

FRANCHISE DISCLOSURE DOCUMENT



Kahala Franchising, L.L.C.
an Arizona limited liability company
9311 E. Via De Ventura
Scottsdale, Arizona 85258
Telephone: (480) 362-4800

Website: www.kahalamgmt.com

Facebook: www.facebook.com/NrGizeLifestyleCafe

Twitter: @NrGizeSmoothies

We offer *NrGize Lifestyle Cafe*™ unit franchises. As a franchisee, you will operate a restaurant called *NrGize Lifestyle Cafe* preparing and serving low-calorie smoothies, fruit drinks, nutritional supplements, and other beverage and food items.

The total investment necessary to begin operation of an *NrGize Lifestyle Cafe* franchise ranges from: (i) ~~\$97,400~~107,400 to ~~\$341,050~~347,300 for a traditional franchise unit; (ii) ~~\$57,910~~62,910 to ~~\$261,800~~268,050 for a non-traditional unit; (iii) ~~\$114,410~~119,410 to ~~\$235,550~~240,550 for a new *NrGize Lifestyle Cafe* located within an LA Fitness health club; ~~and (iv) \$74,410 to \$173,050 for the conversion of an existing store located within an LA Fitness health club to an NrGize Lifestyle Cafe.~~ This includes: (i) ~~\$17,584~~27,584 to ~~\$71,250~~82,500 for a traditional location that must be paid to the franchisor or affiliate; (ii) ~~\$9,184~~12,584 to ~~\$48,750~~55,000 for a non-traditional location that must be paid to the franchisor or its affiliate; (iii) ~~\$91,500~~96,500 to ~~\$168,750~~173,750 for a newly constructed *NrGize Lifestyle Cafe* located within an LA Fitness health club; ~~and (iv) \$52,000 to \$111,250 for the conversion of an existing store in an LA Fitness health club to an NrGize Lifestyle Cafe located within the same LA Fitness health club that must be paid to the franchisor or its affiliate.~~

This disclosure document summarizes certain provisions of your franchise agreement and other information in plain English. Read this disclosure document and all accompanying agreements carefully. You must receive this disclosure document at least 14 calendar-days before you sign a binding agreement with, or make any payment to, the franchisor or an affiliate in connection with the proposed franchise sale. **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 for you. To discuss the availability of disclosures in different formats, contact Kahala Franchising, L.L.C., Attn: John Wuycheck, 9311 E. Via De Ventura, Scottsdale, Arizona 85258 and (480) 362-4800.

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.

Issuance Date: ~~March~~April 1, 2018~~2019~~

STATE COVER PAGE

Your state may have a franchise law that requires a franchisor to register or file with a state franchise administrator before offering or selling your state. REGISTRATION OF A FRANCHISE BY A STATE DOES NOT MEAN THAT THE STATE RECOMMENDS THE FRANCHISE OR HAS VERIFIED THE INFORMATION IN THIS DISCLOSURE DOCUMENT.

Call the state franchise administrator listed in Exhibit A for information about the franchisor, or about franchising in your state.

MANY FRANCHISE AGREEMENTS DO NOT ALLOW YOU TO RENEW UNCONDITIONALLY AFTER THE INITIAL TERM EXPIRES. YOU MAY HAVE TO SIGN A NEW AGREEMENT WITH DIFFERENT TERMS AND CONDITIONS IN ORDER TO CONTINUE TO OPERATE YOUR BUSINESS. BEFORE YOU BUY, CONSIDER WHAT RIGHTS YOU HAVE TO RENEW YOUR FRANCHISE, IF ANY, AND WHAT TERMS YOU MIGHT HAVE TO ACCEPT IN ORDER TO RENEW.

Please consider the following RISK FACTORS before you buy this franchise:

1. THE FRANCHISE AGREEMENT REQUIRES YOU TO RESOLVE DISPUTES WITH US BY LITIGATION, MEDIATION AND ARBITRATION ONLY IN ARIZONA. OUT-OF-STATE LITIGATION, MEDIATION AND ARBITRATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST YOU MORE TO LITIGATE, MEDIATE OR ARBITRATE WITH US IN ARIZONA THAN IN YOUR OWN STATE.
2. THE FRANCHISE AGREEMENT STATES THAT ARIZONA LAW GOVERNS THE AGREEMENT, AND THIS LAW MAY NOT PROVIDE THE SAME PROTECTIONS AND BENEFITS AS LOCAL LAW. YOU MAY WANT TO COMPARE THESE LAWS.
3. FRANCHISE OWNERS (DIRECT AND INDIRECT) AND THEIR SPOUSES MUST SIGN A PERSONAL GUARANTEE MAKING SUCH SPOUSES JOINTLY AND SEVERALLY LIABLE FOR ALL OBLIGATIONS OF THE FRANCHISE, WHETHER OR NOT SUCH OWNERS AND SPOUSES ARE INVOLVED IN THE OPERATION OF THE FRANCHISED BUSINESS. THIS REQUIREMENT PLACES THE PERSONAL AND MARITAL ASSETS OF THE FRANCHISE OWNERS AND SPOUSES AT RISK.
4. APPROXIMATELY 95% OF FRANCHISOR'S PARENT'S, MTY FRANCHISING USA, INC., ASSETS ARE INTANGIBLE OR INVESTMENTS IN SUBSIDIARIES. YOU MAY WANT TO TAKE THIS INTO CONSIDERATION WHEN MAKING A DECISION TO PURCHASE THIS FRANCHISE OPPORTUNITY.
5. MUCH OF THE SUPPORT, TRAINING, AND PRE AND POST OPENING OBLIGATIONS TO FRANCHISEES, AND MARKETING AND ADVERTISING SUPPORT SERVICES WILL BE PROVIDED BY AN AFFILIATE OF THE FRANCHISOR, KAHALA MANAGEMENT, L.L.C. THE FINANCIAL STATEMENTS OF KAHALA MANAGEMENT, L.L.C. ARE NOT CONTAINED IN THE FRANCHISE DISCLOSURE DOCUMENT AND WILL NOT BE PROVIDED TO FRANCHISEES.
6. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

We use the services of one or more FRANCHISE BROKERS or referral sources to assist us in selling our franchise. A franchise broker or referral source represents us, not you. We pay this person a fee for selling our franchise or referring you to us. You should be sure to do your own investigation of the franchise.

Effective Date: See the next page for state effective dates.

**NRGIZE LIFESTYLE
CAFETM**

FRANCHISE DISCLOSURE DOCUMENT EFFECTIVE DATES

The following states 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.

The Franchise Disclosure Document is registered, on file or exempt from registration, or otherwise effective in the following states having franchise registration and disclosure (or business opportunity*) laws, as of the dates listed:

California	~~March 1, 2018~~
Florida	~~March 1, 2018~~
Hawaii	~~May 10, 2018~~
Illinois	~~March 1, 2018~~
Indiana	~~March 1, 2018~~
Kentucky*	~~July 2, 2015~~ *
Maryland	~~March 1, 2018~~
Michigan	~~March 1, 2018~~
Minnesota	~~June 5, 2018~~
Nebraska*	~~June 30, 2015~~ *
New York	~~March 1, 2018~~
North Dakota	~~Not Registered~~
Rhode Island	~~March 1, 2018~~
South Dakota	~~March 1, 2018~~
Texas*	~~July 12, 2010~~ *
Utah	~~March 1, 2018~~
Virginia	~~March 1, 2018~~
Washington	~~March 1, 2018~~
Wisconsin	~~April 6, 2018~~

In all the other states, the effective date of this Franchise Disclosure Document is the issuance date of ~~March~~April 1, ~~2018~~2019.

* Denotes one-time filing.

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EXHIBITS:

- A State Addenda to Franchise Disclosure Document
- B Directory of State Agencies and Administrators
- C Franchisor's Agent for Service of Process
- D Asset Purchase Agreement (For Sale of a Corporate Store or store located within an LA Fitness health club to a Franchisee) with Promissory Note and Security Agreement and Guaranty (if applicable)
- E-1 Franchise Agreement (New) and Franchisee Questionnaire
- E-2 Franchise Agreement (Renewal) and Franchisee Questionnaire
- ~~E-3 E-3~~ Franchise Agreement (Transfer) and Franchisee Questionnaire
- F ~~-1~~ Guaranty of Franchise Agreement

F-2 Non-Disclosure and Non-Competition Agreement

G Collateral Assignment and Irrevocable Special Power of Attorney

H Amendment to Franchise Agreement (for non-traditional locations – excluding those co- branded with another ~~Kahala Franchising, L.L.C. affiliated~~ brand)

~~H-1 Amendment to Franchise Agreement (for stores to be located within current LA Fitness Health Clubs: newly-constructed only)~~

~~H-2 Amendment to Franchise Agreement (for stores to be located within future LA Fitness Health Clubs: newly-constructed stores only)~~

~~H-3 Amendment to Franchise Agreement (for stores to be located within LA Fitness Health Clubs: conversions only)~~

~~H-4 Bill of Sale (applicable only for stores located within LA Fitness health clubs)~~

~~I — Amendment to Franchise Agreement (for co-branded non-traditional locations)~~

~~J — Amendment to Franchise Agreement (for franchises in Georgia)~~

~~K Addendum to the Franchise Agreement and Single Unit Facility License Agreement for SBA Loans~~

~~L Intentionally Omitted~~

~~M Lease Guaranty Acknowledgment~~

~~N Lease Review and/or Negotiation Agreement and Release and State Addenda~~

~~● Single Unit Facility License Agreement (for LA Fitness locations only) and Consent of Spouse P~~

~~— Pre-Authorized Electronic Funds Transfer Form~~

~~Q — General Release for Renewal of Franchise Agreement~~

~~R — Consent to Transfer and Release Agreement~~

~~S State Specific Addenda to Franchise Documents~~

~~T Table of Contents — Confidential Operations Manual U List of~~

~~Franchise Owners~~

~~V — Financial Statements W — Performance Guaranty~~

~~X — Addendum for Sale of Company Affiliated Owned Stores~~

~~Y — Receipts~~

<u>H-1</u>	<u>Amendment to Franchise Agreement (for stores to be located within current LA Fitness Health Clubs: newly-constructed only)</u>
<u>H-2</u>	<u>Amendment to Franchise Agreement (for stores to be located within future LA Fitness Health Clubs: newly-constructed stores only)</u>
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<u>O-3</u>	<u>Single-Unit Facility License Agreement (for LA Fitness locations only) and Consent of Spouse</u>
<u>P</u>	<u>Pre-Authorized Electronic Funds Transfer Form</u>
<u>Q</u>	<u>General Release for Renewal of Franchise Agreement</u>
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<u>Y</u>	<u>Receipts</u>

ITEM 1: THE FRANCHISOR AND ANY PARENTS, PREDECESSORS, AND AFFILIATES

The franchisor is Kahala Franchising, L.L.C. To simplify the language in this "Disclosure Document," Kahala Franchising, L.L.C. may be referred to as "Kahala Franchising," "we," "us," "our" and "Franchisor." "You" and "your" mean the person(s), partnership, corporation, limited liability company, or other entity that buys the *NrGize Lifestyle Cafe*™ unit franchise. If "you" are a business entity, "you" includes the shareholders, members or owners of the business to the extent each guaranties or otherwise agrees to perform or be bound by the obligations of the business entity.

The Franchisor, Parents and Predecessors

Kahala Franchising is an Arizona limited liability company which was formed on December 29, 2008. Kahala Franchising is in the business of franchising to others the right to own and operate quick service restaurants.

Our parent company is Kahala Brands, Ltd., which is a Delaware corporation ("Kahala Brands"). Kahala Brands was formerly known as Kahala Corp. but changed its name to Kahala Brands in December 2014. Prior to that, Kahala Corp. was a Florida corporation and was re- domiciled in Delaware on December 31, 2012.

On July 26, 2016, Kahala Brands merged with a wholly-owned subsidiary of MTY Food Group, Inc. ("MTY Food Group") having an address at 8150 Transcanada Highway, Suite 200, Saint Laurent, Québec H4S 1M5. Kahala Brands' parent company became MTY Franchising USA, Inc. ("MTY USA"), a Delaware corporation incorporated originally as The Extreme Pita Franchising USA, Inc. on March 14, 2001, and having an address of 9311 E Via De Ventura, Scottsdale, Arizona 85258. MTY USA's parent corporation is MTY Tiki Ming Enterprises Inc. ("MTY Canada"), a Canada corporation incorporated on February 13, 1979, and a wholly owned subsidiary of MTY Food Group, Inc., and having an address at 8150 Route Transcanadienne, Suite 200, Ville Saint-Laurent, Quebec, H4S 1M5, Canada.

In addition to the concepts franchised by Kahala Franchising or its current or former affiliates, MTY Food Group, Inc. or one or more of its subsidiaries ("MTY") franchises ~~thirty-six~~over fifty (3650) different restaurant concepts under the following trademarks in Canada and the United States: Au Vieux Duluth Express, Big Smoke Burger, Café Depot, Country Style, Croissant Plus, Cultures, Extreme Pita, Ginger Sushi Boutique, Jugo Juice, Kim Chi, Koryo, Koya, La Crémère, Madisons, Manchu Wok, Mr. Souvlaki, Mr. Sub, Mucho Burrito, Muffin Plus, O'Burger, , Sukiyaki, Sushi Go, Sushman, Sushi Shop, Tandori, Thai Express, Thaizone, Tiki Ming, Tosto, Tutti Frutti, Valentine, Van Houtte, Vanellis, Vie & Nam, Villa Madina, Giorgio, Steak Frites, Houston, Industria Pizza and Wasabi Grill & Noodle trademarks. MTY also sub-franchises two (2) other different restaurant concepts: TCBY and TacoTime. MTY is a publicly- traded company headquartered in Montreal, Québec, Canada.

Effective March 1, 2018, MTY Food Group Inc. through the merger of a wholly-owned subsidiary with Imvescor Restaurant Group Inc. ("IRG"), acquired all the outstanding shares of IRG. At closing, IRG operated 5 brands in Canada and had 261 locations in operation.

The name and principal business address of any predecessors for *NrGize Lifestyle Cafe* brand during the 10-year period immediately before the close of Kahala Franchising's most recent fiscal year is: Kahala Franchise Corp., 9311 E. Via De Ventura, Scottsdale, Arizona 85258. Our predecessor, Kahala Franchise Corp., did not conduct the type of business the franchisee will operate, but its affiliate, Kahala Holdings, L.L.C., an Arizona limited liability company ("Kahala Holdings"), did conduct the type of business the franchisee will operate by operating corporate *NrGize Lifestyle Cafe* restaurants since February 2009, and another affiliate, Kahala Restaurants, L.L.C., an Arizona limited liability company ("Kahala Restaurants"), has been conducting the type of business the franchise will operate by operating any corporate *NrGize Lifestyle Cafe* restaurants since January 2010.

As of November 30, ~~2017, 2018~~, there were ~~8179~~ *NrGize Lifestyle Cafe* franchises. We have been offering *NrGize Lifestyle Cafe* franchises since April 2006 until March 2010 under the name of Kahala Franchise Corp. and since August 2010 under the name of Kahala Franchising. Kahala Franchising does not operate

businesses of the type being franchised, but rather, Kahala Holdings and Kahala Restaurants, affiliates of Kahala Franchising, operate many of our corporate-owned restaurants, including businesses of the type being franchised. Any corporate-owned *NrGize Lifestyle Cafe* restaurants may compete with franchised restaurants in its vicinity.

Other Franchises Offered by Kahala Franchising or its affiliate

KAHALA FRANCHISING IS ONLY OFFERING AN *NRGIZE LIFESTYLE CAFE* UNIT FRANCHISE UNDER THIS DISCLOSURE DOCUMENT. EACH OF THE FRANCHISES DETAILED BELOW ARE OFFERED BY KAHALA FRANCHISING UNDER SEPARATE DISCLOSURE DOCUMENTS FOR EACH BRAND.

The following summarizes these other quick service restaurant brands as of November 30, ~~2017~~2018, including the type of restaurant business, number of franchised units in operation as of November 30, ~~2017~~2018, and the date MTY USA, Kahala Franchising or other affiliates and its current or former affiliates offered franchises in those brands:

Brand Name	Type of Restaurant Business	Number of Units as of November 30, ~~2017~~ <u>2018</u>	Dates unit franchises began being offered by us or our affiliate
America's Taco Shop®	Restaurants serving freshly prepared Mexican food including tacos, burritos, and quesadillas	~~1~~ <u>0</u> franchises (plus 2 licensed and ~~32~~ company-owned units)	November 2011 under Kahala Franchising
Blimpie®	Restaurants serving submarine sandwiches and salads	~~261~~ <u>234</u> franchises (~~255~~ ~~(228)~~ in the United States and 6 International) (plus ~~65~~ company-owned units)	From 2006 until March 2010 by Kahala Franchise Corp. and since August 2010 under Kahala Franchising
Cereality cereal bar & cafe™	Restaurants serving hot and cold cereals and cereal blends with toppings, oatmeal, and parfaits	1 franchises	From July 2007 until March 2010 by Kahala Franchise Corp. and since August 2010 under Kahala Franchising
Brand Name	Type of Restaurant Business	Number of Units as of November 30, 2017	Dates unit franchises began being offered by us or our affiliate
Cold Stone Creamery®	Restaurants serving super-premium freshly made ice cream, frozen yogurt, cakes, pies, smoothies, shakes, and other frozen dessert products	~~1251~~ <u>1237</u> franchises (~~915~~ <u>899</u> in the United States and ~~336~~ <u>338</u> International) (plus ~~9479~~ licensed and ~~84~~ company- owned units) (~~8893~~ Cold Stone Creamery franchises also sell Rocky Mountain Chocolate Factory® products and 1 Cold Stone Creamery franchise also sells Tim Hortons® products)	From May 2007 until April 2008 by Cold Stone Creamery, Inc., from April 2008 until March 2010 by Kahala Franchise Corp., and since August 2010 under Kahala Franchising

<u>Brand Name</u>	<u>Type of Restaurant Business</u>	<u>Number of Units as of November 30, 2018</u>	<u>Dates unit franchises began being offered by us or our affiliate</u>
Frullati Cafe & Bakery™	Restaurants serving sandwiches, salads, smoothies and baked goods	14 franchises	From 1999 until 2004 by Frullati Franchise Systems, Inc., from 2004 until March 2010 by Kahala Franchise Corp., and since August 2010 under Kahala Franchising
Great Steak™	Restaurants serving Philadelphia cheesesteak sandwiches, chicken sandwiches and French fries	~~6159~~ franchises (~~4846~~ in the United States and 13 International) (plus 1 licensed unit)	From 2004 until March 2010 by Kahala Franchise Corp. and since August 2010 under Kahala Franchising
Johnnie's New York Pizzeria™	Restaurants serving New York style pizza, calzones, salads, and related Italian cuisine menu items	~~95~~ franchises	From 2006 until March 2010 by Kahala Franchise Corp. and since August 2010 under Kahala Franchising
Kahala Coffee Traders®	Restaurants serving coffee and espresso, tea, baked goods, parfaits, sandwiches and merchandise	~~76~~ franchises (plus 1 licensed units)	November 2011 under Kahala Franchising
Maui Wowi®	Store fronts or portable units serving fruit smoothies, Hawaiian coffee and espresso	~~162150~~ franchises (~~160148~~ in the United States and 2 International)	Since November 2015 under Kahala Franchising
~~Brand Name~~ <u>NrGize Lifestyle Cafe™</u>	~~Type of Restaurant Business~~ <u>Cafes serving smoothies, fruit drinks and nutritional supplements</u>	~~Number of Units as of November 30, 2017~~ <u>79 franchises</u>	~~Dates unit franchises began being offered~~ <u>From 2006 until March 2010 by us or our affiliate Kahala Franchise Corp. and since August 2010 under Kahala Franchising</u>
Pinkberry®	Restaurants serving frozen yogurt, yogurt drinks, smoothies and frozen desserts	~~9691~~ franchises (plus ~~162~~ company-owned units)	From July 2008 until ~~May~~ <u>April</u> 2016 under Pinkberry Ventures, Inc. and since June 2016 under Kahala Franchising
Planet Smoothie®	Restaurants serving smoothies, juices and nutritional supplements	~~117136~~ franchises (plus ~~1013~~ TDL ~~franchises~~).	From March 2012 to ~~May~~ <u>April</u> 2016 under Tasti D-Lite LLC and since June 2016 under Kahala Franchising

<u>Brand Name</u>	<u>Type of Restaurant Business</u>	<u>Number of Units as of November 30, 2018</u>	<u>Dates unit franchises began being offered by us or our affiliate</u>
Ranch One®	Restaurants specializing in grilled and crispy breaded chicken sandwiches	~~54~~ franchises	From 2001 until 2004 by Ranch *1 Group, Inc., from 2004 until March 2010 by Kahala Franchise Corp., and since August 2010 under Kahala Franchising
Rollerz Rolled Sandwiches™	Restaurants serving gourmet rolled sandwiches, salads, soups and baked goods	1 franchises	From 2000 until 2004 by Rollerz Franchise Systems, L.L.C., from 2004 until March 2010 by Kahala Franchise Corp., and since August 2010 under Kahala Franchising
Samurai Sam's Teriyaki Grill®	Restaurants serving Japanese rice bowls and noodle bowls	~~2118~~ franchises (plus ~~21~~ company- owned unit)	From 2003 until 2004 by SP Franchising, Inc., from 2004 until March 2010 by Kahala Franchise Corp., and since August 2010 under Kahala Franchising
Surf City Squeeze®	Juice bars serving smoothies, fruit drinks and nutritional supplements	~~9085~~ franchises <u>(82 franchises in the United States and 3 international)</u>	From 1994 until 2004 by Malibu Smoothie Franchise Corp. and Surf City Squeeze Franchise Corp., from 2004 until March 2010 by Kahala Franchise Corp., and since August 2010 under Kahala Franchising
<u>Brand Name</u>	<u>Type of Restaurant Business</u>	<u>Number of Units as of November 30, 2017</u>	<u>Dates unit franchises began being offered by us or our affiliate</u>
TacoTime™	Restaurants serving freshly-prepared Mexican food including burritos, taco, quesadillas and nachos	~~268259~~ franchises and subfranchises ~~(137- (130~~ franchises in the United States and ~~131129~~ international restaurants) (plus 75 licensed units)	From 2003 until 2004 by Taco Time International, Inc., from 2004 until March 2010 by Kahala Franchise Corp., and since August 2010 under Kahala Franchising
<u>Brand Name</u>	<u>Type of Restaurant Business</u>	<u>Number of Units as of November 30, 2018</u>	<u>Dates unit franchises began being offered by us or our affiliate</u>

<u>Extreme Pita®</u>	<u>Restaurants serving wrap-style hot and cold pita and wrap sandwiches</u>	<u>5 franchises</u>	<u>From March 2001</u>
<u>Grabbagreen®</u>	<u>Restaurants serving healthy food, juice, smoothies and related products</u>	<u>23 franchises and 1 company-owned)</u>	<u>From April 2015 Grabbagreen Franchising, LLC and since February 2018 under MTY Franchising USA, Inc.</u>
<u>Ginger Sushi Boutique™</u>	<u>Restaurant serving a variety of sushi menu items and drinks</u>	<u>1Franchise</u>	<u>From September 2015 under MTY Franchising USA, Inc.</u>
<u>Mucho Burrito®</u>	<u>Restaurants offering burritos, quesadillas, tacos, nachos, and other assorted food and drinks</u>	<u>1 Franchise</u>	<u>From January 2010 under Mucho Burrito Franchising USA, Inc. Then from March 2019 under MTY Franchising USA, Inc..</u>
<u>Thai Express®</u>	<u>Restaurant serving “Thai-style” foods and drinks</u>	<u>10 Franchises and 1 company-owned</u>	<u>From February 2015 under MTY Franchising USA, Inc.</u>
<u>La Diperie</u>	<u>Restaurant serving retail sale of an icecream product and various dips and toppings</u>	<u>0 Franchises</u>	<u>From April 2019 under MTY Franchising USA, Inc.</u>
<u>Baja Fresh</u>	<u>Restaurant offering a limited menu featuring fresh high quality Mexican-style food products</u>	<u>125 Franchises(121 in the United States and 4 international) plus 6 company-owned</u>	<u>From 2009 under Triune, LLC until July 2017 and since BF Acquisition Holdings, LLC</u>
<u>Brand Name</u>	<u>Type of Restaurant Business</u>	<u>Number of Units as of November 30, 2018</u>	<u>Dates unit franchises began being offered by us or our affiliate</u>
<u>La Salsa</u>	<u>Restaurant offering a limited menu featuring fresh high quality</u>	<u>15 Franchises</u>	<u>From 1988 to 2006 under La Salsa Franchise, Inc.</u>

<u>The Counter</u>	<u>Mexican-style food products</u>		<u>2007 under La Salsa Franchise, LLC.</u>
	<u>Full service restaurant featuring build-your-own burgers, signature burgers, side dishes, sandwiches, and salads</u>	<u>33 Franchises(25 franchises in the United States and 8 international) and 3 corporate stores</u>	<u>From June 2005 under CB Franchise Systems, LLC. Then from March 2019 under MTY Franchising, USA.</u>
<u>Built custom burgers</u>	<u>Fast casual restaurant featuring build-your-own burgers, signature burgers, side dishes, sandwiches, and salads</u>	<u>5 Franchises</u>	<u>From 2014 under Built Franchise Systems, LLC. Then from March 2019 under MTY Franchising, USA</u>
<u>sweetFrog</u>	<u>Restaurant offering frozen yogurt using a self-serve delivery format</u>	<u>267 Franchises (258 in the United States and 9 international)</u>	<u>From 2009 under sweetFrog Enterprises, LLC then from April 2012 under its SFF. Then from September 2018 under MTY Franchising USA, Inc.</u>

Kahala Franchising was also in the business of franchising to others the right to purchase a defined geographic area to become an area representative in order to (i) recruit third parties to become unit franchisees; and (ii) provide support services to the unit franchisees, using the applicable trademarks for the particular brand and according to the terms, conditions, methods, and system standards in the area representative agreement and corresponding operations manual. Kahala Franchising or its predecessor affiliate, Kahala Franchise Corp., began offering area representative franchise agreements for the America's Taco Shop, Blimpie, Cereality cereal bar & cafe, Cold Stone Creamery, Frullati Cafe & Bakery, Great Steak, Johnnie's New York Pizzeria, Kahala Coffee Traders, *NrGize Lifestyle Cafe*, Ranch One, Rollerz Rolled Sandwiches, Samurai Sam's Teriyaki Grill, Surf City Squeeze and TacoTime brands at the same time it began offering unit franchises for each of the brands. Prior to our acquisition of the company, Tasti D-Lite LLC had offered area representative franchise agreements for the Tasti D-Lite and Planet Smoothie brands. We stopped selling area representative agreements for the following brands as of April 30, 2015: Cereality cereal bar & cafe, Frullati Cafe & Bakery, Johnnie's New York Pizzeria, Kahala Coffee Traders, Ranch One, Rollerz Rolled Sandwiches and Surf City Squeeze. We stopped selling area representative agreements for the following brands as of April 30, 2016: America's Taco Shop, Blimpie, Cold Stone Creamery, Great Steak, NrGize Lifestyle Cafe, Tasti D-Lite / Planet Smoothie, Samurai Sam's Teriyaki Grill and TacoTime. As of August 1, 2017, we again began selling area representatives agreements for Blimpie, Planet Smoothie, and Samurai Sam's Teriyaki Grill. As of the issuance date of this Disclosure Document, we are not offering area representative agreements under a separate Area Representative Franchise Disclosure Document for any of our brands, but may do so in the future under a separate disclosure document.

Franchises offered by MTY USA or its affiliates

MTY USA sells and grants franchises in the United States for the operation of master franchises and unit franchises under the Thai Express brand; for the operation of retail restaurant businesses under the Extreme Pita brand; for the operation of retail restaurant businesses under the Manchu Wok brand; for the operation and retail restaurant under the Grabbagreen brand, for the operation and retail restaurant under the sweetFrog brand; and for the operation of retail restaurant businesses using the Ginger Sushi Boutique brand.

MTY USA began offering Thai Express unit franchises in the United States in February 2015. MTY USA has offered Extreme Pita franchises in the United States since March 2001. As of November 30, ~~2017, 2018,~~ MTY USA had ~~95~~ Extreme Pita franchised restaurants in the United States. MTY USA does not operate any company-owned Extreme Pita restaurants. On December 18, 2014, MTY USA acquired the United States operations of the Manchu Wok franchise system. MTY USA began offering Manchu Wok franchises in March 2015. As of November 30, ~~2017, 2018,~~ there were ~~2826~~ Manchu Wok franchised restaurants and 1 Manchu Wok company owned store in the United States. MTY USA began offering Ginger Sushi Boutique franchises in September 2015. As of November 30, ~~2017, 2018,~~ there were no Ginger Sushi Boutique restaurants in the United States ~~MTY USA's affiliate.~~ As of March 15, 2018 MTY USA began offering Grabbagreen franchises. As of November 30, 2018 there were 24 Grabbagreen restaurants (23 franchise and 1 corporate store. MTY USA began to offer sweetFrog franchises as of September 25, 2018 as of November 30, 2018 there were 267 sweetFrog franchises (258 in the United States and 9 international).

On January 2, 2019 MTY USA, acquired all assets of Mucho Burrito Franchising USA, Inc. ("MBUSA") operates wherein MTY USA became the franchisor for the Mucho Burrito brand in the United States. Its predecessor. MBUSA is a Delaware corporation incorporated on January 19, 2010. On September 24, 2013, MTY USA's parent, MTY Canada, acquired the stock of MBUSA. MBUSA's principal business address in the United States is 9311 E Via De Ventura, Scottsdale, Arizona 85258. MBUSA has been offering Mucho Burrito unit franchises since February 2010, and offered area developer franchises in the United States from February 2010 to January 2013. However, as of January 2013, MBUSA no longer offers Area Developer franchises. As of November ~~2017, 2018,~~ there was 1 franchised Mucho Burrito restaurant and no company-owned Mucho Burrito restaurants in the United States.

Another of On November 30, 2016 MTY USA's affiliates, acquired all assets of BSB Franchising USA, Inc. ("~~BSB~~"), operates the ~~a~~ Delaware corporation wherein MTY USA became the franchisor of Big Smoke Burger ~~brand in the United States.~~ The predecessor BSB is a Delaware corporation that was incorporated on August 18, 2015 with offices at 9311 E Via De Ventura, Scottsdale, Arizona 85258. BSB ~~has been offering offered~~ Big Smoke Burger unit franchises ~~since from~~ February 2016 to November 30, 2016. As of November 30, ~~2017, 2018,~~ there was ~~1no~~ Big Smoke Burger restaurant in the United States.

Affiliates That Provide Products or Services to Franchisees

Kahala Management, L.L.C. ("Kahala Management"), an affiliate of Kahala Franchising, is an Arizona limited liability company that provides administrative, legal, accounting, sales, technology phone support, real estate and marketing support services to Kahala Franchising. Kahala Holdings and Kahala Restaurants are affiliates of Kahala Franchising that own and operate company-owned outlets detailed above. Cold Stone Creamery Restaurants, LLC, an Arizona limited liability company ("CSC Restaurants"), is an affiliate of Kahala Franchising that, along with Kahala Holdings and Kahala Restaurants, owns and operates the Cold Stone Creamery company- owned outlets. Kahala Advertising, LLC, an Arizona limited liability company ("Kahala Advertising"), is an affiliate of Kahala Franchising that began administering the national advertising funds for each of the brands and the regional cooperatives in 2008. Vires Media, LLC, an Arizona limited liability company ("Vires"), is an affiliate of Kahala Franchising that was formed for the purpose of buying media for Kahala Franchising's brands. Neptune Equipment Services, LLC, an Arizona limited liability company ("Neptune Equipment"), is an affiliate of Kahala Franchising that is an approved retailer of equipment that sells, distributes, and coordinates logistics of equipment, menu boards, interior and exterior signage, and smallwares to Kahala Franchising franchisees and licensees. KGC, LLC, a Colorado limited liability company ("KGC"), is an affiliate of Kahala Franchising that administers the gift card program.

Cold Stone Creamery Leasing Company, Inc. ("CSC Leasing"), another affiliate of Kahala Franchising,

was incorporated for the purpose of leasing sites for Cold Stone Creamery restaurants and subleasing them to franchisees. CSC Real Estate Management, LLC, an Arizona limited liability company ("CSC Real Estate") provides real estate management services to Cold Stone and CSC Leasing. CSC Leasing does not operate businesses of the type being franchised nor does it offer or sell franchises of Cold Stone Creamery restaurants. Another affiliate of ours is Cold Stone Creamery International, LLC ("International"), an Arizona limited liability company, which was organized on April 14, 2004 for our international expansion and franchisees outside of the United States.

Some Blimpie restaurants are leased by subsidiaries of our affiliate ("Blimpie Leasing Affiliates") KRES Holdings, L.L.C., an Arizona limited liability company ("KRES"), and in turn, subleased by such entities to Blimpie franchisees.

Some existing Cold Stone Creamery restaurants are leased by either of our affiliates, CSC Leasing or Cold Stone (collectively, "Cold Stone Leasing Affiliates"). Blimpie Leasing Affiliates and Cold Stone Leasing Affiliates shall collectively be referred to in this Disclosure Document as the "Leasing Affiliates."

Other Agreements

Kahala Franchising previously offered franchises for a take and bake pizza concept called "Pizza Fresh Take•N•Bake." It began franchising Pizza Fresh Take•N•Bake in November 2011 and ceased offering Pizza Fresh Take•N•Bake franchises in December 2014. During that time period, there were no Pizza Fresh Take•N•Bake franchises sold. Two corporately owned Pizza Fresh Take•N•Bake restaurants were opened in 2011 but both closed in 2014 and there are no Pizza Fresh Take•N•Bake restaurants currently in operation. Kahala Franchise Corp. previously offered franchises for a kiosk-style ice cream dessert concept called "Wafflō." It began franchising Wafflō in 2005 and ceased offering Wafflō franchises in December 2007. During that time period, there were 21 Wafflō franchises sold. As of November 30, ~~2017,2018~~, no Wafflō restaurants were open. Additionally, Kahala Franchise Corp. previously offered franchises for a premium soft serve frozen dessert product called "Tango." It began offering Tango franchises in May 2007 and ceased selling Tango franchises in November 2007. During that time, there were no Tango franchises sold, and there are no Tango franchise locations currently in operation. Tasti D-Lite LLC is an affiliate of Kahala Franchising that previously franchised the Tasti D-Lite frozen dessert brand. Kahala Franchising is now offering Tasti D-Lite products as a menu offering in Planet Smoothie restaurants. As of November 30, ~~2017,2018~~, there were ~~1013~~ Tasti D-Lite franchises ~~in the United States and 3 International~~.

Taco Time International, Inc. ("TTI") was a predecessor franchisor of the TacoTime brand. TTI's rights and obligations under a Master Franchise Agreement it entered into on March 13, 1978 ("MFA") were assigned to Kahala Franchising. Under the MFA, MTY TIKI MING Enterprises Inc. ("MTY") operates as the master franchisor of the TacoTime brand for the entire country of Canada. MTY is not an affiliate of Kahala Franchising. As of November 30, ~~2017,2018~~, there were ~~131~~129 TacoTime franchises in operation in Canada. As of the date of this Disclosure Document, the MFA is still in effect.

TTI also entered into a Western Washington Area Franchise Agreement with Accord, Inc. ("Accord") dated April 30, 1979, as amended ("Western Washington Agreement") under which TTI assigned its rights to franchise TacoTime in several counties and cities in the state of Washington to Accord ("Accord Territory"). The Western Washington Agreement was ultimately assigned from TTI to Kahala Franchising. Accord is not an affiliate of Kahala Franchising. As of November 30, ~~2017,2018~~, there were 75 TacoTime licensed restaurants in operation in the Accord Territory. As of the date of this Disclosure Document, the Western Washington Agreement is still in effect. TTI did not enter into any other territory agreements that are currently in effect. We are not offering TacoTime franchises under this Disclosure Document.

Blimpie International, Inc. ("BI") was a predecessor franchisor of the Blimpie brand. BI entered into a trademark distribution agreement with Blimpie of California, Inc. dated July 18, 1984, as amended ("TDA") under which Blimpie of California, Inc. operates as a subfranchisor for the Blimpie brand in a portion of Southern California. The TDA was ultimately assigned from BI to Kahala Franchising. Blimpie of California, Inc. is not an affiliate of Kahala Franchising. As of November 30, ~~2016,2018~~, there were 6 Blimpie franchises in operation in Blimpie of California, Inc.'s territory. As of the date of this Disclosure Document, the TDA is still in effect. BI did not enter into any other trademark distribution agreements that are currently in effect. We are not offering any Blimpie franchises under this Disclosure Document.

Except as described above, neither we nor any of our affiliates, have offered any other franchises in any

other line of business.

The principal place of business of Kahala Franchising and all of its affiliates, including the Leasing Affiliates, Kahala Management, Kahala Advertising, KRES, TTSM, Kahala Holdings, Kahala Restaurants, Cold Stone, CSC Restaurants, CSC Leasing, CSC International, CSC Real Estate, KGC, Neptune Equipment, Vires Media and Kahala Brands is 9311 E. Via De Ventura, Scottsdale, Arizona 85258. The identity and principal business address of Kahala Franchising's agent for service of process is listed in Exhibit C to this Disclosure Document.

Effective as of September 9, 2016, MTY USA entered into an agreement to purchase all outstanding membership interests of BF Acquisition Holdings, LLC ("BFAH"), a Delaware limited liability company having an address at 320 Commerce, Suite 100, Irvine, California 92602, including the rights to franchise the Baja Fresh® and La Salsa Mexican Grill® brands. The transaction closed on October 5, 2016. BFAH or its affiliate companies offer unit, multi-unit and area development Baja Fresh and La Salsa Mexican Grill franchises under separate disclosure documents. As of November 30, ~~2017, 2018~~, there were ~~135~~131 Baja Fresh restaurants (~~130~~121 franchised in the United States ~~4 international~~ and ~~56~~ company- owned) and ~~2215 La Salsa Mexican Grill restaurants in the United States.~~

On January 2, 2019 MTY USA, acquired all assets of CB Franchise Systems, LLC wherein MTY USA became the franchisor for The Counter. Effective as of November 14, 2017, MTY USA entered into agreement to purchase all outstanding membership interests of CB Franchise Systems, LLC, ("The Counter"), a California limited liability company and Built Franchise Systems, LLC, a California limited liability company, both having an address at 8571 Higuera Street, Culver City, California 90232, including the rights to franchise The Counter® and Built Custom Burgers® brands. The transaction closed December 1, 2017. CB Franchise Systems, LLC, Built Franchise Systems, LLC, and or its affiliate companies offer the unit, and area development The Counter and Built franchises under separate disclosure documents. ~~Currently, The Counter and Built networks combine 41 franchised locations and 3 corporate-owned locations. Of those 44 restaurants, 34 are located in the United States, 1 is located in Canada and 9 are located throughout the world. As of November 30, 2018 there were 33 (25 franchise, 8 international and 3 corporate) The Counter restaurants and 5 Built restaurants.~~

On January 2, 2019 MTY USA, acquired all assets of Built Franchise Systems, LLC wherein MTY USA became the franchisor for Built custom burgers. On December 1, 2017, Built Franchise Systems, LLC. was acquired by a wholly-owned subsidiary of MTY Food Group, Inc. ("MTY Food Group") having an address at 8150 Transcanada Highway, Suite 200, Saint Laurent, Québec H4S 1M5. Built Franchise Systems, LLC parent company became MTY Franchising USA, Inc. ("MTY USA"), a Delaware corporation incorporated originally as The Extreme Pita Franchising USA, Inc. on March 14, 2001, and having an address of 9311 E Via De Ventura, Scottsdale, Arizona 85258. MTY USA's parent corporation is MTY Tiki Ming Enterprises Inc. ("MTY Canada"), a Canada corporation incorporated on February 13, 1979, and a wholly owned subsidiary of MTY Food Group, Inc., and having an address at 8150 Route Transcanadienne, Suite 200, Ville Saint- Laurent, Quebec, H4S 1M5, Canada. MTY USA became the franchisor of The Counter effective January 2, 2019.

Effective as of February 16, 2018, MTY USA entered into an agreement to acquire the assets of the Grabbagreen® brand from Eat Clean Holdings, LLC, an Arizona limited liability company having an address at 10789 North 90th Street, Suite 202, Scottsdale, Arizona 85260 and certain of its affiliated entities, including the rights to franchise the Grabbagreen brand. The transaction closed on March 15, 2018. The current franchisor, MTY USA, currently offers Grabbagreen unit franchises which sell or offer for sale products that are similar to those of *NrGize Lifestyle Cafe*, and, prior to 2017, the previous ~~franchisor, Grabbagreen~~franchisor Grabbagreen Franchising, LLC, had offered area representative Grabbagreen franchises. As of the ~~February 21, 2018, November 30, 2018~~ there are ~~2724~~ Grabbagreen restaurants (~~2623~~ franchised and 1 company-owned) open and operating in the United States.

Effective as of September 1, 2018, MTY USA entered into an agreement to acquire the assets of, and in particular the rights to franchise, the sweetFrog® brand from SFF, LLC, a Virginia limited liability company having an address at 10800 Midlothian Turnpike, Suite 300, Richmond, VA 23235, and certain of its affiliates. SFF, LLC, offered sweetFrog unit franchises and had licensed sweetFrog Shops. As of September 1, 2018, there were 332 sweet Frog Shops (254 franchised and 78 company-owned 2 of which were joint ventures) open and operating in the United States. The transaction closed on September 25, 2018. MTY USA became the franchisor and will not operate any corporate Shops, as SFF or its affiliates

retained the 78 company-owned stores referenced above.

The Franchise

If you qualify, you may (i) construct a new *NrGize Lifestyle Cafe* restaurant; (ii) purchase one of our *NrGize Lifestyle Cafe* franchises by acquiring an existing business from another franchisee or from us; or (iii) convert all of your existing retail operations from another brand to our *NrGize Lifestyle Cafe* brand.

The business you will operate is a single traditional or non-traditional *NrGize Lifestyle Cafe* (“*NrGize Lifestyle Cafe*” or “*NrGize*”) restaurant specializing in low-calorie smoothies, fruit drinks, nutritional supplements, and other beverage and food items, at a specific location approved by us, and using the trademarks, trade names, service marks, logotypes, and other commercial symbols we adopt and authorize. A “traditional” *NrGize* restaurant is a *NrGize* restaurant that is easily accessible by the general public, such as a free-standing building, inline retail shop, shopping mall and street front location. A traditional *NrGize Lifestyle Cafe* restaurant normally offers a full *NrGize Lifestyle Cafe* menu. A “non-traditional” *NrGize* restaurant is a restaurant that is located in a non-traditional marketplace (in franchisor’s sole discretion) such as an airport, amusement park, sports or entertainment venue, train station, travel plaza, toll roads, cafeteria, retail store, convenience store, military base, hospital, office building, movie theater, hotel, casino, kiosk, cart or high school or college campus. A non-traditional *NrGize Lifestyle Cafe* restaurant generally offers a limited version of the full *NrGize Lifestyle Cafe* menu. An *NrGize Lifestyle Cafe* restaurant, whether traditional or non-traditional, is also referred to as the “Franchised Business.”

NrGize restaurants located outside of membership health clubs serve the general public; however, *NrGize* restaurants located inside of membership health clubs serve only the members and employees of the health club. People of all ages consume the products offered by *NrGize* restaurants. Most *NrGize* restaurants may be operated throughout the year; however, sales may fluctuate during the year. You will have to compete with other restaurants, fast food restaurants, supermarkets and other food retailers located in your venue or market area. Some of your competitors may include *NrGize* restaurants operated by other franchisees or by our affiliates. The extent to which you may succeed at any particular location cannot be predicted. Because of the highly competitive nature of the business involved, successful operation of the *NrGize* restaurant will depend in part upon the best efforts, capabilities, management, and efficient operation by the franchisee; as well as the general economic trend and other local marketing conditions.

You must comply with all federal, state, and local laws that regulate commerce in general and the food service industry in particular. In addition to laws and regulations that apply to businesses and restaurant operations generally, *NrGize* Franchised Businesses are subject to: (i) federal, state, and local health codes regarding health, sanitation, and food safety; and (ii) menu labeling and nutrition laws.

Remainder of Item 1 Applies only to NrGize Lifestyle Cafes located within LA Fitness Health Clubs:

An *NrGize Lifestyle Cafe* to be located within an LA Fitness health club is a “turn-key” opportunity, meaning we or our affiliate(s) will be solely responsible for overseeing and managing the construction and equipping of your *NrGize Lifestyle Cafe*. You will pay us or our designated affiliate the full Initial Franchise Fee of \$15,000 plus the full amount of the *NrGize* Turn-Key Fees (as defined in Item 5) when you sign the Franchise Agreement. We will ultimately be furnishing you with a fully constructed and equipped *NrGize* juice bar restaurant within an identified LA Fitness health club that meets our and LA Fitness’ standards and specifications. All restaurants will be developed and must be operated to our specifications and standards, and sell only those products that we authorize.

In accordance with the Master Facility License Agreement with LA Fitness, there will be no other competing establishments or operations within the applicable LA Fitness health club that offer any comparable food or beverage items. Some of the existing LA Fitness health clubs may have an existing cafe or restaurant, which you could convert to an *NrGize Lifestyle Cafe*. Kahala has a non-exclusive right to franchise the *NrGize Lifestyle Cafe* brand in new and existing LA Fitness health clubs. No other cafe or restaurant may be located within an LA Fitness health club that contains an *NrGize Lifestyle Cafe*.

