, Oregon, unless otherwise brought by us (see applicable State Amendments to FDD and Agreements.)
w. Choice of law.	18.10	The Franchise Agreement is interpreted, governed, and construed under the laws of the State of Oregon. (See applicable State Amendments to FDD and Agreements.)

The following states have statutes that may supersede the Franchise Agreement, Development Agreement and other related agreements in your relationship with us. These statutes may affect the enforceability of provisions in the Agreements related to termination; transfer; renewal; covenants not to compete; choice of law; jurisdiction venue selection; execution of waivers and releases of claims under the statute; injunctive relief, waiver of rights to jury trial; punitive and liquidated damage provisions, and other remedies; arbitration; and discrimination between franchisees: Ark. Code Ann. § 4-72-201 (Michie); Cal. Corp. code §§ 31000 - 31516 (West) Cal. Bus. & Prof. Code §§ 20000 - 20043 (West); Conn. Gen. Stat. § 42-133e; Del. Code Ann. Tit. 6 § 2552; Haw. Rev. Stat. § 482E-1 - 482E-12; Ill. Rev. Stat. Ch. 815 para. 705/1 - 705/44; Ind. Code §§ 1 - 51; Ind. Code Ann. § 23-2-2.7 (West); Iowa Code § 523H.1 - 523H.17; Md. Code Ann., Bus. Reg. §§ 14-201 - 14-233; Mich. Comp. Laws §§ 445.1501 -445.1545; Minn. Stat. §§ 80C.01 - 80C.22; Minn. Stat. §§ 80C.01 - 80C.14; Miss. Code Ann. § 75-24-51; Mo. Ann. Stat. § 407.400 (Vernon); Neb. Rev. Stat. § 87-401; N.J. Stat. Ann. § 56:10-1 (West); N.Y. Gen. Bus. Law §§ 680 - 695; N.D. Cent. Code § 51-19-01; Or. Rev. Stat. §§ 650.005 - 650.085; R.I. Gen. Laws §§ 19-28.1-1 - 19-28.1-34; S.D. Codified Laws Ann. §§ 37-5A-1 - 37-5A-87; Tex. Rev. Civ. Stat. Ann. Art. 16.01; Va. Code Ann. §§ 13.1-557 -13.1-574; Wa. Rev. Code §§ 19.100.010 - 19.100.940; Wis. Stat. §§ 553.01 - 553.78; Wis. Stat. §§ 135.01 -135.07. These and other states may have fair practice laws and other civil statutes affecting contracts and state and federal court decisions that may also affect the enforcement of provisions in the Franchise Agreement, Development Agreement and other related agreements, including the areas of termination and renewal.

The provision in the Franchise Agreement that terminates the agreement upon your

bankruptcy may not be enforceable under Title 11, United States Code Section 101.

This table lists certain important provisions of the Development and related agreements. You should read these provisions in the agreements attached to this offering circular.

PROVISION	SECTION IN DEVELOPMENT AGREEMENT	SUMMARY
a. Length of term	5	Term continues until you have completed your development obligations in accordance with the Development Schedule. Term will vary based on the number of stores to be developed. Range is typically 2 to 5 years.
b. Renewal or extension of the term	3.2	We may extend the term of the Development Agreement to allow you to develop additional franchises. There is no renewal of a Development Agreement once all development obligations have been fulfilled.
c. Your requirements to renew or extend	4.2(b) and (c)	You must develop the additional franchises.
d. Termination by you	Not Applicable	You may terminate under any grounds permitted by law.
e. Termination by us without cause.	Not Applicable	Not Applicable
f. Termination by us with "cause"	7.1-7.3	Following certain defaults, we may terminate the Agreement or modify your territorial rights or alter your Development Schedule, rather than terminate the Agreement.
g. "Cause" defined defaults curable defaults defaults	7.2 and 7.3	We may terminate you for cause if you fail to cure certain defaults, including: If you or any of your affiliates fail to pay any monies owed to us, or your affiliates or vendors, and do not cure within 5 days after notice (or longer period required), fail to have signed the Confidentiality and Noncompetition Covenants contained in the Agreement within 30 days after a request, use the Marks in an unauthorized manner and fail to cure within 24 hours after notice or fail to cure any other default that is susceptible of cure within 30 days after notice. If you have both a Development Agreement, an uncured default under one is also a default under the other.
h. "Cause" defined -- defaults which cannot be cured	7.1 and 7.2	We may terminate you for cause based on certain non-curable, defaults, including: If you become insolvent, make a general assignment for benefit of creditors, file a petition or have a petition initiated against you under federal bankruptcy laws, have outstanding judgments against you for over 30 days, fail to comply with the Development Schedule, are convicted of a felony or other crime that may have an adverse effect on the System or Marks, or transfer any interest without our consent.
i. Your obligations on termination/ nonrenewal	7.5	Obligations include: you must cease developing franchises or, on a partial termination of territorial or development rights under 7.4, must continue to develop only in accordance with any modified Development Schedule, and must comply with all applicable confidentiality and noncompetition covenants.

PROVISION	SECTION IN DEVELOPMENT AGREEMENT	SUMMARY
j. Assignment of contract by franchisor	8.1	We have the right to transfer or assign the Development Agreement to any person or entity without restriction.
k. "Transfer" by you-defined	8.2(a)	Includes sale, assignment, conveyance, gift, pledge, mortgage or other disposal or encumbrance of any direct or indirect interest in the Agreement or you (if you are not a natural person).
l. Approval of transfer by developer	8.2(b)	You must obtain our consent before transferring any interest. We will not unreasonably withhold our consent.
m. Conditions for approval of transfer	14.2(b)	Conditions include: you must pay all amounts due us or our affiliates, not otherwise be in default, sign a general release, and pay a transfer fee. Transferee must meet our criteria, attend training and sign current Franchise Agreement (see applicable State Amendments to FDD and Agreements).
n. Our right of first refusal to acquire your business.	8.4	Within 30 days after notice, we have the option to purchase the transferred interest on the same terms and conditions offered by a third party.
o. Our option to purchase your business	Not applicable	Not applicable
p. Death or disability of you	8.5	If you or a Controlling Principal are a natural person, on death or permanent disability, your successor must be approved by us, or interest must be transferred to someone approved by us within 12 months after death or 6 months after notice of permanent disability.
q. Non-Competition covenants during the term of the Development Agreement.	9.2(a)	Except for franchises you operate under Franchise Agreements with us, you and your Controlling Principals are prohibited from operating or having an interest in a similar business in the U.S. or anywhere else we have used, registered or sought to register the Marks or where we operate or license others.
r. Non-competition covenants after the Development Agreement is terminated or expires	9.2(b)	Except for franchises you operate under Franchise Agreements with us, you and your Controlling Principals are prohibited from operating or having an interest in a similar business which is located, or is intended to be located within a 10-mile radius of any franchise in existence or under construction as of the earlier of (i) the expiration, termination, or the transfer of all of your interest in the Franchise Agreement or (ii) the time a Controlling Principal ceases to satisfy the definition of a Controlling Principal, as applicable. Further, you may not hire any of our employees for a period of two years.
s. Modification of the agreement	9.2 and 11.3	Agreement may not be modified unless mutually agreed to in writing, except we may unilaterally decrease the scope of certain non-competition covenants.
t. Integration/Merger clause.	11.2	Only the terms of the Agreement and other related written agreements are binding (subject to applicable state law). No other representations or promises will be binding.
u. Dispute resolution by	11.7 and 11.8	Except for actions brought by us for monies owed, injunctive or extraordinary relief, or actions involving real estate, and subject to

PROVISION	SECTION IN DEVELOPMENT AGREEMENT	SUMMARY
arbitration or mediation		state law, all disputes must be mediated at our headquarters or arbitrated in Josephine County, Oregon.
v.Choice of forum	11.9	The venue for all proceedings related to or arising out of the Franchise Agreement is Josephine County, Oregon, unless otherwise brought by us (see State Amendments to FDD and Agreements).
w.Choice of law	11.9	The Agreement is interpreted, governed, and construed under Oregon law (except for Oregon choice of law rules). (see State Amendments to FDD and Agreements).

The following states have statutes that may supersede the Franchise Agreement, Development Agreement and other related agreements in your relationship with us. These statutes may affect the enforceability of provisions in the Agreements related to termination; transfer; renewal; covenants not to compete; choice of law; jurisdiction venue selection; execution of waivers and releases of claims under the statute; injunctive relief, waiver of rights to jury trial; punitive and liquidated damage provisions, and other remedies; arbitration; and discrimination between franchisees: Ark. Code Ann. § 4-72-201 (Michie); Cal. Corp. code §§ 31000 - 31516 (West) Cal. Bus. & Prof. Code §§ 20000 - 20043 (West); Conn. Gen. Stat. § 42-133e; Del. Code Ann. Tit. 6 § 2552; Haw. Rev. Stat. § 482E-1 - 482E-12; Ill. Rev. Stat. Ch. 815 para. 705/1 - 705/44; Ind. Code §§ 1 - 51; Ind. Code Ann. § 23-2-2.7 (West); Iowa Code § 523H.1 - 523H.17; Md. Code Ann., Bus. Reg. §§ 14-201 - 14-233; Mich. Comp. Laws §§ 445.1501 -445.1545; Minn. Stat. §§ 80C.01 - 80C.22; Minn. Stat. §§ 80C.01 - 80C.14; Miss. Code Ann. § 75-24-51; Mo. Ann. Stat. § 407.400 (Vernon); Neb. Rev. Stat. § 87-401; N.J. Stat. Ann. § 56:10-1 (West); N.Y. Gen. Bus. Law §§ 680 - 695; N.D. Cent. Code § 51-19-01; Or. Rev. Stat. §§ 650.005 - 650.085; R.I. Gen. Laws §§ 19-28.1-1 - 19-28.1-34; S.D. Codified Laws Ann. §§ 37-5A-1 - 37-5A-87; Tex. Rev. Civ. Stat. Ann. Art. 16.01; Va. Code Ann. §§ 13.1-557 -13.1-574; Wa. Rev. Code §§ 19.100.010 - 19.100.940; Wis. Stat. §§ 553.01 - 553.78; Wis. Stat. §§ 135.01 -135.07. These and other states may have fair practice laws and other civil statutes affecting contracts and state and federal court decisions that may also affect the enforcement of provisions in the Franchise Agreement, Development Agreement and other related agreements, including the areas of termination and renewal.

The provision in the Franchise Agreement or Development Agreement that terminates the agreement upon your bankruptcy may not be enforceable under Title 11, United States Code Section 101.

ITEM 18

PUBLIC FIGURES

We do not use any public figures to promote our franchises.

ITEM 19

FINANCIAL PERFORMANCE REPRESENTATIONS

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

We do not make any representations about a franchisee's future financial performance or the past financial performance of company-owned or franchised outlets. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor's management by contacting Butch Price, 901 NW E St., Grants Pass, OR 97526, (541) 476-1387, the Federal Trade Commission, and the appropriate state regulatory agencies.

ITEM 20

OUTLETS AND FRANCHISEE INFORMATION

**Systemwide Outlet Summary
For years 2022 to December 31, 2024**

Outlet Type	Year	Outlets at Start of the Year	Outlets at the End of the Year	Net Change
Franchised	2022	10	9	-1
	2023	9	8	-1
	2024	8	7	-1
Company-Owned ¹	2022	1	2	+1
	2023	2	2	0
	2024	2	2	0
Total Outlets	2022	11	11	0
	2023	11	10	-1
	2024	10	9	-1

¹ We are also listing the outlets of our affiliate, Southern Oregon Growlers, LLC under the category of “Company Owned.”

**Transfer of Outlets from Franchisees to New Owners (other than the Franchisor)
For Years 2022 to December 31, 2024**

State	Year	Number of Transfers
Idaho	2022	0
	2023	0
	2024	0
Nevada	2022	0
	2023	0
	2024	0
Oregon	2022	0
	2023	0
	2024	0
Washington	2022	0
	2023	0
	2024	0
Wisconsin	2022	0
	2023	0
	2024	0
Totals	2022	0
	2023	0
	2024	0

Status of Franchised Outlets For Years 2022 to December 31, 2024

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations – Other Reasons	Outlets at End of Year
Idaho	2022	2	0	0	0	0	0	2
	2023	2	0	0	0	0	0	2
	2024	2	0	0	0	0	1	1
Nevada	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
	2024	1	0	0	0	0	1	0
Oregon ²	2022	4	0	0	0	0	0	4
	2023	4	0	0	0	0	1	3
	2024	3	1	0	0	0	0	4
Washington	2022	2	0	0	0	0	1	1
	2023	1	0	0	0	0	0	1
	2024	1	0	0	0	0	0	1
Wisconsin	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
	2024	1	0	0	0	0	0	1
Totals	2022	10	0	0	0	0	1	9
	2023	9	0	0	0	0	1	8
	2024	8	0	0	0	0	1	7

² Three of the franchised outlets in Oregon are Growler Guys Express locations.

**Status of Company-Owned or Affiliate-Owned Outlets
For Years 2022 to December 31, 2024**

State	Year	Outlets at Start of Year	Outlets Opened	Outlets Reacquired From Franchisee	Outlets Closed	Outlets Sold to Franchisee	Outlets at End of Year
Oregon	2022	1	1	0	0	0	2
	2023	2	0	0	0	0	2
	2024	2	0	0	0	0	2
Totals	2022	1	1	0	0	0	2
	2023	2	0	0	0	0	2
	2024	2	0	0	0	0	2

**Projected Openings
Through December 31, 2025**

STATE	FRANCHISE AGREEMENTS SIGNED BUT OUTLET NOT OPEN	PROJECTED NEW FRANCHISED OUTLET IN THE NEXT FISCAL YEAR	PROJECTED NEW COMPANY OWNED OUTLETS IN THE NEXT FISCAL YEAR
Alabama	0	0	0
Alaska	0	0	0
Arizona	0	0	0
Arkansas	0	0	0
California	0	0	0
Colorado	0	0	0
Connecticut	0	0	0
Delaware	0	0	0
Florida	0	0	0
Georgia	0	0	0
Hawaii	0	0	0
Idaho	0	0	0
Illinois	0	0	0
Indiana	0	0	0
Iowa	0	0	0
Kansas	0	0	0
Kentucky	0	0	0
Louisiana	0	0	0
Maine	0	0	0
Maryland	0	0	0
Massachusetts	0	0	0
Michigan	0	0	0
Minnesota	0	0	0
Mississippi	0	0	0
Missouri	0	0	0
Montana	0	0	0
Nebraska	0	0	0
Nevada	0	0	0
New Hampshire	0	0	0
New Jersey	0	0	0
New Mexico	0	0	0
New York	0	0	0
North Carolina	0	0	0
North Dakota	0	0	0
Nevada	0	0	0
Ohio	0	0	0
Oklahoma	0	0	0
Oregon	0	1	0
Pennsylvania	0	0	0
Rhode Island	0	0	0
South Carolina	0	0	0
South Dakota	0	0	0
Tennessee	0	0	0
Texas	0	0	0
Utah	0	0	0

STATE	FRANCHISE AGREEMENTS SIGNED BUT OUTLET NOT OPEN	PROJECTED NEW FRANCHISED OUTLET IN THE NEXT FISCAL YEAR	PROJECTED NEW COMPANY OWNED OUTLETS IN THE NEXT FISCAL YEAR
Vermont	0	0	0
Virginia	0	0	0
Washington	0	0	0
Washington, D.C.	0	0	0
West Virginia	0	0	0
Wisconsin	0	0	0
Wyoming	0	0	0
Totals	0	1	0

Company Owned Locations:

Affiliate Owned Locations:

OREGON

Southern Oregon Growlers, LLC
345 Lithia Way
Ashland, OR 97520
541-708-1026

Southern Oregon Growlers, LLC
4201 US-97
Klamath Falls, OR 97603
458-229-7269

Franchise Owned Locations:

IDAHO

Intrinsic Brews LLC
225 West Appleway Avenue
Coeur d'Alene, Idaho 83814
208-930-4382

OREGON

Colvin Oil 1, LLC (Growler Guys Express Location)
1400 NW College Way
Bend, OR 97701
541-797-8381

Krista-Cody, Ltd (Growler Guys Express Location)
2264 Marine Dr
Astoria, OR 97103
503-468-0840

Don Newell
531 NE F St.
Grants Pass, OR 97526
(541) 916-5558

Tee & B #1, LLC
3739 SW Bond Ave.
Portland, OR 97239
503-208-2523

Tee & B #1, LLC
8942 SW Bohman Pkwy
Portland, OR 97223
971-563-8696
(unopened franchise to be located in Portland)

WASHINGTON

Tap Libations, LLC
8500 Lake City Way
Seattle, WA 98115
206-522-2337

WISCONSIN

New Leaf Clover, LLC
2832 London Road
Eau Claire, WI 54701
(715) 514-5140

During the last fiscal year, two franchisees voluntarily ceased to conduct business:

CraftBrew2Go, LLC
7530 Longley #106
Reno, NV 89511
775-800-1186

Backcountry Brews, Inc.
2020 E. Overland Rd., Suite 100
Meridian, ID 83642
208-287-8600

If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system. There has never been any franchisee organization associated with us or relating to our Marks.

ITEM 21

FINANCIAL STATEMENTS

Attached hereto as Exhibit A are our audited, fiscal year end financial statements for the years 2022, 2023, and 2024.

The following notice applies to any unaudited financial statements that may be provided to you: “THESE FINANCIAL STATEMENTS ARE PREPARED WITHOUT AN AUDIT. 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 THE CONTENT OR FORM.”

ITEM 22

CONTRACTS

Attached are copies of all of the agreements for use regarding the Disclosure Document of this franchise:

- | | | |
|----|--------------------------------------|-----------|
| 1. | Franchise Agreement | Exhibit B |
| 2. | Development Agreement | Exhibit C |
| 3. | Electronic Fund Authorization | Exhibit D |
| 4. | Power of Attorney (Telephone) | Exhibit E |
| 5. | Power of Attorney (Tax) | Exhibit F |
| 6. | Assumed Business Name Relinquishment | Exhibit G |
| 7. | The Growler Guys Express Addendum | Exhibit L |
| 8. | State-Specific Addenda | Exhibit M |

EXHIBIT A

FINANCIAL STATEMENTS

BLACK BEER LLC
FINANCIAL STATEMENTS
For the Years Ended December 31, 2024 and 2023



BLACK BEER LLC
FINANCIAL STATEMENTS
For the Years Ended December 31, 2024 and 2023

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INDEPENDENT AUDITOR'S REPORT

To the Members
Black Beer LLC
Grants Pass, Oregon

Opinion

We have audited the accompanying financial statements of Black Beer LLC (an Oregon limited liability company), which comprise the balance sheets as of December 31, 2024 and 2023, and the related statements of income, changes in members' equity, and cash flows for the years then ended, 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 Black Beer LLC as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Black Beer LLC 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 Black Beer LLC's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's 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 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 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 Black Beer LLC'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 Black Beer LLC'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.



Jones & Roth, P.C.
Eugene, Oregon
March 12, 2025

FINANCIAL STATEMENTS

BLACK BEER LLC
BALANCE SHEETS
December 31, 2024 and 2023

	2024	2023
Assets		
Current assets		
Cash	\$ 43,160	\$ 93,539
Accounts receivable, net	29,603	20,586
Inventories	-	16,077
Current portion of prepaid expenses	8,503	20,423
Current portion of note receivable	7,133	-
Other current assets	1,921	1,766
Total current assets	90,320	152,391
Property and equipment, net	2,384	58,861
Other assets		
Prepaid expenses, net of current portion	-	5,960
Note receivable, net of current portion and allowance	50,938	-
Goodwill, net	15,526	28,478
Covenant not to compete, net	2,375	2,875
Total other assets	68,839	37,313
Total assets	\$ 161,543	\$ 248,565
Liabilities and Members' Equity		
Current liabilities		
Accounts payable	\$ 1,730	\$ 7,934
Other liabilities	3,897	15
Current portion of long-term liabilities, related party	-	31,231
Total current liabilities	5,627	39,180
Long-term liabilities		
Related party loans, net of current portion	62,144	62,144
Total liabilities	67,771	101,324
Members' equity	93,772	147,241
Total liabilities and members' equity	\$ 161,543	\$ 248,565

The accompanying notes are an integral part of these statements.

BLACK BEER LLC
STATEMENTS OF INCOME
For the Years Ended December 31, 2024 and 2023

	2024	2023
Revenue		
Royalty fees	\$ 151,972	\$ 170,764
Marketing fees	26,335	28,138
Merchandise sales	-	61,726
Franchise fees	30,000	-
Franchise termination fees	6,000	-
Total revenue	214,307	260,628
Merchandise purchases	26,377	85,071
Gross profit	187,930	175,557
Selling, general, and administrative expenses		
Other expenses	14,389	18,526
Taxes and licenses	9,350	1,901
Repair and maintenance	-	260
Utilities	2,400	2,400
Depreciation	957	3,100
Amortization	5,452	5,453
Legal and professional fees	21,353	37,642
Contract labor	82,974	67,600
Office expense	496	4,016
Advertising	18,947	13,211
Meals	1,042	2,016
Lease expense	6,000	6,000
Travel	4,191	9,011
Freight and shipping	3,133	2,517
Credit loss expense	4,482	-
Total selling, general, and administrative expenses	175,166	173,653
Other income (expense)		
Loss on retirement of assets	(57,945)	-
Goodwill impairment	(8,000)	-
Interest income	55	26
Interest expense	(343)	(957)
Total other income (expense)	(66,233)	(931)
Net income (loss)	\$ (53,469)	\$ 973

The accompanying notes are an integral part of these statements.

BLACK BEER LLC
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
For the Years Ended December 31, 2024 and 2023

Members' equity, January 1, 2023	\$ 146,268
Net income	<u>973</u>
Members' equity, December 31, 2023	147,241
Net loss	<u>(53,469)</u>
Members' equity, December 31, 2024	<u>\$ 93,772</u>

The accompanying notes are an integral part of these statements.

BLACK BEER LLC
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2024 and 2023

	2024	2023
Cash flows from operating activities		
Net income (loss)	\$ (53,469)	\$ 973
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	957	3,100
Amortization	5,452	5,453
Loss on retirement of assets	57,945	-
Goodwill impairment	8,000	-
Credit loss expense	4,482	-
Inventory impairment	16,077	-
(Increase) decrease in:		
Accounts receivable, net	(10,443)	5,481
Inventory	-	60,521
Prepaid expenses	17,880	(23,840)
Other current assets	(155)	(1,766)
Increase (decrease) in:		
Accounts payable	(6,204)	740
Other current liabilities	3,882	(1,346)
	44,404	49,316
Cash flows from investing activities		
Disbursement for note receivable	(61,127)	-
Purchase of equipment	(2,425)	-
	(63,552)	-
Cash flows from financing activities		
Payments on related party notes	(31,231)	(30,593)
Net increase (decrease) in cash	(50,379)	18,723
Cash, beginning of year	93,539	74,816
Cash, end of year	\$ 43,160	\$ 93,539
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 343	\$ 957

The accompanying notes are an integral part of these statements.

BLACK BEER LLC
NOTES TO FINANCIAL STATEMENTS

1. Organization and Nature of Business

Black Beer, LLC (the Company) was organized as a limited liability company under the laws of the State of Oregon on September 6, 2019, and began business on October 1, 2019. The primary purpose of the Company is to franchise growler filling businesses in Oregon, Washington, Wisconsin, and Idaho. The Company's main source of income is from franchise and development fees and royalties.

Following is a summary of the franchise information as of December 31,

	<u>2024</u>	<u>2023</u>
Number of franchisee-owned stores	9	10

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, whereby income is recorded when earned and expenses are recorded when incurred.

Use of Estimates

Preparation of the financial statements, in accordance with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions used in the financial statements include, but are not limited to, those used to determine the allowance for credit losses and carrying amounts of accounts receivable. The amounts ultimately realized from the affected assets will depend on, among other factors, general business conditions and could differ materially in the near-term from the carrying amounts reflected in the financial statements.

Cash

The Company considers all short-term debt securities purchased with an original maturity of three months or less to be cash equivalents.

The Company maintains its cash in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per financial institution. The Company's deposits, at times, may exceed federally insured limits. As of December 31, 2024 and 2023, the Company's cash balances were fully insured.

BLACK BEER LLC
NOTES TO FINANCIAL STATEMENTS

1. Organization and Nature of Business, continued

Revenue Recognition

The Company's revenues consist of sales by Company-owned stores and of fees from franchised stores, which include initial fees and royalties. Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers* (ASC 606) provides that revenues are to be recognized when control of promised goods or services is transferred to a customer in an amount that reflects the consideration expected to be received for those goods or services. Royalties from stores operated by franchisees are based on a percentage of sales and recognized at the time the underlying sales occur.

The Company has adopted FASB ASC Topic 606 in conjunction with FASB Accounting Standards Update (ASU) No. 2021-02, *Franchisors – Revenue from Contracts with Customers (Subtopic 952-606): Practical Expedient* as the practical expedient to applying the guidance in Topic 606 when recognizing initial franchise fee revenue. The Company has made the accounting policy election to recognize pre-opening services as a single performance obligation that is distinct from the franchise license. Pre-opening services include the assistance in selection of a site, assistance in obtaining facilities and preparing the facilities for their intended use, training of the franchisee's personnel or the franchisee, preparation and distribution of manuals, information technology and advisory services, and inspection, testing, and other quality control programs. The Company recognized initial franchise fees of \$30,000 during the year ended December 31, 2024 pursuant to the standard.

Accounts Receivable

Accounts receivable, consisting primarily of amounts due from franchisees, are recorded as services are rendered, and are charged off against the allowance for credit losses when they are determined by management to be uncollectible. The credit loss allowance is estimated based on the Company's historical losses, review of specific problem accounts, existing economic conditions, reasonable and supportable forecasts about the future, and the financial stability of franchisees. Generally, the Company considers accounts receivable past due after 30 days. Management has determined that there were \$6,357 and \$-0- of trade accounts receivable past due as of December 31, 2024 and 2023, respectively. The Company has established an allowance for credit loss for the year ended December 31, 2024. No allowance was necessary for the year ended December 31, 2023. The balances of accounts receivables were \$31,029 net allowance for credit losses of \$1,426 and \$20,586 net allowance for credit losses of \$-0- as of December 31, 2024 and 2023, respectively.

As required to be disclosed by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*, the opening balances, of accounts receivable at January 1, 2024 and 2023, were \$20,586, and \$26,067, respectively.

Franchise Operations Fee Revenue

Initial license fees from sales of franchise and area development agreements are recognized when the franchisee location opens pursuant to ASU No. 2021-02 as discussed above. Continuing franchise fees and advertising fees (based on a percentage of sales) are recognized as revenue each month based on the franchisees' monthly sales activity.

BLACK BEER LLC
NOTES TO FINANCIAL STATEMENTS

1. Organization and Nature of Business, continued

Contract Liabilities

Any advertising or marketing fees received, but not yet used for advertising and marketing per the underlying franchise agreement, are deferred and recorded as a liability for unspent advertising funds, until which point the Company incurs the related expense.

As required to be disclosed by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers, the opening balances of contract liabilities at January 1, 2024 and 2023 were \$-0-. The balances for the contract liabilities were \$-0- as of December 31, 2024 and 2023.

Performance Obligations

The Company has agreements with several growler filling locations in Oregon, Washington, Wisconsin, and Idaho. The terms of the agreements protect the territory for the operator and provide the growler filling operators standard methods of operation and provide collaborative regional marketing and advertising based on the operator's location. This obligation is fulfilled over the term of the franchise agreements which generally range 10 years and the terms of the development agreements varies by agreement.

Variable Consideration

Due to the variable nature of product usage, the Company does not estimate or accrue for these revenues. The Company receives variable consideration from supplier-based product purchases and usage of these products. Revenues are recognized at a point in time upon receipt of payment from the supplier.

Inventory

Inventory consists of apparel merchandise and supplies such as cans, lids and glassware which are sold to franchisees. Inventory is stated at the lower of cost, determined by the first-in, first-out method, and net realizable value. During 2024, management determined that the remaining merchandise inventory of \$16,077 was obsolete. Amount is included in Merchandise purchases expense on the statement of income.

Property and Equipment

Property and equipment are carried at cost. Additions, renewals, and betterments are capitalized, while expenditures for maintenance, repairs, and minor renewals are charged to expense. Gains or losses realized from sales or retirements are reflected in income from operations. Depreciation is computed using the straight-line method at rates based on the following estimated useful lives.

Computer hardware	3-5 years
Furniture and fixtures	7 years
Leasehold improvement	15 years

BLACK BEER LLC
NOTES TO FINANCIAL STATEMENTS

1. Organization and Nature of Business, continued

Goodwill

The Company has elected the accounting alternative available to private companies related to goodwill and has elected to amortize goodwill on the straight-line method over a ten-year period. During 2024, management determined that goodwill was impaired due to decreases in revenues and franchisee closures. Goodwill impairment of \$8,000 was included in the statement of income for the year ended December 31, 2024.

Intangible Assets

Intangible assets are recorded at cost and are amortized on a straight-line basis over the estimated useful life of the asset.

Note Receivable

Note receivable is stated at unpaid principal balances, less an allowance for credit losses. The credit loss allowance is estimated based on the Company's historical losses, review of specific problem accounts, existing economic conditions, reasonable and supportable forecasts about the future, and the financial stability of franchisees.

Income Taxes

Under provisions of the Internal Revenue Code, a limited liability company that is treated as a partnership is not subject to income taxes, and any income or loss generated by the Company is passed through to the individual members. Accordingly, no provisions for federal income taxes appear in the financial statements. Under the Oregon Tax Code, a limited liability company operating in the state of Oregon is subject to an annual tax of \$150. The Company's income tax returns are subject to examination by the appropriate tax jurisdictions. As of December 31, 2024 and 2023, the Company's federal and various state tax returns generally remain open for the last three years.

Accounting for Uncertain Tax Positions

The Company follows accounting standards related to the recognition of uncertain tax positions. These standards provide detailed guidance for financial statement recognition, measurement, and disclosure of uncertain tax positions taken or expected to be taken on the income tax returns. The Company will record a liability for uncertain tax positions when it is more likely than not that a tax position would not be sustained if examined by the taxing authority. Management has determined that the Company does not have any uncertain tax positions as of December 31, 2024 and 2023.

Advertising and Marketing

Advertising and sales promotion costs are expensed as incurred. Advertising expense was \$18,947 and \$13,211 for the years ended December 31, 2024 and 2023, respectively.

BLACK BEER LLC
NOTES TO FINANCIAL STATEMENTS

1. Organization and Nature of Business, continued

Fair Value of Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, accounts payable, and related party notes payables for which their current carrying amounts approximate fair market value.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of accounts receivable. Accounts receivable balances consist primarily of receivables from franchisees.

Shipping and Handling

The Company's policy is to expense shipping and handling costs.

2. Inventory

At December 31, inventory consisted of the following:

	2024	2023
Merchandise	\$ -	16,077
Total inventory	\$ -	\$ 16,077

3. Property and Equipment

At December 31, property and equipment consisted of the following:

	2024	2023
Equipment and furniture	\$ 5,724	\$ 13,300
Equipment not in use	-	64,950
	5,724	78,250
Accumulated depreciation	(3,340)	(19,389)
Property and equipment, net	\$ 2,384	\$ 58,861

Depreciation expense was \$957 and \$3,100 for the years ended December 31, 2024 and 2023, respectively.

During 2024, management determined that equipment and furniture of \$74,950 was impaired. Loss on retirement of these assets of \$57,945 is included on the statement of income.

BLACK BEER LLC
NOTES TO FINANCIAL STATEMENTS

4. Goodwill and Covenant Not to Compete

At December 31, goodwill assets consisted of the following:

	2024	2023
Goodwill	\$ 41,528	\$ 49,528
Accumulated amortization	(26,002)	(21,050)
Goodwill, net	\$ 15,526	\$ 28,478

Goodwill is amortized over ten years. Amortization expense was \$4,952 and \$4,953 for the years ended December 31, 2024 and 2023, respectively.

At December 31, covenant not to compete assets consisted of the following:

	2024	2023
Covenant not to compete	\$ 5,000	\$ 5,000
Accumulated amortization	(2,625)	(2,125)
Covenant not to compete, net	\$ 2,375	\$ 2,875

Covenant not to compete is amortized over ten years. Amortization expense was \$500 for the years ended December 31, 2024 and 2023, respectively.

At December 31, 2024, estimated future amortization expense is as follows:

<u>Year Ending December 31,</u>	
2025	\$ 3,769
2026	3,769
2027	3,769
2028	3,769
2029	2,825
Thereafter	-
Total	\$ 17,901

5. Operating Leases

The Company shares office space with Double R Products, an entity owned by a member. The Company pays \$500 per month to Double R Products for leased space. The agreement is on a month-to-month basis. There are no legally enforceable terms and conditions associated with this arrangement.

Total lease operating cost was \$6,000 for the years ended December 31, 2024 and 2023, respectively.

BLACK BEER LLC
NOTES TO FINANCIAL STATEMENTS

6. Note Receivable

As of December 31, 2024 and 2023, note receivable consisted of the following:

	2024	2023
Note receivable from franchisee, principal and interest monthly payments of \$1,182, beginning May 1, 2025 until April 1, 2030, and fixed interest rate of 6.00%.	\$ 61,127	\$ -
Allowance for credit losses	(3,056)	-
Current portion	(7,133)	-
 Note receivable, net of current portion and allowance for credit losses	 \$ 50,938	 \$ -

Expected future payments on the note receivable are as follows:

For the Year Ending

2025	\$ 7,133
2026	11,247
2027	11,941
2028	12,677
2029	13,459
Thereafter	4,670
 Total	 \$ 61,127

7. Related Party Notes Payable

As of December 31, 2024 and 2023, related party notes payable consisted of the following:

	2024	2023
Note payable to Black Beard, LLC, principal and interest monthly payments of \$2,629, beginning January 31, 2020 until December 31, 2024, and fixed interest rate of 2.00%. This note is unsecured.	\$ -	\$ 31,231
 Note payable to Southern Oregon Growlers, LLC. Payments are not due and are contingent upon Company cash flow. There is no interest charged on this loan. This note is unsecured.	 47,144	 47,144

BLACK BEER LLC
NOTES TO FINANCIAL STATEMENTS

7. Related Party Notes Payable, continued

Note payable to Black Beard, LLC. Payments are not due and are contingent upon Company cash flow. There is no interest charged on this loan. This note is unsecured.

	15,000	15,000
	62,144	93,375
Current portion	-	(31,231)
Notes payable, net of current portion	\$ 62,144	\$ 62,144

Future maturities on related party notes payable are as follows:

For the Year Ending

2025	\$ -
2026	-
2027	-
2028	-
2029	-
Thereafter	62,144
Total	\$ 62,144

Interest expense incurred on related party loans was \$343 and \$957 for the years ended December 31, 2024 and 2023, respectively.

8. Related Party Transactions

Beginning in 2020, Double R Products, an entity owned by a member, charges the Company a monthly amount of \$1,430 for shared expenses such as labor, space, and utilities. This amount also includes the \$500 of lease cost as described in Note 5. Total expenses under this arrangement was \$17,160 for each of the years ended December 31, 2024 and 2023.

Southern Oregon Growlers, LLC is wholly-owned by an owner of the Company and operates two franchises in Ashland, Oregon and Klamath Falls, Oregon. As of December 31, 2024 and 2023, the Company was owed \$5,658 and \$6,693 in accounts receivable, respectively, from Southern Oregon Growlers, LLC. For the years ended December 31, 2024 and 2023, the Company received \$40,860 and \$48,531 in revenues from Southern Oregon Growlers, LLC, respectively. The Company paid \$18,974 and \$-0- for the years ended December 31, 2024 and 2023, respectively, for shared labor expenses.

In December 2023, the Company sold all remaining can, lid and glassware inventory to Double R Products for a total of \$39,055. Amount is included in Merchandise sales on the statement of income.

BLACK BEER LLC
NOTES TO FINANCIAL STATEMENTS

9. Subsequent Events

Management evaluates events and transactions that occur after the balance sheet date as potential subsequent events. Management has performed this evaluation through the date of the independent auditor's report.

BLACK BEER LLC
FINANCIAL STATEMENTS
For the Years Ended December 31, 2023 and 2022



BLACK BEER LLC
FINANCIAL STATEMENTS
For the Years Ended December 31, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

To the Members
Black Beer LLC
Grants Pass, Oregon

Opinion

We have audited the accompanying financial statements of Black Beer LLC (an Oregon limited liability company), which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of income, changes in members' equity, and cash flows for the years then ended, 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 Black Beer LLC as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Black Beer LLC 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.

Emphasis of Matter

As discussed in Note 1 and Note 8 to the financial statements, as of January 1, 2022, the wholly-owned subsidiary of Southern Oregon Growlers LLC was distributed to an owner of Black Beer LLC, as such, the financial statements as of and for the year ended December 31, 2022 contain only the activity of Black Beer LLC. Our opinion is not modified with respect to that matter.

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 Black Beer LLC's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's 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 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 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 Black Beer LLC'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 Black Beer LLC'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.



Jones & Roth, P.C.
Eugene, Oregon
May 13, 2024

FINANCIAL STATEMENTS

BLACK BEER LLC
BALANCE SHEETS
December 31, 2023 and 2022

	<u>2023</u>	<u>Restated 2022</u>
Assets		
Current assets		
Cash	\$ 93,539	\$ 74,816
Accounts receivable	20,586	26,067
Inventories	16,077	76,598
Current portion of prepaid expenses	20,423	2,543
Other current assets	<u>1,766</u>	<u>-</u>
Total current assets	<u>152,391</u>	<u>180,024</u>
Property and equipment, net	<u>58,861</u>	<u>61,961</u>
Other assets		
Prepaid expenses, net of current portion	5,960	-
Goodwill, net	28,478	33,431
Covenant not to compete, net	<u>2,875</u>	<u>3,375</u>
Total other assets	<u>37,313</u>	<u>36,806</u>
Total assets	<u><u>\$ 248,565</u></u>	<u><u>\$ 278,791</u></u>
Liabilities and Members' Equity		
Current liabilities		
Accounts payable	\$ 7,934	\$ 7,194
Other liabilities	15	1,361
Current portion of long-term liabilities, related party	<u>31,231</u>	<u>30,575</u>
Total current liabilities	<u>39,180</u>	<u>39,130</u>
Long-term liabilities		
Related party loans, net of current portion	<u>62,144</u>	<u>93,393</u>
Total liabilities	101,324	132,523
Members' equity	<u>147,241</u>	<u>146,268</u>
Total liabilities and members' equity	<u><u>\$ 248,565</u></u>	<u><u>\$ 278,791</u></u>

The accompanying notes are an integral part of these statements.

BLACK BEER LLC
STATEMENTS OF INCOME
For the Years Ended December 31, 2023 and 2022

	2023	Restated 2022
Revenue		
Royalty fees	\$ 170,764	\$ 184,220
Marketing fees	28,138	33,102
Merchandise sales	61,726	51,928
Total revenue	260,628	269,250
Merchandise purchases	85,071	68,508
Gross profit	175,557	200,742
Selling, general, and administrative expenses		
Other expenses	18,526	8,895
Taxes and licenses	1,901	362
Supplies	-	35
Repair and maintenance	260	1,616
Utilities	2,400	2,400
Depreciation	3,100	3,100
Amortization	5,453	5,453
Legal and professional fees	37,642	68,640
Contact labor	67,600	70,082
Office expense	4,016	969
Advertising	13,211	28,542
Meals	2,016	2,199
Lease expense	6,000	6,000
Travel	9,011	20,048
Freight and shipping	2,517	2,577
Total selling, general, and administrative expenses	173,653	220,918
Other income (expense)		
Interest income	26	33
Credit loss	-	(3,538)
Interest expense	(957)	(1,621)
Total other income (expense)	(931)	(5,126)
Net income (loss)	\$ 973	\$ (25,302)

The accompanying notes are an integral part of these statements.

BLACK BEER LLC
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
For the Years Ended December 31, 2023 and 2022

Members' equity, January 1, 2022	\$ 367,634
Deconsolidation of Southern Oregon Growlers, LLC - January 1, 2022	(195,498)
Net loss, restated	(25,302)
Member distributions	<u>(566)</u>
Members' equity, December 31, 2022, restated	146,268
Net income	<u>973</u>
Members' equity, December 31, 2023	<u>\$ 147,241</u>

The accompanying notes are an integral part of these statements.

BLACK BEER LLC
 STATEMENTS OF CASH FLOWS
 For the Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>Restated 2022</u>
Cash flows from operating activities		
Net income (loss)	\$ 973	\$ (25,302)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,100	3,100
Amortization	5,453	5,453
(Increase) decrease in:		
Accounts receivable	5,481	(1,008)
Inventory	60,521	24,262
Prepaid expenses	(23,840)	-
Other current assets	(1,766)	-
Increase (decrease) in:		
Accounts payable	740	7,196
Other current liabilities	(1,346)	(3,059)
	<u>49,316</u>	<u>10,642</u>
Net cash provided by operating activities		
	<u>49,316</u>	<u>10,642</u>
Cash flows from investing activities		
Distribution of Southern Oregon Growlers	<u>-</u>	<u>(81,450)</u>
Cash flows from financing activities		
Payments on related party notes	<u>(30,593)</u>	<u>(29,699)</u>
Net increase (decrease) in cash	18,723	(100,507)
Cash, beginning of year	<u>74,816</u>	<u>175,323</u>
Cash, end of year	<u>\$ 93,539</u>	<u>\$ 74,816</u>

The accompanying notes are an integral part of these statements.

BLACK BEER LLC
 STATEMENTS OF CASH FLOWS, Continued
 For the Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>Restated 2022</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 957	\$ 1,621
Distribution of Southern Oregon Growlers, LLC to member:		
Assets	\$ -	\$ 233,591
Liabilities	-	(119,543)
Member equity in Southern Oregon Growlers, LLC	-	(195,498)
Cash distributed to member for Southern Oregon Growlers, LLC	<u>\$ -</u>	<u>\$ (81,450)</u>
Distribution of company vehicle and related loan to member:		
Vehicle	\$ -	\$ 30,540
Loan	-	(29,974)
Net distribution to member	<u>-</u>	<u>(566)</u>
Cash distributed to member	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.

BLACK BEER LLC
NOTES TO FINANCIAL STATEMENTS

1. Organization and Nature of Business

Black Beer, LLC (the Company) was organized as a limited liability company under the laws of the State of Oregon on September 6, 2019, and began business on October 1, 2019. The primary purpose of the Company is to franchise growler filling businesses in Oregon, Washington, Wisconsin, Nevada, and Idaho. The Company's main source of income is from franchise and development fees and royalties.

Following is a summary of the franchise information as of December 31,

	<u>2023</u>	<u>2022</u>
Number of franchisee-owned stores	10	11

Principles of Consolidation

As of January 1, 2022, the net assets of a wholly-owned subsidiary, Southern Oregon Growlers, LLC, were distributed to a member of the Company and as of this date, Southern Oregon Growlers, LLC was deconsolidated from the financial statements. See Note 7 for the related deconsolidation.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, whereby income is recorded when earned and expenses are recorded when incurred.

Use of Estimates

Preparation of the financial statements, in accordance with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions used in the financial statements include, but are not limited to, those used to determine the allowance for credit losses and carrying amounts of accounts receivable. The amounts ultimately realized from the affected assets will depend on, among other factors, general business conditions and could differ materially in the near-term from the carrying amounts reflected in the financial statements.

Cash

The Company considers all short-term debt securities purchased with an original maturity of three months or less to be cash equivalents.

The Company maintains its cash in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per financial institution. The Company's deposits, at times, may exceed federally insured limits. As of December 31, 2023 and 2022, the Company's cash balances were fully insured.

BLACK BEER LLC
NOTES TO FINANCIAL STATEMENTS

1. Organization and Nature of Business, continued

Revenue Recognition

The Company's revenues consist of sales by Company-owned stores and of fees from franchised stores, which include initial fees and royalties. Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers* (ASC 606) provides that revenues are to be recognized when control of promised goods or services is transferred to a customer in an amount that reflects the consideration expected to be received for those goods or services. Initial franchise fees, which are \$30,000 per store, are recognized as the Company satisfies the performance obligation over the expected franchise term. Royalties from stores operated by franchisees are based on a percentage of sales and recognized at the time the underlying sales occur.

Accounts Receivable

Accounts receivable, consisting primarily of amounts due from franchisees, are recorded as services are rendered, and are charged off against the allowance for credit losses when they are determined by management to be uncollectible. The credit loss allowance is estimated based on the Company's historical losses, review of specific problem accounts, existing economic conditions, reasonable and supportable forecasts about the future, and the financial stability of franchisees. Generally, the Company considers accounts receivable past due after 30 days. Management has determined that no trade accounts receivable were past due as of December 31, 2023 or 2022. The Company has deemed the accounts to be entirely collectible for the years ended December 31, 2023 and 2022, and no allowance necessary. The balances of accounts receivables were \$20,586 and \$26,067 as of December 31, 2023 and 2022.

As required to be disclosed by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*, the opening balances, of accounts receivable at January 1, 2023, and 2022, was \$26,067, and \$25,059 respectively.

Franchise Operations Fee Revenue

Initial license fees from sales of franchise and area development agreements are recognized when the franchisee location opens. Continuing franchise fees and advertising fees (based on a percentage of sales) are recognized as revenue each month based on the franchisees' monthly sales activity.

Contract Liabilities

Any advertising or marketing fees received, but not yet used for advertising and marketing per the underlying franchise agreement, are deferred and recorded as a liability for unspent advertising funds, until which point the Company incurs the related expense.

As required to be disclosed by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*, the opening balances of contract liabilities at January 1, 2023 and January 1, 2022 were \$-0-. The balances for the contract liabilities were \$-0- as of December 31, 2023 and 2022.

BLACK BEER LLC
NOTES TO FINANCIAL STATEMENTS

1. Organization and Nature of Business, continued

Performance Obligations

The Company has agreements with several growler filling locations in Oregon, Washington, Wisconsin, Nevada, and Idaho. The terms of the agreements protect the territory for the operator and provide the growler filling operators standard methods of operation and provide collaborative regional marketing and advertising based on the operator's location. This obligation is fulfilled over the term of the franchise agreements which generally range 10 years and the terms of the development agreements varies by agreement.

Variable Consideration

Due to the variable nature of product usage, the Company does not estimate or accrue for these revenues. The Company receives variable consideration from supplier-based product purchases and usage of these products. Revenues are recognized at a point in time upon receipt of payment from the supplier.

Inventory

Inventory consists of apparel merchandise and supplies such as cans, lids and glassware which are sold to franchisees. Inventory is stated at the lower of cost or market, determined by the first-in, first-out method, and net realizable value.

Property and Equipment

Property and equipment are carried at cost. Additions, renewals, and betterments are capitalized, while expenditures for maintenance, repairs, and minor renewals are charged to expense. Gains or losses realized from sales or retirements are reflected in income from operations. Depreciation is computed using the straight-line method at rates based on the following estimated useful lives.

Computer hardware	3-5 years
Furniture and fixtures	7 years
Leasehold improvement	15 years

Goodwill

The Company has elected the accounting alternative available to private companies related to goodwill and has elected to amortize goodwill on the straight-line method over a ten-year period. Goodwill will be evaluated for impairment if an event occurs or circumstances change that indicate the value may be below carrying value.

Intangible Assets

Intangible assets are recorded at cost and are amortized on a straight-line basis over the estimated useful life of the asset.

BLACK BEER LLC
NOTES TO FINANCIAL STATEMENTS

1. Organization and Nature of Business, continued

Income Taxes

Under provisions of the Internal Revenue Code, a limited liability company that is treated as a partnership is not subject to income taxes, and any income or loss generated by the Company is passed through to the individual members. Accordingly, no provisions for federal income taxes appear in the financial statements. Under the Oregon Tax Code, a limited liability company operating in the state of Oregon is subject to an annual tax of \$150. The Company's income tax returns are subject to examination by the appropriate tax jurisdictions. As of December 31, 2023 and 2022, the Company's federal and various state tax returns generally remain open for the last three years.

Accounting for Uncertain Tax Positions

The Company follows accounting standards related to the recognition of uncertain tax positions. These standards provide detailed guidance for financial statement recognition, measurement, and disclosure of uncertain tax positions taken or expected to be taken on the income tax returns. The Company will record a liability for uncertain tax positions when it is more likely than not that a tax position would not be sustained if examined by the taxing authority. Management has determined that the Company does not have any uncertain tax positions as of December 31, 2023 and 2022.

Advertising and Marketing

Advertising and sales promotion costs are expensed as incurred. Advertising expense was \$13,211 and \$28,542 for the years ended December 31, 2023 and 2022, respectively.

Fair Value of Financial Instruments

The Company's financial instruments consist of cash, accounts payable, and related party notes payables for which their current carrying amounts approximate fair market value.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of accounts receivable. Accounts receivable balances consist primarily of receivables from franchisees.

Shipping and Handling

The Company's policy is to expense shipping and handling costs.

BLACK BEER LLC
NOTES TO FINANCIAL STATEMENTS

1. Organization and Nature of Business, continued

Recent Accounting Standards Adopted

On January 1, 2023, the Company adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, and all related amendments (ASC 326), which replaced the incurred loss methodology for recognizing credit losses with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. CECL requires an estimate of lifetime expected credit losses to be recognized for financial assets based on historical experience, current conditions, and reasonable and supportable forecasts, and for the financial assets to be presented at the net amount expected to be collected on the balance sheet. Financial assets held by the Company that are subject to ASC 326 are trade accounts receivable.

The Company adopted ASC 326 effective January 1, 2023, using the modified retrospective approach for all financial assets measured at amortized cost. Results for reporting periods beginning after January 1, 2023 are presented in accordance with ASC 326, while prior period amounts continue to be reported in accordance with the previously applicable accounting standards. The impact of adoption was not considered material to the financial statements and primarily resulted in new and enhanced disclosures only.

2. Inventory

At December 31, inventory consisted of the following:

	<u>2023</u>	<u>Restated 2022</u>
Glassware	\$ -	\$ 20,762
Cans & Lids	-	42,688
Merchandise	<u>16,077</u>	<u>13,148</u>
Total inventory	<u>\$ 16,077</u>	<u>\$ 76,598</u>

3. Property and Equipment

At December 31, property and equipment consisted of the following:

	<u>2023</u>	<u>2022</u>
Equipment and furniture	\$ 13,300	\$ 13,300
Equipment not in use	<u>64,950</u>	<u>64,950</u>
	78,250	78,250
Accumulated depreciation	<u>(19,389)</u>	<u>(16,289)</u>
Property and equipment, net	<u>\$ 58,861</u>	<u>\$ 61,961</u>

Depreciation expense was \$3,100 and \$3,100 for the years ended December 31, 2023 and 2022, respectively.

BLACK BEER LLC
NOTES TO FINANCIAL STATEMENTS

4. Goodwill and Covenant Not to Compete

At December 31, goodwill assets consisted of the following:

	2023	2022
Goodwill	\$ 49,528	\$ 49,528
Accumulated amortization	(21,050)	(16,097)
Goodwill, net	\$ 28,478	\$ 33,431

Goodwill is amortized over ten years. Amortization expense was \$4,953 for the years ended December 31, 2023 and 2022, respectively.

At December 31, covenant not to compete assets consisted of the following:

	2023	2022
Covenant not to compete	\$ 5,000	\$ 5,000
Accumulated amortization	(2,125)	(1,625)
Covenant not to compete, net	\$ 2,875	\$ 3,375

Covenant not to compete is amortized over ten years. Amortization expense was \$500 for the years ended December 31, 2023 and 2022, respectively.

At December 31, 2023, estimated future amortization expense is as follows:

<u>Year Ending December 31,</u>	
2024	\$ 5,453
2025	5,453
2026	5,453
2027	5,453
2028	5,453
Thereafter	4,088
Total	\$ 31,353

5. Operating Leases

The Company shares office space with Double R Products, an entity owned by a member. The Company pays \$500 per month to Double R Products for leased space. The agreement is on a month-to-month basis. There are no legally enforceable terms and conditions associated with this arrangement.

Total lease operating cost for the years ended December 31, 2023 and 2022 was \$6,000, respectively.

BLACK BEER LLC
NOTES TO FINANCIAL STATEMENTS

6. Related Party Notes Payable

As of December 31, 2023 and 2022, related party notes payable consisted of the following:

	2023	2022
Note payable to Black Beard, LLC, principal and interest monthly payments of \$2,629, beginning January 31, 2020 until December 31, 2024, and fixed interest rate of 2.00%. This note is unsecured.	\$ 31,231	\$ 61,824
Note payable to Southern Oregon Growlers, LLC. Payments are not due and are contingent upon Company cash flow. There is no interest charged on this loan. This note is unsecured.	47,144	47,144
Note payable to Black Beard, LLC. Payments are not due and are contingent upon Company cash flow. There is no interest charged on this loan. This note is unsecured.	<u>15,000</u>	<u>15,000</u>
	93,375	123,968
Current portion	<u>(31,231)</u>	<u>(30,575)</u>
Notes payable, net of current portion	<u>\$ 62,144</u>	<u>\$ 93,393</u>

Future maturities on related party notes payable are as follows:

For the Year Ending

2024	\$ 31,231
2025	-
2026	-
2027	-
2028	-
Thereafter	<u>62,144</u>
Total	<u>\$ 93,375</u>

Interest expense incurred on related party loans was \$957 and \$1,562 for the years ended December 31, 2023 and 2022, respectively.

BLACK BEER LLC
NOTES TO FINANCIAL STATEMENTS

7. Distribution of Southern Oregon Growlers, LLC

In January 2022, the Company also transferred a vehicle and the associated loan to Southern Oregon Growlers, LLC. The vehicle had a net book value of \$30,540 at January 1, 2022 and the balance of the loan at that date was \$29,952 with net equity to member of \$566. This transaction was separate from the Southern Oregon Growlers, LLC transaction noted below.

As of January 1, 2022, it was determined that all operating activities of Southern Oregon Growlers, LLC, which owns and operates the Ashland, Oregon growler filling station, would be distributed out to a Company member and be operated independently. All assets, liabilities, equity and related commitments of this entity were distributed at net book value and are no longer part of the Black Beer, LLC ownership or financial statements as of this date. Southern Oregon Growlers, LLC will continue to be a franchisee of Black Beer LLC and remit royalty and related franchise fees similar to other Black Beer LLC franchisees.

The following table summarizes the net assets of Southern Oregon Growlers, LLC distributed to a Company member as of January 1, 2022:

	2023	2022
Assets	\$ -	\$ 315,041
Liabilities	-	(119,543)
Equity	\$ -	\$ 195,498

8. Related Party Transactions

Beginning in 2020, Double R Products, an entity owned by a member, charges the Company a monthly amount of \$1,430 for shared expenses such as labor, space, and utilities. This amount also includes the \$500 of lease cost as described in Note 5. Total expenses under this arrangement was \$17,160 and \$17,160 for the years ended December 31, 2023 and 2022, respectively.

Southern Oregon Growlers, LLC is wholly-owned by an owner of the Company and operates two franchises in Ashland, Oregon and Klamath Falls, Oregon. As of December 31, 2023 and 2022, the Company was owed \$6,693 and \$6,631 in accounts receivable, respectively, from Southern Oregon Growlers, LLC. For the years ended December 31, 2023 and 2022, the Company received \$48,531 and \$59,520 in revenues from Southern Oregon Growlers, LLC, respectively.

In December 2023, the Company sold all remaining can, lid and glassware inventory to Double R Products for a total of \$39,055. Amount is included in Merchandise sales on the statement of income.

9. Reclassification

Certain prior year amounts have been reclassified to conform to current year presentation. Such reclassifications had no effect on previously stated member's equity or net income.

BLACK BEER LLC
NOTES TO FINANCIAL STATEMENTS

10. Correction of an Error

The 2022 financial statements were restated to correct a prior period misstatement of inventory. The impact of the restatement increased inventory and decreased merchandise purchases by \$13,148 and thus decreased the previously stated net loss by \$13,148 for the year ended December 31, 2022.

11. Subsequent Events

Management evaluates events and transactions that occur after the balance sheet date as potential subsequent events. Management has performed this evaluation through the date of the independent auditor's report.

Subsequent to December 31, 2023, the Company had two franchisee locations close operations.

BLACK BEER LLC
FINANCIAL STATEMENTS
For the Years Ended December 31, 2022 and 2021



BLACK BEER LLC
FINANCIAL STATEMENTS
For the Years Ended December 31, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

To the Members
Black Beer LLC
Grants Pass, Oregon

Opinion

We have audited the accompanying financial statements of Black Beer LLC (an Oregon limited liability company), which comprise the balance sheet as of December 31, 2022, and the related statements of income, changes in members' equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the 2022 financial statements referred to above present fairly, in all material respects, the financial position of Black Beer LLC as of December 31, 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Black Beer LLC 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.

Prior Period Financial Statements

The financial statements of Black Beer LLC and Subsidiaries as of December 31, 2021, were audited by other auditors whose report dated April 5, 2022 expressed an unmodified opinion on those statements.

Emphasis of Matter

As discussed in Note 1 and Note 10 to the financial statements, as of January 1, 2022, the wholly owned subsidiary of Southern Oregon Growlers LLC was distributed to an owner of Black Beer LLC, as such, the financial statements as of and for the year ended December 31, 2022 contain only the activity of Black Beer LLC. Our opinion is not modified with respect to that matter.

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 Black Beer LLC's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's 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 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 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 Black Beer LLC'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 Black Beer LLC'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.



Jones & Roth, P.C.
Eugene, Oregon
July 17, 2023

FINANCIAL STATEMENTS

BLACK BEER LLC
BALANCE SHEETS
December 31, 2022 and 2021

	2022	2021
Assets		
Current assets		
Cash	\$ 74,816	\$ 175,323
Accounts receivable	26,067	25,059
Inventories	63,450	96,682
Prepaid expenses	2,543	29,358
Total current assets	166,876	326,422
Property and equipment, net	61,961	292,555
Goodwill, net	33,431	43,384
Covenant not to compete, net	3,375	12,875
Total assets	\$ 265,643	\$ 675,236
Liabilities and Members' Equity		
Current liabilities		
Accounts payable	\$ 7,194	\$ 596
Other liabilities	1,361	15,673
Current portion of long-term liabilities	-	7,312
Current portion of long-term liabilities, related party	92,719	199,539
Total current liabilities	101,274	223,120
Long-term liabilities		
Long-term debt, net of current portion	-	22,640
Related party loans, net of current portion	31,249	61,842
Total long-term liabilities	31,249	84,482
Total liabilities	132,523	307,602
Members' equity	133,120	367,634
Total liabilities and members' equity	\$ 265,643	\$ 675,236

The accompanying notes are an integral part of these statements.

BLACK BEER LLC
STATEMENTS OF INCOME
For the Years Ended December 31, 2022 and 2021

	2022	2021
Revenue		
Royalty fees	\$ 184,220	\$ 158,113
Other franchise fees	33,102	45,786
Merchandise, beverage, and food sales	51,928	786,796
Total revenue	269,250	990,695
Merchandise, beverage, and food purchases	81,656	354,121
Gross profit	187,594	636,574
Selling, general, and administrative expenses		
Other expenses	8,895	7,619
Taxes and licenses	362	762
Supplies	35	6,695
Merchant account fee	-	20,532
Repair and maintenance	1,616	29,232
Utilities	2,400	26,721
Depreciation	3,100	42,627
Amortization	5,453	7,453
Legal and professional fees	68,640	35,130
Payroll tax	-	18,692
Contact labor	70,082	42,957
Salary	-	138,962
Office expense	969	3,626
Insurance	-	7,486
Advertising	28,542	106,885
Marketing fee	-	7,424
Meals	2,199	4,087
Property tax	-	8,314
Lease expense	6,000	45,415
Travel	20,048	71
Freight and shipping	2,577	5,919
Total selling, general, and administrative expenses	220,918	566,609
Other income (expense)		
Interest income	33	27
PPP loan forgiveness income	-	88,764
Bad debt	(3,538)	-
Charitable contribution	-	(2,527)
Interest expense	(1,621)	(5,715)
Total other income (expense)	(5,126)	80,549
Net income (loss)	\$ (38,450)	\$ 150,514

The accompanying notes are an integral part of these statements.

BLACK BEER LLC
 STATEMENTS OF CHANGES IN MEMBERS' EQUITY
 For the Years Ended December 31, 2022 and 2021

Members' equity, January 1, 2021	\$	(44,235)
Net income		150,514
Member buyout		(47,911)
Member contributions		<u>309,266</u>
Members' equity, December 31, 2021		367,634
Deconsolidation of Southern Oregon Growlers, LLC - January 1, 2022		(195,498)
Net loss		(38,450)
Member distributions		<u>(566)</u>
Members' equity, December 31, 2022	\$	<u>133,120</u>

The accompanying notes are an integral part of these statements.

BLACK BEER LLC
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Net income (loss)	\$ (38,450)	\$ 150,514
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,100	42,627
Amortization	5,453	7,453
Income from PPP loan forgiveness	-	(88,764)
(Increase) decrease in:		
Accounts receivable	(1,008)	(2,385)
Inventory	37,410	(101,841)
Increase (decrease) in:		
Accrued expenses	-	5,827
Accounts payable	7,196	(805)
Accrued salaries and benefits	-	(1,533)
Other current liabilities	(3,059)	(10,043)
	<u>10,642</u>	<u>1,050</u>
Cash flows from investing activities		
Distribution of Southern Oregon Growlers	(81,450)	-
Purchase of equipment	-	(9,597)
	<u>(81,450)</u>	<u>(9,597)</u>
Cash flows from financing activities		
Proceeds from long-term debt	-	36,864
Proceeds from related party note	-	32,396
Payments on long-term debt	-	(28,260)
Payments on related party notes	(29,699)	(51,108)
Purchase of members' interest	-	(20,000)
Member contributions (distributions)	-	75,000
	<u>(29,699)</u>	<u>44,892</u>
Net increase (decrease) in cash and restricted cash	(100,507)	36,345
Cash, beginning of year	<u>175,323</u>	<u>138,978</u>
Cash, end of year	<u>\$ 74,816</u>	<u>\$ 175,323</u>

The accompanying notes are an integral part of these statements.

BLACK BEER LLC
STATEMENTS OF CASH FLOWS, Continued
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 1,621	\$ 5,715
Payment via company vehicle	\$ -	\$ 27,911
Purchase of member's interest	<u>-</u>	<u>(47,911)</u>
Cash paid for member's interest	<u>\$ -</u>	<u>\$ (20,000)</u>
Member contributions	\$ -	\$ 309,266
Contributed note by member	<u>-</u>	<u>(234,266)</u>
Cash contributed by member	<u>\$ -</u>	<u>\$ 75,000</u>
Distribution of Southern Oregon Growlers, LLC to member:		
Assets	\$ 233,591	\$ -
Liabilities	(119,543)	
Member equity in Southern Oregon Growlers, LLC	<u>(195,498)</u>	<u>-</u>
Cash distributed to member for Southern Oregon Growlers, LLC	<u>\$ (81,450)</u>	<u>\$ -</u>
Distribution of company vehicle and related loan to member:		
Vehicle	\$ 30,540	\$ -
Loan	(29,974)	\$ -
Net distribution to member	<u>(566)</u>	<u>-</u>
Cash distributed to member	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.

BLACK BEER LLC
NOTES TO FINANCIAL STATEMENTS

1. Organization and Nature of Business

Black Beer, LLC (the Company) was organized as a limited liability company under the laws of the State of Oregon on September 6, 2019, and began business on October 1 2019. The primary purpose of the Company is to franchise growler filling businesses in Oregon, Washington, Wisconsin, Nevada, and Idaho. The Company's main source of income is from franchise and development fees and royalties.

The Company owns 100% of The Growler Guys-Eugene, LLC, which was organized as a limited liability company under the laws of the state of Oregon on February 13, 2014. The Growler Guys-Eugene, LLC operated a growler filling station in Eugene, Oregon and this location was closed down in September 2020. The Growler Guys-Eugene, LLC was administratively dissolved in April 2021.

During 2021, the Company owned 100% of Southern Oregon Growlers, LLC, which was organized as a limited liability company under the laws of the state of Oregon on January 23, 2015. Southern Oregon Growlers, LLC operates a growler filling station in Ashland, Oregon. The main source of income for Southern Oregon Growlers, LLC is from retail sales of craft beer, growlers, glasses, mugs, and related beer products and accessories.

Following is a summary of the franchise information as of December 31,

	<u>2022</u>	<u>2021</u>
Number of franchisee-owned stores	11	10
Number of franchisor-owned stores	-	1

Principles of Consolidation

For 2021, the consolidated financial statements included Black Beer, LLC and its wholly-owned subsidiary, Southern Oregon Growlers, LLC. All intercompany accounts and transactions were eliminated in consolidation.

As of January 1, 2022, the net assets of Southern Oregon Growlers, LLC were distributed to a member of the Company and as of this date, Southern Oregon Growlers, LLC was deconsolidated from the financial statements. See Note 10 for the related deconsolidation.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, whereby income is recorded when earned and expenses are recorded when incurred.

BLACK BEER LLC
NOTES TO FINANCIAL STATEMENTS

1. Organization and Nature of Business

Use of Estimates

Preparation of the financial statements, in accordance with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions used in the financial statements include, but are not limited to, those used to determine the allowance for doubtful accounts and carrying amounts of accounts receivable. The amounts ultimately realized from the affected assets will depend on, among other factors, general business conditions and could differ materially in the near-term from the carrying amounts reflected in the financial statements.

Revenue Recognition

The Company's revenues consist of sales by Company-owned stores and of fees from franchised stores, which include initial fees and royalties. Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers* (ASC 606) provides that revenues are to be recognized when control of promised goods or services is transferred to a customer in an amount that reflects the consideration expected to be received for those goods or services. Revenue from Company-operated store is recognized on a cash basis at the time of the underlying sale and is presented net of sales-related taxes. Initial franchise fees, which are \$30,000 per store, are recognized as the Company satisfies the performance obligation over the expected franchise term. Royalties from stores operated by franchisees are based on a percentage of sales and recognized at the time the underlying sales occur.

Cash

The Company considers all short-term debt securities purchased with an original maturity of three months or less to be cash equivalents.

The Company maintains its cash in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per financial institution. The Company's deposits, at times, may exceed federally insured limits. As of December 31, 2022 and 2021, the Company's cash balances were fully insured.

Accounts Receivable

Accounts receivable, consisting primarily of amounts due from franchisees, are recorded as services are rendered, and are charged off against the allowance for doubtful accounts when they are determined by management to be uncollectible. The allowance for doubtful accounts is estimated based on the Company's historical losses, review of specific problem accounts, existing economic conditions, and the financial stability of franchisees. Generally, the Company considers accounts receivable past due after 30 days. The Company has deemed the accounts to be entirely collectible for the years ended December 31, 2022 and 2021, and no allowance necessary.

As required to be disclosed by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers, the opening balances, of accounts receivable at January 1, 2022, 2021, and 2020 was \$26,067, \$25,059, and \$22,674, respectively.

BLACK BEER LLC
NOTES TO FINANCIAL STATEMENTS

1. Organization and Nature of Business, continued

Franchise Operations Fee Revenue

Initial license fees from sales of franchise and area development agreements are recognized when the franchisee location opens. Continuing franchise fees and advertising fees (based on a percentage of sales) are recognized as revenue each month based on the franchisees' monthly sales activity.

Contract Liabilities

Any advertising or marketing fees received, but not yet used for advertising and marketing per the underlying franchise agreement, are deferred and recorded as a liability for unspent advertising funds, until which point the Company incurs the related expense.

As required to be disclosed by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers, the opening balances of contract liabilities at January 1, 2022 and January 1, 2021 were \$-0- and \$11,937, respectively. The balances for the contract liabilities were \$-0- as of December 31, 2022 and 2021.

Performance Obligations

The Company has agreements with several growler filling locations in Oregon, Washington, Wisconsin, Nevada, and Idaho. The terms of the agreements protect the territory for the operator and provide the growler filling operators standard methods of operation and provide collaborative regional marketing and advertising based on the operator's location. This obligation is fulfilled over the term of the franchise agreements which generally range 10 years and the terms of the development agreements varies by agreement.

Variable Consideration

Due to the variable nature of product usage, the Company does not estimate or accrue for these revenues. The Company receives variable consideration from supplier-based product purchases and usage of these products. Revenues are recognized at a point in time upon receipt of payment from the supplier.

Inventory

Inventory consists of growlers, beer, merchandise sold to customers, and supplies such as cans, lids and glassware which are sold to franchisees. Inventory is stated at the lower of cost or market, determined by the first-in, first-out method, and net realizable value.

BLACK BEER LLC
NOTES TO FINANCIAL STATEMENTS

1. Organization and Nature of Business, continued

Property and Equipment

Property and equipment are carried at cost. Additions, renewals, and betterments are capitalized, while expenditures for maintenance, repairs, and minor renewals are charged to expense. Gains or losses realized from sales or retirements are reflected in income from operations. Depreciation is computed using the straight-line method at rates based on the following estimated useful lives.

Computer hardware	3-5 years
Furniture and fixtures	7 years
Leasehold improvement	15 years

Goodwill

The Company has elected the accounting alternative available to private companies related to goodwill and has elected to amortize goodwill on the straight-line method over a ten-year period. Goodwill will be evaluated for impairment if an event occurs or circumstances change that indicate the value may be below carrying value.

Intangible Assets

Intangible assets are recorded at cost and are amortized on a straight-line basis over the estimated useful life of the asset.

Income Taxes

Under provisions of the Internal Revenue Code, a limited liability company that is treated as a partnership is not subject to income taxes, and any income or loss generated by the Company is passed through to the individual members. Accordingly, no provisions for federal income taxes appear in the financial statements. Under the Oregon Tax Code, a limited liability company operating in the state of Oregon is subject to an annual tax of \$150. The Company's income tax returns are subject to examination by the appropriate tax jurisdictions. As of December 31, 2022 and 2021, the Company's federal and various state tax returns generally remain open for the last three years.

Accounting for Uncertain Tax Positions

The Company follows accounting standards related to the recognition of uncertain tax positions. These standards provide detailed guidance for financial statement recognition, measurement, and disclosure of uncertain tax positions taken or expected to be taken on the income tax returns. The Company will record a liability for uncertain tax positions when it is more likely than not that a tax position would not be sustained if examined by the taxing authority. Management has determined that the Company does not have any uncertain tax positions as of December 31, 2022 and 2021.

Advertising and Marketing

Advertising and sales promotion costs are expensed as incurred. Advertising expense was \$16,312 and \$55,645 for the years ended December 31, 2022 and 2021, respectively.

BLACK BEER LLC
NOTES TO FINANCIAL STATEMENTS

1. Organization and Nature of Business, continued

Fair Value of Financial Instruments

The Company's financial instruments consist of cash, accounts payable, and related party notes payables for which their current carrying amounts approximate fair market value.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of accounts receivable. Accounts receivable balances consist primarily of receivables from franchisees.

Shipping and Handling

The Company's policy is to expense shipping and handling costs.

Recent Accounting Standards Adopted

During 2022, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 842, *Leases*, using the modified retrospective approach, with January 1, 2022 as the date of initial application. The most significant change in the new leasing guidance is the requirement for lessees to recognize right-of-use (ROU) assets and lease liabilities for operating leases on the balance sheet.

The Company elected to utilize all of the practical expedients available under the transition guidance within the new standard. The Company has elected the short-term lease recognition exemption for all classes of underlying assets. Leases with an initial term of 12 months or less that do not include an option to purchase the underlying asset that the Company is reasonably certain to exercise, are not recorded on the balance sheet. Lease expense is recognized for these leases on a straight-line basis over the lease term.

Adoption of the new standard had no material impact on the Company's balance sheet or statement of income and retained earnings as all leases were either short-term in nature, or the potential ROU asset was below the Company's internally established lease capitalization threshold.

2. Revenue

In accordance with ASC Topic 606, the Company disaggregates revenue by source. Revenue for the years ended December 31, was as follows:

	<u>2022</u>	<u>2021</u>
Merchandise, beverage, and food sales	\$ 51,928	\$ 786,796
Royalty fees	184,220	158,113
Franchise fees	<u>33,102</u>	<u>45,786</u>
Total revenue	<u>\$ 269,250</u>	<u>\$ 990,695</u>

BLACK BEER LLC
NOTES TO FINANCIAL STATEMENTS

2. Revenue, continued

Accounts receivable relating to revenue from contracts with customers at December 31, 2022, 2021, and 2020 was \$26,067, \$25,059, and \$22,674.

3. Inventory

At December 31, inventory consisted of the following:

	<u>2022</u>	<u>2021</u>
Kegs of beer	\$ -	\$ 21,226
Wine	-	1,411
Glassware	20,762	48,967
Cans & Lids	<u>42,688</u>	<u>25,078</u>
Total inventory	<u>\$ 63,450</u>	<u>\$ 96,682</u>

4. Property and Equipment

At December 31, property and equipment consisted of the following:

	<u>2022</u>	<u>2021</u>
Equipment and furniture	\$ 13,300	\$ 90,514
Equipment not in use	64,950	64,950
Vehicles	-	44,693
Leasehold improvement	-	316,134
	<u>78,250</u>	<u>516,291</u>
Accumulated depreciation	<u>16,289</u>	<u>(223,736)</u>
Property and equipment, net	<u>\$ 61,961</u>	<u>\$ 292,555</u>

Depreciation expense was \$3,100 and \$42,627 for the years ended December 31, 2022 and 2021, respectively.

5. Goodwill and Intangible Assets

At December 31, goodwill and intangible assets consisted of the following:

	<u>2022</u>	<u>2021</u>
Goodwill	\$ 49,528	\$ 49,528
Franchise fee	-	21,000
	<u>49,528</u>	<u>70,528</u>
Accumulated amortization	<u>(16,097)</u>	<u>(27,144)</u>
Goodwill and intangible assets, net	<u>\$ 33,431</u>	<u>\$ 43,384</u>

BLACK BEER LLC
NOTES TO FINANCIAL STATEMENTS

5. Goodwill and Intangible Assets, continued

Goodwill is amortized over ten years. The franchise fee is amortized over 15 years. Amortization expense was \$4,953 and \$6,953 for the years ended December 31, 2022 and 2021, respectively.

At December 31, covenant not to compete assets consisted of the following:

	2022	2021
Covenant not to compete	\$ 5,000	\$ 14,000
Accumulated amortization	(1,625)	(1,125)
Covenant not to compete, net	\$ 3,375	\$ 12,875

Covenant not to compete is amortized over ten years. Amortization expense was \$500 for the years ended December 31, 2022 and 2021, respectively.

Amortization for the next five years is expected to be:

<u>Year Ending December 31,</u>	
2023	\$ 5,453
2024	5,453
2025	5,453
2026	5,453
2027	5,453
Total	\$ 27,265

6. Operating Leases

For 2021, the Company owned Ashland store leased its facility under an operating lease that expires April 2036. The monthly payment is \$3,379. The monthly lease is adjusted every three years based on the consumer price index. The next adjustment is scheduled to occur in May 2024. The Company is also responsible for 100% of annual property tax. The Company has two options to renew the lease for five years. This lease commitment was distributed as part of the deconsolidation, see Note 10.

The Company shares office space with Double R Products, an entity owned by a member. The Company pays \$500 per month to Double R Products for leased space. The agreement is on a month-to-month basis. There are no legally enforceable terms and conditions associated with this arrangement.

Total lease operating cost for the years ended December 31, 2022 and 2021 was \$6,000 and \$45,415, respectively.

BLACK BEER LLC
NOTES TO FINANCIAL STATEMENTS

7. Related Party Notes Payable

As of December 31, 2022 and 2021, related party notes payable consisted of the following:

	2022	2021
Note payable to Black Beard, LLC, principal and interest monthly payments of \$2,629, beginning January 31, 2020 until December 31, 2024, and fixed interest rate of 2.00%. This note is unsecured.	\$ 61,824	\$ 91,812
Note payable to Black Beard, LLC, principal and interest monthly payments of \$1,902, beginning January 31, 2020 until December 31, 2024, and fixed interest rate of 5.25%. This note is unsecured. This loan was distributed as part of the deconsolidation, see Note 10.	-	9,286
Note payable to Black Beard, LLC. Payments are not due and are contingent upon Company cash flow. There is no interest charged on this loan. This note is unsecured. This loan was distributed as part of the deconsolidation, see Note 10.	-	110,273
Note payable to Company member. Payments are not due and are contingent upon Company cash flow. There is no interest charged on this loan. This note is unsecured. This loan was distributed as part of the deconsolidation, see Note 10.	-	35,000
Note payable to Southern Oregon Growlers, LLC. Payments are not due and are contingent upon Company cash flow. There is no interest charged on this loan. This note is unsecured. See comment (1) below.	47,144	-
Note payable to Black Beard, LLC. Payments are not due and are contingent upon Company cash flow. There is no interest charged on this loan. This note is unsecured.	15,000	15,000
Current portion	123,968 (92,719)	261,371 (199,529)
Notes payable, net of current portion	\$ 31,249	\$ 61,842

(1) After Southern Oregon Growlers, LLC was distributed to a member (see Note 10) on January 1, 2022, they became a related party, therefore, loans due to Southern Oregon Growlers, LLC that were eliminated as of December 31, 2021 are presented as related party loans as of December 31, 2022. The Company borrowed funds totaling \$47,144 in order to pay operating expenses.

BLACK BEER LLC
NOTES TO FINANCIAL STATEMENTS

7. Related Party Notes Payable, continued

Future maturities loans are as follows:

<u>For the Year Ending</u>	
2023	\$ 31,249
2024	-
2025	-
2026	-
2027	-
Thereafter	<u>-</u>
Total	<u>\$ 31,249</u>

Interest expense incurred on related party loans was \$1,562 and \$3,265 for the years ended December 31, 2022 and 2021, respectively.

8. Long-term Debt

In January 2020, the Company purchased a truck financed with a loan of \$27,223 that was scheduled to mature in January 2024. The monthly payment on this loan was \$599 which included interest of 2.49 percent. The loan had a balance of \$21,858 at December 31, 2020 and was paid off in August of 2021.

In June 2020, the Company purchased a truck financed with a loan of \$39,693 that was scheduled to mature in June 2026. The monthly payment was \$775 and included interest of 6.29 percent. In December 2021, the Company refinanced this loan at an interest rate of 1.49 percent with monthly payment of \$644. The loan matures in December 2025. This note was distributed to a member along with the related truck with a net book value of \$30,540 as of January 1, 2022. The loan balance as of December 31, 2022 and 2021 was \$-0- and \$29,952, respectively.

Total interest expense on these loans was \$-0- and \$2,450 for the years ended December 31, 2022 and 2021, respectively.

On April 17, 2020, The Growler Guys-Eugene, LLC received a Paycheck Protection Program (PPP) loan in the amount of \$15,100, and Southern Oregon Growlers, LLC received a PPP loan in the amount of \$36,800. In February 2021, Southern Oregon Growlers, LLC received a second PPP loan in the amount of \$36,864. Under the PPP loan terms as defined in Division A, Title I of the CARES Act, certain amounts could be forgiven if they were used for qualifying expenses. During the year ended December 31, 2021, all three loans were forgiven in full for a total of \$88,764. This amount was reported as other income in the statement of income.

BLACK BEER LLC
NOTES TO FINANCIAL STATEMENTS

9. Franchising

Following is a summary of revenue and costs by Company-owned growler filling stations for the years ended December 31:

	2022	2021
Revenue	\$ -	\$ 745,731
Costs and expenses	-	(729,518)
Total	\$ -	\$ 16,213

10. Member's Buyout and Distribution of Southern Oregon Growlers, LLC

On August 30, 2021, a member of the Company sold 100% of his ownership interests back to the Company. Consideration paid to the member included \$20,000 of cash as well as a vehicle with a net book value of \$27,911. The Company also paid off the associated vehicle loan in the amount of \$17,974 as part of the transaction.

In January 2022, the Company also transferred a vehicle and the associated loan to Southern Oregon Growlers, LLC. The vehicle had a net book value of \$30,540 at January 01, 2022 and the balance of the loan at that date was \$29,952 with net equity to member of \$566. This transaction was separate from the Southern Oregon Growlers, LLC transaction noted below.

As of January 1, 2022, it was determined that all operating activities of Southern Oregon Growlers, LLC, which owns and operates the Ashland, Oregon growler filling station, would be distributed out to a Company member and be operated independently. All assets, liabilities, equity and related commitments of this entity were distributed at net book value and are no longer part of the Black Beer, LLC ownership or financial statements as of this date. Southern Oregon Growlers, LLC will continue to be a franchisee of Black Beer LLC and remit royalty and related franchise fees similar to other Black Beer LLC franchisees.

The following table summarizes the net assets of Southern Oregon Growlers, LLC distributed to a Company member as of January 1, 2022:

	2022	2021
Assets	\$ 315,041	\$ -
Liabilities	(119,543)	-
Equity	\$ 195,498	\$ -

BLACK BEER LLC
NOTES TO FINANCIAL STATEMENTS

11. Related Transactions

Beginning in 2020, Double R Products charges the Company a monthly amount of \$1,430 for shared expenses such as labor, space, and utilities. This amount also includes the \$500 of lease cost as described in Note 6. Total expense under this arrangement was \$17,160 and \$17,102 for the years ended December 31, 2022 and 2021, respectively.

For the year ended December 31, 2022, the Company was owed \$6,631 in accounts receivable and received \$33,879 in franchise related revenue from Southern Oregon Growlers, LLC Ashland location. For the year ended December 31, 2021 Southern Oregon Growlers, LLC was a consolidating entity within Black Beer LLC and these transactions were eliminated.

12. Reclassification

Certain prior year amounts have been reclassified to conform to current year presentation. Such reclassification had no effect on previously stated Members' equity or net income.

13. Subsequent Events

Management evaluates events and transactions that occur after the balance sheet date as potential subsequent events. Management has performed this evaluation through the date of the independent auditor's report.

Subsequent to December 31, 2022, the Company had one franchisee location close operations.

EXHIBIT B
FRANCHISE AGREEMENT

THE GROWLER GUYS

FRANCHISE AGREEMENT

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Attachments:

- A – Location, Assigned Area, Area of Primary Responsibility, Opening Date, Statement of Ownership Interests, and Franchisees Principals
- B – Collateral Assignment of Lease
- C – Confidentiality Agreement and Ancillary Covenants Not to Compete
- D – Franchise Agreement Controlling Principals Guaranty

BLACK BEER, LLC
FRANCHISE AGREEMENT

THIS FRANCHISE AGREEMENT (this “Agreement”) is dated as of _____, 20__ (the “Effective Date”), by and between BLACK BEER, LLC, an Oregon limited liability company (“Franchisor”), and _____ (“Franchisee”).

WITNESSETH:

WHEREAS, as the result of the expenditure of time, skill, effort and money, Franchisor has developed and owns a unique and distinctive system (“System”) relating to the establishment and operation of retail sales of craft beer, various size bottles to fill beer, glasses and mugs to serve beer in, and related products and accessories such as beer caps, hard ciders and sangria, specialty bottled beer, Crowler cans, T-shirts, hats, and proprietary food menu items, under the trade name “The Growler Guys.”

WHEREAS, the distinguishing characteristics of the System include, without limitation, distinctive exterior and interior design, decor, color scheme, and furnishings; proprietary products and ingredients; proprietary recipes and special menu items; proprietary and uniform standards, specifications, and procedures for operations; quality and uniformity of products and services offered; procedures for inventory, management and financial control; training and assistance; a recommended standardized system for the operation of the business; and advertising and promotional programs; all of which may be changed, improved, and further developed by Franchisor from time to time;

WHEREAS, Franchisor identifies the System by means of certain trade names, service marks, trademarks, logos, emblems and indicia of origin, including, but not limited to, the mark “The Growler Guys” and such other trade names, service marks, and trademarks as are now designated (and may hereafter be designated by Franchisor in writing) for use in connection with the System (hereinafter referred to as “Marks”);

WHEREAS, Franchisor continues to develop, use and control the use of such Marks in order to identify for the public the source of services and products marketed thereunder and under the System, and to represent the System’s high standards of quality, appearance and service;

WHEREAS, Franchisor intends to control the use of the System and the Proprietary Marks for the benefit and exclusive use of itself and its franchisees in order to identify the franchise to the public as a franchise which represents the highest standards of quality and service;

WHEREAS, Franchisee understands and acknowledges the importance of Franchisor’s high standards of quality, cleanliness, appearance and service and the necessity of operating the business franchised hereunder in conformity with Franchisor’s standards and specifications; and

WHEREAS, Franchisee desires to use the System in connection with the operation of a

Franchise at the location specified in Attachment A hereto, as well as to receive the training and other assistance provided by Franchisor in connection therewith;

WHEREAS, Franchisee desires to use the System in Franchisee's business and to be franchised by, and become a franchisee of, Franchisor in a network of such businesses under the terms and conditions contained in this Agreement.

NOW, THEREFORE, the parties, in consideration of the mutual undertakings and commitments set forth herein, the receipt and sufficiency of which are hereby acknowledged, agree as follows:

ARTICLE I. GRANT

1.1 Grant. Franchisor hereby grants to Franchisee, upon the terms and conditions in this Agreement, the right and license, and Franchisee hereby accepts the right and obligation, to operate a franchise under the Marks and the System in accordance with this Agreement (the "Franchise" or the "Franchised Business"). Franchisee and the Controlling Principals (as defined in Section 18.21) have represented to Franchisor that they have entered this Agreement with the intention to comply fully with the obligations to construct a Franchise hereunder and not for the purpose of reselling the rights to develop the Franchise hereunder. Franchisee and the Controlling Principals understand and acknowledge that Franchisor has granted such rights in reliance on the business skill, financial capacity, personal character of, and expectations of performance hereunder by Franchisee and the Controlling Principals and that this Agreement and the rights and obligations hereunder may not be transferred until after the Franchise is open for business to the public and in accordance with Section 2.7.

1.2 Location. The specific street address of the Franchise location consented to by Franchisor shall be set forth in Attachment A (the "Location"). Franchisee shall not relocate the Franchise without the prior written consent of Franchisor. This Agreement does not grant to Franchisee the right or license to operate the Franchise or to offer or sell any products or services described under this Agreement at or from any other location. If Franchisee is unable to continue the operation of the Franchise at the Location because of the occurrence of a *Force Majeure* event (as described in Section 16.2(e)), then Franchisee may request the consent of Franchisor to relocate the Franchise to another location in the Assigned Area. If Franchisor consents to Franchisee's request to relocate the Franchise, then Franchisee shall comply with the site selection and construction procedures set forth in Article II.

1.3 Assigned Area. Upon the execution of this Agreement, Franchisee will be assigned a primary area of operation ("Assigned Area") that will also be described in Attachment A. Except as provided in this Agreement, and subject to Franchisee's and the Controlling Principals' full compliance with this Agreement, any other agreement among Franchisee or any of its affiliates (defined as any entity that is controlled by, controlling or under common control with such other entity) and Franchisor or any of its affiliates, neither Franchisor nor any affiliate shall establish or authorize any other person or entity, other than Franchisee, to establish a Franchise in the Assigned Area during the term of this Agreement. Franchisee acknowledges and understands that the rights granted hereunder pertain only to the establishment of a Franchise. The Assigned Area shall be determined by Franchisor in its sole discretion. Further-

more, Franchisor or its affiliates has the right to operate, may currently operate and may acquire and operate businesses which sell products and services which may be similar to those offered by the franchised business under names or marks different than the Marks in the Assigned Area. Franchisee acknowledges and agrees that Franchisor operates Growler fill stations under the Marks, and further agrees and acknowledges that the license granted hereby is only for the operation of one Growler station. Accordingly, in the Assigned Area, Franchisor and its affiliates may also offer and sell (and may authorize others to offer and sell): (i) collateral products under the Marks, at or from any location, such as pre-packaged food products and memorabilia; (ii) food and beverage services under the Marks at or through any other distribution system or food service facility; and (iii) any products or food and beverage services under any other names and marks. Notwithstanding the above, it is the express intent of the parties that Franchisor shall not establish or cause to be established in the Assigned Area any business or operation that offers and sells as a primary item growler container beer or other items that the Franchisee is required to offer and sell as a primary menu item.

1.4 Area of Primary Responsibility. After Franchisee's selection of a Location for the Franchise, Franchisee shall also be assigned an Area of Primary Responsibility (the "Area of Primary Responsibility") by Franchisor, which shall be set forth in Attachment A. Franchisee shall make all commercially reasonable efforts to advertise and promote the franchised business in its Area of Primary Responsibility in accordance with Article VIII. Franchisee's Area of Primary Responsibility shall not be exclusive to Franchisee for any purpose except to the extent it includes the Assigned Area.

1.5 Improvements. It is understood that Franchisor constantly is working to improve its franchise System. Franchisor reserves the right to change the System or any part of the System, including, without limitation, its Marks, at any time upon reasonable notice to Franchisee, and as changed, it shall remain the System referred to in this Agreement.

1.6 Variations. Franchisee acknowledges that because complete and detailed uniformity under many varying conditions may not be possible or practical, Franchisor specifically reserves the right and privilege, at its sole discretion and as it may deem in the best interests of all concerned in any given circumstance, to vary standards for any System franchisee based upon the peculiarities of the particular site or circumstance, business potential, trade area, existing business practices or any other condition that Franchisor deems to be of importance to the successful operation of such franchisee's business. Franchisee shall not be entitled to require Franchisor to disclose or grant to Franchisee a like or similar variation hereunder.

ARTICLE II. SITE SELECTION, PLANS AND CONSTRUCTION

2.1 Franchisee's Responsibility. Franchisee assumes all cost, liability, expense, and responsibility for locating, obtaining, and developing a site for the Franchise within the Assigned Area and for constructing and equipping the Franchise at such site. Franchisee shall not make any binding commitment to a prospective vendor or lessor of real estate with respect to a site for the Franchise unless the site is accepted as set forth below. Franchisee acknowledges that the location, selection, procurement and development of a site for the Franchise is Franchisee's responsibility.

2.2 Site Selection.

(a) Consent to Site. Prior to acquiring by lease or purchase a site for the Franchise, Franchisee shall locate a site for the Franchise that satisfies the site selection guidelines provided to Franchisee by Franchisor pursuant to Section 5.1 and shall submit to Franchisor in the form specified by Franchisor a description of the site, including evidence satisfactory to Franchisor demonstrating that the site satisfies Franchisor's site selection guidelines, together with such other information and materials as Franchisor may reasonably require, including, but not limited to, a letter of intent or other evidence satisfactory to Franchisor that confirms Franchisee's favorable prospects for obtaining the site. Recognizing that time is of the essence, Franchisee agrees that it will submit such information and materials for the proposed site to Franchisor for its consent no later than thirty (30) days after the execution of this Agreement. Franchisor shall have thirty (30) days after receipt of this information and materials to consent, in its sole discretion, to the proposed site as the location for the Franchise. Franchisee hereby waives and releases any right or claim against Franchisor arising in connection with the selection or acceptance of Franchisee's business location, including, without limitation, the failure of the accepted location to fulfill Franchisee's financial or other expectations. No site may be used for the location of the Franchise unless it is consented to in writing by Franchisor. If Franchisee fails to submit a proposed business location and lease within thirty (30) days after the execution of this Agreement, Franchisor, in its sole discretion, may terminate the Franchise Agreement. In the event of termination pursuant to this Section, Franchisor shall have no obligation to return the Franchise Fee required to be paid pursuant to this Agreement.

(b) Acquisition of Site. If Franchisee will purchase the premises for the Franchise, Franchisee shall submit a copy of the proposed contract of sale to Franchisor for its written consent prior to its execution and shall furnish to Franchisor a copy of the executed contract of sale within ten (10) days after execution. If Franchisee will occupy the premises of the Franchise under a lease, Franchisee shall submit a copy of the lease to Franchisor for written consent prior to its execution and shall furnish to Franchisor a copy of the executed lease within ten (10) days after execution. No lease for the Franchise premises shall be consented to by Franchisor unless a collateral assignment of lease, in substantially the form attached as Attachment B, is executed by Franchisee. Franchisor shall have fifteen (15) days after receipt of the lease or the proposed contract of sale to consent to such documentation prior to its execution. Within forty-five (45) days after Franchisor has consented to the site for the Franchise (or such longer period as Franchisor consents to in writing), Franchisee shall acquire such site by purchase or lease. Failure by Franchisee to acquire the site for the Franchise within the time and in the manner required herein shall constitute a material event of default under this Agreement.

(c) Description of Site. After a location for the Franchise is consented to by Franchisor and acquired by Franchisee pursuant to this Agreement, the location shall be described in Attachment A.

2.3 Zoning and Permits. Franchisee shall be responsible for obtaining all zoning classifications and clearances that may be required by state or local laws, ordinances or regulations or that may be necessary as a result of any restrictive covenants relating to the Franchise premises. Prior to beginning the construction of the Franchise, Franchisee shall (a) obtain all permits, licenses and certifications required for the lawful construction or

remodeling and operation of the Franchise, and (b) certify in writing to Franchisor that the insurance coverage specified in Article XII is in full force and effect and that all required approvals, clearances, permits and certifications have been obtained. Upon request, Franchisee shall provide to Franchisor additional copies of Franchisee's insurance policies or certificates of insurance and copies of all such approvals, clearances, permits, and certifications.

2.4 Plans and Specifications. Franchisee must retain, at its own expense, a licensed architect to design the buildout of the Franchise. Franchisee may hire Franchisor's licensed architect or a different licensed architect. Franchisee's architect shall adapt the prototypical architectural and design plans and specifications for construction of the Franchise provided to Franchisee by Franchisor in accordance with Section 5.1(c) as necessary for the construction of the Franchise and shall submit such adapted plans to Franchisor or its designated representative for review. If Franchisor or its representative determines, in its sole discretion, that any such plans are not consistent with the best interests of the System, Franchisor may prohibit the implementation of such plans, and in this event will notify Franchisee of any objection(s) within thirty (30) days of receiving such plans. If Franchisor or its representative fails to notify Franchisee of an objection to the plans within this time period, Franchisee may use such plans. If Franchisor or its representative objects to any such plans, Franchisor or its representative shall provide Franchisee with a reasonably detailed list of changes necessary to make the plans acceptable. Within twenty (20) days of receiving such objections, Franchisee shall incorporate the requested changes into such plans and resubmit them to Franchisor or its representative for review. Franchisor or its representative shall notify Franchisee within fifteen (15) days of receiving the resubmitted plans whether the plans are acceptable. If Franchisor or its representative fails to notify Franchisee of any objection within such time period, Franchisee may use the resubmitted plans. Franchisee acknowledges that Franchisor's or its representative's review of such plans relates only to compliance with the System and that acceptance by Franchisor of such plans does not constitute a representation, warranty, or guarantee, express or implied, by Franchisor or its representative that such plans are accurate or free of error concerning their design or structural application.

2.5 Construction. Franchisee shall not commence construction or remodeling of the Franchise until Franchisor has consented to the use of plans in accordance with Section 2.4. Upon Franchisor's consent to the use of the plans, Franchisee shall commence and diligently pursue construction or remodeling (as applicable) of the Franchise. Franchisee shall utilize Franchisor's Construction Site Manager to oversee the construction of Franchisee's franchised location. A fee will be paid to the Construction Site Manager for those services. Commencement of construction shall be defined as the time at which any site work is initiated by or on behalf of Franchisee at the location accepted for the Franchise. Site work includes, without limitation, paving of parking areas, installing outdoor lighting and sidewalks, extending utilities, demising of interior walls, and demolishing of any existing premises. During the time of construction or remodeling, Franchisee shall provide Franchisor or its designated representative with such periodic reports regarding the progress of the construction or remodeling as may be reasonably requested by Franchisor or its representative. In addition, Franchisor or its representative shall make such on-site inspections, as it may deem reasonably necessary to evaluate such progress. Franchisee shall notify Franchisor of the scheduled date for completion of construction or remodeling no later than thirty (30) days prior to such date. Within a reasonable time after the date of completion of construction or remodeling, Franchisor or its representative, at its option,

may conduct an inspection of the completed Franchise. Franchisee acknowledges and agrees that it will not open the Franchise for business without the written authorization of Franchisor and that authorization to open shall be conditioned upon Franchisee's strict compliance with this Agreement.

2.6 Opening. Franchisee acknowledges that time is of the essence. Subject to Franchisee's compliance with the conditions stated below, Franchisee shall open the Franchise and commence business within one hundred twenty (120) days after Franchisee has obtained possession of the Location, unless Franchisee obtains an extension of such time period from Franchisor in writing, the granting of which extension shall not be unreasonably withheld by Franchisor. The date the Franchise opens for business to the public as provided herein ("Opening Date") shall be set forth in Attachment A. Prior to opening, Franchisee shall complete all exterior and interior preparations for the Franchise, including installation of equipment, fixtures, furnishings and signs, in accordance with the plans and specifications consented to by Franchisor, and shall comply with all other pre-opening obligations of Franchisee, including, but not limited to, those obligations described in Article VI, to Franchisor's satisfaction. If Franchisee fails to comply with any of such obligations, Franchisor shall have the right to prohibit Franchisee from commencing business. Franchisee's failure to open the Franchise and commence business in accordance with the foregoing shall be deemed a material event of default under this Agreement.

2.7 Relocation.

(a) Franchisee may relocate the Franchise to a new location either inside Franchisee's Assigned Area or to any other area not previously assigned to or subject to an option of a franchise or company-owned unit or be within five (5) miles of a company-owned store, only upon the prior written approval of Franchisor, which shall be exclusive and binding. Franchisor's determination of whether or not to permit the relocation shall be based on a number of criteria such as other franchisees' Assigned Areas, location of company-owned stores, and demographics.

(b) Franchisee must provide written notice of its intent to relocate to the Franchisor, specifically identifying the exact location of the proposed relocation, no later than sixty (60) days prior to such proposed relocation. If Franchisor grants Franchisee's request to relocate, Franchisee must be operating at the new location within ten (10) days after closing the original location. Upon departure from the original location, Franchisee must remove all items that bear the franchise Marks and any and all other features that identify the original location as part of the franchise system.

(c) The franchise agreement term will not be extended for the time in which the franchised store was closed during relocation. Franchisee shall be obligated to pay royalties per the terms of the Franchise Agreement as if no relocation had occurred and notwithstanding any period that the store may be closed.

ARTICLE III. TERM AND RENEWAL

3.1 Initial Term. Unless sooner terminated as provided in Article XVI, the term of this Agreement shall begin on the Effective Date and shall expire on the earlier of (a) ten (10) years from the Opening Date or (b) the expiration or termination of Franchisee's right to possess the Franchise premises.

3.2 Renewal. Franchisee may, at its option, renew the rights under this Agreement for consecutive terms of ten (10) years each (provided that such renewal term shall automatically terminate upon the expiration or termination of Franchisee's right to possess the Franchise premises), subject to any or all of the following conditions that must, in Franchisor's discretion, be met prior to and at the time of renewal:

(a) Notice. Franchisee shall give Franchisor written notice of Franchisee's election to renew not less than six (6) months nor more than twelve (12) months prior to the end of the initial term or first renewal term, as applicable;

(b) Improvements. Franchisee shall repair or replace, at Franchisee's cost and expense, equipment (including electronic cash register, computer hardware or software systems), signs, interior and exterior decor items, fixtures, furnishings, supplies and other products and materials required for the operation of the Franchise as Franchisor may reasonably require and shall obtain, at Franchisee's cost and expense, any new or additional equipment, fixtures, supplies and other products and materials that may be reasonably required by Franchisor for Franchisee to offer and sell new items or services from the Franchise or to provide the Franchise's services by alternative means and shall otherwise modernize the Franchise premises, equipment (including electronic cash register, computer hardware or software systems), signs, interior and exterior decor items, fixtures, furnishings, supplies and other products and materials required for the operation of the Franchise, as reasonably required by Franchisor to reflect the then-current standards and image of the System as contained in the Manuals (as defined in Section 5.1(d)) or otherwise provided in writing by Franchisor;

(c) No Defaults. Franchisee shall not be in default of any provision of this Agreement, or any other agreement between Franchisee or any of its affiliates and Franchisor or any of its affiliates; and Franchisee shall have substantially and timely complied with all the terms and conditions of such agreements during the terms thereof;

(d) Monetary Obligations. Franchisee shall have satisfied all monetary obligations owed by Franchisee to Franchisor and its affiliates under this Agreement and any other agreement between Franchisee or any of its affiliates and Franchisor or any of its affiliates and shall have timely met those obligations throughout the terms thereof;

(e) Possession of Premises. Franchisee shall present satisfactory evidence that Franchisee has the right to remain in possession of the Franchise premises or obtain Franchisor's consent to a new site for the operation of the Franchise for the duration of the renewal term of this Agreement;

(f) Renewal Franchise Agreement. Franchisee shall execute Franchisor's then-current form of renewal franchise agreement, which agreement shall supersede this Agreement in all respects, and the terms of which may differ from the terms of this Agreement,

including, without limitation, a higher percentage royalty fee, advertising contribution or expenditure requirement; provided, however, that Franchisee shall pay to Franchisor, in lieu of an initial franchise fee, a renewal fee of twenty-five per cent (25%) of the then current initial franchise fee being charged to new franchisees;

(g) Release. Franchisee and the Controlling Principals shall execute a general release of any and all claims against Franchisor and its affiliates, and the officers, directors, shareholders, partners, agents, representatives, independent contractors, servants and employees of each of them, in their corporate and individual capacities, including, without limitation, claims arising under this Agreement or under federal, state or local laws, rules, regulations or orders;

(h) Qualification and Training. Franchisee shall comply with Franchisor's then-current qualification and training requirements; and

(i) Non-Renewal. Notwithstanding the foregoing, Franchisor shall not be obligated to renew this Agreement if Franchisor has determined in good faith to cease carrying on its business in the Assigned Area and has given Franchisee at least one hundred eighty (180) days notice of its intent not to renew and has otherwise complied with applicable law concerning renewal of franchises.

ARTICLE IV. FEES

4.1 Franchise Fee. In consideration of the franchise and license granted to Franchisee herein, and the assistance, training, System, Marks, trade secrets, and other materials and services to be received by Franchisee, Franchisee shall pay to Franchisor an initial franchise fee of Thirty Thousand Dollars (\$30,000) upon execution of this Agreement.