ITEM 2: BUSINESS EXPERIENCE

Director, Chief Executive Officer and President: Stanley Ma

~~Mr. Ma has been a Director and the President and Chief Executive Officer of Kahala Brands' parent MTY USA since September 24, 2013. Mr. Ma has also been a director and the President and Chief Executive Officer of MTY USA's affiliate, MBUSA, since September 24, 2013. Mr. Ma founded MTY USA's parent, MTY Canada, of Quebec, Canada, in 1979 and has served as its President, Chief Executive Officer and Director since its founding.~~

Director and Secretary: Claude St. Pierre

~~Ms. St. Pierre has been a Director and the Secretary of Kahala Brands' parent, MTY USA, since September 24, 2013. Ms. St. Pierre has also been a Director and the Secretary of MTY USA's affiliate, MBUSA, since September 24, 2013. She is the Chief Operating Officer of MTY USA's parent, MTY Canada, of Quebec, Canada, a position she has held since June 2012. From May 2004 to June 2012 she was MTY Canada's Chief Financial Officer. She originally joined MTY Canada in September 1986. Director, Treasurer and Chief Financial Officer: Eric Lefebvre Chairman of the Board and Chief Executive Officer: Eric Lefebvre~~

~~Mr. Lefebvre has been~~was promoted and became the Chief Executive Officer of MTY Canada effective November 2, 2018. Mr. Lefebvre was the Chief Financial Officer of Kahala Brands' ultimate parent, MTY Food Group, since June 2012. Mr. Lefebvre served as Vice President of Finance of MTY Food Group from November 2009 until June 2012.

Chief Financial Officer: Renee St-Onge

~~Ms. St-Onge was promoted to Chief Financial Officer of MTY Canada effective November 2, 2018. Ms. St-Onge joined MTY in 2012 as Controller. Prior to MTY, Ms. St-Onge was employed by Bell Canada as associated director in corporate finance and Raymond Chabot Grant Thornton as an auditor.~~

Executive Vice President and Chief Operating Officer: Jeff Smit

Mr. Smit has been the Chief Operating Officer of Kahala Brands since June 2009 and was the Blimpie Brand President from November 2007 until December 2014.

Senior Vice President of Restaurant Operations – ~~Nrgize Lifestyle Cafe: Michael Rana: Anthony Crosby~~

~~Michael Rana became the Vice President of Operations of the Nrgize Lifestyle Café brand in December 2016. Prior to that, he was a Regional Director of Operation of the Blimpie brand from January 2008 to 2014.~~

Senior Vice President of Operations Services: Kevin Burnett

~~Mr. Burnett has worked with the Cold Stone Creamery brand since joining Cold Stone Creamery, Inc. in Scottsdale, Arizona, as the Senior Director of Operations in August 2008. Mr. Burnett became our Vice President of Operations Services in November 2008 and was promoted to Senior Vice President of Operations Services in August 2011. Crosby joined our team in October 2009 as the Vice President of Restaurant Operations. In addition, from January 2010 through December 2012, Mr. Crosby was the Johnnie's New York Pizzeria Brand President. In August 2011, Mr. Crosby became the Senior Vice President of Restaurant Operations for Kahala Brands and the Senior Vice President of Operations for the Kahala Coffee Traders, Great Steak, and Samurai Sam's Teriyaki Grill brands.~~

Senior Vice President of Development: John Wuycheck

Mr. Wuycheck has served as Kahala Brands' Senior Vice President of Development since September 2014. From September 2013 until September 2014, Mr. Wuycheck was Vice President of Franchising for HomeSmart Realty in Phoenix, Arizona. From January 2013 through August 2013, Mr. Wuycheck was Vice President of Franchise Sales for Edible Arrangements in Wallingford, Connecticut. Prior to that, Mr. Wuycheck was a Risk

Consultant for Wick Pilcher Insurance in Phoenix, Arizona from March 2012 until January 2013 and was Vice President, New Business Development for Starbucks Corporation in Seattle, Washington from August 2009 through October ~~2011.~~

~~Vice President of Franchise Development: Jay Goldstein~~
~~Senior Vice President of Operations Services: Kevin Burnett~~

~~Mr. GoldsteinBurnett has worked with the Cold Stone Creamery brand since joining Cold Stone Creamery in Scottsdale, Arizona in October 2005. In January 2008, Mr. Goldstein became the Senior Director of Development for Kahala Franchising, and from January 2008 until November 2008, Mr. Goldstein served as Senior Director of Operations. Mr. Goldstein was promoted to Vice President of, Inc. in Scottsdale, Arizona, as the Senior Director of Operations in August 2008. Mr. Burnett became our Vice President of Operations Services in November 2008 and was promoted to Senior Vice President of Operations Services in August 2011.~~

~~Franchise Development in May 2009. — As the Vice President of Franchise Development, Mr. Goldstein is involved in the sales of all of our brands.~~

Sr. Vice President and Deputy General Counsel: Kimberly Lane

Ms. Lane has been an Assistant General Counsel of Kahala Brands since March 2012, then became the Vice President of Real Estate in February ~~2013, recently~~2013 and became ~~athe~~ Sr. ~~VP &~~Vice President and Deputy General Counsel in September of 2016. Prior to joining Kahala Brands, Ms. Lane was an Associate Trial Attorney at Fidelity National Law Group in Phoenix, Arizona from July 2010 until March 2012. From February 2007 through June 2010, Ms. Lane was an Associate Attorney at Palecek & Palecek, PLLC in Scottsdale, Arizona.

Sr. Vice President and Deputy General Counsel: Jenny Moody

Mrs. Moody has been with Kahala Legal department since June 2010. In August 2012 she was named Corporate Counsel in September 2013 she was named Vice President and International Counsel, and in September 2016 became the Sr. Vice President and Deputy General Counsel.

Vice President of Training and Customer Service: Kerri Kudla

Ms. Kudla joined the Cold Stone Creamery, Inc. training team in Scottsdale, Arizona in June 2002. In January 2009, Ms. Kudla became our Director of Operations & Training Development, and was promoted to Senior Director of Operations & Training Development in October 2012. In June 2014, Ms. Kudla became ~~vice~~Vice President of Training and Customer Service where she manages the Training Program for the Kahala Training & Education Center (KTEC) in Scottsdale, Arizona for all of our brands and also oversees customer feedback channels for all of our brands.

Senior Vice President of Marketing: Steven Evans

Mr. Evans joined our marketing team in October 2007 as a National Marketing Manager for the Blimpie brand. In October 2009, Mr. Evans also became the Director of Marketing for the NrGize Lifestyle Cafe and Surf City Squeeze brands, and in January 2010, Mr. Evans also became the Director of Marketing for the TacoTime brand. In March 2011, Mr. Evans was promoted to Senior Director of Marketing, and in August 2011, Mr. Evans became the Vice President of Marketing. In January 2017 Mr. Evans was promoted to Senior Vice President of Marketing.

Vice President of Operations Cold Stone Creamery: Blake Borwick

Mr. Borwick began working as a Cold Stone Creamery franchisee in Cedar Falls and Waterloo, Iowa in April 2005 to March 2014. In March of 2014 to January 2017 he was the Director of Operations of Cold Stone Creamery and Blimpie Regional. He was promoted to Vice President of Operations for the Blimpie brand in January 2017. Mr. Borwick was promoted to Vice President of Operations for the Cold Stone Creamery brand in March 2018.

Vice President of Operations - America's Taco Shop, Thai Express & Ginger Sushi: Nicolette Petrillo

Ms. Petrillo became the Vice President of Operations for the America's Taco Shop brand in May 2014. From May 2010 until May 2013, Ms. Petrillo was the Senior Director of Operations for Papa Murphy's in Vancouver, Washington.

Vice President of Operations (Surf City Squeeze and Johnnie's New York Pizzeria brands): Jeffery Wallace

Mr. Wallace became the Vice President of Operations for the Johnnie's New York Pizzeria, Surf City Squeeze and Blimpie brands in December 2012 and transitioned to only the Surf City Squeeze and Johnnie's New York Pizzeria brands in December 2014. He was also the Vice President of Operations for the Pizza Fresh Take•N•Bake brand from December 2012 until we ceased offering it as a franchise in December 2014. Mr. Wallace worked with the Blimpie brand from April 2001 through December 2014, originally with Blimpie International, Inc. in Atlanta, Georgia, and then with Kahala Franchising after the acquisition of the Blimpie brand where he was promoted to Senior Director of Operations and promoted again to Regional Vice President of the Blimpie brand.

Vice President of Operations - NrGize Lifestyle Café and Blimpie : Michael Rana

Michael Rana became the Vice President of Operations of the Nrgize Lifestyle Café brand in December 2016. Prior to that, he was a Regional Director of Operation of the Blimpie brand from January 2008 to 2014.

Vice President of Operations - Pinkberry and sweet Frog brand: Tom O'Dear

Mr. O'Dear was a Regional Director of Operations for Blimpie International, Inc. in Atlanta, Georgia from June 2002 until our purchase of the Blimpie Assets in January 2006, and was a Regional Director of Operations for Kahala Franchising from January 2006 until September 2009. Mr. O'Dear was the Vice President of Operations for the Frullati Café & Bakery, Ranch One and Rollerz Rolled Sandwiches brands from September 2009 until April 2016 when he became the Vice President of Operations for the Pinkberry brand. Tom became the Vice President of Operations for the sweetFrog brand in September of 2018.

Vice President of Operations – Planet Smoothie and Tasti-D-Lite: Stacey Wopnford

Ms. Wopnford has served as the Brand President of the Planet Smoothie brand since June 2015. From January 2015 until June 2015, she served as Brand President of the NrGize Lifestyle Cafe brand. From September 2008 until January 2015, she was a Vice President of Operations, International.

Senior

Vice President of ~~Marketing: Kate Unger~~ Operations – Baja Fresh and La Salsa: Timothy Koch

Ms. Unger joined our marketing team in March 2004, and in June 2008, Ms. Unger was promoted to Vice President of Marketing. In August 2011, Ms. Unger became the Senior Vice President of Marketing. Mr. Koch joined the Baja Fresh team in March 2007 as Director of Purchasing. In November 2009, Timothy was promoted to Senior Director of Purchasing & Quality Management. In August 2015, Timothy was promoted to Vice President of Operations & Development. Timothy continued his role as Vice President of Restaurant Operations for Baja Fresh effective with the acquisition in October 2016.

Vice President of Restaurant Operations (Blimpie, Ranch One, Rollerz Rolled Sandwiches and Frullati Café & Bakery brands): Thomas Ciomek

Mr. Ciomek began working for Kahala Brands in Scottsdale, Arizona in January 2005 as a Regional Director of Operations and was promoted to Regional Vice President of Operations in February 2009. In September 2011, he became a Vice President of Restaurant Operations for the Blimpie, Ranch One, Rollerz Rolled Sandwiches and Frullati Café & Bakery brands.

Vice President of Operations (Grabbagreen): Jesse Schwarz

Mr. Schwarz joined MTY's affiliate, Kahala Brands in November 2016 as the Director of Operations of Baja Fresh and La Salsa Brands. Prior to joining Kahala Brands Jesse served as Director of Operations for Applebee's Franchisee RMH Holdings/Thomas & King Inc. since 2007. Upon the acquisition of the

Grabbagreen brand in March of 2018, Jesse became the Vice President of Operations for the Grabbagreen brand.

Vice President of Operations (Built /The Counter): April Fogel

Ms. Fogle became Vice President of Operations for Built and The Counter December 2017. Prior Ms. Fogle was Kahala Brands Franchise Director of Operations from November 2016 to December 2017. Ms. Fogel previously worked for Briad Restaurant Group as Director of Operations from June 2007 to November 2016.

TacoTime Brand President: Kevin Gingrich

Mr. Gingrich has served as the Brand President of the TacoTime brand since February 2005. Mr. Gingrich is also a TacoTime franchisee.

Director Business Development: USA: Robert S. Cook, Jr.

Robert has been the Director of Business Development for the Manchu Wok brand since January 2010. He also serves in the same position for our parent, MTY, and has done so since December 2014. He has been performing the same role with Kahala Brands since April of 2017.

VP of Operations Misty Hartner

Ms. Hartner became the VP of Operations for Maui Wowi December since 2018. Her previous experience includes the Director of Franchise Support of Maui Wowi since November 2015. Previously, she was the Director of Franchise Support for Maui Wowi Hawaiian Coffees and Smoothies from February 2010 to November 2015.

MTY USA Brands: Brand Vice President of Operations- Michelle Vander Werff

Michelle joined MTY's affiliate, Kahala Brands, in March of 2010 as a Regional Director of Operations for Cold Stone Creamery, bringing a wealth of knowledge as a previous Cold Stone Creamery franchisee. In 2012, Michelle became a Senior Regional Director and assisted with operational support of additional territories. In 2014, Michelle became the Director of Operations for Cold Stone Creamery and was based out of our Scottsdale office. Michelle moved to the Extreme Pita and Mucho Burrito brands in 2016.

Franchise Sales

Vice President of Franchise Development: Jay Goldstein

Mr. Goldstein has worked with the Cold Stone Creamery brand since joining Cold Stone Creamery in Scottsdale, Arizona in October 2005. In January 2008, Mr. Goldstein became the Senior Director of Development for Kahala Franchising, and from January 2008 until November 2008, Mr. Goldstein served as Senior Director of Operations. Mr. Goldstein was promoted to Vice President of Franchise Development in May 2009. As the Vice President of Franchise Development, Mr. Goldstein is involved in the sales of all of our brands.

Vice President of Franchise Development: Nicole J. Rayborn

Ms. Rayborn joined our sales team in March 1999 as the Director of Franchising and was promoted to Vice President of Franchise Development in November 2008.

Director of Franchise Business Development: Steven Zwerling

Mr. Zwerling started with us in September 2007 as a Regional Director of Operations and was promoted to Director of Franchise Business Development in December 2013.

Director of Franchise Development: Doug Merenda

Mr. Merenda joined our sales team in October 2015 as a Director of Franchise Development and was a

franchise broker for us from April 2015 through October 2015. From October 2014 to April ~~Page 11~~ 2015, Mr. Merenda was a Franchise Sales Executive for Caring Transitions in Cincinnati, Ohio, and prior to that, Mr. Merenda was a Franchise Sales Executive for Tutor Doctor in Toronto, Canada from February 2011 until October 2014. From January 2010 until February 2011, Mr. Merenda was a Franchise Salesperson for Kumon in Teaneck, NY.

Director of Franchise Development: Kim Cramton

~~Ms. Cramton joined our team in November 2017. From September 2014 to September 2017, Kim held the position of EVP of Franchise Development and Operations for Grabbagreen Food & Juice. From October 2012 to September 2014, Kim held the position of COO at Revsolar. Ms. Cramton has been in the food service business for over 28 years.~~

Director of Franchise Development: Ron Filian

Ron has served as Kahala Brands' Director of Franchise Development since November 2016. From January 2011 to December 2015, Mr. Filian served as Franchise Sales Manager for TBC Corporation, franchisor of Big O tires, Midas and Speedee, among others.

Director of Franchise Development: Adam Benshoof

Adam Benshoof joined Kahala Brands as Director of Franchise Development in August 2017. Prior to Kahala Brands, Adam was the Director of Franchise Sales & Development with Wyndham Hotel group from April 2015 to January 2017. Before this, he was a Franchise Area Developer with Radio Shack Corp from February 2014 to March 2015. Adam was a Development Manager with Maui Wowi Hawaiian Coffees & Smoothies from October 2011 to February ~~2014~~ 2014

Director of Franchise Development: Shemar Pucel

Ms. Pucel joined our team as Director of Franchise Development September 2018. She previously was the Director of Franchise Marketing & Development from August 2016 with SFF, LLC. From October 2015 to July 2016 she was a franchise Development Manager. From April 2012 to October 2015 Ms. Pucel was franchise Development Marketing Coordinator for Outdoor Living Brands in Richmond, Virginia.

Director of Franchise Development: Robert DiBartolomeo

Mr. DiBartolomeo joined our team as Vice President of Franchise Development January 2019. He was previously employed by MatchU Franchise Consultants, LLC as president from February 2017 to January 2019. From June 2016 to February 2017 he was the National Director of Franchising for TGI Fridays. From March 2015 to June 2016, Mr. DiBartolomeo was employed by UFood Grill as VP Franchising. From February 2009 to March 2015 he was employed by Brix Holdings as the Sr. Director of Franchising.

Director of Franchise Development: Rick Howard

Mr. Howard joined our team in January 2019. He was previously employed by Lunch Box Franchising, LLC as the Director of Development & Real Estate from May 2018 to November 2018. From September 2015 to May 2018 he was the Director of Franchise Development & Real Estate for Massage Envy Franchising, LLC. His prior employment from January 2014 to September 2015, was the VP of Development & Real Estate for Fun Brands, LLC.

Franchise Development Manager: Claudia Alaniz

Ms. Alaniz joined our team in March 2016. She was previously employed as the Field Marketing Manager for Pinkberry Ventures Inc. from May 2015 to March 2016. From September 2014 to April 2015 Ms. Alaniz was a Field Marketing Manager by Maverick Brands LLC. From April 2014 to September 2014 she was the Assistant Marketing Manager for Icelanic Glacial. From January 2014 to April 2014 she was the Brand Ambassador for Bai Brand and from August 2012 to December the Brand Ambassador for Vita Coco.

MTY Brands : Vice President of Development – USA – Ramin (Ray) Zandi

Ray is the Vice President of Development – USA of Extreme Pita, located in Scottsdale, Arizona, a position he has held since February 2009. Concurrently, Ray serves as Vice President of Development for our parent, MTY, in Scottsdale, Arizona, a position he has held since September 2013. Since February 2005, Ray has also served as the President of our former Northern California regional director, Desertbay Development, Inc., in Scottsdale, Arizona.

Franchise Development Manager - Traci Zandi

Traci has been assisting the V.P. of US Business Development in awarding Extreme Pita, Mucho burrito, Ginger Sushi and Poke shops and Thai Express franchise units since October 2016. She has also served as Office Manager and Executive Assistance for Extreme Pita from April 2011 until October 2016. As well as the Administrative Manager for our parent, MTY, in Scottsdale, Arizona, a position she has held since September 2013. From April 2005 through September 2013, Traci was the Director of Administrative Operations for our former Northern California regional director, DesertBay Development, Inc.

ITEM 3: LITIGATION

Pending Arbitration and Litigation Involving Kahala Franchising, L.L.C.

Kahala Franchising, L.L.C.; and KBI Holdings, L.L.C. v. Tire, Oil & Parts, Inc.; Joseph F. Shealy Sr. and Joan L. Shealy; Maricopa County Superior Court; Case No. CV2016-014309. On August 19, 2016, Kahala Franchising, L.L.C. and KBI Holdings, L.L.C., (collectively “Plaintiff/Counter Defendant”), filed a complaint against Tire, Oil & Parts, Inc., Joseph F. Shealy Sr. and Joan L. Shealy, (collectively “Defendant/Counterclaimant”). Plaintiff/Counter Defendant alleges: (i) Breach of Contract — #11114 Franchise Agreement (ii) Breach of Contract — #11114 Use & Occupancy License, (iii) Breach of Contract — #11114 Guaranty; (iv) Breach of Contract — The Guaranty #111493; (v) Breach of Contract — #11493; Use & Occupancy License; (vi) Breach of Contract — #11509 Franchise Agreement; (vii) Breach of Contract — #11509 Use and Occupancy License; (viii) Breach of Contract — The Guaranty #11509 (ix) Breach of Contract — #11528 Franchise Agreement; (x) Breach of Contract — #11528 Use & Occupancy License and (xi) Breach of Contract — The Guaranty. Plaintiff/Counter Defendant is seeking: (i) Direct and consequential damages for the breach of the Franchise Agreement in an amount not less than \$16,456.67 plus fees and interest; (ii) Direct and consequential damages for the breach of the Use and Occupancy License in an amount not less than \$53,969.48 plus fees and interest; (iii) Direct and consequential damages for the breach of the Guaranty in an amount not less than \$70,426.15 plus fees and LLC v. Hoboken #1 Blimpie, Inc. d/b/a Blimpie Subs and Salads Restaurant #11726; Garnish It, Inc. d/b/a Blimpie Subs and Salads Restaurant #10913; Damigreg, LLC d/b/a Hoboken Heroes; and David Pierro; United States District Court Southern District of New York; Civil Action No.: 1:17-cv-04686; subsequently amended on March 8, 2018 to remove Garnish, It, Inc. as a named Defendant amending the caption to: Kahala Franchising, LLC v. Hoboken #1 Blimpie, Inc. d/b/a Blimpie Subs and Salads Restaurant #11726; Damigreg, LLC d/b/a Hoboken Heroes; and David Pierro; United States District Court Southern District of New York; Civil Action No.: 1:17-cv-04686. On June 21, 2017, Kahala Franchising, L.L.C. (Plaintiff/ Counter Defendant), filed a Complaint against Hoboken #1 Blimpie, Inc. d/b/a Blimpie Subs and Salads Restaurant #11726; Garnish It, Inc. d/b/a Blimpie Subs and Salads Restaurant #10913 and Damigreg, LLC d/b/a Hoboken Heroes; and David Pierro (collectively “Defendants/ Counter Claimants”). Plaintiff/ Counter Defendant alleged: (i) Infringement of Federally Registered Trademark; (ii) Federal Unfair Competition – False Designation of Origin; (iii) New York Common Law Trademark Infringement and Misappropriation; (iv) New York Common Law Unfair Competition; and (v) New York Common Law Breach of Contract and Implied Covenant of Good Faith and Fair Dealing. Plaintiff / Counter Defendant is seeking: (i) Enjoinment from using any of the marks in the Blimpie® family of marks; (ii) Enjoinment from using any of the Blimpie® System trade secrets and confidential information in any manner; (iii) Enjoinment from operating a competing business for a period of five years within the protected franchise territory; (iv) Each Defendant be found liable for Federal Trademark Infringement and Federal Unfair Competition resulting from its use of one or more of the Blimpie® family of

marks; (v) An award of judgment for damages against each of the named Defendants; jointly and severally from their violation of Section 32(a) of the Lanham Act and 43(a) of the Lanham Act for Federal Trademark Infringement and Federal Unfair Competition in an amount to be fixed by the Court; (vi) Awarded judgment for damages resulting from each named Defendant's common law trademark infringement; (vii) Award for judgment for damages from each named Defendant's common law unfair competition and such damaged be trebled; (viii) Award of damages resulting from each named Defendant's common law breach of contract; (ix) Any other relief the Court deems fit; (x) Costs and attorneys' fees; and (xi) That all triable issues be brought before a jury. On February 15, 2017, Defendants / Counter Claimants filed their Motion to Dismiss. In turn the Court executed an Order on February 18, 2018, ordering Plaintiff/ Counter Defendant to file its Amended Complaint by March 9, 2018, or file a response to the Motion to Dismiss by April 3, 2018. On March 8, 2018, Plaintiff/ Counter Defendant filed it Amended Complaint in which it dismissed Garnish It, Inc. as a Defendant. The other Defendants remained named in the litigation. Plaintiff/Counter Defendant alleges:

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(i) interest; and (iv) Attorney's fees. On October 17, 2016, Defendant/Counterclaimant filed its Answer and Counterclaim. Defendant/ Counterclaimant is alleging: (i) Intentional Misrepresentation; (ii) Negligent Misrepresentation; (iii) Breach of Contract; and (iv) Bad Faith. Defendant/Counterclaimant is seeking: (i) Any and all resultant and consequential damages; (ii) Reasonable attorney fees pursuant to ARS 12-341.01 and the contractual provisions; (iii) Costs of the suit; and (iv) Any other relief the Court deems just and proper. On December 12, 2016 Plaintiff/Counter Defendant filed its Reply and Affirmative Defenses To Counterclaims in which it denied all allegations made in Defendant/Counterclaimant's Counterclaim and sought (i) dismissal of the Counterclaim; (ii) Judgment be entered in Plaintiff/ Counter Defendant's favor; (iii) Award of attorneys' fees; and (iv) Any other relief the Court deems fit. Discovery has been exchanged and is ongoing. Plaintiff/ Counter Defendant will continue to vigorously defend the claims against it. Kahala Franchising, LLC v. Hyon Kim Enterprises, LLC and Hyon G. Kim; United States District Court; District of Arizona; Case No.: 2:17-cv-01180-DKD On April 20, 2017, Kahala Franchising, LLC ("Plaintiff/Counter Defendant"), filed a Complaint against Hyon Kim Enterprises, LLC and Hyon G. Kim (collectively "Defendant Kim/Counterclaimant"), Plaintiff/Counter Defendant alleges: (i) Trademark Infringement; (ii) Unfair Competition; (iii) Breach of Contract — Specific Performance; (iv) Misappropriation of Trade Secretes; and (v) Breach of Contract — Damages. Plaintiff/Counter Defendant is seeking a preliminary and permanent injunction enjoining Defendant Kim/Counterclaimant from its use of any Surf City Squeeze Trade Mark materials, products and services; (ii) An order that any trade mark materials bearing the Surf City Squeeze Marks be returned to Plaintiff/Counter Defendant; (iii) Elimination of all advertising under the Surf City Squeeze Marks; (iv) Preliminary and permanent injunctive relief ordering Defendant Kim/Counterclaimant to perform its post-expiration obligations to Plaintiff/Counter Defendant; (v) Preliminary and permanent injunctive relief enjoining Defendant Kim/Counterclaimant from using Plaintiff/Counter Defendant's trade secrets and proprietary Surf City Squeeze information and requiring them to return all items related to the same; (vi) The filing of a written report under oath setting forth the compliance with the injunction; (vii) Payment by Defendant Kim/Counterclaimant of all gains profits and advantages derived from their infringement; (viii) Trademark infringement damages; (ix) Franchise agreement damages; and (xi) Costs, expenses and attorneys' fees. On June 15, 2017, Defendant Kim/Counterclaimant filed its Answer, Affirmative Defenses and Counterclaim in which it alleged that Defendant Kim/Counter Claimant's fully complied with the post-expiration obligations and the litigation is an abuse of process. They are seeking: (i) All claims against them be denied; (ii) Counterclaim be granted; (iii) Damages; and (iv) Attorney fees and costs. On July 10, 2017, Plaintiff/Counter Defendant filed its Answer and Affirmative Defenses to the counterclaim in which it is denied all allegations made by Defendant Kim/Counterclaimant. The matter is currently entering the discovery phase. Plaintiff/Counter Defendant will continue to vigorously defend the claims alleged against it. Kahala Franchising, L.L.C., successor to Kahala Franchise Corp. v. Ying & Rufe, LLC; Rufe Huang; Yiling Pan and Does 1-10; Superior Court of the State of California; County of Los Angeles; East District; Case No.: KC069041 On or about January 30, 2017, Kahala Franchising, LLC, inadvertently named as Kahala Franchise, L.L.C. ("Plaintiff Kahala/Counter Defendant"), filed a Complaint against Ying & Rufe, LLC, ("Defendant Ying & Rufe/Cross Claimant"); Rufe Huang; Yiling Pan (collectively "Defendant

Franchisees"). Plaintiff Kahala/Counter Defendant is alleging (i) breach of contract; (ii) open book account; (iii) accounts sealed; (iv) breach of personal guarantee; and (v) quantum meruit. Plaintiff Kahala/Counter Defendant is seeking: (i) the principal sum of \$215,224.80; (ii) interest rate of 10% per annum from 11/26/2014 (iii) attorney's fees (iv) cost of the suit and whatever further relief the Court deems fit. On September 5th Defendant Ying & Rufeil/Cross Claimant and Defendant Franchisees filed their Answer and Affirmative Defenses. Defendant Ying & Rufeil/Cross Claimant further filed a Cross Complaint against Kahala Franchising, L.L.C. Defendant Ying & Rufeil/Cross Claimant is alleging (i) concealment; and (ii) negligent misrepresentation. It is seeking (i) rescission of the franchise agreement; (ii) actual, consequential and incidental damages; and (iii) all awardable costs of the suit. Plaintiff Kahala/ Counter Defendant filed its answer on October 27, 2017, and the parties are currently engaged in discovery.. Following an October 10, 2017 scheduling conference the Court ordered the parties to participate in mediation by May 3, 2018. Trial is set for May 14, 2018. Plaintiff Kahala/Counter Defendant will continue to vigorously defend the claims alleged against it: Infringement of Federally Registered Trademark (15 U.S.C. § 1114); (ii) Federal Unfair Competition - False Designation of Origin (15 U.S.C. §1125); (iii) New York Common Law Trademark Infringement & Misappropriation; (iv) New York Common Law Unfair Competition; and (v) New York Common Law Breach of Contract & Implied Covenant of Good Faith & Fair Dealing. On April 27, 2018, Defendants / Counter Claimants filed their Answer, Affirmative Defenses, Counter Claims and Jury Demand. Defendants/ Counter Claimants allege (i) The Agreement is Unconscionable; (ii) Negligent Misrepresentation; and (iii) Fraudulent and Unlawful Practices. Defendants/ Counter Claimants are seeking: (i) Judgment in Counter-Claimants favor declaring the franchise agreement is void as unconscionable and an impermissible restraint against trade; (ii) Judgment in Defendants / Counter Claimant's favor awarding a money judgment including compensatory damages and pre and post judgment interest; (iii) Judgment in Defendants / Counter Claimant's favor pursuant to NY GBL §687(2)(b) for compensatory damages, rescission and return of Pierro and Damigreg's purchase and lease price at six percent per year from the date of purchase of the franchise agreement and lease of the location; and (iv) Judgment in Defendants / Counter Claimant's s favor for attorneys' fees, disbursements and any other relief the Court deems fit. On June 14, 2018 Plaintiff / Counter Defendant filed its Answer to Defendants/ Claimant's Counter Claim and vehemently denied the allegations made. A Settlement Conference is set for January 10, 2019.

Kahala Franchising L.L.C. and KBI Holdings, L.L.C. v. AFSA Food, Inc. and Arshad Khan; Supreme Court of the State of New York; County of Westchester; Index No.: 59688/2018. On June 21, 2018, Kahala Franchising, L.L.C. and KBI Holdings, L.L.C. (collectively "Plaintiffs / Counter Defendants") filed a Complaint against AFSA Food, Inc. and Arshad Khan (collectively "Defendants/ Counter Claimants"). Plaintiffs/ Counter Defendants allege breach of contract and are seeking: (i) Judgment in the sum of \$95,692.37, plus interest from January 3, 2017; (ii) Costs and disbursements incurred by the Plaintiffs/ Counter Defendants in connection with the action; (iii) Any other relief the Court deems just and proper. On October 18, 2018, Defendants/ Counter Claimants filed their Notice of Appearance; Answer and Counterclaims. Defendants/ Counter Claimants allege: (i) Plaintiffs/Counter Defendants acted in bad faith and fraudulently induced Defendants/ Counter Claimants into purchasing the Franchised Business; (ii) Plaintiffs/ Counter Defendants, as a foreign entity, acted in bad faith and violated the General Business Laws of New York. Defendants/ Counter Claimants are seeking: (i) Twenty-five thousand (\$25,000.00); for monies placed in the store and paid by Defendants/Counter Claimants to attain the franchise; (ii) An order that the Court direct Plaintiffs/ Counter Defendants' conduct to the Attorney General's office and seek one million dollars in fees as damages due.

Kahala Franchising, L.L.C. v. Madhat Hayek and Osama Hayek; Superior Court of New Jersey; Morris County; Law Division; Docket No.: MRS-L-001200-18. On June 20, 2018, Kahala Franchising, L.L.C. ("Plaintiff / Counter Defendant") filed a complaint against Madhat Hayek ("Defendant Hayek / Counter Claimant") and Osama Hayek ("Defendant Osama") Plaintiff/ Counter Defendant alleges: (i) Breach of Contract; and (ii) Account Stated. Plaintiff/ Counter Defendant is seeking: Judgment against both Defendants in the sum of \$16,182.84; (ii) Attorney's fees pursuant to Contract; and (iii) Costs of suit incurred. On August 7, 2018, Defendant Hayek/ Counter Claimant filed his Answer, Affirmative Defenses and Counterclaim against Plaintiff / Counter Defendant. Defendant Hayek / Counter Claimant alleged: (i) Plaintiff/ Counter Defendant had not performed its obligations to Defendant Hayek/ Counter Claimant under the franchise and verbal contract; (ii) Plaintiff/ Counter Defendant failed and refused to relocate the restaurant after repeated requests and providing ideas on new locations which led to the loss of all equipment; (iii) Plaintiff / Counter Defendant negotiated the lease in its interest and refused to renegotiate with the landlord about repairs to the building; and (iv) Plaintiff/ Counter Defendant failed to provide a full copy of the franchise agreement prior to the signing of the lease agreement.

Defendant Hayek / Counter Claimant sought \$85,000 in damages. Defendant Osama failed to file an Answer to the Complaint. On September 6, 2018, Plaintiff/ Counter Defendant filed its Answer to the Counterclaim; Separate Defenses and Jury Demand. Plaintiff/ Counter Defendant vehemently denied any and all claims alleged in Defendant Hayek / Counter Claimant's Counterclaim. Plaintiff/ Counter Defendant further served its First Set of discovery on Defendant Hayek / Counter Claimant. On November 30, 2018, Plaintiff/ Counter Defendant filed its Motion to Dismiss

Counterclaim Per R. 4:23-5(a)(1). Plaintiff/ Counter Defendant sought an Order Dismissing the Counterclaim for Defendant Hayak/ Counter Claimant's failure to provide discovery responses. On December 24, 2018, the Court granted Plaintiff/ Counter Defendant's Motion to Dismiss Counterclaim due to Defendant Hayek / Counter Claimant's failure to provide discovery responses.

Concluded Arbitration and Litigation Involving Kahala Franchising, L.L.C.

Me Tasti Treats, Inc. and Mike Zeitouni v. Kahala Franchising, LLC and Tasti D-Lite; Bergen County Superior Court of New Jersey; Law Division; Docket No.: BER-L-1839-17. On March 22, 2017, Me Tasti Treats, Inc. and Mike Zeitouni (collectively "Plaintiffs Zeitouni"), filed a Declaratory Judgment Complaint against Kahala Franchising, LLC and Tasti D-Lite (collectively "Defendants Kahala"). Plaintiffs Zeitouni sought/alleged (i) declaratory judgment; (ii) breach of contract; and breach of the covenant of good faith and fair dealing. Plaintiffs Zeitouni sought declaratory judgment, finding: (i) that Plaintiffs Zeitouni bear no responsibility for any future royalties; (ii) Defendants Kahala are in violation of the NJ Franchise Practices Act; (iii) that a breach of contract occurred; (iv) that a breach of the covenant of good faith and fair dealing occurred; (v) a reformation of the franchise agreement to conform to the NJ Franchise Practices Act; (vi) damages; and (vii) attorney's fees. On April 20, 2017, Defendants Kahala filed a Notice of Removal seeking to have the matter moved to the United States District Court for the District of New Jersey. On July 14, 2017, the parties entered into a settlement agreement in which Plaintiffs Zeitouni paid Defendants Kahala the sum of \$9,000.

KOHO, Inc. v. Kahala Franchising, L.L.C.; Superior Court of the State of California for the County of Los Angeles, Case No. BC572565. On or about February 17, 2015, Koho, Inc. ("Plaintiff Koho" or "Plaintiff/Cross Defendant Koho") filed a Complaint against Kahala Franchising, L.L.C. ("Defendant Kahala" or "Defendant/CrossclaimantCross Claimant Kahala"); alleging: (i) Breach of Contract; (ii) Unjust Enrichment; and (iii) Declaratory Relief. Plaintiff was seeking: (i) no less than \$540,000.00 in special and general damages; (ii) Litigation costs; (iii) Prejudgment interest; (iv) Reasonable attorney's fees; and (v) Declaratory relief. On or about May 5, 2015, Defendant Kahala filed a Cross-Complaint against Koho, Inc.; Heeyong Kyle Chung; and Hannah Kim; alleging: (i) Breach of Contract; (ii) Unjust Enrichment; (iii) Disgorgement and Restitution; (iv) Fraud-Deceit and Concealment; (v) Negligent Misrepresentation; (vi) Conversion; (vii) Negligence; and (viii) Declaratory Relief. Defendant Kahala sought: (i) Breach of Contract; (ii) Damages; (iii) Restitution; ~~(iv)~~ (iv) Judicial Determination; (v) Costs; (vi) Attorneys' Fees; (vii) Punitive Damages; and (viii) Prejudgment Interest. On or about June 2, 2015, Defendant/CrossclaimantCross Claimant Kahala filed its Objection to Plaintiff/Cross Defendant Koho, Inc.'s Notice of Taking Deposition of the Person Most Knowledgeable at Kahala Franchising, L.L.C.. On or about June 15, 2015, Plaintiff/Cross Defendant Koho's filed a Notice of Hearing on Demurrer and Demurrer to Defendant/CrossclaimantCross Claimant Kahala's Cross-Complaint; Memorandum of Points and Authorities; Declaration of Daniel D. Hoffman and Exhibits in Support Thereof. Plaintiff/Cross Defendant Koho filed its Notice of Motion and Motion to Strike Certain Portions of Defendant/Cross Claimant Kahala's Cross Complaint; Memorandum of Points and Authorities on June 17, 2015. On October 16, 2015, the Court overruled Plaintiff / Cross Defendant Koho's Demurrer to Defendant / CrossclaimantCross Claimant Kahala's Cross Complaint in its entirety and denied their motion to strike Defendant/ CrossclaimantCross Claimant Kahala's punitive damages claims; the Court sustained the Demurrer as to Cross-Defendant Hannah Kim. Mediation was held on May 3, 2016 which failed to yield a settlement between the two parties. On May 5, 2016, Defendant/CrossclaimantCross Claimant Kahala dismissed the Counter Claim against Koho, Inc. and Kyle Chung, as Plaintiff had fulfilled its debt previously owed to it, and; therefore, the claims were moot. Hannah Kim was subsequently awarded attorney's fees on June 15, 2016 in the amount of \$10,233.04. Bench Trial commenced on June 15, 2016 and ended on June 16, 2016. Upon the conclusion of Plaintiff Koho, Inc.'s case, Defendant Kahala presented its Case -in- Chief and moved for Judgment pursuant to Code of Civil Procedure section 631.8. The Court granted Defendant's Judgment as Plaintiff Koho failed to establish the requisite elements of "breach" and "damages" on the three causes of action asserted in the Complaint. On July 18, 2016, the Court awarded Defendant Kahala's attorneys'

fees in the amount of Two Hundred and Five Thousand Dollars and 00/100 Cents, (\$205,000.00). On September 22, 2016 Plaintiff Koho, Inc. filed a Notice of Filing of Notice of Appeal and requested that Defendant participate in a Mediation to resolve the outstanding award to Defendant. Plaintiff Koho, Inc. failed to post an appeal bond. On February 13, 2017 Defendant Kahala commenced its self-help pursuant to Section 8 (i) and (j) of the ARA and began withholding 100% of the Area Representative fees that Plaintiff Koho would have otherwise been entitled to. On June 19, 2017 the parties entered into a settlement agreement whereby Defendant Kahala repurchased Plaintiff's Area Developer territory for the sum of \$75,000 and forgave the remaining damages in the amount of \$130,000 owed to it.

Kahala Franchising, L.L.C. v. Sons 4, Inc., Howard Froomkin, Jennifer C. Froomkin, Linda Froomkin, Michael Froomkin, Craig Froomkin; Trumbull County Court of Common Pleas, Ohio, Civil Action No.: 2016 CV 00023. On January 6, 2016, Kahala Franchising, L.L.C., ("Plaintiff" and "Plaintiff/Counter Defendant"), successor in interest to Kahala Franchise Corp., filed a complaint against Sons 4, Inc., a former franchisee, ("Defendant Sons"), and Howard Froomkin, Jennifer C. Froomkin, Linda Froomkin, Michael Froomkin and Craig Froomkin, individuals who personally guaranteed Defendant Sons' Franchise Agreement (collectively, "Defendant Guarantors"). Defendant Sons and Defendant Guarantors are collectively "Defendants" or "Defendants/Counterclaimants". Plaintiff alleged breach of contract against Defendant Sons for ceasing operations of its Cold Stone Creamery restaurant prior to the expiration of the Franchise Agreement and amendments, and alleged breach of contract against Defendants. Plaintiff sought damages in the amount of \$64,000 plus attorneys' fees and interest for a total of \$98,462.97. On March 4, 2016, Defendants filed its Answer to Plaintiff's Complaint, Counterclaim and Jury Demand. Defendants/Counterclaimants alleged Plaintiff/Respondent did not comply with Ohio Revised Code Sections 1335.05(A)(2), 1334.06(A)(7), 1334.06(B), 1334.06(C) and 1334.09 regarding Right to Cancellation of the agreement. Defendants/Counterclaimants sought: (i) a declaratory judgment that (a) Plaintiff/Counter Defendant failed to comply with Ohio Revised Code 1334.06, (b) Defendants/Counterclaimants possessed a right to terminate the Franchise Agreement and amendments, Defendants/Counterclaimants did terminate and cancel the Franchise Agreement, and (c) Plaintiff/Counter Defendant is not entitled to any money damages; (ii) declaratory judgment that Defendants/Counterclaimants are entitled to a rescission of the Franchise Agreement and amendments; (iii) an award of compensatory damages to exceed \$25,000 with a total to be proven at trial; (iv) reasonable attorneys' fees; and (v) any other legal and equitable remedies the Court deems just and equitable. On March 31, 2016, Plaintiff/Counter Defendant filed its Answer to Defendants/Counterclaimants Counterclaim denying all allegations purported in its March 4, 2016 Counterclaim. On August 19, 2016, Defendants/Counterclaimants filed its Notice of Voluntary Dismissal of its Counterclaim against Plaintiff/Counter Defendant. On October 24, 2016, Plaintiff filed its Motion to Strike Defendants' Demand For Jury Trial and Brief in Support thereof. Defendants did not contest. On December 9, 2016, Plaintiff/Counter Defendant filed its Motion for Partial Summary Judgment Pursuant to Ohio Rule of Civil Procedure 56(D) as to Liability Only. On December 15, 2016, Defendants/Counterclaimants filed their Motion for Summary Judgment Pursuant to Ohio Rule Civ. R. 56. In February 2017, the Judge denied Defendants/Counterclaimants Motion for Summary Judgment and granted Plaintiff/Counter Defendant's Motion for Summary Judgment as to liability only. On May 3, 2017, a bench trial was held and the Judge granted Defendants/Counterclaimants' Motion for Directed Verdict and further denied Plaintiff/Counter Defendant's claim for damages, including collection costs and attorneys' fees and deemed the Defendants/Counterclaimants personal guaranties as moot. On June 1, 2017 Defendants/Counterclaimants filed a Motion for Attorney's Fees seeking \$15,790. On July 19, 2017 the parties entered into a settlement agreement in which Plaintiff/Counter Defendant paid Defendant/Counterclaimants the sum of \$10,000 to settle the outstanding dispute over attorney's fees.

Gaurang and Leena Parikh and Ranch 1 of Sunrise Mall, L.L.C. v. Ranch *1 Group, Inc., Ranch One/Kahala Brands of NY/Conn., L.L.C., Kahala Franchising, L.L.C., Kahala Corp., Malibu Smoothie Franchise Corporation, Petroff, Furst & Associates, Receivables Management Services, AWA Collections, and SFR Funding, Inc. ("SFR"); New York Supreme Court, Nassau County,

~~Commercial Division, Case No. 601397/2011. On or about December 12, 2011, Gaurang and Leena Parikh and Ranch 1 of Sunrise Mall, L.L.C. (collectively, "Plaintiffs"), filed a Complaint for: (i) Declaratory Judgment and Other Relief against Kahala Franchising, L.L.C., Kahala Corp., Malibu Smoothie Franchise Corporation (collectively "Defendants Kahala") et al., alleging deceptive business practices under General Business Law § 349; (ii) libel; (iii) racketeering activity under 18 U.S.C. §1961, et seq.; and (iv) unfair practice by a debt collector under 15 U.S.C.A. § 1692 et seq. Leena Parikh, under her company name Ranch 1 of Sunrise Mall, L.L.C., was a former Ranch *1 and Surf City Squeeze franchisee. Gaurang Parikh is her spouse. Plaintiffs sought: (i) a judgment which would declare that Plaintiffs owed no monies under their franchise agreements; (ii) compel Defendants to take all necessary action to clear Plaintiffs' credit reports of any negative credit history relating to the franchise agreement; (iii) treble damages; (iv) \$3,000; (v) attorneys' fees; and (v) costs of the suit, and such other relief which the court deems equitable and just. On or about June 8, 2012, the parties entered into a settlement agreement in which Plaintiff Parikhs would dismiss the Complaint with prejudice if their credit history was fully restored per the terms of the settlement agreement. Defendants Kahala and SFR agreed that (i) within 60 days of the settlement agreement, all negative credit history related to the franchise agreements in any way would be removed from Plaintiff Parikh's credit reports and all credit agencies; (ii) within 15 days of the settlement agreement Defendants Kahala and SFR would report to the collection defendants and Experian that Plaintiffs owe no monies to Kahala under their franchise agreements; and (iii) they waive all claims against Plaintiffs and all amounts owing under Plaintiffs' franchise agreements. Kahala requested the removal of the negative credit history related to the franchise agreements and Plaintiffs dismissed the complaint with prejudice.~~

Franchisor-Initiated Lawsuits Filed by Franchisor Kahala Franchising, L.L.C. Against Franchisees During Fiscal Year December 1, ~~2016~~2017 through November 31, ~~2017~~2018:

Suits ~~to Collect Royalty Fees, Advertising Fees, Lease Termination and Damages due to Unjust Enrichment~~for Trademark Infringement; Royalty and Advertising Fees

~~Kahala Franchising, LLC v. Bokjo Bros, Inc.; Seung Nam Park and Does 1-10; United States District Court, Central District of California – Western Division; Case No.: 2:18-cv- 01504-RGK- JC.~~

Suits to collect on Royalty Fees, Product Purchases and Promissory Note

~~Kahala Franchising, LLC v. A & H Ice Cream Store, Inc.; Hiba Rashid and Abdul Rashid; Supreme Court of the State of New York; County of New York; Index No: 2018-651951.~~

Suits to collect Early Termination Fees, Royalty and Advertising Fees

~~Kahala Franchising, L.L.C. v. SCSC L.L.C. and Brad Snyder; Lorain County Court of Common Pleas, Ohio; Case No.: 17CV191872-Y & N Food Service Corp. and Mohammed Zaynune; Superior Court of New Jersey; Passaic County; Law Division; Docket No.: PAS-L- 002080-18;~~

~~Kahala Franchising, L.L.C. v. Lies Enterprises, LLC; David Lies; Natasha Lies; James Grice and Amanda Grice; Douglas County District Court; Douglas County, CO; Case No.: 2018CV30754.~~

Suits to ~~Collect~~collect on ~~Royalty Fees, Service Fees and to Enforce Obligations of~~Early Termination Fees

~~Kahala Franchising, L.L.C. v. Nasim Patel, Javid Dal, Munaf Patel and Samim Dal; Supreme Court of the State of New York County of Queens; Index No.: 713818/2018.~~

Suits to collect on Early Termination Fee per the Franchise Agreement; ~~Wal-Mart Early Termination Fee and the Single Unit Facility License Agreement~~Fee

~~Kahala Franchising, L.L.C. and KahalaKBI Holdings, L.L.C. v. Altoneek, Inc. and Alicia Sedita and Thomas SeditaMichael Tonry; Circuit Court of the FifteenthNineteenth~~

Judicial Circuit in and for ~~Palm Beach~~St. Lucie County, FL; Case No.: ~~50-2017-CA-009218-~~
562018CA000931AXXXHC.

Suits to ~~Collect Future Royalties~~collect on Early Termination Fee; Unpaid rent; Royalty and Advertising Fees;
Wal-Mart Early Termination Fee

~~Kahala Franchising, LLC v. Blimpie of Oakland, Inc. and Yi-Mary Dai also known as Mary Yi-Dai~~L.L.C. v. Christopher Tadros; Superior Court of ~~New Jersey Law Division: Bergen County; Docket No.: L-159-17.~~Suits to Collect on Future Royalties and Enforce Obligations of the Franchise Agreement
~~Kahala Franchising, LLC and Blimpie International, Inc. v. Bell Bros. Oil Company, Inc.;~~
~~Maricopa County Superior Court, of Arizona; Case No.: CV2017-008087.~~the State of Arizona County of Maricopa; Case No.: CV2018-012924.

~~Suits~~Suit to Collect on Future Royalty Fees, Advertising Fees and Master Relationshipcollect on Early Termination Fee and Reimbursement of Relocation Fee

~~Kahala Franchising, L.L.C. v. Chetan B. Patel~~Surinder Singh Kheepal and Gurpreet K. Kheepal; State of ~~Henry~~Douglas County State of Georgia; Civil Action File No.: ~~17-64739-18~~SV00359EB.

~~Suits to Collect on Future Royalty Fees and Advertising Fees~~

~~Kahala Franchising, L.L.C. v. 136 Broad St., LLC and Frank Ingram; Superior Court of New Jersey Law Division: Essex County; Docket No.: ESX-L-8416-16.~~

~~Suits to Collect on Trademark Infringement~~

~~Kahala Franchising, LLC v. D & B Mitchell Group, LLC; United States District Court; District of Arizona; Case No.: CV17-2235-PHXDGC.~~

~~Suits to Collect on Trademark Infringement and Violation of Non-Compete~~

~~Kahala Franchising, LLC v. Hoboken #1 Blimpie, Inc.; Blimpie Subs and Salads Restaurant #11726; Garnish It, Inc.; Blimpie Subs and Salads Restaurant #10913; Damigreg, LLC d/b/a Hoboken Heroes; David Pierro; United States District Court; Southern District of New York; Civil Action No.: 1:17-cv-04686.~~

~~Kahala Franchising, LLC v. Tim Lee and Jim Olson; United States District Court; Western District of Wisconsin; Case No.: 3:17-cv-00046.~~

~~Suits to Obtain Possession of Property:~~

~~Kahala Franchising, LLC v. Keith Peterson and Julie Peterson; Superior Court of New Jersey Law Division, Special Civil Part Morris County; Case No.: MRS-LT-001949-17.~~

~~Suits to Collect on Royalty Fees, Rent and Promissory Note~~

~~Kahala Franchising, L.L.C. v. Synergy Bowen, L.L.C. and Daphne Bowen and Daniel Bowen; State Court of Gwinnett County State of Georgia; Civil Action File No.: 17C-05415-3.~~

~~Suits to Collect attorney's fees due the franchisee's failure to indemnify Franchisor and its affiliates and subsidiaries pursuant to the Franchise Agreement~~

~~Kahala Holdings, L.L.C. Kahala Franchising, L.L.C.; Kahala Restaurants, L.L.C. and Kahala Brands, Ltd. v. Samy Elfouley; Supreme Court of the State of New York County of Richmond;~~

LITIGATION INVOLVING PREDECESSORS AND AFFILIATES

Concluded Litigation Involving Predecessor Pinkberry Ventures, Inc.:

Pinkberry Ventures, Inc. v. Sam Lewis, Jackie Gardner (United States District Court, Central District of California, Case No. SC122940, filed August 7, 2014). On August 7, 2014, Pinkberry Ventures, Inc. ("Plaintiff") filed a complaint against Sam Lewis and Jackie Gardner ("Defendants") who were guarantors of four Pinkberry Franchise Agreements between Plaintiff and Penninsular Group, L.L.C. ("Penninsular"). Plaintiff terminated the Franchise Agreements for failure to pay royalties and marketing fees and filed this action to enforce the Continuing Guaranties signed by Defendants. Plaintiff alleged breach of written guaranty ~~and~~ Plaintiff sought: (i) amounts due and payable under the Franchise Agreements in excess of \$75,000 ~~plus~~; (ii) costs of suit; (iii) reasonable attorney's fees; and (iv) all other relief as the Court ~~deems~~deemed just and proper. On August 29, 2014 Penninsular filed a Complaint against Howard Schultz, Ron Graves, Michael J. Dixon and Michael Beck, all of which were former Directors and employees of Pinkberry Ventures, Inc. The matter was filed in the United States District Court, Middle District of Florida Tampa Division; Case No.: 8:14- CV-2152-F23TGW. Penninsular alleged: (i) fraudulent inducement; (ii) negligent misrepresentation, (iii) civil conspiracy, and (iv) violation of the Racketeer Influenced and Corrupt Organizations Act. Penninsular sought: (i) rescission of the Franchise Agreements; (ii) damages; (iii) attorney's fees ~~and~~; (iv) costs; (v) post-judgment interest; and (vi) any other further relief as the Court deemed just and proper. Plaintiff and Penninsular entered into a Settlement Agreement dated February 15, ~~2015~~2015, under which Plaintiff agreed to pay Defendant \$60,000 (that ~~will be~~was distributed to defendant's creditors), less any cancellation fees charged by the Special Master, and to dismiss this action. None of the parties admitted liability or wrongdoing.

Pending Arbitration and Litigation Involving Predecessor Cold Stone Creamery, Inc.:

Cecil Rolle v. Cold Stone Creamery, Inc. ~~et al~~, Kahala Corp., Cold Stone Franchisee National Advisory Board, L.L.C., Robert Zarco, Esq. and Zarco Einhorn, Salkowski & Brito P.A.; Eighth Judicial Circuit Court, Alachua County, Florida, Case No. 2011-CA-~~5004~~5004 subsequently amended and removed to Cecil Rolle v. Cold Stone Creamery, Inc.; The Kahala Corp.; The NIACCF, Inc.; Robert Zarco, Esq.; and Zarco Einhorn Salkowski & Brito, P.A., Daniel Beem; Rodolfo Puig; Frank Caperino and Edward Reesman; County Court of the Eleventh Judicial Circuit in and for Miami-Dade County, FL; Case No.: 2012-19002CA02. On or about September 30, 2011, Cecil Rolle, a former Cold Stone Creamery franchisee ("Plaintiff"), filed a Complaint and Demand for Jury Trial against Cold Stone Creamery, Inc., Kahala Corp. (collectively "Defendants Cold Stone"), Cold Stone Franchisee National Advisory Board, L.L.C., Robert Zarco, Esq., and Zarco Einhorn Salkowski & Brito, ~~P.A.~~ P.A. The complaint ~~alleges~~alleged defamation per se and defamation per quod. Plaintiff ~~seeks~~sought an award in an unspecified amount for all damages, including interest, costs and any other relief the Court ~~deems~~deemed proper. On November 21, 2011 Defendants Cold Stone ~~denied all allegations and vigorously defended the claims against them~~filed a Motion to Dismiss Plaintiff's Complaint and/or for More Definite Statement. The National Advisory Board, LLC also filed a Motion to Dismiss Plaintiff's Complaint on November 21, 2011. On January 3, 2012 Defendant Robert Zarco filed his Motion to Dismiss Plaintiff's Complaint with Prejudice. On January 4, 2012 Defendants NIACCF and Zarco, Einhorn, Salkowski & Brito P.A. filed their Motion to Dismiss Plaintiff's Complaint With Prejudice and/or for a More Definite Statement. Plaintiff filed an Amended Complaint on or about January 17, 2012. Plaintiff amended the original claims and added conspiracy to defame. The Amended Complaint no longer named the National Advisory Board as a Defendant but it did include Dan Beem ("Defendant Beem"). NIACCF, Inc., Rodolfo Puig, Frank Caperino, and Edward Reesman as additional Defendants ~~and added conspiracy to defame as another allegation. In February 2012, Defendants Cold Stone Creamery filed a Motion to Dismiss and Motion for Sanctions and (hereinafter "Defendants Puig, Caperino and Reesman").~~ On February 1, 2012 Defendants NIACCF, Robert Zarco, Esq., and Zarco Einhorn, Salkowski & Brito, PA filed a Motion to Dismiss along with a Motion to Transfer Venue. ~~In April~~On February 2, 2012 Defendants Cold Stone filed a Motion to Dismiss and Motion for Sanctions. On February 16, 2012, Defendants Puig, Caperino and Reesman filed their Motion to Dismiss. On February 16, 2012 Plaintiff filed his Response to Defendants NIACCF, Robert Zarco, Esq. and Zarco Einhorn Salkowski & Brito, P.A.'s Motion to Dismiss and Motion to Transfer Venue pleading the Court to keep the venue in Alachua County, FL. On March 13, 2012 Plaintiff filed a Request to Enter Default against Defendant Beem for failure to respond to the Complaint. On April 9, 2012 Defendant Beem filed a Motion to Quash Service of Process and Motion to Set Aside Clerk's Default for lack of personal jurisdiction pursuant to Fla. R. Civ. P.

1.140. He also moved to set aside the clerk's default entered against him on March 14, 2012 on the grounds that (i) he was entitled to notice prior to entry of the default and (ii) his alleged failure to timely answer was due to excusable neglect, he has meritorious defenses, and he acted with diligence in moving to set aside the default. In April 12, 2012, the Alachua County Eighth Circuit District Court denied Defendants NIACCF, Robert Zarco, Esq., and Zarco Einhorn, Salkowski & Brito, PA Motion to Dismiss, but granted the Motion to Transfer Venue to the Miami – Dade Eleventh Circuit District Court, ~~which made the following rulings on the following Motions: (i) Defendants Cold Stone Creamery's Motion to Dismiss Plaintiff's.~~ On May 4, 2012 Plaintiff (hereinafter Plaintiff or Plaintiff/ Appellant") filed an Appeal in the First District Court of Appeal, State of Florida; Case No.: 12-2112. Plaintiff/Appellant sought that the Court reverse the trial Court's Order to Transfer Venue. On June 29, 2012 Defendants Cold Stone, and Defendant Beem (collectively "Defendants Cold Stone/ Appellees") filed their Answer Brief requesting that the Court affirm the trial Court's order granting the defense motions to transfer venue. On July 18, 2012 Plaintiff/ Appellant filed his Reply again requesting that the trial court's Order to Transfer Venue be reversed. On November 28, 2012 the District Court of Appeal First District of Florida issued its Opinion and affirmed the trial court's order to transfer the venue from Alachua County to Miami-Dade County. On January 22, 2013 Plaintiff filed his reply to Defendant Beems's Motion to Quash Service of Process and Motion to Set Aside the Clerk's Default and requested that the Court deny both motions. On January 23, 2013 the Court issued its Order that Defendant Beem's Motion to set aside the Clerk's Default was granted and the Clerk's Default of March 13, 2012 be set aside; (ii) Defendant's Beem's Motion to Quash Service for lack of personal jurisdiction was denied; and (iii) Defendant Beem's arguments with regard to personal jurisdiction were preserved and would be heard with his Motion to Dismiss. On January 15, 2013 Plaintiff filed a Motion for Default against Defendants NIACCF, Robert Zarco, Esq. and Zarco Einhorn Salkowski & Brito , P.A. for failure to plead or otherwise defend within the specified time frame. On January 28, 2012 Defendants NIACCF, Robert Zarco and Zarco Einhorn, Salkowski & Brito P.A. filed a Corrected Motion to Vacate the Portion of the Order Dated April 12, 2012 Denying Defendants' Motion to Dismiss. On June 18, 2013 The Court Order was issued and it granted without prejudice Defendant Beem's Amended Motion to Dismiss based on a lack of personal Jurisdiction. On June 24, 2013 the Court granted Defendants NIACCF, Robert Zarco, Esq. and Zarco, Einhorn Salkowski & Brito P.A.'s Corrected Motion to Vacate the Portion of the Order Dated April 12, 2012 Denying Defendants' Motion to Dismiss. The Court further ordered on June 24, 2013 an Order granting (i) Defendants NIACCF, Inc., Robert Zarco, Esq. and Zarco Einhorn Salkowski & Brito P.A.'s Motion to Dismiss the First Amended Complaint ~~was granted and the Court dismissed the defamation per se, defamation per quod and conspiracy to defame allegation with prejudice based on privilege~~; (ii) Defendants ~~Cold Stone Creamery, Inc. and Kahala Corp.'s Amended~~NIACCF, Inc. Robert Zarco and Zarco Einhorn Salkowski & Brito P.A.'s Supplemental Motion to Dismiss ~~Plaintiff's First Amended Complaint was granted on or about June 25, 2013~~; (iii) Defendants Cold Stone Creamery Amended Motion to Dismiss First Amended Complaint and (iv) Defendant Dan Beem's Motion to Dismiss ~~Plaintiff's First Amended Complaint was granted without prejudice by the Court on or about June 20, 2013~~; (iv) Defendants NIACCF, Robert Zarco, Esq., and Zarco Einhorn, Salkowski & Brito, PA's Corrected Motion to Vacate the Portion of the Order dated April 12, 2012, denying Defendants Motion to Dismiss was granted on or about June 25, 2013; (v) Defendants NIACCF, Robert Zarco, Esq., and Zarco Einhorn, Salkowski & Brito, PA's Supplemental Motion to Dismiss Plaintiff's First Amended Complaint was granted by the Court on or about June 25, 2013; (vi) Defendants NIACCF, Robert Zarco, Esq., and Zarco Einhorn, Salkowski & Brito, PA's Motion to Dismiss First Amended Complaint was granted by the Court on or about June 25, 2013. In July. On July 15, 2013, Plaintiff/Appellant filed a Notice of Appeal with the Florida Third District Court of Appeal, Case No. 3D13-1821, to appeal the June 20, 2013 ~~ruling granting of Defendants' Motion to Dismiss 24 2013 Order granting Defendant Cold Stone's Motion to Dismiss.~~ On July 19, 2013, Defendants Cold Stone/ Appellees filed their Notice of Appearance. On July 24, 2013, the Court granted Defendants Puig, Caperino and Reesman's Motion to Dismiss First Amended Complaint. On July 24, 2013, Plaintiff/Appellant filed an Amended Notice of Appeal to the aforementioned June 24, 2013 Order and the July 24, 2013 Order. On August 27, 2013 Defendants Cold Stone/Appellees filed their Motion to Dismiss Appeal and Alternative Motion to Strike Notice of Appeal. On March 31, 2014, oral argument of the Appeal took place in which Defendants Cold Stone presented its authorities and arguments in favor of affirming the lower court's decision. On June 24, 2016~~2016~~, Plaintiff filed its Notice of Substitution of Counsel for Appellant. On July 8, 2016 Defendants NIACCF, Robert Zarco, Esq., and Zarco Einhorn, Salkowski & Brito, PA, filed Appellees' Motion to Strike Appellant's Notice of Supplemental Authority. On July 11, 2016~~2016~~, Plaintiff filed its Response in Opposition to Appellees' Motion to Strike Defendants' Notice of Supplemental Authority. Defendants Cold Stone filed its Notice of Supplemental Authority on July 21, 2016. On March 1, 2017, the Third District Court of Appeals issued its decision reversing the trial court's decision to dismiss Plaintiff's defamation

lawsuit based on technical procedural grounds. On May 18, 2017, Defendants Cold Stone filed its Answer and Affirmative Defenses. Discovery is ongoing and a date for trial has not been set. Defendants Cold Stone will continue to vigorously defend the claims against it.

Franchisor-Initiated Lawsuits Filed by Predecessor Cold Stone Creamery, Inc. Against Franchisees During Fiscal Year ~~2017~~2018:

~~*Suits to Collect on Trademark Infringement and Violation of Non-Compete*~~

None

~~*Gold Stone Creamery, Inc. v. Black Hills Creamery, Inc., Ronald Kirkpatrick, Roxann Kirkpatrick and Does 1 through 10; Maricopa County Superior Court of Arizona; Case No.: Case No.: CV2017-008088.*~~

⊖

⊖ — Concluded Arbitration and Litigation Involving Parent Company (Kahala Brands, Ltd. formerly known as Kahala Corp.)

⊖

Ronald Williams and Jennifer Clayton v. Kahala Corp.; Third Judicial Circuit Court, Madison County, Illinois, Case No. 2010 L 000166. In February 2010, Ronald Williams and Jennifer Clayton Blimpie customers, individually and on behalf of all others similarly situated (collectively, the “Plaintiffs”) filed a Class Action Complaint against Kahala Corp. (“Defendant”), incorrectly naming Kahala Corp. as the franchisor of the Blimpie brand. In the Complaint, Plaintiffs ~~allege~~alleged violation of the Illinois Consumer Fraud and Deceptive Business Practices Act arising from a claim that the Blimpie restaurants in the state of Illinois do not put double the meat in the Super Stacked sandwiches. The Plaintiffs ~~seek~~sought: (i) certification of the class; (ii) designation of Plaintiffs as representatives of the class; (iii) and counsel as class counsel; (iv) damages to be determined at trial, but in no event greater than \$75,000 per person, (v) plus reasonable attorneys’ fees; and (vi) allowable costs, including reasonable fees and expenses of any necessary expert witnesses, (vii) a permanent injunction enjoining Defendant from advertising that its Super Stacked sandwiches contain double portions of meat without including double portions of meat in such sandwiches, and (viii) any other relief the Court deems appropriate. Defendant denied all allegations. In May, 2010, the parties reached a settlement whereby Defendant agreed to donate \$5,000 to a local food bank in exchange for Plaintiffs’ dismissal of all claims against Defendant.

Concluded Arbitration and Litigation Involving Predecessor Kahala Franchise Corp.

⊖ — Texas Nrgize #1, Inc. v. Kahala Franchise Corp. and Kahala Holdings, L.L.C.; 67th Judicial District Court, Tarrant County, Texas; Civil Action No.: 067-272652-14. On or about June 18, 2014, Texas NRGIZE #1, Inc., a current Nrgize franchisee (“Plaintiff”), filed a Summons and Petition and Request for Disclosure against Kahala Franchise Corp and Kahala Holdings, L.L.C. (collectively, “Defendants”) alleging (i) violations of the Texas Business Opportunities Act, Tex. Bus. & Comm. Code §§ 51.001 and the Texas Deceptive Trade Practices Consumer Protection Act, Tex. Bus. & Comm. Code §17.46, and (ii) Breach of Contract and Warranties. Plaintiff ~~seek~~sought (i) economic damages in excess of \$200,000 plus treble damages and pre- and post-judgment interest at the maximum rates allowed by law; (ii) attorneys’ fees and costs; and (iii) such other relief to which the Plaintiff may be justly entitled. On July 16, 2014, Defendants filed a Notice of Removal to the United States District Court for the Northern District of Texas; Civil Case No.: 4:14-cv-544. On July 24, 2014 the Judge executed the Order Granting the Unopposed Motion to Substitute Parties and Changing Case Style. Kahala Franchising, L.L.C. was substituted in as a Defendant instead of Kahala Franchise Corporation. On July 28, 2014, Defendants filed a Motion to Transfer Pursuant to 28 U.S.C. §(A) and Brief in Support. This motion sought an order to transfer the litigation to the United States District Court for the District of Arizona pursuant to the parties forum selection clause contained in the franchise agreement. On August 1, 2014, Defendants filed its Answer, Counterclaim and Third Party Claim. The Counterclaim was against Plaintiff and the Third-Party Claim was filed against Duane W. Martin, Argentina Saldivar, and Margena Wood, (“Third Party Defendants”). Defendants alleged: (i) Breach of Franchise Agreement against Plaintiff, and (ii) Breach of Guaranty against Third Party Defendants, ~~and~~. Defendants sought: (i) judgment against Plaintiff and the Third Party Defendants in an amount to be proven at trial; (ii) attorneys’ fees; (iii) costs pursuant to A.R.S.

§§12-341 and 12-341.01 and the parties contractual agreements; and (iv) any other relief the Court ~~deems~~deemed fit. Plaintiff filed its Response to Defendants' Motion to Transfer Pursuant to 28 U.S. C. §1404 (A) and Brief in Support on August 18, 2014, then filed its Answer to Defendant's Counterclaim on August 22, 2014. On August 28, 2014, Defendants filed its Reply in Support of Motion to Transfer Pursuant to 28 U.S. C. § 1404(A) and Brief in Support. On September 24, 2014, the United States District Court for the Northern District of Texas Court requested that each party submit a supplemental brief to benefit the Court in resolving the Defendants' Motion to Transfer. Mediation was held on September 29, 2014, but the parties failed to come to an agreement. On October 17, 2014, the Third Party Defendants filed their Answer and Counterclaim. The Third Party Defendants alleged: (i) violations of the Texas Business Opportunities Act, Tex. Bus. & Comm. Code §§ ~~51.001-~~

51.1 and the Texas Deceptive Trade Practices Consumer Protection Act, Tex. Bus. & Comm. Code §17.46, and (ii) Breach of Contract and Warranties and sought: (i) economic damages in excess of \$200,000 plus treble damages under the Code and pre and post judgment interest at the maximum rates allowed by law; (ii) attorney's fees; (iii) costs; and (iv) any other relief general or special that the Court deems fit. On October 24, 2014, Defendants filed its Supplemental Briefing In Support of Its Motion to Transfer Pursuant to 28 U.S.C. §1404(A). On November 10, 2014, the Defendants filed its Answer to the Third Party Counterclaims. On November 13, 2014, Defendants filed its Notice of Dismissal Without Prejudice as to Third Party Defendant Argentina Saldivar only. On November 14, 2014, ~~Plaintiff's~~Plaintiffs filed its Response to Defendants Supplemental Briefing In Support of Their Motion to Transfer Pursuant to 28 U.S.C. §1404(A). On November 26, 2014, Defendants filed its Reply to Plaintiff's Response to Defendants' Supplemental Briefing in Support of Its Motion to Transfer Pursuant to 28 U.S.C. §1404 (A) On February 24, 2015, the Court granted Defendants' Motion to Transfer the case to the United States District Court of the District of Arizona; Phoenix Division; Case No.: CV15-0337 PHX DGC. In April 2015 Plaintiff moved to compel arbitration which was ultimately denied by the Court. The parties participated in a mediation in August 2015 which proved to be unsuccessful. In December 2015 the parties executed a settlement agreement in which Defendant paid Plaintiff the sum of \$35,000. The parties filed a Stipulation to Dismiss With Prejudice on December 18, 2015.

Richard Kim and Falcon Capital Investment Group, L.L.C. v. Kahala Franchise Corp., Kevin Blackwell, and Kyle Chung; Superior Court of California, County of Los Angeles, Case No. BC408903. In March 2009, Richard Kim and Falcon Capital Investment Group, L.L.C. (collectively, the "Plaintiffs"), a Johnnie's New York Pizzeria franchisee, filed a lawsuit against Kahala Franchise Corp., Kevin Blackwell (collectively "Defendants Kahala") and Kyle Chung ("Defendant Chung"), alleging breach of written contract and the covenant of good faith and fair dealing, fraud and deceit, negligent misrepresentation, violation of the California Franchise Investment Law, California Corporations Code Sections 31110 and 31202, and unfair trade practices under the California Business & Professions Code Section 17200, the FTC Act and the FTC Franchise Disclosure Rule. Specifically, Plaintiffs alleged the Defendants Kahala and Defendant Chung failed to provide required assistance and advice, improperly debited the Plaintiff's bank account, collected national advertising fees from Plaintiffs but did not provide national advertising, and that Defendants Kahala and Defendant Chung. lacked a support structure and national advertising program. Plaintiffs sought general and special damages according to proof; a permanent injunction enjoining Defendants from illegal, fraudulent and unfair acts or practices and equitable relief of rescission, full restitution, and ancillary damages; punitive, exemplary or treble damages according to proof; reasonable attorneys' fees and costs; and an order requiring Defendants disgorge all ill-gotten gains. Defendants Kahala and Defendant Chung denied all allegations against them. The parties entered into a Settlement Agreement on June 30, 2010 whereby Defendants Kahala and Defendant Chung paid Plaintiffs the sum of \$375,000 and amended Plaintiffs' Franchise Agreement to reflect, among other things, Defendants' limited involvement in Plaintiffs' Johnnie's New York Pizzeria franchise. The action was dismissed with prejudice on July 19, 2010.

Bay Area Cereal, L.L.C., Larry Schaad and Laila Fields v. Kahala Franchise Corp.; Santa Clara County Superior Court, California, Case No. 109CV136483. In March 2009, Bay Area Cereal, L.L.C., Larry Schaad and Laila Fields (collectively, the "Plaintiffs"), Cereality cereal bar & cafe area representatives and franchisees, filed a lawsuit against Kahala Franchise Corp. (the "Defendant") alleging fraud, negligent misrepresentation, violation of Corporations Code § 3121 *et seq.*, and breach of contract (both Franchise Agreement and Area Representative Agreement). Specifically, Plaintiffs alleged that Defendant misrepresented the maturity of the Cereality cereal bar & cafe brand, the expansion of the brand, and the success of franchised restaurants. Plaintiffs sought monetary damages in excess of \$500,000, special, punitive and exemplary damages, pre-judgment interest, attorneys' fees and costs, and rescission of the Franchise Agreement, Area Representative Agreement and guaranties. The action was removed on April 7, 2009 to the United State District Court for the Northern District of California, Case No. CV 09 1516 RS, at which time Kahala Franchise Corp.

filed a counter-claim. The parties entered into a Settlement Agreement on January 12, 2010 whereby Kahala Franchise Corp. paid Plaintiffs the sum of \$250,000 and the Franchise Agreement and Area Representative Agreements were terminated.

Concluded Arbitration and Litigation Involving Predecessor Cold Stone Creamery, Inc.:

Kenneth J. Kirwin, Plaintiff v. Cold Stone Creamery/Kahala Corp. ("Defendant"), Superior Court of the Commonwealth of Massachusetts, Plymouth, Civil Action No. 13-1126A. On March 27, 2014, Kenneth A. Kirwin, a former Cold Stone Creamery, Inc. franchisee ("Plaintiff"), served a Summons and Verified Complaint which he had filed in October 2013 against Cold Stone Creamery/Kahala Corp. ("Defendant") in the Superior Court of Massachusetts. Plaintiff alleged he sustained financial losses, and sought an award of actual, consequential, and punitive damages stemming from Defendant's alleged actions in failing to compensate Plaintiff for two (2) Cold Stone Creamery stores Plaintiff had operated and voluntarily turned over to the Defendant. Plaintiff alleged in multiple causes of action asserted in the complaint, (1) Promissory Estoppel; Breach of Contract; Breach of the Implied Covenant of Good Faith and Fair Dealing, (2) Misrepresentation, Fraud and Deceit Violation of M.G.L. Chap. 93A, 11, (3) Promissory Estoppel; Breach of Contract; Breach of the Implied Covenant of Good Faith and Fair Dealing, Unjust Enrichment of the Defendant, (4) Misrepresentation and Deceit in Violation of M.G.L. Chap. 93A §11, and (5) Intentional Infliction of Emotional Distress. Defendant denied all of Plaintiff's allegations, including, without limitation, that it ~~hashad~~ any obligation to compensate Plaintiff for its alleged losses or that it ~~hashad~~ failed to comply with the requirements of the Massachusetts statutes. On April 7, 2014, Defendant filed its Notice of Removal to the United States District Court for the District of Massachusetts on the grounds of jurisdiction and venue. Defendant filed a motion on April 16, 2014, seeking to dismiss Plaintiff's action or, alternatively, transfer venue of the lawsuit to the United States District Court of Arizona, and to stay the lawsuit and compel the Plaintiff to arbitrate its claims in accordance with the terms of Plaintiff's Franchise Agreement. Defendant filed a Petition to Compel Arbitration in the United States District Court of Arizona; Civil Action No.: 2:14- cv-01059-NVW, on May 16, 2014. However, an Order was entered in the United States District ~~Page-21~~ Court of Massachusetts on May 23, 2014, referring the case to Alternative Dispute Resolution for Mediation. On May 29, 2014, Plaintiff filed his Declaration with Consent to Relief Requested in the United States District Court of Arizona, in which he agreed to arbitrate his claims before the American Arbitration Association in Arizona should the Mediation fail. In turn Defendant filed its Notice of Voluntary Dismissal on June 3, 2014, dismissing Civil Action No.: 2:14-cv- 01059-NVW. On July 15, 2014, a mediation was held in Boston, MA where the parties came to a settlement. Under the terms of the Settlement Agreement, Defendant paid Plaintiff \$37,500.

Gregory Fowler, and Doubri Enterprises, L.L.C. v. Cold Stone Creamery, Inc.; U.S. District Court, AZ; C. A. No.: 2:13-cv-~~02414~~02414. On September 18, 2013, Cold Stone Creamery, Inc. ("Defendant") was served a Summons and Complaint filed by Gregory Fowler and Doubri Enterprises, Inc. ("Plaintiff") in the Kent County Superior Court of Rhode Island. Plaintiff alleged: (i) breach of sublease; (ii) breach of franchise agreement; (iii) breach of good faith and fair dealing; (iv) tortious interference with contractual relationships; (v) fraud; (vi) defamation of business character; and (vii) negligent infliction of emotional distress. Plaintiff sought (i) damages, (ii) punitive damages and (iii) attorney fees, ~~interest and costs~~. On September 17, 2013, Defendant filed a Notice of Removal, removing the lawsuit to the United States District Court for the District of Rhode Island. On October 9, 2013, Defendant filed a ~~motion~~Motion to ~~dismiss~~Dismiss the Complaint, or alternatively, to transfer the lawsuit to the United States District Court for the District of Arizona. The Motion was granted on November 25, 2013, and the matter was transferred to the Arizona court. On December 9, 2013, Defendant filed its Answer to the Complaint. On March 5, 2014, the Court entered a scheduling order establishing dates for completion of discovery and pre-trial motions and setting the matter down for trial on October 28, 2014. The parties agreed to mediate the matter which was held in Boston, MA on August 1, 2014. The parties came to an agreement and Plaintiff and Defendant entered into a settlement agreement whereby Defendant paid Plaintiff \$250,000.

~~Cold Stone Creamery, Inc. v. Colonial Creamery, Inc., Edward Reesman and Cynthia Reesman (AAA Case No. 76-114-0183-11). On or about July 19, 2011, Cold Stone Creamery, Inc. ("Claimant") filed a Demand for Arbitration with the American Arbitration Association against Cold Stone Creamery franchisees Colonial Creamery, Inc., Edward Reesman and Cynthia Reesman (collectively, the "Respondents"), alleging breach of contract (franchise agreement and sublease) and breach of guaranty in which Edward Reesman and Cynthia Reesman personally guaranteed the obligations of Colonial Creamery, Inc. Claimant and Respondents are collectively referred to as the~~

~~“Parties.” Claimant is seeking damages in the amount of \$92,328.59 plus interest accruing at a rate of eighteen percent per annum from March 17, 2011 until paid in full, plus reasonable attorneys’ fees and costs. Around September 2011, Respondents filed Respondents’ Answer to Demand, Affirmative Defenses, and Counterclaim alleging fraudulent inducement and misrepresentation; breach of contract and wrongful termination; and breach of lease guaranty. Respondents/Counter-Claimant sought specific performance and/or award damages, attorneys’ fees, and any such further relief as the Panel deems just and proper. In April 2012, the Parties had reached a negotiated settlement in which all claims in the Arbitration Demand and in the Counter Claim were to be resolved. No settlement documents were signed as the terms of the settlement could not be agreed upon by the Parties. The issues were submitted to the arbitrator for determination in January 2013. During the hearing Respondents/Counter-Claimants requested and were granted the right to amend their Counterclaim. The Amended Counterclaim alleged breach of contract, wrongful terminations, first material breach, anticipatory repudiation, declaratory relief regarding right to renew; breach of lease guaranty; mutual mistake; and mistake of one party. Respondents/Counter-Claimants withdrew their original claim of fraudulent inducement and misrepresentation. Claimant/Respondent denied the allegations purported in Respondent/Counter-Claimant’s Amended Counterclaim through its filing of its Answer and Affirmative Defenses in February 2013. In April 2013 the Parties filed their closing statements. On May 21, 2013, the Arbitrator issued an interim award (i) directing the Respondent/Counterclaimant to pay Claimant/Respondent \$59,362.02, (ii) denying Claimant/Respondent’s request for declaratory judgment relating to the cross-termination of store 20513, (iii), granted the~~

~~Page-22-~~

~~Respondent/Counterclaimant 45 days after a final award to renew the 20513 franchise agreement for a term of five (5) years upon payment of the monetary award, and satisfaction of all terms of renewal set forth in the franchise agreement for store 20513, (iv) took under advisement the parties claims for attorney fees and costs and directed filing of submissions relating to fees and costs no later than 30 days after the date of the interim award, and (v) deferred until the final award the fees and expenses of the American Arbitration Association and of the arbitrator. The interim award denied all other claims not specifically addressed in the award, including, without limitation, the Counterclaims asserted by the Respondent/Counterclaimant. On August 5, 2013, the Arbitrator issued the final award declaring for the purpose of resolving the attorney fee claims of the parties:~~

~~(i) the Respondents/Counterclaimants to be the prevailing party considering the totality of the issues of the Arbitration; (ii) awarding the Respondents/Counterclaimants half of their requested attorney’s fees for those claims in which they prevailed in the amount of \$94,599.00; (iii) denied Claimant/Respondent’s attorney’s fees; (iv) the fees and expenses incurred through the American Arbitration Association would be borne equally which included Respondent/Counterclaimant reimbursing Claimant/Respondent \$1300. The Arbitrator issued a Modification of the August 5, 2013, Award in which he declared that Claimant/Respondent was to pay Respondent/Counterclaimant \$19,936.98 which was the net amount due between the parties for the Final Award and the renewal of Respondent/Counterclaimants Franchise Agreement.~~

Cindy Kilman, Joseph “Buck” Kilman, and BCEK, L.L.C. v. Cold Stone Creamery, Inc. (AAA Case No. 76 114 Y 00252 09 LGB). On or about August 17, 2009, Cindy Kilman, Joseph “Buck” Kilman, and BCEK, L.L.C. (collectively, the “Claimants” or “Claimants/Respondents”), former Cold Stone Creamery franchisees, filed a Demand for Arbitration with the American Arbitration Association against Cold Stone Creamery, Inc. (~~the~~hereinafter “Cold Stone”, “Respondent” or ~~the~~“Respondent”) alleging/Plaintiff”). Claimants alleged (i) intentional fraud/fraudulent inducement ;(ii) negligent misrepresentations and omissions; (iii) wrongful termination of four Franchise Agreements and Subleases; (iv) breach of implied covenant of good faith and fair dealing; (v)

breach of contract; (vi) violations of Federal Anti-Trust law including “illegal tying” claims and “exclusive arrangements” under the Sherman Act and Clayton Act; (vii) violations of the Arizona Uniform State Antitrust Act, A.R.S. §§ 44-1401, *et seq.*; (viii) violations of the Texas Free Enterprise and Antitrust Act of 1983, Tex. Bus. & Com. Code Ann. §§15.01 – 15.26 (TFEAA); (ix) violations of Arizona’s Consumer Fraud Act, A.R.S. §§ 44-1521, *et seq.*; (x) and violations of Texas’ Deceptive Trade Practices-Consumer Protection Act, Texas Bus. & Comm. Code Ann. §§17.41, *et seq.* Claimants ~~were seeking~~sought: (i) damages in excess of \$1,100,000,

which included their investment, (ii) future profits, ~~and~~ (iii) future earnings; (iv) interest; (v) costs and expenses of the arbitration proceeding; (vi) attorneys' fees; (vii) rescission of their four franchise agreements and subleases; and (viii) declaratory relief that "None of the Kilmans (BCEK, L.L.C., Cindy Kilman or Joseph "Buck" Kilman), shall be responsible to Cold Stone Creamery, Inc. for contribution, or otherwise, relating to any rent or additional rent which Cold Stone Creamery, Inc. (or any of its affiliates) may owe or may have been adjudged to owe to any landlord in connection with any of the premises from which the Kilmans (or any one of them) operated their Cold Stone Franchises." Claimants filed an Amended Demand for Arbitration on or about February 9, 2010, stating with more specificity the allegations of each alleged misrepresentation. Respondent filed a Response to the Amended Demand for Arbitration and Counterclaim in which it alleged breach of contract and sought a dismissal of all claims raised by Claimants with prejudice and damages in the amount of \$85,000 plus reasonable attorneys' fees and costs. The arbitration occurred in March 2011 with the American Arbitration Association. The arbitrator awarded Claimants \$349,542.07 on or about May 6, 2011. On or about May 20, 2011, Respondent filed a Notice of Appeal with the American Arbitration Association. On or about June 15, 2011, the American Arbitration Association asked to set up a conference call to initiate the appeal. When, as of June 17, 2011, Counsel for the Claimants had not indicated any availability for or an agreement to participate in the conference call, Respondent appealed the decision to the Arizona District Court by filing a Complaint, Case No. 2:11-cv-01192, alleging breach of contract. Respondent/Plaintiff sought an order compelling the Claimants/Defendants to submit to AAA jurisdiction for an appeal of the award, reasonable attorneys' fees and costs, and any other relief the court deemed proper. On August 5, 2011, Respondent/Plaintiff filed a Motion to Vacate and Modify Arbitration Award in which it sought an order amending the arbitration award in favor of Respondent/Plaintiff in the amount of \$85,000 plus pre- and post- judgment interest, or alternatively, an order vacating the arbitration award, and reasonable attorneys' fees and costs incurred and such other relief as the court deemed just and proper. On or about September 6, 2011, Claimants/Defendants filed a Motion for Temporary Restraining Order and Preliminary Injunction seeking the court to disallow Cold Stone from any further activity in the appeal of the arbitration award and to disallow Cold Stone from enforcing the appeal of arbitration provision in the franchise agreement. Claimants/Defendants filed an Answer and Counterclaims seeking an Order confirming the final arbitration award, a declaration that the appeal provision in the franchise agreement is unconscionable, and injunctive relief. ~~Cold Stone filed a Motion to Stay on or about September 16, 2011.~~ On September 16, 2011, Respondent/Plaintiff filed a Motion to Stay its earlier filed Petition to Vacate and Modify the Arbitration Award until the Court ruled on the underlying merits of the Complaint. On September 20, 2011, Claimants/Defendants filed an Amended Answer to the Complaint asserting counter- claims against Respondent/Plaintiff. Respondent/Plaintiff filed a response to Claimant/Defendants' Motion seeking a temporary restraining order. On October 3, 2011, Claimant/Defendant filed a response to Respondent/Plaintiff's Motion to Stay. On October 26, 2011, the United States District Court of Arizona Order granted Claimant/Defendants Motion for Temporary Restraining Order and Preliminary Injunction as well as its cross-motion seeking to confirm the arbitration award. The Order further denied Respondent/Plaintiff's Motion to Stay as well as its Motion seeking to Vacate and/or Modify the arbitration. Following the October 2011 Order ~~Claimant/Defendant~~ Claimants/Defendants filed a Motion for Attorneys' Fees and Non-Taxable Expenses in the amount of \$160,000. In May 2012 the Court ordered Respondent/Plaintiff to pay ~~Claimant/Defendant~~ Claimants/Defendants \$70,000 in fees. Respondent/Plaintiff appealed the United States District Court of Arizona's Order to the United States Court of Appeals for the Ninth Circuit in February 2012 and ~~Claimant/Defendant~~ Claimants/Defendants cross- appealed the May 2012 Order. While the appeal was pending, the parties continued to explore settlement discussions. In December 2012 the parties wished to settle all the issues and claims arising out of and/or relating to the (i) AAA Proceeding; (ii) the District Court Action; (III) The AAA Appeal Proceeding, and (iv) the Court of Appeals Actions. Respondent/Plaintiff agreed to pay ~~Claimant/Defendant~~ Claimants/Defendants \$371,160 in full satisfaction of the claims and attorneys' fees along with \$3,381 in AAA fees. In exchange ~~Claimant~~ Claimants/Defendants agreed to release and forever discharge Respondent/Plaintiff from any and all claims related to or arising from the Dispute. On January 17, 2013, the United States District Court executed an Order that dismissed all claims and counter claims with prejudice with each party bearing its own costs and attorneys' fees.

~~Cold Stone Creamery, Inc. v. Jason Pinnock, Jack Pinnock, and Pin Knox, Inc., (AAA Case No. 76-114-00366-08 LGB). On or about October 31, 2008, Cold Stone Creamery, Inc. (the "Claimant") filed a Demand for Arbitration with the American Arbitration Association against Jason Pinnock, Jack Pinnock, and Pin Knox, Inc. (collectively, the "Respondents"), former Cold Stone Creamery franchisees, alleging breach of contracts (Franchise Agreement and Sublease) for two restaurants. Claimant sought \$252,434 in damages. Respondents filed an answer and counterclaim on or about~~

~~December 5, 2008 alleging improperly disclosed kickbacks; fraud; breach of implied covenant of good faith and fair dealing; breach of contract; negligent misrepresentations; violations of the Federal Anti-Trust law including "illegal tying" claims and "exclusive arrangement" claims under Section 1 of the Sherman Act, 15 U.S.C. § 1 and Section 3 of the Clayton Act, 15 U.S.C. § 15; violation of Arizona's Uniform State Antitrust Act, A.R.S. §§ 44-1401, et seq.; violation of Arizona's Consumer Fraud Act, A.R.S. §§ 44-1521, et seq.; and violation of Pennsylvania's Unfair Trade Practices and Consumer Protection Law, Pa. State. Ann. Title 73, §§ 201-1 et seq. Respondents sought damages of approximately \$1,925,000 plus interest; attorneys' fees; arbitration costs and expenses; rescission of their three Franchise Agreements; and dismissal of Claimant's claims against Respondent. In November, 2010, the parties submitted to two-week arbitration with the American Arbitration Association. On December 20, 2010, the arbitrator entered an Interim Award in favor of Claimant against Respondents jointly and severally, on Claimant's breach of contract claim in the amount of \$477,544.07. The Arbitrator also awarded Claimant its attorneys' fees and costs. Arbitrator also entered an Interim Award in favor of Claimant and against Respondents on the counterclaims filed by the Respondents. Respondents filed for relief under the Federal Bankruptcy laws. Claimant filed a Proof of Claim with respect to the Interim Award and its legal fees.~~Cold Stone Creamery, Inc. v. Reid & Andrew, Inc., Tate & Petey, Inc., Gil Schmitt, Ruthann Schmitt, Does 1- 10; Superior Court of Maricopa County, Arizona, Case No. CV2010-00348. In January 2010, Cold Stone Creamery, Inc. ("Plaintiff") filed a Complaint against Reid & Andrew, Inc. and Tate & Petey, Inc. (Cold Stone Creamery franchisees) and Gil Schmitt and Ruthann Schmitt (guarantors) (collectively, the "Defendants"). Plaintiff alleged breach of two Franchise Agreements for two Cold Stone Creamery restaurants, and violation of the Arizona Trade Secrets Act, A.R.S. §§44-401 through 44-407. Plaintiffs sought (i) a preliminary injunction and permanent injunction requiring Defendants to cease and desist using Plaintiff's confidential and proprietary information; (ii) operating their current ice cream restaurant or otherwise competing with Plaintiff for a period of two years; and (iii) manufacturing frozen dessert products at a non- Cold Stone Creamery location. ~~Plaintiffs also sought (iv) equitable relief and damages in an undisclosed amount plus; (v) attorneys' fees; and (vi) costs.~~ Defendant Tate & Petey, Inc. asserted a counterclaim against Plaintiff alleging breach of contract and tortious interference with contractual relations. Plaintiff's application for a Preliminary Injunction was denied after a hearing in March 2010. Plaintiff denied all allegations of the counterclaim. In November 2011, the parties reached an agreement on the terms of the settlement and entered into a Settlement Agreement and Mutual Release of all Claims whereby Plaintiff agreed to pay the Defendants the sum of \$70,000 to dismiss all claims and counterclaims in the lawsuit with prejudice. The settlement payment has been made in full and the case was dismissed with prejudice.

Fredy Buraye, Elizabeth Buraye, Eddie Buraye, and Buraye Group, Inc. v. Cold Stone Creamery, Inc., Cold Stone Creamery Leasing Company, Inc., R & C Global, Inc., Miae Chung, and Conehead Investments, L.L.C. (Superior Court of California, County of Los Angeles- North Valley District, Case No. PC043905). On October 23, 2008, Fredy Buraye, Elizabeth Buraye, Eddie Buraye and Buraye Group, Inc. (collectively, the "Plaintiffs") filed a lawsuit in the Superior Court of California against Cold Stone Creamery, Inc. and Cold Stone Creamery Leasing Company, Inc. (collectively, "Cold Stone"), as well as Conehead Investments, L.L.C., a Cold Stone Creamery Area Developer in Southern California. The lawsuit stems from Cold Stone Creamery, Inc.'s termination of the Plaintiffs' Franchise Agreements. Plaintiffs alleged that the termination was unlawful and that Cold Stone Creamery, Inc. made inaccurate and improper representations to the Plaintiffs in order to induce them to enter into the Franchise Agreements with Cold Stone Creamery, Inc. Plaintiffs alleged (i) intentional fraud; (ii) breach of contract; (iii) violation of the California Franchise Investment Law, Corporations Code §§ 31201 and 31303; (iv) violation of the California Franchise Relations Act, Business & Professions Code §§ 20020, 20021 and 20040.5; (v) Violation of the California Unfair Competition Law; and ~~for~~ (vi) Accounting. Cold Stone filed a ~~motion~~Motion for ~~demurrer~~Demurrer on several causes of action which the Judge granted with leave to amend and Plaintiffs filed an amended complaint on or about February 17, 2009. Plaintiffs sought (i) compensatory damages in excess of \$1,300,000 plus interest, (ii) punitive damages, (iii) reasonable attorneys' fees, (iv) costs of the lawsuit, and (v) a complete accounting. In September, 2010, the parties reached an agreement on the terms of settlement and entered into a Mutual Release and Settlement Agreement whereby the Cold Stone defendants agreed to pay the Plaintiff the sum of \$420,000, in exchange for the dismissal of all of Plaintiff's claims against ~~the~~ Cold Stone with prejudice. The settlement payment ~~has been was~~ made in full and the case ~~has been was~~ dismissed with prejudice.