The franchise fee is fully earned by Franchisor upon execution of this Agreement in consideration of the administrative and other expenses incurred by Franchisor in granting the franchise hereunder and for its lost or deferred opportunity to grant such franchise to any other party. The full amount of the initial Franchise Fee shall be due and payable upon the execution of this Agreement in immediately available funds. The initial Franchise Fee payment shall become the sole property of Franchisor and shall not be refunded in any event, except as provided herein. No rights or privileges under this Agreement shall exist until the initial Franchise Fee is paid. Franchisor and Franchisee expressly agree that the grant of a franchise and the initial Franchise Fee afford Franchisee no rights regarding additional franchises. If a license or permit from a governmental agency is required in order for Franchisee to operate the franchised business, and the agency refuses to grant Franchisee a license after Franchisee has taken all required and reasonable steps to obtain the license, then Franchisee shall be entitled to a refund of ninety percent (90%) of the Franchise Fee, less travel expenses incurred by Franchisor.

4.2 Royalty.

(a) Royalty Fee. During the term of this Agreement, except as set forth below, Franchisee shall pay to Franchisor, in partial consideration for the rights herein granted, a continuing royalty fee ("Royalty Fee") of six percent (6%) of Gross Sales. Such royalty fee shall be due and payable each calendar month ("Accounting Period") based on the Gross Sales for the

preceding calendar so that it is received by Franchisor by electronic fund transfer (“EFT”) on or before the tenth day following the end of each Accounting Period.

Notwithstanding the above, Franchisee shall pay a monthly Royalty Fee of no less than Nine Hundred Dollars (\$900). Franchisee shall pay the greater of the \$900 minimum amount set forth herein or the six per cent (6%) royalty.

(b) Royalty Report. Each such royalty fee shall be preceded by a royalty report itemizing the Gross Sales for the preceding Accounting Period (“Royalty Report”) and any other reports required hereunder. Notwithstanding the foregoing, Franchisee shall provide Franchisor with such Gross Sales information on the tenth day following the Accounting Period (or next business day if the tenth day is not a business day) by modem or, if not reasonably available, by facsimile transmission or such other method of delivery as Franchisor may reasonably direct.

(c) Electronic Funds Transfer. Franchisee agrees that Franchisor shall have the right to withdraw funds from Franchisee’s designated bank account each Accounting Period by EFT in the amount of the royalty fee described above. Such withdrawals shall be drawn on the tenth day of each month for the amount of the royalty due with respect to Franchisee’s Gross Sales for the preceding Accounting Period, as evidenced by the Royalty Report. If the Royalty Report has not been received within the time period required by this Agreement, then Franchisor may process an EFT for the royalty for the subject Accounting Period based on (i) information regarding Franchisee’s Gross Sales for the preceding Accounting Period obtained by Franchisor in the manner contemplated by Section 7.5(h), or (ii) the most recent Royalty Report provided to Franchisor by Franchisee; provided that if a Royalty Report for the subject Accounting Period is subsequently received and reflects (A) that the actual amount of the royalty due was more than the amount of the EFT by Franchisor, then Franchisor shall be entitled to withdraw additional funds through EFT from Franchisee’s designated bank account for the difference; or (B) that the actual amount of the royalty due was less than the amount of the EFT by Franchisor, then Franchisor shall, at its option, return the excess amount to Franchisee or credit the excess amount to the payment of Franchisee’s future royalty obligations.

Upon execution of this Agreement and at any time thereafter at Franchisor’s request, Franchisee shall execute such documents or forms as Franchisor deems necessary for Franchisor to process EFTs from Franchisee’s designated bank account for the payments due hereunder. Should any EFT not be honored by Franchisee’s bank for any reason, Franchisee agrees that it shall be responsible for that payment plus a service charge applied by Franchisor and the bank, if any. Franchisee further agrees that it shall at all times maintain in the designated bank account funds sufficient to pay all royalty and required Fund contributions when due. If royalty payments are not received when due, interest may be charged by Franchisor in accordance with Section 4.2(d). Upon written notice to Franchisee, Franchisee may be required to pay such royalty fees directly to Franchisor, by another method of payment, in lieu of EFT at Franchisor’s sole discretion. Franchisee shall coordinate with Franchisor any changes in its depository account so that no interruptions in the automatic disbursement of the Royalty Fee or other amounts occur.

(d) Interest. Franchisee shall not be entitled to withhold payments due Franchisor under this Agreement on grounds of alleged nonperformance by Franchisor hereunder. Any payment or report not actually received by Franchisor on or before such date shall be deemed overdue. Time is of the essence with respect to all payments to be made by Franchisee to Franchisor. All unpaid obligations under this Agreement shall bear interest from the date due until paid at the lesser of (i) eighteen percent (18%) per annum, or (ii) the maximum rate allowed by applicable law. Notwithstanding anything to the contrary contained herein, no provision of this Agreement shall require the payment or permit the collection of interest in excess of the maximum rate allowed by applicable law. If any excess of interest is provided for herein, or shall be adjudicated to be so provided in this Agreement, the provisions of this paragraph shall govern and prevail, and neither Franchisee nor its Principals shall be obligated to pay the excess amount of such interest. If for any reason interest in excess of the maximum rate allowed by applicable law shall be deemed charged, required or permitted, any such excess shall be applied as a payment and reduction of any other amounts that may be due and owing hereunder, and if no such amounts are due and owing hereunder then such excess shall be repaid to the party that paid such interest.

(e) Late Fee. If the payments or reports are not received by Franchisor as required by this Section, Franchisee shall pay to Franchisor, in addition to the overdue amount, a fee of Fifty Dollars (\$50) per day for each day that the royalty is unpaid or the report is not received. This fee is reasonably related to Franchisor's costs resulting from the delay in payment and/or receipt of any report, is not a penalty, and is in addition to any other remedy available to Franchisor under this Agreement for Franchisee's failure to pay royalties and/or submit reports in accordance with the terms of this Agreement. If for any reason the fee of Fifty Dollars (\$50) is deemed to be interest charged, required or permitted, in excess of the maximum rate allowed by applicable law, any such excess shall be applied as a payment and reduction of any other amounts that may be due and owing hereunder, and if no such amounts are due and owing hereunder, then such excess shall be repaid to the party that paid such amount.

4.3 Gross Sales. For the purposes of this Agreement, "Gross Sales" shall mean the total selling price of all services and products and all income of every other kind and nature related to the Franchise (including, without limitation, income related to beverage and food and delivery activities, and any sales or orders of beverage and food products or food preparation services provided from or related to the Franchise), whether for cash or credit and regardless of collection in the case of credit. Gross Sales shall be reduced by discounts and coupons. Gross Sales shall expressly exclude the following:

(a) Sums representing sales taxes collected directly from customers, based upon present or future laws of federal, state or local governments, collected by Franchisee in the operation of the Franchise, and any other tax, excise or duty that is levied or assessed against Franchisee by any federal, state, municipal or local authority, based on sales of specific merchandise sold at or from the Franchise, provided that such taxes are actually transmitted to the appropriate taxing authority;

(b) Proceeds from isolated sales of trade fixtures not constituting any part of Franchisee's products and services offered for resale at the Franchise nor having any material effect upon the ongoing operation of the Franchise required under this Agreement; and

(c) Other items authorized by Franchisor in writing to be excluded from Gross Sales. Any such authorization may be revoked or withdrawn at any time in writing by Franchisor in its discretion.

4.4 Security Interest. Franchisee hereby grants Franchisor a security interest in the following, whether now owned or hereafter acquired: all of Franchisee's inventory; Franchisee's motor vehicles; Franchisee's equipment; Franchisee's accounts; Franchisee's accounts receivable; Franchisee's general intangibles; Franchisee's furniture, furnishings and equipment; replacement parts and accessories; supplies; proceeds from collateral, all returns, replacements, substitutions, and the like.

ARTICLE V. FRANCHISOR'S OBLIGATIONS

5.1 Franchisor Services. Franchisor agrees to provide the services described below with regard to the Franchise:

(a) Site Selection Guidelines. Franchisor's written site selection guidelines and such site selection assistance as Franchisor may deem advisable.

(b) On-Site Evaluation. At Franchisor's discretion, such on-site evaluation as Franchisor may deem necessary on its own initiative or in response to Franchisee's reasonable request for site evaluation; provided, however, that Franchisor shall not provide an on-site evaluation for any proposed site prior to the receipt of all required information and materials concerning such site prepared pursuant to Article II. If on-site evaluations are deemed appropriate by Franchisor, or upon Franchisee's reasonable request, Franchisor reserves the right to charge a reasonable fee for performing each such evaluation and a fee representing the reasonable expenses incurred by Franchisor (or its designee) in connection with such on-site evaluation, including, without limitation, the cost of travel, lodging, meals, and wages. Notwithstanding the above, Franchisor shall not charge Franchisee any fee or related expenses for performing the first on-site evaluation.

(c) Plans and Specifications. On loan, a set of prototypical design plans and specifications for a Franchise. Franchisee shall independently, and at Franchisee's expense, have such architectural and design plans and specifications adapted for construction of the Franchise in accordance with Article II.

(d) Manuals. On loan, one (1) set of Confidential Operations Manuals and such other manuals and written materials as Franchisor shall have developed for use in the franchised business (as the same may be revised by Franchisor from time to time, the "Manuals"), as more fully described in Section 10.1.

(e) Visits. Visits to the Franchise and evaluations of the products sold and services rendered therein from time to time as reasonably determined by Franchisor, as more fully described in Section 7.5(f).

(f) Advertising Materials. Samples or camera-ready artwork of certain advertising and promotional materials and information developed by Franchisor from time to time for use by Franchisee in marketing and conducting local advertising for the Franchise.

(g) Operating Techniques. Advice and written materials concerning techniques of managing and operating the Franchise from time to time developed by Franchisor, including proprietary recipes, new developments and improvements in Franchise services.

(h) Merchandise. From time to time and at Franchisor's discretion, at a reasonable cost make available for resale to Franchisee's customers, certain merchandise identifying the System in sufficient amounts to meet customer demand. Similarly, Franchisor may make available from time to time certain Franchise equipment and decor items at a reasonable cost.

(i) List of Suppliers. A list of approved suppliers as described in Section 7.1 from time to time as Franchisor deems appropriate.

(j) Training. An initial training program for Franchisee's Operating Principal and other training programs in accordance with the provisions of Section 6.5.

(k) On-Site Assistance. On-site pre-opening and post-opening assistance at the Franchise in accordance with the provisions of Section 6.5(d).

(l) Advertising Fund. Administration of an advertising fund in accordance with Article VIII, if and when such are established.

ARTICLE VI. FRANCHISEE'S AGREEMENTS, REPRESENTATIONS,

WARRANTIES AND COVENANTS

Franchisee understands and acknowledges that every detail of the Franchise is important to Franchisor in order to develop and maintain high and uniform standards of quality, service, facilities, and techniques, to increase the demand for the System, and to protect the reputation and goodwill of Franchisor. Therefore, in addition to the covenants of Franchisee contained elsewhere in this Agreement, Franchisee agrees to the following representations, warranties, and covenants set forth in this Section.

6.1 Optimum Sales. Franchisee and the Controlling Principals each covenant and agree that each shall make all commercially reasonable efforts to operate the Franchise so as to achieve optimum sales consistent with good business practices.

6.2 Entity Representations. If Franchisee is a corporation, partnership, limited liability company, or other legal entity, Franchisee and the Controlling Principals represent, warrant and covenant that:

(a) Due Formation. Franchisee is duly organized and validly existing under the state law of its formation;

(b) Qualification. Franchisee is duly qualified and is authorized to do business in each jurisdiction in which its business activities or the nature of the properties owned by it require such qualification;

(c) Single Purpose. Franchisee's organizational documents shall at all times provide that the activities of Franchisee are confined exclusively to the operation of the Franchise, unless otherwise consented to in writing by Franchisor;

(d) Power and Authority. The execution of this Agreement and the consummation of the transactions contemplated hereby are within Franchisee's power and have been duly authorized by Franchisee;

(e) Organizational Documents. Copies of Franchisee's organizational documents, other governing documents, resolutions or consents of the governing board authorizing entry into and performance of this Agreement, and any certificates, buy-sell agreements or other documents restricting the sale or transfer of equity interests in Franchisee, and any other documents as may be reasonably required by Franchisor shall be furnished to Franchisor prior to the execution of this Agreement;

(f) Ownership Interests. The ownership interests in Franchisee are described accurately and completely in Attachment A. Franchisee shall immediately provide a copy of the updated list of all owners to Franchisor upon the occurrence of any change of ownership and otherwise make its list of owners available to Franchisor upon request;

(g) Restriction on Transfer. If Franchisee is a corporation, Franchisee shall maintain stop-transfer instructions against the transfer on its records of any of its equity securities and each stock certificate representing stock of the corporation shall have conspicuously endorsed upon it a statement in a form satisfactory to Franchisor that it is held subject to all restrictions imposed upon assignments by this Agreement; provided, however, that the requirements of this Section shall not apply to the transfer of equity securities of a publicly held corporation (as defined in Section 18.21. If Franchisee is a partnership or limited liability company, its written partnership or limited liability company agreement shall provide that ownership of an interest in such entity is held subject to all restrictions imposed upon assignments by this Agreement;

(h) Financial Statements. Franchisee and, at Franchisor's request, each of the Controlling Principals, must have provided Franchisor with the most recent financial statements of Franchisee and such Controlling Principals. Such financial statements present fairly the financial position of Franchisee and each of the Controlling Principals, as applicable, at the dates indicated therein, and with respect to Franchisee, the results of its operations and its cash flow for the years then ended. Franchisee agrees that it shall maintain at all times, during the term of this Agreement, sufficient working capital to fulfill its obligations under this Agreement. Each of the financial statements mentioned above shall be certified as true, complete and correct and shall have been prepared in conformity with generally accepted accounting principles applicable to the respective periods involved and, except as expressly described in the applicable notes, applied on a consistent basis. No material liabilities, adverse claims, commitments or obligations of any nature exist as of the date of this Agreement, whether accrued, unliquidated, absolute, contingent or otherwise, that are not reflected as liabilities on the financial statements of Franchisee or the Controlling Principals;

(i) Franchisee's Principals. If, after the execution of this Agreement, any person ceases to qualify as one of Franchisee's Principals (as defined in Section 18.21) or if any individual succeeds to or otherwise comes to occupy a position that would, upon designation by Franchisor, qualify him as one of Franchisee's Principals, Franchisee shall notify Franchisor within ten (10) days after any such change and, upon designation of such person by Franchisor as one of Franchisee's Principals or as a Controlling Principal, as the case may be, such person shall execute such documents and instruments (including, as applicable, this Agreement) as may be required by Franchisor to be executed by others in such positions; and

(j) Execution of Documents. Franchisee's Principals shall each execute and bind themselves to the confidentiality and noncompetition covenants set forth in the Confidentiality Agreement and Ancillary Covenants Not to Compete, which forms Attachment C to this Agreement (*see* Sections 10.2(b) and 10.3(d)). The Controlling Principals shall, jointly and severally, guarantee Franchisee's performance of all of Franchisee's obligations, covenants and agreements hereunder pursuant to the terms and conditions of the guaranty contained herein, and which forms Attachment D to this Agreement, and shall otherwise bind themselves to the terms of this Agreement as stated herein.

(k) Continuing Obligations. Franchisee and the Controlling Principals acknowledge and agree that the representations, warranties and covenants set forth in this Section are continuing obligations of Franchisee and the Controlling Principals, as applicable, and that any failure to comply with such representations, warranties and covenants shall constitute a material event of default under this Agreement. Franchisee and the Controlling Principals shall cooperate with Franchisor in any efforts made by Franchisor to verify compliance with such representations, warranties, and covenants.

6.3 Operating Principal.

(a) Designation. Upon the execution of this Agreement, Franchisee shall designate and retain an individual to serve as the Operating Principal of the Franchise (the "Operating Principal"). If Franchisee is an individual, Franchisee shall be the Operating Principal.

(b) Qualifications. The Operating Principal shall, during the entire period he serves as such, meet the following qualifications:

(i) The Operating Principal must, at its option, either serve as the General Manager (as defined in Section 6.4) or, subject to the approval of Franchisor, designate another individual to serve as the General Manager; which designated individual shall also perform the duties and obligations of Operating Principal described herein; provided that Operating Principal shall take all necessary action to ensure that such designee conducts and fulfills all of Operating Principal's obligations in accordance with the terms of this Agreement and Operating Principal shall remain fully responsible for such performance.

(ii) The Operating Principal must maintain a direct or indirect ownership interest in Franchisee. Except as may otherwise be provided in this Agreement, the Operating Principal's interest in Franchisee shall be and shall remain free of any pledge,

mortgage, hypothecation, lien, charge, encumbrance, voting agreement, proxy, security interest or purchase right or options.

(iii) Franchisee and the Operating Principal (or his designee, if applicable) shall devote substantial full time and best efforts to the supervision and conduct of the franchised business. Operating Principal shall execute this Agreement as one of the Controlling Principals, and shall be individually, jointly, and severally, bound by all obligations of Franchisee, the Operating Principal, and the Controlling Principals hereunder. Notwithstanding the above, the Operating Principal shall have the right to own and/or participate in any other business that is not competitive with the franchise business.

(iv) The Operating Principal (and any such designee) shall meet Franchisor's standards and criteria for such individual, as set forth in the Manuals or otherwise in writing by Franchisor.

(v) The Operating Principal (or his designee) shall satisfy the training requirements set forth in Section 6.5.

(c) Replacement. If, during the term of this Agreement, the Operating Principal or any designee is not able to continue to serve in the capacity of Operating Principal or no longer qualifies to act as such in accordance with this Section, Franchisee shall promptly notify Franchisor and designate a replacement within thirty (30) days after the Operating Principal or such designee ceases to serve or be so qualified, such replacement being subject to the same qualifications and restrictions listed above. Franchisee shall provide for interim management of the activities contemplated under this Agreement until such replacement is so designated, such interim management to be conducted in accordance with this Agreement. Any failure to comply with the requirements of this Section shall be deemed a material event of default under this Agreement.

6.4 General Manager.

(a) Designation. Franchisee shall designate and retain at all times a general manager ("General Manager") to direct the operation and management of the Franchise. Franchisee shall designate its General Manager concurrently with the execution of this Agreement. The General Manager shall be responsible for the daily operation of the Franchise. The General Manager may be one of the Controlling Principals.

(b) Qualifications. The General Manager shall, during the entire period he serves as General Manager, meet the following qualifications:

(i) The General Manager shall satisfy Franchisor's educational and business experience criteria as set forth in the Manuals or otherwise in writing by Franchisor.

(ii) The General Manager shall devote full time and best efforts to the supervision and management of the Franchise.

(iii) The General Manager shall be an individual acceptable to Franchisor.

(iv) The General Manager shall satisfy the training requirements set forth in Section 6.5.

6.5 Training. Franchisee agrees that it is necessary to the continued operation of the System and the Franchise that Franchisee's Operating Principal receive such training as Franchisor may require, and accordingly agrees as follows:

(a) Initial Training. No sooner than thirty (30) days prior to the date the Franchise commences operations, Franchisee's Operating Principal shall attend and complete, to Franchisor's satisfaction, Franchisor's initial training program. Training of such persons shall be conducted by Franchisor or its designee at a Franchisor-operated location or such other location designated by Franchisor, if the Franchise is the first Franchise developed by Franchisee. Franchisor shall provide instructors and training materials for the initial training of the initial Operating Principal at no charge to Franchisee; provided that Franchisor shall have the right to charge a reasonable fee for optional training of any additional managers or Franchise personnel. The instruction of the Initial Training shall include, but not be limited to, a review of the Manuals, use of Franchisor's proprietary recipes, supplies and equipment purchases and control, store operation and management, staffing, maintenance and suggested advertising and promotional techniques.

(b) Replacement Training. Franchisor shall determine, in its sole discretion, whether the Operating Principal has satisfactorily completed initial training. If the initial training program is not satisfactorily completed by the Operating Principal, or if Franchisor in its reasonable business judgment based upon the performance of the Operating Principal, determines that the training program cannot be satisfactorily completed by any such person, Franchisee shall designate a replacement to satisfactorily complete such training. Any Operating Principal subsequently designated by Franchisee shall also receive and complete such initial training. Franchisor reserves the right to charge a reasonable fee for any optional initial training provided by Franchisor to any initial General Manager or any other Franchise personnel for any Franchise subsequently developed by Franchisee and otherwise for any initial training provided to a replacement or successor General Manager, if Franchisee is not approved by Franchisor to provide such training. Franchisee shall be responsible for any and all expenses incurred by Franchisee or Franchisee's Operating Principal, General Manager and other Franchise personnel in connection with any initial training program, including, without limitation, costs of travel, lodging, meals, and wages.

(c) Additional Training. Franchisee's Operating Principal, General Manager, and such other Franchise personnel as Franchisor shall designate shall attend such additional training programs as Franchisor may offer from time to time, if Franchisor requires such attendance. For all such programs, Franchisor will provide the instructors and training materials. However, Franchisor reserves the right to impose a reasonable fee for such additional training programs that are not mandatory. Franchisee shall be responsible for any and all expenses incurred by Franchisee or its Operating Principal, General Manager and other Franchise personnel in connection with such additional training, including, without limitation, costs of travel, lodging, meals, and wages.

(d) **Opening Assistance.** In connection with the opening of the Franchise, Franchisor shall provide Franchisee with opening assistance by a trained representative of Franchisor. The trainer will provide on-site pre-opening and opening training, supervision, and assistance to Franchisee for a period of time ranging from two (2) to three (3) days. With respect to the opening assistance described above and any such assistance provided to a replacement Franchise established by Franchisee pursuant to Section 1.2, Franchisee shall pay to Franchisor the per diem fee then being charged to franchisees generally for opening assistance, including payment of any expenses incurred by such trainer(s), such as costs of travel, lodging, meals and wages; provided, that if the Franchise is the first Franchise developed by Franchisee, Franchisee shall not be required to pay such per diem fee and expenses.

(e) **On-Site Remedial Training.** Upon the reasonable request of Franchisee or as Franchisor shall deem appropriate, Franchisor shall, during the term hereof, subject to the availability of personnel, provide Franchisee with additional trained representatives who shall provide on-site remedial training and assistance to Franchisee's Franchise personnel. For additional training and assistance requested by Franchisee, Franchisee shall pay the per diem fee then being charged to franchisees under the System for the services of such trained representatives, plus their costs of travel, lodging, meals, and wages. The per diem fee will not be charged if such assistance is provided based on Franchisor's determination that such training and assistance is necessary; however, Franchisor reserves the right to charge for its reasonable expenses incurred in connection with such training and assistance.

6.6 **Reimbursement of Former Employer.** Franchisee and the Controlling Principals understand that compliance by all franchisees and developers operating under the System with Franchisor's training, development and operational requirements is an essential and material element of the System and that Franchisor and franchisees and developers operating under the System consequently expend substantial time, effort and expense in training management personnel for the development and operation of their respective Franchises. Accordingly, Franchisee and the Controlling Principals agree that if Franchisee or any Controlling Principal shall, during the term of this Agreement, designate as General Manager or employ in a managerial position any individual who is at the time or was within the preceding ninety (90) days employed in a managerial or supervisory position by Franchisor or any of its affiliates, including, but not limited to, individuals employed to work in Franchises operated by Franchisor or any affiliate or by any other franchisee or developer, but specifically excluding individuals that have relocated their domicile more than fifty (50) miles in the preceding ninety (90) days prior to being offered such managerial position, then such former employer of such individual shall be entitled to be compensated for the reasonable costs and expenses, of whatever nature or kind, incurred by such employer in connection with the training of such employee. The parties hereto agree that such expenditures may be uncertain and difficult to ascertain and therefore agree that the compensation specified herein reasonably represents such expenditures and is not a penalty. An amount equal to the compensation of such employee for the six (6) month period (or such shorter time, if applicable) immediately prior to the termination of his employment with such former employer shall be paid by Franchisee prior to such individual assuming the position of General Manager or other managerial position unless otherwise agreed with the former employer. In seeking any individual to serve as General Manager or in such other managerial position, Franchisee and the Controlling Principals shall not discriminate in any manner whatsoever against any individual to whom the provisions of this Section apply, on the basis of the compensation required to be paid

hereunder, if Franchisee or any Controlling Principal designates or employs such individual. The parties hereto expressly acknowledge and agree that no current or former employee of Franchisor, its affiliates, Franchisee, or of any other entity operating under the System shall be a third party beneficiary of this Agreement or any provision hereof. Notwithstanding the above, solely for purposes of bringing an action to collect payments due under this Section, such former employer shall be a third-party beneficiary of this Section. Franchisor expressly disclaims any representations and warranties regarding the performance of any employee or former employee of Franchisor, its affiliates or any franchisee or developer under the System, who is designated as Franchisee's General Manager or employed by Franchisee or any of the Controlling Principals in any capacity, and Franchisor shall not be liable for any losses, of whatever nature or kind, incurred by Franchisee or any Controlling Principal in connection therewith.

6.7 Compliance with Laws. Franchisee shall comply with all federal, state, and local laws, rules and regulations and shall timely obtain any and all permits, certificates or licenses necessary for the full and proper conduct of the franchised business, including, without limitation, licenses to do business, fictitious name registrations, sales tax permits, fire clearances, health permits, certificates of occupancy and any permits, certificates or licenses required by any environmental law, rule or regulation.

For franchised businesses located in areas in which a governmental license is required, Franchisee must apply for the license within fifteen (15) business days after execution of the lease or possession of the franchise site if owned by Franchisee, and must open and commence operations of the franchise at the earlier ninety (90) days after execution of the lease or possession of the store location or ten (10) days after receipt of the license.

6.8 Notification of Proceedings. Franchisee shall notify Franchisor in writing within five (5) days of the commencement of any action, suit, or proceeding and of the issuance of any order, writ, injunction, award, or decree of any court, agency, or other governmental instrumentality, which may adversely affect the operation or financial condition of the franchised business.

6.9 Power-of-Attorney.

(a) Telephone and Internet. Upon the execution of this Agreement and at any time thereafter upon Franchisor's request, Franchisee shall execute such forms and documents as Franchisor deems necessary to appoint Franchisor its true and lawful attorney-in-fact with full power and authority for the sole purpose of assigning to Franchisor upon the termination or expiration of this Agreement, as required under Section 17.15, all rights to the telephone numbers of the Franchise and all related Yellow Pages, White Pages and other business listings, and all Internet listings, domain names, Internet accounts, advertising on the Internet or World Wide Web, websites, listings with search engines, e-mail addresses or any other similar listing or usages related to the Franchised Business.

(b) Tax Returns. Upon execution of this Agreement and at any time thereafter upon Franchisor's request, Franchisee shall execute such forms and documents as Franchisor deems necessary to appoint Franchisor its true and lawful attorney-in-fact with full power and

authority for the sole purpose of obtaining any and all returns and reports filed by Franchisee with any state or federal taxing authority.

ARTICLE VII. FRANCHISE OPERATIONS

7.1 Uniformity. Franchisee understands the importance of maintaining uniformity among all of the Franchises and the importance of complying with all of Franchisor's standards and specifications relating to the operation of the Franchise. Franchisee shall maintain a high ethical standard in the conduct of its business and shall follow the Franchisor's customer service, marketing, and display guidelines. Franchisee shall also provide prompt, efficient, courteous and high quality service to the public, of the same high quality and distinguishing characteristics as provided at all of Franchisor's franchises and company-owned stores.

7.2 Repair. Franchisee shall maintain the Franchise in a high degree of sanitation, repair and condition, and in connection therewith shall make such additions, alterations, repairs and replacements thereto (but no others without Franchisor's prior written consent) as may be required for that purpose, including, without limitation, such periodic repainting or replacement of obsolete signs, furnishings, equipment (including, but not limited to, electronic cash register, computer hardware and/or software systems), and decor as Franchisor may reasonably direct. Franchisee shall also obtain, at Franchisee's cost and expense, any new or additional equipment (including electronic cash register, computer hardware and/or software systems), fixtures, supplies and other products and materials that may be reasonably required by Franchisor for Franchisee to offer and sell new menu items from the Franchise or to provide the Franchise services by alternative means, such as through mail order or delivery arrangements. Except as may be expressly provided in the Manuals, no alterations or improvements or changes of any kind in design, equipment, signs, interior or exterior decor items, fixtures or furnishings shall be made in or about the Franchise or its premises without the prior written approval of Franchisor.

7.3 Improvements. To assure the continued success of the Franchise, Franchisee shall, upon the request of Franchisor, make other improvements to modernize the Franchise premises, equipment (including electronic cash register, computer hardware and/or software systems), signs, interior and exterior decor items, fixtures, furnishings, supplies and other products and materials required for the operation of the Franchise, to Franchisor's then-current standards and specifications. Notwithstanding the above, Franchisee agrees that it will make such capital improvements or modifications described in this Section if so requested by Franchisor on or before the fifth anniversary of the Opening Date, or at such other time during the term of this Agreement that a majority of the Franchises then operated by Franchisor have made or are utilizing best efforts to make such improvements or modifications.

7.4 Purchase of Inventory and Equipment. Franchisee shall comply with all of Franchisor's standards and specifications relating to the purchase of all food and beverage items, ingredients, supplies, materials, fixtures, furnishings, equipment, and other products used or offered for sale at the Franchise. Except as provided in Sections 7.7, 7.8, and 7.10 with respect to certain materials bearing the Marks and proprietary products, Franchisee shall obtain such items from suppliers (including manufacturers, distributors and other sources) who continue to demonstrate the ability to meet Franchisor's then-current standards and specifications for food and beverage items, ingredients, supplies, materials, fixtures, furnishings, equipment and other

items used or offered for sale at Franchises and who possess adequate quality controls and capacity to supply Franchisee's needs promptly and reliably; and who have been approved in writing by Franchisor prior to any purchases by Franchisee from any such supplier; and who have not thereafter been disapproved by Franchisor. If Franchisee desires to purchase, lease, or use any products or other items from an unapproved supplier, Franchisee shall submit to Franchisor a written request for such approval, or shall request the supplier itself to do so. Franchisee shall not purchase or lease from any supplier until and unless such supplier has been approved in writing by Franchisor. Franchisor shall have the right to require that its representatives be permitted to inspect the supplier's facilities, and that samples from the supplier be delivered, either to Franchisor or to an independent laboratory designated by Franchisor for testing. A charge not to exceed the reasonable cost of the inspection and the actual cost of the test shall be paid by Franchisee or the supplier. Franchisor reserves the right, at its option, to re-inspect from time to time the facilities and products of any such approved supplier and to revoke its approval upon the supplier's failure to continue to meet any of Franchisor's then-current criteria. Nothing in the foregoing shall be construed to require Franchisor to approve any particular supplier.

7.5 Standards and Specifications. To ensure that the highest degree of quality and service is maintained, Franchisee shall operate the Franchise in strict conformity with such methods, standards and specifications of Franchisor set forth in the Manuals and as may from time to time otherwise be prescribed in writing. In particular, Franchisee also agrees:

(a) Products. To sell or offer for sale all menu items, products and services required by Franchisor and in the method, manner, and style of distribution prescribed by Franchisor, only as expressly authorized by Franchisor in writing in the Manuals or otherwise.

(b) Use of Marks. Franchisee shall use in the operation of the franchised business and in all materials and advertising the distinguishing characteristics of the System as directed by Franchisor.

(c) Menu Items. To sell and offer for sale only the menu items, products and services that have been expressly approved for sale in writing by Franchisor; to refrain from deviating from Franchisor's standards and specifications; and to discontinue selling and offering for sale any menu items, products or services that Franchisor may, in its sole discretion, disapprove in writing at any time.

(d) Inventory. To maintain in sufficient supply and to use and sell at all times only such food and beverage items, ingredients, products, materials, supplies and paper goods that conform to Franchisor's standards and specifications; to prepare all menu items in accordance with the recipes and procedures for preparation contained in the Manuals or other written directives, including, but not limited to, the prescribed measurements of ingredients; and to refrain from deviating from Franchisor's standards and specifications by the use or offer of non-conforming items or differing amounts of any items.

(e) Hours of Operation. The franchised store shall be kept open for business for a minimum of sixty (60) hours per week Monday through Saturday, unless Franchisee

receives the prior written consent from Franchisor. Opening and closing times and designated holidays shall be subject to the requirements set forth in the Manuals.

(f) Use of Marks. Franchisee shall not engage in any activity or practice which results, or may be anticipated to result, in litigation or public criticism of Franchisor or the System. Franchisee shall use the Marks only in connection with the operation of the Franchise and for no other purpose.

(g) Testing. To permit Franchisor or its agents, at any reasonable time, to remove a reasonable number of samples of beverages, food or non-food items from Franchisee's inventory, or from the Franchise, without payment therefor, in amounts reasonably necessary for testing by Franchisor or an independent laboratory to determine whether such samples meet Franchisor's then-current standards and specifications. In addition to any other remedies it may have under this Agreement, Franchisor may require Franchisee to bear the cost of such testing if the supplier of the item has not previously been approved by Franchisor or if the sample fails to conform with Franchisor's specifications.

(h) Equipment. To purchase or lease and install, at Franchisee's expense, all fixtures, furnishings, equipment (including electronic cash register, computer hardware and/or software systems), decor items, signs, and related items as Franchisor may reasonably direct from time to time in the Manuals or otherwise in writing; and to refrain from installing or permitting to be installed on or about the Franchise premises, any fixtures, furnishings, equipment, catering or delivery vehicles, decor items, signs, games, vending machines or other items not previously approved as meeting Franchisor's standards and specifications. If any of the property described above is leased by Franchisee from a third party, such lease shall be consented to by Franchisor, in writing, prior to execution. Franchisor's consent shall be conditioned upon such lease containing a provision that permits any interest of Franchisee in the lease to be assigned to Franchisor upon the termination or expiration of this Agreement and that prohibits the lessor from imposing an assignment or related fee upon Franchisor in connection with such assignment.

(i) Inspections. To grant Franchisor and its agents the right to enter upon the Franchise premises at any time for the purpose of conducting inspections; to cooperate with Franchisor's representatives in such inspections by rendering such assistance as they may reasonably request; and, upon notice from Franchisor or its agents and without limiting Franchisor's other rights under this Agreement, to take such steps as may be necessary to correct immediately any deficiencies detected during any such inspection. Should Franchisee, for any reason, fail to correct such deficiencies within a reasonable time as determined by Franchisor, Franchisor shall have the right and authority (without, however, any obligation to do so) to correct such deficiencies and charge Franchisee a reasonable fee for Franchisor's expenses in so acting, payable by Franchisee immediately upon demand.

(j) Fees. Franchisee shall pay promptly to Franchisor all fees due under this Agreement or under any other agreement between Franchisee and Franchisor and pay promptly for supplies or equipment which Franchisee may purchase from Franchisor.

(k) Procedures. Except as may be otherwise approved by Franchisor in writing, Franchisee's business operation shall conform to the procedures and requirements of the Manuals, as they may be amended and updated from time to time.

(l) Accounts. Franchisee shall keep and preserve full, complete, and accurate financial statements, books, records, accounts, and data which shall accurately reflect all particulars of the affairs and condition of the franchised business required by this Agreement.

(m) Management. Franchisee shall cause its Operating Principal or General Manager to work diligently, fairly and in good faith to perform all of Franchisee's duties and obligations under this Agreement. In addition, Franchisee agrees that at the request of Franchisor, any manager who is not the Franchisee will be required to execute an agreement with Franchisee in a form approved by Franchisor prior to commencing employment, covenanting that the manager shall devote manager's entire time, attention, and energies to the franchised business and that the manager shall maintain all of Franchisor's trade secrets and shall not disclose or allow any unauthorized person to copy any of Franchisor's copyrighted materials.

(n) Staff. To maintain a competent, conscientious, trained staff and to take such steps as are necessary to ensure that its employees preserve good customer relations and comply with such dress code as Franchisor may prescribe. Franchisee shall employ only those persons who are suitable in qualification, skill, health, appearance, manner, and character to represent the good name and reputation of the System and the Marks, and who shall conform to such standards that Franchisor may establish from time to time. Franchisee shall take such steps as are necessary to ensure that its employees preserve good customer relations and comply with such dress code as Franchisor may prescribe.

7.6 Step-In Rights.

(a) In order to prevent interruption in the operation of franchised business, Franchisee authorizes Franchisor to operate the franchised business for so long as Franchisor deems necessary and practical and without waiver of any other rights or remedies Franchisor may have under this Agreement if, in Franchisor's sole judgment, Franchisor deems Franchisee incapable of operating the franchised business because (i) Franchisee or its Operating Principal or Operating Manager is absent or incapacitated by reason of illness or death; (ii) Franchisee has failed to pay when due all taxes and assessments against the franchised business, inventory or equipment used in connection with the franchised business; (iii) Franchisee has failed to pay when due any and all liens or encumbrances of any kind placed upon or against Franchisee's business property; (iv) Franchisee has lost or had suspended its license or permit to operate the franchised business; or (v) Franchisor determines that there are operational problems that could imperil the franchised business or its assets, such as shortages of cash necessary to operate the business or interruption in banking relationships necessary to effectively operate the business. Franchisor is in no way obligated to exercise these step-in rights.

(b) Franchisor shall keep in a separate account for the benefit of Franchisee all monies generated by the operation of the franchised business less the expenses of the franchised business, including reasonable attorney fees and reasonable compensation and expenses for Franchisor's representatives. If Franchisor temporarily operates the franchised business,

Franchisee shall hold harmless Franchisor and Franchisor's representatives for all actions occurring during the course of the temporary operation. Franchisor shall not, by exercising its step-in rights of this Agreement, assume any of Franchisee's liabilities.

(c) Franchisee shall pay Franchisor a per diem fee per person plus Franchisor's reasonable attorney fees and costs incurred as a consequence of Franchisor's exercise of its step-in rights.

7.7 Recipes. Franchisee acknowledges and agrees that the Franchise will feature certain proprietary products and that Franchisor has and may continue to develop for use in the System certain products that are prepared from Franchisor proprietary recipes and that bear the Marks. Because of the importance of quality and uniformity of production and the significance of such products in the System, it is to the mutual benefit of the parties that Franchisor closely controls the production and distribution of such products. Accordingly, Franchisee agrees that with respect to such products, whether or not such products are proprietary, Franchisee shall use only products manufactured by or on behalf of Franchisor, and shall purchase solely from Franchisor or from a source designated by Franchisor or, with respect to products manufactured by or on behalf of Franchisor, from a seller of such products, all of Franchisee's requirements for such products. Franchisee further agrees to purchase from Franchisor or from a source designated by Franchisor for resale to Franchisee's customers certain merchandise identifying the System as Franchisor shall require, such as pre-packaged food products and memorabilia and promotional products, in amounts sufficient to satisfy Franchisee's customer demand.

7.8 Advertising Materials. Franchisee shall require all advertising and promotional materials, signs, decorations, paper goods (including menus and all forms and stationery used in the franchised business), and other items that may be designated by Franchisor to bear the Marks in the form, color, location and manner prescribed by Franchisor.

7.9 Complaints. Franchisee shall process and handle all consumer complaints connected with or relating to the Franchise, and shall promptly notify Franchisor by telephone and in writing of all of the following complaints: (a) food related illnesses, (b) safety or health violations, (c) claims exceeding One Thousand Dollars (\$1,000), and (d) any other material claims against or losses suffered by Franchisee. Franchisee shall maintain for Franchisor's inspection any inspection reports affecting the Franchise or equipment located in the Franchise during the term of this Agreement and for thirty (30) days after the expiration or earlier termination hereof.

7.10 Pure Food Warranty. Franchisee warrants that the Products (i) will be prepared in accordance with the Operations Manual, (ii) will be fit for human consumption, (iii) will not be adulterated or misbranded within the meaning of the Federal Food, Drug and Cosmetic Act, as from time to time amended, and regulations promulgated thereunder, (iv) will not be articles which, under the provisions of Sections 404 or 505 of said federal act, may not be introduced into interstate commerce, and (v) will not violate the provisions of the Food Additives Amendment of 1958. This warranty is in like terms extended and shall be applicable to any lawful state law or municipal ordinance in which the definitions of adulteration or misbranding are substantially the same as those in said federal act.

ARTICLE VIII. ADVERTISING AND RELATED FEES

Recognizing the value of advertising and the importance of the standardization of advertising programs to the furtherance of the goodwill and public image of the System, the parties agree as follows:

8.1 Advertising Programs. Franchisor may from time to time develop and administer advertising and sales promotion programs designed to promote and enhance the collective success of all Franchises operating under the System. Franchisee shall participate in all such advertising and sales promotion programs in accordance with the terms and conditions established by Franchisor for each program. In all aspects of these programs, including, without limitation, the type, quantity, timing, placement, and choice of media, market areas and advertising agencies, the standards and specifications established by Franchisor shall be final and binding upon Franchisee.

8.2 Local Advertising. In addition to the ongoing advertising contributions set forth herein and, subject to any allocation of Franchisee's expenditures for local advertising to the Cooperative as described in Section 8.4, or Fund as described in Section 8.3, if requested by Franchisor, Franchisee shall spend, annually throughout the term of this Agreement, not less than one percent (1 %) of the Gross Sales of the Franchise on advertising for the Franchise in its Area of Primary Responsibility ("Local Advertising"). Notwithstanding the foregoing, Franchisee shall spend no less than Three Hundred Dollars (\$300) per month, or one percent of Gross Sales, whichever is greater. Franchisee shall submit to Franchisor annually an advertising expenditure report accurately reflecting such expenditures for the preceding period on or before the 1st day of February following the end of each calendar year. If that day is not a business day, then such report shall be due on the next business day. In the event Franchisee fails to provide the advertising expenditure report, or otherwise fails to spend the required amounts on local advertising, then Franchisor, in Franchisor's sole discretion, may initiate and or place local advertising in Franchisee's market at Franchisee's expense. In such event, Franchisee shall upon receipt of an invoice immediately pay to Franchisor any amounts spent on Franchisee's behalf. Franchisor shall not be responsible for any results of local advertising placed on Franchisee's behalf. In addition to the restrictions set forth below, costs and expenditures incurred by Franchisee in connection with any of the following shall not be included in Franchisee's expenditures on Local Advertising for purposes of this Section, unless approved in advance by Franchisor in writing:

- (a) Incentive programs for employees or agents of Franchisee, including the cost of honoring any coupons distributed in connection with such programs;
- (b) Research expenditures;
- (c) Salaries and expenses of any employees of Franchisee, including salaries or expenses for attendance at advertising meetings or activities;
- (d) Charitable, political or other contributions or donations;
- (e) In-store materials consisting of fixtures or equipment; and

- (f) Seminar and educational costs and expenses of employees of Franchisee.

8.3 Marketing Fund.

(a) Establishment. Franchisor has established and administers a marketing fund on behalf of the System for advertising and marketing (the “Fund”). Franchisor will, from time to time, designate a percentage of the Gross Sales of the Franchise to be contributed to the Fund and Franchisee agrees to contribute that amount at the same time and in the same manner as the corresponding royalty fee is paid; provided that Franchisee will not be required to contribute more than two percent (2%) of the Gross Sales of the Franchise. The current contribution amount is one percent of Gross Sales. Franchisor may require Franchisee to allocate to the Fund, all or any portion of Franchisee’s required contributions to a Cooperative as described in Section 8.4 or expenditures for Local Advertising as described in Section 8.2. In reviewing and establishing or modifying the marketing fee, Franchisor shall consider the level of advertising and marketing expenditures by locations operated by Franchisor and by competitors of the System, media costs, available marketing resources, population changes, changes in market conditions, the degree of market penetration of the System, and such other factors as Franchisor deems relevant to the operation of the Fund. Franchisee shall be provided with thirty (30) days prior written notice of any such change in the marketing fee.

(b) Administration. Franchisee agrees that the Fund shall be maintained and administered by Franchisor or its designee as follows:

(i) Franchisor shall direct all advertising and marketing programs and shall have sole discretion to approve or disapprove the creative concepts, materials, and media used in such programs and the placement and allocation thereof. Franchisee agrees and acknowledges that the Fund is intended to maximize general public recognition and acceptance of the Marks and enhance the collective success of all Franchises operating under the System. Franchisor, with respect to Franchises operated by Franchisor, shall contribute to the Fund generally on the same basis as Franchisee. In administering the Fund, Franchisor and its designees undertake no obligation to make expenditures for Franchisee that are equivalent or proportionate to Franchisee’s contribution or to ensure that any particular franchisee benefits directly or pro rata from the placement of advertising.

(ii) Franchisee agrees that the Fund may be used to satisfy any and all costs of developing, preparing, producing, directing, administering, conducting, maintaining and disseminating advertising, marketing, promotional and public relations materials, programs, campaigns, sales and marketing seminars and training programs of every kind and nature, through media now existing or hereafter developed (including, without limitation, the cost of preparing and conducting television, radio, magazine, newspaper and electronic advertising campaigns; direct mail and outdoor billboard advertising; public relations activities; conducting marketing research, employing advertising agencies to assist therein; and costs of Franchisor’s personnel and other departmental costs for advertising that is internally administered or prepared by Franchisor). All sums paid by Franchisee to the Fund shall be maintained in a separate account by Franchisor and may be used to defray any of Franchisor’s general operating expenses, if any, as Franchisor may incur in activities reasonably related to the administration or direction of the Fund and advertising and marketing programs for franchisees and the System.

The Fund and its earnings shall not otherwise inure to the benefit of Franchisor. The Fund is operated solely as a conduit for collecting and expending the advertising fees as outlined above.

(iii) A statement of the operations of the Fund shall be prepared annually by Franchisor and shall be made available to Franchisee upon request.

(iv) Although the Fund is intended to be of perpetual duration, Franchisor may terminate the Fund. The Fund shall not be terminated, however, until all monies in the Fund have been expended for advertising or promotional purposes or returned to contributing franchised businesses or those operated by Franchisor, without interest, on the basis of their respective contributions.

8.4 Reserved.

8.5 Total Advertising Contribution. Regardless of whether Franchisor establishes a Fund under Section 8.3 applicable to the Franchise, the total required advertising contributions or payments by Franchisee under this Article (i) to a Fund, and (ii) for Local Advertising, shall not exceed four percent (4%) of Franchisee's Gross Sales.

8.6 Listing Advertisement. In addition to any other advertising obligations set forth in this Article VIII, Franchisor requires Franchisee to advertise, solely at Franchisee's expense, in any medium that allows for the listing of the business operations, such as the local yellow pages or its functional equivalent, in the geographic area in which the franchised business is located by placing an advertisement in the form, of the type and under the heading Franchisor approves or designates. Franchisee may advertise either as a single franchisee, or, if more than one (1) franchise is established in the general area served by the telephone directory, as a *pro rata* participant in a common or group advertisement with other System franchisees.

8.7 Approval of Advertising. All advertising and promotion by Franchisee in any medium shall be conducted in a professional manner and shall conform to the standards and requirements of Franchisor as set forth in the Manuals or otherwise. Franchisee shall submit to Franchisor for its approval samples of all advertising and promotional plans and materials and public relations programs that Franchisee desires to use, including, without limitation, any materials in digital, electronic or computerized form, or in any form of media now or hereafter developed (e.g., materials to be made available through a computer or telecommunications network such as the Internet), that have not been either provided or previously approved by Franchisor. Franchisor shall approve or disapprove such plans and materials within fifteen (15) business days of Franchisor's receipt thereof. Franchisee shall not use such unapproved plans or materials until they have been approved by Franchisor, and shall promptly discontinue use of any advertising or promotional plans or materials, whether or not previously approved, upon notice from Franchisor. Franchisee shall not advertise or use the Franchisor's Marks in any fashion on the Internet, World Wide Web or via other means of advertising through telecommunication, or establish any website listing on the Internet or World Wide Web, without the express written consent of Franchisor. Any advertising, marketing, or sales concepts, programs or materials pro-

posed or developed by Franchisee for the Franchise and approved by Franchisor may be used by other System Franchises without any compensation to Franchisee.

8.8 Prices. With respect to the offer and sale of all items, products, and services, Franchisor may from time to time offer guidance with respect to the selling price for such goods, products, and services. Franchisee is in no way bound to adhere to any such recommended or suggested price. Franchisee shall have the right to sell its products and provide services at any price that Franchisee may determine. If Franchisee elects to sell any or all its products or merchandise at any price recommended by Franchisor, Franchisee acknowledges that Franchisor has made no guarantee or warranty that offering such products or merchandise at the recommended price will enhance Franchisee's sales or profits.

8.9 Grand Opening Advertising. Franchisee, at Franchisee's sole cost and expense, must have a grand opening, consisting of a series of events and promotions for Franchisee's store commencing within the first month of the store's operation. Franchisor's representatives shall consult with Franchisee on the grand opening program. Franchisee must spend no less than Six Thousand Dollars (\$6,000) on advertising and promotion. Franchisee shall submit its advertising program and any promotional advertising items to Franchisor for approval prior to use. Any amount Franchisee pays for the grand opening program shall be credited towards any other obligations or required expenditures of Franchisee described in this Article VIII.

ARTICLE IX. MARKS

9.1 Grant. Franchisor grants Franchisee the right to use the Marks during the term of this Agreement in accordance with the System and related standards and specifications. Franchisee shall operate under the trade name of "The Growler Guys" as authorized herein, and shall use no other name in conducting the business franchised under this Agreement without the prior written consent of Franchisor. Franchisee shall comply with all applicable fictitious name statutes, with evidence of such compliance to be furnished to Franchisor. If Franchisee is a corporation, partnership, or limited liability company, it shall not legally or otherwise incorporate the name "The Growler Guys" in its corporate, company or partnership name.

9.2 Acknowledgements. Franchisee expressly understands and acknowledges that:

(a) Ownership. Franchisor authorizes Franchisee to use the System, the Marks, the trade secrets and goodwill, and any improvements and modifications of these items, in the operation of Franchisee's business at the franchise location. Franchisee expressly agrees that the ownership of all right, title and interest in and to the System, the Marks, trade names, copyrighted materials, trade secrets and goodwill, and any improvements and modifications of these items shall remain solely owned by Franchisor and that the materials and information now and hereafter provided or revealed to Franchisee under and pursuant to this Agreement are revealed in confidence. Franchisor may change or modify the System, modify or discontinue certain Marks or copyrighted material or adopt new Marks or copyrighted material. Franchisee agrees at its own expense to discontinue, adopt and/or use any such changed items.

(b) No Interference. Neither Franchisee nor any Controlling Principal shall take any action that would prejudice or interfere with the validity of Franchisor's rights with

respect to the Marks. Nothing in this Agreement shall give the Franchisee any right, title, or interest in or to any of the Marks or any of Franchisor's service marks, trademarks, trade names, trade dress, logos, copyrights or proprietary materials, except the right to use the Marks and the System in accordance with the terms and conditions of this Agreement for the operation of the Franchise and only at or from its Location or in approved advertising related to the Franchise.