Joseph Bischof and Nushi Bischof v. Cold Stone Creamery, Inc.; (Superior Court of

~~Connecticut, Judicial District of Danbury, Docket No. DBD-CV-08-4009481-S). On or about September 29, 2008, Joseph Bischof and Nushi Bischof (collectively, the "Plaintiffs"), former Cold Stone Creamery franchisees, filed a Plaintiffs' Application for Order to Show Cause and Motion for Ex Parte Temporary Restraining Order for Temporary Injunction against Cold Stone Creamery, Inc. (the "Defendant"). Plaintiffs alleged violation of Section 42-133f and 42-133g of the Connecticut Franchise Act, violation of Section 42-110a, et seq. of the Connecticut Unfair Trade Practices Act, breach of contract, and breach of the implied covenant of good faith and fair dealing. Plaintiffs sought a judgment that the termination of the Danbury Franchise Agreement and Sublease was invalid, reasonable costs and attorneys' fees, and an injunction barring Defendant from engaging in any conduct which was inconsistent with the Plaintiffs being able to continue operating the Danbury restaurant. In February 2009, a settlement agreement was entered into whereby Cold Stone Creamery, Inc. rescinded its notices of termination of the Franchise Agreement and Sublease for the Danbury restaurant and affirmed that each remain in full force and effect, and Plaintiffs agreed to pay Cold Stone Creamery \$73,588 for outstanding past due debt from the Brookfield restaurant. In addition, Plaintiffs filed a Withdrawal of the Action, with prejudice and without costs.~~

~~Lesa Myers, LESA L.L.C. v. Conehead Investments, Inc., George B.B. Huggins, Greg Ferrell, Cold Stone Creamery, Inc., Cold Stone Creamery Leasing Company, Inc., Douglas Ducey, Jim Flaum, David Andow and Donald Sutherland, (Superior Court of California in and for the County of Los Angeles, Case No. BC358836). On September 19, 2006, Lesa Myers and LESA L.L.C. (the "Plaintiff"), a former Cold Stone Creamery franchisee, filed a lawsuit against Conehead Investments, Inc., a Cold Stone Creamery Area Developer in southern California, and its principals (collectively, "Conehead"). On September 29, 2006, the Plaintiff amended her complaint to add Cold Stone Creamery, Inc., Cold Stone Leasing and certain officers and directors of Cold Stone Creamery, Inc. and Cold Stone Leasing Company, Inc. as Defendants ("Defendants Cold Stone"). The Plaintiff alleged that Conehead misled her into purchasing a Cold Stone Creamery franchise from a then-current franchisee by misrepresenting the remaining term of the lease. The Plaintiff claimed that Conehead and Defendants Cold Stone made false or misleading statements in violation of the California Franchise Investment Law, as well as claims of intentional misrepresentation, negligent misrepresentation, fraudulent suppression of fact, unfair business practices and breach of contract. The Plaintiff alleged that the misrepresentations were material to her decision to purchase the franchise from the then-current franchisee and that the Plaintiff relied upon them in making her decision to purchase the franchise. The Plaintiff sought in excess of \$2 million in damages. The lawsuit was settled while an interlocutory appeal of the trial court's decision to not compel arbitration was pending. Under the settlement agreement dated May 2008, Defendants Cold Stone paid Plaintiff \$650,000 and a dismissal of appeal and action with prejudice was filed with the Court.~~

~~Praveen Prasad, et al. v. Cold Stone Creamery, Inc., Cold Stone Creamery Leasing Company, Inc., Phoenix Partners Development Ltd., et al. (United States District Court for the District of New Jersey, 06-cv-00648-MLG-JJH) On February 11, 2006, New Jersey franchisees who own two restaurants and the development rights to two others filed suit challenging Cold Stone Creamery, Inc.'s termination of their Franchise Agreements. The termination was based on various breaches of the Franchise Agreements by the franchisees, including the failure to obey applicable tax laws and infringing upon the Cold Stone Creamery trademarks by displaying Cold Stone Creamery, Inc.'s logos and selling Cold Stone Creamery products at an unauthorized location. The claims that the franchisees have filed against Cold Stone Creamery, Inc. and Cold Stone Creamery Leasing Company, Inc. (collectively, "Cold Stone") in the original and amended complaints alleged that there was no basis for the terminations and that Cold Stone Creamery, Inc. interfered with their attempts to sell their locations to prospective purchasers. Cold Stone filed a complaint seeking to enforce the terminations and the cases have now been consolidated. The franchisees sought an unspecified amount of monetary damages and an order from the court preventing the termination of the Franchise Agreements. Cold Stone sought to amend its counterclaim to supplement the bases of the termination of the Plaintiff's Franchise Agreements for additional breaches of the Franchise Agreements by the franchisees, including failure to comply with the operational standards and failure~~

~~to pay rent at a franchised location. The Plaintiffs filed a petition for Chapter 13 Bankruptcy relief (United States Bankruptcy Court for the District of Trenton, New Jersey, Case No. 07-25974), which stayed the United States District Court action. The Plaintiffs also filed Pro Se' Adversary Proceedings titled Neal K. Prasad and Kimberly A. Prasad v. Cold Stone Creamery, Inc., Franchisor, et al. (United States Bankruptcy Court for the District of Trenton, New Jersey, Case No. 07-2775) in December 2007 alleging violations of the Sherman Act Title 15 § 1 et seq., fraud, violation of the New Jersey Franchise Practices Act N.J.S.A. 56: 10-1 et seq., collateral negligence, breach of contract, and negligence, and failure to abide by the automatic stay under the bankruptcy case. The Plaintiffs sought \$14 million plus \$6 million punitive damages plus all court costs, post judgment interest and reasonable attorneys' fees and an injunction to maintain the status quo of all prior contracts to maintain the Cold Stone Creamery restaurant during the Plaintiffs' Chapter 13 proceeding. The parties have resolved the lawsuits. The lawsuits have been dismissed and each party was granted a full release regarding any former or current issues. In July 2008, a settlement agreement was entered into whereby Cold Stone Creamery, Inc. reduced the royalty rate for the Brick restaurant to 3% and agreed to pay \$1,500 per month towards the monthly rent for a period of twelve months, and if franchisees remained in compliance with their Franchise Agreement, the reduced royalty rate of 3% renewed for additional twelve-month periods, expiring on October 29, 2012. In addition, if franchisees remained in compliance with their Franchise Agreement, Cold Stone Creamery, Inc. would renew the \$1,500 per month payment towards monthly rent for only one additional twelve-month period. However, if Cold Stone Creamery Leasing Company, Inc. or Cold Stone Creamery, Inc. would be required to satisfy any judgment or pay any settlement in connection with the Subleases for the Wall or Toms River restaurants, then the \$1,500 payment for the Brick restaurant would not be renewed for a second twelve-month period.~~

Concluded Arbitration and Litigation Involving Affiliate Cold Stone Creamery Leasing Company, Inc.

Afsana Alekozai v. Cold Stone Creamery Leasing Company, Inc.; United States District Court for the Northern District of California, San Francisco Division, Case No. CV-10 1254. In March 2010, Afsana Alekozai ("Plaintiff ~~or~~, Claimant or Respondent Alekozai"), a former Cold Stone Creamery franchisee, filed a Complaint against Cold Stone Creamery Leasing Company, Inc. ("Defendant or Respondent Cold Stone") alleging violation of the California Franchise Relations Act (Cal Bus & P C §§2000-20043) for allegedly(i) terminating ~~the~~ Plaintiff Alekozai's Franchise Agreement without providing Plaintiff Alekozai with an opportunity to cure; (ii) violation of the California Franchise Investment Law (California Corporations Code §§31000- 31516); (iii) deceit (as defined in California Civil Code §§1709-1710); (iv) violation of the California Unfair Competition Law (Bus & P C §§17200-17210); (v) fraud; (vi) breach of an express contract provision; (vii) breach of fiduciary duty; and (viii) breach of the implied covenant of good faith and fair dealing. Plaintiff sought monetary and punitive damages in an unspecified amount and restitution. Defendant Cold Stone filed a ~~motion to dismiss and to stay proceedings pending arbitration~~ Motion to Dismiss and to Stay Proceedings Pending Arbitration. On June 25, 2010, the United States District Court entered an Order Granting Defendant Cold Stone's Motion to Dismiss and to Stay Pending Arbitration, which dismissed with prejudice ~~the~~ Plaintiff Alekozai's causes of action regarding violation of the California Franchise Relations Act and California Franchise Investment Law. The remaining claims against Defendant Cold Stone were stayed pending arbitration of the dispute in Arizona. On or around August 13, 2010, Cold Stone Creamery Leasing Company, Inc. and Cold Stone Creamery, Inc. (collectively, "Petitioner Cold Stone") filed a Petition to Compel Arbitration, in the United States District Court for the District of Arizona, Case No. CV 10-1762-PHX-JAT, against Afsana Alekozai ("Respondent") Alekozai. On December 21, 2010, the Court entered an Order Granting Petitioner Cold

Stone's Motion for Default Judgment, and further Order Granting the Petition to Compel Arbitration. On March 12, 2012, Claimant Alekozai filed a Demand for Arbitration, Case No. 76-114-J00048-12 02 NOLG-R, with the American Arbitration Association against Respondent Cold Stone Creamery ("Respondent") alleging that Claimant Alekozai's Franchise Agreement was wrongfully terminated in 2009. In the demand, Claimant Alekozai failed to properly identify any existing Cold Stone entity against which relief was to be sought. It was not determinable from the demand whether the Arbitration was filed pursuant to the Order Granting the Petition to Compel Arbitration issued by the United States District Court for the District of Arizona, Case No. CV 10-1762-PHX-JAT. In the Arbitration, Claimant Alekozai sought: (i) damages in the amount of \$830,000, plus \$830,000; (ii) attorneys' fees, (iii) interest, (iv) arbitration costs, (v) punitive/exemplary damages, and (vi) lost wages. Although it was indeterminable

from the demand which Cold Stone entity Claimant Alekozai sought relief from, ~~Cold Stone Creamery denied all allegations and vigorously defended the claims against it. Cold Stone filed a counterclaim in the Arbitration proceeding seeking~~ Respondent Cold Stone filed its Answer and Counterclaim on April 9, 2012, in which it sought recovery of \$12,000 in landlord fees paid by Respondent Cold Stone ~~Creamery Leasing Company, Inc.~~ In August 2012, the parties settled Case No. CV 10-1762 PHX-JAT and American Arbitration Association Case No. 76-114- J00048-12 02 NOLG-R in mediation, ~~and Petitioner.~~ Respondent Cold Stone agreed to pay Respondent Claimant Alekozai \$75,000 in settlement of all claims. ~~Petitioner paid the settlement~~ The amount ~~to Respondent~~ was paid in full in August 2012.

Concluded Arbitration and Litigation Involving Predecessor Blimpie Associates, Ltd.:

Emfore Corp., v. Blimpie Associates, Ltd., Peter DeCarlo and Louis Gioia. - Supreme Court of The State of New York, County of New York, Index No. 601400/04. On May 10, 2004, Emfore Corp., a Blimpie Associates franchisee filed suit against Blimpie Associates alleging breach of contract, common law fraud and violations of the New York General Business Law. Also named as defendants in the lawsuit ~~is were~~ Peter DeCarlo, one of Blimpie Associates' founders and Louis Gioia, Blimpie Associates' Franchise Sales Director. Blimpie Associates, Ltd., Peter DeCarlo and Louis Gioia are collectively referred to as the "Defendants." Specifically, the complaint alleged various material misrepresentations and false earnings claims, and a failure to furnish required training services. The Plaintiff sought monetary damages in excess of \$180,000, attorneys' fees and rescission. Blimpie Associates denied all of Respondent's claims. An order granting Summary Judgment dismissing the Plaintiff's complaint in its entirety was awarded by the NYS Supreme Court on September 18, 2006. On May 6, 2008, the Appellate court affirmed the Supreme Court's dismissal of Plaintiff's common law fraud claims and breach of contract claims and reinstated Emfore's statutory claims. Defendants filed a motion for leave to appeal to the New York Court of Appeals which was denied. On or about May 20, 2009, a Stipulation of Settlement was entered into between the parties and the action was discontinued with prejudice. Under the terms of the settlement, Defendants paid Emfore Corp. \$150,000 as follows: \$100,000 on or before June 20, 2009 and the remaining \$50,000 on or before December 1, 2009. Defendants ~~dedid~~ not admit or acknowledge any liability, breach of contract, misrepresentation, fraud, or any other wrongdoing alleged by ~~plaintiff~~ Plaintiff. In the event of a default of the settlement payments, Plaintiff ~~may could~~ enter judgment in the amount of \$250,000 less payments made by Defendants to Plaintiff. The settlement payments required to be paid ~~are were~~ the sole obligation of the predecessor Blimpie Associates, Ltd.

Concluded Arbitration and Litigation Involving Predecessor Blimpie International, Inc.:

~~Shirish Patel, Jayesh A. Patel and Mayur Patel v. Blimpie International, Inc.; Circuit Court of Jackson County, Mississippi, Cause No. 2007-00,216. In August 2007, Shirish Patel, Jayesh A. Patel and Mayur Patel (collectively, the "Plaintiffs"), former Blimpie franchisees, filed a lawsuit against Blimpie International, Inc. (the "Defendant") alleging trespass to chattel, tortious interference with a business relationship, conversion, breach of contract, fraud in the inducement, negligent misrepresentation and unjust enrichment regarding Defendant's termination of their Franchise Agreement. Specifically it alleged that Defendants took over the operations of the restaurant along with the equipment and inventory in the restaurant. Plaintiffs sought monetary damages in excess of \$25,000, attorneys' fees and costs, expenses for bringing the lawsuit, recovery of the equipment, and compensatory and punitive damages. In November 2007, Defendant filed a Motion to Compel Arbitration and to Dismiss or Stay Proceedings Pending Arbitration (the "Motion"). On February 19, 2008, the Court granted the Motion to Compel Arbitration and Stay Proceedings. Plaintiffs have not pursued arbitration against the Defendant.~~

Bixy, Inc. f/k/a Blimpie International, Inc. and X2Y1, Inc. v. KBI Holdings, L.L.C. and Kahala Corp.; United States District Court, Northern District of Georgia, Atlanta Division, Civil Action File No. 1:07-CV-0780. On March 2, 2007, X2Y1 and Bixy ("Plaintiffs") filed a lawsuit against KBI Holdings, L.L.C. and Kahala Corp. ("Defendants") arising out of the Asset Purchase Agreement between X2Y1 and KBI for the purchase of certain assets of Blimpie International and the assumption of certain liabilities. Plaintiff's alleged breach of the Asset Purchase Agreement for a) failing to pay the full purchase price; b) breach of contract and indemnification regarding allegations that KBI ~~has~~ failed to pay certain alleged assumed liabilities under the Asset Purchase Agreement; c) breach of contract alleging that KBI ~~has~~ failed to provide information and failed to confer with Plaintiffs regarding certain purchase price allocation issues; d) alleged breach of contract and request for specific

performance regarding certain alleged obligations of KBI to provide access to certain records; e) allegations regarding alleged breach of an agreement regarding a collection agreement for certain Smoothie Island collections; f) allegations of fraud for allegedly failing to discharge certain liabilities after closing; and g) allegations regarding specific performance and request for injunctive relief to enforce certain provisions of the Asset Purchase Agreement which Plaintiffs ~~contend are~~contended were not being performed. There ~~are~~were also claims for indemnification under the Asset Purchase Agreement ~~for various claims. In addition, there are also~~and claims that there ~~has~~had been ~~conversion~~conversions of certain monies from certain bank accounts relating to the acquisition. There ~~is~~was also a claim of breach of the Asset Purchase Agreement for an article that was published regarding the asset purchase transaction which Plaintiffs ~~contend~~contended was defamatory and was not authorized under the Asset Purchase Agreement. Plaintiff sought: (i) \$500,000 in damages; (ii) punitive damages in excess of \$~~10,000,000, 10,000,000~~(iii) attorneys' fees; (iv) court costs; (v) interest, and (vi) an injunction to prevent any further breaches of agreement. Kahala Corp. and KBI denied all allegations. In addition, KBI filed counterclaims against the Plaintiffs for indemnification for various obligations paid and for Plaintiffs breach of warranty under the Asset Purchase Agreement. The case was settled in February 2009 with no admission of fault by either party and Defendants paid the Plaintiffs \$1,257,000. The case ~~has been~~was dismissed with prejudice.

~~Blimpie of Western Michigan, Inc., et al. v. Blimpie International, Inc., American Arbitration Association, New York, New York, Case No. 13114Y0177704. On July 20, 2004, Blimpie of Western Michigan, Inc., Northern Lakes Blimpie, LC, JRB Enterprises, Southern Oregon Blimpie, Inc., S&C Blimpie, L.L.C., Midwest Central, Inc., Blimpie of Long Island, Inc., Blimpie of Northern Indiana, Inc., Blimpie of Phoenix, Inc., JTD Enterprises, Inc., Blimpie Treasure Coast, Inc., Connecticut Blimpie Associates, Blimpie of Omaha, Inc., Blimpie of the Dakota's, Inc., Blimpie of Michigan, Inc., SFH Blimpie, Inc., Blimpie of Heartland Development, L.L.C., Frogg Management, Inc., Americon, Inc., Theatre Confections, Inc., Blimpie Pacific, Inc., Blimpie of South Florida, Ltd., Blimpie of the Keys, Blimpie of Columbus, Ohio, Southwest Blimpie, LC, Llewellyn Distributors, Inc., L&M Blimpie, Inc., Northwest Blimpie, Inc., Blimpie Advantage Development Corp., Southeastern Blimpie Development Corporation, Blimpie of Montana, L.L.C., Speck Enterprises, Inc., MISAL Development Corp., Sunrise Management, Inc., LJMJ, Inc., Blimpie of Florida's West Coast, Blimpie of Florida's West Coast Down South, LC, BFWC North, L.L.C., BLS, LC, JM Development, L.L.C., Blimpie-ESC, Inc., Bectom, Inc., TenKen Blimpie Development, L.L.C., Rocky Mountain Blimpie, Inc. and Blimpie Central, Inc. (collectively "Claimants"), owners of 56 of BI's former area representative territories, filed an arbitration demand against BI. Claimants alleged that BI was in breach of their agreements by (i) implementation of a Wal-Mart program; (ii) modifying BI's Manuals to alter their rights and obligations; (iii) affecting their ability to meet development schedules by BI's delivery of sales and marketing materials and copies of BI's UFOG, and the process by which BI approved or disapproved Claimants' candidates; (iv) BI's handling of advertising monies; and (v) changes in approved suppliers. Claimants also alleged that BI had (i) breached the covenant of good faith and fair dealing in BI's handling of advertising monies; (ii) damaged them by BI's use of rebates paid to BBBF by suppliers; and (iii) misrepresented BI's intentions with regard to Claimants' obligations in meeting development schedules. The third-party beneficiary claim based upon vendor payments was dismissed with prejudice on or about October 9, 2007 in accordance with the settlement agreement between the parties in the arbitration entitled C.P. Ferrell, Inc., et al. v. Blimpie International, Inc. Case No. 13-114 03098-002. At the same time, the case was administratively closed by the American Arbitration Association. On or about April 15, 2008, KBI entered into a settlement agreement with Claimants under which Claimants agreed to release all~~

~~claims in exchange for certain payments to be made by an affiliate of KBI to two associations of which Claimants and other Blimpie area representatives are members.~~

Concluded Arbitration and Litigation Involving KBI Holdings, L.L.C.

KBI Holdings, L.L.C. v. Mackly Monestime and Oscar Chavarria: Circuit Court of the Twentieth Judicial Circuit, Collier County, FL, Case No. 1004623CA. In July 2010, KBI Holdings, L.L.C. ("Plaintiff"), the owner of the Blimpie Trademarks and certain Blimpie Assets, filed a Complaint against Mackly Monestime (a Blimpie franchisee) and Oscar Chavarria (a Blimpie franchisee) (collectively, the "Defendants") alleging breach of sublicense and breach of contract. Plaintiff sought: (i) eviction and ejectment of Defendants; ~~and; (ii) demand~~

for judgment for damages, ~~(iii)~~ attorneys' fees and costs, and ~~(iv)~~ such other and further relief as the Court ~~deems deemed~~ just and proper. On October 19, 2010 the Defendants were evicted from the store location after they failed to comply with a Court Order to pay the arrears owed for the store location. On November 30, 2010 the Defendants filed a Counterclaim against Plaintiff in which they alleged: (i) Breach of the Naples Franchise Agreement; (ii) Breach of the Ft. Myers Franchise Agreement; (iii) Rescission of the Fort Myers Franchise Agreement; (iv) Negligent Misrepresentation; (v) Fraudulent Misrepresentation; and Deceptive and Unfair Trade Practices Act. They sought: (i) Rescission of the Franchise Agreement; (ii) Refund of the purchase price of the Franchised Stores; (iii) Compensatory economic damages; (iv) Attorneys' fees; and (v) Court Costs. On November 18, 2010, Plaintiff filed a Motion to Stay and Compel Arbitration. The Court granted the Motion to Compel Arbitration and Stay Proceedings on or about April 21, 2011. Defendants had one year to pursue arbitration or the Court would dismiss the case due to non-activity. Defendants chose not to pursue arbitration.

Concluded Arbitration and Litigation Involving Predecessor Maui Wowi Franchising, Inc.:

David A. Harmon v. Maui Wowi Franchising, Inc., AAA Case No. 77-114-00523-09 LGB: On December 14, 2009, David A. Harmon ("Harmon") filed an arbitration action with the AAA ("Harmon Arbitration") against Maui Wowi Franchising, Inc. ("MWF") alleging that MWF violated a release agreement arising out of a previous arbitration proceeding ("Release Agreement"). In the Harmon Arbitration, Harmon claimed that he was entitled to enforce a Franchise Termination Buy-Back and Release Agreement ("Termination Agreement") due to MWF's failure to comply fully with the Release Agreement. In particular, Harmon claimed that MWF owed him for sales of franchises made in his former Arizona territory plus interest, costs and attorney fees. MWF disputed that MWF owed Harmon for sales of franchises made in his former Arizona territory but conceded that payments were still owed under the Release Agreement. MWF also disputed that the AAA had jurisdiction over this matter. On December 23, 2009, after the AAA would not dismiss the Harmon Arbitration, MWF filed a motion in a case entitled Maui Wowi Franchising, Inc. v. David A. Harmon, Arapahoe County District Court Case Number: 2009 CV 2820, Division 405, seeking a declaratory judgment that the Termination Agreement was merged into an award previously granted to Harmon in a separate arbitration proceeding ("Award"), and that the Award was no longer enforceable by virtue of the Release Agreement so that Harmon's rights were limited to claims under the Release Agreement. On March 6, 2010, the District Court granted MWF's Motion to Stay the Harmon Arbitration. On May 19, 2010, the parties entered into a Settlement and Release Agreement ("Settlement Agreement") whereby it was stipulated that the amount owed under the Release Agreement was limited to \$275,000, but that MWF would only owe \$250,000 if it made payments pursuant to a payment schedule that extends through February 2012. All other rights of Harmon under the Award, the Termination Agreement and the Release Agreement in the previous arbitration, including the right to sell 15 Maui Wowi franchises, were terminated. Both the Harmon Arbitration and the action in the Arapahoe County District Court were dismissed with prejudice as part of the Settlement Agreement, which has been satisfied.

George & Terri Lamperez, et al. v. Maui Wowi Franchising, Inc., AAA Case No. 77-114-00367-10 02 LGB-R: On November 30, 2009, GTWK Enterprises, L.L.C., George Lamperez and Terri Lamperez (collectively, "Lamperez"), then franchisees of Maui Wowi Franchising, Inc. ("MWF"), filed an action entitled GTWK Enterprises, Inc., et al v. Maui Wowi Franchising, Inc., et. al., Number 584,853, Div. 26, 19th Judicial District Court, Parish of East Baton Rouge, Louisiana ("Lawsuit"), against MWF, Pacific Breeze, L.L.C. ("Pacific Breeze"), a franchisee of MWF, and SMG Food and Beverage, L.L.C. ("SMG"), the food and beverage operator of the Baton Rouge River Center ("Center"). Lamperez alleged that they had an agreement with SMG to operate their franchise at the Center, and that MWF infringed Lamperez' agreement by permitting Pacific Breeze to operate its franchise at the Center. The complaint sought damages of \$114,000, which included their initial franchise fees, equipment costs, loss of future income, interest and other unspecified damages. MWF obtained a dismissal of the Lawsuit based on the arbitration clause in the Lamperez' franchise agreement. Lamperez subsequently filed this arbitration action, asserting the same allegations as were set forth in the Lawsuit. MWF defended on the basis that Lamperez had not taken the necessary steps within our system to reserve the Center and that it was SMG's decision to choose Pacific Breeze for future events, not MWF's. On February 1, 2011, MWF settled with Lamperez under which they agreed to dismiss the action with prejudice, terminate their franchise rights, and honor all post termination covenants, for which MWF agreed to pay them \$25,334.

~~Concluded Action Brought by a Public Agency Involving Predecessor Blimpie Associates, Ltd.:~~

In May 1992, Blimpie Associates, Ltd. and Joseph Dornbush (formerly the President of Blimpie Associates, Ltd.), ~~in response (collectively "Respondents"), responded~~ to a claim by the New York Department of Law that it had sold franchises during a period of time when its prospectus had not been updated by amendment, ~~and without~~ Without the admission of any wrongdoing, Respondents consented to the entry of an order in which ~~Blimpie Associates, Ltd. and Mr. Dornbush~~ Respondents agreed ~~(i)~~ (i) to entry of a judgment enjoining them from further violations of the New York Franchise Sales Act, and (ii) to pay the sum of \$18,000 to the State of New York as an additional allowance. ~~Upon execution of Respondents paid the \$18,000 in May 1992 and executed~~ the consent judgment ~~which was entered on August 25, 1992 and payment of \$18,000 (which occurred in May, 1992), the charges of the State were resolved. 1992.~~

Concluded Action Brought by a Public Agency Involving Predecessor Maui Wowi Franchising, Inc.: In the Matter of Maui Wowi Franchising, Inc., Before the Securities Commissioner of Maryland, Case No. 2005-0651. On November 11, 2005, Maui Wowi Franchising, Inc., the predecessor franchisor of the Maui Wowi brand ("MWF") entered into a Consent Order with the Securities Commissioner of Maryland ("Commissioner") resulting from MWF inadvertently entering into four franchise agreements with Maryland residents after its registration in Maryland expired on June 9, 2004 ("Maryland Franchisees"). The Consent Order required MWF to cease and desist from the offer and sale of unregistered franchises in Maryland, to diligently pursue the completion of its then pending application to register its Offering Circular in Maryland; to develop and implement new franchise law compliance procedures to ensure future compliance with the registration and disclosure provisions of Maryland Franchise Law, and to enroll an officer and a franchise compliance person in a franchise law compliance training program. Upon notification by the Commissioner, MWF sent to the Maryland Franchisees the registered Offering Circular, a copy of the Consent Order, and a letter notifying the Maryland Franchisees that they could rescind their franchise agreements. At this time, MWF is in full compliance with the Consent Order.

In the Matter of Maui Wowi Franchising, Inc., Before the Securities Commissioner of Maryland, Case No. 2007-0194. On September 12, 2007, MWF entered into a Consent Order with the Maryland Commissioner resulting from MWF inadvertently entering into two franchise agreements with two Maryland residents (the "Second Maryland Franchisees") without delivering to them the appropriate Offering Circular. MWF was registered in the State of Maryland at the time of the offer and sale with an Offering Circular containing certain specific information required only by Maryland law. At the same time, MWF used a second form of Offering Circular in other states that did not contain all of the information required by Maryland law. Prior to the execution of the ~~Page 31~~ franchise agreements with the Second Maryland Franchisees, MWF accidentally delivered to them the Offering Circular that did not contain the Maryland-specific information. We subsequently reported these mistakes to the Commissioner. The Consent Order required MWF to cease and desist from the offer and sale of franchises in Maryland in violation of the Maryland Franchise Law; to diligently pursue the completion of its then pending application to register its Offering Circular in Maryland; to implement additional compliance measures to ensure future compliance with the Maryland Franchise Law; to employ an approved franchise law compliance training program or trainer to monitor MWF's franchise activities in Maryland for two years; and to reimburse the Maryland Attorney General for its investigation and resolution costs in the total amount of \$2,500. Additionally, MWF was required to provide to the Second Maryland Franchisees the registered Offering Circular, a copy of the Consent Order, and a letter notifying the Second Maryland Franchisees that they have a right to rescind their franchise agreements. The Commissioner and MWF subsequently entered into an Amended Consent Order in which MWF elected to withdraw from the State of Maryland instead of employing a compliance monitor, with the agreement to employ a monitor if MWF was to re-register in the State of Maryland. MWF fully complied with the Amended Consent Order, and subsequently employed a compliance monitor and was granted registration in the State of Maryland.

There is no pending or concluded litigation involving MTY Franchising USA, Inc that is required to be disclosed in the Item 3 of the Franchise Disclosure Document.

LITIGATION INVOLVING PREDECESSORS AND AFFILIATES

Pending Arbitration and Litigation Involving Extreme Pita Franchising USA, Inc.

None

Concluded Arbitration and Litigation Involving Extreme Pita Franchising USA, Inc.

Purav Enterprises, LLC, Balwant Bahia, and Paramjit Samra v. The Extreme Pita Franchising USA, Inc., EP Development, Inc., and Feisal Ramjee; Superior Court of the State of Washington for King County; Case No. 15-2-15120-7.

On June 22, 2015, Purav Enterprises, LLC, Balwant Bahia, and Paramjit Samra, (collectively "Plaintiffs"), filed a complaint against The Extreme Pita Franchising USA, Inc., EP Development, Inc. and Feisal Ramjee, (collectively "Defendants"). Plaintiffs alleged (i) Violations under the Franchise Investment Protection Act in the State of Washington ("FIPA"); (ii) Misrepresentation by the area developer of the financial performance of the franchise, omissions of mandatory and material information and inherently misleading information that were material factors in the Plaintiff's purchase of the franchise; and (iii) The Area Developer was not a registered broker in the State of Washington. The Plaintiff sought: (i) Rescission of the franchise agreement, the corresponding personal guarantee and related agreements; (ii) Treble damages under FIPA; and (iii) Costs and attorney's fees. The parties entered into a settlement agreement on March 11, ~~2016~~2016, in which Defendant paid Plaintiff the sum of \$20,000. The matter was dismissed on March 16, 2016.

Lawsuits Filed by Extreme Pita Franchising USA, Inc. Against Franchisees ~~during~~During Fiscal Year ~~December 1, 2016 through November 31, 2017~~2018:

None

Pending Arbitration and Litigation Involving MTY Tiki Ming Enterprises Inc.

9299-7626 Quebec Inc., Martin Belley and Carole Tremblay vs. Les Entreprises MTY Tiki Ming Inc. On August 4, 2017, 9299-7626 Quebec, Inc., Martin Belley and Carole Tremblay (collectively "Plaintiffs") filed a Statement of Claim against MTY Tiki Ming Enterprises, Inc. ("Defendant"). Plaintiffs allege (i) Misrepresentation; and (ii) Failure to act in good faith and fair dealing. Defendant denies the allegations and will continue to vigorously defend itself in the action. Mediation occurred in January 2018 but was not successful. On January 28, 2019 Defendant filed its Answer and vehemently denied the allegations made. Defendant will continue to vigorously defend the claims in this action.

~~*2197643 Ontario Ltd., Gurmeet Bindra and Jessica Bindra v. MTY Food Group Inc., MTY Tiki Ming Enterprises Inc., Stanley Ma and Claude St-Pierre*, Ontario Superior Court; Court File No. 00-14-498188-*B&B Read, Inc. and Mr. Brian Read Sr. v. MTY Tiki Ming Enterprises, Inc.; Stanley Ma and Claude St. Pierre*; Superior Court of Ontario; Court No.: CV-18-00599132-0000~~ On June 5, 2018, B&B Read, Inc. and Brian Read Sr. (collectively "Applicants") filed a Notice of Application in the Superior Court of Ontario against MTY Tiki Ming Enterprises, Inc. ("Respondent MTY"); Stanley Ma; and Claude St. Pierre ("Respondents Ma and St. Pierre") (Respondent MTY and Respondents Ma and St. Pierre will collectively be referred to as ("Respondents"). Applicants allege (i) Misrepresentation by the Respondents; and (ii) Rescission of the Franchise Agreement based on the alleged infringements of the disclosure laws by the Respondents and its directors, failure to provide information and failure to provide notice of material changes. Applicants are seeking (i) A declaration that Respondent MTY is a franchisor as defined by Section 1 of the Arthur Wishart Act ("Wishart Act"); (ii) Declaration that Respondents Ma and St. Pierre are Franchisor's Associates as defined in Section 1 of the Wishart Act; (iii) Declaration that Respondents had an obligation to provide the Applicants with a disclosure document in accordance with Section 5 of the Wishart Act; (iv) Declaration that any agreement relating to the franchise agreement between the Franchisor or the Franchisor's Associates and the Franchisee were rescinded by Notice of Rescission dated July 29, 2016; (v) An Order requiring the Franchisor and/or the Franchisor's Associates indemnify the Applicants for all payments due to the Respondents or to be made to third parties; (vi) Damages against Respondents in the amount of \$435,051 to compensate Applicants for their entitlement under subsection 6(6) of the Wishart Act; (vii) In the alternative damages of \$435,051 for Respondents failure to comply with section 5 of the Wishart Act; (viii) Declaration stating that the Respondents are jointly and severally liable to the Applicants pursuant to sections 7 and 9 of the Wishart Act for the damages cited resulting from the failure of the Franchisor to comply with Section 5 of the Wishart Act; (ix) Pre and post judgment interest; (x) Costs of the application on a full indemnity basis; (xi) Any other relief the Court deems fit.

Respondents vehemently deny the allegations made and will continue to vigorously defend the matter.

~~On February 10, 2014, 2197643 Ontario Ltd., Grumeet Bindra and Jessica Bindra (collectively the "Plaintiffs") filed a Statement of Claim against MTY Tiki Ming Enterprises, Inc. ("Defendant MTY Enterprises"); MTY Food Group, Inc.; Stanley Ma and Claude St-Pierre (collectively the "MTY~~

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~~Defendants"). Plaintiffs alleged (i) Failure to provide a Disclosure Document pursuant to the Wishart Act; and (ii) Misrepresentation. Plaintiffs sought: (i) Declaration that Defendant MTY Enterprises failed to provide the Plaintiffs with a disclosure document pursuant to Section 5 of the Arthur Wishart Act, 2000, S.O. 2000, c. 3 ("Wishart Act") and General O. Reg 581/00 ("Regulations"); (ii) Due to the aforementioned allegation a declaration that Plaintiffs are entitled to rescind the July 28, 2011 Franchise Agreement and accompanying documents without penalty or obligation pursuant to subsection 6(2) of the Wishart Act; (iii) Declaration that July 25, 2013 was the effective date of rescission. Plaintiffs are seeking from Defendant MTY Enterprises: (i) Declaration that Defendant MTY Enterprises must comply with its obligations to the Plaintiffs pursuant to subsection 6(6) of the Wishart Act; (ii) Damages of \$1.5 million pursuant to subsection 6(6) of the Wishart Act; (iii) An Order that would require Defendants MTY Enterprises to carry out the execution of such documents as may be required; (iv) Damages of \$1 million for breaches of duty of fair dealing and good faith pursuant to Section 3 of the Wishart Act; and (v) Damages of \$2 million for losses incurred due to Defendant MTY Enterprises failure to provide a disclosure document. Plaintiffs further sought against the MTY Defendants (i) A declaration that the MTY Defendants are Defendant MTY Enterprises associates as defined in Section 1 of the Wishart Act; and (ii) A declaration that the MTY Defendants are therefore, jointly and severally liable with Defendant MTY Enterprises for any obligations or damages to the Plaintiffs. In the alternative, should the Court determine that the disclosure document was provided to Plaintiffs in accordance with Section 5 of the Wishart Act and the Regulations Plaintiffs allege (i) Declaration that Plaintiffs are entitled to (i) Rescission at common law of the Franchise Agreement and damages; (ii) Damages of \$3 million for breach of contract and misrepresentation at common law; (iii) An accounting before a Master if required and judgment in accordance with the accounting; (iii) Pre-judgment and post judgment interest; (iv) Costs of the proceeding and applicable taxes; and (v) any other relief the Court deems just.~~

~~1857490 Ontario Inc. and Adeel Bhayani v. RDHR Investments & Holdings Inc., 2234559 Ontario Inc., 2062127 Ontario Inc., Alex Rechichi, Sean Black, Mark Anthony Rechichi, Dynamic Franchising Group Inc., EME Inc., Scott Grandin, MTY Food Group Inc. and MTY Tiki Ming Enterprises Inc.; Ontario Superior Court of Justice; Court File No. CV-14-511948.~~

~~On January 9, 2015, 1857490 Ontario, Inc. and Adeel Bhayani (collectively "Plaintiffs"), filed a Statement of Claim against RDHR Investments & Holdings, Inc., 2234559 Ontario, Inc. 2062127 Ontario, Inc., Alex Rechichi, Sean Black, Mark Anthony Rechichi, Dynamic Franchising Group, Inc., EME, Inc., Scott Grandin, MTY Food Group, Inc. and MTY Tiki Ming Enterprises, Inc., (collectively "MTY Defendants"). Plaintiffs are seeking: rescission of the franchise agreement due to Defendant's failure to comply with the applicable franchise disclosure laws and misrepresentation. The MTY Defendants denied the claims alleged and continue to vigorously defend the matter. The Parties are awaiting a trial date.~~

~~Margaret Roose, 1525804 Alberta Corp. v. Jugo Juice International Inc., MTY Tiki Ming Enterprises Inc.; Court of Queens' Bench of Alberta; Court File No.: 1401-04571.~~

~~On April 28, 2014, Margaret Roose and 1525804 Alberta Corp. (collectively "Plaintiffs / Counter Defendants"), filed a Statement of Claim against Jugo Juice International, Inc. and MTY Tiki Ming Enterprises, Inc. (collectively "Defendants / Counter Plaintiffs"). Plaintiffs / Counter Defendants sought damages equivalent to the fair market value of the restaurant and costs. Plaintiffs / Counter Defendants alleged misrepresentation; breach of contract; unjust enrichment and unlawful~~

~~termination. On June 5, 2015, Defendants/ Counter Plaintiffs filed their Answer and Counterclaim against Plaintiffs/ Counter Defendants alleging breach of contract and damages due to the closure and breach and costs of the suit. On October 24, 2017, the Court heard two concurrent Summary Judgment Applications. Defendants/ Counter Plaintiffs' Application was for indemnity of the damages caused by Plaintiffs / Counter Defendants' abandonment of the restaurant. Defendants / Counter Plaintiffs sought damages in the amount of \$253,375.66. Plaintiffs/ Counter Defendants'~~

~~Application was for payment by Defendants / Counter Plaintiffs for its termination and possession of the restaurant. Plaintiffs / Counter Defendants sought damages equivalent to the fair market value of the restaurant which was determined to be \$259,500.00. On November 10, 2017, the Court issued its Opinion. It granted both Summary Judgment Applications; therefore, granting Plaintiffs/ Counter Defendants damages in the amount of \$259,500.00 and Defendants/ Counter Plaintiffs damages in the amount of \$253,375.66. It further granted each party costs: Plaintiffs/ Counter Defendants were pursuant to Schedule C and Defendants / Counter Plaintiffs were according to the terms of the contract. The Parties have since disagreed as to the interpretation of the Order as to the award of costs and this issue has not yet been resolved. The litigation is still on going as to the other claims that have yet to be resolved. Defendants/ Counter Claimants will continue to vigorously defend itself in the matter.~~

~~2079948 Ontario, Inc. v. MTY Tiki Ming Enterprises, Inc.; Ontario Superior Court of Justice; Court File No.: 89948/14SR; and
9276-2665 Quebec Inc., Lynda Larrivée v. MTY Tiki Ming Enterprises Inc., Iad (Eddy) Hassan, Habitations Matrik Inc.; Superior Court of Quebec 500-17-104982-189.~~

~~On August 6, 2018, 9276-2665 Quebec Inc., Lynda Larrivée (collectively "Plaintiffs") filed a Statement of Claim against MTY Tiki Ming Enterprises, Inc. v. EP Franchising International, Inc.; Extreme Pita Company/Compagnie Extreme Pita Limite'e, Extreme Pita Corporation Quebec Inc./ Corporation Extreme Pita Quebec, Inc., Extreme Pita International, Inc., Extreme Pita IP, Inc., Masco Retail, Inc., Mucho Burrito Corporation, Mucho Burrito Franchising Canada, Inc. Mucho Burrito Franchising Quebec, Inc./ Franchisage Mucho Burrito Quebec Inc., Mucho Burrito Holdings, Inc., Mucho Burrito International, Inc., Mucho Burrito International Pakistan, Inc., Mucho Burrito International UK, Inc., Mucho Burrito IP, Inc., Mucho Burrito Marketing Fund, Inc., Mucho Burrito Restaurants, Inc., Purblendz International, Inc., Purblendz IP, Inc., RDHR Investments & Holdings, Inc., The Extreme Pita Franchising Canada, Inc., The Extreme Pita National Marketing Fund Canada, Inc., The Extreme Pita Restaurants, Inc., The Extreme Pita Restaurants Limited, The Extreme Pita USA, Inc., and Mucho Burrito USA, Inc., Dynamic, 1857490 Ontario, Inc. and Adeel Bhayani; Ontario Superior Court of Justice; Court File No.: 89948/14SR-A1; and Inc., Iad (Eddy) Hassan and Habitations Matrik Inc. (collectively "Defendants"). Plaintiffs allege: (i) False representations regarding system sales and projected sales for the outlet and business values; (ii) Defendants withheld material information and that as a result the Plaintiffs suffered damages; and (iii) Representatives of the Franchisor are responsible for defects in the construction of the outlet. Defendants vehemently deny the allegations made and will continue to vigorously defend the matter.~~

~~EP Franchising International, Inc.; Extreme Pita Company/Compagnie Extreme Pita Limite'e, Extreme Pita Corporation Quebec Inc./ Corporation Extreme Pita Quebec, Inc., Extreme Pita International, Inc., Extreme Pita IP, Inc., Masco Retail, Inc., Mucho Burrito Corporation, Mucho Burrito Franchising Canada, Inc. Mucho Burrito Franchising Quebec, Inc./ Franchisage Mucho Burrito Quebec Inc., Mucho Burrito Holdings, Inc., Mucho Burrito International, Inc., Mucho Burrito International Pakistan, Inc., Mucho Burrito International UK, Inc., Mucho Burrito IP, Inc., Mucho Burrito Marketing Fund, Inc., Mucho Burrito Restaurants, Inc., Purblendz International, Inc., Purblendz IP, Inc., RDHR Investments & Holdings, Inc., The Extreme Pita Franchising Canada, Inc., The Extreme Pita National Marketing Fund Canada, Inc., The Extreme Pita Restaurants, Inc., The Extreme Pita Restaurants Limited, The Extreme Pita USA, Inc., and Mucho Burrito USA, Inc. v. Scott Grandin, Vito Romita and John Boynton; Ontario Superior Court of Justice; Court File No.:~~

89948/14SR-A2.

Concluded Arbitration and Litigation Involving MTY Tiki Ming Enterprises Inc.