(c) Goodwill. Franchisee understands and agrees that any and all goodwill arising from Franchisee's use of the Marks and the System shall inure solely and exclusively to Franchisor's benefit, and upon expiration or termination of this Agreement and the license herein granted, no monetary amount shall be assigned as attributable to any goodwill associated with Franchisee's use of the Marks. So long as this Franchise Agreement shall remain in effect, Franchisee agrees to maintain a clean and attractive store which meets the specifications provided by Franchisor to preserve, maintain and enhance the reputation and goodwill built up by Franchisor and its franchisees and the value of the Marks. In developing and maintaining those high and uniform standards of quality and service to protect the reputation and goodwill of Franchisor, Franchisee further agrees to use only the Marks Franchisor designates and to use them solely in the manner authorized by Franchisor. Franchisee further agrees to use the Marks only for the operation of the franchised business and only at the Assigned Area or in advertising related to the franchised business and only during the term of this Agreement.

(d) Validity. Franchisee shall not contest the validity of or Franchisor's interest in the Marks or assist others to contest the validity of or Franchisor's interest in the Marks.

(e) Infringement. Franchisee acknowledges that any unauthorized use of the Marks shall constitute an infringement of Franchisor's rights in the Marks and a material event of default hereunder. Franchisee agrees that it shall provide Franchisor with all assignments, affidavits, documents, information and assistance Franchisor reasonably requests to fully vest in Franchisor all such rights, title and interest in and to the Marks, including all such items as are reasonably requested by Franchisor to register, maintain and enforce such rights in the Marks. Franchisee agrees to neither infringe upon nor use or imitate the System or any part of the System, except under a written franchise agreement and license from Franchisor.

(f) Substitution. Franchisor reserves the right to substitute different Marks for use in identifying the System and the Franchise if the current Marks no longer can be used, or if Franchisor, in its sole discretion, determines that substitution of different Marks will be beneficial to the System. In such event, Franchisor may require Franchisee, at Franchisee's expense, to discontinue or modify Franchisee's use of any of the Marks or to use one or more additional or substitute Marks.

9.3 Agreements. With respect to Franchisee's franchised use of the Marks pursuant to this Agreement, Franchisee further agrees that:

(a) Exact Use. Unless otherwise authorized or required by Franchisor, Franchisee shall advertise the Franchise only under "The Growler Guys" without prefix or suffix. Franchisee shall not use the Marks as part of its corporate or other legal name, and shall obtain the Franchisor's approval of such corporate or other legal name prior to filing it with the

applicable state authority. Franchisee shall not advertise, publish, or circulate any documents or other items using the Marks except in strict compliance with the latest edition of Franchisor's Manuals.

(b) Identification. During the term of this Agreement and any renewal hereof, Franchisee shall identify itself as the owner of the Franchise in conjunction with any use of the Marks, including, but not limited to, uses on invoices, order forms, receipts and contracts, as well as the display of a notice in such content and form and at such conspicuous locations on the premises of the Franchise as Franchisor may designate in writing.

(c) Debt. Franchisee shall not use the Marks to incur any obligation or indebtedness on behalf of Franchisor.

(d) Trade Names. Franchisee shall comply with Franchisor's instructions in filing and maintaining the requisite trade name or fictitious name registrations, and shall execute any documents deemed necessary by Franchisor or its counsel to obtain protection of the Marks or to maintain their continued validity and enforceability.

(e) Identification as Independent Operator. Franchisee shall prominently display a sign in the retail portion of the franchise premises to the effect that Franchisee is "An Independent Franchise of "The Growler Guys" Franchise System," or other similar statement approved in writing by Franchisor.

(f) Unauthorized Use. Any compensation received by Franchisee in connection with the unauthorized use of the Marks shall be held in trust for and paid to Franchisor.

(g) Inspections. In order to preserve the validity and integrity of the System and the Marks, and to assure that Franchisee is properly using authorized Marks in the operation of Franchisee's business, Franchisor may inspect Franchisee's operations from time to time. Franchisor will advise Franchisee of any deficient or improper use of the Marks following such inspection. Franchisee shall cooperate with Franchisor's representative in such inspection and render any assistance that is requested.

(h) Termination and Use. Upon termination or expiration of this Agreement, Franchisee immediately shall cease use of the Marks and shall immediately remove the Marks from the Assigned Area and to cancel any advertising relating to Franchisee's use of the Marks.

9.4 Infringement. Franchisee shall notify Franchisor immediately by telephone and thereafter in writing of any apparent infringement of or challenge to Franchisee's use of any Mark, of any claim by any person of any rights in any Mark, and Franchisee and the Controlling Principals shall not communicate with any person other than Franchisor or any designated affiliate thereof, their counsel and Franchisee's counsel in connection with any such infringement, challenge or claim. Franchisor shall have complete discretion to take such action as it deems appropriate in connection with the foregoing, and the right to control exclusively, or to delegate control to any of its affiliates of, any settlement, litigation or Patent and Trademark Office or other proceeding arising out of any such alleged infringement, challenge or claim or otherwise relating to any Mark. Franchisee agrees to execute any and all instruments and docu-

ments, render such assistance, and do such acts or things as may, in the opinion of Franchisor, reasonably be necessary or advisable to protect and maintain the interests of Franchisor or any other person or entity in any litigation or other proceeding or to otherwise protect and maintain the interests of Franchisor or any other interested party in the Marks. Franchisor will indemnify Franchisee against and reimburse Franchisee for all damages for which Franchisee is held liable in any proceeding arising out of Franchisee's use of any of the Marks (including settlement amounts), provided that the conduct of Franchisee and the Controlling Principals with respect to such proceeding and use of the Marks is in full compliance with the terms of this Agreement.

9.5 Nonexclusive License. The right and license of the Marks granted hereunder to Franchisee is nonexclusive and Franchisor thus has and retains the following rights, among others, subject only to the limitations of Article I:

(a) Other Licenses. To grant other licenses for use of the Marks, in addition to those licenses already granted to existing franchisees;

(b) Other Systems. To develop and establish other systems using the Marks or other names or marks and to grant licenses thereto without providing any rights to Franchisee; and

(c) Production and Distribution. To engage, directly or indirectly, through its employees, representatives, licensees, assigns, agents and others, at wholesale, retail or otherwise, in (1) the production, distribution, license and sale of products and services, and (2) the use in connection with such production, distribution and sale, of the Marks and any and all trademarks, trade names, service marks, logos, insignia, slogans, emblems, symbols, designs and other identifying characteristics as may be developed or used from time to time by Franchisor.

ARTICLE X. CONFIDENTIALITY AND NONCOMPETITION COVENANTS

10.1 Manuals.

(a) Delivery. Franchisor has provided to Franchisee on loan a current copy of the Manuals. The Manuals may be in hard copy or they may be made available to Franchisee in digital, electronic, or computerized form or in some other form now existing or hereafter developed that would allow Franchisee to view the contents thereof. If the Manuals (or any changes thereto) are provided in a form other than paper copy, Franchisee shall pay any and all costs to retrieve, review, use or access the Manuals. To protect the reputation and goodwill of Franchisor and to maintain high standards of operation under Franchisor's Marks, Franchisee shall conduct its business in accordance with the Manuals as they may from time to time be modified by Franchisor, other written directives that Franchisor may issue to Franchisee from time to time whether or not such directives are included in the Manuals, and any other manuals and materials created or approved for use in the operation of the franchised business. No addition or modification to the Manuals will alter Franchisee's fundamental status under this Agreement.

(b) Confidential. Franchisee and the Controlling Principals shall at all times treat the Manuals, any written directives of Franchisor, and any other manuals and materials, and the information contained therein, as confidential and shall maintain such information as trade

secret and confidential in accordance with this Article. Franchisee and the Controlling Principals shall divulge and make such materials available only to such of Franchisee's employees as must have access to it in order to operate the Franchise. Franchisee and the Controlling Principals shall not at any time copy, duplicate, record or otherwise reproduce these materials, in whole or in part, or otherwise make the same available to any person other than those authorized above.

(c) Property of Franchisor. The Manuals, written directives, other manuals and materials and any other confidential communications provided or approved by Franchisor shall at all times remain the sole property of Franchisor. Franchisee shall maintain the Manuals at all times in a safe and secure location, shall take all reasonable measures to prevent unauthorized access thereto, whether any attempted unauthorized access takes the form of physical access or access via computer or telecommunications networks or otherwise and shall report the theft or loss of the Manuals, or any portion thereof, immediately to Franchisor. At a minimum, Franchisee shall, in the case of computer and telecommunications networks, use the latest available firewall and similar technology to prevent unauthorized access. Franchisee shall return the Manuals to Franchisor immediately upon request or upon termination or expiration of this Agreement.

(d) Supplement to Agreement. The Manuals, any written directives, and any other manuals and materials issued by Franchisor and any modifications to such materials shall supplement this Agreement.

(e) Revisions. Franchisor may from time to time revise the contents of the Manuals and other manuals and materials created or approved for use in the operation of the franchised business. Franchisee expressly agrees to comply with each new or changed standard. Franchisee shall at all times ensure that the Manuals are kept current and up to date. In the event of any dispute as to the contents of the Manuals, the terms of the master copy of the Manuals maintained by Franchisor at Franchisor's corporate office shall control. Franchisee shall remove and return to Franchisor all pages of the Manual that have been replaced or updated by Franchisor.

(f) Replacement Fee. Franchisor will charge a replacement fee of One Thousand Dollars (\$1,000) for any replacement Manual requested by Franchisee, provided that a physical manual was provided at some point to Franchisee.

10.2 Confidential Information.

(a) Confidential. Neither Franchisee nor any Controlling Principal shall, during the term of this Agreement and thereafter, communicate or divulge to, or use for the benefit of, any other person or entity, and, following the expiration or termination of this Agreement, they shall not use for their own benefit, any confidential information, knowledge or know-how concerning the methods of operation of the franchised business that may be communicated to them or of which they may be apprised in connection with the operation of the Franchise under the terms of this Agreement. Franchisee and the Controlling Principals shall divulge such confidential information only to Franchisee's employees who must have access to it in order to operate the Franchise. Any and all information, knowledge, know-how, techniques and any materials used in or related to the System that Franchisor provides to Franchisee in

connection with this Agreement shall be deemed confidential for purposes of this Agreement. Neither Franchisee nor the Controlling Principals shall at any time, without Franchisor's prior written consent, copy, duplicate, record or otherwise reproduce such materials or information, in whole or in part, nor otherwise make the same available to any unauthorized person. The covenant in this Section shall survive the expiration, termination, or transfer of this Agreement or any interest herein and shall be perpetually binding upon Franchisee and each of the Controlling Principals.

(b) Covenants. Franchisee shall require and obtain the execution of covenants similar to those set forth in Section 10.2(a) from its General Manager and all other personnel of Franchisee who have received or will have access to confidential information. Such covenants shall be substantially in the form set forth in Attachment C. All of Franchisee's Principals not required to sign this Agreement as a Controlling Principal also must execute such covenants.

(c) New Concepts. If Franchisee or the Controlling Principals develop any new concept, process product, recipe, or improvement in the operation or promotion of the Franchise, Franchisee is required to promptly notify Franchisor and provide Franchisor with all necessary related information, without compensation. Franchisee and the Controlling Principals acknowledge that any such concept, process product, recipe, or improvement will become the property of Franchisor, and Franchisor may use or disclose such information to other franchisees or developers as it determines to be appropriate. Franchisee's use of new concept, process product, recipe, or improvement in the operation or promotion of the Franchise is contingent upon Franchisee obtaining Franchisor's prior written approval.

10.3 Noncompetition Covenants.

(a) In-Term Covenants. Franchisee and the Controlling Principals specifically acknowledge that, pursuant to this Agreement, Franchisee and the Controlling Principals will receive valuable training, trade secrets and confidential information, including, without limitation, information regarding the operational, sales, promotional and marketing methods and techniques of Franchisor and the System that are beyond the present skills and experience of Franchisee and the Controlling Principals and Franchisee's managers and employees. Franchisee and the Controlling Principals acknowledge that such specialized training, trade secrets and confidential information provide a competitive advantage and will be valuable to them in the development and operation of the Franchise, and that gaining access to such specialized training, trade secrets, and confidential information is, therefore, a primary reason why they are entering into this Agreement. In consideration for such specialized training, trade secrets, confidential information and rights, Franchisee and the Controlling Principals covenant that with respect to Franchisee, during the term of this Agreement (or with respect to each of the Controlling Principals, during the term of this Agreement for so long as such individual or entity satisfies the definition of "Controlling Principals" as described in Section 18.21), except as otherwise approved in writing by Franchisor, neither Franchisee nor any of the Controlling Principals shall, either directly or indirectly, for themselves or through, on behalf of or in conjunction with any person or entity:

(i) Divert, or attempt to divert, any business or customer of the franchised business to any competitor, by direct or indirect inducement or otherwise, or do or

perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Marks and the System.

(ii) Own, maintain, operate, engage in, or have any financial or beneficial interest in (including any interest in a legal entity), advise, assist or make loans to, any business located within the United States, its territories or commonwealths, or any other country, province, state or geographic area in which Franchisor has used, sought registration of or registered the same or similar Marks or operates or licenses others to operate a business under the same or similar Marks, which business is of a character and concept similar to the Franchise, including a business that offers and sells beer from growler fill stations.

(b) Post-Term Covenants. In consideration for the specialized training, trade secrets, confidential information and rights described in Section 10.3(a), Franchisee and Controlling Principals covenant that with respect to Franchisee, and for a continuous uninterrupted period commencing upon the expiration, termination of, or transfer of all of Franchisee's interest in, this Agreement (or, with respect to each of the Controlling Principals, commencing upon the earlier of: (1) the expiration, termination of, or transfer of all of Franchisee's interest in, this Agreement or (2) the time such individual or entity ceases to satisfy the definition of "Controlling Principals" as described in Section 18.21) and continuing for one year thereafter, except as otherwise approved in writing by Franchisor, neither Franchisee nor any of the Controlling Principals shall, directly or indirectly, for themselves, or through, on behalf of or in conjunction with any person or entity:

(i) Divert, or attempt to divert, any business or customer of the franchised business hereunder to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Marks and the System.

(ii) Employ, or seek to employ, any person who is at that time or was within the preceding ninety (90) days employed by Franchisor, any of its affiliates or by any other franchisee or developer of Franchisor, or otherwise directly or indirectly induce such person to leave that person's employment, except as may be permitted under any existing development agreement or franchise agreement between Franchisor and Franchisee.

(iii) Own, maintain, operate, engage in, or have any financial or beneficial interest in (including any interest in a legal entity), advise, assist or make loans to, any business that is of a character and concept similar to the Franchise, including a business that offers and sells beer from growler fill stations as a primary menu item, which business is, or is intended to be, located within the Assigned Area or within a five (5)-mile radius of the location of any Franchise in existence or under construction at any given time during such period.

(c) Public Company. Section 10.3(a)(ii) and (b)(iii) shall not apply to ownership of less than a five percent (5%) beneficial interest in the outstanding equity securities of any publicly held corporation.

(d) Reasonableness. The parties acknowledge and agree that each of the covenants contained in this Section are reasonable limitations as to time, geographical area, and

scope of activity to be restrained and do not impose a greater restraint than is necessary to protect the goodwill or other business interests of Franchisor. The parties agree that each of these covenants shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of a covenant in this Section is held unreasonable or unenforceable by a court or agency having valid jurisdiction in an unappealed final decision to which Franchisor is a party, Franchisee and the Controlling Principals expressly agree to be bound by any lesser covenant subsumed within the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated in and made a part of this Section.

(e) Reduction of Scope. Franchisee and the Controlling Principals understand and acknowledge that Franchisor shall have the right, in its sole discretion, to reduce the scope of any covenant set forth in this Section, or any portion thereof, without their consent, effective immediately upon notice to Franchisee; and Franchisee and the Controlling Principals agree that they shall comply forthwith with any covenant as so modified, which shall be fully enforceable notwithstanding the provisions of Section 18.3.

(f) No Defense. Franchisee and the Controlling Principals expressly agree that the existence of any claims they may have against Franchisor, whether or not arising from this Agreement, shall not constitute a defense to the enforcement by Franchisor of the covenants in this Section.

(g) Covenants of Managers and Franchisee's Principals. Franchisee shall require and obtain execution of covenants similar to those set forth in this Section (including covenants applicable upon the termination of a person's employment with Franchisee) from its General Manager and all other management level personnel of Franchisee who have received or will have access to training from Franchisor. Such covenants shall be substantially in the form set forth in Attachment C. All of Franchisee's Principals not required to sign this Agreement as a Controlling Principal also must execute such covenants. Notwithstanding the foregoing, Franchisor reserves the right, in its sole discretion, to decrease the period of time or geographic scope of the noncompetition covenant set forth in Attachment C or eliminate such noncompetition covenant altogether for any party that is required to execute such agreement under this Section.

10.4 Injunctive Relief. Failure to comply with the requirements of this Article shall constitute a material event of default under this Agreement. Franchisee and the Controlling Principals acknowledge that a violation of the terms of this Article would result in irreparable injury to Franchisor for which no adequate remedy at law may be available, and Franchisee and the Controlling Principals accordingly consent to the issuance of an injunction prohibiting any conduct by Franchisee or the Controlling Principals in violation of the terms of this Article. Franchisee and the Controlling Principals agree to pay all court costs and reasonable attorney fees incurred by Franchisor in connection with the enforcement of this Article, including payment of all costs and expenses for obtaining specific performance of, or an injunction against violation of, the requirements of this Article.

ARTICLE XI. BOOKS AND RECORDS

11.1 Books and Records. Franchisee shall maintain during the term of this Agreement, and shall preserve for at least five (5) years from the dates of their preparation, full, complete and

accurate books, records and accounts, including, but not limited to, sales slips, coupons, purchase orders, payroll records, check stubs, bank statements, sales tax records and returns, cash receipts and disbursements, journals and ledgers, records of EFT transactions, and backup or archived records of information maintained on any computer system in accordance with generally accepted accounting principles and in the form and manner prescribed by Franchisor from time to time in the Manual or otherwise in writing.

11.2 Reports. In addition to the remittance reports required by Articles IV and VIII, Franchisee shall comply with the following reporting obligations:

(a) Monthly Statements. Franchisee shall, at Franchisee's expense, submit to Franchisor, in the form prescribed by Franchisor, profit and loss statement for each of the thirteen (13) four-week accounting periods designated by Franchisor (the "Statement Period") (which may be unaudited) for Franchisee within fifteen (15) days after the end of each Statement Period during the term hereof. Each such statement shall be signed by Franchisee's treasurer or chief financial officer or comparable officer attesting that it is true, complete and correct;

(b) Annual Statements. Franchisee shall, at its expense, provide to Franchisor a complete annual financial statement (which may be unaudited) for Franchisee prepared by an independent certified public accountant satisfactory to Franchisor, within ninety (90) days after the end of each fiscal year of Franchisee during the term hereof, showing the results of operations of Franchisee during such fiscal year; Franchisor reserves the right to require the financial statements described above to be audited by an independent Certified Public Accountant; and

(c) Additional Reports. Franchisee shall also submit to Franchisor, for review or auditing, such other forms, reports, records, information and data as Franchisor may reasonably designate, in the form and at the times and places reasonably required by Franchisor, upon request and as specified from time to time in writing.

11.3 Review and Inspection. Franchisor or its designees shall have the right at all reasonable times to review, audit, examine and copy any or all of the books and records of Franchisee as Franchisor may require at the Franchise. Franchisee shall make such books and records available to Franchisor or its designees immediately upon request. Franchisee agrees to cooperate with any certified public accountant engaged for the purposes of such audit and to execute any and all documents required by the audit and further to disclose to the auditor any such information requested by the auditor which Franchisee has in its possession or to which it has reasonable access. If any required royalty payments to Franchisor are delinquent, or if an inspection should reveal that such payments have been understated in any report to Franchisor, then Franchisee shall immediately pay to Franchisor the amount overdue or understated upon demand with interest determined in accordance with the provisions of Section 4.2(d). If an inspection discloses an understatement in any report of two percent (2%) or more, Franchisee shall, in addition, reimburse Franchisor for all costs and expenses connected with the inspection (including, without limitation, reasonable accounting and attorney fees). These remedies shall be in addition to any other remedies Franchisor may have at law or in equity.

11.4 Mistakes. Franchisee understands and agrees that the receipt or acceptance by Franchisor of any of the statements furnished or royalties paid to Franchisor (or the cashing of any royalty checks or processing of any electronic fund transfers) shall not preclude Franchisor from questioning the correctness thereof at any time and, if any inconsistencies or mistakes are discovered in such statements or payments, they shall immediately be rectified by the Franchisee and the appropriate payment shall be made by the Franchisee.

11.5 Release of Information. Franchisee hereby authorizes (and agrees to execute any other documents deemed necessary to effect such authorization) all banks, financial institutions, businesses, suppliers, manufacturers, contractors, vendors and other persons or entities with which Franchisee does business to disclose to Franchisor any requested financial information in their possession relating to Franchisee or the Franchise. Franchisee authorizes Franchisor to disclose data from Franchisee's reports, if Franchisor determines, in its sole discretion, that such disclosure is necessary or advisable, which disclosure may include disclosure to prospective or existing franchisees or other third parties.

11.6 Power-of-Attorney. Notwithstanding any forms and documents that may have been executed by Franchisee under Section 6.9, Franchisee hereby appoints Franchisor its true and lawful attorney-in-fact with full power and authority, for the sole purpose of obtaining any and all returns and reports filed by Franchisee with any state and/or federal taxing authority. This power of attorney shall survive the expiration or termination of this Agreement.

ARTICLE XII. INSURANCE

12.1 Insurance Policy. Franchisee shall procure, upon execution of this Agreement, and shall maintain in full force and effect at all times during the term of this Agreement at Franchisee's expense, an insurance policy or policies protecting Franchisee and Franchisor, and its affiliates, successors and assigns, and the officers, directors, shareholders, partners, agents, representatives, independent contractors, servants and employees of each of them against any demand or claim with respect to personal injury, death or property damage, or any loss, liability or expense whatsoever arising or occurring upon or in connection with the Franchise.

12.2 Coverage. Such policy or policies shall be written by a responsible carrier or carriers reasonably acceptable to Franchisor and shall include, at a minimum (except as additional coverages and higher policy limits may reasonably be specified by Franchisor from time to time), in accordance with standards and specifications set forth in writing, the following:

(a) Comprehensive General Liability Insurance, including broad form contractual liability, broad form property damage, personal injury, advertising injury, completed operations, products liability and fire damage coverage, in the amount of Two Million Dollars (\$2,000,000) combined single limit.

(b) "All Risks" coverage for the full cost of replacement of the Franchise premises and all other property in which Franchisor may have an interest with no coinsurance clause for the premises.

(c) Crime insurance for employee dishonesty in the amount of Ten Thousand Dollars (\$10,000) combined single limit.

(d) Automobile liability coverage, including coverage of owned, non-owned and hired vehicles, with coverage in amounts not less than One Million Dollars (\$1,000,000) combined single limit.

(e) Worker's compensation insurance in statutory amounts on all employees of Franchisee and employer's liability insurance in amounts not less than One Million Dollars (\$1,000,000) per accident/disease.

(f) Such other insurance as may be required by the state or locality in which the Franchise is located and operated.

12.3 Deductibles. Franchisee may, with the prior written consent of Franchisor, elect to have reasonable deductibles in connection with the coverage required under this Section. Such policies shall also include a waiver of subrogation in favor of Franchisor, its affiliates and the respective officers, directors, shareholders, partners, agents, representatives, independent contractors, servants and employees of each of them.

12.4 Builder's Risk. In connection with any construction, renovation, refurbishment or remodeling of the Franchise, Franchisee shall maintain Builder's Risks/Installation insurance in forms and amounts, and written by a carrier or carriers, reasonably satisfactory to Franchisor.

12.5 No Limitation. Franchisee's obligation to obtain and maintain the foregoing policy or policies in the amounts specified shall not be limited in any way by reason of any insurance that may be maintained by Franchisor, nor shall Franchisee's performance of that obligation relieve it of liability under the indemnity provisions set forth in Article XV.

12.6 Additional Insured. All required insurance policies shall name Franchisor and its affiliates and the officers, directors, shareholders, partners, agents, representatives, independent contractors, servants and employees of each of them, as additional insureds, and shall include a waiver of subrogation in favor of the additional insureds. All such insurance policies shall provide that any interest of the additional insureds therein shall not be affected by any breach by Franchisee of any policy provisions. All public liability and property damage policies shall contain a provision that the additional insureds, although named as insureds, shall nevertheless be entitled to recover under such policies on any loss occasioned to them by reason of the negligence of Franchisee or its servants, agents or employees.

12.7 Certificates of Insurance. Upon execution of this Agreement, and thereafter in accordance with Article II and thirty (30) days prior to the expiration of any such policy, Franchisee shall deliver to Franchisor Certificates of Insurance evidencing the existence and continuation of proper coverage with limits not less than those required hereunder. In addition, if requested by Franchisor, Franchisee shall deliver to Franchisor a copy of the insurance policy or policies required hereunder. Further, all insurance policies required hereunder shall expressly provide that no less than thirty (30) days' prior written notice shall be given to Franchisor in the event of a material alteration to or cancellation of the policies.

12.8 Failure to Maintain. Should Franchisee, for any reason, fail to procure or maintain the insurance required by this Agreement, as such requirements may be revised from time to time by Franchisor in writing, Franchisor shall have the right and authority (without,

however, any obligation to do so) immediately to procure such insurance and to charge same to Franchisee, which charges, together with a reasonable fee for Franchisor's expenses in so acting, shall be payable by Franchisee immediately upon notice. The foregoing remedies shall be in addition to any other remedies Franchisor may have at law or in equity.

ARTICLE XIII. DEBTS AND TAXES

13.1 Payment. Franchisee shall promptly pay when due all Taxes (as defined below), levied or assessed, and all accounts and other indebtedness of every kind incurred by Franchisee in the conduct of the franchised business under this Agreement. Without limiting the provisions of Article XV, Franchisee shall be solely liable for the payment of all Taxes and shall indemnify Franchisor for the full amount of all such Taxes and for any liability (including penalties, interest and expenses) arising from or concerning the payment of Taxes, whether Taxes were correctly or legally asserted or not. Franchisee shall submit a copy of all tax filings sent to federal, state, and local tax authorities to Franchisor within ten (10) business days after such filing has been made with the appropriate taxing authority.

13.2 No Deduction. Each payment to be made to Franchisor hereunder shall be made free and clear and without deduction for any Taxes. The term "Taxes" means any present or future taxes, levies, imposts, duties or other charges of whatsoever nature, including any interest or penalties thereon, imposed by any government or political subdivision of such government on or relating to the operation of the franchised business, the payment of monies, or the exercise of rights granted pursuant to this Agreement, except Taxes imposed on or measured by Franchisor's net income.

13.3 Dispute. In the event of any *bona fide* dispute as to Franchisee's liability for taxes assessed or other indebtedness, Franchisee may contest the validity or the amount of the tax or indebtedness in accordance with the procedures of the taxing authority or applicable law. However, in no event shall Franchisee permit a tax sale or seizure by levy of execution or similar writ or warrant or attachment by a creditor, to occur against the premises of the franchised business or any improvements thereon.

ARTICLE XIV. TRANSFER OF INTEREST

14.1 Transfer by Franchisor. Franchisor shall have the right to transfer or assign this Agreement and all or any part of its rights or obligations herein to any person or legal entity without Franchisee's consent. Specifically, and without limitation to the foregoing, Franchisee agrees that Franchisor may sell its assets, and may sell or license the Marks or the System to a third party; may offer its securities privately or publicly; may merge, acquire other corporations or be acquired by another corporation; may undertake a refinancing, recapitalization, leveraged buyout or other economic or financial restructuring; and with regard to any or all of the above sales, assignments and dispositions, Franchisee expressly and specifically waives any claims, demands, or damages against Franchisor arising from or related to the transfer of the Marks (or any variation thereof) or the System from Franchisor to any other party. Nothing contained in this Agreement shall require Franchisor to offer any services or products, whether or not bearing the Marks, to Franchisee, if Franchisor assigns its rights and responsibilities in this Agreement.

14.2 Transfer by Franchisee.

(a) Consent of Franchisor. Franchisee and the Controlling Principals understand and acknowledge that the rights and duties set forth in this Agreement are personal to Franchisee, and that Franchisor has granted rights under this Agreement in reliance on the business skill, financial capacity and personal character of Franchisee and the Controlling Principals and with the expectation that the duties and obligations contained in this Agreement will be performed by Franchisee and those Controlling Principals signing this Agreement. Accordingly, neither Franchisee nor any Controlling Principal, nor any successor or assign of Franchisee or any Controlling Principal, shall sell, assign, transfer, convey, give away, pledge, mortgage or otherwise encumber any direct or indirect interest in this Agreement, in the Franchise or in Franchisee without the prior written consent of Franchisor. Any purported assignment or transfer, by operation of law or otherwise, made in violation of this Agreement shall be null and void and shall constitute a material event of default under this Agreement.

(b) Conditions. If Franchisee wishes to transfer all or part of its interest in the Franchise or this Agreement or if a Controlling Principal wishes to transfer any ownership interest in Franchisee, transferor and the proposed transferee shall apply to Franchisor for its consent. Franchisor shall not unreasonably withhold its consent to a transfer of any interest in Franchisee, in the Franchise or in this Agreement. Franchisor may, however, in its sole discretion, require any or all of the following as conditions of its consent to any such transfer:

(i) Monetary Obligations. All of the accrued monetary obligations of Franchisee and its affiliates and all other outstanding obligations to Franchisor and its affiliates arising under this Agreement or any other agreement shall have been satisfied in a timely manner and Franchisee shall have satisfied all trade accounts and other debts, of whatever nature or kind, in a timely manner;

(ii) No Default. Franchisee and its affiliates shall not be in default of any provision of this Agreement, or any other agreement between Franchisee or any of its affiliates and Franchisor or any of its affiliates, and Franchisee shall have substantially and timely complied with all the terms and conditions of such agreements during the terms thereof;

(iii) Release. The transferor and its principals (if applicable) shall have executed a general release, in a form satisfactory to Franchisor, of any and all claims against Franchisor, its affiliates, their respective partners and the officers, directors, shareholders, partners, agents, representatives, independent contractors, servants and employees of each of them, in their corporate and individual capacities, including, without limitation, claims arising under this Agreement and federal, state and local laws, rules and regulations;

(iv) Satisfaction of Criteria. The transferee shall demonstrate to Franchisor's satisfaction that transferee meets the criteria considered by Franchisor when reviewing a prospective franchisee's application for a license, including, but not limited to, Franchisor's educational, managerial and business standards; transferee's moral character, business reputation and credit rating; transferee's aptitude and ability to conduct the franchised business (as may be evidenced by prior related business experience or otherwise); transferee's

financial resources and capital for operation of the business; and the geographic proximity and number of other Franchises owned or operated by transferee;

(v) Written Assumption. The transferee shall enter into a written agreement, in a form satisfactory to Franchisor, assuming full, unconditional, joint and several liability for, and agreeing to perform from the date of the transfer, all obligations, covenants and agreements of the transferor contained in this Agreement; and, if transferee is an entity, transferee's owners shall execute such agreement as transferee's principals and guarantee the performance of all such obligations, covenants and agreements;

(vi) New Agreement. If requested by Franchisor, the transferee shall execute, for a term ending on the expiration date of this Agreement and with such renewal terms as may be provided by this Agreement, the standard form franchise agreement then being offered to new System franchisees and other ancillary agreements as Franchisor may require for the Franchise, which agreements shall supersede this Agreement and its ancillary documents in all respects and the terms of which agreements may differ from the terms of this Agreement, including, without limitation, a higher percentage royalty fee, advertising contribution or expenditure requirement; provided, however, that the transferee shall not be required to pay any initial franchise fee; and, if transferee is an entity, transferee's owners shall execute such agreement as transferee's principals and guarantee the performance of all such obligations, covenants and agreements;

(vii) Improvements. The transferee, at its expense, shall renovate, modernize and otherwise upgrade the Franchise and, if applicable, any catering or delivery vehicles to conform to the then-current standards and specifications of the System, and shall complete the upgrading and other requirements within the time period reasonably specified by Franchisor;

(viii) Liability for Prior Acts. The transferor shall remain liable for all of the obligations to Franchisor in connection with the Franchise incurred prior to the effective date of the transfer and shall execute any and all instruments reasonably requested by Franchisor to evidence such liability;

(ix) Training. At the transferee's expense, the transferee, the transferee's operating principal, general manager (as applicable) and/or any other applicable Franchise personnel shall complete any training programs then in effect for franchisees of Franchises upon such terms and conditions as Franchisor may reasonably require;

(x) Transfer Fee. The transferee shall pay to Franchisor a transfer fee of the greater of Ten Thousand Dollars (\$10,000) or Thirty-Five percent of the then current initial franchise fee charged to new franchisees, or such greater amount as is necessary to reimburse Franchisor for its reasonable costs and expenses associated with reviewing the application to transfer, including, without limitation, legal and accounting fees;

(xi) Entity Representations. If the transferee is an entity, the transferee shall provide to Franchisor evidence satisfactory to Franchisor that the representations,

warranties and covenants of Section 6.2 have been satisfied and are true and correct on the date of transfer; and

(xii) No Release from Covenants and Warranties. No assignment, transfer, conveyance, encumbrance or gift of any interest in this Franchise Agreement or the franchise granted hereby shall relieve Franchisee or Franchisee's Operating Principals, Operating Manager, or employees participating in any transfer of liability under the confidentiality and/or noncompetition and nonsolicitation provisions of this Franchise Agreement and of related agreements.

(c) Reasonableness. Franchisee acknowledges and agrees that each condition that must be met by the transferee is reasonable and necessary to assure such transferee's full performance of the obligations hereunder.

(d) Security Interest. Franchisee shall not grant a security interest in the Franchise or in any of Franchisee's assets without Franchisor's prior written consent, which shall not be unreasonably withheld. In connection therewith, the secured party will be required by Franchisor to agree that in the event of any default by Franchisee under any documents related to the security interest, Franchisor shall have the right and option to be substituted as obligor to the secured party and to cure any default of Franchisee.

14.3 Transfer to Affiliate. If the proposed transfer is to an entity formed solely for the convenience of ownership, Franchisor's consent may be conditioned upon any of the requirements in Section 14.2(b), except that the requirements in Sections 14.2(b), 14.2(b)(iv), 14.2(b)(vi), 14.2(b)(vii), 14.2(b)(ix), and 14.2(b)(x) shall not apply. With respect to a transfer to an entity formed for the convenience of ownership, Franchisee shall be the owner of all of the voting stock or interest of such entity and if Franchisee is more than one individual, each individual shall have the same proportionate ownership interest in such entity as he had in Franchisee prior to the transfer.

14.4 Right of First Refusal.

(a) Notice of Offer. If Franchisee wishes to transfer all or part of its interest in the Franchise or this Agreement or if a Controlling Principal wishes to transfer any ownership interest in Franchisee, pursuant to any bona fide offer received from a third party to purchase such interest, then such proposed seller shall promptly notify Franchisor in writing of each such offer, and shall provide such information and documentation relating to the offer as Franchisor may require. Franchisor shall have the right and option, exercisable within thirty (30) days after receipt of such written notification and copies of all documentation required by Franchisor describing such offer, to send written notice to the seller that Franchisor intends to purchase the seller's interest on the same terms and conditions offered by the third party. If Franchisor elects to purchase the seller's interest, closing on such purchase must occur within the later of sixty (60) days from the date of notice to the seller of the election to purchase by Franchisor, sixty (60) days from the date Franchisor receives or obtains all necessary documentation, permits and approvals, or such other date as the parties agree upon in writing. Any material change in the terms of any offer prior to closing shall constitute a new offer subject to the same right of first refusal by Franchisor as in the case of an initial offer. Failure of Franchisor to exercise the

option afforded by this Section shall not constitute a waiver of any other provision of this Agreement, including all of the requirements of Section 14.2, with respect to a proposed transfer.

(b) Non-Cash Consideration. If an offer from a third party provides for payment of consideration other than cash or involves certain intangible benefits, Franchisor may elect to purchase the interest proposed to be sold for the reasonable cash equivalent. If the parties cannot agree within a reasonable time on the reasonable cash equivalent of the non-cash part of the offer, then such amount shall be determined by two (2) appraisers, with each party selecting one (1) appraiser, and the average of their determinations shall be binding. In the event of such appraisal, each party shall bear its own legal and other costs and shall split the appraisal fees. If Franchisor exercises its right of first refusal herein provided, it shall have the right to set off against any payment therefor (i) all fees for any such independent appraiser due from Franchisee hereunder, and (ii) all amounts due from Franchisee to Franchisor or any of its affiliates.

(c) Default. Failure to comply with the provisions of this Section prior to the transfer of any interest in Franchisee, the Franchise or this Agreement shall constitute a material event of default under this Agreement.

14.5 Death and Permanent Disability.

(a) Death. Upon the death of Franchisee (if Franchisee is a natural person) or any Controlling Principal who is a natural person (the “Deceased”), the executor, administrator or other personal representative of the Deceased shall transfer such interest to a third party in accordance with the conditions described in this Article within twelve (12) months after the death. If no personal representative is designated or appointed or no probate proceedings are instituted with respect to the estate of the Deceased, then the distributee of such interest must be approved by Franchisor. If the distributee is not approved by Franchisor, then the distributee shall transfer such interest to a third party approved by Franchisor within twelve (12) months after the death of the Deceased.

(b) Permanent Disability. Upon the permanent disability of Franchisee (if Franchisee is a natural person) or any Controlling Principal who is a natural person, Franchisor may, in its sole discretion, require such interest to be transferred to a third party in accordance with the conditions described in this Article within six (6) months after notice to Franchisee. “Permanent disability” shall mean any physical, emotional or mental injury, illness or incapacity that would prevent a person from performing the obligations set forth in this Agreement or in the guaranty made part of this Agreement for at least ninety (90) consecutive days and from which condition recovery within ninety (90) days from the date of determination of disability is unlikely. Permanent disability shall be determined by a licensed practicing physician selected by Franchisor, upon examination of the person; or if the person refuses to submit to an examination, then such person automatically shall be deemed permanently disabled as of the date of such refusal for the purpose of this Section. The costs of any examination required by this Section shall be paid by Franchisor.

(c) Notice. Upon the death or claim of permanent disability of Franchisee or any Controlling Principal, Franchisee or a representative of Franchisee must notify Franchisor of

such death or claim of permanent disability within five (5) days of its occurrence. Any transfer upon death or permanent disability shall be subject to the same terms and conditions as described in this Section for any *inter vivos* transfer. If an interest is not transferred upon death or permanent disability as required in this Section, then such failure shall constitute a material event of default under this Agreement.

14.6 No Waiver. Franchisor's consent to a transfer of any interest described herein shall not constitute a waiver of any claims that Franchisor may have against the transferring party, nor shall it be deemed a waiver of Franchisor's right to demand exact compliance with any of the terms of this Agreement by the transferee.

14.7 Public Offering. Securities in Franchisee may be offered to the public (a "public offering") only with the prior written consent of Franchisor, which consent may be withheld in its sole discretion. As a condition of its consent to such offering, Franchisor, in its sole discretion, may require that immediately after such offering that the Controlling Principals retain a controlling interest in Franchisee. For the purpose of this Agreement, "controlling interest" shall mean that the Controlling Principals, either individually or cumulatively, are entitled, under the entity's organizational documents to cast a sufficient number of votes to require such entity to take or omit to take any action that such entity is required to take or omit to take under this Agreement.

14.8 Review of Offering Materials. All materials required for a public offering by federal or state law shall be submitted to Franchisor for a limited review as discussed below prior to being filed with any governmental agency; and any materials (including any private placement memoranda) to be used in any exempt offering or private placement shall be submitted to Franchisor for such review prior to their use. No Franchisee offering (public or private) shall imply (by use of the Marks or otherwise) that Franchisor is participating in an underwriting, issuance or offering of securities of Franchisee or Franchisor, and Franchisor's review of any offering materials shall be limited solely to the subject of the relationship between Franchisee and Franchisor and its affiliates. Franchisor may, at its option, require Franchisee's offering materials to contain a written statement prescribed by Franchisor concerning the limitations described in the preceding sentence. Franchisee, its Controlling Principals and the other participants in the offering must fully indemnify Franchisor and its affiliates, and the officers, directors, shareholders, partners, agents, representatives, independent contractors, servants and employees of each of them, in connection with the offering. For each proposed public or private offering, Franchisee shall pay to Franchisor such amount as is necessary to reimburse Franchisor for its reasonable costs and expenses associated with reviewing the proposed offering, including, without limitation, legal and accounting fees. Franchisee shall give Franchisor written notice at least thirty (30) days prior to the date of commencement of any offering or other transaction covered by Section 14.7.

14.9 Transfers by Franchisee's Principals. If any person holding an interest in Franchisee, this Agreement or the Franchise (other than Franchisee or a Controlling Principal, which parties shall be subject to the provisions set forth above) transfers such interest, then Franchisee shall promptly notify Franchisor of such proposed transfer in writing and shall provide such information relative thereto as Franchisor may reasonably request prior to such transfer. Such transferee may not be a competitor of Franchisor. Such transferee will be a

Franchisee's Principal and as such will have to execute a confidentiality agreement and ancillary covenants not to compete in the form then required by Franchisor, which form shall be in substantially the form attached hereto as Attachment C (*see* Sections 10.2(b) and 10.3(d)). Franchisor also reserves the right to designate the transferee as one of the Controlling Principals.

ARTICLE XV. RELATIONSHIP OF THE PARTIES AND INDEMNIFICATION

15.1 Relationship. The parties acknowledge and agree that this Agreement does not create a fiduciary relationship between them, that Franchisee shall be an independent contractor, and that nothing in this Agreement is intended to constitute either party an agent, legal representative, subsidiary, joint venturer, partner, employee, joint employer or servant of the other for any purpose.

15.2 Notice to Public. During the term of this Agreement, Franchisee shall hold itself out to the public as an independent contractor conducting its Franchise operations pursuant to the rights granted by Franchisor. Franchisee agrees to take such action as shall be necessary to that end, including, without limitation, exhibiting a notice of that fact in a conspicuous place on the Franchise premises established for the purposes hereunder or on any catering or delivery vehicle and on all letterhead, business cards, forms, and as further described in the Manuals, Franchisor reserves the right to specify in writing the content and form of such notice.

15.3 No Authority. Franchisee understands and agrees that nothing in this Agreement authorizes Franchisee or any of the Controlling Principals to make any contract, agreement, warranty or representation on Franchisor's behalf, or to incur any debt or other obligation in Franchisor's name, and that Franchisor shall in no event assume liability for, or be deemed liable under this Agreement as a result of, any such action, or for any act or omission of Franchisee or any of the Controlling Principals or any claim or judgment arising therefrom.

15.4 Employment Policies. Franchisor does not exercise any direction or control over the employment policies or employment decisions of Franchisee. All employees of Franchisee are solely employees of Franchisee, not Franchisor. Franchisee is not Franchisor's agent for any purpose in regard to Franchisee's employees or otherwise.

15.5 Indemnification. Franchisee shall and hereby does indemnify and shall defend at its own cost and save harmless Franchisor, its affiliates, their officers and employees, and their respective successors and assigns, from and against all losses, costs, liabilities, damages, claims and expenses, of every kind and description, however caused, and including reasonable attorney fees, directly or indirectly arising out of or resulting from the construction, operation, alteration, repair or use of the franchised business or the Franchise premises, including the sale of any food or beverage products, service or merchandise by the franchised business, or of any other business conducted on or in connection with the franchised business by the Franchisee, pertaining to or arising out of or in connection with Franchisee's or Franchisee's Principals', agents', or employees' infringement of any Proprietary Mark, patent or copyright or any misuse of Franchisor's confidential information, violation, breach or asserted violation or breach of any federal, state, or local law, regulation or rule, breach of any representation, covenant or provision of this Agreement or any other agreement between Franchisor and Franchisee or any of its affiliates, and/or acts, errors or omissions incurred in connection with or arising out of the franchised

business, including any negligent or intentional acts. This indemnification specifically includes allegations of negligence by Franchisor, or its employees and agents, whether such negligence be sole, joint or concurrent, or active or passive, arising out of or resulting from the matters specified in the preceding sentence. Franchisee shall promptly give written notice to Franchisor of any action, suit, proceeding, claim, demand, inquiry, or investigation related to the foregoing. Franchisor shall in any event have the right, through counsel of its choice at Franchisee's expense, to control the defense or response to any such action if it could affect the interests of Franchisor and such undertaking by Franchisor shall not, in any manner or form, diminish Franchisee's obligations to Franchisor hereunder. Under no circumstances shall Franchisor be required or obligated to seek recovery from third parties or otherwise mitigate its losses in order to maintain a claim under this indemnification and against Franchisee, and the failure of Franchisor to pursue such recovery or mitigate loss will in no way reduce the amounts recoverable by Franchisor from Franchisee. The obligations of Franchisee under this Section shall survive the termination, expiration, or transfer of this Agreement, or any interest herein. Franchisee shall not be required to indemnify any indemnified party to the extent damages or relief otherwise covered under this Section 15.5 are the result of the Franchisee's compliance with or use of procedures or materials provided by Franchisor.

ARTICLE XVI. DEFAULT AND TERMINATION

16.1 Default and Automatic Termination. Franchisee shall be deemed to be in material default under this Agreement, and all rights granted herein shall automatically terminate without notice to Franchisee, if Franchisee shall become insolvent or makes a general assignment for the benefit of creditors; or if Franchisee files a voluntary petition under any section or chapter of federal bankruptcy law or under any similar law or statute of the United States or any state thereof, or admits in writing its inability to pay its debts when due; or if Franchisee is adjudicated a bankrupt or insolvent in proceedings filed against Franchisee under any section or chapter of federal bankruptcy laws or under any similar law or statute of the United States or any state; or if a bill in equity or other proceeding for the appointment of a receiver of Franchisee or other custodian for Franchisee's business or assets is filed and consented to by Franchisee; or if a receiver or other custodian (permanent or temporary) of Franchisee's assets or property, or any part thereof, is appointed by any court of competent jurisdiction; or if proceedings for a composition with creditors under any state or federal law should be instituted by or against Franchisee; or if a final judgment remains unsatisfied or of record for thirty (30) days or longer (unless supersedeas bond is filed); or if Franchisee is dissolved; or if execution is levied against Franchisee's business or property; or if suit to foreclose any lien or mortgage against the Franchise premises or equipment is instituted against Franchisee and not dismissed within thirty (30) days; or if the real or personal property of Franchisee's Franchise shall be sold after levy thereupon by any sheriff, marshal or constable.

16.2 Default with No or Limited Right to Cure. Franchisee shall be deemed to be in material default and Franchisor may, at its option, terminate this Agreement and all rights granted hereunder, without affording Franchisee any opportunity to cure the default, effective immediately upon notice to Franchisee, upon the occurrence of any of the following events.

(a) Unauthorized Location. If Franchisee operates the Franchise or sells any products or services authorized by Franchisor for sale at the Franchise at a location, which has not been approved by Franchisor.

(b) Failure to Acquire Location. If Franchisee fails to acquire a Location for the Franchise within the time and in the manner specified in Article II.

(c) Failure to Construct. If Franchisee fails to construct or remodel the Franchise in accordance with the plans and specifications provided to Franchisee under Section 5.1(c) as such plans may be adapted with Franchisor's approval in accordance with Section 2.5.

(d) Failure to Open. If Franchisee fails to open the Franchise for business within the period specified in Section 6.

(e) Cease to Operate. If Franchisee at any time ceases to operate or otherwise abandons the Franchise, or loses the right to possession of the premises, or otherwise forfeits the right to do or transact business in the jurisdiction where the Franchise is located; provided, however, that this provision shall not apply in cases of *Force Majeure* (acts of God, strikes, lockouts or other industrial disturbances, war, riot, epidemic, fire or other catastrophe or other forces beyond Franchisee's control), if through no fault of Franchisee, the premises are damaged or destroyed by an event as described above, provided that Franchisee applies within thirty (30) days after such event, for Franchisor's approval to relocate or reconstruct the premises (which approval shall not be unreasonably withheld) and Franchisee diligently pursues such reconstruction or relocation.

(f) Conviction. If Franchisee or any of the Controlling Principals is convicted of, or has entered a plea of *nolo contendere* to, a felony, a crime involving moral turpitude, or any other crime or offense that Franchisor believes is reasonably likely to have an adverse effect on the System, the Marks, the goodwill associated therewith, or Franchisor's interests therein.

(g) Threat to Public Health. If a threat or danger to public health or safety results from the construction, maintenance, or operation of the Franchise.

(h) Failure to Maintain Operating Principal or General Manager. If Franchisee fails to designate a qualified replacement or successor Operating Principal (or his designee, as applicable) or General Manager within the time required under Section 6.3(c).

(i) Transfer Without Consent. If Franchisee or any of the Controlling Principals purports to transfer any rights or obligations under this Agreement or any interest in Franchisee or the Franchise to any third party without Franchisor's prior written consent or without offering Franchisor a right of first refusal with respect to such transfer, contrary to the terms of Article XIV.

(j) Monetary Default. If Franchisee or any of its affiliates fails, refuses, or neglects promptly to pay when due any monetary obligation owing to Franchisor, or any of its affiliates or vendors, under this Agreement or any other agreement, or to submit the financial or other information required by Franchisor under this Agreement and does not cure such default

within five (5) days following notice from Franchisor (or such other cure period specified in such other agreement, unless no cure period is stated or such period is less than five (5) days, in which case the five (5) day cure period shall apply).

(k) Noncompetition. If Franchisee or any of the Controlling Principals fails to comply with the in-term covenants in Section 10.3 or Franchisee fails to obtain execution of the covenants and related agreements required under Section 10.3(g) within thirty (30) days after being requested to do so by Franchisor.

(l) Confidential Information. If, contrary to the terms of Section 10.2(a), Franchisee or any of the Controlling Principals discloses or divulges any confidential information provided to Franchisee or the Controlling Principals by Franchisor, or fails to obtain execution of covenants and related agreements required under Section 10.2(b) within thirty (30) days after being requested to do so by Franchisor.

(m) Transfer Upon Death or Disability. If an approved transfer upon death or permanent disability of Franchisee or any Controlling Principal is not effected within the time period and in the manner prescribed by Section 14.5.

(n) False Books. If Franchisee knowingly maintains false books or records, or submits any false reports to Franchisor.

(o) Breach of Certain Covenants. If Franchisee or any of the Controlling Principals breaches in any material respect any of the covenants set forth in Section 6.2 or has falsely made any of the representations or warranties set forth in Section 6.2.

(p) Failure to Maintain Insurance. If Franchisee fails to procure and maintain such insurance policies as required by Article XII and Franchisee fails to cure such default within seven (7) days following notice from Franchisor.

(q) Misuse of Marks. If Franchisee misuses or makes any unauthorized use of the Marks or otherwise materially impairs the goodwill associated therewith or with the System or Franchisor's rights therein; and does not cure such default within twenty-four (24) hours following notice from Franchisor.

(r) Default Under Lease. If Franchisee fails to comply with any of the requirements imposed by the lease for the Franchise premises or the related collateral assignment of lease in favor of Franchisor, and does not cure such default within the cure period, if any, specified in the lease or assignment.