2423950 Ontario, Inc. and Sylvie Louchez v. MTY Tiki Ming Enterprises, Inc., Stanley Ma and Claude St- Pierre;
Ontario Superior Court of Justice; Court File No.: CV-17-584365

~~In December 2014, 2079948 Ontario, Inc. ("Plaintiff Ontario") filed a Statement of Claim against MTY Tiki Ming Enterprises, Inc. ("Defendant MTY") alleging Breach of Lease and seeking \$262,015.65 in damages. Defendant MTY commenced a third party action against EP Franchising International, Inc.; Extreme Pita Company/Compagnie Extreme Pita Limite'e, Extreme Pita Corporation Quebec Inc./Corporation Extreme Pita Quebec, Inc., Extreme Pita International, Inc., Extreme Pita IP, Inc., Masco Retail, Inc., Mucho Burrito Corporation, Mucho Burrito Franchising Canada, Inc. Mucho Burrito Franchising Quebec, Inc./ Franchisage Mucho Burrito Quebec Inc., Mucho Burrito Holdings, Inc., Mucho Burrito International, Inc., Mucho Burrito International Pakistan, Inc., Mucho Burrito International UK, Inc., Mucho Burrito IP, Inc., Mucho Burrito Marketing Fund, Inc., Mucho Burrito Restaurants, Inc., Purblendz International, Inc., Purblendz IP, Inc., RDHR Investments & Holdings, Inc., The Extreme Pita Franchising Canada, Inc., The Extreme Pita National Marketing Fund Canada, Inc., The Extreme Pita Restaurants, Inc., The Extreme Pita Restaurants Limited, The Extreme Pita USA, Inc., and Mucho Burrito USA, Inc., (collectively "The Extreme Parties"), Dynamic, 1857490 Ontario, Inc. ("Defendant Ontario") and Abdeel Bhayani ("Defendant Bhayani"). The Extreme Parties then commenced a fourth party action against Scott Grandin, Vito Romita and John Boynton. Following the filings the initial action involving Plaintiff Ontario and Defendant MTY settled. It was agreed that Defendant MTY would pay Plaintiff Ontario \$65,000 to settle the matter in full. MTY then served a Notice of Election to proceed with the Third Party Action. The Extreme Parties also served a Notice of Election to proceed with the Fourth Party Action. In November 2016, the Parties for all the actions executed a settlement agreement. It was determined that Defendants Dynamic, Scott Grandin, Vito Romita and John Boynton would pay the sum of \$10,000 to the Extreme Parties. All parties further entered into a mutual release and each action was subsequently dismissed. On October 13, 2017, 2423950 Ontario, Inc. and Sylvie Louchez ("Applicants") filed a Notice of Application against MTY Tiki Ming Enterprises, Inc., Stanley Ma and Claude St-Pierre (collectively "Respondents"). Applicants alleged (i) Breach of the Wishart Act. Applicants sought: (i) A declaration that MTY Tiki Ming Enterprises, Inc. is a franchisor as defined in the Wishart Act; (ii) A declaration that Stanley Ma and Claude St Pierre are each "franchisor's associates" as defined in the Wishart Act; (iii) A declaration that the Respondents were obligated to provide Applicants with a disclosure document and failed to do so; therefore, giving rise to a right to rescind the agreement; (iv) A declaration that any agreement, (including the franchise agreement and sublease) relating to the franchise between the Parties was rescinded by Notice of Rescission dated April 14, 2016; (v) An Order requiring Respondents to indemnify Applicants for any payments due to Respondents; (vi) Damages jointly and severally in the amount of \$269,863.00; (vii) In addition or in the alternative damages in the amount of \$269,863.00 from the Respondents jointly and severally pursuant to Sections 7 and 8 of the Wishart Act for failure to comply with Section 5 of the Wishart Act; (viii) A declaration stating that the Respondents are jointly and severally liable to the Applicants pursuant to Sections 7 and 8 of the Wishart Act; (ix) Pre-judgment interest and post-judgment interest in accordance with the provisions of the Courts of Justice Act, RSO 1990 c. C-43; (x) Costs of the application on a full indemnity basis, including HST and any other applicable taxes; and (xi) Any other relief the Court deems fit. On December 6, 2018 the parties executed a full and final mutual release in which the Applicants assigned the assets of the Franchised Business over to the Respondents and the Respondents agreed to pay Applicants \$120,000 to settle the matter in full.~~

2264184 Ontario Inc. v. Country Style, a division of MTY Tiki Ming Enterprises Inc. and Country Style Realty Limited.; Ontario Superior Court of Justice; Court File No.: CV15-530859

~~On June 22, 2015, 2264184 Ontario, Inc. ("Plaintiff") filed a Statement of Claim against Country Style, a division of MTY Tiki Ming Enterprises, Inc. and Country Style Realty Limited (collectively "Defendants"). Plaintiff is alleging: (i) Misrepresentation and (ii) Breach of Duty of Good Faith and Fair Dealing; Plaintiff is seeking: (i) Damages in the amount of \$500,000; (ii) Punitive and exemplary damages in the amount of \$100,000; (iii) Pre-judgment and post-judgment interest in accordance with the Courts of Justice Act; (iv) Costs of the action on a substantial indemnity basis; and (v) Any other relief the Court deems fit. On August 18, 2015 the Defendants filed their Statement of Defense and~~

~~Counter Claim and alleged Breach of Contract due to the Plaintiff's arrears in rent and royalty payments. Defendants are seeking: (i) Judgment in the sum of \$90,881.11 or in the alternative damages in the sum of \$200,000; (ii) Prejudgment interest pursuant to the Court of Justice Act R.S.O. 1190, ch.643; (iii) Costs of the action; and (iv) Any other relief the Court deems fit. Mediation is to occur in early 2018.~~

~~MTY Tiki Ming Enterprises Inc. v. Ravin Rathnasingam (also known as Ravindran Rathnasingam) and 1889641 Ontario Inc.; Superior Court of Justice; Court File No.: CV-16-550497~~

~~On April 7, 2016, MTY Tiki Ming Enterprises, Inc. ("Plaintiff/ Counter Defendant") filed a Statement of Claim against Ravin Rathnasingam a.k.a. Ravindran Rathnasingam and 1889641 Ontario, Inc. (collectively "Defendants / Counter Plaintiffs") seeking unpaid rent and unpaid royalties. Defendant / Counter Plaintiff filed a Counter Claim against Plaintiff/ Counter Defendant alleging breach of the Arthur Wishart Act, 2000 SO 2000 c.3. The Parties entered into a settlement agreement on October 18, 2017 in which Plaintiff/ Counter Defendant paid Defendant /Counter Plaintiff the sum of \$20,000.~~

~~Standardville Enterprises, Inc. v. MTY Tiki Ming Enterprises, Inc.; Superior Court; Province of Quebec; District of Montreal; Court File No.: 500-17-096576-163.~~

~~On December 2, 2016, Standardville Enterprises, Inc. ("Plaintiff"), filed a Statement of Claim against MTY Tiki Ming Enterprises, Inc. ("Defendant"). Plaintiff is alleging (i) Misrepresentation and (ii) Breach of Contract. Plaintiff is seeking \$220,892.00 in damages plus interest. Defendant will continue to vigorously defend these claims.~~

~~MTY Tiki Ming Enterprises Inc. vs. 2240950 Ontario Inc., Alpesh Mistry and Amit Bhasin; Ontario Superior Court of Justice; Court File No.: CV-16-1376-00.~~

~~In March 2016, MTY Tiki Ming Enterprises, Inc. ("Plaintiff / Counter Defendant"), served a Statement of Claim on 2240950 Ontario, Inc.; Alpesh Mistry and Amit Bhasin (collectively "Defendants / Counter Plaintiffs"). Plaintiff/ Counter Defendant alleged (i) Breach of Contract — Franchise Agreement and (ii) Breach of Contract — Lease/ Sublease Agreement. Plaintiff/ Counter Defendant is seeking (i) Judgment in the sum of \$212,859.00; (ii) Damages in the sum of \$250,000.00; (iii) prejudgment interest at the rate of the greater of 26% per annum on the unpaid balance pursuant to the terms of the Franchise Agreement or in the alternative interest pursuant to the provisions of the Courts of Justice Act, R.S.O. 1990 c C-43; (iv) Costs of the action on a substantial indemnity basis; and (v) Any other relief the Court deems fit. On November 15, 2016 Defendants / Counter Plaintiffs filed their Answer and Counterclaim against Plaintiff/ Counter Defendant. Defendants/ Counter Plaintiffs allege (i) Breach of Sections 5 of the Wishart Act; and (ii) Negligent misrepresentation. They are seeking: (i) Damages in the amount of \$1,000,000.00 for breach of Section 5 of the Wishart Act; (ii) Damages in the amount of \$1,000,000.00 for negligent misrepresentation; (iii) Pre and post judgment interest in accordance with the Courts of Justice Act, R.S.O. 1990, c C.43; (iv) Costs of the Counterclaim plus all applicable taxes; and (v) Any other relief the Court deems fit. Plaintiff/ Counter Defendant will continue to vigorously defend itself in this matter.~~

~~MTY Tiki Ming Enterprises Inc. vs. Sadek Enterprise Corp., Sadek Baza and Mai Ghoneim; Court of Queen's Bench of Alberta; Court File No.: 161300270.~~

~~On April 25, 2016, MTY Tiki Ming Enterprises, Inc. ("Plaintiff / Counter Defendant"), filed a Statement of Claim against Sadek Enterprise Corp.; Sadek Baza and Mai Ghoneim (collectively "Defendants / Counter Plaintiffs"). Plaintiff/ Counter Defendant alleged (i) Breach of Contract — Franchise Agreement and (ii) Breach of Contract — Lease/ Sublease Agreement. Plaintiff/ Counter Defendant is seeking: (i) Judgment in the sum of \$106,119.88 for outstanding rental arrears, royalty payments and other expenses; (ii) Damages in the amount of \$1,000,000.00 for future rental payments due and lost royalty payments; (iii) Interest on the sums at the rate of 24% per annum per the Franchise Agreement or in the alternative interest pursuant to the Judgment Interest Act; (iv) Costs of the Action (v) Any other~~

~~relief the Court deems fit. On September 29, 2016, Defendants/ Counter Plaintiffs filed their Answer and Counterclaim. They allege: (i) Breach of Contract — Franchise Agreement (ii) Misrepresentation; and (iii) Negligence. Defendants / Counter Plaintiffs are seeking: Damages in the amount of \$500,000 to Defendant Sadek Baza for the above referenced claims; Damages in the amount of \$500,000 to Defendant Sadek Enterprise Corp. for the above referenced claims; (iii) Damages in the amount of \$250,000 to Defendant Sadek Enterprise, Corp. for loss of business opportunity and sales profits; (iv) General damages in the amount of \$50,000 to Defendant Sadek Baza for pain and suffering; (v) General damages in the amount of \$50,000 to Defendant Mai Ghoneim for loss of consortium; (vi) Punitive or exemplary damages as may be determined at trial; and (vii) Costs. At the time of Defendants/ Counter Plaintiffs filing of its Counterclaim it further informed Plaintiff/ Counter Defendant that it filed an Assignment in Bankruptcy which stayed any action that Plaintiff/ Counter Defendant could take against Defendant/ Counter Plaintiff. In October 2016, Plaintiff/ Counter Defendant filed its Answer to Defendants/ Counter Plaintiffs Counterclaim in which it denied all allegations cited therein and sought the dismissal of the Counterclaim. On February 14, 2017, Plaintiff/ Counter Defendant was served with the Order of Absolute Discharge in the Matter of the Bankruptcy of Sadek Baza and Mai Ghoneim. Pending Arbitration and Litigation Involving Canada, Inc.~~

8314535 Canada Inc. vs. MTY Tiki Ming Enterprises Inc./ LES Enterprises MTY Tiki Ming, Inc., Calloway REIT (Ottawa Laurentian) Inc., I.G. Investment Management, Ltd.; Ontario Superior Court of Justice; Court File No.: 16-70570.

On June 13, 2017, 8314535 Canada Inc. ("Plaintiff") filed a Statement of Claim against MTY Tiki Ming Enterprises, Inc./ LES Enterprises MTY Tiki Ming, Inc. ("Defendant MTY"); Calloway REIT (Ottawa Laurentian), Inc., and I.G. Investment Management, Ltd. ("~~Defendant~~Defendants Calloway and I.G"). Plaintiff is alleging: ~~(i)~~ (i) Breach of Contract; (ii) Unjust Enrichment; (iii) Negligent Misrepresentation; ~~(iv)~~ (iv) Negligence; (v) Omissions & Improper Disclosure. Plaintiff is seeking: (i) Declaration that the Franchise Agreement between the Plaintiff and Defendant MTY is null and void; (ii) Reimbursement of the Franchise Fee in the sum of \$340,525.00; (iii) Reimbursement of the Eco Unit Fee in the sum of \$31,640.00; (iv) Special damages including damages for lost income and lost profits (past and future) in an amount to be determined prior to trial; (v) Aggravated, exemplary and punitive ~~Page -36-~~ damages in the amount of \$500,000.00; (vi) Pre-judgment and post-judgment interest in accordance with s. 128 and s. 129 of the Courts of Justice Act RSO 1990, c. C. 43.; (vii) Costs of the action on a substantial indemnity basis; (viii) Any other relief the Court deems fit. In November 2017 Defendant MTY filed its Answer in which it denied the allegations made in the Statement of Claims and further filed a Cross Claim against Defendant Calloway and I.G. seeking: (i) Contribution and indemnity under sections 2 and 3 of the Negligence Act; R.S. O. 1990, c. N-1 for any amounts which Defendant MTY may be held responsible for; (ii) Contribution and indemnity under the common law and equity for any amount which Defendant MTY may be held responsible for; (iii) Costs of the main action plus applicable taxes; (iv) Costs of the crossclaims plus all applicable taxes; (v) Any other relief the Court deems fit. On November 22, 2017, Cross Claimant MTY filed its Answer and Cross Claim against Defendants Calloway and I.G. for contribution and indemnity for any amounts that it may be found liable to the Plaintiff.

Pending Arbitration and Litigation Involving SFF, LLC

None

Concluded Arbitration and Litigation Involving SFF, LLC

In the Matter of SweetFrog Enterprises, LLC f.k.a. Imagination Enterprises, Inc., d/b/a Sweet Frog, Administrative Proceeding Before the Securities Commissioner of Maryland, Case No. 2012-0055.

As a result of an inquiry into the franchise related activities of SweetFrog Enterprises, LLC, ("SFE") the Maryland Securities Commissioner ("Commissioner") concluded that grounds existed to allege that SFE violated the registration and disclosure provisions of the Maryland Franchise Law in relation to the offer and sale of certain license agreements. SFE acknowledged that those license agreements constituted franchises as defined under the Maryland Franchise Law. SFE represented that it entered into license agreements with eight Maryland licensees during the time it was not registered to offer and sell franchises in Maryland. On August 29, 2012, the Commissioner and SFE agreed to enter into a consent order whereby SFE, without admitting or denying any violations of the law, agreed to: (i) Immediately and permanently cease from the offer and sale of

franchises in violation of the Maryland Franchise Law; (ii) File and diligently pursue an application for an initial franchise registration in Maryland relating to the license agreements it offered and sold to Maryland licensees; and, (iii) To offer to rescind the license agreements of all Maryland licensees to whom it sold unregistered franchises.

Sun Yop Cho v. Imagination Enterprises, Inc., American Arbitration Association, Case No. 16 114 Y 00250 13.

9299-7626 Quebec Inc., Martin Belley and Carole Tremblay vs. Les Entreprises MTY Tiki Ming Inc.
On May 15, 2013, Sun Yop Cho, ("Claimant"), a sweetFrog licensee, filed an arbitration action against Imagination Enterprises, Inc., predecessor to SweetFrog Enterprises, LLC ("Respondent"). Claimant asserted that: (i) Respondent breached the license agreement by violating the territorial exclusivity provision in the license agreement. (ii) Respondent violated the Virginia Retail Franchising Act, and (iii) Respondent breached an alleged oral promise to partner with Claimant in developing a sweetFrog Shop in Leesburg, Virginia. Claimant sought: (i) Damages in the amount of \$900,000; (ii) Attorneys' fees; (iii) Reformation of the license agreement ; and (iv) Injunctive relief. Respondent vehemently disputed Claimant's claims. On December 13, 2013, Claimant and Respondent entered into an agreement pursuant to which (1) the parties settled their disputes and jointly dismissed the arbitration proceeding with prejudice, and (2) Respondent repurchased Claimant's License Agreement and acquired the assets of his sweetFrog shop for a total price of \$504,162.63.

On August 4, 2017, 9299-7626 Quebec, Inc., Martin Belley and Carole Tremblay (collectively "Plaintiffs") filed a Statement of Claim against MTY Tiki Ming Enterprises, Inc. ("Defendant"). Plaintiff alleged (i) Misrepresentation; and (ii) Failure to act in good faith and fair dealing. Defendant denies the allegations and will continue to vigorously defend itself in the action. Mediation occurred in January 2018 but failed to be successful. Defendant will continue to vigorously defend the claims in this action.

Sweet Frog Stony Brook Inc. and Sweet Frog Babylon, Inc. v. SweetFrog Enterprises, LLC; SFF, LLC and Ki Young Cha a/k/a Derek Cha; Case No. 2:14-cv-02356-JS-WDW, United States District Court, Eastern District of New York.

MTY Tiki Ming Enterprises Inc. vs. Adel Faltas and 1778348 Ontario Inc. v. MTY Tiki Ming Enterprises, Inc.; Ontario Superior Court of Justice; Court File No.: 2722/17

On April 11, 2014, Sweet Frog Stony Brook, Inc. and Sweet Frog Babylon, Inc., (collectively "Plaintiffs"), two sweetFrog franchisees, filed a lawsuit against SweetFrog Enterprises, LLC, SFF, LLC ("Franchisor"), and Ki Young Cha a/k/a Derek Cha (collectively "Defendants"). The Plaintiffs alleged that Defendants: (i) violated the New York Franchise Sales Act, (ii) violated the New York General Business Law § 680, *et seq.* ("NYFSA") by making unauthorized and fraudulent pre-sale financial performance representations; and (iii) failed to register the franchise offering with the New York Attorney General prior to entering into franchise agreements with the Plaintiffs. The Plaintiffs demanded: (i) damages in excess of \$685,000; (ii) rescission of their franchise agreements; (iii) and recovery of their attorneys' fees. Defendants disputed the Plaintiffs' claims but agreed to mediate the dispute. Prior to the deadline to answer or otherwise respond to the complaint, on July 29, 2014, the parties entered into an agreement pursuant to which (1) the Plaintiffs would attempt to sell their franchised shops and transfer their franchise agreements to any third party(ies) approved by Franchisor before November 1, 2014, and (2) if the Plaintiffs were unable to identify a suitable buyer for their franchised shops by November 1, 2014, the parties agreed to mutual termination of the franchise agreements and that Franchisor would purchase the equipment from each Plaintiff's shop for an agreed price of \$50,000 for each shop. The case was dismissed with prejudice on August 6, 2014.

On June 30, 2017, MTY Tiki Ming Enterprises, Inc. ("Plaintiff/ Counter Defendant") filed a Statement of Claim against Adel Faltas ("Defendant"). Plaintiff / Counter Defendant alleged Breach of Contract as to the Guaranty of the Franchise Agreement. Plaintiff/ Counter Defendant is seeking: (i) Judgment in the sum of \$117,1137.33; (ii) Prejudgment interest pursuant to the provisions of the two Franchise Agreements, or in the alternative pursuant to the Courts of Justice Act, R.S.O. 1990, ch. C. 43; (iii) Costs of the Action; (iv) Any other relief the Court deems fit. On August 15, 2017 Defendant filed his Answer to Plaintiff/ Counter Defendant's Statement of Claim. 1778348 Ontario Inc. ("Counter Plaintiff") further filed a Counter Claim against Plaintiff/ Counter Defendant. Counter Plaintiff alleges (i) Breach of Contract as to both Franchise Agreements; (ii) Misrepresentation; (iii) Illegal Termination. Counter Plaintiff is seeking (i) \$100,000.00 relating to the Bank of Montreal loan; (ii)

~~\$315,000 relating to the value of the Oakville Tower Franchise or in the alternative \$90,000 for the equipment and contents of the Oakville Tower Franchise; (iii) \$150,000 relating to the value of the Mississauga Traditional Franchise or in the alternative \$50,000 relating to the equipment and contents of the Mississauga Traditional Franchise; (iv) \$80,000 for the operating loss incurred at the Mississauga Traditional Franchise. In November 2017 Plaintiff/ Counter Defendant filed its Defense to the Counter Claim in which it denied the allegations made in the Statement of Claim and requested dismissal of the action and reimbursement of its costs. Plaintiff/ Counter Defendant will continue to vigorously defend this claim.~~

~~Tri Star Consulting Group, Inc. and Sweet Frog Hauppauge, Inc. v. SweetFrog Enterprises, LLC, SFF, LLC, Ki Young Cha a/k/a Derek Cha; Case No. 2:14-cv-02228-ADS-AKT, United States District Court, Eastern District of New York.~~

~~2423950 Ontario, Inc. and Sylvie Louchez v. MTY Tiki Ming Enterprises, Inc., Stanley Ma and Claude St-Pierre; Ontario Superior Court of Justice; Court File No.: CV-17-584365~~

~~On April 9, 2014, Tri Star Consulting Group, Inc., a licensee and area developer of SweetFrog Enterprises, LLC ("Plaintiff Tri Star"), and Sweet Frog Hauppauge, Inc., a licensee of SweetFrog Enterprises, LLC ("Plaintiff Hauppauge"); (Plaintiff Tri Star and Plaintiff Hauppauge will collectively be referred to as "Plaintiffs"); filed a lawsuit against SweetFrog Enterprises, LLC, ("Defendant SweetFrog), SFF, LLC ("Defendant SFF") and Ki Young Cha a/k/a Derek Cha (collectively "Defendants"). Plaintiff Tri Star alleged Defendant SweetFrog breached its license/area development agreement with Plaintiff Tri Star by: (i) terminating the license agreement/area development agreement for nonpayment of royalty fees; (ii) licensing to Defendant SFF the right to sell franchises in New York City, Plaintiff Tri Star's development territory; and (iii) failing to pay fees allegedly owed to Plaintiff Tri Star related to the operation of franchised sweetFrog locations within Plaintiff Tri Star's development territory. Plaintiff Tri Star sought: (i) damages in excess of \$75,000; (ii) a declaration that it was not in default of the license/area development agreement; (iii) declaration that Defendant sweetFrog was obligated to pay fees to Plaintiff Tri Star based on revenues of all franchised sweetFrog locations in New York City; (iv) an order enjoining Defendant SFF from selling franchises in New York City; (v) and recovery of its attorneys' fees. Prior to the deadline to answer or otherwise respond to the complaint, on September 9, 2014, Plaintiff Tri Star, on the one hand, and Defendants on the other hand, entered into an agreement pursuant to which (1) the parties agreed to mutual termination of Plaintiff Tri Star's license/area development agreement; (2) Plaintiff sweetFrog agreed to pay Plaintiff Tri Star \$19,830.58; (3) Defendant SFF agreed to pay Plaintiff Tri Star an ongoing commission equal to 2% of the net sales of all franchised sweetFrog locations in New York City through November 2031; and (4) Plaintiff Tri Star agreed not to operate any competitive business in New York City for so long as Defendant SFF was obligated to make commission payments to Plaintiff Tri Star.~~

~~On October 13, 2017, 2423950 Ontario, Inc. and Sylvie Louchez ("Applicant") filed a Notice of Application against MTY Tiki Ming Enterprises, Inc., Stanley Ma and Claude St-Pierre (collectively "Respondents"). Plaintiff alleges (i) Breach of the Wishart Act. Applicant is seeking: (i) A declaration that MTY Tiki Ming Enterprises, Inc. is a franchisor as defined in the Wishart Act; (ii) A declaration that Stanley Ma and Claude St Pierre are each "franchisor's associates" as defined in the Wishart Act; (iii) A declaration that the Respondents were obligated to provide Applicants with a disclosure document and failed to do so; therefore, giving rise to a right to rescind the agreement; Plaintiff Hauppauge asserted that Defendants: (i) violated the New York Franchise Sales Act, (ii) violated the New York General Business Law § 680, et seq. ("NYFSA"); (iii) committed fraudulent and negligent representations by making unauthorized and fraudulent pre-sale financial performance representations; and (iv) A declaration that any agreement, (including the franchise agreement and sublease) relating to the franchise between the Parties was rescinded by Notice of Rescission dated April 14, 2016; (v) failed to register the franchise offering with the New York Attorney General prior to entering into franchise agreements with the Plaintiffs. Plaintiff Hauppauge sought (i) damages in excess of \$330,000; (ii) rescission of its license agreement, and (iii) recovery of its attorneys' fees. Defendants disputed the Plaintiffs' claims but agreed to mediate the dispute. Prior to the deadline to answer or otherwise respond to the complaint, on September 9, 2014, Plaintiff Hauppauge, on the one hand, and Defendants on the other hand, entered into an agreement pursuant to which (1) the parties agreed to mutual termination of Plaintiff Hauppauge's license agreement; and (2) Defendant sweetFrog agreed to pay Plaintiff Hauppauge \$75,000. The case was dismissed with prejudice on September 20, 2014.~~

~~Page -37- An Order requiring Respondents to indemnify Applicants for any payments due to Respondents; (vi) Damages jointly and severally in the amount of \$269,863.00; (vii) In addition or in~~

~~the alternative damages in the amount of \$269,863.00 from the Respondents jointly and severally pursuant to sections 7 and 8 of the Wishart Act for failure to comply with Section 5 of the Wishart Act; (viii) A declaration stating that the Respondents are jointly and severally liable to the Applicants pursuant to Sections 7 and 8 of the Wishart Act; (ix) Pre-judgment interest and post-judgment interest in accordance with the provisions of the Courts of Justice Act, RSO 1990 c. C-43; (x) Costs of the application on a full indemnity basis, including HST and any other applicable taxes; (xi) Any other relief the Court deems fit. Respondents vehemently deny the allegations made and continue to vigorously defend the matter.~~

~~Concluded Arbitration and Litigation Involving MTY Tiki Ming Enterprises Inc.~~

~~MTY Tiki Ming Enterprises Inc. v. 9137-6897 Quebec Inc. and Li Hui Wan, Quebec Superior Court of Justice; Court File No. 500-17-074459-127~~

~~In March 2012 MTY Tiki Ming Enterprises, Inc. ("Plaintiff/ Counter Defendant") filed a Statement of Claim against 9137-6897 Quebec, Inc. and Li Hui Wan (collectively "Defendants/ Counter Plaintiff"). Plaintiff/Cross Defendant alleged Breach of Contract and sought \$16,790.21 in damages plus interest and additional indemnity provided for in the Civil Code of Quebec. On July 3, 2012, Defendants/Counter Plaintiffs filed a Counterclaim against Plaintiff/Counter Defendants alleging breach of good faith and misrepresentation. Defendants/ Counter Plaintiffs are seeking: \$289,910.17 with interest; dismissal of Plaintiff/Counter Defendant's motion; and costs. On May 14, 2016 the parties executed a Mutual Release and Transaction in which it was agreed that Plaintiff/Counter Defendant would pay Defendant / Counter Plaintiff Ten Thousand dollars (\$10,000.00) to settle the matter. Both parties fully released the other.~~

~~Simbal Group Ltd. and Sintram Royce-Mayo and Jerome Balaramanpillai v. MTY Tiki Ming Enterprises Inc.; Quebec Superior Court; Court File No. 500-17-027505-059~~

~~On September 15, 2005, Group Ltd., Sintram Royce-Mayo and Jerome Balaramanpillai (collectively "Plaintiffs"), filed an originating motion to institute proceedings against MTY Tiki Ming Enterprises, Inc. ("Defendant"). Plaintiffs alleged: misrepresentation; unfair and deceptive business practice and misrepresentation. Plaintiffs sought (i) The initial investment and transaction amount of \$50,000; (ii) Additional sums invested to sustain the operations of the store from 2004 to 2010 in the amount of \$30,000; (iii) Loss of profit of \$35,000 and future annual sales in the amount of \$70,000; (iv) Legal costs in the amount of \$20,000 (v) Damages in the amount of \$1,220,000.00 for Plaintiff Royce-Mayo; (vi) Damages in the amount of \$55,000 for Plaintiff Balaramanpillai; and (vii) punitive and exemplary damages in the amount of \$1,000,000.00. Defendant MTY denied the allegations alleged. In December 2010 the Parties entered into a settlement agreement in which Defendant MTY paid the sum of \$65,000 to settle the claims and a mutual release without any admission of liability was executed by both parties.~~

~~2303333 Ontario Limited, Xiaoqin Wang, Cong Li and Yiqing Ruan v. MTY Tiki Ming Enterprises Inc. (Arbitration).~~

~~Urquieta Sweet Frog, LLC and Ana Urquieta v. Sweet Frog Enterprises, LLC d/b/a SFF, LLC, American Arbitration Association, Case No. 01 14 0001 8086~~

~~On April 25, 2014, 2303333 Ontario Limited and Xiaoqin Wang, Cong Li and Yiqing Ruan (collectively "Claimants") December 23, 2014, Urquieta Sweet Frog, LLC and Ana Urquieta, a former sweetFrog franchisee and its owner (collectively "Plaintiffs"), filed a Demand for Arbitration against MTY Tiki Ming SweetFrog Enterprises, Inc. ("Respondents"). Claimants sought a rescission of the franchise agreement under the~~

~~Arthur Wishart Act due to Respondents alleged failure to properly disclose the Claimant and a refund and damages in the amount of \$659,000.00. On January 26, 2015 LLC ("Defendant"). Plaintiffs alleged: (i) Defendant engaged in fraud; (ii) unfair practices; and (iii) deceptive actions. On February 2, 2015, Defendant timely filed its Defense and Counterclaim alleging Breach of Contract for Plaintiff's failure to pay rent and royalties and for future an Answer and Counterclaim and denied all allegations, and asserted a counterclaim against Plaintiff for unpaid royalties. This matter was settled in December of 2015. Under the settlement, Defendant agreed to pay Plaintiff \$300,000 and the parties executed mutual releases.~~

~~Page 38-~~

~~SFF, LLC v. Carmel Village Yogurt Company LLC, Case No. CL16-3927, City of Richmond, Virginia Circuit Court.~~

~~damages. It sought \$177,768.14 in damages. In April 2015 the parties entered into a settlement agreement in which Respondent agreed to pay Claimant \$300,000.00 to settle all claims. All parties executed a mutual release against the other. On August 29, 2016, SFF, LLC ("Plaintiff") filed a lawsuit against three sweetFrog franchisee entities, Carmel Village Yogurt Company LLC ("Defendant Carmel YC"), Huntersville Yogurt Company, LLC ("Defendant Huntersville YC"), and Mooresville Yogurt Co, LLC ("Defendant Mooresville YC"), and their main member, Steve Anto ("Defendant Anto") (All named Defendants will be collectively referred to as, the "Anto Defendants"). Plaintiff alleged: Defendant Carmel YC breached its franchise agreement through its unauthorized closure of its franchised shop; (ii) as a result of the breach Plaintiff had the contractual right to terminate Defendant Carmel YC's franchise agreement, and cross terminate the franchise agreements of Defendant Huntersville YC and Defendant Mooresville YC's franchise agreements. Plaintiff SFF sought (i) declaratory judgment that the three franchise agreements had terminated; (ii) specific performance of the Anto Defendants post-termination obligations; (iii) damages for past due fees; (iv) lost future royalties in excess of \$116,000, and (v) recovery of its attorneys' fees. In response to Defendant SFF's complaint, the Anto Defendants denied Plaintiff SFF's claims and asserted counterclaims against Plaintiff SFF and alleged:~~

~~(i) the Carmel YC franchise agreement was unenforceable and, alternatively, that Plaintiff SFF was in breach of Defendant Carmel YC's franchise agreement due to Plaintiff SFF's allowance of another franchisee to open a shop within three miles of Defendant Carmel YC's shop. The Anto Defendants sought: (i) a declaratory judgment that they were not in default of their franchise agreements; (ii) damages of not less than \$425,000; and (iii) recovery of their attorneys' fees. Plaintiff SFF denied the Anto Defendants' claims and filed a demurrer and pleas in bar seeking to have those claims dismissed. Prior to the court hearing and ruling on Plaintiff SFF's motion, the parties entered into an agreement pursuant to which (1) the parties acknowledged the valid termination of Defendant Carmel YC's franchise agreement; (2) Defendant Carmel YC transferred the assets of its business to Plaintiff SFF and Plaintiff SFF paid Defendant Carmel YC \$25,000; (3) Plaintiff SFF reinstated Defendant Huntersville YC's and Defendant Mooresville YC's terminated franchise agreements; and (4) Plaintiff SFF granted Defendant Anto the right to develop a new SWEETFROG shop at a mutually acceptable location on or before November 8, 2018. The case was dismissed with prejudice on December 15, 2016.~~

~~Lawsuits Filed by MTY Tiki Ming Enterprises Inc. SFF, LLC Against Franchisees during During Fiscal Year December 1, 2016 through November 31, 2017 None 2018:~~

~~None~~

~~Pending Arbitration and Litigation Involving Country Style Food Services, Inc. CB Franchising Systems, LLC~~

~~None~~

~~Concluded Arbitration and Litigation Involving Country Style Food Services, Inc. CB Franchising Systems, LLC~~

~~Adonai Investors, Inc. and Kevin Fitzpatrick v. Craig Albert, Michael Bernstein, Larry Schwartz, CM Franchise Systems, Inc., CM Franchise Systems, LLC, and CB Franchise Systems, LLC, CK Franchise Systems, Inc., Los~~

Angeles Superior Court Case No: BC409892.

Dinesh Verman v. Country Style Food Services, A Division of MTY Tiki Ming Enterprises, Inc.;
Matter of Arbitration Under the Arbitration Act of Ontario.

Plaintiffs, a regional director of "Tacone" (the restaurant concept franchised by CM Franchise Systems, LLC) and Kevin Fitzpatrick ("Plaintiffs"), filed a complaint against Craig Albert, Michael Bernstein, Larry Schwartz, CM Franchise Systems, Inc., CM Franchise Systems, LLC, and CB Franchise Systems, LLC, CK Franchise Systems, Inc. ("Defendants"). Plaintiffs alleged: 1) breach of written contract; 2) breach of implied covenant of good faith and fair dealing; 3) alter ego liability; 4) fraud; 5) negligent misrepresentation; 6) tortious interference with contract; 7) intentional interference with prospective economic advantage; 8) fraudulent transfer; 9) negligent interference with prospective economic advantage; 10) anticipatory breach; and 11) unjust enrichment. The lawsuit was based on the allegation that Defendant CM Franchise Systems failed to pay royalties that Plaintiffs alleged were owed to them under an area director agreement between the parties. Although the lawsuit stemmed from a relationship with Tacone and not The Counter, Plaintiffs contended that Defendant CB Franchise Systems, Craig Albert, and certain other defendants were liable under "alter ego" theories. The Defendants denied all liability for Plaintiff's claims. The case was settled in December of 2009 pursuant to a confidential settlement agreement which included a dismissal with prejudice of all of Plaintiffs' claims and the exchange of full and final releases. Under the settlement agreement, Defendant CM Franchise Systems agreed to sell the Tacone franchise system to an entity owned by Plaintiff Fitzpatrick. The Defendants were not required to make any payments to Plaintiffs under the settlement agreement.

Double Play Restaurants, LLC v. Craig Albert, Michael Bernstein, Mark Bailey, Larry Schwartz, CM Franchise Systems, Inc., CM Franchise Systems, LLC, Flavor Firm, LLC, CB Franchise Systems, LLC, CK Franchise Systems, Inc., and Premiere Management Consultants, Inc., Los Angeles Superior Court Case No: SC105206.

On October 9, 2009, Double Play Restaurants, LLC ("Plaintiff"), a former Texas-based master franchisee and franchisee of "Tacone" (the restaurant concept franchised by defendants CM Franchise Systems, LLC, and formerly franchised by CM Franchise Systems, Inc.) filed a complaint against Craig Albert, Michael Bernstein, Mark Bailey, Larry Schwartz, CM Franchise Systems, Inc., CM Franchise Systems, LLC, Flavor Firm, LLC, CB Franchise Systems, LLC, CK Franchise Systems, Inc., and Premiere Management Consultants, Inc. Plaintiff alleged 1) breach of written contract; 2) breach of implied covenant of good faith and fair dealing; 3) money had and received; 4) fraud and conspiracy; 5) negligent misrepresentation; 6) conversion and conspiracy; 7) violations of the California Franchise Investment Law; 8) fraudulent transfer; 9) violations of the federal RICO statute; 10) unfair business practices; and 11) unjust enrichment and constructive trust. At the core of Plaintiff's complaint was the allegation that Defendant Schwartz, as an agent for Defendant CM Franchise Systems, Inc., agreed that Defendant CM Franchise Systems, Inc. would refund Plaintiff's initial subfranchise and franchise fee of \$150,000 if Plaintiff was unable to procure suitable commercial financing to open its first Tacone restaurant, for which Plaintiff was ultimately unsuccessful. This action was settled in October 2011 pursuant to a negotiated settlement pursuant to which Defendants paid Plaintiff a total of \$225,000 to settle all claims.

CBO Foods, LLC, Roger Brunello and Craig Cappai v. CB Franchise Systems, LLC, Craig B. Albert, Tom and Grace Byers, Wells Fargo Bank, N.A. Harold Quigley, William H. Simon, Jr. and Staton Simon in capacities as co-trustees of the William Simon Trust Under the Will of William H. Simon, deceased and of the Fanchon Simon Trust under the Will of Fanchon Simon, Studio City Shopping Center Association, et al., Los Angeles Superior Court, Case No. EC048441.

In November 2011 Dinesh Verman ("Plaintiff/ Counter Defendant") filed a Statement of Claim on Country Style Food Services, A Division of MTY Tiki Ming Enterprises, Inc. ("Defendant/ Counter Plaintiff"). Plaintiff/ Counter Defendant alleged (i) Misrepresentation; and (ii) Bad Faith and Fair Dealing. Plaintiff/ Counter Defendant sought (i) \$750,000 in damages arising from the Defendant/ Counter Plaintiff's alleged breach or in the alternative \$750,000 in damages arising from the Defendant/ Counter Plaintiff's alleged breach of Section 7 of the AWA; (ii) \$500,000 in punitive damages; (iii) Accounting of the assets seized by the Defendant/ Counter Plaintiff when it took over operation of the franchise in November 2011 and a payment for these assets to Plaintiff/ Counter Defendant; (iv) Costs of the arbitration including legal fees; (v) Prejudgment interest pursuant to the Courts of Justice Act; and (vi) Any other relief the Arbitrator permits. Defendant/ Counter Plaintiff filed its Answer denying Plaintiff/ Counter Defendant's allegations made in the Statement of Claims and

~~further filed a Cross Complaint against Plaintiff/ Counter Defendant. Plaintiff/ Counter Defendant filed its Defense and Reply to the Counterclaim in November 2012. After a failed mediation the Parties proceeded to arbitration. On October 31, 2016, the Arbitrator rendered its decision. He found that Defendant/ Counter Plaintiff (i) failed to provide Plaintiff/ Counter Defendant with a copy of the head lease and therefore failed to provide the terms of the lease; (ii) The failure to provide Plaintiff/ Counter Defendant with the lease as well as its conduct in relation to the failures caused damage to the Plaintiff/ Counter Defendant in preventing a sale of Plaintiff/ Counter Defendant's business; (iii) Due to these failures Defendant/ Counter Plaintiff was held fifty percent responsible for the investment and operating losses of the Plaintiff/ Counter Defendant and was ordered to pay \$310,000 to Plaintiff/ Counter Defendants. Defendant/ Counter Plaintiffs were further ordered to pay Plaintiff/ Counter Defendant's interest and legal costs.~~

~~1159607 Ontario Inc., Joseph Sirianni and Eugene Sirianni v. Country Style Food Services Inc., Country Style Realty Limited and Melody Farms Specialty Foods and Equipment Limited; Ontario Superior Court of Justice; Court File No. 08-CL-7458~~

~~In April 2008, 1159607 Ontario, Inc., Joseph Sirianni and Eugene Sirianni (collectively "Plaintiff") filed a Statement of Claim against Country Style Food Services, Inc.; Country Style Realty Limited and Melody Farms Specialty Food and Equipment Limited (collectively "Defendants"). Plaintiffs alleged Misrepresentation and Breach of fair dealings. Plaintiffs sought: rescission of the renewal franchise agreement; reimbursement of amounts paid between February 28, 2006 and March 20, 2008; and punitive damages. Defendants denied the claim. On February 6, 2012 the Court found the Defendant's liable for default of providing an adequate disclosure document and awarded the Plaintiff's damages in the amount of \$187,730.05 and punitive damages in the amount of \$25,000.~~

~~The Court further awarded the Defendants \$48,824.74 and ruled that the amount may off set the amount to be paid to the Plaintiffs. Lastly, the Court ordered that the Plaintiffs were entitled to \$99,876.00 in costs and \$7,820.98 in disbursements. Defendants were entitled to costs of \$1,925 for the counterclaim which they were allowed to offset. Defendants appealed the Judgment; but the lower court's ruling was affirmed by the appeals court on September 26, 2013.~~

~~1580943 Ontario, Inc. v. Country Style Food Services, Inc.; Country Style Food Services Holdings, Inc.; Patrick Gibbons; Ken Monteith and Jeff Young; Ontario Superior Court of Justice; Court File No.: 06-CV-309034PD1. On April 4, 2006, 1580943 Ontario, Inc. (Plaintiff/ Counter Defendant) filed a Statement of Claim against Country Style Food Services, Inc. (Defendant Country Style/ Counter Plaintiff); Country Style Food Services Holdings, Inc.; Manfred W. Yu; Cai Capital Partners and Company III; Patrick Gibbons; Ken Monteith and Jeff Young. On May 12, 2009, Plaintiff / Counter Defendant filed an Amended Statement of Claim in which it removed Defendants Manfred W. Yu, Cai Capital Partners and Company III, Patrick M. Sampson, Rita McParland and Peter Keating. Therefore, the remaining named Defendants were Country Style Food Services, Inc.; Country Style Food Services Holdings, Inc.; Patrick Gibbons; Ken Monteith and Jeff Young. Plaintiff/ Counter Defendant alleged (i) Breach of Contract; (ii) Material Misrepresentation; (iii) Breach of the Franchise Act; (iv) Bad Faith and Fair Dealing. Plaintiff/ Counter Defendant sought: (i) \$350,000 in damages for misrepresentation and breach of fair dealing pursuant to the Arthur Wishart R.S.O. 2000 C.3 in the alternative \$300,000 in damages arising from Defendant Country Style/ Counter Plaintiff's alleged breach of the Franchise Agreement; (ii) \$500,000 in damages for loss of economic opportunities and consequential damages; (iii) \$500,000 in punitive and exemplary damages; (iv) Pre-Judgment interest pursuant to On or about November 3, 2008, CBO Foods, LLC, Roger Brunello, and Craig Cappai, (collectively the "Plaintiffs") filed a complaint in Los Angeles Superior Court against CB Franchise Systems, LLC, ("CB Defendant"), Craig Albert, ("Albert Defendant"), Tom and Grace Byers ("Byers Defendants"), Wells Fargo Bank, N.A. Harold Quigley, William H. Simon, Jr. and Staton Simon in capacities as co-trustees of the William Simon Trust Under the Will of William H. Simon, deceased and of the Fanchon Simon Trust under the Will of Fanchon Simon, (collectively the "Landlord Defendants"), Studio City Shopping Center Association ("Studio City Defendant"), (all collectively the "Defendants"). In December 2006 Plaintiffs signed a Franchise Agreement with CB Franchise Systems, LLC, for a "The Counter" restaurant to be located in Pasadena,~~

California. The Plaintiffs subsequently purchased a separate territory from Tom and Grace Byers for a location in Studio City, California. After encountering delays in connection with the Studio City location, CBO Foods, LLC filed suit in November 2008, asserting a variety of claims against the landlord, the local tenant association, Tom and Grace Byers, CB Franchise Systems, LLC, and Craig Albert. Plaintiff alleged: (i) damages for violation of franchise investment law by CB, Albert, and Byers Defendants; (ii) rescission of the franchise agreement for violation of franchise investment law by CB, Albert, and Byers Defendants; (iii) negligence by CB Defendant; (iv) declaratory relief from Landlord Defendants, (v) breach of lease by the Landlord Defendants, (vi) breach of covenant of good faith and fair dealing by the Landlord Defendants; (vii) breach of asset purchase agreement against Byers Defendants; (viii) for contractual indemnification against the Byers Defendants; (ix) fraud (omission to disclose material fact) against CB, Byers, and Landlord Defendants, (x) rescission for fraud (omission to disclose material fact) by CB, Byers, and Landlord Defendants, and (xi) unfair business practices under business & professions code sections 17200 ET SEQ against all Defendants. Plaintiffs sought (i) damages, (ii) interest as allowed by law, (iii) attorney's fees, (iv) other costs of suit, and (v) such other and further relief as the Court deems just and proper. Plaintiffs and Defendants negotiated their disputes through mediation and a Settlement and Release Agreement was executed in February 2009. Pursuant to the Settlement and Release Agreement, royalties for the Studio City franchise were reduced until the reduction totaled \$93,750, at which time the royalty rate would revert to the amount contained in the applicable Franchise Agreement. Six months later Tom and Grace Byers asserted claims against CBO Foods, the Landlord Defendant, CB Franchise Systems, and Craig Albert, the tenant association, and another restaurant owner, alleging numerous alternative theories. With respect to CB Franchise Systems, LLC, the Byers alleged CB Franchise Systems, LLC and Craig Albert conspired with CBO Foods, LLC to breach CBO Foods, LLC's agreement to purchase rights from the Byers. These additional claims by the Byers were resolved in August 2010 by means of a global settlement in which the Byers were paid the balance due on their sales contract with CBO Foods, plus a limited portion of their attorney's fees. The settlement was funded equally by all of the parties against whom the Byers filed claims.

Fori Owurowa and Paula Owurowa v. Craig B. Albert and CB Franchise Systems, LLC, Los Angeles Superior Court, Case No. SC099998.

On October 1, 2008, Fori Owurowa and Paula Owurowa (collectively the "Plaintiffs"), who were prior The Counter franchisees, filed a lawsuit in Los Angeles Superior Court against Craig Albert ("Albert Defendant") and CB Franchise Systems, LLC, ("CB Defendant"), (collectively the "Defendants") alleging (1) breach of written contract and the covenant of good faith and fair dealing arising under the terms of the franchise agreement dated April 10, 2007, between Plaintiffs and CB Defendant; (2) fraud and deceit – intentional misrepresentation; (3) fraud and deceit – negligent misrepresentation; (4) intentional interference with contract or other economic advantage; and (5) negligent interference with contract or other economic advantage. Plaintiffs sought: (i) a trial by jury, (ii) compensatory, general and special damages in an amount totaling \$1,227,000, (iii) exemplary and punitive damages, (iv) costs of suit, (v) reasonable attorneys' fees, and (vi) any other and further relief as the court may deem proper. On May 25, 2010, prior to trial, pursuant to California Code of Civil Procedure Section 998, Defendants made a statutory compromise offer of \$200,000 to be paid over eighteen (18) months in exchange for a dismissal of all of Plaintiff's claims against the Defendants with prejudice and termination of all prior agreements between Plaintiff and Defendant, including the franchise agreement dated April 10, 2006. Plaintiff accepted the statutory offer in June 2010.

There is no pending or concluded litigation involving Mucho Burrito Franchising USA, Inc. that is required to be disclosed in the Item 3 of the Franchise Disclosure Document.

There is no pending or concluded litigation involving BSB Franchising USA, Inc., that is required to be disclosed in the Item 3 of the Franchise Disclosure Document.

Pending Arbitration and Litigation Involving BF Acquisition Holdings, LLC and/or its predecessors

BF Acquisition Holdings, LLC v. Saath Five, Inc., Sejal Patel, Dhrubesh Patel, Ashish Patel, Hetal Patel, Hetal C. Patel, Chirag Patel, Jigar Patel, Tejal Patel, Amit Patel and Shivani Patel; United States District Court for the Eastern District of Pennsylvania; Civil Action No.: 2:18-cv-03312-MSG.

On August 3, 2018 BF Acquisition Holdings, LLC ("Plaintiff / Counter Defendant or BFAH") filed a Complaint against .Saath Five, Inc., Sejal Patel, Dhrubesh Patel, Ashish Patel, Hetal Patel, Hetal C. Patel, Chirag Patel, Jigar Patel, Tejal Patel, Amit Patel and Shivani Patel ("Defendants / Counter Claimant"). Plaintiff/ Counter

Defendant alleges: (i) Trademark Infringement; (ii) Unfair Competition; (iii) Breach of Franchise Agreements; Specific Performance; (iv) Misappropriation of Trade Secrets 12 PA.C.S.A. §5301, Et Seq.; (v) Contribution and Indemnity; (vi) Breach of Contract against all Defendants; and (vii) Unjust Enrichment. Plaintiff/ Counter Defendant is seeking: (A) Preliminary and permanent injunction enjoining Defendants, their agents, servants and employees, and those people in active concert or participation with them from: (i) using the Baja Fresh Marks or any trademarks, service mark logo, or trade name that is confusingly similar to any of the Baja Fresh Marks; (ii) Otherwise infringing the Baja Fresh Marks or using any similar designation, alone or in combination with any other components; (iii) passing off any of their products or services as those of BFAH or its authorized franchisees; (iv) causing a likelihood of confusion or misunderstanding as to their affiliation, connection or association with BFAH and its franchisees or any of BFAH's products or services; and (v) an order pursuant to 15 U.S.C. §1118 that all labels, signs, prints, packages, wrappers, receptacles, logo items, and advertisements in the possession of Defendants, their agents, servants and employees, and those people in active concert or participation with them bearing any of the Baja Fresh Marks, and all plates, molds, and other means of making the same, if any be delivered to BFAH at Defendants' sole costs; (B) That Defendants/ Counter Claimant be required to promptly eliminate all advertising under the Baja Fresh Marks or any other confusingly similar designation from all media at its sole cost; (C) Preliminary and permanent injunctive relief ordering Defendants to specifically perform their post-expiration obligations to: (i) Cease using and return to Franchisor its proprietary System and equipment, including all operating manuals and other confidential and proprietary information and instructions and recipes provided to them; (ii) Cease all advertising under the Baja Fresh Marks and return to Franchisor all materials containing the Baja Fresh Marks and logos; (iii) Take all steps necessary to delete any public listing under the Baja Fresh Marks (D) Preliminary and permanent injunctive relief pursuant to ARS §44-401, et seq. enjoining Defendants from using BFAH's trade secret and proprietary Baja Fresh System and ordering Defendants to return all operating manuals and other confidential trade secret and proprietary information and instructions and recipes provided to them; (E) That Defendants be required to file with the Court and to serve upon BFAH's counsel within ten days after entry of any injunction or order issued herein a written report under oath setting forth in detail the manner in which they have complied with such injunction or order; (F) Defendants account and pay over to BFAH all gains, profits and advantages derived by them as a result of their infringement of the Baja Fresh Marks and unfair competition to the full extent provided for by Section 35 of the Lanham Act 15 U.S.C.

§1117, and by the controlling principles of common law; (G) Defendants pay to BFAH such damages as BFAH has sustained by reason of said trademark infringement and unfair competition; (H) Defendants pay to BFAH such damages as it has sustained by reason of Defendants' breach of the Franchise Agreements; (I) Award of costs and expenses, including reasonable attorneys' fees incurred by BFAH in connection with this action as provided for by the Franchise Agreements and statute; (J) Damages resulting from Defendants wrongful conduct in excess of \$150,000; (K) Costs of suit; (L) Interest at the maximum legal rate; and (M) Any other relief the Court deems fit. On October 17, 2018, Defendants Saath Five, Inc., Jigar Patel ("Defendant J. Patel/ Counter Claimant") and Tejal Patel filed their Answer and Affirmative Defenses. Defendant J. Patel/ Counter Claimant further filed a Counterclaim against Plaintiff/ Counter Defendant. He alleges: (i) Fraud in the Inducement; (ii) Breach of the Duty of Good Faith and Fair Dealing; (iii) Unjust Enrichment; (iv) Quantum Meruit. Defendant J. Patel/ Counter Claimant is seeking: (i) Judgment against Plaintiff/ Counter Defendant for compensatory damages; (ii) punitive damages; (iii) attorney's fees; and (iv) costs of suit. Defendant J. Patel/ Counter Claimant also filed a Crossclaim for Contribution against any other Defendants together with interest, costs of suit and counsel fees. On December 12, 2018, Plaintiff / Counter Defendant filed its Answer with Affirmative Defenses to the Counterclaim of Defendant J Patel/ Counter Claimant. On December 21, 2019 Defendants Sejal Patel, Dhrubesh Patel, Ashish Patel, Hetal Patel, Hetal C. Patel, Chirag Patel, Amit Patel and Shivani Patel (collectively "Defendants Patel") filed their Answer, Affirmative Defenses and Cross-Claim against Defendant J. Patel, Tejal Patel and Saath Five for (i) contribution; (ii) interest; (iii) costs of suit; and (iv) counsel fees. Plaintiff/ Counter Defendant will continue to vehemently defend itself in this action.

Triune, LLC v. PNA RANDHAWA, Inc.; Kanwal Randhawa a/k/a Kay Randhawa; Superior Court of California County of Orange- Central Justice Center; Case No.: 30-2017-00933731-CU-BC-CJC and A+ XYZ Food, Inc. v. Triune, LLC; Superior Court of the State of California for the County Orange, Central District; Case No.: 30-2017-00958732-CU-BC-CJC consolidated per an October 23, 2018 Court Order to fall under Case No.: 30-2017-00933731-CU-BC-CJC.

On July 25, 2017 Triune, LLC ("Plaintiff Triune") filed a Complaint against PNA Randhawa, Inc.; and Kanwal Randhawa a/k/a/ Kay Randhawa ("Defendant Randhawa"). Plaintiff Triune alleges: (i) Breach of Contract (Promissory Note); (ii) Breach of Contract (Security Agreement); (iii) Account Stated; and (iv) Money Lent. Plaintiff Triune is seeking: (i) Damages against Defendant Randhawa in the amount of at least \$49,950.07; (ii)

Award of interest in the amount of 18% per annum or the maximum amount allowed by law; (iii) Possession of collateral described above, or if the personal property cannot be delivered for its value; (iv) Attorneys' fees; (v) Costs of suit incurred; and (vi) Any other relief the Court deems fit. On November 28, 2017, Plaintiff Triune amended its Complaint to include A+ XYZ Food, Inc. ("Defendant A+ or Plaintiff A+") as a Defendant. On November 30, 2017, Defendant Randhawa filed its Answer and Affirmative Defenses to Plaintiff Triune's complaint. On November 30, 2017 Plaintiff A+ filed a Complaint against Triune, LLC ("Defendant Triune"). Plaintiff A+ alleges: (i) Breach of Contract; (ii) Intentional Interference with Contractual Relations; (iii) Intentional Interference with Prospective Economic Relations; (iv) Negligent Interference with Prospective Economic Relations; and (v) Unjust Enrichment. Plaintiff A+ is seeking: (i) Compensatory damages in the amount to be determined at trial but no less than \$325,000 and all other consequential damages; (ii) Punitive damages; (iii) Restitution of the transfer fee of \$16,000 plus interest at the legal rate of 10% from 2014; (iv) Reasonable attorneys' fees; (v) Costs of the suit incurred; and (vi) Any other damages as may be allowed by law. On January 26, 2018, Defendant Triune filed its Answer to Plaintiff A+'s Complaint and denied the allegations therein. Discovery has commenced and a Mandatory Settlement Conference is currently set for February 8, 2019 and Jury Trial is set for March 11, 2019.

~~s.128 of the Courts of Justice Act, R.S.O. 1990, c. C 44 as amended; (v) Costs of the action plus applicable GST; and (vi) Any other relief the Court deems fit. Defendant Country Style/ Counter Plaintiff vehemently denied the allegations and filed a Counter Claim against Plaintiff/ Counter Defendant alleging (i) Breach of Contract as to the Franchise Agreement; (ii) Breach of Contract as to the Sublease Agreement. The Parties entered into a settlement agreement on January 7, 2015 in which it was agreed that Defendant Country Style/ Plaintiff Counter Plaintiff would pay the sum of \$45,000 to Plaintiff/ Counter Defendant to settle all claims.~~

Concluded Litigation involving BF Acquisition Holdings, LLC and/or its predecessors:

State of Maryland Determination; Case Number 2012-0073.

In February 2012, the State of Maryland alleged that during the period January 1, 2009 to November 26, 2009 Triune, LLC ("Triune") (i) did not retain signed acknowledgements of receipt reflecting the dates that its Franchise Disclosure Document was delivered to certain Maryland residents and non-residents; (ii) sold franchises to certain Maryland residents and non-residents without providing them with a copy of a 2009 Franchise Disclosure Document; (iii) sold franchises to certain Maryland residents and non-residents without providing them with a copy of a 2009 Franchise Disclosure Document that contained its 2008 financial statements with a going concern note from its auditors resulting from the unfavorable financial condition of its parent company; and (iv) sold franchises to certain Maryland residents and non-residents without including, or abiding with, a deferral condition in their Franchise Agreements that was imposed upon it by the State of Maryland, all as required by the Maryland Franchise Registration and Disclosure Law (the "Maryland Law") and in violation of the Maryland Law. Without admitting or denying the allegations, in September 2012, Triune voluntarily entered into a Consent Order with the Office of the Attorney General of Maryland and agreed to: (i) not violate the Maryland Law in the future, (ii) pay the Office of the Attorney General the sum of \$50,000 as a civil penalty, (iii) retain copies of all acknowledgments of receipt confirming dates that prospective Maryland franchisees received any Maryland Franchise Disclosure Documents, (iv) comply with the disclosure and antifraud provisions of the Maryland Franchise Law and the record keeping and escrow requirements of the Code of Maryland Regulations; and (iv) send a copy of the Consent Order to certain Maryland franchisees.

State of Virginia Determination; Case Number SEC-2012-00027.

In February 2012, the Division of Securities and Retail Franchising of the State Corporation Commission (the "Commission") alleged that during 2009 Triune, LLC ("Triune") (i) offered or sold franchises in Virginia in 2009 that were not registered under the Virginia Retail Franchising Act (the "Virginia Act"); (ii) offered or sold franchises in Virginia without disclosing that it was not registered to do so; (iii) failed to provide material information regarding the parent company's unfavorable financial condition and the potential impact that it could have on Triune as stated in a going concern note in its 2008 financial statements from its auditors; and (iv) Triune failed to provide a prospective franchisee with a copy of its Franchise Disclosure Document as required by rule or order of the Commission at least 14 calendar days before the prospective franchisee signed a binding agreement or made any payment to it in connection with the sale or offer to sell a franchise in Virginia. Without admitting or denying the allegations, on November 26, 2012, Triune voluntarily entered into a Settlement Order with the Commission and agreed (i) to not violate the Virginia Act in the future, (ii) to pay

Virginia the sum of \$25,000 as a penalty and the sum of \$5,000 to defray the Commission's costs of investigation, (iii) to offer certain Virginia franchisees a refund of their initial franchise fees, and (iv) to send a copy of the Settlement Order to certain Virginia franchisees.

Fresh Enterprises v. Ledang Investment Group, LLC, Vincent Tienn Le, Ho Tien Le and Hue Thi Dang
Superior Court of the State of California, County of Santa Clara, Case No. 1-13-CV-257219.

On July 2, 2013, Fresh Enterprises, as successor-in-interest to Baja Fresh Westlake Village, Inc. ("Plaintiff"), filed a complaint against Ledang Investment Group, LLC; Vincent Tien Le, Ho Tien Le and Hue Thi Dang (collectively "Defendants Ledang or Cross Claimants Ledang") for: (i) implied indemnity, (ii) equitable indemnity; (iii) express indemnity, (iv) breach of contract, (v) declaratory relief seeking unspecified damages, (vi) ~~Andralex Food Services Inc. v. Country Style Food Services Holdings Inc., Country Style Food Services Inc., Jeff Young, Canadian Imperial Bank of Commerce, Sue Fedorink and Roger Noble; Ontario Superior Court of Justice; Case File No. 06-CV-314403PD2 In July 2006, Andralex Food Services, Inc. ("Plaintiff") filed a Statement of Claim against Country Style Food Services Holdings, Inc.; Country Style Food Services, Inc. (collectively "Defendants Country Style"); Jeff Young; Canadian Imperial Bank of Commerce; Sue Fedorink and Roger Noble. Plaintiff alleged Misrepresentation; Breach of fair dealings; and Conspiracy to use unlawful means. After discovery was completed, Defendant Canadian Imperial Bank of Commerce was dismissed. In February 2014 the Parties entered into a settlement agreement in which Defendants Country Style and Defendant Jeff Young paid Plaintiffs the sum of \$110,000 to settle all claims.~~

Hung Tring vs. Country Style Food Services Inc., Peter M. Gottsegen, Michael H. Vels, Pierre Lortie, George E. Michel and Rick Martens. In September 2009, Hung Tring ("Applicant") filed an application against Country Style Food Services, Inc.; Peter M. Gottsegen; Michael H. Vels; Pierre Lortie; George E. Michel and Rick Martens ("Respondents") alleging: that the Respondents seized the assets contrary to the provisions of the PPSA; the monies received by the Respondents from the sale of the assets are being held in trust for the Applicant; damages; and interest and costs. The matter settled indemnification, (viii) a judgment of unlawful detainer; and (ix) declaration that Defendants were obligated to reimburse Plaintiff. for various expenses. On January 6, 2014, Cross Claimants Ledang filed a Cross- Complaint against Plaintiff, Baja Fresh Westlake Village, LLC, Triune Corporation and National Franchise Sales, Inc. (collectively "Counter Defendants") for: (i) breach of contract; (ii) breach of covenant of good faith and fair dealing; (iii) negligent misrepresentation; and (iv) intentional misrepresentation. On February 19, 2014, Counter Defendants filed a Motion to Compel Arbitration, which was granted. The disputes between the parties were then arbitrated before the American Arbitration Association (Case Number 72-20-1400-0126). On February 2, 2015, the Arbitrator issued an award in favor of Cross Claimants Ledang in the amount of \$660,620.84. The parties entered into a Settlement and Release Agreement on July 20, 2015, under which Counter Defendants paid the Cross Claimants Ledang the sum of \$585,000 and the matter was dismissed with prejudice.

Lawsuits Filed by Country Style Food Services, Inc. Against initiated by BF Acquisition Holdings, LLC Against Franchisees during Fiscal Year December 1, ~~2016~~2017 through November 31, ~~2017~~2018

None

Other than There is no pending or concluded litigation that is required to be disclosed for La Salsa

Franchise, LLC Except for these actions, no other litigation is required to be disclosed in this ~~Item~~ Disclosure Document.

On July 3, 2001, Ranch*1, Inc. and each of its wholly-owned subsidiaries, including Ranch *1 Group, Inc., who are affiliates of Kahala Franchising, filed a petition to reorganize under Chapter 11 of the Federal Bankruptcy Code (United States Bankruptcy Court for the Southern District of New York, Case Nos. 01-41853 through 01-41881 (AJG)). On April 4, 2002, the United States Bankruptcy Court for the Southern District of New York entered an Order confirming the Plan of Reorganization jointly filed by Ranch*1, Inc. and its Affiliates, the Official Committee of Unsecured Creditors, and R 1 Franchise Systems, L.L.C. (the "Ranch Plan"). The Ranch Plan, which became effective May 1, 2002, provided for R 1 Franchise Systems, L.L.C., a subsidiary of Kahala Brands, to own one hundred percent (100%) of Ranch*1, Inc. and its subsidiaries (including Ranch *1 Group, Inc.). Ranch *1, Inc. and its subsidiaries operated under the Ranch Plan until the Case was permanently closed on January 13, 2011. Kahala Franchising is not directly affected by this bankruptcy.

Other than these actions, no bankruptcy information is required to be disclosed in this Item.

ITEM 5: INITIAL FEES

The initial franchise fee ("Initial Franchise Fee") for each of your *NrGize* restaurants located within an LA Fitness health club is \$15,000. There is no reduction in Initial Franchise Fee if you open multiple *NrGize* restaurants within multiple LA Fitness health clubs. The Initial Franchise Fee for your first traditional *NrGize* restaurant is \$30,000. The Initial Franchise Fee is reduced for your second and each subsequent traditional *NrGize* restaurant to \$17,500. The Initial Franchise Fee for your first non-traditional *NrGize* restaurant location is \$7,500. The Initial Franchise Fee is reduced for your second and each subsequent non-traditional *NrGize* restaurant to \$5,000.

If you are currently an active or active reserve member of the U.S. Armed Forces, have been honorably discharged from the U.S. Armed Forces ("Eligible Military"), or if the franchisee is a federally recognized 501(c)(3) organization ("501(c)(3)"), you will receive a 20% discount on the Initial Franchise Fee. *(These discounts do not apply to restaurants located within LA Fitness health clubs as those fees are already discounted.)*

The initial fees to be paid to us and/or our affiliate(s) before the franchisee's business opens are indicated on the chart below and in the notes to the chart. The initial fees to be paid to us and/or our affiliate(s) before the franchisee's business opens are the total of the Initial Franchise Fee, Grand Opening Marketing, lease review fee (if any), and the cost of equipment, furniture, menu boards, wall décor and smallwares, and ranges from \$9,184,12,584 to \$48,750,55,000 for a non-traditional location, and from \$17,584,27,584 to \$71,250,82,500 for a traditional location. ~~For a new build turn-key restaurant located within an LA Fitness health club, the initial fees to be paid to us and/or our affiliate(s) before the franchisee's business opens are the total of the initial franchise fee and the cost of opening inventory and supplies, Turn Key Package costs for new builds (includes Leasehold Improvement and Equipment including menu panels, and the Construction Fee and Access Fee charged by LA Fitness), Initial Fee and Reservation Fee charged by LA Fitness and ranges from \$91,500 to \$168,750. For the conversion of an existing restaurant to an *NrGize Lifestyle Cafe* located within an LA Fitness health club, the initial fees to be paid to us and/or our affiliate(s) before the franchisee's business opens are the total of the Initial Franchise Fee and the cost of opening inventory and supplies, Turn Key Conversion Package (may include all Restaurant Equipment, Furniture, Small Wares, Interior and Exterior Signage and menu panels, as needed), the Access Fee charged by LA Fitness and the Initial Fee charged by LA Fitness and ranges from \$52,000 to \$111,250. These amounts do not include the optional lease guarantee fee that is variable based upon the amount of the underlying guarantee, or the Document Administration Fee, which is generally only required if there is less than a 50% change in the ownership of Franchisee. For the 2017~~

For the 2018 fiscal year, the formula used to calculate the range of initial fees paid to us and/or our affiliate(s) before the franchisee's business opened was: the total of the initial franchise fee, lease review fee (if any), lease guarantee fee (if any) and the cost of equipment, furniture, menu boards, wall décor and/or smallwares purchased from Neptune Equipment. The factors that determined these amounts were: (i) if the

Initial Franchise Fee was discounted or waived; (ii) if the restaurant was traditional or non-traditional (for the ~~2016~~2018 fiscal year, the cost of a non-traditional franchise was \$7,500 and was reduced to \$5,000 for the second and subsequent restaurant); (iii) if the restaurant was the franchisee's first, second, or subsequent franchise (the initial franchise fee was reduced for the second and subsequent restaurant during the ~~2016~~2018 fiscal year); ~~(iv)~~ (iv) the lease review fee if the franchisee requested a full lease review; (v) the lease guarantee fee if the franchisee requested we guarantee their lease and Kahala Franchising or its affiliate agreed to be a guarantor on the lease; (vi) the cost of equipment, furniture, menu boards, wall décor and smallwares purchased from our affiliate, Neptune Equipment, which depended on the equipment purchased; (vii) if the store was a new build within an LA Fitness health club, the turnkey package fee; (ix) if the store was a conversion of an existing cafe to an *NrGize Lifestyle Cafe*, the turnkey conversion fee; and (x) the Initial Fee and Reservation Fee charged by LA Fitness and collected by us for stores located within an LA Fitness health club.

There are no refunds of Initial Franchise Fees under any circumstances. We may periodically reduce the Initial Franchise Fee in connection with limited time promotions, new concepts and/or operational programs. We may vary the terms of our franchises in connection with testing new marketing, branding and/or operational programs. These tests are generally conducted with experienced, existing franchisees and may include incentives and other rights which are not available to all franchisees. If you sign the Franchise Agreement (see Exhibit E-1: Franchise Agreement (New); Exhibit E-2: Franchise Agreement (Renewal); Exhibit E-3: Franchise Agreement (Transfer) (all the proceeding three franchise agreements collectively known as "Exhibit E: Franchise Agreement") in connection with a transfer or renewal, you will not pay the Initial Franchise Fee.

We may offer you the option to purchase a license to sell additional signature products in your *NrGize* restaurant and to use the signature products trademark(s) as signature products are developed. We estimate that the fees associated with acquiring license(s) to sell additional products will be between \$2,500 and \$5,000 although these license fees may be modified from time to time.

CATEGORY	AMOUNT	METHOD OF PAYMENT	DUE DATE	TO WHOM PMT IS MADE	REFUNDABILITY
~~Initial Franchise Fee -~~ ~~Initial Franchise Fee -~~ first traditional location	~~\$30,000~~ ~~\$30,000~~ (reduced to \$24,000 for Eligible Military and 501(c)(3))	~~Lump Sum~~	~~Signing of the~~	~~Kahala~~	~~See Note 1~~
Initial Franchise Fee – second traditional location and each afterward	\$17,500 (reduced to \$14,000 for Eligible Military and 501(c)(3))	<u>Lump Sum</u>	Signi ng of the Fran chise Agre eme nt	Kahala Franchising	<u>See Note 1</u>
<u>Initial Franchise Fee –</u>	<u>\$7,500</u> (reduced to ~~\$6,000~~ for Eligible Military and 501(c)(3))	<u>Lump Sum</u>	<u>Signi ng of the Fran chise Agre eme nt</u>	<u>Kahala</u>	<u>See Note 1</u>
~~Initial Franchise Fee -~~ first non- traditional location	~~\$7,500~~ (reduced to ~~\$6,000~~ for Eligible Military and 501(c)(3))	~~Lump Sum~~	~~Signing of the~~ Franchise Agreement	~~Kahala~~ Franchising	~~See Note 1~~
	<u>\$6,000 for Eligible Military and 501(c)(3))</u>				
Initial Franchise Fee – second non- traditional- ~~location and each~~ ~~afterward~~	\$5,000 (reduced to ~~\$4,000~~ for Eligible Military and 501(c)(3))	Lump Sum	Signi ng of the Fran chise Agre eme nt	Kahala Franchising	See Note 1
<u>location and each</u> <u>afterward</u>	<u>(reduced to \$4,000 for Eligible Military and 501(c)(3))</u>		<u>Agreement</u>		
Initial Franchise Fee – for NrGize restaurants located within LA Fitness health clubs <u>ONLY</u>	\$15,000	Lump Sum	Signing of Franchise Agreement	Kahala Franchising	See Note 1
Lease Guarantee Fee (optional)	10% of the total amount ~~guaranteed, up~~ ~~to a maximum payment of~~	Lump Sum	Signi ng of the Leas e	Kahala Franchising or ~~its affiliate~~ ~~who guarantees the lease~~	See Note 1

			Agreement (if applicable)		
CATEGORY	AMOUNT	METHOD OF PAYMENT	DUE DATE	TO WHOM PMT IS MADE	REFUNDABILITY
(optional)	\$10,000 (if applicable) (Note 2) guaranteed, up to a maximum payment of \$10,000 (if applicable) (Note 2)		(if applicable)	its affiliate who guarantees the lease	
Lease Review Fee (optional)	\$0 to \$1,250 (Note 3)	Lump Sum	Signing of the Franchise Agreement	Kahala Franchising	See Note 1
Equipment, furniture, menu boards, wall décor and/or smallwares	\$3,584 to \$40,000 (Note 4)	Lump sum	When invoiced	Neptune Equipment and/or third party vendor	See Note 1
The below fees only apply to NrGize franchises located within an LA Fitness health club					
Turn Key- Package for new builds (includes Leasehold Improvement and Equipment including menu panels, and the Construction Fee and Access Fee charged by LA Fitness)	\$75,000 to \$150,000	See Note 7	Signing of the Franchise Agreement	Kahala Franchising or its designated affiliate	See Note 1
Access Fee and Turn Key Conversion Package (includes all Restaurant Equipment, Furniture, Small Wares, Interior and Exterior Signage and menu panels, graphics package, wallpaper and paint, as needed)	\$35,500 to \$92,500	See Note 5	Signing of the Franchise Agreement	Kahala Franchising or its designated affiliate	See Note 1

Initial Fee charged by LA Fitness (Note 6)	\$500 to \$2,500	See Note 5	Signing of the Franchise Agreement	Kahala Franchising or its affiliate Kahala Holdings	See Note 1
CATEGORY	AMOUNT	METHOD OF PAYMENT	DUE DATE	TO WHOM PMT IS MADE	REFUNDABILITY
Reservation Fee charged by LA Fitness (Note 6)	\$1,000 to \$1,250	See Note 5	Signing of the Franchise Agreement	Kahala Franchising or its affiliate Kahala Holdings	The Reservation Fee is refundable, so long as you perform all obligations under the Single Unit Facility License Agreement, 30 days after the expiration or termination of the Single Unit Facility License Agreement (See Exhibit O).

Notes:

(1) There are no refunds under any circumstances. Kahala Franchising does not offer any financing of the Initial Franchise Fee. We may periodically reduce the Initial Franchise Fee in connection with

limited time promotions, testing marketing, branding and/or operational programs.

(2) If, after a request by you, Kahala Franchising or any of its affiliates agree, in their sole and absolute discretion, to guarantee your lease with the applicable third party landlord for the *NrGize Lifestyle Cafe* restaurant you are developing, you will pay Kahala Franchising or its affiliate a lease guarantee fee in the amount of 10% of the total amount of the rental obligations being guaranteed under the lease upon the execution of the lease and associated guarantee with the third party landlord, up to a maximum payment of \$10,000. This fee is not refundable (See Exhibit M: Lease Guaranty Acknowledgement). The lease guarantee fee does not apply to NrGize restaurants located within an LA Fitness health club.

(3) If, prior to executing the lease, you request Kahala Management's real estate department review your lease and provide suggested changes to you, a ~~\$1,250~~2,500 lease review fee shall be paid by you to Kahala Franchising ("Lease Review Fee") upon your request to Kahala Management's real estate department. The Lease Review Fee is non-refundable. This is an optional service, with the determination of whether to utilize Kahala Management's real estate department to be made in your sole discretion.

(4) The majority of your equipment, furniture, menu boards, wall graphics and smallwares will be purchased from Neptune Equipment, an affiliate of Kahala Franchising, and approved third party vendors.

~~(5) This paragraph applies only if your NrGize franchise is to be located within an LA Fitness health club: The NrGize franchise covered by your Franchise Agreement is a "turn-key" opportunity. Given this "turn-key" aspect, we or our affiliate(s) will be solely responsible for overseeing and managing the entire construction process and equipping of your NrGize Lifestyle Cafe covered by your Franchise Agreement. The Initial Fee and the Reservation Fee indicated in the Single-Unit Facility License Agreement (See Exhibit O), Construction Fee, Access Fee, all Leasehold Improvements, Construction Costs, and Equipment Costs for us to build out and equip your NrGize Lifestyle Cafe at the Site are collectively referred to as the "NrGize Turn-Key Fees." You will pay us or our designated affiliate the full Initial Franchise Fee plus the full~~

~~amount of the NrGize Turn-Key Fee simultaneously with your execution of the Franchise Agreement and Single-Unit Facility License Agreement covering your new NrGize Lifestyle Cafe. The Construction Fee and Access Fee are non-refundable. The Reservation Fee is refundable 30 days after the expiration or termination of the Single-Unit Facility License Agreement, so long as you perform all obligations under the Single-Unit Facility License Agreement (See Exhibit O). The Reservation Fee shall be applied against the cost of any damages at the premises as a result of negligence, intentional vandalism or theft. If the cost of the repairs to the damages exceeds the amount of the Reservation Fee being held, you will not receive a refund and will be responsible to pay the difference. All of the other NrGize Turn-Key Fees are not refundable. The conversion of the existing restaurant to an NrGize Lifestyle Cafe will still be "turn-key" as we or our affiliate(s) will be solely responsible for overseeing and managing the entire conversion process, which includes changing the signage and menu panels, color scheme and décor, and equipment. Upon signing your Franchise Agreement with us, you must also simultaneously enter into a Single-Unit Facility License Agreement with Kahala Holdings, L.L.C. that covers the occupancy by you of the applicable LA Fitness health club covered by your Franchise Agreement (See Exhibit O).~~

~~(5)~~ ~~(6)~~ Our affiliate, Kahala Holdings, L.L.C., has entered into a non-exclusive Master Facility License Agreement with LA Fitness covering the juice and snack bar operations at certain future and existing LA Fitness health clubs in the United States. You will execute the Single-Unit Facility License Agreement (See Exhibit O-3) with Kahala Holdings, L.L.C. that covers the occupancy by you of the applicable LA Fitness health club, at the same time you execute the Franchise Agreement (See Exhibit E). You will be required to pay to us, or our affiliate, the following fees charged by LA Fitness: (i) the first and last month's rent, termed an Initial Fee in the Master Facility License Agreement and the Single-Unit Facility License Agreement; and ~~(ii)~~ (ii) a security deposit of one month minimum rent, termed a Reservation Fee in the Master Facility License Agreement and the Single-Unit Facility License Agreement.

ITEM 6: OTHER
FEES

Column 1 Type of Fee	Column 2 Amount	Column 3 Due Date	Column 4 Remarks
Royalty Fee and Surcharge (Notes 1 and ~~10~~) ~~10~~ – excluding NrGize restaurants located within LA Fitness health clubs <u>Royalty Fee and</u>	Royalty Fee is the greater of the following: (i) 6% of total weekly Gross Sales or ~~(ii)~~ <u>(ii)</u> \$150 per week. Surcharge is a maximum of \$10 per week in addition to the Royalty Fee. (Note 2) <u>The Royalty Fee is a flat fee</u>	Withdrawn electronically from your designated bank account each Thursday (Note 3) <u>Withdrawn electronically</u>	“Gross Sales” include all revenue from the Franchised Business excluding sales tax and authorized refunds, credits and allowances. <u>Royalty Fee is determined</u>

~~Royalty Fee and~~ Surcharge - for NrGize restaurants located within LA Fitness health clubs <u>ONLY</u> (Notes 1 and 10)	~~The Royalty Fee is a flat fee~~ that is determined on a per-restaurant basis based upon the most current number of card swipes or “adjusted average number of daily member check-ins” (“Check-ins”) based on the most recent data we have from LA Fitness as follows (subject to increase as detailed below): (i) If the Check-ins are 800 or less, <u>the Royalty Fee is \$300 per month</u> ; (ii) If the Check-ins are <u>between 801-1,400, the</u>	~~Withdrawn electronically~~ from your designated bank account on the 15th day of each month (Note 3)	~~Royalty Fee is determined~~ prior the Franchise Agreement and is a flat rate that is subject to a 3% annual increase. In the absence of card swipe data, such as for new locations, the Royalty Fee is a flat rate of \$750 per month for the first 12 months. After 12 months, the royalty fee will be adjusted to a flat rate for <u>the remainder of the term, based upon the most recent data we have from LA Fitness, as follows (subject to</u>

Column 1 Type of Fee	Column 2 Amount	Column 3 Due Date	Column 4 Remarks

	~~the Royalty Fee is \$300 per month; (ii) If the Check-ins are between 801-1,400, the~~ Royalty Fee is \$750 per month; (iii) If the Check-ins are between 1,401 and 2,000, the Royalty Fee is \$1,000 per month; and (iv) If the Check-ins are over 2,001, the Royalty Fee is \$1,250 per month. The applicable monthly Royalty Fee (i.e., \$300, \$750, \$1,000 or \$1,250 per month) shall be increased 3% annually to account for inflation and compounded annually on January 1st. Surcharge is a maximum of \$10 per week in addition to the Royalty Fee.		~~the remainder of the term, based upon the most recent data we have from LA Fitness, as follows- (subject to the 3% annual~~ increase): (i) If the Check- ins are 800 or less, the Royalty Fee is \$300 per month; (ii) If the Check- ins are between 801-1,400, the Royalty Fee is \$750 per month; (iii) If the Check-ins are between 1,401 and 2,000, the Royalty Fee is \$1,000 per month; and (iv) If the Check-ins are over 2,001, the Royalty Fee is \$1,250 per month. The applicable monthly Royalty Fee (i.e., \$300, \$750, \$1,000 or \$1,250 per month) shall be increased 3% annually to account for inflation and compounded annually on January 1st.
Advertising Fees (Note 1)	Up to 4% of weekly Gross Sales	Same as Royalty Fee (Note 3)	Currently, Advertising Fee is .5% of weekly Gross Sales (except for NrGize restaurants co-branded with Blimpie restaurants located within Wal-Mart stores, the current Advertising fee for NrGize is 2% and except for NrGize restaurants located within an LA Fitness health club, the current Advertising Fee is 0%) which goes to the advertising fund (Note 4).
Additional Persons Training Fee (Note 1)	~~\$1,000~~ 1,750 per person (\$500 per person for the In-Store portion of the Training Program, and ~~\$500~~ 750 per person for the New Owner Training portion of the Training Program)	2 weeks prior to beginning of training	The training of two individuals is included in the Initial Franchise Fee. The Additional Persons Training Fee is for any additional persons who attend the Training Program.
Column 1	Column 2	Column 3	Column 4
Type of Fee	Amount	Due Date	Remarks
Additional Training Fee (Note 1)	\$300 per person per day	At time of training	Payable if you request additional training after attending the Training Program.
Annual Meeting Registration Fee (Notes 1 and 5)	Up to \$1,000 plus incidental costs to attend	60-90 days prior to the Meeting	We will debit your Depository Account for this fee, which is non- refundable. This fee is charged to all franchisees whether or not they attend the Meeting.

<u>Column 1</u>	<u>Column 2</u>	<u>Column 3</u>	<u>Column 4</u>
<u>Type of Fee</u>	<u>Amount</u>	<u>Due Date</u>	<u>Remarks</u>
Monthly Service Fee charged by LA Fitness (only applies to <i>NrGize</i> franchises located within an LA Fitness health club)	Either \$1,000 per month, increased annually by 3% compounded, \$1,250 per month, increased annually by 4% compounded, or the greater of: (1) \$1,250 per month; or (2) 6% of monthly gross sales	Withdrawn electronically from your designated bank account on the third day of each month (Note 3)	The amount of the fee depends on whether the space within the LA Fitness health club is a conversion or a new construction.
Pre-Paid Monthly Service Fee charged by LA Fitness and collected in advance by Kahala Holdings (only applies to <i>NrGize</i> franchises located within an LA Fitness health club)	Either \$12,000 or \$15,000	Upon signing of the Franchise Agreement	The amount of the fee depends on whether the space within the LA Fitness health club is a conversion or a new construction. The fee is charged based on the credit-worthiness of the franchisee at the sole discretion of Kahala Franchising and represents the last twelve ~~(12)~~ (12) months of the Monthly Service Fee.
Depository Account	\$3,000 (Must be replenished on a regular basis)	At signing of Franchise Agreement	See Note (3)
Data Fees (Notes 1 and 7)	Up to \$75 per month (Subject to reasonable annual and/or service enhancement increases)	Same as Royalty	Fee for collecting or polling data from your POS System.
POS Help Desk Phone Support Maintenance Contract Fee	\$55 per month	Last Thursday of each month	We will debit your Depository Account for this fee.
Renewal Franchise Fee (Note 1)	50% of then-current Initial Franchise Fee	When new Franchise Agreement is signed at renewal	Applicable if you renew your Franchise Agreement.
<u>Column 1</u>	<u>Column 2</u>	<u>Column 3</u>	<u>Column 4</u>
<u>Type of Fee</u>	<u>Amount</u>	<u>Due Date</u>	<u>Remarks</u>
Transfer Franchise Fee – traditional locations (Note 1)	\$7,500	When transfer documents are signed	Payable if you are purchasing your Franchised Business as a result of a full transfer from another franchisee. A Full Transfer is, including, but not limited to, a transfer of 50% or more ownership or control.
Transfer Franchise Fee – non traditional locations (Note 1)	\$5,000	When transfer documents are signed	Payable if you are purchasing your Franchised Business as a result of a full transfer from another franchisee. A Full Transfer is, including, but not limited to, a transfer of 50% or more ownership or control.

Relocation Fee (Note 1)	\$500	At signing of relocation amendment to Franchise Agreement	Payable if we approve the relocation of your store.
<u>Column 1</u> <u>Type of Fee</u>	<u>Column 2</u> <u>Amount</u>	<u>Column 3</u> <u>Due Date</u>	<u>Column 4</u> <u>Remarks</u>
Transfer Training Fee (Note 1)	\$2,500 for two (2) individuals (\$500 for each additional individual)	When transfer documents are signed	Payable if you are purchasing your Franchised Business as a result of a full transfer from another franchisee.
Document Administration Fee	\$500 (Note 9)	Lump Sum	Applicable for an Affiliate Transfer, including, but not limited to, a transfer of less than 50% of ownership or control.
Default Interest under the Franchise Agreement (Note 1)	\$50 plus interest at 1-1/2% per month or maximum legal rate, if less ("Default Rate")	Payable upon assessment	Payable on all overdue amounts.
Interest and Late Fees under the Single-Unit Facility License Agreement (only applies to <i>NrGize</i> franchises located within an LA Fitness health club)	Annual rate of 12% or the maximum interest rate permitted by applicable law. Any payments received 5 days or more after the due date may be assessed and additional fee equal to 10% of the original payment due plus 1% per day on the overdue amount.	Payable upon assessment	See <u>Exhibit O-3</u>
Late Report Fee (Note 1)	\$100 per report	Payable upon assessment	Payable if any required financial statement or report is delinquent.
<u>Sublease Late Charge</u>	<u>5% of the late or unpaid amount plus any late charges and interest incurred under the Master Lease as a result of the late payment (where applicable).</u>	<u>As incurred</u>	<u>Payable to our affiliate if you are subleasing your restaurant space from our affiliate.</u>
Column 1 Type of Fee	Column 2 Amount	Column 3 Due Date	Column 4 Remarks
Collection Costs (Note 1)	All collection costs including reasonable attorneys' fees	Payable upon assessment	Payable only if we are required to retain an attorney or collection agency to collect delinquent payments from you. We will also collect as damages any attorneys' fees and costs incurred by us in defending claims that arise due to your actions as an <i>NrGize</i> franchisee.
Non-Sufficient Funds Fee (Note 1)	\$50 for each electronic funds transfer returned for non-sufficient funds; \$25 for each check or draft returned for non-sufficient funds	Payable upon assessment	Payable only if your electronic funds transfer from your depository account or any check you remit to us is returned for non-sufficient funds.

Audit (Note 1)	Cost of Audit plus interest at Default Rate on underpayments or the maximum rate permissible by law (Note 9)	Payable upon assessment	Payable only if audit is caused by your failure to furnish reports or if audit reveals an understatement of fees or assessment of 5% or more.
<u>Column 1</u> <u>Type of Fee</u>	<u>Column 2</u> <u>Amount</u>	<u>Column 3</u> <u>Due Date</u>	<u>Column 4</u> <u>Remarks</u>
New Supplier Approval Fee (Note 1)	A charge not to exceed the reasonable cost of the inspection and the actual cost of the test not to exceed \$5,000.	Payable upon assessment	Payable by either you or the proposed supplier if you request our approval of a new or alternative supplier.
Non-Participation Fee (Note 1)	\$100 per day	Payable upon assessment	For failure to participate in local, regional, seasonal, promotional and other programs, initiative and campaigns
Early Termination Fee Damages (Note 1)	The average monthly Royalty and Advertising Fees paid for any consecutive 12 month period within the preceding 48 month period multiplied by the number of months remaining in the term of the Franchise Agreement, and the product is divided by 2.	30 days prior to the early closing of the restaurant	You must provide us with 90 days prior written notice of the termination of your Franchise Agreement.
Management Fee	6% of the Franchised Business' Gross Sales (in addition to the Royalty Fee and Advertising Fee) plus our direct out-of-pocket costs and expenses.	Payable with Royalty and Advertising Fee	If we assume the management of your Franchised Business for any period of time.

Notes:

(1) These fees are collected by Kahala Franchising, are payable to Kahala Franchising, and are non-refundable. These fees are uniformly imposed by Kahala Franchising; however, Kahala Franchising, in its sole discretion, may reduce or waive a one-time fee (i.e., transfer franchise fee, renewal franchise fee, etc.) or may waive or reduce an ongoing fee (i.e., Royalty Fee or Advertising Fees) for a defined period of time. Kahala Franchising does not offer any financing of the Initial Franchise Fee, Construction and Access Fee, Leasehold Improvements and Equipment, Initial Fee and Reservation Fee, or any other fees.

(2) In our sole discretion, we may charge, in addition to the Royalty Fee, a Surcharge of up to \$10 per week if your Franchised Business is located in a state that imposes additional reporting requirements on a franchisor. Currently, New York is the only state that has imposed the additional reporting requirements (for example, see http://www.tax.state.ny.us/pdf/memos/sales/m09_9s.pdf for information franchisors are required to report to the State of New York regarding its franchisees).

(3) At the time you sign the Franchise Agreement, and, if applicable, the Single-Unit Facility License Agreement, you will set up a depository account of \$3,000 with your local banking institution. You are required to maintain a balance of \$3,000 in this account at all times. This will mean that you must replenish the depository account to \$3,000 after Kahala Franchising makes any withdrawals that constitute Royalty Fees and Advertising Fees. For *NRGize* restaurants NOT located within an LA Fitness health club, by Monday of each week, you must submit a royalty report to Kahala Franchising of certain statistical data regarding the prior week's revenues, sales and other data, which prior week shall end on the preceding Sunday. Kahala Franchising will withdraw funds electronically on each Thursday from the depository account. The withdrawals

are based upon the figures you report and constitute Royalty Fees and Advertising Fees. If you do not submit a report by each Monday, Kahala Franchising may withdraw the entire \$3,000 on Thursday. Kahala Franchising will return any overage to you upon receipt of your report(s). An Electronic Funds Transfer Agreement by and payable to Kahala Franchising is attached as Exhibit P. For NrGize restaurants located within an LA Fitness health club, you must submit a royalty report to Kahala Franchising on the third day of each month regarding the prior month's revenues, sales, and other data, which prior month shall end on the last calendar day of the prior month. Kahala Franchising will withdraw the royalty fee

electronically on the fifteenth day of each month from the depository account. In addition, Kahala Holdings will withdraw the Monthly Service Fee electronically on the third calendar day of each month based upon the figures you report.

(4) Kahala Franchising directs that Advertising Fees be paid to us, a national advertising fund designated by us, or, in our sole discretion, to a designated approved regional advertising fund. We encourage the formation of franchisee cooperative advertising associations (each a "Cooperative"). If a Cooperative is formed for your region, you must contribute to the Cooperative or lose your right to vote on decisions the Cooperative makes. The membership of the Cooperative is defined by us according to your market area. Currently, there are no *NrGize* cooperatives, so there are no fees imposed by Cooperatives. Kahala Franchising reserves the right to require Cooperative contributions in the future. For each of our company-owned or affiliate-owned restaurants located within the Cooperative, we will make contributions to the regional advertising fund on the same basis as required of the other *NrGize Lifestyle Cafe* franchise owners in the same geographic market. Corporate or affiliate-owned outlets have the same voting power as franchisee-owned outlets.

(5) If we hold an annual meeting (the "Meeting"), the Meeting will be held at various locations throughout the United States as we may designate in our sole discretion, and may offer valuable continuing education programs. Because the planning and funding of the Meeting must be done well in advance and requires a substantial financial commitment, we have the right to debit your Depository Account for the Annual Meeting Registration Fee up to \$1,000 at any time 60 to 90 days prior to the first day of the Meeting. This fee is not refundable and will be debited from all franchisees' accounts (even if you do not attend the Meeting). If you do not attend the Meeting, we will send to you one full set of the substantive materials that were presented at the Meeting.

(6) We may collect a weekly data polling fee for the collection of data from your restaurant sales for the POS System for your restaurant. Currently, the fee is up to \$75 per month, and is subject to reasonable annual and/or service enhancement increases.

(7) A "non-traditional" *NrGize Lifestyle Cafe* is an *NrGize Lifestyle Cafe* event cart, express or co-branded location, or an *NrGize Lifestyle Cafe* located within a travel plaza, or convenience store, all of which locations generally offer a limited version of the full *NrGize Lifestyle Cafe* menu in existence at traditional *NrGize Lifestyle Cafes*.

(8) The Document Administration Fee in the amount of \$500 will only be charged to you if an amendment to your franchise documents must be prepared due to a change in the name of franchisee, to add or remove an owner who has less than a 50% ownership interest in franchisee, or a change in the ownership due to divorce or separation.

(9) Interest begins from the date of the underpayment.

(10) Franchisor has the absolute right to charge Franchisee the greater of: three (3) times the fixed Royalty fee; or, if on a percentage Royalty fee the Royalties will be increased up to eighteen percent (18%) of Gross Sales with respect to any period during which Franchisee is in breach or default of its/his/her obligations under this Agreement. The Royalties paid or owing to Franchisor with respect to the period during which Franchisee is in breach or default are referred to as "Breaching Royalties." Breaching Royalties will be charged for a minimum fourteen (14) day period, regardless of the length of the actual breach or default.