(s) Cross-Default. If Franchisee or any of its affiliates are in default under any Franchise Agreement with Franchisor or any of its affiliates and does not cure such default within the time period provided in such Franchise Agreement.

(t) Multiple Defaults. If Franchisee and/or the Controlling Principals commit three (3) or more events of default under this Agreement in any 24-month period, whether or not such defaults are of the same or different nature and whether or not such defaults have been cured by Franchisee after notice by Franchisor.

16.3 Default and Right to Cure. Except as provided in Sections 16.1 and 16.2 of this Agreement, upon any default by Franchisee that is susceptible of being cured, Franchisor may terminate this Agreement by giving written notice of termination stating the nature of such default to Franchisee at least thirty (30) days prior to the effective date of termination. However, Franchisee may avoid termination by immediately initiating a remedy to cure such default and curing it to Franchisor's satisfaction within the 30-day period and by promptly providing proof thereof to Franchisor. If any such default is not cured within the specified time, or such longer period as applicable law may require, this Agreement shall terminate without further notice to Franchisee effective immediately upon the expiration of the thirty-day period or such longer period as applicable law may require. Defaults that are susceptible of cure hereunder may include, but are not limited to, the following illustrative events:

(a) If Franchisee fails to comply with any of the requirements imposed by this Agreement, as it may from time to time be amended or reasonably be supplemented by Franchisor, or fails to carry out the terms of this Agreement in good faith.

(b) If Franchisee fails to maintain or observe any of the standards, specifications or procedures prescribed by Franchisor in this Agreement or otherwise in writing.

(c) If Franchisee fails, refuses, or neglects to obtain Franchisor's prior written approval or consent as required by this Agreement.

ARTICLE XVII. POST-TERMINATION

Upon termination or expiration of this Agreement, all rights granted hereunder to Franchisee shall forthwith terminate, and:

17.1 Cease Operation. Franchisee shall immediately cease to operate the Franchise under this Agreement, and shall not thereafter, directly or indirectly, represent to the public or hold itself out as a present or former franchisee of Franchisor. Franchisee shall take all steps reasonably requested by Franchisor with regard to Franchisee's obligations upon termination of the Agreement.

17.2 Cease Use of Marks. Franchisee shall immediately and permanently cease to use, in any manner whatsoever, any confidential methods, computer software, procedures, and techniques associated with the System; the mark "The Growler Guys"; and all other Marks and distinctive forms, slogans, signs, symbols, and devices associated with the System. In particular, Franchisee shall cease to use, without limitation, all signs, advertising materials, displays, stationery, forms, and any other articles, which display the Marks.

17.3 Cancel Assumed Names. Franchisee shall take such action as may be necessary to cancel any assumed name or equivalent registration that contains the mark "The Growler Guys" or any other service mark or trademark of Franchisor, and Franchisee shall furnish Franchisor with evidence satisfactory to Franchisor of compliance with this obligation within five (5) days after termination or expiration of this Agreement.

17.4 No Imitation. Franchisee agrees, if it continues to operate or subsequently begins to operate any other business, not to use any reproduction, counterfeit, copy or colorable

imitation of the Marks, either in connection with such other business or the promotion thereof, that is likely to cause confusion, mistake, or deception, or that is likely to dilute Franchisor's rights in and to the Marks, and further agrees not to utilize any designation of origin or description or representation that falsely suggests or represents an association or connection with Franchisor constituting unfair competition.

17.5 Payment of Monetary Obligations. Within three (3) days following termination, Franchisee and its Controlling Principals shall pay all sums owing to Franchisor and its affiliates. Such sums shall include all damages, costs and expenses, including reasonable attorney fees, incurred by Franchisor as a result of any default by Franchisee, which obligation shall give rise to and remain, until paid in full, a lien in favor of Franchisor against any and all of the personal property, furnishings, equipment, fixtures, and inventory owned by Franchisee and on the premises operated hereunder at the time of default.

17.6 Payment of Damages. Franchisee and the Controlling Principals shall pay to Franchisor all damages, costs and expenses, including reasonable attorney fees, incurred by Franchisor in connection with obtaining any remedy available to Franchisor for any violation of this Agreement and, subsequent to the termination or expiration of this Agreement, in obtaining injunctive or other relief for the enforcement of any provisions of this Article.

17.7 Return of Manuals and Recipes. Franchisee shall immediately deliver to Franchisor all Manuals, proprietary recipes, records, files, instructions, correspondence, all materials related to operating the Franchise, including, without limitation, agreements, invoices, and any and all other materials relating to the operation of the Franchise in Franchisee's possession or control, and all copies thereof (all of which are acknowledged to be Franchisor's property), and shall retain no copy or record of any of the foregoing, except Franchisee's copy of this Agreement and of any correspondence between the parties and any other documents that Franchisee reasonably needs for compliance with any provision of law.

17.8 Confidentiality and Noncompetition. Franchisee and the Controlling Principals shall comply with the restrictions on confidential information contained in Article X and shall also comply with the non-competition covenants contained in Article X. Any other person required to execute similar covenants pursuant to Article X shall also comply with such covenants.

17.9 Advertising Materials. Franchisee shall also immediately furnish Franchisor an itemized list of all advertising and sales promotion materials bearing the Marks or any of Franchisor's distinctive markings, designs, labels, or other marks thereon, whether located on Franchisee's premises or under Franchisee's control at any other location. Franchisor shall have the right to inspect these materials. Franchisor shall have the option, exercisable within thirty (30) days after such inspection, to purchase any or all of the materials at Franchisee's cost, or to require Franchisee to destroy and properly dispose of such materials. Materials not purchased by Franchisor shall not be utilized by Franchisee or any other party for any purpose unless authorized in writing by Franchisor.

17.10 Signs. Upon execution of this Agreement, in partial consideration of the rights granted hereunder, Franchisee acknowledges and agrees that all right, title and interest in the

signs used at the Franchise are hereby assigned to Franchisor, and that upon termination or expiration of this Agreement, neither Franchisee nor any lien holder of Franchisee shall have any further interest therein.

17.11 Assignment of Leases. If Franchisee operates the Franchise under a lease for the Franchise premises with a third party or, with respect to any lease for equipment used in the operation of the franchised business, then, Franchisee shall, at Franchisor's option, assign to Franchisor any interest that Franchisee has in any lease for the premises of the Franchise or any equipment related thereto. Franchisor may exercise such option at or within thirty (30) days after either termination or (subject to any existing right to renew) expiration of this Agreement. If Franchisor does not elect to exercise its option to acquire the lease for the Franchise premises or does not have such option, Franchisee shall make such modifications or alterations to the Franchise premises as are necessary to distinguish the appearance of the Franchise from that of other Franchises operating under the System and shall make such specific additional changes as Franchisor may reasonably request. If Franchisee fails or refuses to comply with the requirements of this Section, Franchisor shall have the right to enter upon the premises of the franchised business, without being guilty of trespass or any other crime or tort, to make or cause to be made such changes as may be required, at the expense of Franchisee, which expense Franchisee agrees to pay upon demand.

17.12 Right to Purchase.

(a) Personal Property. Except as provided in Sections 17.9, 17.10, and 17.11, Franchisor shall have the option, to be exercised within thirty (30) days after termination or expiration of this Agreement, to purchase from Franchisee any or all of the furnishings, equipment (including any electronic cash register, computer hardware and/or software systems), signs, fixtures, motor vehicles, supplies, and inventory of Franchisee related to the operation of the Franchise, at Franchisee's cost or fair market value, whichever is less. Franchisor shall be purchasing Franchisee's assets only and shall be assuming no liabilities whatsoever, unless otherwise agreed to in writing by the parties. If the parties cannot agree on the fair market value within thirty (30) days of Franchisor's exercise of its option, fair market value shall be determined by two (2) appraisers, with each party selecting one (1) appraiser, and the average of their determinations shall be binding. In the event of such appraisal, each party shall bear its own legal and other costs and shall split the appraisal fees equally. If Franchisor elects to exercise any option to purchase herein provided, it shall have the right to set off (i) all fees for any such independent appraiser due from Franchisee, (ii) all amounts due from Franchisee to Franchisor or any of its affiliates, and (iii) any costs incurred in connection with any escrow arrangement (including reasonable legal fees), against any payment therefor and shall pay the remaining amount in cash.

(b) Real Property. In addition to the options described above and if Franchisee owns the Franchise premises, then, Franchisor shall have the option, to be exercised at or within thirty (30) days after termination or expiration of this Agreement, to purchase the Franchise premises including any building thereon, if applicable, for the fair market value of the land and building. Franchisor shall purchase assets only and shall assume no liabilities whatsoever, unless otherwise agreed to in writing by the parties. If Franchisee does not own the land on which the Franchise is operated and Franchisor exercises its option for an assignment of the

lease, Franchisor may exercise this option for the purpose of purchasing the building if owned by Franchisee and related assets as described above. If the parties cannot agree on fair market value within thirty (30) days of Franchisor's exercise of its option, fair market value shall be determined in accordance with appraisal procedure described above.

(c) Assignments. With respect to the options described in Sections 17.11 and 17.12(a) and (b), Franchisee shall deliver to Franchisor in a form satisfactory to Franchisor, such warranties, deeds, releases of lien, bills of sale, assignments and such other documents and instruments that Franchisor deems necessary in order to perfect Franchisor's title and possession in and to the properties being purchased or assigned and to meet the requirements of all tax and government authorities. If, at the time of closing, Franchisee has not obtained all of these certificates and other documents, Franchisor may, in its sole discretion, place the purchase price in escrow pending issuance of any required certificates or documents.

17.13 Closing of Purchase. The time for closing of the purchase and sale of the properties described in Section 17.12(a) and 17.12(b) shall be a date not later than thirty (30) days after the purchase price is determined by the parties or the determination of the appraisers, or such date Franchisor receives and obtains all necessary permits and approvals, whichever is later, unless the parties mutually agree to designate another date. The time for closing on the assignment of the lease described in Section 17.11 shall be a date no later than ten (10) days after Franchisor's exercise of its option thereunder unless Franchisor is exercising its options under either Section 17.12(a) or 17.12(b), in which case the date of the closing shall be on the same closing date prescribed for such option. Closing shall take place at Franchisor's corporate offices or at such other location as the parties may agree.

17.14 Assignment of Options. Franchisor shall be entitled to assign any and all of its options in this Section to any other party, without the consent of Franchisee.

17.15 Assignment of Telephone Numbers. Franchisee, at the option of Franchisor, shall assign to Franchisor all rights to the telephone numbers of the Franchise and any related Yellow Pages trademark listing or other business listings and execute all forms and documents required by Franchisor and any telephone company at any time to transfer such service and numbers to Franchisor. Further, Franchisee shall assign to Franchisor all Internet listings, domain names, Internet Accounts, advertising on the Internet or World Wide Web, websites, listings with search engines, e-mail addresses or any other similar listing or usage related to the Franchised Business. Notwithstanding any forms and documents that may have been executed by Franchisor under Section 6.9, Franchisee hereby appoints Franchisor its true and lawful agent and attorney-in-fact with full power and authority, for the sole purpose of taking such action as is necessary to complete such assignment. This power of attorney shall survive the expiration or termination of this Agreement. Franchisee shall thereafter use different telephone numbers, e-mail addresses or other listings or usages at or in connection with any subsequent business conducted by Franchisee.

17.16 Entry to Premises. If Franchisee fails or refuses to comply with the requirements of this Section (including, without limitation, removal of all signs and materials containing the Marks or the name, logo or colors of Franchisor), Franchisor or its designees may enter the franchise premises in the Assigned Area without being guilty of trespass or any other crime or

tort to make or cause to be made, the changes that are required, at Franchisee's expense, which Franchisee shall pay Franchisor upon demand.

ARTICLE XVIII. MISCELLANEOUS

18.1 Notices. Any and all notices required or permitted under this Agreement shall be in writing and shall be personally delivered or sent by expedited delivery service or certified or registered mail, return receipt requested, first-class postage prepaid, or sent by prepaid facsimile or email (provided that the sender confirms the facsimile or email by sending an original confirmation copy by certified or registered mail or expedited delivery service within three (3) business days after transmission) to the respective parties at the following addresses unless and until a different address has been designated by written notice to the other party:

Notices to Franchisor: BLACK BEER, LLC
 901 NW E St.
 Grants Pass, OR 97526
 Attention: Butch Price
 Facsimile: (541) 476-1387

Notices to Franchisee and
the Controlling Principals: _____

 Attention: _____
 Facsimile: _____

Any notice shall be deemed to have been given at the time of personal delivery or, in the case of facsimile or email, upon transmission (provided confirmation is sent as described above) or, in the case of expedited delivery service or certified mail, three (3) business days after the date and time of mailing.

18.2 Entire Agreement. This Agreement, the documents referred to herein, and the Attachments hereto, constitute the entire, full and complete agreement between Franchisor and Franchisee and the Controlling Principals concerning the subject matter hereof and shall supersede all prior related agreements between Franchisor and Franchisee and the Controlling Principals.

18.3 Amendments. Except for those permitted to be made unilaterally by Franchisor hereunder, no amendment, change, or variance from this Agreement shall be binding on either party unless mutually agreed to by the parties and executed by their authorized officers or agents in writing.

18.4 No Waiver. No delay, waiver, omission or forbearance on the part of Franchisor to exercise any right, option, duty or power arising out of any breach or default by Franchisee or the Controlling Principals under this Agreement shall constitute a waiver by Franchisor to enforce any such right, option, duty or power against Franchisee or the Controlling Principals, or as to a subsequent breach or default by Franchisee or the Controlling Principals. Acceptance by

Franchisor of any payments due to it hereunder subsequent to the time at which such payments are due shall not be deemed to be a waiver by Franchisor of any preceding breach by Franchisee or the Controlling Principals of any terms, provisions, covenants or conditions of this Agreement.

18.5 Approvals or Consents. Whenever this Agreement requires the prior approval or consent of Franchisor, Franchisee shall make a timely written request to Franchisor, and such approval or consent shall be obtained in writing.

18.6 No Warranties. Franchisor makes no warranties or guarantees and assumes no liability or obligation to Franchisee or any third party to which it would not otherwise be subject, by providing any waiver, approval, advice, consent or suggestion to Franchisee in connection with this Agreement, or by reason of any neglect, delay or denial of any request therefor.

18.7 Force Majeure. If a *Force Majeure* event shall occur, then, in addition to payments required under Section 16.2(e), Franchisee shall continue to be obligated to pay to Franchisor any and all amounts that it shall have duly become obligated to pay in accordance with the terms of this Agreement prior to the occurrence of any *Force Majeure* event and the Indemnitees shall continue to be indemnified and held harmless by Franchisee in accordance with Article XV. Except as provided in Section 16.2(e) and the immediately preceding sentence herein, none of the parties hereto shall be held liable for a failure to comply with any terms and conditions of this Agreement when such failure is caused by an event of Force Majeure. Upon the occurrence of any event of the type referred to herein, the party affected thereby shall give prompt notice thereof to the other parties, together with a description of the event, the duration for which the party expects its ability to comply with the provisions of the Agreement to be affected thereby and a plan for resuming operation under the Agreement, which the party shall promptly undertake and maintain with due diligence. Such affected party shall be liable for failure to give timely notice only to the extent of damage actually caused.

18.8 MEDIATION. THE PARTIES AGREE TO SUBMIT ANY CLAIM, CONTROVERSY OR DISPUTE ARISING OUT OF OR RELATING TO THIS AGREEMENT (AND ATTACHMENTS) OR THE RELATIONSHIP CREATED BY THIS AGREEMENT TO NON-BINDING MEDIATION PRIOR TO BRINGING SUCH CLAIM, CONTROVERSY OR DISPUTE IN A COURT OR BEFORE ANY OTHER TRIBUNAL. THE MEDIATION SHALL BE CONDUCTED THROUGH EITHER AN INDIVIDUAL MEDIATOR OR A MEDIATOR APPOINTED BY A MEDIATION SERVICES ORGANIZATION OR BODY, EXPERIENCED IN THE MEDIATION OF DISPUTES BETWEEN FRANCHISORS AND FRANCHISEES, AGREED UPON BY THE PARTIES AND, FAILING SUCH AGREEMENT WITHIN A REASONABLE PERIOD OF TIME AFTER EITHER PARTY HAS NOTIFIED THE OTHER OF ITS DESIRE TO SEEK MEDIATION OF ANY CLAIM, CONTROVERSY OR DISPUTE (NOT TO EXCEED FIFTEEN (15) DAYS), BY THE ARBITRATION SERVICE OF PORTLAND IN ACCORDANCE WITH ITS RULES GOVERNING MEDIATION, AT FRANCHISOR'S CORPORATE HEADQUARTERS IN BEND, OREGON. THE COSTS AND EXPENSES OF MEDIATION, INCLUDING COMPENSATION AND EXPENSES OF THE MEDIATOR (AND EXCEPT FOR THE ATTORNEYS FEES INCURRED BY EITHER PARTY), SHALL BE BORNE BY THE PARTIES EQUALLY. IF THE PARTIES ARE UNABLE TO RESOLVE THE CLAIM, CONTROVERSY OR DISPUTE WITHIN NINETY

(90) DAYS AFTER THE MEDIATOR HAS BEEN CHOSEN, THEN THE MATTER SHALL BE SUBMITTED TO ARBITRATION IN ACCORDANCE WITH SECTION 18.9 TO RESOLVE SUCH CLAIM, CONTROVERSY OR DISPUTE UNLESS SUCH TIME PERIOD IS EXTENDED BY WRITTEN AGREEMENT OF THE PARTIES. NOTWITHSTANDING THE FOREGOING, FRANCHISOR MAY BRING AN ACTION (1) FOR MONIES OWED, (2) FOR INJUNCTIVE OR OTHER EXTRAORDINARY RELIEF, OR (3) INVOLVING THE POSSESSION OR DISPOSITION OF, OR OTHER RELIEF RELATING TO, REAL PROPERTY IN A COURT HAVING JURISDICTION AND IN ACCORDANCE WITH SECTION 18.10, WITHOUT FIRST SUBMITTING SUCH ACTION TO MEDIATION OR ARBITRATION.

18.9 ARBITRATION.

(a) PROCEDURE. EXCEPT AS PROVIDED IN THIS AGREEMENT, FRANCHISOR, FRANCHISEE AND THE CONTROLLING PRINCIPALS AGREE THAT ANY CLAIM, CONTROVERSY OR DISPUTE ARISING OUT OF OR RELATING TO THE FRANCHISE, FRANCHISEE'S ESTABLISHMENT OR OPERATION OF ANY FRANCHISE UNDER THIS AGREEMENT (AND ANY AMENDMENTS THERETO) INCLUDING, BUT NOT LIMITED TO, ANY CLAIM BY FRANCHISEE, OR ANY OF THE CONTROLLING PRINCIPALS, OR PERSONS CLAIMING ON BEHALF OF FRANCHISEE OR THE CONTROLLING PRINCIPALS, CONCERNING THE ENTRY INTO, THE PERFORMANCE UNDER OR THE TERMINATION OF THE AGREEMENT, OR ANY OTHER AGREEMENT BETWEEN FRANCHISOR, OR ITS AFFILIATES, AND FRANCHISEE, ANY CLAIM AGAINST A PAST OR PRESENT OFFICER, DIRECTOR, EMPLOYEE OR AGENT OF FRANCHISOR, INCLUDING THOSE OCCURRING SUBSEQUENT TO THE TERMINATION OF THIS AGREEMENT, THAT CANNOT BE AMICABLY SETTLED AMONG THE PARTIES OR THROUGH MEDIATION SHALL, EXCEPT AS SPECIFICALLY SET FORTH HEREIN AND IN SECTION 18.10, BE REFERRED TO ARBITRATION. THE ARBITRATION SHALL BE CONDUCTED THROUGH AN ORGANIZATION OR BODY EXPERIENCED IN THE ARBITRATION OF DISPUTES BETWEEN FRANCHISORS AND FRANCHISEES DESIGNATED BY FRANCHISOR. IF FRANCHISOR FAILS TO DESIGNATE AN ORGANIZATION OR BODY WITHIN A REASONABLE TIME AFTER THE DISPUTE HAS BEEN REFERRED FOR ARBITRATION (NOT TO EXCEED FIFTEEN (15) DAYS), ARBITRATION SHALL BE CONDUCTED BY THE ARBITRATION SERVICE OF PORTLAND IN ACCORDANCE WITH THE RULES OF THE ARBITRATION SERVICE OF PORTLAND, AS AMENDED, EXCEPT THAT THE ARBITRATOR SHALL APPLY THE FEDERAL RULES OF EVIDENCE DURING THE CONDUCT OF THE HEARING SESSIONS WITH RESPECT TO THE ADMISSIBILITY OF EVIDENCE. IF SUCH RULES ARE IN ANY WAY CONTRARY TO OR IN CONFLICT WITH THIS AGREEMENT, THE TERMS OF THE AGREEMENT SHALL CONTROL. ONLY CLAIMS, CONTROVERSIES OR DISPUTES INVOLVING FRANCHISEE AND THE CONTROLLING PRINCIPALS MAY BE BROUGHT HEREUNDER. NO CLAIM FOR OR ON BEHALF OF ANY OTHER FRANCHISEE OR SUPPLIER, OR CLASS, REPRESENTATIVE OR ASSOCIATION THEREOF, MAY BE BROUGHT BY FRANCHISEE OR THE CONTROLLING PRINCIPALS HEREUNDER.

(b) ARBITRATOR. THE PARTIES SHALL AGREE ON AN ARBITRATOR WITHIN FIFTEEN (15) DAYS OF THE FILING OF ARBITRATION. IF THE PARTIES CANNOT AGREE ON A SINGLE ARBITRATOR, FRANCHISOR AND FRANCHISEE (OR CONTROLLING PRINCIPAL, AS APPLICABLE) SHALL EACH SELECT ONE ARBITRATOR. IF THE PARTY UPON WHOM THE DEMAND FOR ARBITRATION IS SERVED FAILS TO SELECT AN ARBITRATOR WITHIN FIFTEEN (15) DAYS AFTER THE RECEIPT OF THE DEMAND FOR ARBITRATION, THEN THE ARBITRATOR SO DESIGNATED BY THE PARTY REQUESTING ARBITRATION SHALL ACT AS THE SOLE ARBITRATOR TO RESOLVE THE CONTROVERSY AT HAND. THE TWO ARBITRATORS DESIGNATED BY THE PARTIES SHALL SELECT A THIRD ARBITRATOR. IF THE TWO ARBITRATORS DESIGNATED BY THE PARTIES FAIL TO SELECT A THIRD ARBITRATOR WITHIN FIFTEEN (15) DAYS, THE THIRD ARBITRATOR SHALL BE SELECTED BY THE ORGANIZATION AGREED UPON OR THE ARBITRATION SERVICE OF PORTLAND OR ANY SUCCESSOR THERETO, UPON APPLICATION BY EITHER PARTY. ALL OF THE ARBITRATORS SHALL BE EXPERIENCED IN THE ARBITRATION OF DISPUTES BETWEEN FRANCHISORS AND FRANCHISEES. THE ARBITRATION SHALL TAKE PLACE AT FRANCHISOR'S CORPORATE OFFICES. THE AWARD OF THE ARBITRATORS SHALL BE FINAL AND JUDGMENT UPON THE AWARD RENDERED IN ARBITRATION MAY BE ENTERED IN ANY COURT HAVING JURISDICTION THEREOF. THE COSTS AND EXPENSES OF ARBITRATION MAY BE ENTERED IN ANY COURT HAVING JURISDICTION THEREOF. THE ARBITRATORS SHALL BE REQUIRED TO SUBMIT WRITTEN FINDINGS OF FACT AND CONCLUSIONS OF LAW WITHIN THIRTY (30) BUSINESS DAYS FOLLOWING THE FINAL HEARING SESSION OF THE ARBITRATION. THE COSTS AND EXPENSES OF ARBITRATION, INCLUDING COMPENSATION AND EXPENSES OF THE ARBITRATORS, SHALL BE BORNE BY THE PARTIES AS THE ARBITRATORS DETERMINE.

(c) EXCEPTIONS. NOTWITHSTANDING THE ABOVE, THE FOLLOWING SHALL NOT BE SUBJECT TO ARBITRATION:

(i) DISPUTES AND CONTROVERSIES ARISING FROM THE SHERMAN ACT, THE CLAYTON ACT OR ANY OTHER FEDERAL OR STATE ANTITRUST LAW;

(ii) DISPUTES AND CONTROVERSIES BASED UPON OR ARISING UNDER THE LANHAM ACT, AS NOW OR HEREAFTER AMENDED, RELATING TO THE OWNERSHIP OR VALIDITY OF THE MARKS; AND

(iii) DISPUTES AND CONTROVERSIES RELATING TO ACTIONS TO OBTAIN POSSESSION OF THE PREMISES OF THE FRANCHISE UNDER LEASE OR SUBLEASE.

(d) SPECIFIC PERFORMANCE. IF FRANCHISOR SHALL DESIRE TO SEEK SPECIFIC PERFORMANCE OR OTHER EXTRAORDINARY RELIEF INCLUDING, BUT NOT LIMITED TO, INJUNCTIVE RELIEF UNDER THIS AGREEMENT AND ANY AMENDMENTS THERETO, OR TO COLLECT MONIES DUE, THEN ANY SUCH ACTION

SHALL NOT BE SUBJECT TO ARBITRATION AND FRANCHISOR SHALL HAVE THE RIGHT TO BRING SUCH ACTION AS DESCRIBED IN SECTION 18.10.

(e) LIMITS ON ARBITRATOR. IN PROCEEDING WITH ARBITRATION AND IN MAKING DETERMINATIONS HEREUNDER, THE ARBITRATORS SHALL NOT EXTEND, MODIFY OR SUSPEND ANY TERMS OF THIS AGREEMENT OR THE REASONABLE STANDARDS OF BUSINESS PERFORMANCE AND OPERATION ESTABLISHED BY FRANCHISOR IN GOOD FAITH. NOTICE OF OR REQUEST TO OR DEMAND FOR ARBITRATION SHALL NOT STAY, POSTPONE OR RESCIND THE EFFECTIVENESS OF ANY TERMINATION OF THIS AGREEMENT. THE ARBITRATORS SHALL APPLY OREGON LAW AND THE TERMS OF THIS AGREEMENT IN REACHING THEIR DECISION.

18.10 GOVERNING LAW AND VENUE. WITH RESPECT TO ANY CLAIMS, CONTROVERSIES OR DISPUTES THAT ARE NOT FINALLY RESOLVED THROUGH MEDIATION OR ARBITRATION, OR AS OTHERWISE PROVIDED ABOVE, FRANCHISEE AND THE CONTROLLING PRINCIPALS HEREBY IRREVOCABLY SUBMIT THEMSELVES TO THE JURISDICTION OF THE STATE COURTS OF OREGON AND THE FEDERAL DISTRICT COURT FOR THE DISTRICT OF OREGON. FRANCHISEE AND THE CONTROLLING PRINCIPALS HEREBY WAIVE ALL QUESTIONS OF PERSONAL JURISDICTION FOR THE PURPOSE OF CARRYING OUT THIS PROVISION. FRANCHISEE AND THE CONTROLLING PRINCIPALS HEREBY AGREE THAT SERVICE OF PROCESS MAY BE MADE UPON ANY OF THEM IN ANY PROCEEDING RELATING TO OR ARISING OUT OF THIS AGREEMENT OR THE RELATIONSHIP CREATED BY THIS AGREEMENT BY ANY MEANS ALLOWED BY OREGON OR FEDERAL LAW. FRANCHISEE AND THE CONTROLLING PRINCIPALS FURTHER AGREE THAT VENUE FOR ANY PROCEEDING RELATING TO OR ARISING OUT OF THIS AGREEMENT SHALL BE JOSEPHINE COUNTY, OREGON; PROVIDED, HOWEVER, WITH RESPECT TO ANY ACTION (1) FOR MONIES OWED, (2) FOR INJUNCTIVE OR OTHER EXTRAORDINARY RELIEF, OR (3) INVOLVING POSSESSION OR DISPOSITION OF, OR OTHER RELIEF RELATING TO, REAL PROPERTY, FRANCHISOR MAY BRING SUCH ACTION IN ANY STATE OR FEDERAL DISTRICT COURT THAT HAS JURISDICTION. WITH RESPECT TO ALL CLAIMS, CONTROVERSIES, DISPUTES OR ACTIONS, RELATED TO THIS AGREEMENT OR THE RELATIONSHIP CREATED THEREBY, THIS AGREEMENT AND ANY SUCH RELATED CLAIMS, CONTROVERSIES, DISPUTES OR ACTIONS SHALL BE GOVERNED, ENFORCED AND INTERPRETED UNDER OREGON LAW.

18.11 MUTUAL BENEFIT. FRANCHISEE, THE CONTROLLING PRINCIPALS AND FRANCHISOR ACKNOWLEDGE THAT THE PARTIES' AGREEMENT REGARDING APPLICABLE STATE LAW AND FORUM SET FORTH IN SECTION 18.10 PROVIDE EACH OF THE PARTIES WITH THE MUTUAL BENEFIT OF UNIFORM INTERPRETATION OF THIS AGREEMENT AND ANY DISPUTE ARISING OUT OF THIS AGREEMENT OR THE PARTIES' RELATIONSHIP CREATED BY THIS AGREEMENT. EACH OF FRANCHISEE, THE CONTROLLING PRINCIPALS AND FRANCHISOR FURTHER ACKNOWLEDGES THE RECEIPT AND SUFFICIENCY OF MUTUAL CONSIDERATION FOR SUCH BENEFIT AND THAT EACH PARTY'S AGREEMENT REGARDING APPLI-

CABLE STATE LAW AND CHOICE OF FORUM HAVE BEEN NEGOTIATED FOR IN GOOD FAITH AND ARE PART OF THE BENEFIT OF THE BARGAIN REFLECTED BY THIS AGREEMENT.

18.12 PERFORMANCE IN BEND, OREGON. FRANCHISEE, THE CONTROLLING PRINCIPALS AND FRANCHISOR ACKNOWLEDGE THAT THE EXECUTION OF THIS AGREEMENT AND ACCEPTANCE OF THE TERMS BY THE PARTIES OCCURRED IN BEND, OREGON, AND FURTHER ACKNOWLEDGE THAT THE PERFORMANCE OF CERTAIN OBLIGATIONS OF FRANCHISEE ARISING UNDER THIS AGREEMENT, INCLUDING, BUT NOT LIMITED TO, THE PAYMENT OF MONIES DUE HEREUNDER AND THE SATISFACTION OF CERTAIN TRAINING REQUIREMENTS OF FRANCHISOR, SHALL OCCUR IN BEND, OREGON.

18.13 DISPUTE RESOLUTION PROGRAM. WITHOUT LIMITING ANY OF THE FOREGOING, FRANCHISOR RESERVES THE RIGHT, AT ANY TIME, TO CREATE A DISPUTE RESOLUTION PROGRAM AND RELATED SPECIFICATIONS, STANDARDS, PROCEDURES AND RULES FOR THE IMPLEMENTATION THEREOF TO BE ADMINISTERED BY FRANCHISOR OR ITS DESIGNEES FOR THE BENEFIT OF ALL FRANCHISEES CONDUCTING BUSINESS UNDER THE SYSTEM. THE STANDARDS, SPECIFICATIONS, PROCEDURES AND RULES FOR SUCH DISPUTE RESOLUTION PROGRAM SHALL BE MADE PART OF THE MANUALS AND IF MADE PART OF THE MANUALS, ON EITHER A VOLUNTARY OR MANDATORY BASIS, FRANCHISEE SHALL COMPLY WITH ALL SUCH STANDARDS, SPECIFICATIONS, PROCEDURES AND RULES IN SEEKING RESOLUTION OF ANY CLAIMS, CONTROVERSIES OR DISPUTES WITH OR INVOLVING FRANCHISOR OR OTHER FRANCHISEES, IF APPLICABLE UNDER THE PROGRAM. IF SUCH DISPUTE RESOLUTION PROGRAM IS MADE MANDATORY, THEN FRANCHISEE AND FRANCHISOR AGREE TO SUBMIT ANY CLAIMS, CONTROVERSIES OR DISPUTES ARISING OUT OF OR RELATING TO THIS AGREEMENT (AND ATTACHMENTS) OR THE RELATIONSHIP CREATED BY THIS AGREEMENT FOR RESOLUTION IN ACCORDANCE WITH SUCH DISPUTE RESOLUTION PROGRAM PRIOR TO SEEKING RESOLUTION OF SUCH CLAIMS, CONTROVERSIES OR DISPUTES IN THE MANNER DESCRIBED IN SECTIONS 18.8 to 18.10 (PROVIDED THAT THE PROVISIONS OF SECTION 18.10 CONCERNING FRANCHISOR'S RIGHT TO SEEK RELIEF IN A COURT FOR CERTAIN ACTIONS INCLUDING FOR INJUNCTIVE OR OTHER EXTRAORDINARY RELIEF SHALL NOT BE SUPERSEDED OR AFFECTED BY THIS SECTION) OR IF SUCH CLAIM, CONTROVERSY OR DISPUTE RELATES TO ANOTHER FRANCHISEE, FRANCHISEE AGREES TO PARTICIPATE IN THE PROGRAM AND SUBMIT ANY SUCH CLAIMS, CONTROVERSIES OR DISPUTES IN ACCORDANCE WITH THE PROGRAM'S STANDARDS, SPECIFICATIONS, PROCEDURES AND RULES, PRIOR TO SEEKING RESOLUTION OF SUCH CLAIM BY ANY OTHER JUDICIAL OR LEGALLY AVAILABLE MEANS.

18.14 WAIVER OF CERTAIN DAMAGES. FRANCHISEE AND THE CONTROLLING PRINCIPALS HEREBY WAIVE, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY RIGHT TO OR CLAIM FOR ANY PUNITIVE, EXEMPLARY, INCIDENTAL, INDIRECT, SPECIAL, CONSEQUENTIAL OR OTHER DAMAGES (INCLUDING, WITHOUT LIMITATION, LOSS OF PROFITS) AGAINST FRANCHISOR, ITS AFFILIATES,

AND THEIR RESPECTIVE OFFICERS, DIRECTORS, SHAREHOLDERS, PARTNERS, AGENTS, REPRESENTATIVES, INDEPENDENT CONTRACTORS, SERVANTS AND EMPLOYEES, IN THEIR CORPORATE AND INDIVIDUAL CAPACITIES, ARISING OUT OF ANY CAUSE WHATSOEVER (WHETHER SUCH CAUSE BE BASED IN CONTRACT, NEGLIGENCE, STRICT LIABILITY, OTHER TORT OR OTHERWISE) AND AGREES THAT IN THE EVENT OF A DISPUTE, FRANCHISEE AND THE CONTROLLING PRINCIPALS SHALL BE LIMITED TO THE RECOVERY OF ANY ACTUAL DAMAGES SUSTAINED BY IT. IF ANY OTHER TERM OF THIS AGREEMENT IS FOUND OR DETERMINED TO BE UNCONSCIONABLE OR UNENFORCEABLE FOR ANY REASON, THE FOREGOING PROVISIONS OF WAIVER BY AGREEMENT OF PUNITIVE, EXEMPLARY, INCIDENTAL, INDIRECT, SPECIAL, CONSEQUENTIAL OR OTHER DAMAGES (INCLUDING, WITHOUT LIMITATION, LOSS OF PROFITS) SHALL CONTINUE IN FULL FORCE AND EFFECT.

18.15 Counterparts. This Agreement may be executed in multiple counterparts, each of which when so executed shall be an original, and all of which shall constitute one and the same instrument.

18.16 Headings. The captions used in connection with the sections and subsections of this Agreement are inserted only for purpose of reference. Such captions shall not be deemed to govern, limit, modify or in any other manner affect the scope, meaning or intent of the provisions of this Agreement or any part thereof nor shall such captions otherwise be given any legal effect.

18.17 Survival. Any obligation of Franchisee or the Controlling Principals that contemplates performance of such obligation after termination or expiration of this Agreement or the transfer of any interest of Franchisee or the Controlling Principals therein, shall be deemed to survive such termination, expiration or transfer.

18.18 Severability. Except as expressly provided to the contrary herein, each portion, section, part, term and provision of this Agreement shall be considered severable; and if, for any reason, any portion, section, part, term or provision is determined to be invalid and contrary to, or in conflict with, any existing or future law or regulation by a court or agency having valid jurisdiction, this shall not impair the operation of, or have any other effect upon, the other portions, sections, parts, terms or provisions of this Agreement that may remain otherwise intelligible, and the latter shall continue to be given full force and effect and bind the parties; the invalid portions, sections, parts, terms or provisions shall be deemed not to be part of this Agreement; and there shall be automatically added such portion, section, part, term or provision as similar as possible to that which was severed which shall be valid and not contrary to or in conflict with any law or regulation.

18.19 Construction. All references herein to the masculine, neuter or singular shall be construed to include the masculine, feminine, neuter or plural, where applicable. Without limiting the obligations individually undertaken by the Controlling Principals under this Agreement, all acknowledgments, promises, covenants, agreements and obligations made or undertaken by Franchisee in this Agreement shall be deemed, jointly and severally, undertaken by all of the Controlling Principals.

18.20 Remedies. All rights and remedies of the parties to this Agreement shall be cumulative and not alternative, in addition to and not exclusive of any other rights or remedies that are provided for herein or that may be available at law or in equity in case of any breach, failure or default or threatened breach, failure or default of any term, provision or condition of this Agreement or any other agreement between Franchisee or any of its affiliates and Franchisor or any of its affiliates. The rights and remedies of the parties to this Agreement shall be continuing and shall not be exhausted by any one or more uses thereof, and may be exercised at any time or from time to time as often as may be expedient; and any option or election to enforce any such right or remedy may be exercised or taken at any time and from time to time. The expiration, earlier termination or exercise of Franchisor's rights pursuant to Article XVI shall not discharge or release Franchisee or any of the Controlling Principals from any liability or obligation then accrued, or any liability or obligation continuing beyond, or arising out of, the expiration, the earlier termination or the exercise of such rights under this Agreement.

18.21 Franchisee's Principals and Controlling Principals. The term "Franchisee's Principals" shall include, collectively and individually, Franchisee's spouse, if Franchisee is an individual, all officers and directors of Franchisee (including the officers and directors of any entity that controls Franchisee) whom Franchisor designates as Franchisee's Principals and all holders of an ownership interest in Franchisee and of any entity directly or indirectly controlling Franchisee, and any other person or entity controlling, controlled by or under common control with Franchisee. The initial Franchisee's Principals shall be listed on Attachment A. The term "Controlling Principals" shall include, collectively and individually, any Franchisee's Principal who has been designated by Franchisor as a Controlling Principal hereunder. For purposes of this Agreement, a publicly held corporation is a corporation registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, or a corporation subject to the requirements of Section 15(d) of such Act.

18.22 Legal Entities. Each reference to the organizational documents, equity owners, directors, and officers of a corporation in this Agreement shall be deemed to refer to the functional equivalents of such organizational documents, equity owners, directors, and officers, as applicable, in the case of any other entity.

18.23 No Third-Party Beneficiaries. Except as expressly provided to the contrary herein, nothing in this Agreement is intended, nor shall be deemed, to confer upon any person or legal entity other than Franchisee, Franchisor, Franchisor's officers, directors and personnel and such of Franchisee's and Franchisor's respective successors and assigns as may be contemplated (and, as to Franchisee, authorized by Article XIV), any rights or remedies under or as a result of this Agreement.

ARTICLE XIX. ACKNOWLEDGMENTS

19.1 Independent Investigation. Franchisee acknowledges that it has conducted an independent investigation of the business venture contemplated by this Agreement and recognizes that the success of this business venture involves substantial business risks and will largely depend upon the ability of Franchisee. Franchisor expressly disclaims making, and Franchisee acknowledges that it has not received, any warranty or guarantee, express or implied, as to the potential volume, profits, or success of the business venture contemplated by this Agreement.

19.2 Review and Understanding. Franchisee acknowledges that Franchisee has received, read and understands this Agreement and the related Attachments and agreements and that Franchisor has afforded Franchisee sufficient time and opportunity to consult with advisors selected by Franchisee about the potential benefits and risks of entering into this Agreement.

19.3 Receipt of Documents. Franchisee acknowledges that it received a complete copy of this Agreement and all related Attachments and agreements at least five (5) business days prior to the date on which this Agreement was executed. Franchisee further acknowledges that it has received the disclosure document required by the Trade Regulation Rule of the Federal Trade Commission entitled “Disclosure Requirements and Prohibitions Concerning Franchising and Business Opportunity Ventures” at least ten (10) business days prior to the date on which this Agreement was executed.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Agreement as of the date first above written.

FRANCHISOR:

FRANCHISEE:

BLACK BEER, LLC

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

ATTACHMENT A

**LOCATION, ASSIGNED AREA, AREA OF PRIMARY RESPONSIBILITY,
OPENING DATE, STATEMENT OF OWNERSHIP INTERESTS
AND FRANCHISEES PRINCIPALS**

(I) LOCATION

Pursuant to Sections 1.2 and 2.2(c) of the Franchise Agreement, the Franchise shall be located at the following Location:

(II) ASSIGNED AREA

Pursuant to Section 1.3 of the Franchise Agreement, the Assigned Area shall be:

(III) AREA OF PRIMARY RESPONSIBILITY

Pursuant to Section 1.4 of the Franchise Agreement, the Area of Primary Responsibility shall be:

(IV) OPENING DATE

Pursuant to Section 2.6 of the Franchise Agreement, the Opening Date of the Franchise shall be:

_____, 20__

(V) STATEMENT OF OWNERSHIP INTERESTS

The following is a list of all shareholders, partners, or other investors in Franchisee, including all investors who own or hold a direct or indirect interest in Franchisee, and a description of the nature of their interest:

<u>Name</u>	<u>Percentage of Ownership</u>	<u>Nature of Interest</u>
_____	_____	_____
_____	_____	_____

<u>Name</u>	<u>Percentage of Ownership</u>	<u>Nature of Interest</u>
_____	_____	_____
_____	_____	_____

(VI) FRANCHISEE’S PRINCIPALS

In addition to the persons listed in Paragraph 5, the following is a list of all of Franchisee’s Principals described in and designated pursuant to Section 18.21 of the Franchise Agreement. Unless designated as a Controlling Principal, each of Franchisee's Principals shall execute the Confidentiality Agreement and Ancillary Covenants Not to Compete substantially in the form set forth in Attachment C (*see* Sections 10.2(b) and 10.3(g)) of the Franchise Agreement):

ATTACHMENT B

COLLATERAL ASSIGNMENT OF LEASE

This Collateral Assignment of Lease (this "Assignment") is made this ____ day of _____, 20____, by _____ ("Franchisee"), in favor of BLACK BEER, LLC, an Oregon limited liability company ("Franchisor").

WHEREAS, Franchisor and Franchisee are parties to that certain Franchise Agreement dated _____, 20____ (the "Franchise Agreement");

WHEREAS, Franchisee is a tenant under that certain lease (the "Lease") dated _____, 20____ for space located at _____ (the "Leased Premises") with _____ ("Landlord");

WHEREAS, in consideration of Franchisor's consent to operate the Leased Premises under the Franchise Agreement, and as security for Franchisee's obligations under the Franchise Agreement, a collateral assignment is made of Franchisee's interest in, to, and under the Lease; to be exercised, if at all, upon the occurrence of an event of default under, or termination or expiration of, the Franchise Agreement; and

WHEREAS, Franchisee is willing to assign its rights, privileges, powers and interests in, to and under the Lease (including all deposits paid by or for the benefit of Franchisee) to Franchisor upon the conditions set forth herein;

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Franchisee hereby agrees for the benefit of Franchisor as follows:

1. As collateral security for Franchisor, Franchisee hereby assigns all of its rights, powers, privileges and interests in, to and under the Lease to Franchisor, fully intending that Franchisor shall have the rights and powers and be entitled to the benefits thereunder to the same degree and extent as though the Lease had been made between the Landlord and Franchisor, subject, however, to the conditions hereof.

2. This Assignment is executed only as collateral security for Franchisee's obligations under the Franchise Agreement, and the execution and delivery hereof shall not subject Franchisor to or in any way affect or modify the liability of Franchisee under the Lease, and all obligations of Franchisee under the Lease shall be and remain enforceable. Franchisor will not exercise its rights hereunder except upon the occurrence of an event of default under, or termination or expiration of, the Franchise Agreement. Notwithstanding the foregoing, until written notice is sent to Franchisee that an event of default or termination has occurred, Franchisee is granted a license to maintain its rights and the benefits under the Lease.

3. So long as (a) no event of default under the Franchise Agreement exists, (b) the Franchise Agreement remains in effect, and (c) Franchisee is not in default of any of its obligations hereunder or under the Lease, Franchisor agrees not to enforce or seek to enforce any of the rights, powers and privileges transferred to Franchisor pursuant to this Assignment.

4. Franchisee hereby agrees to provide prompt written notice to Franchisor of any default by either party to the Lease. If Franchisor exercises its rights under this Assignment, Franchisee shall continue to be fully liable and responsible for all undischarged obligations or liabilities of Franchisee under the Lease, and Franchisor shall have the right, but not the obligation, to perform each of Franchisee's obligations under the Lease.

5. Franchisee agrees that Franchisor shall not be obligated to perform or discharge any obligation, duty or liability under the Lease by reason of this Assignment, and that this Assignment and Franchisor's performance hereunder or under the Lease shall not release Franchisee from any liability under the Lease.

6. Franchisee represents that, as of the date hereof, Franchisee is not in breach of the Lease. Franchisee agrees not to do, or suffer to be done, any of the following acts without obtaining the prior written consent of Franchisor, which may be granted or withheld in the sole discretion of Franchisor: (a) cancel the Lease; (b) surrender the Lease; (c) assign the Lease or any deposit paid by or for the benefit of Franchisee thereunder or any portion thereof; or (d) fail to perform any obligation in accordance with the provisions of the Lease. Any of said acts, if done or suffered to be done without Franchisor's prior written consent, shall constitute a default hereunder.

7. In the event of any default by Franchisee under the Lease, this Assignment, or the Franchise Agreement, Franchisor shall have the right, but not the obligation, until such default is cured, to cure such default, and take any action, including taking possession of the Leased Premises, to preserve Franchisee's rights under the Lease and Franchisor's rights under this Assignment and the Franchise Agreement, and Franchisee and Landlord have granted to Franchisor the right of access to the Leased Premises for this purpose, if such action is necessary.

8. Franchisee hereby represents and warrants to Franchisor that it has not executed any prior assignment of the Lease nor has it performed any acts or executed any other instrument which might prevent Franchisor from operating under any of the terms and conditions of the Lease or this Assignment, or which would limit Franchisor in such operation. Franchisee further represents and warrants to Franchisor that it will not execute or grant any modification whatsoever of the Lease, either orally or in writing, without Franchisor's prior written consent.

9. Any notice or communication hereunder must be in writing, and must be given as provided in the Franchise Agreement.

10. Franchisee hereby irrevocably appoints Franchisor as Franchisee's attorney-in-fact to exercise any or all of Franchisee's rights in, to, or under the Lease from and after the occurrence of an event of default under the Franchise Agreement or the Lease, to execute deeds and other conveyance documents, to give appropriate receipts, releases, and satisfactions on behalf of Franchisee in connection with Franchisee's performance under the Lease from and after the occurrence of any such event of default, and to do any or all other acts from and after the occurrence of any such event of default, in Franchisee's name or in Franchisor's own name, that Franchisee could do under the Lease with the same force and effect as if this Assignment had not been made. This power of attorney is coupled with an interest. Nothing contained in this Assignment shall limit any rights or remedies of the Franchisor under the Franchise Agreement.

11. All the covenants and agreements hereinabove contained on the part of Franchisee and Franchisor shall inure to the benefit of and bind their successors and assigns, respectively,

including any purchaser at a foreclosure sale. Franchisor may assign its rights hereunder without Franchisee's consent.

12. This Assignment shall be governed by and construed in accordance with the laws of the State of Oregon.

13. This Assignment may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Franchisee has caused this Assignment to be executed as of the date first above written.

FRANCHISEE:

By: _____

Name: _____

Title: _____

ACKNOWLEDGEMENT

STATE OF _____, County of _____) ss:

BEFORE ME, the undersigned, on this day, personally appeared _____, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he/she is the _____ of _____, that he/she is fully authorized to execute the foregoing instrument on behalf of such entity, and that he/she executed the same as his/her free act and deed in the capacity and for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, this the ____ day of _____, 20____.

Notary Public for _____

My commission expires: _____

ATTACHMENT C

**CONFIDENTIALITY AGREEMENT AND
ANCILLARY COVENANTS NOT TO COMPETE**

This Agreement is made and entered into this ____ day of _____, 20____, among BLACK BEER, LLC, an Oregon limited liability company (“Franchisor”), _____ (“Franchisee”), and _____ (“Covenantor”).

RECITALS

WHEREAS, Franchisor has developed and owns a unique system (the “System”) for the development and operation of retail outlets that will feature the mark “The Growler Guys” (“Franchise”); and

WHEREAS, the System includes, but is not limited to, certain trade names, service marks, trademarks, logos, emblems and indicia of origin, including, but not limited to, the mark “The Growler Guys” and such other trade names, service marks, trademarks, logos, insignia, slogans, emblems, designs and commercial symbols as Franchisor may develop in the future to identify for the public the source of services and products marketed under such marks and under the System and representing the System's high standards of quality, appearance and service and distinctive exterior and interior design, decor and color scheme and furnishings (“Marks”); uniform standards, specifications and procedures for inventory and management and financial control; operations; quality and uniformity of products and services offered; procedures for management and financial control; training and assistance; and advertising and promotional programs; all of which may be changed, improved and further developed by Franchisor from time to time and are used by Franchisor in connection with the operation of the System (“Trade Secrets”); and

WHEREAS, the Marks and Trade Secrets provide economic advantages to Franchisor and the Trade Secrets are not generally known to, and are not readily ascertainable by proper means by, Franchisor's competitors who could obtain economic value from knowledge and use of the Trade Secrets; and

WHEREAS, Franchisor has taken and intends to take all reasonable steps to maintain the confidentiality and secrecy of the Trade Secrets; and

WHEREAS, Franchisor has granted Franchisee the limited right to operate a Franchise using the System, the Marks and the Trade Secrets for the period defined in the Franchise Agreement dated _____, 20____ (“Franchise Agreement”), by and between Franchisor and Franchisee; and

WHEREAS, Franchisor and Franchisee have agreed in the Franchise Agreement on the importance to Franchisor and to Franchisee and other licensed users of the System of restricting the use, access and dissemination of the Trade Secrets; and

WHEREAS, it will be necessary for certain employees, agents, independent contractors, officers, directors and interest holders of Franchisee, or any entity having an interest in Franchisee (“Covenantor”) to have access to and to use some or all of the Trade Secrets in the management and operation of Franchisee's business using the System; and

WHEREAS, Franchisee has agreed to obtain from those covenantors’ written agreements protecting the Trade Secrets and the System against unfair competition; and

WHEREAS, Covenantor wishes to remain, or wishes to become associated with or employed by Franchisee; and

WHEREAS, Covenantor wishes and needs to receive and use the Trade Secrets in the course of his employment or association in order to effectively perform his services for Franchisee; and

WHEREAS, Covenantor acknowledges that receipt of and the right to use the Trade Secrets constitutes independent valuable consideration for the representations, promises and covenants made by Covenantor herein;

AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants and obligations contained herein, the parties agree as follows:

A. CONFIDENTIALITY AGREEMENT

1. Franchisor and/or Franchisee shall disclose to Covenantor some or all of the Trade Secrets relating to the System. All information and materials, including, without limitation, any manuals, drawings, specifications, techniques and compilations of data that Franchisor provides to Franchisee and/or Covenantor shall be deemed confidential Trade Secrets for the purposes of this Agreement.