ITEM 7: ESTIMATED INITIAL

INVESTMENT YOUR ESTIMATED INITIAL

INVESTMENT

Traditional *NrGize Lifestyle Cafe* (EXCLUDING
those located within an LA Fitness health club)

Column 1 Type of Expenditure	Column 2 Amount	Column 3 Method of Payment	Column 4 When Due	Column 5 To Whom Payment is to be Made
Initial Franchise Fee (Note 1)	\$14,000 to \$30,000 (Note 1)	Lump Sum	At Signing of Franchise Agreement	Us
Lease Review Fee	\$0 to ~~\$1,250~~ <u>\$2,500</u>	Lump Sum	At Signing of Franchise Agreement	Us
Rent/Security Deposit (for 3 months) (Note 2)	\$6,000 to \$30,000	(Note 3)	Prior to Opening	Third-party Landlords
Travel and Living Expenses (2 persons) while training, not including salaries, if any, for you and your employees	\$2,500 to \$5,000	As Incurred	During Training	Airlines, Hotels, Restaurants, etc.
Real Estate	(Note 2)	(Note 2)	(Note 2)	(Note 2)
Leasehold Improvements, Restaurant Equipment, Furniture, and Small Wares, Menu Panels, Computer Hardware, Cameras, Architectural Fees, Signage, Security Devices and Security Software, if applicable (collectively, the "POS System"), (Note 3 and 4)	\$60,000 to \$225,000	See Note 3	Prior to Opening	Approved Vendors or Suppliers
PCI Compliance Costs	\$150 to \$1,300	As billed by third party vendor	As billed by third party vendor	Approved Vendor
Opening Inventory (food and paper) (Note 5)	\$1,000 to \$5,000	As Incurred	Prior to Opening	Approved Suppliers
Business Insurance (Note 6)	\$1,000 to \$5,000	Lump Sum	Prior to Opening	Insurance Company/Agent
Miscellaneous Opening Costs (Note 7)	\$4,750 to \$15,500	As Incurred	As Incurred	Approved Suppliers, Utilities, etc.
Grand Opening <u>Marketing</u> (Note 8)	~~\$0 to \$5,000~~ <u>\$10,000</u>	Lump Sum	~~Prior to Opening~~ <u>Earlier of: prior to execution of a lease or prior to construction of premise</u>	~~Suppliers-Us~~ (Note 8)
Depository Account (Note 9)	\$3,000	Lump Sum; Must be replenished on a regular basis	At signing of Franchise Agreement	Your bank (Kahala Franchising and Kahala Holdings has the right to withdraw from this account)
Additional Funds - 3 month initial period	\$5,000 to \$15,000 (Note 10)	As Incurred	As Incurred	Us, Employees, Various Third Parties
TOTAL (Note 11)	~~\$-~~ <u>\$97,400</u> ~~107,400~~ <u>to \$341,050</u> ~~341,050~~ <u>347,300</u>	(Does not include real estate costs and/or rent for the business location except for the initial security deposit.)		

YOUR ESTIMATED INITIAL INVESTMENT

Non-Traditional NrGize Lifestyle Cafe

Column 1 Type of Expenditure	Column 2 Amount	Column3 Method of Payment	Column 4 When Due	Column 5 To Whom Payment is to be Made
Initial Franchise Fee (Note 1)	\$5,600 to \$9,500 (Note 1)	Lump Sum	At Signing of Franchise Agreement	Us
Lease Review Fee	\$0 to ~~\$1,250~~ <u>\$2,500</u>	Lump Sum	At Signing of Franchise Agreement	Us
Rent/Security Deposit (for 3 months) (Note 2)	\$6,000 to \$30,000	As Incurred	Prior to Opening	Landlord(s)
Travel and Living Expenses (2 persons) while training, not including salaries, if any, for you and your employees	\$2,500 to \$5,000	As Incurred	During Training	Airlines, Hotels, Restaurants, etc.
Real Estate	(Note 2)	(Note 2)	(Note 2)	(Note 2)
Architectural and Project Management Fees	\$4,000 to \$10,000	As Incurred	Prior to Opening	Licensed and Approved Architect
Leasehold Improvements	\$10,000 to \$125,000 (Note 3)	As Incurred	Prior to Opening	Approved Contractors and Vendors (Note 3)
Restaurant Equipment, Furniture, and Small Wares (Note 4)	\$20,000 to \$45,000	Lump Sum	Prior to Opening	Approved Vendors and Suppliers
Interior and Exterior Signage and menu panels	\$5,000 to \$20,000	As Incurred	Prior to Opening	Approved Vendors and Suppliers
Computer Hardware, Software (POS System)	\$2,510 to \$10,000	Lump Sum	Prior to Opening	Approved Suppliers
PCI Compliance Costs	\$150 to \$1,300	As billed by third party vendor	As billed by third party vendor	Approved Vendor
Opening Inventory (food and paper) (Note 5)	\$2,500 to \$7,000	As Incurred	Prior to Opening	Approved Suppliers
Business Insurance (Note 6)	\$1,000 to \$5,000	Lump Sum	Prior to Opening	Insurance Company/Agent
Miscellaneous Opening Costs (Note 7)	\$4,750 to \$15,500	As Incurred	As Incurred	Approved Suppliers, Utilities, etc.
Grand Opening <u>Marketing</u> (Note 8)	~~\$0 to \$5,000 to \$10,000~~	Lump Sum	~~Prior~~ <u>Earlier of; prior to Opening execution of a lease or prior to construction of premise</u>	~~Suppliers~~ <u>US</u>
Depository Account (Note 9)	\$3,000	Lump Sum; Must be replenished on a regular basis	At signing of Franchise Agreement	Your bank (We have the right to withdraw from this account)
Additional Funds - 3 month initial period	\$5,000 to \$15,000 (Note 10)	As Incurred	As Incurred	Us, Employees, Various Third Parties
TOTAL (Note 11)	~~\$57,910~~ <u>\$62,910 to \$261,800</u> <u>\$268,050</u>	(Does not include real estate costs and/or rent for the business location except for the initial security deposit.)		

YOUR ESTIMATED INITIAL INVESTMENT

New NrGize Lifestyle Cafe located within an LA Fitness health club ONLY

Column 1 Type of Expenditure	Column 2 Amount	Column 3 Method of Payment	Column 4 When Due	Column 5 To Whom Payment is to be Made
Initial Franchise Fee (Note 1)	\$15,000 (Note 1)	Lump Sum	At Signing of Franchise Agreement	Us
Initial Fee and Reservation Fee (Note 2)	\$3,000 to \$3,750	Lump Sum	At Signing of Franchise Agreement	Us or our affiliate, Kahala Holdings, L.L.C. (charged by LA Fitness)
Travel and Living Expenses (2 persons) while training, not including salaries, if any, for you and your employees	\$2,500 to \$5,000	As Incurred	During Training	Airlines, Hotels, Restaurants, etc.
~~Turn Key Package (includes all leasehold improvements — including \$20,000 to \$40,000 Construction Fee and \$2,500 to \$10,000 Access Fee charged by LA Fitness, equipment and signage)~~	~~\$75,000 to \$150,000~~	See Note 3	~~At Signing of Franchise Agreement~~ <u>Prior to Opening</u>	~~Us or our affiliate (See Approved Contractors and Vendors (Note 3))~~
Computer Hardware, Software (POS System)	\$2,510 to \$10,000	Lump Sum	Prior to Opening	Approved Suppliers
PCI Compliance Costs	\$150 to \$1,300 per year	As billed by third party vendor	As billed by third party vendor	Approved Vendor
Opening Inventory (food and paper) (Note 5)	\$2,500 to \$7,000	As Incurred	Prior to Opening	Approved Suppliers
Business Insurance (Note 6)	\$1,000 to \$5,000	Lump Sum	Prior to Opening	Insurance Company/Agent
Miscellaneous Opening Costs (Note 7)	\$4,750 to \$15,500	As Incurred	As Incurred	Approved Suppliers, Utilities, etc.
Grand Opening <u>Marketing</u> (Note 8)	~~\$0 to \$5,000~~ <u>\$5,000</u>	Lump Sum	~~Prior to Opening~~ <u>Earlier of; prior to execution of a lease or prior to construction of premise</u>	~~Suppliers~~ <u>US</u>

Depository Account (Note 9)	\$3,000	Lump Sum; Must be replenished on a regular basis	At signing of Franchise Agreement	Your bank (We have the right to withdraw from this account)
Additional Funds - 3 month initial period	\$5,000 to \$15,000 (Note 10)	As Incurred	As Incurred	Us, Employees, Various Third Parties
TOTAL (Note 11)	~~\$114,410~~ <u>119,410</u> to ~~\$235,550~~ <u>240,550</u>	(Does not include real estate costs and/or rent for the business location except for the initial security deposit.)		

YOUR ESTIMATED INITIAL INVESTMENT

Conversion of an existing restaurant within an LA Fitness health club to an
NrGize Lifestyle Cafe

Column 1 Type of Expenditure	Column 2 Amount	Column 3 Method of Payment	Column 4 When Due	Column 5 To Whom Payment is to be Made
Initial Franchise Fee (Note 1)	\$15,000 (Note 1)	Lump Sum	At Signing of Franchise Agreement	Us
Initial Fee and Reservation Fee (Note 2)	\$1,500 to \$3,750	Lump Sum	Prior to Opening	Us
Travel and Living Expenses (2 persons) while training, not including salaries, if any, for you and your employees	\$2,500 to \$5,000	As Incurred	During Training	Airlines, Hotels, Restaurants, etc.
Turn Key Conversion Package (includes the \$2,500 to \$10,000 Access Fee, Small Wares, Interior and Exterior Signage and menu panels, graphics package, wallpaper and paint, as needed) (Note 4)	\$35,500 to \$92,500	Lump Sum	At Signing of Franchise Agreement	Us or our affiliate
Computer Hardware, Software (POS System)	\$2,510 to \$10,000	Lump Sum	Prior to Opening	Approved Suppliers
PCI Compliance Costs	\$150 to \$1,300 per year	As billed by third party vendor	As billed by third party vendor	Approved Vendor
Opening Inventory (food and paper) (Note 5)	\$2,500 to \$7,000	As Incurred	Prior to Opening	Approved Suppliers
Business Insurance (Note 6)	\$1,000 to \$5,000	Lump Sum	Prior to Opening	Insurance Company/Agent
Miscellaneous Opening Costs (Note 7)	\$4,750 to \$15,500	As Incurred	As Incurred	Approved Suppliers, Utilities, etc.
Grand Opening (Note 8)	\$0 to \$5,000	Lump Sum	Prior to Opening	Suppliers

Depository Account (Note 9)	\$3,000	Lump Sum; Must be replenished on a regular basis	At signing of Franchise Agreement	Your bank (We have the right to withdraw from this account)
Additional Funds—3 month initial period	\$5,000 to \$15,000 (Note 10)	As Incurred	As Incurred	Us, Employees, Various Third Parties
TOTAL (Note 11)	\$74,410 to \$173,050	<i>(Does not include real estate costs and/or rent for the business location except for the initial security deposit.)</i>		

Notes:

(1) The Initial Franchise Fee includes the training fee for two individuals and the preparation of the design drawings. You will be able to make two sets of revisions to the design drawings at no additional charge. If you have any additional revisions after the first two sets or after we have approved the drawings, you will be solely responsible for the additional costs and expenses incurred.

(2) If you do not own a suitable premises approved by us, you must lease or purchase the premises for your *NrGize* restaurant. If you decide to lease the premises, the landlord will generally require a

security deposit, the amount of which generally ranges from one month of monthly rent to six months of monthly rent. The amount of your security deposit will vary according to your area, the type of location (enclosed mall, strip center, or free-standing building), and various other factors. A lease security deposit may be non-refundable and is paid directly to the landlord of the premises. If you decide to purchase land and construct your own building or buy an existing building, you can expect to add the cost of the real estate to the total investment. Real estate costs vary considerably depending on fair market values in your area; size, condition, and location of the premises; and municipal requirements.

This paragraph only applies to NrGize Lifestyle Cafes located within LA Fitness Health Clubs: Our affiliate, Kahala Holdings, L.L.C., has entered into a Master Facility License Agreement with LA Fitness covering the juice and snack bar operations at all future LA Fitness health clubs in the United States and certain existing LA Fitness health club locations. You will execute the Single- Unit Facility License Agreement (See Exhibit O-3) with Kahala Holdings, L.L.C., that covers the occupancy by you of the applicable LA Fitness health club, at the same time you execute the Franchise Agreement (See Exhibit E). At execution, you will be required to pay to us, or our affiliate, the following fees charged by LA Fitness that range from \$1,500 to \$3,750: (i) the first and last month's rent, termed an Initial Fee in the Master Facility License Agreement and the Single-Unit Facility License Agreement (the Initial Fee is non-refundable); and (ii) a security deposit, termed a Reservation Fee in the Master Facility License Agreement and the Single-Unit Facility License Agreement. The Reservation Fee is refundable, so long as you perform all obligations under the Single-Unit Facility License Agreement, 30 days after the expiration or termination of the Single-Unit Facility License Agreement. The Reservation Fee shall be applied against the cost of any damages at the premises as a result of negligence, intentional vandalism or theft. If the cost of the repairs to the damages exceeds the amount of the Reservation Fee being held, you will not receive a refund and will be responsible to pay the difference (See Exhibit O-3).

(3) The Landlord may provide some leasehold improvements, but if not, they will be at your expense. The total amount of leasehold improvements for your NrGize restaurant will vary greatly, depending on the type of premises for your restaurant (pad site with drive-thru on the high end versus modular kiosk or retrofitted existing restaurant on the low end), condition of the premises, and what improvements you require. Construction costs also vary considerably depending on fair market values in your area; size, condition, and location of the premises; labor costs (union versus non-union); and equipment requirements. The minimum square footage needed to establish your NrGize is approximately 800 square feet for a traditional restaurant and 500 square feet for a non-traditional restaurant. There is a wide range of probable locations that an NrGize restaurant could be in, and therefore, a wide range for the approximate size of the property and building. The probable locations for a NrGize restaurant are health clubs and college campuses, with sizes of the property and building the NrGize restaurant could be located in ranging from 1,000 square feet for a stand-alone location to over one million square feet for a college campus.

~~This paragraph only applies to NrGize Lifestyle Cafes located within LA Fitness Health Clubs: The NrGize franchise covered by your Franchise Agreement is a "turn-key" opportunity.~~

~~Given this "turn-key" aspect, we or our affiliate(s) will be solely responsible for overseeing and managing the entire construction process and equipping of your NrGize Lifestyle Cafe covered by your Franchise Agreement. The Initial Fee and the Reservation Fee indicated in the Single-Unit Facility License Agreement Reservation Fee (See Exhibit O), Construction Fee, Access Fee, all Leasehold Improvements, Construction Costs, and Equipment Costs for us to build out and equip your NrGize Lifestyle Cafe at the Site are collectively referred to as the "NrGize Turn-Key Fees." You will pay us or our designated affiliate the full Initial Franchise Fee plus the full amount of the NrGize Turn-Key Fee simultaneously with your execution of the Franchise Agreement and Single-Unit Facility License Agreement covering your new NrGize Lifestyle Cafe. The Construction Fee and Access Fee total are non-refundable. The conversion of the existing restaurant to an NrGize Lifestyle Cafe will still be "turn-key" as we or our affiliate(s) will be solely responsible for overseeing and managing the entire conversion process, which includes changing the signage and menu panels, color scheme and décor, and equipment. Upon signing your Franchise Agreement with us, you must also simultaneously enter into a Single-Unit Facility License Agreement with Kahala Holdings, L.L.C. that covers the occupancy by you of the applicable LA Fitness health club covered by your Franchise Agreement. (See Exhibit O).~~

(4) This amount includes estimated costs of furniture, furnishings, installations, equipment, trade fixtures, and certain other items on the restaurant premises, the amount and specific items of which will vary

depending upon the location, size and condition of a particular restaurant. You must purchase restaurant equipment for your *NrGize Lifestyle Cafe* restaurant from approved vendors and according to our specifications. A list of approved distributors for our approved vendors is maintained by our purchasing department and will be provided to you during the pre-opening and/or construction phase for your Franchised Business. Updates will be provided to you as changes are made (i.e., additions and deletions) to the list of approved distributors for our approved vendors.

~~This paragraph only applies to NrGize Lifestyle Cafes located within LA Fitness Health Clubs: The NrGize franchise covered by your Franchise Agreement is a "turn-key" opportunity. Given this "turn-key" aspect, we or our affiliate(s) will be solely responsible for overseeing and managing the entire construction process and equipping of your NrGize Lifestyle Cafe covered by your Franchise Agreement. The NrGize Turn-Key Fees includes the Equipment Costs. We will purchase the equipment and install it for you in your NrGize Lifestyle Cafe restaurant if it is located within an LA Fitness health club as part of this "turn-key" aspect. The conversion of the existing restaurant to an NrGize Lifestyle Cafe will still be "turn-key" as we or our affiliate(s) will be solely responsible for overseeing and managing the entire conversion process, which includes changing the signage and menu panels, color scheme and décor, and equipment.~~

(5) As with any retail business, you will purchase inventory continuously as long as you operate your *NrGize Lifestyle Cafe*.

(6) Initial premiums for commercial general liability insurance are subject to change due to market forces beyond either of our control. The cost of other coverages, including workers' compensation and employer liability coverage and your discretionary purchases, varies widely.

(7) The breakdown of the miscellaneous opening costs is as follows:

<u>MISCELLANEOUS OPENING COSTS</u>	<u>ESTIMATED TYPICAL RANGE</u>	
~~MISCELLANEOUS OPENING COSTS~~	~~ESTIMATED TYPICAL RANGE~~	
~~Pre-opening Employee Training Payroll~~	~~\$1,000~~	~~\$3,000~~
~~Utility Deposits (e.g., gas, water)~~	~~\$1,000~~	~~\$2,000~~
~~Petty Cash (including cash register "opening banks")~~	~~\$250~~	~~\$500~~
~~Licenses and Permits (including any required deposits)~~	~~\$500~~	~~\$3,000~~
MISCELLANEOUS OPENING COSTS	ESTIMATED TYPICAL RANGE	
<u>Pre-opening Employee Training Payroll</u>	<u>\$1,000</u>	<u>\$3,000</u>
<u>Utility Deposits (e.g., gas, water)</u>	<u>\$1,000</u>	<u>\$2,000</u>
<u>Petty Cash (including cash register "opening banks")</u>	<u>\$250</u>	<u>\$500</u>
<u>Licenses and Permits (including any required deposits)</u>	<u>\$500</u>	<u>\$3,000</u>
Miscellaneous Expenses (e.g., food safety manager certification training fees, uniforms, menus, security system, interior/exterior landscaping, sound system, business telephone deposit (phone additional), banking pre-opening costs, accountants, lawyers)	\$2,000	\$7,000
ESTIMATED TOTAL	\$4,750	\$15,500

The telephone and utility deposits will generally be refundable in accordance with the terms fixed by the telephone company and the utility companies, respectively.

(8) ~~You may be required, depending on the location of your NrGize Lifestyle Cafe restaurant, to conduct a grand opening advertising campaign with the opening of your restaurant. You must pay all costs of the grand opening, including publicity costs and promotional costs, plus the full cost of any price reductions or other customer inducements. If applicable, we will assist you with developing and carrying out this grand opening campaign.~~ are required, to pay a Grand Opening Marketing fee of \$10,000 for a Traditional store or \$5,000 for a Non Traditional store payable to US on the earlier of (i) prior to you executing a lease for the premises where the Franchised Business will be located; or (ii) prior to construction commencing at the premises where the Franchised Business will be located. We or our designated affiliate will create a marketing

plan for (i) a grand opening event at your Franchised Business, and (ii) the initial advertising of your Franchised Business, and will work with you to obtain your input on the marketing plan. We or our designated affiliate will use the Grand Opening Marketing to pay for the grand opening and initial advertising, but may, in our sole discretion, reimburse you for some local store marketing expenses that you pay if you received our prior approval. The Grand Opening Marketing should be used within six (6) months of the opening of your Franchised Business to the public. However, if a portion of the Grand Opening Marketing is not used within those six (6) months, we may, in our discretion, spend the remaining portion of the Grand Opening Marketing after six (6) months from the opening of your Franchised Business to the public.

(9) At the time you sign the Franchise Agreement, you will set up a depository account of \$3,000 with your local banking institution. You are required to maintain a balance of \$3,000 in this account at all times. For NrGize restaurants NOT located within an LA Fitness health club, by Monday of each week, you must submit a royalty report to Kahala Franchising of certain statistical data regarding the prior week's revenues, sales and other data, which prior week shall end on the preceding Sunday. Kahala Franchising will withdraw funds electronically on each Thursday from the depository account. The withdrawals are based upon the figures you report and constitute Royalty Fees and Advertising Fees. If you do not submit a report by each Monday, Kahala Franchising may withdraw the entire \$3,000 on Thursday. Kahala Franchising will apply any overage to future Royalty Fees and Advertising Fees upon receipt of your report(s). (An Electronic Funds Transfer Agreement by and payable to Kahala Franchising is attached as Exhibit P). For NrGize restaurants located within an LA Fitness health club, you must submit a royalty report to Kahala Franchising on the third day of each month regarding the prior month's revenues, sales, and other data, which prior month shall end on the last calendar day of the prior month. Kahala Franchising will withdraw the royalty fee electronically on the fifteenth day of each month from the depository account. In addition, Kahala Holdings will withdraw the Monthly Service Fee electronically on the third calendar day of each month based upon the figures you report.

(10) Cash flow from your operations may not be adequate to cover operating and other costs during the initial phase of business. The range shown estimates your expenses during the first three months of operation. These expenses include payroll costs (excluding any wage or salary paid to you), other miscellaneous expenses and working capital. We cannot guarantee that you will not have additional expenses starting the business. Your costs will depend on factors such as: how closely you follow our methods and procedures; your management skill, experience and business acumen; local economic conditions; the local market for our product; the prevailing wage rate; competition; and the sales level achieved during the initial period. The amount required for additional funds was formulated based upon our years of experience as a franchisor and our affiliate's years of experience operating company restaurants in addition to information provided by other franchisees.

(11) Your initial investment for a new *NrGize Lifestyle Cafe* restaurant depends primarily upon the size, configuration, location, who pays the costs to develop the real estate and/or construction of the

restaurant, and the amount and terms of financing, if any. The initial funds required must be estimated as most costs are not within our control and may change at frequent intervals. These estimated ranges are based on our experience and information provided by franchisees.

ITEM 8: RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

Except as stated in this Item 8, you have no obligation to purchase or lease goods, services, supplies, fixtures, equipment, inventory or computer hardware relating to the establishment or operation of your *NrGize* restaurant from us or from any of our designees.

The Franchise Agreement requires that all food products, ingredients, equipment, computer hardware and software, furniture, fixtures, décor, signs, computer equipment, supplies and other products, services and materials which you will use in the operation of your restaurant meet our standards and be purchased only from approved distributors and suppliers. You may use any operational service providers, such as exterminators, refrigeration services companies, refuse removal companies, and similar service providers that you desire. If we organize a rollout for a new approved product or a new supplier of an approved product, you will be required to purchase such approved product(s) from our approved distributors of the approved supplier within 60 days of notification from us. We are not an approved supplier of any products or services. Kahala Brands is not a supplier of any products or services. Neptune Equipment, an affiliate of Kahala Franchising, is currently one of the approved suppliers of certain equipment, interior and exterior signage menu boards, computer hardware and smallwares. You are required to purchase the grand opening kit, menu boards, custom slicer stand, tables, chairs, wall graphics and display graphics from Neptune Equipment. Kahala Management, an affiliate of Kahala Franchising, is currently the only approved service provider of phone support maintenance for the software and hardware of the POS system ("Technology Support"). You are required to purchase the Technology Support from Kahala Management. Kahala Management is also an approved service provider of real estate services, including negotiating a term sheet, negotiating the lease terms, and locating a site for a franchisee upon request from a franchisee. You may, but are not required, to use Kahala Management for real estate services. There are other approved suppliers who are not affiliated with us for each of the items you will purchase to operate your *NrGize Lifestyle Cafe*. We currently have other non-affiliated approved suppliers of all equipment, smallwares, furniture, POS Systems, beverage equipment, sound systems and certain ingredients and other logo items utilized in your *NrGize Lifestyle Cafe*. None of our officers own an interest in any of the approved suppliers not affiliated with us. To become approved, a supplier must demonstrate, to our reasonable satisfaction, it can meet all of our standards and has adequate capacity to supply franchisee's quantity and delivery needs. We will provide you with a list of approved distributors of the approved suppliers for your market area during the pre-opening and/or construction phase for your Franchised Business. You can expect that the items you will purchase in accordance with our specifications will represent over 90% of the total purchases you will make to begin operations and over 80% of your annual operating expense for raw materials, products and supplies.

All requests for approving new or alternative suppliers must be submitted in writing by you and/or the supplier to our Purchasing Department. Each request will be reviewed in accordance with our then-current procedures and the supplier must meet our then-current requirements, which may include that our representatives be allowed to inspect the facilities of the proposed supplier, and that samples from the proposed supplier be delivered, at no charge to us, either to us or to our designee for testing. Our criteria for approving suppliers is available to franchisees upon written request to our Purchasing Department. A charge not to exceed the reasonable cost of the inspection and the actual cost of the test not to exceed \$5,000 must be paid to us either by you or by the proposed supplier. If approved, in our sole reasonable discretion, we will notify you and/or the supplier in writing within 60 days of our receipt of an approval request. You must not offer for sale or sell any of the proposed alternative supplier's products until you receive our written approval of the proposed alternative supplier. We may, at our option, re-inspect the facilities and products of any approved supplier and revoke its approval upon the supplier's failure to meet any of our then-current minimum standards and specifications. If you receive a written notice of revocation from us, you must stop selling disapproved products and stop purchasing from the disapproved supplier.

~~Page 60~~ We will provide you with one set of our confidential "ops package" which may consist of the operations manual, "ops toolkit", and related printed and electronic documents (collectively, the "~~Operations Confidential~~ Manual".) We provide all specifications and standards to you in the ~~Operations Confidential~~ Manual, which we may modify from time to time by providing you with "rollout guides" for limited time offers, amendments, modifications or supplemental inserts through notices or bulletins, or by amending the ~~Operations Confidential~~ Manual. A list of approved distributors for our approved vendors is

maintained by our purchasing department and will be provided to you during the pre-opening and/or construction phase for your Franchised Business. Updates will be provided to you as changes are made (i.e., additions and deletions) to the list of approved distributors for our approved vendors. We may acquire certain used equipment and signage and offer it for sale to prospective or existing franchisees at a price that we believe to be equal to or less than the fair market value of that equipment and signage. If we make that offer to you, you have the option of purchasing that equipment and signage from us or purchasing new equipment and signage from the approved third parties.

We have negotiated special pricing arrangements or discounts with some of our suppliers. The arrangements may include special contract pricing, volume discounts, and specific discounts from regular wholesale prices. These discounts are typically passed on to our franchisees. We do not provide any other material special benefits to franchisees based on their purchase of particular approved supplies or their use of particular approved suppliers.

We or our affiliates may also receive rebates and/or allowances, usually ranging between 1% and 5%, from certain suppliers on purchases made by you and other franchisees. The rebates and/or allowances are generally based upon a percentage of franchisee purchases, will be included in our general revenue, and may be used by us for salaries of personnel that assist franchisees increase their sales, maintaining the customer service hotline, handling of inquiries and complaints from our franchisees' customers, tracking consumer service hotline trends, product research and development, franchisee crew training, supply chain information management systems, and a variety of ongoing programs, including education, marketing, advertising, and franchisee meetings, seminars, conventions, conferences, and events. These rebates are usually based on an amount per unit, per case, per gallon, or per pound of product (i.e., properly specified and approved meat, dairy products, paper products, smallwares, beverages and apparel) purchased. We may use rebate and allowance funds received from our suppliers to benefit the *NrGize* restaurant in our sole and absolute discretion.

Pursuant to the merger as fully described in Item 1, the total revenues and expenses of Kahala Franchising and its ~~affiliates~~subsidiaries have been consolidated with MTY USA's since July 26, 2016, as reflected in the audited consolidated financial statements presented in this disclosure document. For the year ending November 30, ~~2017~~2018 MTY USA and its ~~affiliates~~subsidiaries derived revenues from the sales of products, services, and product allowances to MTY USA franchisees in the amount of ~~\$19,815,640,20,485,025~~, which was approximately 19% of MTY USA and its ~~affiliate's~~subsidiaries total recognized revenue in the amount of ~~\$103,351,774.107,121,584~~.

Various suppliers and vendors of MTY USA and its ~~affiliates~~subsidiaries contribute marketing and other revenues to MTY USA and its ~~affiliates~~subsidiaries based upon system-wide purchases from those suppliers and vendors. During our last fiscal year, MTY USA and its ~~affiliates~~subsidiaries earned a total of ~~\$15,034,286~~16,714,928 of the ~~\$19,815,640~~20,485,025 from such vendors. Other, received revenues in the amount of ~~\$732,305~~731,610 are not applicable to your franchise.

~~An affiliate~~A subsidiary of ~~Kahala Franchising~~MTY USA that earned revenue from purchases of equipment, furniture, menu boards, interior and exterior signage, wall décor and smallwares made by us, our franchisees, and licensees is Neptune Equipment. Neptune Equipment provides the following services: purchases your equipment from various approved manufacturers; provides logistics services by arranging for bundled delivery to you; and assists with warranty support of the ~~Page-61-~~ equipment purchased. Neptune Equipment charges a markup on the equipment and a handling fee for its services. During our last fiscal year, Neptune Equipment earned a total of ~~\$3,471,452~~2,379,697 of the ~~\$19,815,640~~20,485,025 from required franchisee purchases.

Another ~~affiliate~~subsidiary of ~~Kahala Franchising~~MTY USA that earned revenue from required POS help desk phone support maintenance services is Kahala Management. During our last fiscal year, Kahala Management earned a total of ~~\$577,596~~658,790 of the ~~\$19,815,640~~20,485,025 from POS help desk phone support maintenance fees.

The processing fees received by KGC do not currently cover the costs of the gift card program. Our

Leasing Affiliates do not derive revenue as a result of their leasing activities.

In ~~2016, 2018~~, Vires purchased media for TacoTime, *Cold Stone Creamery*, Blimpie, ~~America's Taco Shop~~, ~~The Counter~~, ~~Ginger Sushi~~, ~~sweetFrog~~, ~~Thai Express~~ and Samurai Sam's Teriyaki Grill. All after tax profits are rebated to the National Advertising Fund or media cooperatives.

We have not arranged any purchasing or distribution cooperatives among our franchisees.

You are required to accept all approved debit and credit cards, along with Kahala Franchising's Stored Value Gift Cards, Loyalty Cards, Frequency Cards, and any other similar Kahala Franchising sponsored electronic card and/or payment program (collectively, the "Gift/Loyalty Card") from consumers at your *NrGize Lifestyle Cafe* restaurant. Prior to the opening of your restaurant, you will be required to acquire an approved debit, credit and Gift/Loyalty card processing system to use during the operation of your *NrGize Lifestyle Cafe* restaurant. The components and specifications of this system are specifically identified in the Operations Manual. Additionally, you must utilize our approved third party payment card processor, as identified in the Operations Manual, for processing all such debit, credit, rewards, and Gift/Loyalty card transactions.

You must complete a food safety manager training program at your cost. We will accept your local county or state required program or any other nationally recognized food safety program. You must provide us with a copy of your certificate prior to attending our Training Program.

We may, from time to time, provide referral incentives to franchisees, employees and others for qualified referrals of prospective franchisees. We may, from time to time, pay membership fees to public, quasi-public and private service providers who refer potential franchisees from identified groups (e.g. veterans or military personnel planning to leave the service).

We may vary the terms of our franchises in connection with testing new marketing, branding, research and development of new menu offerings, and/or operational programs. These tests are generally conducted with experienced, existing franchisees and may include incentives and other rights which are not available to all franchisees. We reserve the right to sell some of the products associated with the *NrGize Lifestyle Cafe* brand to different retail outlets such as grocery chains or membership-based retailers.

You may not maintain a World Wide Web site, an App (application), social medium site, or otherwise maintain a presence or advertise on the Internet or any other public computer network in connection with the Franchised Business without our prior written approval.

Although not bound to do so, Kahala Franchising may conduct, from time to time, additional research and development with regard to its specifications and standards. The criteria for evaluating any changes in these specifications will be whether such changes in the specifications will improve quality, be more efficient and have greater customer appeal, thus enhancing the *NrGize* brand name and image.

You must, at your own cost and expense, use a licensed and approved third party design architect, as detailed in the Operations Manual, to prepare the initial design drawings for your Franchised Business. Except for the licensed design architect approved by us, no other architect may be used by you for the design of your restaurant. You must also, at your own cost and expense, retain a licensed architect of record to prepare the permitted construction set of drawings.

You must purchase an interior and exterior sign package and menu panels in accordance with our specifications indicated in the Operations Manual and related documents provided to all franchisees. In addition, you must have your *NrGize Lifestyle Cafe* restaurant be consistent in color, design and style with the standards and specifications adopted and approved by us, and as we may modify those standards periodically. You must maintain the appearance and atmosphere of your *NrGize Lifestyle Cafe* restaurant, and the equipment and premises used in connection with your *NrGize Lifestyle Cafe* restaurant, in accordance with the standards we may adopt from time to time. Any variations in color, design, style, appearance or atmosphere must be approved in writing by us. Our current standards and specifications are included in our Operating Manual.

You are required to acquire, from an approved supplier, and exclusively use an approved cash register/point of sale computer system and software during the operation of your *NrGize Lifestyle Cafe* restaurant. The components and specifications of this system are specifically identified in the Operations Manual. You shall also be required to own a personal computer or similar device that allows you to send and receive e-mails with us, and a fax machine to allow communication with us.

You must provide commercial general liability insurance in minimum liability limits of One Million Dollars (\$1,000,000.00) (or greater if applicable state laws or regulations require) for each occurrence and with an aggregate of not less than Two Million Dollars (\$2,000,000.00) and maintain other insurance in accordance with state law requirements. Some property owners may require higher levels of public liability insurance under their leases. You must obtain all insurance we require from an insurer having an A.M. Best's financial strength rating of "A-VIII" or better. Such insurance must: (i) insure you; (ii) name us, ~~our Parent Company, our directors~~ MTY Franchising USA, Inc., Kahala Franchising, L.L.C. and their parents, subsidiaries, affiliates, officers, directors, and employees ~~and affiliates~~ as additional insured; (iii) contain a waiver by the insurance carrier of all subrogation rights against us and our affiliates for casualty losses; (iv) provide that we will receive by an endorsement 30 days' prior written notice of cancellation; and (v) provide that failure by franchisee to comply with any term, condition or provision of the contract, or other conduct by franchisee, will NOT void or otherwise affect the coverage afforded us.

The minimum insurance coverage requirements (subject to increase) are as follows:

TYPE OF COVERAGE	LIMITS/SPECIFICATIONS
General Liability	\$1,000,000 Bodily Injury/Property Damage Per Occurrence / \$2,000,000 Aggregate
Building Improvements and Betterments	100% of Full Replacement Cost – No Coinsurance (minimum of \$100,000)
Business Personal Property	100% of Full Replacement Cost – No Coinsurance – Special Form or equivalent (minimum of \$100,000)
Spoilage	\$5,000
Business Income	Actual Loss Sustained or at least 50% of Annual Sales
TYPE OF COVERAGE	LIMITS/SPECIFICATIONS
Flood, Earthquake and Volcanic Eruption	Subject to Territory Limitations – required if in a designated Flood Zone
Workers' Compensation	Statutory Requirements
Stop Gap or Employer Liability	Bodily Injury by Accident: \$1,000,000 each accident Bodily Injury by Disease: \$1,000,000 policy limit Bodily Injury by Disease: \$1,000,000 each employee
Hired and Non-Owned Automobile Liability	\$1,000,000 Combined Single Limit per accident

We also recommend that you obtain cyber liability/data breach insurance coverage.

You must always keep the required insurance coverage in force, and you must comply with any changes we make periodically to our insurance requirements. If your restaurant is located in a flood zone or an area subject to earthquakes, hurricanes, tornadoes, other similar hazards, you may want or be required to obtain additional specific insurance to cover these risks; such insurance may increase your premiums significantly. Upon 30 days' notice to you, we may require you to increase the minimum coverage of the insurance referred to above as of the next renewal date of any policy, and require different or additional kinds of insurance at any time, including excess liability (umbrella) insurance, to reflect inflation, identification of special risks, changes in law or standards of liability, higher damage awards or other relevant changes in circumstances.

At the time you sign your lease or single-unit facility license agreement, as the case may be, and annually, at least 10 days prior to renewal of your insurance coverage, and at any other time on our request, you must provide us with certificates of insurance or copies of insurance policies confirming that you are in compliance with our insurance requirements, as well as evidence that you have paid the premiums you owe for the insurance we require. You will pay your insurance premiums directly to your insurance broker or to the insurance company issuing the policy. You must have insurance and have provided a copy of your certificate of insurance to us which meets our requirements before you may open your *NrGize Lifestyle Cafe* restaurant. Your insurance premiums may be refundable to the extent of the unexpired portion of the coverage. In the event you fail to obtain or maintain the required insurance coverage, we reserve the right, but are not obligated to, obtain

the required insurance on your behalf and charge the insurance premium to you.

We want to ensure that our franchisees comply with their leases for the premises where their restaurants are located, the limitations on their use of the approved location, and their obligations to us.

Thus, if you open and operate a traditional restaurant, one of our Leasing Affiliates may enter into a Master Lease for your traditional restaurant and will then Sublease it back to you, using one of our approved Sublease forms (See Exhibit O-1: Sublease and Guaranty of Sublease (Franchisee pays rent directly to Landlord); and Exhibit O-2: Sublease and Guaranty of Sublease (Kahala collects rent from Franchisee and pays to Landlord) (the proceeding two subleases collectively known as “Exhibit O: Sublease and Guaranty of Sublease”). The Sublease will contain substantially the same terms as the Master Lease. The term of the Sublease will be for the entire term of the Master Lease, less one day. You will sign the Sublease at the time our Leasing Affiliate signs the Master Lease for the premises. You must provide all security deposits, guaranties, and other assurances the landlord of the premises requires. We or our Leasing Affiliate will try to negotiate favorable terms under the Master Lease, but we cannot guarantee that the lease terms, including rent, will be the most favorable terms available in the market. We encourage you to participate in the lease negotiation process, with the assistance of your attorney. Our attorneys represent us, not you.

We may, at our option, require you to enter into a lease for the restaurant premises directly with the landlord (“Direct Lease”). You and your attorneys must negotiate the terms of the Direct Lease. We have no liability to you regarding the terms or negotiations of the Direct Lease. The Direct Lease for the premises is subject to our final approval. You and the landlord under the Direct Lease must sign our approved Lease Addendum (See Exhibit L: Required Lease Terms). If we require you to enter into a Direct Lease, you must provide us with a copy of the Direct Lease and the Lease Addendum for our approval at least 10 days before you sign the Direct Lease, and you must provide us with a copy of the executed Direct Lease and Lease Addendum within 10 days after signing. If you do not provide us with all of the required documents, we will not approve your Direct Lease.

A non-traditional restaurant will generally be located inside an existing primary business. As a result, if you open and operate a non-traditional restaurant, there may not be a Sublease between you and our Leasing Affiliate. If the circumstances make a Sublease appropriate, then you would sign a Sublease with our Leasing Affiliate.

You should carefully read the Direct Lease, or the Sublease and Master Lease, and, if applicable, the sublicense agreement. The Sublease provides that a default under your Franchise Agreement is a default under the Sublease. It also provides that you will not raise any defense or counterclaim in any action we or our Leasing Affiliates commence, other than a defense of payment.

The Remainder of this Item 8 Applies Only to NrGize Lifestyle Cafes located within LA Fitness Health Clubs:

Our affiliate, Kahala Holdings, L.L.C., has entered into a Master Facility License Agreement with LA Fitness covering the juice and snack bar operations at all future LA Fitness health clubs in the United States and certain existing LA Fitness health club locations. Upon signing your Franchise Agreement with us, you must also simultaneously enter into a Single-Unit Facility License Agreement with Kahala Holdings, L.L.C. that covers the occupancy by you of the applicable LA Fitness health club covered by your Franchise Agreement (See Exhibit O-3). Upon the termination or expiration of the Master Facility License Agreement, the Single-Unit Facility License Agreement will automatically terminate.

Given this “turn-key” aspect, we or our affiliate(s) will be solely responsible for overseeing and managing the entire construction process and equipping of your *NrGize Lifestyle Cafe* covered by your Franchise Agreement. You will pay us or our designated affiliate the full Initial Franchise Fee plus the full amount of the NrGize Turn-Key Fee simultaneously with your execution of the Franchise Agreement and Single-Unit Facility License Agreement covering your new *NrGize Lifestyle Cafe*. The conversion of the existing restaurant to an *NrGize Lifestyle Cafe* will still be “turn-key” as we or our affiliate(s) will be solely responsible for overseeing and managing the entire conversion process, which includes the graphics package, changing signage and menu panels, color scheme and décor, and equipment, as needed. We will ultimately be furnishing you with a fully constructed and equipped *NrGize* juice bar restaurant within an identified LA Fitness health club that meets our and LA Fitness’ standards and specifications.

You will be required to purchase an approved cash register/point of sale computer system, including any cameras, security devices and applicable security software, if any, with such determination on the security features to be made in our sole discretion (the “POS System”) for you to use exclusively during the operation of your *NrGize Lifestyle Cafe*. You will also be required to own a personal computer or similar

device that allows you to send and receive e-mails with us, and a fax machine to allow communication with us.

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.

Obligation	Article or Section in Franchise Agreement	<u>Section in Sublease</u>	Disclosure Document Item
a. Site selection and acquisition/lease	2.1 and 2.2	<u>Preamble</u>	7 and 11
b. Pre-opening purchases/leases	2.2, 3.3, 4.6 and 9.3	<u>Not Applicable</u>	5, 7 and 11
c. Site development and other pre-opening requirements	2.3 and 2.4	<u>1.2</u>	7, 8 and 11
d. Initial and ongoing training	4.1, 4.2 and 4.3	<u>Not Applicable</u>	11
e. Opening	f. 3.1 (Note 1)	<u>Not Applicable</u>	11
g. Fees	5	<u>3, 4, 5 and 18</u>	5, 6, 7 and 10
h. Compliance with standards and policies/ ~~operations~~ <u>Operations manual</u> <u>Manual</u>	1.4, 3.2, 4.5 and 9	<u>Not Applicable</u>	8, 11 and 14
i. Trademarks and proprietary information	6 and 7	<u>Not Applicable</u>	13 and 14
j. Restrictions on products/ services offered	2.6, 3.2 and 9.2	<u>6</u>	8 and 16
k. Warranty and customer service requirements	No obligation imposed	<u>Not Applicable</u>	Not applicable
l. Territorial development and sales quotas	No obligation imposed	<u>Not Applicable</u>	Not applicable
m. Ongoing product/service purchases	3.2, 9.2 and 9.3	<u>Not Applicable</u>	8
n. Maintenance, appearance, and remodeling requirements	1.4, 2.3, 12.3 and 13	<u>8</u>	7 and 11
o. Insurance	9.5	<u>12</u>	7
p. Advertising	5.3 and 10	<u>Not Applicable</u>	6, 7 and 11
q. Indemnification	8.2, 8.3 and 16.9	<u>11</u>	13 and 14
Obligation	Article or Section in Franchise Agreement		Disclosure Document Item
r. Owner's participation/management/ staffing	4.1, 4.2, 4.3, 9.1 and 9.6	<u>Not Applicable</u>	11 and 15
s. Records and reports	5.2 and 11.1	<u>3</u>	6 and 11
t. Inspections and audits	4.3, 4.4, 5.18, 9.7 and 11.2	<u>3.3 and 13</u>	6 and 11
u. Transfer	12	<u>9</u>	6, 16 and 17

v.	Renewal	13	<u>2.2</u>	6, 16 and 17
w.	Post-termination obligations	14.5	<u>Not Applicable</u>	17
x.	Non-competition covenants	14.6	<u>Not Applicable</u>	15 and 17
y.	Dispute resolution	16.3	<u>Not Applicable</u>	17
	<u>Obligation</u>	<u>Article or Section in Franchise Agreement</u>	<u>Section in Sublease</u>	<u>Disclosure Document Item</u>
z.	Other			
	Personal Acceptance, Personal and Spousal Guarantees; <u>Non-Disclosure and Non-Competition</u>	9.8; Personal Acceptance of Sections 7.1, 7.2, 14.6 and 14.8;- ~~and~~ Guaranty of Franchise Agreement; <u>and Non-Disclosure and Non- Competition Agreement</u>	<u>Guaranty of Sublease</u>	10, 15

* All references to the Single-Unit Facility License Agreement only apply if your *NrGize Lifestyle Cafe* is to be located within an LA Fitness health club.

Note 1: Not applicable for renewal Franchise Agreements.

ITEM 10: FINANCING

We do not offer any direct or indirect financing or financing arrangement, nor will we guaranty your obligations under any note or other obligation, except potentially for the lease for your site or if you purchase a restaurant corporate-owned “as-is” by one of our affiliates, and only in our sole and absolute discretion.

If you are an individual, ~~you (~~ and married, your spouse, ~~if married)~~, must sign the execute and deliver to us a Guaranty of Franchise Agreement (see Exhibit F-1: Guarantee of Franchise Agreement) and a Non-Disclosure and Non- Competition Agreement (see Exhibit F-2: Non-Disclosure and Non-Competition Agreement) at the same time that you sign the Franchise Agreement unless your spouse is also signing the Agreement as an individual. If you are a corporation, limited liability company, ~~partnership~~ or other business entity, each of your shareholders, members, ~~partners~~ or other owners (and their respective spouses, if married) must sign the Guaranty of Franchise Agreement execute and deliver to us a Guaranty of Franchise Agreement, and their respective spouses must execute and deliver to us a Non-Disclosure and Non-Competition Agreement, at the same time that you sign this Agreement. In the event any person who has not previously signed a Guaranty of Franchise Agreement or a Non-Disclosure and Non-Competition Agreement becomes your spouse or the holder of any class of your stock or ownership interests or a spouse of such holder, at any time after the execution of this Agreement, you must cause such person(s) to immediately execute and deliver a Guaranty of Franchise Agreement and a Non-Disclosure and Non- Competition Agreement to us as appropriate.

If, in order to obtain the lease agreement for the site of your *NrGize Lifestyle Cafe* restaurant, the landlord requires you to obtain a third party lease guarantee, and we or one of our affiliates agrees to serve as such guarantor (with such determination to be made in our sole and absolute discretion), you will pay to us a lease guarantee fee in the amount of 10% of the total amount of the rental obligations being guaranteed under the lease during its term up to a maximum payment of \$10,000. If the franchisee is an individual, the individual franchisee (and his/her spouse, if married) must personally guarantee the debt. If the franchisee is a corporation, limited liability company, partnership, or other entity, each of the principals of the entity (and each of their respective spouses, if married) must personally guarantee the debt. Once paid, the lease guarantee fee is non-refundable under all circumstances. We do not offer financing for the lease guarantee fee as it is payable in full upon the execution of the guarantee. Neither we, nor any of our affiliates, are required to serve as a guarantor of your lease for the site of your restaurant. The decision of whether to serve as a guarantor of your lease shall be made at our sole and absolute discretion.