2. Covenantor shall receive the Trade Secrets in confidence and shall, at all times, maintain them in confidence, and use them only in the course of his employment or association with an Franchisee and then only in connection with the development and/or operation by Franchisee of a Franchise for so long as Franchisee is licensed by Franchisor to use the System.

3. Covenantor shall not at any time make copies of any documents or compilations containing some or all of the Trade Secrets without Franchisor's express written permission.

4. Covenantor shall not at any time disclose or permit the disclosure of the Trade Secrets except to other employees of Franchisee and only to the limited extent necessary to train or assist other employees of Franchisee in the development or operation of a Franchise using the System.

5. Covenantor shall surrender any material containing some or all of the Trade Secrets to Franchisee or Franchisor, upon request, or upon termination of employment by

Franchisee, or upon conclusion of the use for which such information or material may have been furnished to Covenantor.

Covenantor shall not at any time, directly or indirectly, do any act or omit to do any act that would or would likely be injurious or prejudicial to the goodwill associated with the Trade Secrets and the System.

All manuals are loaned by Franchisor to Franchisee for limited purposes only and remain the property of Franchisor and may not be reproduced, in whole or in part, without Franchisor's written consent.

B. COVENANTS NOT TO COMPETE

1. In order to protect the goodwill and unique qualities of the System and the confidentiality and value of the Trade Secrets, and in consideration for the disclosure to Covenantor of the Trade Secrets, Covenantor further agrees and covenants as follows:

a. Not to divert, or attempt to divert, directly or indirectly, any business, business opportunity, or customer of the Franchisee's Franchise to any competitor of the Franchise.

b. Not to employ, or seek to employ, any person who is at the time or was within the preceding ninety (90) days employed by Franchisor, or any of its affiliates or any franchisee or developer of Franchisor, or otherwise directly or indirectly induce such person to leave that person's employment except as may occur in connection with Franchisee's employment of such person if permitted under the Franchise Agreement.

c. Except for the Franchise described in the Franchise Agreement, not to directly or indirectly, for himself or through, on behalf of, or in conjunction with any person or entity, without the prior written consent of Franchisor, own, maintain, operate, engage in or have any financial or beneficial interest in (including any interest in any legal entity), advise, assist or make loans to, any business located within the United States, its territories or commonwealths, or any other country, province, state or geographic area in which Franchisor has used, sought registration of or registered the same or similar Marks or operates or licenses others to operate a business under the same or similar Marks, which business is of a character and concept similar to the Franchise, including a business that offers and sells beer from growler fill stations as a primary menu item.

In further consideration for the disclosure to Covenantor of the Trade Secrets and to protect the uniqueness of the System, Covenantor agrees and covenants that for one (1) year following the earlier of the expiration, termination or transfer of all of Franchisee's interest in the Franchise Agreement or the termination of his association with or employment by Franchisee, Covenantor will not without the prior written consent of Franchisor:

a. Divert or attempt to divert, directly or indirectly, any business, business opportunity or customer of the Franchise to any competitor.

b. Employ, or seek to employ, any person who is at the time or was within the preceding ninety (90) days employed by Franchisor, any of its affiliates or any franchisee or developer of Franchisor, or otherwise directly or indirectly induce such persons to leave that person's employment.

c. Directly or indirectly, for himself or through, on behalf of or in conjunction with any person or entity, own, maintain, operate, engage in or have any financial or beneficial interest in (including any interest in any legal entity), advise, assist or make loans to, any business that is of a character and concept similar to the Franchise, including a business that offers and sells beer from growler fill stations as a primary menu item, which business is, or is intended to be, located within the Assigned Area or within a five-mile radius of the location of any Franchise in existence or under construction at any given time during such period.

C. MISCELLANEOUS

1. Franchisee shall make all commercially reasonable efforts to ensure that Covenantor acts as required by this Agreement.

2. Covenantor agrees that in the event of a breach of this Agreement, Franchisor would be irreparably injured and be without an adequate remedy at law. Therefore, in the event of such a breach, or threatened or attempted breach of any of the provisions hereof, Franchisor shall be entitled to enforce the provisions of this Agreement and shall be entitled, in addition to any other remedies that are made available to it at law or in equity, including the right to terminate the Franchise Agreement, to a temporary and/or permanent injunction and a decree for the specific performance of the terms of this Agreement, without the necessity of showing actual or threatened harm and without being required to furnish a bond or other security.

3. Covenantor agrees to pay all expenses (including court costs and reasonable attorneys' fees) incurred by Franchisor and Franchisee in enforcing this Agreement.

4. Any failure by Franchisor or the Franchisee to object to or take action with respect to any breach of any provision of this Agreement by Covenantor shall not operate or be construed as a waiver of or consent to that breach or any subsequent breach by Covenantor.

5. THIS AGREEMENT SHALL BE INTERPRETED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF OREGON. COVENANTOR HEREBY IRREVOCABLY SUBMITS HIMSELF TO THE JURISDICTION OF THE STATE COURTS OF OREGON AND THE FEDERAL DISTRICT COURTS FOR THE DISTRICT OF OREGON. COVENANTOR HEREBY WAIVES ALL QUESTIONS OF PERSONAL JURISDICTION OR VENUE FOR THE PURPOSE OF CARRYING OUT THIS PROVISION. COVENANTOR HEREBY AGREES THAT SERVICE OF PROCESS MAY BE MADE UPON HIM IN ANY PROCEEDING RELATING TO OR ARISING UNDER THIS AGREEMENT OR THE RELATIONSHIP CREATED BY THIS AGREEMENT BY ANY MEANS ALLOWED BY OREGON OR FEDERAL LAW. COVENANTOR FURTHER AGREES THAT VENUE FOR ANY PROCEEDING RELATING TO OR ARISING OUT OF THIS AGREEMENT SHALL BE JOSEPHINE COUNTY, OREGON; PROVIDED,

HOWEVER, WITH RESPECT TO ANY ACTION THAT INCLUDES INJUNCTIVE RELIEF OR OTHER EXTRAORDINARY RELIEF, FRANCHISOR OR FRANCHISEE MAY BRING SUCH ACTION IN ANY COURT IN ANY STATE THAT HAS JURISDICTION.

6. The parties acknowledge and agree that each of the covenants contained herein are reasonable limitations as to time, geographical area, and scope of activity to be restrained and do not impose a greater restraint than is necessary to protect the goodwill or other business interests of Franchisor. The parties agree that each of the foregoing covenants shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of a covenant in this Agreement is held unreasonable or unenforceable by a court or agency having valid jurisdiction in any unappealed final decision to which Franchisor is a party, Covenantor expressly agrees to be bound by any lesser covenant subsumed within the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated in and made a part of this Agreement.

7. This Agreement contains the entire agreement of the parties regarding the subject matter hereof. This Agreement may be modified only by a duly authorized writing executed by all parties.

8. All notices and demands required to be given hereunder shall be in writing and shall be sent by personal delivery, expedited delivery service, certified or registered mail, return receipt requested, first-class postage prepaid, facsimile or email (provided that the sender confirms the facsimile or email by sending an original confirmation copy by certified mail or expedited delivery service within three (3) business days after transmission), to the respective parties at the following addresses unless and until a different address has been designated by written notice to the other parties.

If directed to Franchisor, the notice shall be addressed to:

Black Beer, LLC
901 NW E St.
Grants Pass, OR 97526
(541) 476-1387

If directed to Franchisee, the notice shall be addressed to:

Attention: _____
Facsimile: (____) _____
Email: _____

If directed to Covenantor, the notice shall be addressed to:

Attention: _____
Facsimile: (____) _____
Email: _____

Any notices sent by personal delivery shall be deemed given upon receipt. Any notices given by facsimile or email shall be deemed given upon transmission, provided confirmation is made as provided above. Any notice sent by expedited delivery service or registered or certified mail shall be deemed given three (3) business days after the time of mailing. Any change in the foregoing addresses shall be effected by giving written notice of such change to the other parties. Business day for the purpose of this Agreement excludes Saturday, Sunday and national holidays.

9. The rights and remedies of Franchisor under this Agreement are fully assignable and transferable and shall inure to the benefit of its respective affiliates, successors and assigns. The respective obligations of Franchisee and Covenantor hereunder may not be assigned by Franchisee or Covenantor, without the prior written consent of Franchisor.

IN WITNESS WHEREOF, the undersigned have entered into this Agreement as witnessed by their signatures below.

FRANCHISOR:

COVENANTOR:

BLACK BEER, LLC

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

FRANCHISEE:

By: _____
Name: _____
Title: _____

ATTACHMENT D

FRANCHISE AGREEMENT CONTROLLING PRINCIPALS GUARANTY

Each of the undersigned acknowledges and agrees as follows:

1. Each has read the terms and conditions of the Franchise Agreement, including Section 6.2(j), and acknowledges that the execution of this guaranty and the undertakings of the Controlling Principals in the Franchise Agreement are in partial consideration for, and a condition to the granting of, this license, and that Franchisor would not have granted this license without the execution of this guaranty and such undertakings by each of the undersigned;
2. Each is included in the term “Controlling Principals” as described in Section 18.21 of the Franchise Agreement;
3. Each individually, jointly and severally, makes all of the covenants, representations, warranties and agreements of the Controlling Principals set forth in the Franchise Agreement and is obligated to perform thereunder;
4. Each individually, jointly and severally, unconditionally and irrevocably guarantees to Franchisor and its successors and assigns that all of Franchisee’s obligations under the Franchise Agreement will be punctually paid and performed. Upon default by Franchisee or upon notice from Franchisor, each will immediately make each payment and perform each obligation required of Franchisee under the Franchise Agreement. Without affecting the obligations of any of the Controlling Principals under this guaranty, Franchisor may, without notice to the Controlling Principals, waive, renew, extend, modify, amend or release any indebtedness or obligation of Franchisee or settle, adjust or compromise any claims that Franchisor may have against Franchisee. Each of the Controlling Principals waives all demands and notices of every kind with respect to the enforcement of this guaranty, including, without limitation, notice of presentment, demand for payment or performance by Franchisee, any default by Franchisee or any guarantor and any release of any guarantor or other security for this guaranty or the obligations of Franchisee. Franchisor may pursue its rights against any of the Controlling Principals without first exhausting its remedies against Franchisee and without joining any other guarantor hereto and no delay on the part of Franchisor in the exercise of any right or remedy shall operate as a waiver of such right or remedy, and no single or partial exercise by Franchisor of any right or remedy shall preclude the further exercise of such right or remedy. Upon receipt by Franchisor of notice of the death of any of the Controlling Principals, the estate of the deceased will be bound by the foregoing guaranty, but only for defaults and obligations under the Franchise Agreement existing at the time of death, and in such event, the obligations of the remaining Controlling Principals shall continue in full force and effect; and

5. With respect to the individual designated as Operating Principal, Operating Principal acknowledges that the undertakings by Operating Principal under this guaranty are made and given in partial consideration of, and as a condition to, Franchisor's grant of rights to operate the Franchise as described herein; Operating Principal individually makes all of the covenants, representations and agreements of Franchisee and Operating Principal set forth in the Franchise Agreement and is obligated to perform hereunder.

Signature: _____
Printed Name: _____
Title: Operating Principal
Date: _____

Signature: _____
Printed Name: _____
Date: _____

EXHIBIT C

DEVELOPMENT AGREEMENT

**BLACK BEER, LLC
DEVELOPMENT AGREEMENT**

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BLACK BEER, LLC
DEVELOPMENT AGREEMENT

THIS DEVELOPMENT AGREEMENT (the "Agreement") is dated as of _____, 20____ (the "Effective Date"), by and between Black Beer, LLC, an Oregon limited liability company ("Franchisor"), and _____ ("Developer").

WITNESSETH:

WHEREAS, as the result of the expenditure of time, skill, effort and money, Franchisor has developed and owns a unique and distinctive system ("System") relating to the establishment and operation of franchises ("Franchises") that offer retail sales of craft beer, various size bottles to fill beer, glasses and mugs to serve beer in, and related products and accessories such as beer caps, hard ciders and sangria, specialty bottled beer, T-shirts, hats, and food snacks, such as slider sandwiches, under the trade name "The Growler Guys."

WHEREAS, the distinguishing characteristics of the System include, without limitation, distinctive exterior and interior design, decor, color scheme, and furnishings; proprietary products; proprietary and uniform standards, specifications, and procedures for operations; quality and uniformity of products and services offered; procedures for inventory, management and financial control; training and assistance; copyrighted software for operations and accounting; centralized advertising programs; a recommended standardized system for the operation of the business; and advertising and promotional programs; all of which may be changed, improved, and further developed by Franchisor from time to time;

WHEREAS, Franchisor identifies the System by means of certain trade names, service marks, trademarks, logos, emblems and indicia of origin, including, but not limited to, the mark "The Growler Guys" and such other trade names, service marks, and trademarks as are now designated (and may hereafter be designated by Franchisor in writing) for use in connection with the System (hereinafter referred to as "Marks");

WHEREAS, Franchisor continues to develop, use and control the use of such Marks in order to identify for the public the source of services and products marketed thereunder and under the System, and to represent the System's high standards of quality, appearance and service; and

WHEREAS, Developer desires to obtain certain development rights to operate Franchises under the System in the territory described in this Development Agreement.

NOW, THEREFORE, the parties, in consideration of the mutual undertakings and commitments set forth herein, the receipt and sufficiency of which are hereby acknowledged, agree as follows.

ARTICLE I. GRANT

1.1 Grant and Territory. In reliance on the representations and warranties of Developer and its Controlling Principals (as defined in Section 11.20) hereunder, Franchisor hereby grants to Developer and Developer hereby accepts, pursuant to the terms and conditions of this Agreement, the right and obligation to develop the first Franchise within the geographic area described below (the "Territory").

Pursuant to this Agreement, Developer is granted the right to develop (select one):

- The Growler Guys franchise
- The Growler Guys Express franchise

Developer shall be granted rights to develop additional Franchises subject to Developer's full compliance with all conditions precedent to the grant of such rights outlined below, which rights shall be exercised according to Section 3.1 and according to the Development Schedule set forth in Attachment A. The "Territory" shall consist of: _____

1.2 Rights in Territory. Developer acknowledges and understands that the rights granted hereunder pertain only to the development of Franchises located in the Territory. Except as provided in this Agreement, and subject to Developer's and Controlling Principals' full compliance with this Agreement and any other agreement among Developer or any of its affiliates and Franchisor or any of its affiliates, Franchisor shall not establish or authorize any other person or entity, other than Developer, to establish a Franchise within the Territory during the term of this Agreement.

1.3 Right of First Refusal. If Franchisor becomes aware of an available site located within the Territory during the term of this Agreement, and Franchisor, in its sole discretion, determines such site is acceptable for the development of a Franchise, Franchisor shall provide Developer written notice that such site is available. If Developer is in full compliance with the Development Schedule, and all other terms of this Agreement and any franchise agreement or other agreement between Developer and Franchisor and its affiliates, Franchisor shall offer Developer a right of first refusal to establish a franchised Franchise at the proposed site. Once Franchisor provides Developer notice that such franchise site is available, Developer shall notify Franchisor in writing within ten (10) days after such notice whether or not Developer desires to obtain the rights to develop a franchised Franchise at the site. Developer shall execute a Franchise Agreement (as defined in Section 3.1) in accordance with the terms hereof to establish a franchised Franchise at the site within ten (10) days after delivering notice to Franchisor of Developer's intent to exercise the right of first refusal. Any Franchise established by Developer pursuant to this procedure shall, at Developer's option, be included in the number of Franchises Developer is obligated to establish under the Development Schedule. If Developer elects not to develop such location, Franchisor shall have the right to develop that site itself, through an affiliate or another franchisee, or through any other authorized third party.

1.4 Trademarks. This Agreement is not a Franchise Agreement and does not grant to Developer any right or license to operate a Franchise, distribute any goods or services, or any right to use or interest in the Marks.

ARTICLE II. FEE

2.1 Development and Exclusive Option Fee. As partial consideration for the development rights granted to Developer herein and the rights to be granted to Developer under separate franchise agreements ("Franchise Agreements"), Developer shall pay to Franchisor upon execution of this Agreement a nonrefundable development and exclusive option fee of _____ Dollars (\$ _____), representing payment of Five Thousand Dollars (\$5,000) for each Franchise to be developed hereunder. The development fee shall be fully earned by Franchisor upon execution of this Agreement for administrative and other expenses incurred by Franchisor and for the development opportunities lost or deferred as a result of the rights granted to Developer herein.

2.2 Franchise Fee. The initial franchise fees for The Growler Guys franchise locations to be opened are as follows: \$30,000 for the first store, \$20,000 per store for stores 2 through 5, \$15,000 per store for stores 6 through 20 and \$10,000 per store for 21 or more stores. Under a Development Agreement for The Growler Guys Express, the initial franchise fee will be \$25,000 each for the first and second store, \$15,000 per store for stores 3 through 20, and \$10,000 per store for 21 or more stores. The initial franchise fee shall be paid upon the execution of the applicable Franchise Agreement, in accordance with the terms thereof. The pro rata portion of the development fee allocable to each Franchise paid under Section 2.1 shall be credited against the initial franchise fee due for that Franchise. All franchise fees are deemed earned upon payment thereof.

2.3 Interest. Developer shall not be entitled to withhold payments due Franchisor under this Agreement on grounds of alleged nonperformance by Franchisor hereunder. Any payment not actually received by Franchisor on or before the date due shall be deemed overdue. Time is of the essence with respect to all payments to be made by Developer to Franchisor. All unpaid obligations under this Agreement shall bear interest from the date due until paid at the lesser of (1) eighteen percent (18%) per annum, or (ii) the maximum rate allowed by applicable law. Notwithstanding anything to the contrary contained herein, no provision of this Agreement shall require the payment or permit the collection of interest in excess of the maximum-rate allowed by applicable law. If any excess of interest is provided for herein, or shall be adjudicated to be so provided in this Agreement, the provisions of this paragraph shall govern and prevail, and neither Developer nor its Principals shall be obligated to pay the excess amount of such interest. If for any reason interest in excess of the maximum rate allowed by applicable law shall be deemed charged, required or permitted, any such excess shall be applied as a payment and reduction of any other amounts which may be due and owing hereunder, and if no such amounts are due and owing hereunder then such excess shall be repaid to the party that paid such interest.

**ARTICLE III. SCHEDULE AND MANNER FOR EXERCISING
DEVELOPMENT RIGHTS**

3.1 Franchise Agreement. Franchise Developer shall exercise the development rights granted hereunder only by entering into a separate Franchise Agreement with Franchisor for each Franchise for which a development right is granted. Franchisor may, in its sole discretion, permit Developer to exercise such development rights through affiliated entities that are either wholly owned subsidiaries of Developer or commonly controlled entities with ownership identical to that of Developer. The Franchise Agreement to be executed for the first Franchise to be developed by Developer under this Agreement shall be executed and delivered to Franchisor concurrently with the execution and delivery of this Agreement and shall be in the form of the Franchise Agreement attached as Attachment E. All subsequent Franchises developed under this Agreement shall be established and operated pursuant to the form of Franchise Agreement then being used by Franchisor for Franchises under the System. These franchise agreements shall also be included in the term "Franchise Agreement" as used in this Agreement. The then-current form of Franchise Agreement may differ from the form attached as Attachment E, provided that the initial franchise fee shall be as set forth in Section 2.2.

3.2 Development Schedule. Acknowledging that time is of the essence, and subject to the requirements of Article IV, Developer shall have open and in operation the minimum, cumulative number of Franchises by the times indicated in accordance with the Development Schedule.

3.3 Extensions

(a) Purchase of Extensions. Developer shall open each Franchise developed hereunder and shall commence business in accordance with the Development Schedule, unless Developer obtains an extension of the development period, at the expiration of which, Developer was to have had open and in operation a minimum number of Franchises. Developer may, subject to Franchisor's approval, purchase from Franchisor extensions of such development period as may be necessary to complete construction and commence operation of such Franchise. Each extension shall be for an additional thirty (30) day period commencing upon the expiration of the applicable development period, including any previous extensions thereof ("Extension Date"). No more than six (6) extensions of any development period will be permitted. If an extension of a development period is granted by Franchisor, the Opening Date (as defined in the Franchise Agreement) shall be extended to the Extension Date. No extension of any development period shall affect the duration of any other development period or any of Developer's other development obligations. If an extension is requested in the final development period, the term of this Agreement shall be extended to the Extension Date and thereafter, Developer shall have no further rights under this Agreement except as provided in Articles VI and VII hereof.

(b) Procedure. Developer shall notify Franchisor in writing at least sixty (60) days prior to the projected Opening Date for a Franchise that Developer

will be unable to complete construction and commence operation of the Franchise by the expiration date of the development period in which such Franchise was to have been opened. In such notice Developer shall request the Franchisor to consider its request for extension and include a description of the reasons for such failure to develop in a timely manner and the expected date of completion of construction and opening, if the extension is granted. At the same time Developer provides Franchisor with such notice, Developer shall pay an extension fee of Five Hundred Dollars (\$500) for each month's extension requested. Provided, however, no extension fee shall be charged for any Franchise for which Franchisor has approved a site in accordance with Article II of the Franchise Agreement and Developer has commenced and is continuing construction (as defined in Section 2.6 of the Franchise Agreement).

3.4 Failure to Comply. Developer acknowledges and agrees that the terms of the Development Schedule are reasonable and viable based upon Developer's independent investigation and analysis. Failure by Developer to adhere to the Development Schedule (including any extensions thereof approved by Franchisor in writing) shall constitute a material event of default under this Agreement.

ARTICLE IV. PREREQUISITES TO OBTAINING FRANCHISES

4.1 Acknowledgement. Developer understands and agrees that this Agreement does not confer upon Developer a right or franchise to operate any Franchise but is intended by the parties to set forth the terms and conditions which, if fully satisfied by Developer, shall entitle Developer to obtain the right to operate Franchises within the Territory.

4.2 Conditions. Each of the following conditions and approvals must have occurred or be obtained before the grant of the right by Franchisor to develop each Franchise shall become effective. Developer must meet, in the sole discretion of Franchisor, the "operational," "financial," and "legal" conditions as set forth below (collectively the "Conditions") before such rights shall become effective:

(a) Operational. Developer is in compliance with the Development Schedule and this Agreement. Developer and its affiliates (defined as any entity that is controlled by, controlling or under common control with such other entity) are in compliance with any other development or franchise agreement between Developer and its affiliates and Franchisor and its affiliates. Developer is conducting the operation of its existing Franchises, if any, and is capable of conducting the operation of the proposed Franchise (i) in accordance with the terms and conditions of this Agreement, (ii) in accordance with the provisions of the respective Franchise Agreements, and (iii) in accordance with the standards, specifications, and procedures set forth and described in the Manuals (defined in the Franchise Agreement), as such Manuals may be amended from time to time, or otherwise in writing.

(b) Financial. Developer and the Controlling Principals satisfy Franchisor's then-current financial criteria for developers and controlling principals of Franchises with respect to Developer's operation of its existing Franchises, if any, and the

proposed Franchise. Developer and the Controlling Principals have been and are faithfully performing all terms and conditions under each of the existing Franchise Agreements with Franchisor. Developer is not in default, and has not been in default during the twelve (12) months preceding Developer's request for Financial approval, of any monetary obligations owed to Franchisor or its affiliates under any Franchise Agreement or other agreement between Developer and its affiliates and Franchisor or any of its affiliates. Developer acknowledges and agrees that it is vital to Franchisor's interest that each of its franchisees be financially sound to avoid failure of a Franchise and that such failure would adversely affect the reputation and good name of Franchisor and the System.

(c) Legal. Developer has submitted to Franchisor, in a timely manner, all information and documents requested by Franchisor prior to and as a basis for the issuance of individual franchises or pursuant to any right granted to Developer by this Agreement or by any Franchise Agreement between Developer and Franchisor, and has taken such additional actions in connection therewith as may be requested by Franchisor from time to time.

ARTICLE V. TERM

Unless sooner terminated in accordance with this Agreement, the term of this Agreement and all rights granted by Franchisor under this Agreement shall expire on the date on which Developer successfully and in a timely manner has exercised all of the development rights and completed the development obligations under this Agreement in accordance with the Development Schedule (including, if applicable, any extension thereof under Section 3.3).

ARTICLE VI. DUTIES OF DEVELOPER

6.1 Entity Representations. If Developer is a corporation, partnership, limited liability company or other legal entity, Developer and Controlling Principals represent, warrant and covenant that:

(a) Due Formation. Developer is duly organized and validly existing under the state law of its formation;

(b) Qualification. Developer is duly qualified and is authorized to do business in each jurisdiction in which its business activities or the nature of the properties owned by it require such qualification;

(c) Single Purpose. Developer's organizational documents shall at all times provide that the activities of Developer are confined exclusively to the development and operation of Franchises, unless otherwise consented to in writing by Franchisor;

(d) Power and Authority. The execution of this Agreement and the performance of the transactions contemplated hereby are within Developer's power, and have been duly authorized by Developer;

(e) Organizational Documents. Copies of Developer's organizational documents, other governing documents, resolutions or consents of the governing board authorizing entry into and performance of this Agreement, and any certificates, buy-sell agreements or other documents restricting the sale or transfer of equity interests in Developer, and any other documents as may be reasonably required by Franchisor shall have been furnished to Franchisor prior to the execution of this Agreement;

(f) Ownership Interests. The ownership interests in Developer are accurately and completely described in Attachment D. Developer shall immediately provide a copy of the updated list of all owners to Franchisor upon the occurrence of any change of ownership and otherwise make its list of owners available to Franchisor upon request;

(g) Restriction on Transfer. If Developer is a corporation, Developer shall maintain stop-transfer instructions against the transfer on its records of any of its equity securities and each stock certificate representing stock of the corporation shall have conspicuously endorsed upon it a statement in a form satisfactory to Franchisor that it is held subject to all restrictions imposed upon assignments by this Agreement; provided, however, that the requirements of this Section shall not apply to the transfer of equity securities of a publicly-held corporation (as defined in Section 11.20). If Developer is a partnership or limited liability company, its written partnership or limited liability company agreement shall provide that ownership of an interest in such entity is held subject to all restrictions imposed upon assignments by this Agreement;

(h) Financial Statements. Developer and, at Franchisor's request, each of the Controlling Principals, have provided Franchisor with the most recent financial statements of Developer and such Controlling Principals. Such financial statements present fairly the financial position of Developer and each of the Controlling Principals, as applicable, at the dates indicated therein and with respect to Developer, the results of its operations and its cash flow for the years then ended. Developer agrees that it shall maintain at all times, during the term of this Agreement, sufficient working capital to fulfill its obligations under this Agreement. Each of the financial statements mentioned above shall be certified as true, complete and correct and shall have been prepared in conformity with generally accepted accounting principles applicable to the respective periods involved and, except as expressly described in the applicable notes, applied on a consistent basis. No material liabilities, adverse claims, commitments or obligations of any nature exist as of the date of this Agreement, whether accrued, unliquidated, absolute, contingent or otherwise, which are not reflected as liabilities on the financial statements of Developer or the Controlling Principals;

(i) Developer's Principals. If, after the execution of this Agreement, any person ceases to qualify as one of the Developer's Principals (defined in Section 11.20) or if any individual succeeds to or otherwise comes to occupy a position which would, upon designation by Franchisor, qualify him as one of Developer's Principals, Developer shall notify Franchisor within ten (10) days after any such change and, upon designation of such person by Franchisor as one of Developer's Principals or as

a Controlling Principal, as the case may be, such person shall execute such documents and instruments (including, as applicable, this Agreement) as may be required by Franchisor to be executed by others in such positions; and

(j) Execution of Documents. Developer's Principals shall each execute and bind themselves to the guaranty, confidentiality and noncompetition covenants set forth in the Controlling Principals Guaranty, Confidentiality Agreement and Ancillary Covenants Not to Compete, which are forms Attachments B and C to this Agreement (see Sections 9.1(b) and 9.8). The Controlling Principals shall, jointly and severally, guarantee Developer's performance of all of Developer's obligations, covenants and agreements hereunder pursuant to the terms and conditions of the guaranty contained herein, and shall otherwise bind themselves to the terms of this Agreement as stated herein.

(k) Continuing Obligations. Developer and the Controlling Principals acknowledge and agree that the representations, warranties and covenants set forth above in this Section 6.1 are continuing obligations of Developer and the Controlling Principals, as applicable, and that any failure to comply with such representations, warranties and covenants shall constitute a material event of default under this Agreement. Developer and the Controlling Principals will cooperate with Franchisor in any efforts made by Franchisor to verify compliance with such representations, warranties and covenants.

6.2 Operating Principal.

(a) Designation. Upon the execution of this Agreement, Developer shall designate and retain an individual to serve as the Operating Principal of Developer (the "Operating Principal"). If Developer is an individual, Developer shall perform all obligations of the Operating Principal.

(b) Qualifications. The Operating Principal shall, during the entire period he serves as such, meet the following qualifications:

(i) The Operating Principal may, at its option, and, subject to the approval of Franchisor, designate an individual to perform the duties and obligations of Operating Principal described herein; provided that Operating Principal shall take all necessary action to ensure that such designee conducts and fulfills all of Operating Principal's obligations in accordance with the terms of this Agreement and Operating Principal shall remain fully responsible for such performance.

(ii) The Operating Principal must maintain a direct or indirect ownership interest in the Developer. Except as may otherwise be provided in this Agreement, the Operating Principal's interest in Developer shall be and shall remain free of any pledge, mortgage, hypothecation, lien, charge, encumbrance, voting agreement, proxy, security interest or purchase right or options.

(iii) Developer and the Operating Principal (or his designee, if applicable) shall devote substantial full time and best efforts to the

supervision and conduct of the business contemplated by this Agreement. Operating Principal shall execute this Agreement as one of the Controlling Principals, and shall be individually, jointly and severally, bound by all obligations of Developer, the Operating Principal and the Controlling Principals hereunder.

(iv) The Operating Principal (and any such designee) shall meet Franchisor's standards and criteria for such individual, as set forth in the Manuals as defined herein or otherwise in writing by Franchisor.

(c) Replacement. If, during the term of this Agreement, the Operating Principal or any designee is not able to continue to serve in the capacity of Operating Principal or no longer qualifies to act as such in accordance with this Section, Developer shall promptly notify Franchisor and designate a replacement within thirty (30) days after the Operating Principal or such designee ceases to serve or be so qualified, such replacement being subject to the same qualifications and restrictions listed above. Developer shall provide for interim management of the activities contemplated under this Agreement until such replacement is so designated, such interim management to be conducted in accordance with this Agreement. Any failure to comply with the requirements of this Section shall be deemed a material event of default under this Agreement.

6.3 Reimbursement of Former Employer. Developer and the Controlling Principals understand that compliance by all developers and franchisees operating under the System with Franchisor's training, development and operational requirements is an essential and material element of the System and that Franchisor and developers and franchisees operating under the System consequently expend substantial time, effort and expense in training management personnel for the development and operation of their respective Franchises. Accordingly, Developer and the Controlling Principals agree that if Developer or any Controlling Principal shall, during the term of this Agreement, designate or employ in a managerial position any individual who is at the time or was within the preceding ninety (90) days employed in a managerial position by Franchisor or any of its affiliates, including, but not limited to, individuals employed by Franchisor to work in its Franchises, or by any other developer or franchisee operating under the System, but specifically excluding individuals that have relocated their domicile more than fifty (50) miles in the preceding ninety (90) days prior to being offered such managerial position, then such former employer of such individual shall be entitled to be compensated for the reasonable costs and expenses, of whatever nature or kind, incurred by such employer related to training such employee. The parties hereto agree that such expenditures may be uncertain and difficult to ascertain and, therefore, agree that the compensation specified herein reasonably represents such expenditures and is not a penalty. An amount equal to the compensation of such employee for the six (6) month period (or such shorter time, if applicable) immediately prior to the termination of his employment with such former employer shall be paid by Developer or the applicable Controlling Principal, as the case may be, prior to such individual assuming the managerial position, unless otherwise agreed with such former employer. In seeking any individual to serve in such managerial position, Developer and the Controlling Principals shall not discriminate in any manner whatsoever against any individual, to whom the

provisions of this Section apply, on the basis of the compensation required to be paid hereunder if Developer or any Controlling Principal designates or employs such individual. The parties hereto expressly acknowledge and agree that no current or former employee of Franchisor, its affiliates, Developer, or of any other entity operating under the System shall be a third party beneficiary of this Agreement or any provision hereof. Notwithstanding the above, solely for purposes of bringing an action to collect payments due under this Section, such former employer shall be a third-party beneficiary of this Section 6.3. Franchisor expressly disclaims any representations and warranties regarding the performance of any employee or former employee of Franchisor, its affiliates or any developer or franchisee operating under the System, who is designated or employed by Developer or any Controlling Principal in any capacity, and Franchisor shall not be liable for any losses, of whatever nature or kind, incurred by Developer or any Controlling Principal in connection therewith.

6.4 Compliance with Laws. Developer shall comply with all requirements of federal, state and local laws, rules, regulations, and orders

ARTICLE VII. DEFAULT AND TERMINATION

7.1 Default and Automatic Termination. Developer shall be deemed to be in material default under this Agreement and all rights granted herein shall automatically terminate without notice to Developer, if Developer becomes insolvent or makes a general assignment for the benefit of creditors; or if Developer files a voluntary petition under any section or chapter of federal bankruptcy laws or under any similar law or statute of the United States or any state or admits in writing its inability to pay its debts when due; or if Developer is adjudicated bankrupt or insolvent in proceedings filed against Developer under any section or chapter of federal bankruptcy law or any similar law or statute of the United States or any state, or if a bill in equity or other proceeding for the appointment of a receiver of Developer or other custodian for Developer's business or assets is filed and consented to by Developer; or if a receiver or other custodian (permanent or temporary) of Developer's assets or property, or any part thereof, is appointed by any court of competent jurisdiction; or if proceedings for a composition with creditors under any state or federal law are instituted by or against Developer; or if a final judgment against Developer remains unsatisfied or of record for thirty (30) days or longer (unless supersedeas bond is filed); or if Developer is dissolved; or if execution is levied against Developer's business or property; or if suit to foreclose any lien or mortgage against the premises or equipment of any business operated hereunder or under any Franchise Agreement is instituted and not dismissed within thirty (30) days; or if the real or personal property of any business operated hereunder or under any Franchise Agreement shall be sold after levy by any sheriff, marshal or constable.

7.2 Default with No or Limited Right to Cure. Developer shall be deemed to be in material default and Franchisor may, at its option, terminate this Agreement and all rights granted hereunder, without affording Developer any opportunity to cure the default except as provided below, effective immediately upon written notice to Developer, upon the occurrence of any of the following events of default:

(a) Development Schedule. If Developer fails to comply with the Development Schedule (or any extension thereof approved by Franchisor in writing).

(b) Failure to Execute Franchise Agreement. If Developer fails to execute each Franchise Agreement in accordance with Section 3.1 (or any extension thereof approved by Franchisor in writing).

(c) Conviction. If Developer or any of the Controlling Principals is convicted of, or shall have entered a plea of nolo contendere to, a felony, a crime involving moral turpitude or any other crime or offense that Franchisor believes is reasonably likely to have an adverse effect on the System, the Marks, the goodwill associated therewith or Franchisor's interests therein.

(d) Threat to Public Health. If a threat or danger to public health or safety results from the construction, maintenance or operation of any Franchise developed under this Agreement.

(e) Failure to Maintain Operating Principal or General Manager. If Developer fails to designate a qualified replacement or successor Operating Principal (or designee appointed by Operating Principal) within the time required under Section 6.2(e).

(f) Breach of Certain Covenants. If Developer or any of the Controlling Principals breaches in any material respect any of the covenants set forth in Article VI or has falsely made any of the representations or warranties set forth in Article VI.

(g) Transfer Without Consent. If Developer or any of the Controlling Principals purports to transfer any rights or obligations under this Agreement or any interest in Developer to any third party without Franchisor's prior written consent or without offering Franchisor a right of first refusal with respect to such transfer, contrary to the terms of Article VIII.

(h) Noncompetition. If Developer or any of the Controlling Principals fails to comply with the covenants in Sections 9.1 (a) or 9.2(a) or (b) or if Developer fails to obtain the execution of the covenants required under Section 9.1 (b) or 9.2(g) within thirty (30) days following Franchisor's request that Developer obtain the execution of such covenants.

(i) Transfer Upon Death or Disability. If an approved transfer upon death or permanent disability of Developer or any Controlling Principal is not effected within the time period and in the manner prescribed by Section 8.5.

(j) Misuse of Marks. If Developer misuses or makes any unauthorized use of the Marks or otherwise materially impairs the goodwill associated therewith or with the System or Franchisor's rights therein and does not cure such default within twenty-four (24) hours following notice from Franchisor.

(k) Monetary Default. If Developer or any of its affiliates fails, refuses or neglects promptly to pay when due any monetary obligation owing to Franchisor, or any of its affiliates or vendors, under this Agreement, any Franchise Agreement or any other agreement and does not cure such default within five (5) days following notice from Franchisor (or such other cure period specified in such other agreement, unless no cure period is stated or such period is less than five (5) days, in which case the five (5) day cure period shall apply).

(l) Default Under Franchise Agreement. If Developer or any of its affiliates are in default under any Franchise Agreement, Franchisor may provide notice (if applicable) and terminate this Agreement under the same terms that Franchisor may provide notice and terminate the Franchise Agreement.

(m) Multiple Defaults. If Developer and/or the Controlling Principals commit three (3) or more events of default under this Agreement in any 24 month period, whether or not such defaults are of the same or different nature and whether or not such defaults have been cured by Developer after notice by Franchisor.

7.3 Default and Right to Cure. Except as provided in Sections 7.1 and 7.2, upon any default by Developer that is susceptible of being cured, Franchisor may terminate this Agreement by giving written notice of termination stating the nature of such default to Developer at least thirty (30) days prior to the effective date of termination. However, Developer may avoid termination by immediately initiating a remedy to cure such default and curing it to Franchisor's satisfaction within the thirty (30)-day period and by promptly providing proof thereof to Franchisor. If any such default is not cured within the specified time, or such longer period as applicable law may require, subject to Section 7.4, Developer's rights under this Agreement shall terminate without Further notice to Developer effective immediately upon the expiration of the thirty (30) day period or such longer period as applicable law may require.

7.4 Additional Remedies.

(a) Exercise of Remedies. Upon default by Developer under Sections 7.2 or 7.3, Franchisor has the option., in its sole discretion, in addition to exercising its option to terminate this Agreement as provided in Sections 7.2 and 7.3, to do any one or more of the following:

- (i) terminate or modify any territorial rights granted to Developer;
- (ii) reduce the area of such territorial rights;
- (iii) reduce the number of Franchises that Developer may establish;
- (iv) accelerate the Development Schedule;

(v) permit Developer to purchase an extension of the Development Schedule; and/or

(vi) pursue any other remedy Franchisor may have at law or in equity.

(b) Continued Development. If Franchisor exercises any additional remedies in this Section, Developer shall continue to develop Franchises in accordance with this Agreement and the Development Schedule, subject to Developer's modified rights and obligations.

(c) No Waiver. Franchisor's exercise of any remedies under this Section shall not, in the event of a default, constitute a waiver by Franchisor to exercise its option to terminate this Agreement at any time with respect to a subsequent event of default of a similar or different nature.

7.5 Post-Termination. Upon the termination or expiration of this Agreement, all rights granted to Developer hereunder shall forthwith terminate and:

(a) Cease Developing. Developer shall have no right to establish or operate any Franchise for which a Franchise Agreement has not been executed by Franchisor and delivered to Developer at the time of termination or expiration.

(b) Confidentiality and Noncompetition. Developer and the Controlling Principals shall comply with the restrictions on confidential information contained in Section 9.1 and the covenants against competition contained in Section 9.2. Any other person required to execute similar covenants pursuant to Sections 9.1 (b) or 9.2(g) shall also comply with such covenants.

7.6 Franchisor's Rights. Upon termination or expiration of this Agreement or upon Franchisor's exercise of certain of remedies in Section 7.4, Franchisor shall be entitled to establish, and to license others to establish, Franchises in the Territory or in the portion thereof no longer part of the Territory or pursuant to any other modification of Developer's territorial rights, except as may be otherwise provided under any Franchise Agreement which is then in effect between Franchisor and Developer.

7.7 Cross Default. No default under this Agreement shall constitute a default under any Franchise Agreement between the parties hereto, unless the default is also a default under the terms of such Franchise Agreement.

7.8 No Exclusive Remedy. No right or remedy herein conferred upon or reserved to Franchisor is exclusive of any other right or remedy provided or permitted by law or in equity.

ARTICLE VIII. TRANSFER OF INTEREST

8.1 Transfer by Franchisor. Franchisor shall have the right to transfer or assign this Agreement and all or any part of its rights or obligations herein to any person or legal entity without Developer's consent. Specifically, and without limitation to the foregoing, Developer expressly affirms and agrees that Franchisor may sell its assets, and may sell or license the Marks or the System to a third party; may offer its securities privately or publicly; may merge, acquire other corporations, or be acquired by another corporation; may undertake a refinancing, recapitalization, leveraged buyout or other economic or financial restructuring; and, with regard to any or all of the above sales, assignments and dispositions, Developer expressly and specifically waives any claims, demands or damages against Franchisor arising from or related to the transfer of the Marks (or any variation thereof) or the System from Franchisor to any other party. Nothing contained in this Agreement shall require Franchisor to remain in the business of operating or licensing the operation of Franchises or other similar businesses or to offer any services or products, whether or not bearing the Marks, to Developer, if Franchisor assigns its rights in this Agreement.

8.2 Transfer by Developer.

(a) Consent of Franchisor. Developer and the Controlling Principals understand and acknowledge that the rights and duties set forth in this Agreement are personal to Developer and that Franchisor has granted such rights in reliance on the business skill, financial capacity and personal character of Developer and the Controlling Principals and with the expectation that the duties and obligations contained in this Agreement will be performed by Developer and those Controlling Principals signing this Agreement. Accordingly, neither Developer nor any Controlling Principal, nor any successor or assign of Developer or any Controlling Principal, shall sell, assign, transfer, convey, give away, pledge, mortgage or otherwise dispose of or encumber any direct or indirect interest in this Agreement or in Developer without the prior written consent of Franchisor. Any purported assignment or transfer, by operation of law or otherwise, made in violation of this Agreement shall be null and void and shall constitute a material event of default under this Agreement.

(b) Conditions. If Developer wishes to transfer all or part of its interest in this Agreement or if Developer or a Controlling Principal wishes to transfer any ownership interest in Developer, transferor and the proposed transferee shall apply to Franchisor for its consent. Franchisor shall not unreasonably withhold its consent to a transfer of any interest in Developer or in this Agreement. Franchisor may, however, in its sole discretion, require any or all of the following as conditions of its consent to any such transfer:

(i) Monetary Obligations. All the accrued monetary obligations of Developer and its affiliates and all other outstanding obligations to Franchisor and its affiliates arising under this Agreement or any Franchise Agreement or other agreement shall have been satisfied in a timely manner and Developer shall have

satisfied all trade accounts and other debts, of whatever nature or kind, in a timely manner;

(ii) No Default. Developer and its affiliates shall not be in default of any provision of this Agreement, or any Franchise Agreement or other agreement between Developer or any of its affiliates and Franchisor or any of its affiliates; and Developer shall have substantially and timely complied with all the terms and conditions of such agreements during the terms thereof,

(iii) Release. The transferor and its principals (if applicable) shall have executed a general release, in a form satisfactory to Franchisor, of any and all claims, against Franchisor and its affiliates, their respective partners, and the officers, directors, shareholders, partners, agents, representatives, independent contractors, servants and employees of each of them, in their corporate and individual capacities, including, without limitation, claims arising under this Agreement, any Franchise Agreement and any other agreement between Developer and Franchisor or any of its affiliates or under federal, state or local laws, rules, and regulations;

(iv) Satisfaction of Criteria. The transferee shall demonstrate to Franchisor's satisfaction that transferee meets the criteria considered by Franchisor when reviewing a prospective developer's application for development rights, including, but not limited to, Franchisor's educational, managerial and business standards, transferee's moral character, business reputation and credit rating, transferee's aptitude and ability to conduct the business contemplated hereunder (as may be evidenced by prior related business experience or otherwise), transferee's financial resources and capital for operation of the business, and the geographic proximity of other territories with respect to which transferee has been granted development rights or of other Franchises operated by transferee, if any;

(v) Written Assumption. The transferee shall enter into a written agreement, in a form prescribed by Franchisor, assuming full, unconditional, joint and several, liability for and agreeing to perform from the date of the transfer, all obligations, covenants and agreements of Developer in this Agreement; and, if transferee is an entity, transferee's owners, shall also execute such agreement as transferee's principals, and guarantee the performance of all such obligations, covenants and agreements;

(vi) New Agreement. The transferee shall execute the standard form development agreement then being offered to new System developers or a revised form of this Agreement, as Franchisor deems appropriate, and such other ancillary agreements as Franchisor may require, which agreements shall supersede this Agreement and its ancillary documents in all respects and the terms of which agreements may differ from the terms of this Agreement; provided, however, that transferee shall not be required to pay any development fee, and if the transferee is an entity, transferee's owners shall also execute such agreements as transferee's principals, and guarantee the performance of all such obligations, covenants and agreements;

(vii) Liability for Prior Acts. The transferor shall remain liable for all of the obligations to franchisor in connection with this Agreement incurred prior to the effective date of the transfer and shall execute any and all instruments reasonably requested by Franchisor to evidence such liability;

(viii) Transfer Fee. Developer shall pay a transfer fee of five Thousand Dollars (\$5,000) or such greater amount as is necessary to reimburse Franchisor for its reasonable costs and expenses associated with reviewing the application to transfer, including, without limitation, legal and accounting fees; and

(ix) Entity Representations. If the transferee is an entity, the transferee shall provide to franchisor evidence satisfactory to franchisor that the representations, warranties and covenants of Section 6.1 have been satisfied and are true and correct on the date of transfer.

(c) Reasonableness. Developer acknowledges and agrees that each condition that must be met by the transferee is reasonable and necessary to ensure such transferee's full performance of the obligations hereunder.

8.3 Transfer to Affiliate. If the proposed transfer is to an entity formed solely for the convenience of ownership, Franchisor's consent may be conditioned upon any of the requirements in Section 8.2(b), except that the requirements in Sections 8.2(b)(iii), (iv), (vi) and (viii) shall not apply. With respect to a transfer to an entity formed for the convenience of ownership, Developer shall be the owner of all the voting stock or interest of such entity, and if Developer is more than one individual, each individual shall have the same proportionate ownership interest in such entity as he had in Developer prior to the transfer.

8.4 Right of First Refusal.

(a) Notice of Offer. If Developer wishes to transfer all or part of its interest in this Agreement or if a Controlling Principal wishes to transfer any ownership interest in Developer, pursuant to any bona fide offer received from a third party to purchase such interest, then such proposed seller shall promptly notify Franchisor in writing of each such offer, and shall provide such information and documentation relating to the offer as Franchisor may require. Franchisor shall have the right and option, exercisable within thirty (30) days after receipt of such written notification and copies of all documentation required by Franchisor describing such offer, to send written notice to the transferor that Franchisor intends to purchase the transferor's interest on the same terms and conditions offered by the third party. If franchisor elects to purchase the transferor's interest, closing on such purchase must occur within the later of sixty (60) days from the date of notice to the transferor of the election to purchase by Franchisor, sixty (60) days from the date Franchisor receives or obtains all necessary documentation, permits and approvals, or such other date the parties agree upon in writing. Any material change in the terms of any offer prior to closing shall constitute a new offer subject to the same rights of first refusal by Franchisor as in the case of an initial offer. Failure of Franchisor to exercise the option afforded by this Section 8.4

shall not constitute a waiver of any other provision of this Agreement, including all of the requirements of Section 8.2 relating to a proposed transfer.

(b) Non-Cash Consideration. If an offer from a third party provides for payment of consideration other than cash or involves certain intangible benefits, Franchisor may elect to purchase the interest proposed to be sold for the reasonable equivalent in cash. If the parties cannot agree within a reasonable time on the reasonable equivalent in cash of the non-cash part of the offer, then such amount shall be determined by two (2) appraisers, with each party selecting one (1) appraiser, and the average of their determinations shall be final and binding. In the event of such appraisal, each party shall bear its own legal and other costs and shall split the appraisal fees. If Franchisor exercises its right of first refusal herein provided, it shall have the right to set off (i) all fees for any such independent appraiser due from Developer hereunder and (ii) all amounts due from Developer to Franchisor or any of its affiliates.

(c) Default. Failure to comply with the provisions of this Section 8.4 prior to the transfer of any interest in Developer or in this Agreement shall constitute a material event of default under this Agreement.

8.5 Death and Permanent Disability.

(a) Death. Upon the death of Developer (if Developer is a natural person) or any Controlling Principal who is a natural person (the "Deceased"), the executor, administrator or other personal representative of the Deceased shall transfer such interest to a third party in accordance with the conditions described in this Article VIII within twelve (12) months after the death. If no personal representative is designated or appointed or no probate proceedings are instituted with respect to the estate of the Deceased, then the distributee of such interest must be approved by Franchisor. If the distributee is not approved by Franchisor, then the distributee shall transfer such interest to a third party approved by Franchisor within twelve (12) months after the death of the Deceased.

(b) Permanent Disability. Upon the permanent disability of Developer (if Developer is a natural person) or any Controlling Principal who is a natural person, Franchisor may, in its sole discretion, require such interest to be transferred to a third party in accordance with the conditions described in this Article VIII within six (6) months after notice to Developer. "Permanent disability" shall mean any physical, emotional or mental injury, illness or incapacity that would prevent a person from performing the obligations set forth in this Agreement or in the guaranty made part of this Agreement for at least ninety (90) consecutive days and from which condition recovery within ninety (90) days from the date of determination of disability is unlikely. Permanent disability shall be determined upon examination of the person by a licensed practicing physician selected by Franchisor, upon examination of the person; or if the person refuses to submit to an examination, then such person shall be automatically deemed permanently disabled as of the date of such refusal for the purpose of this Section. The costs of any examination required by this Section shall be paid by Franchisor.

(c) Notice. Upon the death or claim of permanent disability of Developer or any Controlling Principal, Developer or a representative of Developer, must promptly notify Franchisor of such death or claim of permanent disability. Any transfer upon death or permanent disability shall be subject to the same terms and conditions as described in this Article VIII for any inter vivos transfer. If an interest is not transferred upon death or permanent disability as required in this Section 8.5, then such failure shall constitute a material event of default under this Agreement.

8.6 No Waiver. Franchisor's consent to a transfer of any interest described herein shall not constitute a waiver of any claims Franchisor may have against the transferring party, nor shall it be deemed a waiver of Franchisor's right to demand exact compliance with any of the terms of this Agreement by the transferee.

8.7 Public Offering. Securities in Developer may be offered to the public (a "public offering") only with the prior written consent of Franchisor, which consent may be withheld in its sole discretion. As a condition of its consent to such offering, Franchisor may, in its sole discretion, require that immediately after such offering that the Controlling Principals retain a controlling interest in Developer. For the purpose of this Agreement, "controlling interest" shall mean that the Controlling Principals, either individually or cumulatively are entitled under the entity's organizational documents to cast a sufficient number of votes to require such entity to take or omit to take any action that such entity is required to take or omit to take under this Agreement.

8.8 Review of Offering Materials. All materials required for such public offering by federal or state law shall be submitted to Franchisor for a limited review as discussed below prior to being filed with any governmental agency; and any materials (including any private placement memoranda) to be used in any exempt offering or private placement shall be submitted to Franchisor for such review prior to their use. No Developer offering (public or private) shall imply (by use of the Marks or otherwise) that Franchisor is participating in an underwriting, issuance or offering of securities of Developer or Franchisor; and Franchisor's review of any offering materials shall be limited solely to the subject of the relationship between Developer and Franchisor and its affiliates. Franchisor may, at its option, require Developer's offering materials to contain a written statement prescribed by Franchisor concerning the limitations described in the preceding sentence. Developer, its Controlling Principals and the other participants in the offering must fully indemnify Franchisor and its affiliates, and the officers, directors, shareholders, partners, agents, representatives, independent contractors, servants and employees of each of them, in connection with the offering. For each proposed public or private offering, Developer shall pay to Franchisor such amount as is necessary to reimburse Franchisor for its reasonable costs and expenses associated with reviewing the proposed offering materials, including, without limitation, legal and accounting fees. Developer shall give Franchisor written notice at least thirty (30) days prior to the date of commencement of any offering or other transaction covered by this Section.

8.9 Transfers by Developer's Principals. If any person holding an interest in Developer or this Agreement (other than Developer or a Controlling Principal,

which parties shall be subject to the provisions set forth above) transfers such interest, then Developer shall promptly notify Franchisor of such proposed transfer in writing and shall provide such information relative thereto as Franchisor may reasonably request prior to such transfer. Such transferee may not be a competitor of Franchisor. Such transferee will be a Developer's Principal and as such shall execute a confidentiality agreement and ancillary covenants not to compete in the form then required by Franchisor, which form shall be in substantially the same form attached hereto as Attachment C (see Sections 9.1 (b) and 9.8). Franchisor also reserves the right to designate the transferee as one of the Controlling Principals.

ARTICLE IX. COVENANTS

9.1 Confidential Information.

(a) Confidential. Neither Developer nor any Controlling Principals shall, during the term of this Agreement and thereafter, communicate or divulge, or use for the benefit of, any other person or entity, and, following the termination or expiration of this Agreement, they shall not use for their own benefit, any confidential information, knowledge or know-how concerning the methods of development and operation of the Franchises that may be communicated to them or of which they may be apprised under this Agreement. Developer and the Controlling Principals shall disclose such confidential information only to Developer's employees who must have access to it in connection with their employment with Developer. Any and all information, knowledge, know-how, techniques and any materials used in or related to the System that Franchisor provides to Developer in connection with this Agreement shall be deemed confidential for the purposes of this Agreement. Neither Developer nor the Controlling Principals shall at any time, without Franchisor's prior written consent, copy, duplicate, record or otherwise reproduce such materials or information, in whole or in part, nor otherwise make the same available to any unauthorized person. The covenant in this Section shall survive the expiration, termination or transfer of this Agreement or any interest herein and shall be perpetually binding upon Developer and each of the Controlling Principals.

(b) Covenants. Developer shall require and obtain execution of covenants similar to those set forth in Section 9.1 (a) from all personnel of Developer who have received or will have access to confidential information. Such covenants shall be substantially in the form set forth in Attachment C. All of Developer's Principals not required to sign this Agreement as a Controlling Principal also must execute such covenants.

9.2 Noncompetition Covenants.

(a) In-Term Covenants. Developer and the Controlling Principals specifically acknowledge that, pursuant to this Agreement, Developer and the Controlling Principals will receive valuable training, trade secrets and confidential information that are beyond the present skills and experience of Developer and the Controlling Principals and Developer's managers and employees. Developer and the

Controlling Principals acknowledge that such specialized training, trade secrets and confidential information provide a competitive advantage and will be valuable to them in the development and operation of the Franchises and that gaining access to such specialized training, trade secrets and confidential information is, therefore, a primary reason why they are for entering into this Agreement. In consideration for such specialized training, trade secrets, confidential information and rights, Developer and the Controlling Principals covenant that with respect to Developer, during the term of this Agreement (or with respect to each of the Controlling Principals, during the term of this Agreement for so long as such individual or entity satisfies the definition of "Controlling Principals" as described in Section 11.20) except as otherwise approved in writing by Franchisor, neither Developer nor any of the Controlling Principals shall, either directly or indirectly, for themselves, or through, on behalf of or in conjunction with any person or entity:

(i) Divert, or attempt to divert, any business or customer of the business described hereunder to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Marks and the System.

(ii) Own, maintain, operate, engage in, or have any financial or beneficial interest in (including any interest in a legal entity), advise, assist or make loans to, any business located within the United States, its territories or commonwealths, or any other country, province, state or geographic area in which Franchisor has used, sought registration of or registered the same or similar Marks or operates or licenses others to operate a business under the same or similar Marks, which business is of a character and concept similar to the Franchise, including a business that operates a growler fill station.

(b) Post-Term Covenants. In consideration for the specialized training, trade secrets, confidential information and rights described in Section 9.2(a), with respect to Developer, and for a continuous uninterrupted period commencing upon the expiration or termination of, or transfer of all of Developer's interest in, this Agreement (or with respect to each of the Controlling Principals, commencing upon the earlier of (i) the expiration, termination of, or transfer of all of Developer's interest in this Agreement or (ii) the time such individual or entity ceases to satisfy the definition of "Controlling Principals" as described in Section 11.20), and continuing for two (2) years thereafter, except as otherwise approved in writing by Franchisor, neither Developer nor any of the Controlling Principals shall, either directly or indirectly, for themselves or through, on behalf of or in conjunction with any person or entity:

(i) Divert, or attempt to divert, any business or customer of the business described hereunder to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Marks and the System.

(ii) Employ, or seek to employ, any person who is at that time or was within the preceding ninety (90) days employed by Franchisor, or any of

its affiliates, or by any other developer or franchisee of Franchisor, or otherwise directly or indirectly induce such person to leave that person's employment; provided, however, that Developer may employ such person in a managerial position with respect to Developer's operation of a Franchise pursuant to the terms of the Franchise Agreement applicable to such Franchise.

(iii) Own, maintain, operate, engage in, or have any financial or beneficial interest in (including any interest in a legal entity), advise, assist or make loans to, any business that is of a character and concept similar to the Franchise, including a business that operates a growler fill station, which business is, or is intended to be, located within the Territory or within a five (5)-mile radius of the location of any Franchise in existence or under construction at any given time during such period.

(c) Public Company. Sections 9.2(a)(ii) and 9.3(b)(iii) shall not apply to ownership of less than a five percent (5%) beneficial interest in the outstanding equity securities of any publicly-held corporation.

(d) Reasonableness. The parties acknowledge and agree that each of the covenants contained in this Section are reasonable limitations as to time, geographical area, and scope of activity to be restrained and do not impose a greater restraint than is necessary to protect the goodwill or other business interests of Franchisor. The parties agree that each of these covenants shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of a covenant in this Section is held unreasonable or unenforceable by a court or agency having valid jurisdiction in an unappealed final decision to which Franchisor is a party, Developer and the Controlling Principals expressly agree to be bound by any lesser covenant subsumed within the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated in and made a part of this Section.

(e) Reduction in Scope. Developer and the Controlling Principals understand and acknowledge that Franchisor shall have the right, in its sole discretion, to reduce the scope of any covenant set forth in this Section, or any portion thereof, without their consent, effective immediately upon notice to Developer; and Developer and the Controlling Principals agree that they shall immediately comply with any covenant as so modified, which shall be fully enforceable notwithstanding the provisions of Section 11.3.

(f) No Defense. Developer and the Controlling Principals expressly agree that the existence of any claims they may have against Franchisor, whether or not arising from this Agreement, shall not constitute a defense to the enforcement by Franchisor of the covenants in this Article IX.

(g) Covenants of Managers and Developer's Principals. Developer shall require and obtain execution of covenants similar to those set forth in this Section (including covenants applicable upon the termination of a person's employment with Developer) from all management level personnel of Developer who have received or

will have access to confidential information or training from Franchisor. Such covenants shall be substantially in the form set forth in Attachment C. All of Developer's Principals not required to sign this Agreement as a Controlling Principal also must execute such covenants. Notwithstanding the foregoing, Franchisor reserves the right, in its sole discretion, to decrease the period of time or geographic scope of the noncompetition covenant set forth in Attachment C or eliminate such noncompetition covenant altogether for any party that is required to execute such agreement under this Section.

9.3 Injunctive Relief. Failure to comply with the requirements of this Article shall constitute a material event of default under this Agreement. Developer and the Controlling Principals acknowledge that a violation of this Article would result in irreparable injury to Franchisor for which no adequate remedy at law may be available, and Developer and the Controlling Principals accordingly consent to the issuance of an injunction prohibiting any conduct by Developer or the Controlling Principals in violation of the terms of this Article. Developer and the Controlling Principals agree to pay all court costs and reasonable legal fees incurred by Franchisor in connection with the enforcement of this Article, including payment of all costs and expenses for obtaining specific performance of, or on injunction against violation of, the requirements of this Article.

ARTICLE X. RELATIONSHIP OF THE PARTIES AND INDEMNIFICATION

10.1 Relation. The parties acknowledge and agree that this Agreement does not create a fiduciary relationship between them, that Developer shall be an independent contractor and that nothing in this Agreement is intended to constitute either party an agent, legal representative, subsidiary, joint venturer, partner, employee, joint employer or servant of the other for any purpose.

10.2 Notice to Public. During the term of this Agreement, Developer shall hold itself out to the public as an independent contractor conducting its development operations pursuant to development rights granted by Franchisor. Developer agrees to take such action as shall be necessary to that end, including, without limitation, exhibiting a notice of that fact in a conspicuous place in any Franchise established under any Franchise Agreement for the purposes hereunder, the content and form of which Franchisor reserves the right to specify in writing.

10.3 No Authority. Developer understands and agrees that nothing in this Agreement authorizes Developer or any of the Controlling Principals to make any contract, agreement, warranty or representation on Franchisor's behalf, or to incur any debt or other obligation in Franchisor's name and that Franchisor shall in no event assume liability for, or be deemed liable under this Agreement as a result of, any such action, or for any act or omission of Developer or any of the Controlling Principals or any claim or judgment arising therefrom.

10.4 Employment Policies. Franchisor does not exercise any direction or control over the employment policies or employment decisions of Developer. All employees of Developer are solely employees of Developer, not Franchisor. Developer

is not Franchisor's agent for any purpose in regard to Developer's employees or otherwise.

10.5 Indemnification. Developer shall and hereby does indemnify and shall defend at its own cost and save harmless Franchisor, its affiliates, their officers and employees, and their respective successors and assigns, from and against all losses, costs, liabilities, damages, claims and expenses, of every kind and description, however caused, including allegations of negligence by Franchisor, its affiliates, or their employees and agents, whether such negligence be sole, joint or concurrent, or active or passive, and including reasonable attorneys' fees, directly or indirectly arising out of or resulting from the performance of the development activities contemplated under this Agreement, or the construction or operation of any Franchise pursuant to a Franchise Agreement, or because of any act or omission of the Developer or anyone associated with, employed by, or affiliated with Developer. Developer shall promptly give written notice to Franchisor of any action, suit, proceeding, claim, demand, inquiry, or investigation related to the foregoing. Franchisor shall in any event have the right, through counsel of its choice at Developer's expense, to control the defense or response to any such action if it could affect the interests of Franchisor, and such undertaking by Franchisor shall not, in any manner or form, diminish Developer's obligations to Franchisor hereunder. Under no circumstances shall Franchisor be required or obligated to seek recovery from third parties or otherwise mitigate its losses in order to maintain a claim under this indemnification and against Developer, and the failure of Franchisor to pursue such recovery or mitigate loss will in no way reduce the amounts recoverable by Franchisor from Developer. The obligations of Developer under this Section 10.5 shall survive the termination, expiration or transfer of this Agreement, or any interest herein.

10.6 Variations. Developer acknowledges that because complete and detailed uniformity under many varying conditions may not be possible or practical, Franchisor specifically reserves the right and privilege, at its sole discretion and as it may deem in the best interests of all concerned in any given circumstance, to vary standards for any System developer based upon the peculiarities of the particular site or circumstance, business potential, trade area, existing business practices or any other condition that Franchisor deems to be of importance to the successful operation of such developer's business. Developer shall not be entitled to require Franchisor to disclose or grant to Developer a like or similar variation hereunder.

ARTICLE XI. MISCELLANEOUS

11.1 Notice. Any and all notices required or permitted under this Agreement shall be in writing and shall be personally delivered or sent by expedited delivery service or certified or registered mail, return receipt requested, first-class postage prepaid, or sent by prepaid facsimile or email (provided that the sender confirms the facsimile or email by sending an original confirmation copy by certified or registered mail or expedited delivery service within three (3) business days after transmission) to the respective parties at the following addresses unless and until a different address has been designated by written notice to the other party:

Notices to Franchisor:

Black Beer, LLC
901 NW E St.
Grants Pass, OR 97526
Attention: Butch Price
Facsimile: (541) 476-1387

Notices to Developer and
the Controlling Principals:

Attention: _____
Facsimile: _____

Any notice shall be deemed to have been given at the time of personal delivery or, in the case of facsimile or email, upon transmission (provided confirmation is sent as described above) or, in the case of expedited delivery service or registered or certified mail, three (3) business days after the date and time of mailing.

11.2 Entire Agreement. This Agreement, the documents referred to herein, and the Attachments hereto, constitute the entire, full and complete agreement between Franchisor and Developer and the Controlling Principals concerning the subject matter hereof and shall supersede all prior related agreements between Franchisor and Developer and the Controlling Principals.

11.3 Amendments. Except for those permitted to be made unilaterally by Franchisor hereunder, no amendment, change or variance from this Agreement shall be binding on either party unless mutually agreed to by the parties and executed by their authorized officers or agents in writing.

11.4 No Waiver. No delay, waiver, omission or forbearance on the part of Franchisor to exercise any right, option, duty or power arising out of any breach or default by Developer or the Controlling Principals under this Agreement shall constitute a waiver by Franchisor to enforce any such right, option, duty or power against Developer or the Controlling Principals, or as to a subsequent breach or default by Developer or the Controlling Principals. Acceptance by Franchisor of any payments due to it hereunder subsequent to the time at which such payments are due shall not be deemed to be a waiver by Franchisor of any preceding breach by Developer or the Controlling Principals of any terms, provisions, covenants or conditions of this Agreement.

11.5 Approvals or Consents. Whenever this Agreement requires the prior approval or consent of Franchisor, Developer shall make a timely written request to Franchisor, and such approval or consent shall be obtained in writing.

11.6 No Warranties. Franchisor makes no warranties or guarantees and assumes no liability or obligation to Developer or any third party to which it would not otherwise be subject, by providing any waiver, approval, advice, consent or suggestion to

Developer in connection with this Agreement, or by reason of any neglect, delay or denial of any request therefor.

11.7 MEDIATION. THE PARTIES AGREE TO SUBMIT ANY CLAIM, CONTROVERSY OR DISPUTE ARISING OUT OF OR RELATING TO THIS AGREEMENT (AND ATTACHMENTS) OR THE RELATIONSHIP CREATED BY THIS AGREEMENT TO NON-BINDING MEDIATION PRIOR TO BRINGING SUCH CLAIM, CONTROVERSY OR DISPUTE IN A COURT OR BEFORE ANY OTHER TRIBUNAL. THE MEDIATION SHALL BE CONDUCTED THROUGH EITHER AN INDIVIDUAL MEDIATOR OR A MEDIATOR APPOINTED BY A MEDIATION SERVICES ORGANIZATION OR BODY, EXPERIENCED IN THE MEDIATION OF DISPUTES BETWEEN FRANCHISORS AND DEVELOPERS, AGREED UPON BY THE PARTIES AND, FAILING SUCH AGREEMENT WITHIN A REASONABLE PERIOD OF TIME AFTER EITHER PARTY HAS NOTIFIED THE OTHER OF ITS DESIRE TO SEEK MEDIATION OF ANY CLAIM, CONTROVERSY OR DISPUTE (NOT TO EXCEED FIFTEEN (15) DAYS), BY THE ARBITRATION SERVICE OF PORTLAND IN ACCORDANCE WITH ITS RULES GOVERNING MEDIATION, AT FRANCHISOR'S CORPORATE HEADQUARTERS IN BEND, OREGON. THE COSTS AND EXPENSES OF MEDIATION, INCLUDING COMPENSATION AND EXPENSES OF THE MEDIATOR (AND EXCEPT FOR THE ATTORNEYS FEES INCURRED BY EITHER PARTY), SHALL BE BORNE BY THE PARTIES EQUALLY. IF THE PARTIES ARE UNABLE TO RESOLVE THE CLAIM, CONTROVERSY OR DISPUTE WITHIN NINETY (90) DAYS AFTER THE MEDIATOR HAS BEEN CHOSEN, THEN THE MATTER SHALL BE SUBMITTED TO ARBITRATION IN ACCORDANCE WITH SECTION 11.8 TO RESOLVE SUCH CLAIM, CONTROVERSY OR DISPUTE UNLESS SUCH TIME PERIOD IS EXTENDED BY WRITTEN AGREEMENT OF THE PARTIES. NOTWITHSTANDING THE FOREGOING, FRANCHISOR MAY BRING AN ACTION (1) FOR MONIES OWED, (2) FOR INJUNCTIVE OR OTHER EXTRAORDINARY RELIEF, OR (3) INVOLVING THE POSSESSION OR DISPOSITION OF, OR OTHER RELIEF RELATING TO, REAL PROPERTY IN A COURT HAVING JURISDICTION AND IN ACCORDANCE WITH SECTION 11.9, WITHOUT FIRST SUBMITTING SUCH ACTION TO MEDIATION OR ARBITRATION.

11.8 ARBITRATION.

(a) PROCEDURE. EXCEPT AS PROVIDED IN THIS AGREEMENT, FRANCHISOR, DEVELOPER AND THE CONTROLLING PRINCIPALS AGREE THAT ANY CLAIM, CONTROVERSY OR DISPUTE ARISING OUT OF OR RELATING TO THE FRANCHISE, DEVELOPER'S ESTABLISHMENT OR OPERATION OF ANY FRANCHISE UNDER THIS AGREEMENT (AND ANY AMENDMENTS THERETO) INCLUDING, BUT NOT LIMITED TO, ANY CLAIM BY DEVELOPER, OR ANY OF THE CONTROLLING PRINCIPALS, OR PERSONS CLAIMING ON BEHALF OF DEVELOPER OR THE CONTROLLING PRINCIPALS, CONCERNING THE ENTRY INTO, THE PERFORMANCE UNDER OR THE TERMINATION OF THE AGREEMENT, OR

ANY OTHER AGREEMENT BETWEEN FRANCHISOR, OR ITS AFFILIATES, AND DEVELOPER, ANY CLAIM AGAINST A PAST OR PRESENT OFFICER, DIRECTOR, EMPLOYEE OR AGENT OF FRANCHISOR, INCLUDING THOSE OCCURRING SUBSEQUENT TO THE TERMINATION OF THIS AGREEMENT, THAT CANNOT BE AMICABLY SETTLED AMONG THE PARTIES OR THROUGH MEDIATION SHALL, EXCEPT AS SPECIFICALLY SET FORTH HEREIN AND IN SECTION 18.10, BE REFERRED TO ARBITRATION. THE ARBITRATION SHALL BE CONDUCTED THROUGH AN ORGANIZATION OR BODY EXPERIENCED IN THE ARBITRATION OF DISPUTES BETWEEN FRANCHISORS AND DEVELOPERS DESIGNATED BY FRANCHISOR. IF FRANCHISOR FAILS TO DESIGNATE AN ORGANIZATION OR BODY WITHIN A REASONABLE TIME AFTER THE DISPUTE HAS BEEN REFERRED FOR ARBITRATION (NOT TO EXCEED FIFTEEN (15) DAYS), ARBITRATION SHALL BE CONDUCTED BY ARBITRATION SERVICE OF PORTLAND IN ACCORDANCE WITH THE RULES OF ARBITRATION SERVICE OF PORTLAND, AS AMENDED, EXCEPT THAT THE ARBITRATOR SHALL APPLY THE FEDERAL RULES OF EVIDENCE DURING THE CONDUCT OF THE HEARING SESSIONS WITH RESPECT TO THE ADMISSIBILITY OF EVIDENCE. IF SUCH RULES ARE IN ANY WAY CONTRARY TO OR IN CONFLICT WITH THIS AGREEMENT, THE TERMS OF THE AGREEMENT SHALL CONTROL. ONLY CLAIMS, CONTROVERSIES OR DISPUTES INVOLVING DEVELOPER AND THE CONTROLLING PRINCIPALS MAY BE BROUGHT HEREUNDER. NO CLAIM FOR OR ON BEHALF OF ANY OTHER DEVELOPER OR SUPPLIER, OR CLASS, REPRESENTATIVE OR ASSOCIATION THEREOF, MAY BE BROUGHT BY DEVELOPER OR THE CONTROLLING PRINCIPALS HEREUNDER.

(b) ARBITRATOR. THE PARTIES SHALL AGREE ON AN ARBITRATOR WITHIN FIFTEEN (15) DAYS OF THE FILING OF ARBITRATION. IF THE PARTIES CANNOT AGREE ON A SINGLE ARBITRATOR, FRANCHISOR AND DEVELOPER (OR CONTROLLING PRINCIPAL, AS APPLICABLE) SHALL EACH SELECT ONE ARBITRATOR. IF THE PARTY UPON WHOM THE DEMAND FOR ARBITRATION IS SERVED FAILS TO SELECT AN ARBITRATOR WITHIN FIFTEEN (15) DAYS AFTER THE RECEIPT OF THE DEMAND FOR ARBITRATION, THEN THE ARBITRATOR SO DESIGNATED BY THE PARTY REQUESTING ARBITRATION SHALL ACT AS THE SOLE ARBITRATOR TO RESOLVE THE CONTROVERSY AT HAND. THE TWO ARBITRATORS DESIGNATED BY THE PARTIES SHALL SELECT A THIRD ARBITRATOR. IF THE TWO ARBITRATORS DESIGNATED BY THE PARTIES FAIL TO SELECT A THIRD ARBITRATOR WITHIN FIFTEEN (15) DAYS, THE THIRD ARBITRATOR SHALL BE SELECTED BY THE ORGANIZATION AGREED UPON OR ARBITRATION SERVICE OF PORTLAND OR ANY SUCCESSOR THERETO, UPON APPLICATION BY EITHER PARTY. ALL OF THE ARBITRATORS SHALL BE EXPERIENCED IN THE ARBITRATION OF DISPUTES BETWEEN FRANCHISORS AND DEVELOPERS. THE ARBITRATION SHALL TAKE PLACE AT FRANCHISOR'S CORPORATE OFFICES. THE AWARD OF THE ARBITRATORS SHALL BE FINAL AND JUDGMENT UPON THE AWARD RENDERED IN ARBITRATION MAY BE ENTERED IN ANY COURT HAVING

JURISDICTION THEREOF. THE COSTS AND EXPENSES OF ARBITRATION MAY BE ENTERED IN ANY COURT HAVING JURISDICTION THEREOF. THE ARBITRATORS SHALL BE REQUIRED TO SUBMIT WRITTEN FINDINGS OF FACT AND CONCLUSIONS OF LAW WITHIN THIRTY (30) BUSINESS DAYS FOLLOWING THE FINAL HEARING SESSION OF THE ARBITRATION. THE COSTS AND EXPENSES OF ARBITRATION, INCLUDING COMPENSATION AND EXPENSES OF THE ARBITRATORS, SHALL BE BORNE BY THE PARTIES AS THE ARBITRATORS DETERMINE.

(c) EXCEPTIONS. NOTWITHSTANDING THE ABOVE, THE FOLLOWING SHALL NOT BE SUBJECT TO ARBITRATION:

(i) DISPUTES AND CONTROVERSIES ARISING FROM THE SHERMAN ACT, THE CLAYTON ACT OR ANY OTHER FEDERAL OR STATE ANTITRUST LAW;

(ii) DISPUTES AND CONTROVERSIES BASED UPON OR ARISING UNDER THE LANHAM ACT, AS NOW OR HEREAFTER AMENDED, RELATING TO THE OWNERSHIP OR VALIDITY OF THE MARKS;

(iii) DISPUTES AND CONTROVERSIES RELATING TO ACTIONS TO OBTAIN POSSESSION OF THE PREMISES OF THE FRANCHISE UNDER LEASE OR SUBLEASE.

(d) SPECIFIC PERFORMANCE. IF FRANCHISOR SHALL DESIRE TO SEEK SPECIFIC PERFORMANCE OR OTHER EXTRAORDINARY RELIEF INCLUDING, BUT NOT LIMITED TO, INJUNCTIVE RELIEF UNDER THIS AGREEMENT, AND ANY AMENDMENTS THERETO, OR TO COLLECT MONIES DUE, THEN ANY SUCH ACTION SHALL NOT BE SUBJECT TO ARBITRATION AND FRANCHISOR SHALL HAVE THE RIGHT TO BRING SUCH ACTION AS DESCRIBED IN SECTION 11.9.

(e) LIMITS ON ARBITRATOR. IN PROCEEDING WITH ARBITRATION AND IN MAKING DETERMINATIONS HEREUNDER, THE ARBITRATORS SHALL NOT EXTEND, MODIFY OR SUSPEND ANY TERMS OF THIS AGREEMENT OR THE REASONABLE STANDARDS OF BUSINESS PERFORMANCE AND OPERATION ESTABLISHED BY FRANCHISOR IN GOOD FAITH. NOTICE OF OR REQUEST TO OR DEMAND FOR ARBITRATION SHALL NOT STAY, POSTPONE OR RESCIND THE EFFECTIVENESS OF ANY TERMINATION OF THIS AGREEMENT. THE ARBITRATORS SHALL APPLY OREGON LAW AND THE TERMS OF THIS AGREEMENT IN REACHING THEIR DECISION.

11.9 GOVERNING LAW AND VENUE. WITH RESPECT TO ANY CLAIMS, CONTROVERSIES OR DISPUTES THAT ARE NOT FINALLY RESOLVED THROUGH MEDIATION OR ARBITRATION, OR AS OTHERWISE PROVIDED ABOVE, DEVELOPER AND THE CONTROLLING PRINCIPALS

HEREBY IRREVOCABLY SUBMIT THEMSELVES TO THE JURISDICTION OF THE STATE COURTS OF OREGON AND THE FEDERAL DISTRICT COURT FOR THE DISTRICT OF OREGON. DEVELOPER AND THE CONTROLLING PRINCIPALS HEREBY WAIVE ALL QUESTIONS OF PERSONAL JURISDICTION FOR THE PURPOSE OF CARRYING OUT THIS PROVISION. DEVELOPER AND THE CONTROLLING PRINCIPALS HEREBY AGREE THAT SERVICE OF PROCESS MAY BE MADE UPON ANY OF THEM IN ANY PROCEEDING RELATING TO OR ARISING OUT OF THIS AGREEMENT OR THE RELATIONSHIP CREATED BY THIS AGREEMENT BY ANY MEANS ALLOWED BY OREGON OR FEDERAL LAW. DEVELOPER AND THE CONTROLLING PRINCIPALS FURTHER AGREE THAT VENUE FOR ANY PROCEEDING RELATING TO OR ARISING OUT OF THIS AGREEMENT SHALL BE JOSEPHINE COUNTY, OREGON; PROVIDED, HOWEVER, WITH RESPECT TO ANY ACTION (1) FOR MONIES OWED, (2) FOR INJUNCTIVE OR OTHER EXTRAORDINARY RELIEF OR (3) INVOLVING POSSESSION OR DISPOSITION OF, OR OTHER RELIEF RELATING TO, REAL PROPERTY, FRANCHISOR MAY BRING SUCH ACTION IN ANY STATE OR FEDERAL DISTRICT COURT THAT HAS JURISDICTION. WITH RESPECT TO ALL CLAIMS, CONTROVERSIES, DISPUTES OR ACTIONS, RELATED TO THIS AGREEMENT OR THE RELATIONSHIP CREATED THEREBY, THIS AGREEMENT AND ANY SUCH RELATED CLAIMS, CONTROVERSIES, DISPUTES OR ACTIONS SHALL BE GOVERNED, ENFORCED AND INTERPRETED UNDER OREGON LAW.

11.10 MUTUAL BENEFIT. DEVELOPER, THE CONTROLLING PRINCIPALS AND FRANCHISOR ACKNOWLEDGE THAT THE PARTIES AGREEMENT REGARDING APPLICABLE STATE LAW AND FORUM SET FORTH IN SECTION 11.9 PROVIDE EACH OF THE PARTIES WITH THE MUTUAL BENEFIT OF UNIFORM INTERPRETATION OF THIS AGREEMENT AND ANY DISPUTE ARISING OUT OF THIS AGREEMENT OR THE PARTIES' RELATIONSHIP CREATED BY THIS AGREEMENT. EACH OF DEVELOPER, THE CONTROLLING PRINCIPALS AND FRANCHISOR FURTHER ACKNOWLEDGES THE RECEIPT AND SUFFICIENCY OF MUTUAL CONSIDERATION FOR SUCH BENEFIT AND THAT EACH PARTY'S AGREEMENT REGARDING APPLICABLE STATE LAW AND CHOICE OF FORUM HAVE BEEN NEGOTIATED FOR IN GOOD FAITH AND ARE PART OF THE BENEFIT OF THE BARGAIN REFLECTED BY THIS AGREEMENT.

11.11 PERFORMANCE IN BEND, OREGON. DEVELOPER, THE CONTROLLING PRINCIPALS AND FRANCHISOR ACKNOWLEDGE THAT THE EXECUTION OF THIS AGREEMENT AND ACCEPTANCE OF THE TERMS BY THE PARTIES OCCURRED IN BEND, OREGON, AND FURTHER ACKNOWLEDGE THAT THE PERFORMANCE OF CERTAIN OBLIGATIONS OF DEVELOPER ARISING UNDER THIS AGREEMENT, INCLUDING, BUT NOT LIMITED TO, THE PAYMENT OF MONIES DUE HEREUNDER AND THE SATISFACTION OF CERTAIN TRAINING REQUIREMENTS OF FRANCHISOR, SHALL OCCUR IN BEND, OREGON.

11.12 DISPUTE RESOLUTION PROGRAM. WITHOUT LIMITING ANY OF THE FOREGOING, FRANCHISOR RESERVES THE RIGHT, AT ANY TIME, TO CREATE A DISPUTE RESOLUTION PROGRAM AND RELATED SPECIFICATIONS, STANDARDS, PROCEDURES AND RULES FOR THE IMPLEMENTATION THEREOF TO BE ADMINISTERED BY FRANCHISOR OR ITS DESIGNEES FOR THE BENEFIT OF ALL DEVELOPERS AND FRANCHISEES CONDUCTING BUSINESS UNDER THE SYSTEM. THE STANDARDS, SPECIFICATIONS, PROCEDURES AND RULES FOR SUCH DISPUTE RESOLUTION PROGRAM SHALL BE MADE PART OF THE MANUALS AND IF MADE PART OF THE MANUALS, ON EITHER A VOLUNTARY OR MANDATORY BASIS, DEVELOPER SHALL COMPLY WITH ALL SUCH STANDARDS, SPECIFICATIONS, PROCEDURES AND RULES IN SEEKING RESOLUTION OF ANY CLAIMS, CONTROVERSIES OR DISPUTES WITH OR INVOLVING FRANCHISOR OR OTHER DEVELOPERS OR FRANCHISEES, IF APPLICABLE UNDER THE PROGRAM. IF SUCH DISPUTE RESOLUTION PROGRAM IS MADE MANDATORY, THEN DEVELOPER AND FRANCHISOR AGREE TO SUBMIT ANY CLAIMS, CONTROVERSIES OR DISPUTES ARISING OUT OF OR RELATING TO THIS AGREEMENT (AND ATTACHMENTS) OR THE RELATIONSHIP CREATED BY THIS AGREEMENT FOR RESOLUTION IN ACCORDANCE WITH SUCH DISPUTE RESOLUTION PROGRAM PRIOR TO SEEKING RESOLUTION OF SUCH CLAIMS, CONTROVERSIES OR DISPUTES IN THE MANNER DESCRIBED IN SECTIONS 11.7-11.8 (PROVIDED THAT THE PROVISIONS OF SECTION 11.9 CONCERNING FRANCHISOR'S RIGHT TO SEEK RELIEF IN A COURT FOR CERTAIN ACTIONS INCLUDING FOR INJUNCTIVE OR OTHER EXTRAORDINARY RELIEF SHALL NOT BE SUPERSEDED OR AFFECTED BY THIS SECTION) OR IF SUCH CLAIM, CONTROVERSY OR DISPUTE RELATES TO ANOTHER DEVELOPER OR FRANCHISEE, DEVELOPER AGREES TO PARTICIPATE IN THE PROGRAM AND SUBMIT ANY SUCH CLAIMS, CONTROVERSIES OR DISPUTES IN ACCORDANCE WITH THE PROGRAM'S STANDARDS, SPECIFICATIONS, PROCEDURES AND RULES, PRIOR TO SEEKING RESOLUTION OF SUCH CLAIM BY ANY OTHER JUDICIAL OR LEGALLY AVAILABLE MEANS.

11.13 WAIVER OF CERTAIN DAMAGES. DEVELOPER AND THE CONTROLLING PRINCIPALS HEREBY WAIVE, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY RIGHT TO OR CLAIM FOR ANY PUNITIVE, EXEMPLARY, INCIDENTAL, INDIRECT, SPECIAL, CONSEQUENTIAL OR OTHER DAMAGES (INCLUDING, WITHOUT LIMITATION, LOSS OF PROFITS) AGAINST FRANCHISOR, ITS AFFILIATES, AND THEIR RESPECTIVE OFFICERS, DIRECTORS, SHAREHOLDERS, PARTNERS, AGENTS, REPRESENTATIVES, INDEPENDENT CONTRACTORS, SERVANTS AND EMPLOYEES, IN THEIR CORPORATE AND INDIVIDUAL CAPACITIES, ARISING OUT OF ANY CAUSE WHATSOEVER (WHETHER SUCH CAUSE BE BASED IN CONTRACT, NEGLIGENCE, STRICT LIABILITY, OTHER TORT OR OTHERWISE) AND AGREES THAT IN THE EVENT OF A DISPUTE, DEVELOPER AND THE CONTROLLING PRINCIPALS SHALL BE LIMITED TO THE RECOVERY OF ANY ACTUAL DAMAGES SUSTAINED BY IT. IF ANY OTHER

TERM OF THIS AGREEMENT IS FOUND OR DETERMINED TO BE UNCONSCIONABLE OR UNENFORCEABLE FOR ANY REASON, THE FOREGOING PROVISIONS OF WAIVER BY AGREEMENT OF PUNITIVE, EXEMPLARY, INCIDENTAL, INDIRECT, SPECIAL, CONSEQUENTIAL OR OTHER DAMAGES (INCLUDING, WITHOUT LIMITATION, LOSS OF PROFITS) SHALL CONTINUE IN FULL FORCE AND EFFECT.

11.14 Counterparts. This Agreement may be executed in multiple counterparts, each of which when so executed shall be an original, and all of which shall constitute one and the same instrument.

11.15 Headings. The captions used in connection with the sections and subsections of this Agreement are inserted only for purpose of reference. Such captions shall not be deemed to govern, limit, modify or in any other manner affect the scope, meaning or intent of the provisions of this Agreement or any part thereof nor shall such captions otherwise be given any legal effect.

11.16 Survival. Any obligation of Developer or the Controlling Principals that contemplates performance of such obligation after termination or expiration of this Agreement or the transfer of any interest of Developer or the Controlling Principals therein, shall be deemed to survive such termination, expiration or transfer.

11.17 Severability. Except as expressly provided to the contrary herein, each portion, section, part, term and provision of this Agreement shall be considered severable; and if, for any reason, any portion, section, part, term or provision is determined to be invalid and contrary to, or in conflict with, any existing or future law or regulation by a court or agency having valid jurisdiction, this shall not impair the operation of, or have any other effect upon, the other portions, sections, parts, terms or provisions of this Agreement that may remain otherwise intelligible, and the latter shall continue to be given full force and effect and bind the parties; the invalid portions, sections, parts, terms or provisions shall be deemed not to be part of this Agreement; and there shall be automatically added such portion, section, part, term or provision as similar as possible to that which was severed which shall be valid and not contrary to or in conflict with any law or regulation.

11.18 Construction. All references herein to the masculine, neuter or singular shall be construed to include the masculine, feminine, neuter or plural, where applicable. Without limiting the obligations individually undertaken by the Controlling Principals under this Agreement, all acknowledgments, promises, covenants, agreements and obligations made or undertaken by Developer in this Agreement shall be deemed, jointly and severally, undertaken by all of the Controlling Principals.

11.19 Remedies. All rights and remedies of the parties to this Agreement shall be cumulative and not alternative, in addition to and not exclusive of any other rights or remedies that are provided for herein or that may be available at law or in equity in case of any breach, failure or default or threatened breach, failure or default of any term, provision or condition of this Agreement or any other agreement between

Developer or any of its affiliates and Franchisor or any of its affiliates. The rights and remedies of the parties to this Agreement shall be continuing and shall not be exhausted by any one or more uses thereof, and may be exercised at any time or from time to time as often as may be expedient; and any option or election to enforce any such right or remedy may be exercised or taken at any time and from time to time. The expiration, earlier termination or exercise of Franchisor's rights pursuant to Article VII shall not discharge or release Developer or any of the Controlling Principals from any liability or obligation then accrued, or any liability or obligation continuing beyond, or arising out of, the expiration, the earlier termination or the exercise of such rights under this Agreement.

11.20 Developer's Principals and Controlling Principals. The term "Developer's Principals" shall include, collectively and individually, Developer's spouse, if Developer is an individual, all officers and directors of Developer (including the officers and directors of any entity that controls Developer) whom Franchisor designates as Developer's Principals and all holders of an ownership interest in Developer and of any entity directly or indirectly controlling Developer, and any other person or entity controlling, controlled by or under common control with Developer. The initial Developer's Principals shall be listed on Attachment D. The term "Controlling Principals" shall include, collectively and individually, any Developer's Principal who has been designated by Franchisor as a Controlling Principal hereunder. For purposes of this Agreement, a publicly-held corporation is a corporation registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, or a corporation subject to the requirements of Section 15(d) of such Act.

11.21 Legal Entities. Each reference to the organizational documents, equity owners, directors, and officers of a corporation in this Agreement shall be deemed to refer to the functional equivalents of such organizational documents, equity owners, directors, and officers, as applicable, in the case of any other entity.

11.22 No Third-Party Beneficiaries. Except as expressly provided to the contrary herein, nothing in this Agreement is intended, nor shall be deemed, to confer upon any person or legal entity other than Developer, Franchisor, Franchisor's officers, directors and personnel and such of Developer's and Franchisor's respective successors and assigns as may be contemplated (and, as to Developer, authorized by Article VIII), any rights or remedies under or as a result of this Agreement.

ARTICLE XII. ACKNOWLEDGMENTS

12.1 Independent Investigation. Developer acknowledges that it has conducted an independent investigation of the business venture contemplated by this Agreement and recognizes that the success of this business venture involves substantial business risks and will largely depend upon the ability of Developer. Franchisor expressly disclaims making, and Developer acknowledges that it has not received, any warranty or guarantee, express or implied, as to the potential volume, profits or success of the business venture contemplated by this Agreement.

12.2 Review and Understanding. Developer acknowledges that Developer has received, read and understands this Agreement and the related Attachments and agreements and that Franchisor has afforded Developer sufficient time and opportunity to consult with advisors selected by Developer about the potential benefits and risks of entering into this Agreement.

12.3 Receipt of Documents. Developer acknowledges that it received a complete copy of this Agreement and all related Attachments and agreements at least five (5) business days prior to the date on which this Agreement was executed. Developer further acknowledges that it has received the disclosure document required by the Trade Regulation Rule of the Federal Trade Commission entitled "Disclosure Requirements and Prohibitions Concerning Franchising and Business Opportunity Ventures" at least ten (10) business days prior to the date on which this Agreement was executed.

[Signature page follows]

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Agreement as of the date first above written.

FRANCHISOR:

BLACK BEER, LLC

By: _____

Name: _____

Title: _____

DEVELOPER:

By: _____

Name: _____

Title: _____

DEVELOPMENT SCHEDULE

	<u>Date Franchise Must Be Open</u>	<u>Minimum Cumulative Number of Franchises that Developer shall have Open and in Operation</u>
By	_____	_____

**DEVELOPMENT AGREEMENT
CONTROLLING PRINCIPALS GUARANTY**

Each of the undersigned acknowledges and agrees as follows:

Each has read the terms and conditions of the Development Agreement and acknowledges that the execution of this guaranty and the undertakings of the Controlling Principals in the Development Agreement are in partial consideration for, and a condition to the granting of, the development rights in the Development Agreement, and that Franchisor would not have granted such rights without the execution of this guaranty and such undertakings by each of the undersigned;

Each is included in the term "Controlling Principals" as described in Section 11.20 of the Development Agreement;

Each individually, jointly and severally, makes all of the covenants, representations, warranties and agreements of the Controlling Principals set forth in the Development Agreement and is obligated to perform thereunder; and

Each individually, jointly and severally, unconditionally and irrevocably guarantees to Franchisor and its successors and assigns that all of Developer's obligations under the Development Agreement will be punctually paid and performed. Upon default by Developer or upon notice from Franchisor, each will immediately make each payment and perform each obligation required of Developer under the Development Agreement. Without affecting the obligations of any of the Controlling Principals under this guaranty, Franchisor may, without notice to the Controlling Principals, waive, renew, extend, modify, amend or release any indebtedness or obligation of Developer or settle, adjust or compromise any claims that Franchisor may have against Developer. Each of the Controlling Principals waives all demands and notices of every kind with respect to the enforcement of this guaranty, including, without limitation, notice of presentment, demand for payment or performance by Developer, any default by Developer or any guarantor and any release of any guarantor or other security for this guaranty or the obligations of Developer. Franchisor may pursue its rights against any of the Controlling Principals without first exhausting its remedies against Developer and without joining any other guarantor hereto and no delay on the part of Franchisor in the exercise of any right or remedy shall operate as a waiver of such right or remedy, and no single or partial exercise by Franchisor of any right or remedy shall preclude the further exercise of such right or remedy. Upon receipt by Franchisor of notice of the death of any of the Controlling Principals, the estate of the deceased will be bound by the foregoing guaranty, but only for defaults and obligations under the Development Agreement existing at the time of death, and in such event, the obligations of the remaining Controlling Principals shall continue in full force and effect.

With respect to the individual designated as Operating Principal, Operating Principal acknowledges that the undertakings by Operating Principal under this guaranty

are made and given in partial consideration of, and as a condition to, Franchisor's grant of rights to develop Franchises as described herein; Operating Principal individually makes all of the covenants, representations and agreements of Developer and Operating Principal set forth in the Development Agreement and is obligated to perform hereunder.

Printed Name

Signature

Date

*Denotes individual who is Franchisee's Operating Principal

Attachment C

**DEVELOPMENT AGREEMENT
CONFIDENTIALITY AGREEMENT AND
ANCILLARY COVENANTS NOT TO COMPETE**

This Agreement is made and entered into this ____ day of _____, 20__, among Black Beer, LLC, an Oregon limited liability company (“Franchisor”), _____ (“Developer”) and _____ (“Covenantor”).

RECITALS

WHEREAS, Franchisor has developed and owns a unique system (the “System”) for the development and operation of retail Development that will feature the name and mark “The Growler Guys” (“Development”); and

WHEREAS, the System includes, but is not limited to, certain trade names, service marks, trademarks, logos, emblems and indicia of origin, including, but not limited to, the mark “The Growler Guys” and such other trade names, service marks, trademarks, logos, insignia, slogans, emblems, designs and commercial symbols as Franchisor may develop in the future to identify for the public the source of services and products marketed under such marks and under the System and representing the System’s high standards of quality, appearance and service and distinctive exterior and interior design, decor and color scheme and furnishings (“Marks”); uniform standards, specifications and procedures for inventory and management and financial control; operations; quality and uniformity of products and services offered; procedures for management and financial control; training and assistance; and advertising and promotional programs; all of which may be changed, improved and further developed by Franchisor from time to time and are used by Franchisor in connection with the operation of the System (“Trade Secrets”); and

WHEREAS, the Marks and Trade Secrets provide economic advantages to Franchisor and the Trade Secrets are not generally known to, and are not readily ascertainable by proper means by, Franchisor’s competitors who could obtain economic value from knowledge and use of the Trade Secrets; and

WHEREAS, Franchisor has taken and intends to take all reasonable steps to maintain the confidentiality and secrecy of the Trade Secrets; and

WHEREAS, Franchisor has granted Developer the limited right to develop Developments using the System, the Marks and the Trade Secrets for the period defined in the Development Agreement dated _____, 20__ (“Development Agreement”), by and between Franchisor and Developer; and

WHEREAS, Franchisor and Developer have agreed in the Development Agreement on the importance to Franchisor and to Developer and other licensed users of the System of restricting the use, access and dissemination of the Trade Secrets; and

WHEREAS, it will be necessary for certain employees, agents, independent contractors, officers, directors and interest holders of Developer, or any entity having an interest in Developer (“Covenantor”) to have access to and to use some or all of the Trade Secrets in the management and operation of Developer's business using the System; and

WHEREAS, Developer has agreed to obtain from those covenantors' written agreements protecting the Trade Secrets and the System against unfair competition; and

WHEREAS, Covenantor wishes to remain, or wishes to become associated with or employed by Developer; and

WHEREAS, Covenantor wishes and needs to receive and use the Trade Secrets in the course of his employment or association in order to effectively perform his services for Developer; and

WHEREAS, Covenantor acknowledges that receipt of and the right to use the Trade Secrets constitutes independent valuable consideration for the representations, promises and covenants made by Covenantor herein;

AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants and obligations contained herein, the parties agree as follows:

A. Confidentiality Agreement

1. Franchisor and/or Developer shall disclose to Covenantor some or all of the Trade Secrets relating to the System. All information and materials, including, without limitation, any manuals, drawings, specifications, techniques and compilations of data that Franchisor provides to Developer and/or Covenantor shall be deemed confidential Trade Secrets for the purposes of this Agreement.

2. Covenantor shall receive the Trade Secrets in confidence and shall, at all times, maintain them in confidence, and use them only in the course of his employment or association with an Developer and then only in connection with the development and/or operation by Developer of a Development for so long as Developer is licensed by Franchisor to use the System.

3. Covenantor shall not at any time make copies of any documents or compilations containing some or all of the Trade Secrets without Franchisor's express written permission.

4. Covenantor shall not at any time disclose or permit the disclosure of the Trade Secrets except to other employees of Developer and only to the limited extent necessary to train or assist other employees of Developer in the development or operation of a Development using the System.

5. Covenantor shall surrender any material containing some or all of the Trade Secrets to Developer or Franchisor, upon request, or upon termination of employment by Developer, or upon conclusion of the use for which such information or material may have been furnished to Covenantor.

6. Covenantor shall not at any time, directly or indirectly, do any act or omit to do any act that would or would likely be injurious or prejudicial to the goodwill associated with the Trade Secrets and the System.

7. All manuals are loaned by Franchisor to Developer for limited purposes only and remain the property of Franchisor and may not be reproduced, in whole or in part, without Franchisor's written consent.

B. Covenants Not to Compete

1. In order to protect the goodwill and unique qualities of the System and the confidentiality and value of the Trade Secrets, and in consideration for the disclosure to Covenantor of the Trade Secrets, Covenantor further agrees and covenants as follows:

a. Not to divert, or attempt to divert, directly or indirectly, any business, business opportunity, or customer of the Developer's Development to any competitor of the Development.

b. Not to employ, or seek to employ, any person who is at the time or was within the preceding ninety (90) days employed by Franchisor, or any of its affiliates or any Developer or developer of Franchisor, or otherwise directly or indirectly induce such person to leave that person's employment except as may occur in connection with Developer's employment of such person if permitted under the Development Agreement.

c. Except for the Development described in the Development Agreement, not to directly or indirectly, for himself or through, on behalf of, or in conjunction with any person or entity, without the prior written consent of Franchisor, own, maintain, operate, engage in or have any financial or beneficial interest in (including any interest in any legal entity), advise, assist or make loans to, any business located within the United States, its territories or commonwealths, or any other country, province, state or geographic area in which Franchisor has used, sought registration of or registered the same or similar Marks or operates or licenses others to operate a business under the same or similar Marks, which business is of a character and concept similar to the Development, including a business that operates a growler store.

2. In further consideration for the disclosure to Covenantor of the Trade Secrets and to protect the uniqueness of the System, Covenantor agrees and covenants that for one (1) year following the earlier of the expiration, termination or transfer of all of Developer's interest in the Development Agreement or the termination of his association with or employment by Developer, Covenantor will not without the prior written consent of Franchisor:

a. Divert or attempt to divert, directly or indirectly, any business, business opportunity or customer of the Development to any competitor.

b. Employ, or seek to employ, any person who is at the time or was within the preceding ninety (90) days employed by Franchisor, any of its affiliates or any

Developer or developer of Franchisor, or otherwise directly or indirectly induce such persons to leave that person's employment.

c. Directly or indirectly, for himself or through, on behalf of or in conjunction with any person or entity, own, maintain, operate, engage in or have any financial or beneficial interest in (including any interest in any legal entity), advise, assist or make loans to, any business that is of a character and concept similar to the Development, including a business that operates a growler store, which business is, or is intended to be, located within the Assigned Area or within a five (5)-mile radius of the location of any Development in existence or under construction at any given time during such period.

C. Miscellaneous

1. Developer shall make all commercially reasonable efforts to ensure that Covenantor acts as required by this Agreement.

2. Covenantor agrees that in the event of a breach of this Agreement, Franchisor would be irreparably injured and be without an adequate remedy at law. Therefore, in the event of such a breach, or threatened or attempted breach of any of the provisions hereof, Franchisor shall be entitled to enforce the provisions of this Agreement and shall be entitled, in addition to any other remedies that are made available to it at law or in equity, including the right to terminate the Development Agreement, to a temporary and/or permanent injunction and a decree for the specific performance of the terms of this Agreement, without the necessity of showing actual or threatened harm and without being required to furnish a bond or other security.

3. Covenantor agrees to pay all expenses (including court costs and reasonable attorneys' fees) incurred by Franchisor and Developer in enforcing this Agreement.

4. Any failure by Franchisor or the Developer to object to or take action with respect to any breach of any provision of this Agreement by Covenantor shall not operate or be construed as a waiver of or consent to that breach or any subsequent breach by Covenantor.

5. THIS AGREEMENT SHALL BE INTERPRETED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF OREGON. COVENANTOR HEREBY IRREVOCABLY SUBMITS HIMSELF TO THE JURISDICTION OF THE STATE COURTS OF OREGON AND THE FEDERAL DISTRICT COURTS FOR THE DISTRICT OF OREGON. COVENANTOR HEREBY WAIVES ALL QUESTIONS OF PERSONAL JURISDICTION OR VENUE FOR THE PURPOSE OF CARRYING OUT THIS PROVISION. COVENANTOR HEREBY AGREES THAT SERVICE OF PROCESS MAY BE MADE UPON HIM IN ANY PROCEEDING RELATING TO OR ARISING UNDER THIS AGREEMENT OR THE RELATIONSHIP CREATED BY THIS AGREEMENT BY ANY MEANS ALLOWED BY OREGON OR FEDERAL LAW. COVENANTOR FURTHER AGREES THAT VENUE FOR ANY PROCEEDING RELATING TO OR ARISING OUT OF THIS AGREEMENT SHALL BE JOSEPHINE COUNTY, OREGON; PROVIDED, HOWEVER, WITH RESPECT TO ANY ACTION THAT INCLUDES INJUNCTIVE RELIEF OR OTHER EXTRAORDINARY RELIEF,

FRANCHISOR OR DEVELOPER MAY BRING SUCH ACTION IN ANY COURT IN ANY STATE THAT HAS JURISDICTION.

6. The parties acknowledge and agree that each of the covenants contained herein are reasonable limitations as to time, geographical area, and scope of activity to be restrained and do not impose a greater restraint than is necessary to protect the goodwill or other business interests of Franchisor. The parties agree that each of the foregoing covenants shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of a covenant in this Agreement is held unreasonable or unenforceable by a court or agency having valid jurisdiction in any unappealed final decision to which Franchisor is a party, Covenantor expressly agrees to be bound by any lesser covenant subsumed within the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated in and made a part of this Agreement.

7. This Agreement contains the entire agreement of the parties regarding the subject matter hereof. This Agreement may be modified only by a duly authorized writing executed by all parties.

8. All notices and demands required to be given hereunder shall be in writing and shall be sent by personal delivery, expedited delivery service, certified or registered mail, return receipt requested, first-class postage prepaid, facsimile or email (provided that the sender confirms the facsimile or email by sending an original confirmation copy by certified or registered mail or expedited delivery service within three (3) business days after transmission), to the respective parties at the following addresses unless and until a different address has been designated by written notice to the other parties.

If directed to Franchisor, the notice shall be addressed to:

Black Beer, LLC
901 NW E St.
Grants Pass, OR 97526
Attention: _____
Facsimile: _____

If directed to Developer, the notice shall be addressed to:

Attention: _____
Facsimile: (____) _____
Email: _____

If directed to Covenantor, the notice shall be addressed to:

Attention: _____
Facsimile: (____) _____
Email: _____

Any notices sent by personal delivery shall be deemed given upon receipt. Any notices given by facsimile or email shall be deemed given upon transmission, provided confirmation is made as provided above. Any notice sent by expedited delivery service or registered or certified mail shall be deemed given three (3) business days after the time of mailing. Any change in the foregoing addresses shall be effected by giving written notice of such change to the other parties. Business day for the purpose of this Agreement excludes Saturday, Sunday and national holidays.

9. The rights and remedies of Franchisor under this Agreement are fully assignable and transferable and shall inure to the benefit of its respective affiliates, successors and assigns. The respective obligations of Developer and Covenantor hereunder may not be assigned by Developer or Covenantor, without the prior written consent of Franchisor.

IN WITNESS WHEREOF, the undersigned have entered into this Agreement as witnessed by their signatures below.

FRANCHISOR:

BLACK BEER, LLC

By: _____
Name: _____
Title: _____

DEVELOPER:

By: _____
Name: _____
Title: _____

COVENANTOR:

Name: _____

**DEVELOPMENT AGREEMENT STATEMENT OF OWNERSHIP INTERESTS
AND DEVELOPERS PRINCIPALS**

- A. The following is a list of shareholders, partners or other investors in Developer, including all investors who own or hold a direct or indirect interest in Developer, and a description of the nature of their interest:

Name	Percentage of Ownership and <u>Nature of Interest</u>
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

- B. In addition to the persons listed in paragraph A, the following is a list of all of Developer's Principals described in and designated pursuant to Section 11.20 of the Development Agreement, each of whom (unless designated as a Controlling Principal) shall execute the Confidentiality Agreement and Ancillary Covenants Not to Compete substantially in the form set forth in Attachment C (see Sections 9.1 (b) and 9.2(g) of the Development Agreement):

Attachment E

**FRANCHISE AGREEMENT
SEE EXHIBIT B TO FRANCHISE DISCLOSURE DOCUMENT**

EXHIBIT D

ELECTRONIC FUNDS TRANSFER AUTHORIZATION

**ELECTRONIC FUNDS TRANSFER
AUTHORIZATION TO HONOR CHARGES DRAWN BY AND PAYABLE TO
BLACK BEER, LLC (“Payee”)**

The undersigned Depositor hereby authorizes and requests the Depository designated below to honor and to charge to the following designated account, checks and electronic debits (collectively, “debits”) drawn on such account that are payable to the above named Payee. It is agreed that Depository’s rights with respect to each such debit shall be the same as if it were a check drawn and signed by the Depositor. It is further agreed that if any such debit is not honored, whether with or without cause and whether intentionally or inadvertently, Depository shall be under no liability whatsoever. This authorization shall continue in force until Depository and Payee have received at least thirty (30) days written notification from Depositor of its termination.

The Depositor agrees with respect to any action taken pursuant to the above authorization:

(1) To indemnify the Depository and hold it harmless from any loss it may suffer resulting from or in connection with any debit, including, without limitation, execution and issuance of any check, draft or order, whether or not genuine, purporting to be authorized or executed by the Payee and received by the Depository in the regular course of business for the purpose of payment, including any costs or expenses reasonably incurred in connection therewith.

(2) To indemnify Payee and the Depository for any loss arising in the event that any such debit shall be dishonored, whether with or without cause and whether intentionally or inadvertently.

(3) To defend at Depositor’s own cost and expense any action which might be brought by a depositor or any other persons because of any actions taken by the Depository or Payee pursuant to the foregoing request and authorization, or in any manner arising by reason of the Depository’s or Payee’s participation therein.

Notwithstanding the above, Depositor shall be entitled to all rights and remedies pursuant to the Electronic Fund Transfer Act, 15 U.S.C. § 1693 *et.seq.*, and its accompanying regulations.

Name of Depository: _____

Name of Depositor: _____

Designated Bank Acct.: _____

(Please attach one voided check for the above account.)

Location: _____

For Depository information call: _____

Address: _____

Phone #: _____

Fax #: _____

Name of Franchisee/ _____

By: _____

Date: _____, 20__

Name: _____

Title: _____

EXHIBIT E

POWER OF ATTORNEY (TELEPHONE)

IRREVOCABLE POWER OF ATTORNEY (TELECOMMUNICATIONS)

KNOW ALL MEN BY THESE PRESENTS, that _____ ("Franchisee") does hereby irrevocably constitute and appoint Black Beer, LLC, an Oregon limited liability company ("Franchisor"), true and lawful attorney-in-fact and agent for Franchisee and in Franchisee's name, place and stead, to do or cause to be done all things and to sign, execute, acknowledge, certify, deliver, accept, record and file all such agreements, certificates, instruments and documents as, in the sole discretion of Franchisor, shall be necessary or advisable for the sole purpose of assigning to Franchisor all of Franchisee's right, title and interest in and to any and all telephone numbers of Franchisee's franchise and all related Yellow Pages, White Pages and other business listings and all Internet listings, domain names, Internet accounts, advertising on the Internet or World Wide Web, websites, listings with search engines, e-mail addresses or any other similar listings or usages related to the Franchisee's franchise, including but not limited to, the execution and delivery of any Transfer of Service Agreement and any other transfer documentation required by the applicable telephone service or Internet company providing telephone or Internet services to Franchisee, hereby granting unto Franchisor full power and authority to do and to perform any and all acts and things which, in the sole discretion of Franchisor, are necessary or advisable to be done as fully to all intents and purposes as Franchisee might or could itself do, hereby ratifying and confirming all that Franchisor may lawfully do or cause to be done by virtue of this Power of Attorney and the powers herein granted.

During the term of this Power of Attorney and regardless of whether Franchisee has designated any other person to act as its attorney-in-fact and agent, no person, firm or corporation dealing with Franchisor shall be required to ascertain the authority of Franchisor, nor to see to the performance of the agency, nor be responsible in any way for the proper application of funds or property paid or delivered to Franchisor. Any person, firm or corporation dealing with Franchisor shall be fully protected in acting and relying on a certificate of Franchisor that this Power of Attorney on the date of such certificate has not been revoked and is in full force and effect, and Franchisee shall not take any action against any person, firm or corporation acting in reliance on such a certificate or a copy of this Power of Attorney. Any instrument or document executed on behalf of Franchisee by Franchisor shall be deemed to include such a certificate on the part of Franchisor, whether or not expressed. This paragraph shall survive any termination of this Power of Attorney.

This Power of Attorney shall terminate two (2) years following the expiration or termination of that certain Franchise Agreement dated as of _____, 20____, by and between Franchisor and Franchisee. Such termination, however, shall not affect the validity of any act or deed that Franchisor may have effected prior to such date pursuant to the powers herein granted.

This instrument is to be construed and interpreted as irrevocable power of attorney coupled with an interest. It is executed and delivered in the State of Oregon and

the laws of the State of Oregon shall govern all questions as to the validity of this Power of Attorney and the construction of its provisions.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the _____ day of _____, 20__.

FRANCHISEE:

By: _____

Name: _____

Title: _____

STATE OF _____ §

§

COUNTY OF _____ §

BEFORE ME, the undersigned authority, on this day personally appeared _____ of _____ known to me to be the person whose name is subscribed to the foregoing instrument, who acknowledged to me that he executed the same for the purposes and consideration therein expressed and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this _____ day of _____, 20__.

(SEAL)

Notary Public in and for the State of
My Commission Expires: _____

EXHIBIT F

POWER OF ATTORNEY (TAX)

IRREVOCABLE POWER OF ATTORNEY (TAX RETURNS)

KNOW ALL MEN BY THESE PRESENTS, that _____ ("Franchisee") does hereby irrevocably constitute and appoint Black Beer, LLC, an Oregon limited liability company ("Franchisor"), true and lawful attorney-in-fact and agent for Franchisee and in Franchisee's name, place and stead do or cause to be done all things and to sign, execute, acknowledge, certify, deliver, accept, record and file all such agreements, certificates, instruments and documents as, in the sole discretion of Franchisor, shall be necessary or advisable for the sole purpose of obtaining any and all returns, records, reports and other documentation relating to the payment of taxes filed by Franchisee with any state and/or federal taxing authority, including but not limited to the execution and delivery of any and all formal requests and other documentation as may be required by the applicable state and/or federal taxing authority, including, but not limited to the Department of Revenue of the State of Oregon, hereby granting unto Franchisor full power and authority to do and perform any and all acts and things which, in the sole discretion of Franchisor, are necessary or advisable to be done as fully to all intents and purposes as Franchisee might or could itself do, hereby ratifying and confirming all that Franchisor may lawfully do or cause to be done by virtue of this Power of Attorney and the powers herein granted.

During the term of this Power of Attorney, and regardless of whether Franchisee has designated any other person to act as its attorney-in-fact and agent, no governmental agency, person, firm or corporation dealing with Franchisor, if acting in good faith, shall be required to ascertain the authority of Franchisor, nor to see to the performance of the agency, nor be responsible in any way for the proper application of documents delivered or funds or property paid or delivered to Franchisor. Any governmental agency, person, firm or corporation dealing with Franchisor shall be fully protected in acting and relying on a certificate of Franchisor that this Power of Attorney on the date of such certificate has not been revoked and is in full force and effect, and Franchisee shall not take any action against any person, firm, corporation or agency acting in reliance on such a certificate or a copy of this Power of Attorney. Any instrument or document executed on behalf of Franchisee by Franchisor shall be deemed to include such a certificate on the part of Franchisor, whether or not expressed. This paragraph shall survive any termination of this Power of Attorney.

This Power of Attorney shall terminate two (2) years following the expiration or termination of that certain Franchise Agreement dated as of _____ 20____, by and between Franchisor and Franchisee. Such termination, however, shall not affect the validity of any act or deed that Franchisor may have effected prior to such date pursuant to the powers herein granted.

This instrument is to be construed and interpreted as an irrevocable power of attorney coupled with an interest. It is executed and delivered in the State of Oregon and the laws of the State of Oregon shall govern all questions as to the validity of this Power of Attorney and the construction of its provisions.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the _____ day of _____, 20____.

FRANCHISEE:

By: _____

Name: _____

Title: _____

STATE OF _____ §

§

COUNTY OF _____ §

BEFORE ME, the undersigned authority, on this day personally appeared _____ of _____ known to me to be the person whose name is subscribed to the foregoing instrument, who acknowledged to me that he executed the same for the purposes and consideration therein expressed and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this _____ day of _____, 20____.

(SEAL)

Notary Public in and for the State of _____

My Commission Expires: _____

EXHIBIT G

**BLACK BEER, LLC FRANCHISE AGREEMENT
ADDENDUM
ABANDONMENT, RELINQUISHMENT, AND
TERMINATION OF ASSUMED OR
FICTITIOUS BUSINESS NAME**

**BLACK BEER, LLC FRANCHISE AGREEMENT ADDENDUM
ABANDONMENT, RELINQUISHMENT, AND TERMINATION OF
ASSUMED OR FICTITIOUS BUSINESS NAME**

Pursuant to the provisions of relevant state laws concerning the registration and use of assumed or fictitious business names, the undersigned applicant, being a franchisee of **BLACK BEER, LLC**, submits the following to evidence its intent to abandon, relinquish and terminate its right to use the business name **THE GROWLER GUYS**.

1. Name of Applicant Who is Using the Assumed or Fictitious Business Name:

a (an) individual/partnership/corporation
organized and doing business under the laws of
the State of Oregon

2. Date when Original Assumed or Fictitious Business Name was Filed by Applicant:

3. Address of Applicant's Registered Office in the State of:

4. Please cancel the Applicant's registration to use the name **THE GROWLER GUYS**

DATED: _____

Applicant

By: _____

Title: _____

EXHIBIT H
LIST OF STATE ADMINISTRATORS

<p><u>CALIFORNIA</u> Department of Corporations 320 West 4th Street, Suite 750 Los Angeles, CA 90013-2344</p>	<p><u>NORTH DAKOTA</u> Franchise Examiner Securities Commissioner State of North Dakota 600 East Boulevard, Fifth Floor Bismarck, ND 58505</p>
<p><u>HAWAII</u> Business Registration Division Department of Commerce and Consumer Affairs 1010 Richards Street Honolulu, HI 96813</p>	<p><u>OREGON</u> Director Department of Consumer and Business Services Division of Finance and Corporate Securities Labor and Industries Building Salem, OR 97310</p>
<p><u>ILLINOIS</u> Chief, Franchise Division Attorney General's Office 500 South Second Street Springfield, IL 62706</p>	<p><u>RHODE ISLAND</u> Chief Securities Examiner Director of Business Regulation Division of Securities Suite 232 233 Richmond Street Providence, RI 02903-4232</p>
<p><u>INDIANA</u> Secretary of State Franchise Section Securities Division 302 West Washington, Room E-111 Indianapolis, IN 46204</p>	<p><u>SOUTH DAKOTA</u> Franchise Administrator Department of Commerce and Regulation Division of Securities C/o 118 West Capitol Ave. Pierre, SD 57501-2017</p>
<p><u>MARYLAND</u> Office of the Attorney General Securities Division 200 St. Paul Place, 20th floor Baltimore, MD 21202</p>	<p><u>VIRGINIA</u> Chief Examiner State Corporation Commission Division of Securities and Retail Franchising 1300 East Main Street, 9th Floor Richmond, VA 23219</p>
<p><u>MICHIGAN</u> Department of the Attorney General's Office Consumer Protection Division Attn: Franchise 670 Law Building Lansing, MI 48913</p>	<p><u>WASHINGTON</u> Department of Financial Institutions Securities Division P.O. Box 41200 Olympia, WA 98504-1200</p>
<p><u>MINNESOTA</u> Franchise Examiner Department of Commerce 133 East Seventh Street St. Paul, MN 55101</p>	<p><u>WISCONSIN</u> Franchise Administrator Securities and Franchise Registration Wisconsin Securities Commission P.O. Box 1768 Madison, WI 53701</p>
<p><u>NEW YORK</u> Special Deputy Attorney General New York Department of Law Bureau of Investor Protection and Securities 120 Broadway, 23rd Floor New York, NY 10271</p>	

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EXHIBIT J

LIST OF FRANCHISES AND COMPANY-OWNED LOCATIONS

EXHIBIT J

LIST OF FRANCHISES AND COMPANY-OWNED LOCATIONS

Company Owned Locations:

Affiliate Owned Locations:

OREGON

Southern Oregon Growlers, LLC
345 Lithia Way
Ashland, OR 97520
541-708-1026

Southern Oregon Growlers, LLC
4201 US-97
Klamath Falls, OR 97603
458-229-7269

Franchise Owned Locations:

IDAHO

Intrinsic Brews LLC
225 West Appleway Avenue
Coeur d'Alene, Idaho 83814
208-930-4382

Backcountry Brews, Inc.
2020 E. Overland Rd., Suite 100
Meridian, ID 83642
208-287-8600

OREGON

Colvin Oil 1, LLC
1400 NW College Way
Bend, OR 97701
541-797-8381

Krista-Cody, Ltd
2264 Marine Dr
Astoria, OR 97103
503-468-0840

Tee & B #1, LLC
8942 SW Bohman Pkwy
Portland, OR 97223
971-563-8696
(unopened franchise to be located in Portland)

Tee & B #1, LLC
3739 SW Bond Ave.
Portland, OR 97239
503-208-2523

WASHINGTON

Tap Libations, LLC
8500 Lake City Way
Seattle, WA 98115
206-522-2337

WISCONSIN

New Leaf Clover, LLC
2832 London Road
Eau Claire, WI 54701
(715) 514-5140

EXHIBIT K

LISTS OF AGENTS FOR SERVICE OF PROCESS

EXHIBIT K

AGENTS FOR PROCESS SERVICE

CALIFORNIA

Commissioner of Corporations
Department of Corporations
320 West 4th Street
Suite 750
Los Angeles, CA 90013
1-866-275-2677

DELAWARE

Corporation Trust Center
1209 Orange Street
Wilmington, DE 19801

ILLINOIS

Attorney General of the State of Illinois
500 South Second Street
Springfield, IL 62706
(217) 782-1090

MARYLAND

Securities Commissioner
Maryland Division of Securities
Office of the Attorney General of Securities Division
200 Saint Paul Place, 20th Floor
Baltimore, MD 21202-2021
(410) 576-6360

MICHIGAN

Franchise Administrator
Consumer Protection Division, Franchise Unit
Michigan Department of Attorney General
670 Law Building
Lansing, MI 48913
miag@michigan.gov
(517) 373-7117

MINNESOTA

Commissioner of Commerce
Department of Commerce
85 7th Place East, Suite 280
St. Paul, MN 55101

NEW YORK

New York Department of State
One Commerce Plaza
99 Washington Avenue, 6th Floor
Albany, New York 12231-0001
(518) 473-2492

OREGON

Dennis Steinman, Esq.
Kell, Alterman & Runstein, L.L.P.
520 S.W. Yamhill, Suite 600
Portland, OR 97204

VIRGINIA

Clerk of the State Corporation Commission
1300 East Main Street
9th Floor
Richmond, VA 23219
(804) 371-9733

WASHINGTON

Kell, Alterman & Runstein, L.L.P.
12405 SE 2nd Circle
Vancouver, WA 98684

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

WISCONSIN

Wisconsin Department of Financial Institutions
4822 Madison Yards Way, North Tower
Madison, WI 53705
(608) 261-9555

EXHIBIT L

THE GROWLER GUYS EXPRESS ADDENDUM

THE GROWLER GUYS EXPRESS ADDENDUM TO FRANCHISE AGREEMENT

This agreement, The Growler Guys Express Addendum (the “Addendum”), is entered into this ____ day of _____, _____, by and between Black Beer, LLC, an Oregon limited liability company (the “Franchisor”) and _____ (the “Franchisee”) and amends the terms of that certain Franchise Agreement (the “Franchise Agreement”) dated _____, _____ by and between Franchisor and Franchisee.

1. Amendments. For as long as Franchisee’s Store location (as defined in the Franchise Agreement) contains no more than Thirty-Six (36) beverages containing alcohol, and has no separate entrance from the other businesses in which it is located, the Franchise Agreement shall be amended as follows:

a) The following shall amend Section 4.1: the initial Franchise Fee paid shall be Twenty-Five Thousand Dollars (\$25,000).

b) The following provision shall be added to Section 7.5(h):

“The Growler Guys Express must have exterior signage. Notwithstanding the foregoing, Franchisor understands and agrees that in certain cases, another franchise of a different business concept may be located in and conducting business at the same Store Site of The Growler Guys Express and that the signage for The Growler Guys Express may be subject to such other franchisor’s approval.”

2. Change in Number of Taps. In the event Franchisee’s Store Site at any time contains more than thirty-six (36) beverages containing alcohol, this Addendum shall be deemed terminated and Franchisee shall pay immediately to Franchisor the difference between Franchisee’s initial franchise fee and the then current initial franchise fee for a standard The Growler Guys franchise.

3. No Waiver. Except as amended hereby, the Franchise Agreement shall remain in full force and effect. At no time have the liabilities or obligations arising pursuant to the Franchise Agreement be suspended or discontinued, either temporarily or permanently.

4. Conflict. To the extent any provision of the Franchise Agreement conflicts with any provision of this Addendum, the provisions of this Addendum shall prevail.

5. Further References. From and after the date hereof, except as set forth herein, all references to the Franchise Agreement and any all agreements, instruments, or writings of any kind shall be deemed to include this Addendum.

FRANCHISOR:
BLACK BEER, LLC,

FRANCHISEE:

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

EXHIBIT M

STATE-SPECIFIC ADDENDA

**ADDENDUM TO
FRANCHISE DISCLOSURE DOCUMENT
FOR THE STATE OF CALIFORNIA**

Preliminary Comment: Each provision of this Appendix to the Franchise Disclosure Document shall be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the California Franchise Investment Law, Cal. Corp. Code §§31000 - 31516, and the California Franchise Relations Act, Cal Bus. & Prof. Code §§2000 - 20043, are met independently without reference to this Addendum to the Franchise Disclosure Document.

1. Item 3 is amended to reflect that:

Neither we nor any person or broker identified in Item 2 of the Franchise Disclosure Document is subject to any current effective order of any national securities association or national securities exchange as defined in the Securities Exchange Act of 1934, U.S.C.A. 78a et seq., suspending or expelling such persons from membership in such association or exchange.

2. Item 17 is amended by the addition of the following statements:

California Business and Professions Code Sections 20000 through 20043 provide rights to you concerning termination or nonrenewal of a franchise. If the Franchise Agreement contains a provision that is inconsistent with the law, the law will control.

The 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 California Corporations Code, Section 31125, requires that we give you a disclosure document, approved by the Department of Corporations, before we solicit a proposed material modification of an existing franchise.

The Franchise Agreement contains a liquidated damages clause, under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable.

The Franchise Agreement requires the application of the laws and forum of Oregon. This provision may be unenforceable under California Law.

The Franchise Agreement requires you to sign a general release of claims if you renew or transfer your franchise. California Corporations Code Section 31512 provides that any condition, stipulation or provision purporting to bind any person acquiring a franchise to waive compliance with any provision of that law or any rule or order is void. Section 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code Sections 31000 through 31516). California 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).

3. 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.
4. OUR WEB SITE HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF CORPORATIONS. ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEB SITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF CORPORATIONS AT www.corp.ca.gov.
5. Prospective franchisees are encouraged to consult private legal counsel to determine the applicability of California and federal laws (such as Business Professions Code Section 20040.5, Code of Civil Procedure Section 1281, and the Federal Arbitration Act) to any provisions of a Franchise Agreement restricting venue to a forum outside the State of California.

**ADDENDUM TO
FRANCHISE AGREEMENT
FOR THE STATE OF CALIFORNIA**

The Franchise Agreement between **Black Beer, LLC** (“Franchisor”) and _____ (“Franchisee”) dated _____. (the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of the Agreement (the “State Addendum”):

CALIFORNIA LAW MODIFICATIONS

1. The California Department of Corporations requires that certain provisions contained in franchise documents be amended to be consistent with California law, including the California Franchise Investment Law, CAL. CORP. CODE Section 31000 *et. seq.*, and the California Franchise Relations Act, CAL. BUS. & PROF. CODE Section 20000 *et. seq.* To the extent that the Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

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

b. The 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.*).

c. The Agreement requires application of the laws of Oregon. This provision may not be enforceable under California law.

d. The Agreement contains a liquidated damages clause. Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable.

2. Each provision of this State Addendum shall be effective only to the extent that the jurisdictional requirements of the California Business and Professions Code, with respect to each such provision, are met independent of this State Addendum. This State Addendum shall have no force or effect if such jurisdictional requirements are not met.

IN WITNESS WHEREOF, the Franchisee on behalf of itself and its owners, acknowledges that it has read and understands the contents of this State Addendum, that it has had the opportunity to obtain the advice of counsel, and that it intends to comply with this State Addendum and be bound thereby. The parties have duly executed and delivered this State Addendum to the Agreement on the date first set forth above.

FRANCHISOR:
Black Beer, LLC,
an Oregon limited liability company

FRANCHISEE:

By: _____
Name: _____
Title: _____
Date: _____

By: _____
Name: _____
Title: _____
Date: _____

**ADDENDUM TO
FRANCHISE DISCLOSURE DOCUMENT
FOR THE STATE OF ILLINOIS**

The following information applies to franchises and franchisees subject to the Illinois Disclosure Act of 1987. Item numbers correspond to those in the main body:

Item 17

The conditions under which your franchise will be terminated or not renewed may be affected by Illinois law, 815 ILCS §§ 705/19 and 705/20. Provisions regarding jurisdiction and venue and choice of law may be affected by Illinois law, 815 ILCS §§ 705/4 and 705/41.

Item 5

Pursuant to Section 200.508 of the Illinois Franchise Disclosure Act of 1987 and as imposed by the Illinois Attorney General's Office based on our financial condition, we shall defer the payment of all initial franchise fees and Area Development fees owed to us, or our affiliate, by you until such time as all initial obligations owed to you under the Franchise Agreement, Area Development Agreement or other agreements have been fulfilled by us and you have commenced doing business pursuant to the Franchise Agreement or Area Development Agreement.

**ADDENDUM TO
FRANCHISE AGREEMENT
FOR THE STATE OF ILLINOIS**

The Franchise Agreement between **Black Beer, LLC** (“Franchisor”) and _____ (“Franchisee”) dated _____ (the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of the Agreement (the “State Addendum”):

ILLINOIS LAW MODIFICATIONS

1. The Illinois Attorney General’s Office requires that certain provisions contained in franchise documents be amended to be consistent with Illinois law, including the Franchise Disclosure Act of 1987, 515 ILCS 705/1 *et. seq.* To the extent that this Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

a. Illinois Franchise Disclosure Act paragraphs 705/19 and 705/20 provide rights to Franchisee concerning nonrenewal and termination of this Agreement. If this Agreement contains a provision that is inconsistent with the Act, the Act will control.

b. Any release or claims or acknowledgments of fact contained in the Agreement that would negate or remove from judicial review any statement, misrepresentation or action that would violate the Act, or a rule or order under the Act shall be void and are hereby deleted with respect to claims under the Act.

c. If this Agreement requires litigation to be conducted in a forum other than the State of Illinois, the requirement is void with respect to claims under any State of Illinois law.

d. If this Agreement requires that it be governed by a state’s law, other than the State of Illinois, to the extent that such law conflicts with any State of Illinois law, Illinois law governing claims will control.

2. Article 19(F) and 21(A) should be amended by the addition of the following as the last sentence of each section:

“However, this Section shall not act as a condition, stipulation or provision intended to bind any person acquiring any franchise to waive compliance with any provision of the Illinois Franchise Disclosure Act of 1987 at Section 705/41.”

3. Notwithstanding anything in the Agreement to the contrary, all initial fees and area development fees will be deferred by the Franchisor until such time as the Franchisor, or an affiliate, has completed all initial obligations owed the Franchisee or Area Developer and they have commenced doing business. This deferral is required by the Illinois Attorney General’s office based on our financial statements/condition.

4. Each provision of this State Addendum shall be effective only to the extent that the jurisdictional requirements of the Illinois Franchise Disclosure Act, with respect to each such provision, are met independent of this State Addendum. This State Addendum shall have no force or effect if such jurisdictional requirements are not met.

IN WITNESS WHEREOF, the Franchisee on behalf of itself and its owners, acknowledges that it has read and understands the contents of this State Addendum, that it has had the opportunity to obtain the advice of counsel, and that it intends to comply with this State Addendum and be bound thereby. The parties have duly executed and delivered this State Addendum to the Agreement on the date first set forth above.

Addendum to the Agreement on the date first set forth above.

FRANCHISOR:
Black Beer, LLC,
an Oregon limited liability company

FRANCHISEE:

By: _____
Name: _____
Title: _____
Date: _____

By: _____
Name: _____
Title: _____
Date: _____

**ADDENDUM TO
FRANCHISE DISCLOSURE DOCUMENT
FOR THE STATE OF MARYLAND**

Item 17 of the Franchise Disclosure Document is amended to include the following paragraph:

The general release required as a condition of renewal, sale, and/or assignment/transfer shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.

Item 17 of the Franchise Disclosure Document is amended to include the following sentence:

A provision in the Franchise Agreement that provides for termination on your bankruptcy may not be enforceable under federal bankruptcy law (11 U.S.C. Section 101 *et seq.*).

Item 17 of the Franchise Disclosure Document is modified to include the words:

“arising franchisee may bring a lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.”

Item 17 is amended to state that any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchise.

**ADDENDUM TO
FRANCHISE AGREEMENT
FOR THE STATE OF MARYLAND**

The Franchise Agreement between **Black Beer, LLC**, (“Franchisor”) and (“Franchisee”) _____ dated _____ (the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of the Agreement (the “State Addendum”):

MARYLAND LAW MODIFICATION

1. The Maryland Securities Division requires that certain provisions contained in franchise documents be amended to be consistent with Maryland law, including the Maryland Franchise Registration and Disclosure Law, Maryland CODE ANN., BUS. REG. Sections 14-201 to 14-233 (2010 Repl. Vol. and Supp. 2010) (the “Law”). To the extent that this Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

- a. The general release required as a condition of renewal, sale, and/or assignment/transfer shall not apply to any liability under the Law.
- b. All representations requiring prospective franchisees to assent to a release, estoppel or waiver of liability 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.
- c. Franchisee may bring a lawsuit in Maryland for claims arising under the Law.
- d. Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within three years after the grant of the franchise.

2. Each provision of this State Addendum shall be effective only to the extent that the jurisdictional requirements of the Maryland Franchise Registration and Disclosure Law, with respect to each such provision, are met independent of this State Addendum. This State Addendum shall have no force or effect if such jurisdictional requirements are not met.

IN WITNESS WHEREOF, the Franchisee on behalf of itself and its owners, acknowledges that it has read and understands the contents of this State Addendum, that it has had the opportunity to obtain the advice of counsel, and that it intends to comply with this State Addendum and be bound thereby. The parties have duly executed and delivered this State Addendum to the Agreement on the date first set forth above.

<Signatures on Following Page>

IN WITNESS WHEREOF, the Franchisee on behalf of itself and its owners, acknowledges that it has read and understands the contents of this State Addendum, that it has had the opportunity to obtain the advice of counsel, and that it intends to comply with this State Addendum and be bound thereby. The parties have duly executed and delivered this State Addendum to the Agreement on the date first set forth above.

FRANCHISOR:
Black Beer, LLC
an Oregon limited liability company

FRANCHISEE:

By: _____
Name: _____
Title: _____
Date: _____

By: _____
Name: _____
Title: _____
Date: _____

**ADDENDUM TO
FRANCHISE DISCLOSURE DOCUMENT
FOR THE STATE OF MINNESOTA**

Item 13 of the Franchise Disclosure Document is amended to state that we will protect your right to use the trademarks, service marks, trade names, logotypes of other commercial symbols (“Marks”) or indemnify you from any loss, costs or expenses arising out of any claim, suit or demand regarding the use of the Marks.

The following is added to Item 17 of the Franchise Disclosure Document:

Under Minnesota law and except in certain specified cases, **Black Beer, LLC** must give you 90 days’ notice of termination with 60 days to cure. **Black Beer, LLC** also must give you at least 180 days’ notice of its intention not to renew a franchise, and sufficient opportunity to recover the fair market value of the franchise as a going concern. To the extent that the Franchise Agreement is inconsistent with the Minnesota law, the Minnesota law will control.

To the extent that any condition, stipulation or provision contained in the Franchise Agreement (including any choice of law provision) purports to bind any person who, at the time of acquiring a franchise is a resident of Minnesota, or, in the case of a partnership or corporation, organized or incorporated under the laws of Minnesota, or purporting to bind a person acquiring any franchise to be operated in Minnesota to waive compliance with the Minnesota Franchises law, such condition, stipulation or provision may be void and unenforceable under the nonwaiver provision of the Minnesota Franchises Law.

Minn. Stat. §80C.21 and Minn. Rule 2860.4400J. prohibit us from requiring litigation to be conducted outside Minnesota. In addition, nothing in the Franchise Disclosure Document or Franchise 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.

Minn. Rule 2860.4400J. prohibits us from requiring you to consent to liquidated damages and prohibits waiver of a jury trial. If the Franchise Agreement contains a provision that is inconsistent with the Minn. Rule, the provisions of the Franchise Agreement will be superseded by the Minn. Rule’s requirements and will have no force or effect.

Minn. Rule 2860.4400J. prohibits us from requiring you to assent to a general release. To the extent that the Franchise Agreement requires you to sign a general release as a condition of renewal or transfer, the Franchise Agreement will be considered amended to the extent necessary to comply with Minnesota law.

Minn. Rule 2860.4400J. prohibits us from requiring you to pay a termination fee. To the extent that the Franchise Agreement requires you to pay a termination fee, the provisions of the Franchise Agreement will be superseded by the Minn. Rule’s requirements and will have no force or effect.

**ADDENDUM TO
FRANCHISE AGREEMENT
FOR THE STATE OF MINNESOTA**

The Franchise Agreement between **Black Beer, LLC** (“Franchisor”) and _____ (“Franchisee”) dated _____, (the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of the Agreement (the “State Addendum”):

MINNESOTA LAW MODIFICATION

1. The Commissioner of Commerce for the State of Minnesota requires that certain provisions contained in franchise documents be mended to be consistent with Minnesota Franchise Act. Minn. Stat. Section 80C.01 *et. seq.*, and the Rules and Regulations promulgated under the Act (collectively the “Franchise Act”). To the extent that the Agreement and/or Franchise Disclosure Document contains provisions that are inconsistent with the following, such provisions are hereby amended:

a. The Minnesota Department of Commerce requires that franchisors indemnify Minnesota franchisees against liability to third parties resulting from claims by third parties that the franchisee’s use of the franchisor’s proprietary marks infringes trademark rights of the third party.

b. Minn. Stat. Sec. 80C.14. Subds. 3, 4, and 5 requires, 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 franchise agreement. If the Agreement contains a provision that is inconsistent with the Franchise Act, the provisions of the Agreement shall be superseded by the Act’s requirements and shall have no force or effect.

c. If the Franchisee is required in the Agreement to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action that would violate the Franchise Act, such release shall exclude claims arising under the Franchise Act, and such acknowledgments shall be void with respect to claims under the Franchise Act.

d. If the Agreement requires that it be governed by the law of a State other than the State of Minnesota or arbitration or mediation, those provisions shall not in any way abrogate or reduce any rights of the Franchisee as provided for in the Franchise Act, including the right to submit matters to the jurisdiction of the courts of Minnesota.

e. Any provision that requires the Franchisee to consent to a claims period that differs from the applicable statute of limitations period under Minn. Stat. 80C.1, Subd. 5, may not be enforceable under Minnesota law.

2. Minn. Stat. 80C.21 and Minn. Rule 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 Ch. 80C, including your rights to any procedure, forum, or remedies provided for in that law.

3. The Agreement and/or Franchise Disclosure Document is hereby amended to delete all referenced to Liquidated Damages (as defined) in violation of Minnesota law; provided, that no

such deletion shall excuse Franchisee from liability for actual or other damages and the formula for Liquidated Damages in the Agreement and/or Franchise Disclosure Document shall be admissible as evidence of actual damages.

4. To the extent required by Minnesota Law, the Agreement and/or Franchise Disclosure Document is amended to delete all references to a waiver of jury trial.

5. All sections of the Agreement and/or Franchise Disclosure Document referencing Franchisor's right to obtain injunctive relief are hereby amended to refer to Franchisor's right to seek to obtain such relief.

6. Each provision of this State Addendum shall be effective only to the extent that the jurisdictional requirements of Minnesota Law applicable to the provision are met independent of this State Addendum. This State Addendum shall have no force or effect if such jurisdictional requirements are not met.

IN WITNESS WHEREOF, the Franchisee on behalf of itself and its owners, acknowledges that it has read and understands the contents of this State Addendum, that it has had the opportunity to obtain the advice of counsel, and that it intends to comply with this State Addendum and be bound thereby. The parties have duly executed and delivered this State Addendum to the Agreement on the date first set forth above.

FRANCHISOR:
Black Beer, LLC
an Oregon limited liability company

FRANCHISEE:

By: _____
Name: _____
Title: _____
Date: _____

By: _____
Name: _____
Title: _____
Date: _____

**ADDENDUM TO
FRANCHISE DISCLOSURE DOCUMENT
FOR THE STATE OF NEW YORK**

1. 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 A 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 FRANCHISE 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, BUREAU OF INVESTOR PROTECTION AND SECURITIES, 120 BROADWAY, 23RD FLOOR, NEW YORK, NEW YORK 10271. 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.

2. 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.

3. 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.

4. 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.

5. 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 provision that the non-waiver provisions of General Business Law Sections 687.4 and 687.5 be satisfied.

6. 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.

7. 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 Franchise Agreement.

8. 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.

**ADDENDUM TO
FRANCHISE AGREEMENT
FOR THE STATE OF NEW YORK**

The Franchise Agreement between **Black Beer, LLC** (“Franchisor”) and _____ (“Franchisee”) dated _____ (the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of the Agreement (the “State Addendum”):

NEW YORK LAW MODIFICATION

1. The New York Department of Law requires that certain provisions contained in franchise documents be amended to be consistent with New York law, including the General Business Law, Article 33, Sections 680 to 695 (1989). To the extent that the Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

a. Release. If Franchisee is required to execute a release of claims, as provided in Article 2(B) of the Franchise Agreement, or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action that would violate the General Business Law, regulation, rule or order under the Law, such release shall exclude claims arising under the New York General Business Law, Article 33, Sections 680 to 695 and the regulations promulgated thereunder, and such acknowledgments shall be void. It is the intent of this provision that non-waiver provisions of Sections 687.4 and 687.5 of the General Business Law be satisfied.

b. Governing Law. Article 21(A) of the Franchise Agreement is amended by adding the following sentence at the end of such Article: “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.”

c. Termination by Franchisee. Article 9 of the Franchise Agreement is hereby amended to add the following sentence at the end of the Article: “Notwithstanding anything contained in this Article 9 to the contrary, Franchisee may terminate the Franchise Agreement on any grounds available by law.”

d. Renewal, Extension, Approval of Transfer. Article 2 and Article 17 are amended by adding the following: “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 provision that the non-waiver provisions of the General Business Law sections 687.4 and 687.5 be satisfied.”

e. Assignment. Article 17 is amended by adding the following sentence at the end of the Article: “However, no assignment will be made except to an assignee who in good faith and judgment of the Franchisor, is willing and financially able to assume the Franchisor’s obligations under the Franchise Agreement.”

2. Each provision of this State Addendum shall be effective only to the extent that the

jurisdictional requirements of New York General Business Law, with respect to each such provision are met independent of this State Addendum. This State Addendum shall have no force or effect if such jurisdictional requirements are not met.

IN WITNESS WHEREOF, the Franchisee on behalf of itself and its owners, acknowledges that it has read and understands the contents of this State Addendum, that it has had the opportunity to obtain the advice of counsel, and that it intends to comply with this State Addendum and be bound thereby. The parties have duly executed and delivered this State Addendum to the Agreement on the date first set forth above.

FRANCHISOR:
Black Beer, LLC
an Oregon limited liability company

FRANCHISEE:

By: _____
Name: _____
Title: _____
Date: _____

By: _____
Name: _____
Title: _____
Date: _____

**ADDENDUM TO
FRANCHISE DISCLOSURE DOCUMENT
FOR THE STATE OF VIRGINIA**

1. In recognition of the restrictions contained in Section 13.1-564 of the Virginia Retail Franchising Act, Item 17.h. of the Franchise Disclosure Document for **Black Beer, LLC** is supplemented by the following:

“Under 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 ground for default or termination stated in the franchise agreement does 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.”

“Any securities offered or sold by the Investor Franchisee as part of the Black Beer, LLC Franchise must either be registered or exempt from registration under Section 13.1-514 of the Virginia Securities Act.”

WASHINGTON ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT, THE FRANCHISE AGREEMENT, THE DEVELOPMENT AGREEMENT AND ALL RELATED AGREEMENTS

The provisions of this Addendum form an integral part of, are incorporated into, and modify the Franchise Disclosure Document, the franchise agreement, the development agreement, and all related agreements regardless of anything to the contrary contained therein. This Addendum applies if: (a) the offer to sell a franchise is accepted in Washington; (b) the purchaser of the franchise is a resident of Washington; and/or (c) the franchised business that is the subject of the sale is to be located or operated, wholly or partly, in Washington.

1. **Conflict of Laws.** In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, chapter 19.100 RCW will prevail.
2. **Franchisee Bill of Rights.** RCW 19.100.180 may supersede provisions in the franchise agreement or related agreements concerning your relationship with the franchisor, including in the areas of termination and renewal of your franchise. There may also be court decisions that supersede the franchise agreement or related agreements concerning your relationship with the franchisor. Franchise agreement provisions, including those summarized in Item 17 of the Franchise Disclosure Document, are subject to state law.
3. **Site of Arbitration, Mediation, and/or Litigation.** In any arbitration or mediation involving a franchise purchased in Washington, the arbitration or mediation site will be either in the state of Washington, or in a place mutually agreed upon at the time of the arbitration or mediation, or as determined by the arbitrator or mediator at the time of arbitration or mediation. In addition, if litigation is not precluded by the 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.
4. **General Release.** A release or waiver of rights in the franchise agreement or related agreements purporting to bind the franchisee to waive compliance with any provision under the Washington Franchise Investment Protection Act or any rules or orders thereunder is void except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel, in accordance with RCW 19.100.220(2). In addition, any such release or waiver executed in connection with a renewal or transfer of a franchise is likewise void except as provided for in RCW 19.100.220(2).
5. **Statute of Limitations and Waiver of Jury Trial.** Provisions contained in the franchise agreement or related agreements that unreasonably restrict or limit the statute of limitations period for claims under the Washington Franchise Investment Protection Act, or rights or remedies under the Act such as a right to a jury trial, may not be enforceable.
6. **Transfer Fees.** Transfer fees are collectable only to the extent that they reflect the franchisor's reasonable estimated or actual costs in effecting a transfer.
7. **Termination by Franchisee.** The franchisee may terminate the franchise agreement under any grounds permitted under state law.
8. **Certain Buy-Back Provisions.** Provisions in franchise agreements or related agreements that permit the franchisor to repurchase the franchisee's business for any reason during the term of the franchise agreement without the franchisee's consent are unlawful pursuant to RCW 19.100.180(2)(j), unless the franchise is terminated for good cause.

9. **Fair and Reasonable Pricing.** Any provision in the franchise agreement or related agreements that requires the franchisee to purchase or rent any product or service for more than a fair and reasonable price is unlawful under RCW 19.100.180(2)(d).
10. **Waiver of Exemplary & Punitive Damages.** RCW 19.100.190 permits franchisees to seek treble damages under certain circumstances. Accordingly, provisions contained in the franchise agreement or elsewhere requiring franchisees to waive exemplary, punitive, or similar damages are void, except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel, in accordance with RCW 19.100.220(2).
11. **Franchisor's Business Judgement.** Provisions in the franchise agreement or related agreements stating that the franchisor may exercise its discretion on the basis of its reasonable business judgment may be limited or superseded by RCW 19.100.180(1), which requires the parties to deal with each other in good faith.
12. **Indemnification.** Any provision in the franchise agreement or related agreements requiring the franchisee to indemnify, reimburse, defend, or hold harmless the franchisor or other parties is hereby modified such that the franchisee has no obligation to indemnify, reimburse, defend, or hold harmless the franchisor or any other indemnified party for losses or liabilities to the extent that they are caused by the indemnified party's negligence, willful misconduct, strict liability, or fraud.
13. **Attorneys' Fees.** If the franchise agreement or related agreements require a franchisee to reimburse the franchisor for court costs or expenses, including attorneys' fees, such provision applies only if the franchisor is the prevailing party in any judicial or arbitration proceeding.
14. **Noncompetition Covenants.** 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 provision contained in the franchise agreement or elsewhere that conflicts with these limitations is void and unenforceable in Washington.
15. **Nonsolicitation Agreements.** 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 (ii) soliciting or hiring any employee of the franchisor. As a result, any such provisions contained in the franchise agreement or elsewhere are void and unenforceable in Washington.
16. **Questionnaires and Acknowledgments.** 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.
17. **Prohibitions on Communicating with Regulators.** Any provision in the franchise agreement or related agreements that prohibits the franchisee from communicating with or

complaining to regulators is inconsistent with the express instructions in the Franchise Disclosure Document and is unlawful under RCW 19.100.180(2)(h).

18. **Advisory Regarding Franchise Brokers.** Under the Washington Franchise Investment Protection Act, a “franchise broker” is defined as a person that engages in the business of the offer or sale of franchises. A franchise broker represents the franchisor and is paid a fee for referring prospects to the franchisor and/or selling the franchise. If a franchisee is working with a franchise broker, franchisees are advised to carefully evaluate any information provided by the franchise broker about a franchise.
19. The initial franchise fee is deferred until the franchisor has fulfilled its initial pre-opening obligations and the franchise is open for business.
20. Article XIX of the Franchise Agreement and Article XII of the Development Agreement do not apply to franchisees located in Washington.

The undersigned parties do hereby acknowledge receipt of this Addendum.

Dated this _____ day of _____ 20_____.

Signature of Franchisor Representative

Signature of Franchisee Representative

Title of Franchisor Representative

Title of Franchisee Representative

**ADDENDUM TO
FRANCHISE AGREEMENT
FOR THE STATE OF WISCONSIN**

The Franchise Agreement between **Black Beer, LLC** (“Franchisor”) and _____ (“Franchisee”) dated _____, (the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of the Agreement (the “State Addendum”):

WISCONSIN LAW MODIFICATIONS

1. Notwithstanding anything that may be contained in the body of the Franchise Agreement to the contrary, the Agreement is hereby amended to add the following provision:

For all franchises sold in the State of Wisconsin, the Company will provide Franchisee at least 90 days’ prior written notice of termination, cancellation, nonrenewal or substantial change in competitive circumstances. The notice will state all the reasons for termination, cancellation, nonrenewal or substantial change in competitive circumstances and will provide that Franchisee have 60 days in which to rectify any claimed deficiency. If the deficiency is rectified within 60 days, the notice will be void. These notice requirements shall not apply if the reason for termination, cancellation or nonrenewal is insolvency, the occurrence of an assignment for the benefit of creditors or bankruptcy. If the reason for termination, cancellation, nonrenewal or substantial change in competitive circumstances is nonpayment of sums due under the franchise, Franchisee will be entitled to written notice of such default, and will have not less than 10 days in which to remedy such default from the date of delivery or posting of such notice.

2. Ch. 135, Stats., the Wisconsin Fair Dealership Law, supersedes any provisions of this Agreement or a related document between the Company and Franchisee inconsistent with the Law.

3. Each provision of this State Addendum shall be effective only to the extent that the jurisdictional requirements of Washington law, with respect to each such provision are met independent of this State Addendum. This State Addendum shall have no force or effect if such jurisdictional requirements are not met.

<Signatures on Following Page>

IN WITNESS WHEREOF, the Franchisee on behalf of itself and its owners, acknowledges that it has read and understands the contents of this State Addendum, that it has had the opportunity to obtain the advice of counsel, and that it intends to comply with this State Addendum and be bound thereby. The parties have duly executed and delivered this State Addendum to the Agreement on the date first set forth above.

FRANCHISOR:
Black Beer, LLC
an Oregon limited liability company

FRANCHISEE:

By: _____
Name: _____
Title: _____
Date: _____

By: _____
Name: _____
Title: _____
Date: _____

EXHIBIT N

STATE REGISTRATION LIST

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	Not Registered
Indiana	Not Registered
Maryland	Not Registered
Michigan	Not Registered
Minnesota	Not Registered
New York	Not Registered
North Dakota	Not Registered
Rhode Island	Not Registered
South Dakota	Not Registered
Virginia	Not Registered
Washington	July 10, 2025
Wisconsin	November 1, 2024

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.

**ITEM 23
RECEIPTS**

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

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

If Black Beer, LLC does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington D.C. 20580 and any relevant state agency.

The following are the parties of each franchise seller offering the franchise:

Black Beer, LLC
Attn: Franklin "Butch" Price
901 NW E St.
Grants Pass, OR 97526
(541) 476-1387

This disclosure document was issued on: April 15, 2025

I received a disclosure document dated April 15, 2025, which included the following Exhibits:

Financial Statements	<u>Exhibit A</u>
Franchise Agreement	<u>Exhibit B</u>
Development Agreement	<u>Exhibit C</u>
Electronic Funds Transfer Authorization	<u>Exhibit D</u>
Power of Attorney (Telephone)	<u>Exhibit E</u>
Power of Attorney (Tax)	<u>Exhibit F</u>
Assumed Business Name Relinquishment	<u>Exhibit G</u>
List of State Administrators	<u>Exhibit H</u>
Operations Manual Table of Contents	<u>Exhibit I</u>
List of Franchises and Company-Owned Locations	<u>Exhibit J</u>
List of Agents for Service of process	<u>Exhibit K</u>
The Growler Guys Express Addendum	<u>Exhibit L</u>
State-Specific Addenda	<u>Exhibit M</u>
State Effective Dates	<u>Exhibit N</u>

Name: _____

Date: _____

Signature: _____

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Name: _____

Date: _____

Signature: _____