If you purchase a corporate restaurant “as-is” that is owned and operated by one of our affiliates, we

may finance up to 100% of the purchase price, at our sole discretion. When you purchase a corporate-owned restaurant from one of our affiliates, you will enter into an “Asset Purchase Agreement” (see [Exhibit D](#): Asset Purchase Agreement (For Sale of a Corporate Store to a Franchisee)). If you finance any portion of the purchase price of the corporate-owned restaurant through Kahala Holdings or Kahala Restaurants, you will also enter into a “Promissory Note and Security Agreement,” and a Guaranty which are exhibits to the Asset Purchase Agreement. The purchase price includes the initial franchise fee and all leasehold improvements including furniture, fixtures, and equipment that are contained in the restaurant at the time of purchase, along with any inventory that is in the restaurant at the time of purchase. The lender providing the financing is one of our affiliates, Kahala Holdings or Kahala Restaurants, whichever entity owns the restaurant. The annual

rate of interest charged will be between 0% and 12% and will depend on the creditworthiness of the franchisee, the amount being financed, and the dollar amount being paid up-front by the franchisee. There are no finance charges associated with the Promissory Note and Security Agreement. The amount being financed will be required to be re-paid in equal monthly installments and the period of repayment will be between 12 months and 60 months, depending on the amount being financed. The security interest required by us is a first position lien on all equipment. If the franchisee is an individual, the individual franchisee (and his/her spouse, if married) must personally guarantee the debt. If the franchisee is a corporation, limited liability company, partnership, or other entity, each of the principals of the entity (and their respective spouses, if married) must personally guarantee the debt. The Promissory Note and Security Agreement may be pre-paid in full or in part at any time and from time to time without penalty. The franchisee's potential liabilities upon default include: (i) an accelerated obligation to pay the entire amount due, including all accrued and unpaid interest, if the default is not cured within ten calendar days; and the interest rate will be increased to an annual rate of 18%; (ii) obligation to pay costs and attorneys' fees incurred in collecting the debt; (iii) termination of the franchise; and (iv) liabilities from cross defaults resulting from non-payment or from the loss of business property; on franchisee's other restaurants name in the Promissory Note and Security Agreement and granting either Kahala Holdings or Kahala Restaurants the right to take back the restaurant(s). The Promissory Note and Security Agreement requires franchisees to waive the following legal rights: demand, notice, diligence protest, presentment for payment, and notice of extension, dishonor, protest, demand and nonpayment of the promissory note; any release or discharge as a result in any change in security given or change in person or entity who may become liable for the note or any modification of the note; rights to contest or appeal our exercise of the take back rights; and not receiving compensation for the restaurant after the take back rights have been exercised. The Promissory Note and Security Agreement also bars the franchisee's right to contest the take back rights.

We require a first lien position in all equipment as a security interest to be given by the franchisee. We do not intend to sell, assign or discount to a third party any financing arrangement. We do not arrange financing from other sources; therefore, we do not receive direct or indirect payments from placing financing.

The lease for a corporate restaurant is entered into by one of our affiliates. When you purchase the corporate restaurant, you will enter into a Sublease with our affiliate using our standard form of Sublease where you pay all monies owing under the Master Lease directly to the property owner, or our standard form of Sublease in which you pay all monies owing under the Master Lease to our affiliate and the affiliate will pay the property owner, which are exhibits to the Asset Purchase Agreement. The Sublease will contain substantially the same terms as the Master Lease. The term of the Sublease will be for the entire term of the Master Lease, less one day. If you are an individual, you (and your spouse, if married) must sign the Guaranty of Sublease (see Exhibit O: Guarantee of Sublease). If you are a corporation, limited liability company, partnership or other business entity, each of your shareholders, members, partners or other owners (and their respective spouses, if married) must sign the Guaranty of Sublease.

We will, within 60 days after we receive the proposed Master Lease (and additional materials required by us), review the Master Lease to make sure it meets our minimum site requirements.

Upon submission of a proposed Master Lease, you must provide us with any additional documentation and information that we may require regarding the proposed site, the proposed lease, your financial condition and your Principals' financial condition. If we determine that you do not have the financial capacity to perform your obligations with respect to the site or the Master Lease, we may deny approval of the site and/or Master Lease. That disapproval will be deemed to be reasonable. In that event, we or our affiliates or franchisees may operate a *NrGize Lifestyle Cafe* restaurant at that site.

We or our affiliates may, in our sole discretion, lease the site approved by us for your *NrGize Lifestyle Cafe* restaurant and sublease the site to you. If we lease your site, you will be subject to a Location Review Fee payable when you sign your Franchise Agreement. In addition, if and when you sign the Sublease, you must pay to us an amount equal to two month's base rent under the Master Lease, plus a security deposit in an amount equal to the security deposit required under the Master Lease. (We reserve the right, however, to require a greater security deposit, based upon your creditworthiness.)

The lease for a corporate restaurant is entered into by one of our affiliates. When you purchase the corporate restaurant, you will enter into a Sublease with our affiliate using our standard form of Sublease where you pay all monies owing under the Master Lease directly to the property owner, or our standard form of Sublease in which you pay all monies owing under the Master Lease to our affiliate and the affiliate will pay the property owner, which are exhibits to the Asset Purchase Agreement. The Sublease will contain substantially

the same terms as the Master Lease. The term of the Sublease will be for the entire term of the Master Lease, less one day. If you are an individual, you (and your spouse, if married) must sign the Guaranty of Sublease (see Exhibit O: Guaranty of Sublease). If you are a corporation, limited liability company, partnership or other business entity, each of your shareholders, members, partners or other owners (and their respective spouses, if married) must sign the Guaranty of Sublease.

Please note, if you intend to lease the site of your restaurant, the lease must include certain required provisions (See Exhibit L: Required Lease Terms; Exhibit E-1: Franchise Agreement (New) – Section 2.2; Exhibit E-2: Franchise Agreement (Renewal) – Section 2.2; Exhibit E-3: Franchise Agreement (Transfer) – Section 2.2 (all the proceeding three franchise agreements collectively known as “Exhibit E: Franchise Agreement”)).

ITEM 11: FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS, AND TRAINING

Except as disclosed below, Kahala Franchising is not required to provide you with any assistance.

If your Franchised Business will be located in an area that is serviced under an Area Representative Agreement, the Area Representative in that area may be responsible for providing to you some or all of the services required to be provided by us, other than in store and new owner training. However, Area Representatives are not authorized to make promises or agreements on our behalf or to agree to modifications to your Franchise Agreement or other agreements relating to your Franchised Business.

Before you open your business, we will provide the following assistance to you for all NrGize franchises except those franchises located within an LA Fitness health club:

1. You will be required to lease or purchase the premises for your *NrGize Lifestyle Cafe* restaurant from a third party. Generally, we do not own or lease the premises and Sublease it to you. Most restaurants are developed by franchisees who find their own locations and negotiate their own real estate interests. We may, upon your written request, assist you in selecting a site for your *NrGize Lifestyle Cafe* restaurant. You must select, and we must approve, an acceptable location that you open within 1 year after we sign the Franchise Agreement. The lease or purchase agreement will be subject to our prior approval, and you must provide us with a copy of the lease or purchase agreement at least 30 days prior to execution. We will notify you if we do not approve the site within 30 days of receiving your site selection information. We will not unreasonably withhold our approval of the location. The location must be within a geographic area identified in Section 1.1 of the Franchise Agreement. The factors that we will consider in approving your proposed location include, among other things: occupancy costs, proximity to major retail activity and other *NrGize Lifestyle Cafe* restaurants, sign visibility, traffic volume and speeds, parking availability, neighborhood economic profile, population density, accessibility, competition and other tenants in the shopping center, mall, or applicable retail structure. If you cannot secure a location acceptable to us and open it within 1 year after you sign the Franchise Agreement, we may terminate your Franchise Agreement after giving you written notice (See Exhibit E-1: Franchise Agreement (New)—Section 2.1). The decision to establish and operate your *NrGize Lifestyle Cafe* restaurant at the location will be made solely by you, without any reliance upon any information provided (if any), recommendation made (if any) or approval given (if any) by us, any Area Representative or any of our or their respective shareholders, directors, officers, employees, representatives, agents or affiliates. You must purchase or lease your business location from independent third parties. If you intend to lease your business location, the lease must include certain required provisions (See Exhibit E: Franchise Agreement—Section 2.2).

2. If we determine that you do not have the financial capacity to perform your obligations with respect to the location or the Master Lease, we may deny approval of the location and/or Master Lease. Our disapproval will be deemed to be reasonable. In that event, we or our affiliates or franchisees may operate a *NrGize Lifestyle Cafe* restaurant at that site.

3. We will provide you with a copy of the design drawings, which is the detailed plans and specifications including landscaping and parking space, if applicable, for your Franchised Business upon our approval of the plans. You must hire and use, at your sole cost and expense, a licensed and approved third party architect (See Exhibit E: Franchise Agreement—Section 2.3). The cost of the design drawings, including two sets of revisions if requested by you, is included in your Initial Franchise Fee. Any site information needed by the design architect to prepare the design drawings, such as a site survey, must be prepared by a licensed

architect at your sole cost and expense. You are solely responsible for conforming the premises to all codes and ordinances, including the Americans with Disabilities Act (the “ADA”), and obtaining all required permits. You are solely responsible for constructing or remodeling and decorating the location to our system standards and subject to our approval. We do not provide assistance with conforming the premises to codes and ordinances, including the ADA, obtaining permits, or constructing, remodeling or decorating your restaurant. You must provide us with one copy of the plans for your restaurant within 30 days after selection of the site. We will then have 30 days to approve or disapprove of the plans. We must approve any and all changes or revisions to the plans required for your site before you begin construction. Our approval of the plans is solely for complying with our system standards, and not for determining compliance with codes, ordinances, or the ADA.

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4. We will identify the furnishings, fixtures, and equipment (including cash registers, point of sale systems, and computer hardware and software), signs, products, materials, and supplies necessary or authorized for the restaurant to begin operation (See Exhibit E: Franchise Agreement—Sections 2.4, 3.2, 3.3, 4.5, 4.6 and 9.3).

5. We will provide you with all standards of operation that you must use or satisfy before you open the restaurant (See Exhibit E: Franchise Agreement—Sections 4.5 and 9.1).

Before you open your business, we will provide the following assistance to you for all *NrGize* franchises located within an LA Fitness health club:

1. If you want to locate your *NrGize Lifestyle Cafe* within an LA Fitness health club, we will assist you in selecting an LA Fitness health club location for your *NrGize Lifestyle Cafe*. The list from LA Fitness of all available LA Fitness health club locations is automatically pre-approved by our affiliate, Kahala Holdings, L.L.C. You will select an LA Fitness health club location for your *NrGize Lifestyle Cafe* from a list of available LA Fitness health clubs in your area. As detailed under Items 1 and 8 above, our affiliate, Kahala Holdings, L.L.C., has entered into a Master Facility License Agreement with LA Fitness covering the juice and snack bar operations at all future LA Fitness health clubs in the United States and certain existing LA Fitness health club locations. Upon signing your Franchise Agreement with us, you must also simultaneously enter into a Single-Unit Facility License Agreement with Kahala Holdings, L.L.C. that covers the occupancy by you of the applicable LA Fitness health club covered by your Franchise Agreement (See Exhibit O-3).

2. For *NrGize* franchises located within an LA Fitness health club, the *NrGize* franchise covered by your Franchise Agreement is a “turn-key” opportunity. Given this “turn-key” aspect, we or our affiliate(s) will be solely responsible for overseeing and managing the entire construction process and equipping of your *NrGize Lifestyle Cafe* covered by your Franchise Agreement. You will pay us or our designated affiliate the full Initial Franchise Fee plus the full amount of the *NrGize* Turn-Key Fee simultaneously with your execution of the Franchise Agreement and Single-Unit Facility License Agreement covering your new *NrGize Lifestyle Cafe*. The conversion of the existing restaurant to an *NrGize Lifestyle Cafe* will still be “turn-key” as we or our affiliate(s) will be solely responsible for overseeing and managing the entire conversion process, which includes the graphics package and changing the signage and menu panels, color scheme and décor, and equipment, as needed. We will ultimately be furnishing you with a fully constructed and equipped *NrGize* juice bar restaurant within an identified LA Fitness health club that meets our and LA Fitness’ standards and specifications.

Before you open your business, we will provide the following assistance to you for all *NrGize* locations:

1. We will provide you with the Operations Manual that contains mandatory and suggested specifications, standards and procedures. The Operations Manual is 77 pages. The Operations Manual is confidential and remains our property. We may modify the Operations Manual as and when we desire, but no modification will materially alter your status and rights under the Franchise Agreement (See Exhibit E: Franchise Agreement—Section 4.5). The Table of Contents of the Operations Manual is attached to this Disclosure Document as Exhibit T.

2. We will provide you with the names and contact information of any distributors and/or suppliers you are required or authorized to use to supply you with products or services complying with our standards and specifications. The names and contact information of the approved distributors and suppliers and the written specifications for the approved equipment, signs, fixtures, opening inventory and supplies will be provided to you during the pre-opening and/or construction phase for your Franchised Business. Updates will be provided to you as changes are made (i.e., additions and deletions) to the list of approved distributors for our approved suppliers. We do not deliver or install any of these approved items (See Exhibit E: Franchise Agreement—Section 9.3).

3. We will make a Training Program available to you and your designated representative after you sign the Franchise Agreement. The following Table indicates the general subject matter, the number of hours of classroom training, and the number of hours of on-the-job training for each subject to be covered during the Training Program, and the location of the training. Our instructors have been adequately trained in the ownership and operation of a *NrGize Lifestyle Cafe* franchise, including having, at a minimum, completed the entire *NrGize Lifestyle Cafe* Training Program, and having experience in training each of the subjects listed in the table below, with some trainers having five years' experience or more in training each of the subjects. Other personnel involved with on-the-job training of franchisees are Regional Directors of Operation, all who have more than one year experience with on-the-job training. During the classroom portion of the Training Program, New Owner Training will be taught using the following instructional materials: manuals, videos, and tests. In-store training will be taught in a *NrGize Lifestyle Cafe* restaurant using the following instructional materials: manuals, job aids and tests. Certain portions of the entire Training Program may be adjusted as necessary as determined by us and based upon your skill sets. Further, substitute instructors may present certain portions of the Training Program.

TRAINING PROGRAM

Column 1 Subject	Column 2 Hours of Classroom Training	Column 3 Hours of on-the-job training	Column 4 Location
New Owner Training	40	---	KTEC (Kahala Training & Education Center) in Scottsdale, AZ
In-Store Training		16	Training restaurant in Arizona or such other location designated by us

a. The training of two individuals is included in the Initial Franchise Fee. You or another partner, shareholder or member of your business organization must have successfully completed our Training Program to our satisfaction. Your manager, at your sole discretion, may be one of the two individuals you bring to training, or you may bring your manager in addition to the two individuals and pay the Additional Persons Training Fee. You and your restaurant managers must be able to read and write English adequately, in our good faith opinion, to satisfactorily complete our Training Program and to communicate with employees, customers and suppliers.

Notwithstanding the foregoing, Franchisor has the right to require Franchisee and/or its managers(s) to attend additional in-store training in the event Franchisee is not operating the Franchised Business pursuant to Franchisor's Systems Standards.

b. The classroom portion of the Training Program will be held at KTEC, which is located at our corporate offices in Scottsdale, Arizona, and the in-store portion of the Training Program will be held at the designated training restaurant in the metropolitan Phoenix, Arizona area, or at such other location(s) as we may designate in our sole discretion. All training is conducted in English, so all participants must understand, read and speak English. You will need to arrange for transportation (such as flights and car rental), food, and lodging for you and your designated attendee. The costs you incur will depend on factors such as the distance you must travel, the type of accommodations you choose and the time of year you attend training. The estimated cost for travel and living expenses for two persons while training, not including salaries, if any, ranges from \$2,500 to \$5,000 (See Exhibit E: Franchise Agreement—Sections 4.1 and 9.6).

c. You must complete the Training Program no more than three months and no less than one day prior to the opening of your *NrGize Lifestyle Cafe* restaurant. The Training Program may require relatively

long shifts and weekend shifts. The Training Program must be completed in a single training period (no gaps greater than two days between training shifts). The New Owner Training will be conducted once a month. The In Store Training portions of the Training Program is scheduled as needed and determined by the Franchisor. Trainees have three attempts to pass the online test within a 4-hour window. Failure to pass after three attempts requires that Franchisees repeat the Training Program at their own expense, with breaching royalties until completed successfully. We do not currently require you to attend additional training courses or refresher courses. However, if you would like additional training after completing the Training Program, we will provide additional training to you at a cost of \$300 per person per day. Notwithstanding the foregoing, Franchisor has the right to require Franchisee and/or its managers(s) to attend additional in-store training in the event Franchisee is not operating the Franchised Business pursuant to Franchisor's Systems Standards.

d. In addition to the Training Program, you must ensure that all of your employees are trained in *NrGize Lifestyle Cafe* procedures. You are solely responsible for hiring and training your employees. You must also ensure that the manager(s) and all employees whose duties include customer service are able to speak and read English and any other language that may be required to adequately meet the public needs in your restaurant. We believe training is important to the success of the *NrGize System*, and from time to time, we may offer informal training sessions to franchisees. We believe it is in your best interest to attend any such training sessions.

e. We will provide one of our representatives to come to your restaurant during opening week for up to three days at our expense to work with you and your manager on your grand opening, and on operating and marketing your restaurant. We may, in the future, hold refresher or additional training programs, conferences and seminars. Your attendance at these programs is mandatory. To help us defray the cost of sponsoring these programs, there may be a nominal registration fee, and you will also be required to pay the cost of transportation, food, lodging and other personal expenses of your attendance and those of your personnel at any such program. These programs will be held at locations within the United States that we will specify in our sole discretion (See Exhibit E: Franchise Agreement—Section 4.3).

4. We will provide you, as part of the Operations Manuals, with operating procedures to assist you in complying with our standard methods of record keeping, controls, staffing and training requirements, and production methods, and with policies procedures and resources to support brand consistency and compliance (See Exhibit E: Franchise Agreement – Section 4.5).

5. If you are opening a new restaurant, we will assist you in coordinating a grand opening promotional advertising program or such other advertising program as we may specify (See Exhibit E: Franchise Agreement—Sections 5.3 and 10.2).

At any time that you or any of your affiliates are in breach of the obligations under the Franchise Agreement (for example, your failure to pay for the equipment and signage when required), or any other agreement with us or any of our affiliates, we or our affiliates may defer the performance of our obligations under the Franchise Agreement (for example, our obligation to approve your location in a timely manner) or such other agreement, or defer the opening of your *NrGize Lifestyle Cafe* restaurant, until your (or your affiliate's) breach has been cured. Our (or our affiliate's) exercise of that right will not constitute a waiver of our rights under the Franchise Agreement or such other agreement, including, without limitation, our (or our affiliate's) right to terminate the Franchise Agreement or such other agreement.

6. The typical length of time between the earlier of the signing of the Franchise Agreement or the first payment of consideration for the franchise and the opening of the franchisee's business is 6-12 months for both traditional and non-traditional *NrGize Lifestyle Cafe* restaurants. The factors that may affect this time are: lease or purchase negotiations; zoning procedures; financing applications; local ordinances and approvals; obtaining licenses and permits; construction delays; weather conditions; shortages; delayed installation of equipment, fixtures and signs; development or construction not in accordance with our requirements; labor disputes; Acts of God; and other reasons.

During the operation of the Franchised Business of all NrGize locations:

1. If you are opening a new restaurant, we ~~will assist you in coordinating a grand opening promotional advertising program or such other advertising program as we may specify~~ our designated affiliate will create a marketing plan for (i) a grand opening event and (ii) the initial advertising of your

Franchised Business, and will work with you to obtain your input on the marketing plan. (See Exhibit E: Franchise Agreement-Sections 5.3 and 10.2).

2. We will maintain a continuing advisory relationship with you, including consulting with you in marketing, merchandising and general business operations which may help you in improving and developing your Franchised Business (See Exhibit E: Franchise Agreement – Sections 4.3 and 9.1).

3. We will provide you with information on our operating and other standards for your restaurant. We may modify these as, and when, we desire (See Exhibit E: Franchise Agreement – Sections 4.5 and 9.1).

4. We will continue our efforts to maintain high and uniform standards of quality, cleanliness, appearance and service at all restaurants in the System, including making periodic inspections and quality service checks of your restaurant (See Exhibit E: Franchise Agreement – Section 4.3, 9.1 and 9.7).

5. We may make you aware of software available for purchase from an approved third party vendor to assist you in administrative, bookkeeping, accounting, and inventory control procedures (See Exhibit E: Franchise Agreement – Section 1.5).

6. We must review substitute locations for your restaurant and you must obtain our prior approval if you desire to relocate your restaurant (See Exhibit E: Franchise Agreement – Section 2.5).

7. We must offer you the option for a one-time renewal of your Franchise Agreement prior to its expiration for a maximum term of five years, if you meet our requirements and, if your NrGize is located within an LA Fitness health club, if LA Fitness has granted to you, us, or our affiliate an extension of the occupancy rights within the LA Fitness health club in which you operate your *NrGize Lifestyle Cafe*. Upon renewal, you must execute our form of Franchise Agreement being used at the time of your renewal and pay us the applicable Renewal Franchise Fee (See Exhibit E-1: Franchise Agreement (New) – Article 13; Exhibit E-2: Franchise Agreement (Transfer) – Article 13).

Optional Assistance

1. Upon your request, we will reasonably assist you or provide recommendations regarding establishing pricing for the products you sell in your restaurant; however, the ultimate decision on the prices you charge is yours. We will not establish the prices for you.

2. Upon your request, we will reasonably assist you in resolving operating problems you may encounter.

Advertising

1. We (or, at our election, a third party that may be an affiliate of ours) will establish and administer an Advertising Fund (the “Fund”) that will include your Advertising Fees and those of other franchise owners in the System, in accordance with the Franchise Agreement. The Advertising Fee, which is a percentage of your weekly Gross Sales (See Exhibit E: Franchise Agreement – Sections 5.3 and 5.4), shall be due and payable with the Royalty Fee (See Exhibit E: Franchise Agreement – Section 5.2). All *NrGize Lifestyle Cafe* franchisees (except those located within an LA Fitness health club) must contribute to the Fund at the same rate, which is currently .5% of your weekly Gross Sales to national advertising. There is no Advertising Fee for your NrGize franchise located within an LA Fitness health club. If an affiliate of ours administers the Fund or places advertising in connection with the System, such affiliate may be paid a fee that will not exceed the fee that would be payable to unrelated third parties for comparable services. For each of our company-owned or affiliated restaurants, we will make contributions to the Fund on the same basis as required of the other *NrGize* franchise owners in the same geographic market. Unless required by applicable law, we will have no obligation to create a trust account, escrow account or other special account for the

Fund, and the monies comprising the Fund may be placed in our general account(s) if we desire. We may also reserve portions of the Fund for use in a subsequent year.

2. The Fund will be used for marketing, advertising, production and media expenses to promote the *NrGize* name, System, products and services. The Fund may be used to pay any and all costs of maintaining, administering, directing and preparing advertising, including the cost of preparing and conducting

television, radio, magazine and newspaper advertising campaigns and other public relations activities, employing advertising agencies to assist in such campaigns or other activities, and providing promotional brochures and other marketing materials to franchise owners. We are entitled to receive the following from the Fund: reimbursement of our expenses, overhead, and employee salaries for services, materials, supplies, facilities, equipment or capital provided to the Fund, and rent for office space provided to the Fund. Advertising funds not spent in the fiscal year in which they accrue are rolled over to the next fiscal year. We have no fiduciary responsibility to you on our management of the Fund, and no obligation to you to spend the Fund in your market area and/or in your Cooperative area, if applicable. Franchisees in a Cooperative area determine how the funds they contribute to the Cooperative are spent. The Fund is not audited, and the financial statements for the Fund and accounting of the Fund are not available to franchisees.

3. We, or our designee, will direct all advertising programs to be undertaken through the use of the Fund. We will have sole discretion over all creative concepts, materials and media used in such programs and the placement and allocation of such programs. Advertisements generally will be in both print and broadcast media, initially with local coverage. We are not required to use any specific amounts from the Fund in your market. However, we will use all amounts contributed by you to any approved regional advertising funds, if any, in the same geographic area in which your restaurant is located. We may use an outside advertising agency to create and place advertising or we may use our in-house marketing department. The Fund will be used to create new marketing material and promote the products and services offered by *NrGize Lifestyle Cafe* restaurants. In the fiscal year ending November 30, ~~2017, 2018~~, for the Advertising Fees we collected, we spent ~~1.91.2%~~ on production, 0.0% on media placement, ~~88.613.6%~~ on administrative expenses and ~~9.50.0%~~ on other marketing activities. The “other” expenses included public relations, research, concept development and communications. The remaining 85% of the Marketing Fund contributions collected were retained and carried forward. None of the Fund was used for the solicitation of franchises.

4. Unless your *NrGize Lifestyle Cafe* restaurant is located in an enclosed shopping mall or other enclosed structure identified in Section 1.1 of the Franchise Agreement, you will be required to insert a regular (white pages) listing and a classified (Yellow Pages) telephone directory advertisement in the main telephone directories serving the geographical area in which the Franchised Business is located, or you must participate in a multiple insertion in the event there is more than one franchise owner in such area. In either case, the telephone directory advertisement must be approved by us in advance (See Exhibit E: Franchise Agreement—Section 10.2).

5. In addition to contributions to the Fund described above, we strongly recommend that you spend not less than 2% of your monthly Gross Sales on local advertising. ~~If your franchise is located outside of an enclosed shopping mall, health club, or other enclosed structure, we strongly recommend that you spend \$3,000 on a grand opening advertising program, and an additional \$2,000 on advertising and promotion within the first six months following the grand opening of your restaurant.~~ (See Exhibit E: Franchise Agreement—Section 5.3).

6. All advertising by you in any medium must be conducted in a professional manner, must conform to the standards and requirements in our Operations Manual, and must display our proprietary marks only in those forms approved by us. We may make available to you, from time to time, approved advertising, promotional plans and materials for purchase (See Exhibit E: Franchise Agreement—Section 3.2 and 10.2).

7. You may not maintain a World Wide Web site, an App (application), or otherwise maintain a presence or advertise on the Internet or any other public computer network in connection with the Franchised Business without our prior written approval (See Exhibit E: Franchise Agreement – Section 3.4).

8. We will not prevent the formation of franchisee Cooperatives. Currently, there are no regional or national marketing Cooperatives for *NrGize Lifestyle Cafe* franchisees. We encourage our franchisees to form and operate a voluntary franchisee Cooperative. If a Cooperative is formed for your region, you must participate in the Cooperative or lose your right to vote as to Cooperative matters. The membership of the Cooperative would be defined by us according to your market area. We reserve the right at any time, in our sole discretion, to form, change, dissolve, or merge Cooperatives.

9. Currently, there is no advertising council composed of *NrGize Lifestyle Cafe* franchisees that advises us on advertising policies.

Computer System

1. We require you to exclusively use an approved electronic point-of-sale system to record all your sales during the operation of the Franchised Business, the components of which are identified in the Operations Manual (the "POS System"). ~~Prior to the opening of your restaurant, you will be required to acquire and to exclusively use an approved cash register/computer system ("POS System") during the operation of the Franchised Business.~~ We require that the manufacturer or its authorized representative on an ongoing basis service the POS System, at your cost. You will be required to maintain the POS System in good working order at all times, including any cameras, security devices and applicable security software, if any, and to upgrade or update the POS System during the term of your Franchise Agreement as we may require from time to time. The determination of the security features are to be made in our sole discretion. There are no contractual limitations on the frequency or cost for the franchisee to upgrade or update the POS System during the term of the Franchise Agreement. It will be your responsibility to enter into contracts for the maintenance, upgrades and updates to the POS System with an approved supplier ~~Page 74~~ of such services identified by us on the list of approved vendors and distributors or other notification to you from us advising of suppliers for your market area. Your POS System cost per restaurant will depend, among other things, on your restaurant's size and configuration, the system options you choose and/or we determine (such as drive- thru needs (if any), and printer needs), and the types of telephone and internet access services available. You may be required to obtain a high- speed/always-on internet connection service for your POS System. This requirement shall be defined by the then-current Operations Manual, which may change from time to time. If high- speed/always-on internet connection service is not available in your area, dial-up Internet access may be used until high-speed/always-on internet connection service becomes available in your area. You may be required, from time to time, to upgrade the POS System's hardware and/or software, at your sole cost and expense, in order to maintain the POS System in conformity with our then-current requirements. You and your employees must complete training for the POS System as we require. If you are buying an existing restaurant with an older cash register system, it is a requirement for the transfer that you purchase and install the then-current POS System in the restaurant. (See Exhibit E: Franchise Agreement – Section 4.6).

a. We require you to use a POS System that meets our specifications in order to: ~~(i)~~ (i) assist you in the operation of your *NrGize Lifestyle Cafe*; ~~(ii)~~ allow us to monitor your gross sales; ~~(iii)~~ (iii) enable us to develop chain-wide statistics that may improve purchasing; (iv) assist us in the development of new authorized products or the removal of existing unsuccessful authorized products; (v) enable us to refine existing authorized products; (vi) generally improve system-wide understanding of our marketing efforts; and (vii) obtain new types of information. The POS System must be configured so that we have independent and remote access to the information and data stored in it. We must also have independent access to your computer system. This access allows us to exchange/collect data and other information on such basis as we shall from time to time communicate to you. There are no contractual limitations on our right to access the information in your POS System. All approved cash registers are capable of recording accumulated sales and cannot be turned back or reset, and must be able to retain data in the event of power loss. You must purchase the approved electronic POS System from an approved vendor, as we have required our approved supplier to make special modifications to their equipment and systems to comply with our requirements (See Exhibit E: Franchise Agreement – Section 4.6). You must also purchase approved software for your restaurant. The cost of purchasing the POS System, including the computer hardware and software, ranges from \$2,510 to \$15,000. You must also purchase from us a POS Help Desk Phone Support Maintenance contract on both the software and hardware for your POS System, the cost of which is \$55 per month. It is recommended that you also purchase the hardware support for all modules for the first year you operate your restaurant. The cost is approximately \$150 to \$1,300 per year depending on the equipment installed. This cost is subject to change by the supplier.

b. The approved POS System has in its specifications integrated "card swipe" systems that process debit card, credit card, or other non-cash payment systems including Kahala Franchising's stored value gift cards, loyalty cards, frequency cards, gift certificates, vouchers, and any other similar Kahala Franchising sponsored electronic card and/or payment programs (collectively, the "Gift/Loyalty Card"). You must obtain credit card and gift card processing services from our approved vendors. The charges associated with credit card and gift card transactions are compiled per transaction and therefore will vary from restaurant to restaurant. We estimate that the costs associated with credit card transactions will be between 1% and 4% of your gross sales. Gift card transactions will cost you between 5% to 9% of the gift card per redemption, ~~subject to and may increase based on program costs at any time with a 30 day notice.~~ The Payment Card Industry ("PCI") requires all companies that process, store, or transmit credit card information to protect the cardholders'

information by complying with the PCI Data Security Standard ("PCI DSS"). Therefore, as a franchisee who accepts credit cards, you are required to be PCI compliant by following and adhering to PCI DSS, completing an annual questionnaire and quarterly network PCI scans and installing a network firewall appliance for logging, tracking, reporting, and security assessment. The PCI compliance is ~~Page -75-~~ mandated by the Payment Card Industry. The cost for the quarterly network security scans, network firewall appliance and annual questionnaire ranges from \$150 to \$1,300 per year. The cost is subject to change by supplier. You are also required to validate with Kahala that your store is PCI compliant to show validation you must send Kahala your Passing Certificate showing your store is PCI compliant and also verify that you have a PCI compliant firewall appliance installed at your location if you process credit cards via high speed internet connectivity.

c. You must purchase a computer and connect to the Internet so that you can report your gross sales online, so that we can communicate by email, so that you can use Internet and Extranet services, and so that you can receive other electronic information we send. You also must, at your cost, maintain membership in a designated third party network, and maintain an active email account. We may revise our computer specifications. If we do so, we may require you to upgrade or update your computer. There is no contractual limitation on the frequency and cost of this obligation. You are responsible for backing up and otherwise protecting your data on your computer. You are also responsible for recording and restoring all software license keys. We may require you to upgrade the hardware and software as reasonably necessary to provide reports and information required by us.

2. We require that you permit us to poll your sales information on a daily basis, and that you execute an Electronic Funds Transfer Agreement by and payable to Kahala Franchising (which is attached to this Disclosure Document as Exhibit P), permitting us to weekly debit your account for payment of weekly royalty and advertising fees and debit your account as necessary for product purchases from us or our affiliates. (See Exhibit E: Franchise Agreement – Sections 5.2, 5.3 and 5.4). We may require you to enter weekly inventory information, and if so, would require that you permit us have remote access to that information (See Exhibit E: Franchise Agreement – Section 4.6).

3. The POS System and personal computers contain sales and labor data that can be generated and stored in the systems and that allows for the generation of financial and payroll reports.

ITEM 12: TERRITORY

The franchise is granted only for the location specified in the Franchise Agreement or a location to be approved by us. The specific site of your *NrGize Lifestyle Cafe* restaurant is subject to our approval. We will not unreasonably withhold our approval of the location.

You will not receive an exclusive territory. You may face competition from other franchisees, from restaurants that we own, or from other channels of distribution or competitive brands that we control. You will not receive an option, right of first refusal or other rights under the Franchise Agreement to acquire additional franchises. We (and/or our affiliates) may establish other franchised or company-owned *NrGize Lifestyle Cafe* restaurants that may compete with your location, including across the street from your location or in the same venue as your location. We (and/or our affiliates) may co-brand *NrGize Lifestyle Cafe* with one or more of our other quick service restaurants or allow approved *NrGize Lifestyle Cafe* stores to sell additional approved menu items under a trademark license agreement we may have with other third-party restaurant concepts. We presently intend to develop *NrGize Lifestyle Cafe* restaurants throughout the United States. Except as expressly limited in the Franchise Agreement, we (for ourselves, our affiliates and our designees) retain all rights with respect to *NrGize Lifestyle Cafe* restaurants, the Service Marks, all confidential and proprietary information, all copyrighted materials and the sale of *NrGize Lifestyle Cafe* products anywhere in the world, including, without limitation, the right to implement multi-area marketing programs that may allow us or others to solicit or sell to customers anywhere. We also reserve the right to issue mandatory policies to coordinate such multi-area ~~Page -76-~~ marketing programs. One or more future *NrGize Lifestyle Cafe* restaurants may have an adverse effect on the revenues and profitability of existing *NrGize Lifestyle Cafe* restaurants, including your *NrGize Lifestyle Cafe* restaurant.

In addition, we (and/or our affiliates) may market and/or test, directly or indirectly, *NrGize Lifestyle Cafe* products or services through channels of distribution other than *NrGize Lifestyle Cafe* restaurants operated by us, our affiliates and franchisees, including through the Internet, catalog sales, telemarketing, grocery stores, movie theaters, limited access highway food facilities, mobile units, off-site sales accounts, electronic mail,

converting other chains and other distribution opportunities, or vending machines and similar automated dispensing systems ("Other Channels") which generally are not available for us to franchise to you, and typically involve trademark licensing and/or the sale of our branded products. We may also distribute, sell and/or license other persons or entities to distribute and/or sell products through all Other Channels. Where tests prove to be successful, we may expand our sale of products in similar businesses on a regional, national or international level. We reserve the right to establish Other Channels to make sales that may compete with your location using our principal trademarks. These Other Channels could compete with you in the sale of your products. Kahala Franchising is under no obligation to compensate its franchisees on sales Kahala Franchising makes using Other Channels. Kahala Franchising is under no obligation to compensate franchisees for soliciting or accepting orders in the franchisee's territory as the franchisee is granted no exclusive territory. Franchisees may not use Other Channels, including the Internet, catalog sales or telemarketing to make sales except that the franchisee may provide catering services anywhere as long as such services comply with the current version of our Operating Manual. All sales made from catering services must be included in the franchisee's Gross Sales. We reserve the right, directly or through third parties, to manufacture or sell, or both, anywhere, other products which are the same as or similar to those sold in *NrGize Lifestyle Cafe* restaurants, but which bear trademarks that are not confusingly similar to any of the trademarks you are authorized to use under the Franchise Agreement.

We reserve the right, either directly or through affiliated entities, to operate or license others to operate businesses other than *NrGize Lifestyle Cafe* restaurants anywhere, including, but not limited to, locations of our other quick service restaurant concepts and you agree that we or our affiliates may do so anywhere. The Surf City Squeeze brand is a business that we franchise under a different trademark than *NrGize Lifestyle Cafe* that sells smoothies, fruit drinks and nutritional supplements similar to those offered by *NrGize Lifestyle Cafe*. In addition, the Frullati Cafe & Bakery brand is a business that we franchise under a different trademark than *NrGize Lifestyle Cafe* that sells blended fruit drinks similar to the smoothies offered by *NrGize Lifestyle Cafe*, the Cold Stone Creamery brand is a business that we franchise under a different trademark than *NrGize Lifestyle Cafe* that also sells smoothies similar to those offered by *NrGize Lifestyle Cafe*, the Maui Wowi brand is a business that we franchise under a different trademark than *NrGize Lifestyle Cafe* that sells smoothies similar to those offered by *NrGize Lifestyle Cafe*, the Planet Smoothie brand is a business that we franchise under a different trademark than *NrGize Lifestyle Cafe* that sells smoothies, fruit drinks and nutritional supplements similar to those offered by *NrGize Lifestyle Cafe*, and the Pinkberry brand is a business that we franchise under a different trademark than *NrGize Lifestyle Cafe* that sells smoothies similar to those offered by *NrGize Lifestyle Cafe*. The Surf City Squeeze franchises are offered under the Surf City Squeeze word and design trademarks, the Frullati Cafe & Bakery franchises are offered under the Frullati Cafe & Bakery word and design trademarks, the Cold Stone Creamery franchises are offered under the Cold Stone Creamery word and design trademarks, the Maui Wowi franchises are offered under the Maui Wowi word and design trademarks, the Planet Smoothie franchises are offered under the Planet Smoothie trademarks, and the Pinkberry franchises are offered under the Pinkberry trademark. The Surf City Squeeze restaurants, Frullati Cafe & Bakery restaurants, Maui Wowi mobile and fixed operating units, Planet Smoothie restaurants, Pinkberry restaurants and Cold Stone Creamery restaurants are primarily franchised, but may also be operated by an affiliate of Kahala Franchising. Surf City Squeeze franchises have been offered by us from 1994~~Page -77-~~ until 2004 under the name of Malibu Smoothie Franchise Corp. and Surf City Squeeze Franchise Corp., from 2004 until March 2010 under the name of Kahala Franchise Corp., and since August 2010 under the name of Kahala Franchising; Frullati Cafe & Bakery franchises have been offered by us from 1999 until 2004 under the name of Frullati Franchise Systems, Inc., from 2004 until March 2010 under the name of Kahala Franchise Corp., and since August 2010 under the name of Kahala Franchising; Cold Stone Creamery franchises have been offered by us from May 2007 until April 2008 under the name of Cold Stone Creamery, Inc., from April 2008 until March 2010 under the name of Kahala Franchise Corp., and since August 2010 under the name of Kahala Franchising; Maui Wowi franchises have been offered by us since November 2015; Planet Smoothie franchises have been offered us from June 2015 until April 2016 under the name of Tasti D-Lite LLC, and since June 2016 under the name of Kahala Franchising; and Pinkberry franchises have been offered by us from December 2015 until April 2016 under the name of Pinkberry Ventures, Inc., and since June 2016 under the name of Kahala Franchising. A Maui Wowi mobile and/or fixed operating unit, a Surf City Squeeze restaurant, Frullati Cafe & Bakery restaurant, Cold Stone Creamery restaurant, Planet Smoothie restaurant and/or a Pinkberry restaurant may

be located within the vicinity of your *NrGize Lifestyle Cafe* restaurant. Franchisees for the Surf City Squeeze brand, Frullati Cafe & Bakery brand, Cold Stone Creamery brand, Maui Wowi brand, *NrGize Lifestyle Cafe* brand and Pinkberry brand are not currently given an exclusive territory, but traditional Planet Smoothie franchises do have an exclusive territory pertaining to other traditional Planet Smoothie franchises. Kahala Franchising will provide support to all of its concepts regardless of the vicinity of a concept to another concept

that sells similar products. The principal business address of these similar concepts is the same as Kahala Franchising's address.

We may merge with, acquire and/or be acquired by any other business, including, without limitation, a business that competes with your *NrGize Lifestyle Cafe* restaurant, or acquire and convert any retail stores, including, without limitation, retail stores operated by competitors, or otherwise operated independently or as part of, or in association with, any other system or chain, whether franchised or corporately owned.

On July 26, 2016, Franchisor's parent company, Kahala Brands, merged with a wholly- owned subsidiary of MTY. MTY's address is 8150 Transcanada Highway, Suite 200, Saint Laurent, Québec H4S 1MF. As described in Item 1, subsequent to the merger, in addition to the concepts franchised by Kahala Franchising or its current or former affiliates, MTY franchises ~~thirty-six (36)~~over 50 (50) different restaurant concepts and sub-franchises two (2) other different restaurant concepts. MTY operates only one (1) corporate location in the United States under the Manchu Wok trademark.

Certain of the restaurant concepts franchised by MTY offer goods or services that are the same or similar to those that you will offer under the *NrGize* brand. MTY offers the same or similar goods or services under the Cafe Depot, Country Style, Croissant Plus, Muffin Plus, Jugo Juice, La Crémère, and Van Houtte trademarks. At this time, the Cafe Depot, Country Style, Croissant Plus, Muffin Plus, Jugo Juice, La Crémère, and Van Houtte concepts and are only offered in Canada by MTY subsidiary, MTY Tiki Ming Enterprises, Inc., with no plans at this time to expand to the United States.

You must obtain our prior approval to relocate your *NrGize Lifestyle Cafe* restaurant. The approval or rejection by us of any proposed relocation shall be in our sole discretion. In order to relocate your restaurant, you must be in compliance with your Franchise Agreement, the relocation must be for a legitimate business reason, and we must approve the new location. In connection with any relocation, your *NrGize Lifestyle Cafe* restaurant may not be closed for business for more than 30 days.

Your Franchise Agreement is for a specific location only, so you may not open additional *NrGize Lifestyle Cafe* restaurants under the same Franchise Agreement. You must obtain our prior approval to purchase and open additional *NrGize Lifestyle Cafe* restaurants. The approval or rejection by us shall be in our sole discretion. In order to purchase an additional *NrGize Lifestyle Cafe* restaurant(s), you must be in compliance with your existing Franchise Agreement(s), you must qualify to operate additional restaurants, you must enter into our then- current form of Franchise Agreement and pay the initial franchise fee, and we must approve the location.

ITEM 13: TRADEMARKS

We will grant you the non-exclusive right to operate the *NrGize Lifestyle Cafe* specified in your Franchise Agreement or any amendments to your Franchise Agreement under the *NrGize* trademark. You will also be granted the right to use our other current or future trademarks that we may from time to time designate as being available for use by franchisees in the *NrGize* System. By "trademarks" we mean trade names, trademarks, service marks, logos, Trade Dress (as defined below), and product identifiers used to identify your Franchised Business. "Trade Dress" is defined as the total appearance and image of the *NrGize Lifestyle Cafe* restaurant, smoothie and fruit drink combinations and packaging, graphics of *NrGize Lifestyle Cafe* restaurants and the smoothie and fruit drink combinations and packaging, all advertising and marketing techniques used to promote the franchise, as well as specifically including all signage, menu boards, product displays, and any color schemes and designs utilized in connection with *NrGize Lifestyle Cafe* restaurants' interior walls, counters, table tops, chairs, and floors. You must not directly or indirectly contest our right to our trademarks.

You will not have the exclusive right to use the trademarks, nor will you acquire, by use or otherwise, any right, title or interest in or to the trademarks, other than as expressly contained in, and limited by, the Franchise Agreement. Your right to use the trademarks is limited and temporary. Upon expiration or termination of the Franchise Agreement, you may not, directly or indirectly, use the trademarks in any manner or for any purpose, and you may be required by us to renovate the premises of your *NrGize Lifestyle Cafe* restaurant to eliminate the trademarks and de- identify such premises to remove all Trade Dress, returning it to a "vanilla shell," at your expense.

The following trademarks have been registered with the United States Patent and Trademark Office on

the Principal Register:

TRADEMARK	REGISTRATION DATE	REGISTRATION NUMBER
NRGIZE (word mark)	June 17, 2008	3,448,361
NRGIZE (word mark)	August 26, 2008	3,491,598
NrGize Lifestyle Cafe design	December 15, 2009	3,724,788
NrGize Lifestyle Cafe design	March 9, 2010	3,756,820

All affidavits of use required to be filed to maintain these registrations have been filed. There are no applications pending with the U.S. Patent and Trademark Office at this time.

No one other than us or our affiliates has an ownership interest in the above-referenced trademarks. Kahala Franchising is the sole owner of the above-referenced trademarks and has all right, title, and interest in and to the trademarks and the goodwill symbolized thereby in accordance with an Assignment Agreement made effective as of January 1, 2011 by and between Kahala Franchise Corp., the Assignor, and Kahala Franchising, the Assignee. This Assignment Agreement transferred the ownership of these trademarks to Kahala Franchising. In addition, the Assignment Agreement is binding upon the parties and under no conditions can this Assignment Agreement be terminated.

No agreements limit our right to use or license the use of our trademarks. You must follow our rules when you use our trademarks. Use of the service marks or trademarks must be accompanied by the registration (®), service mark (SM), trademark (TM) in close proximity to the trademark. You cannot use our trademarks as part of your corporate, partnership, limited liability company or other entity name, or register it as a trade name. You may not use our trademarks in connection with the sale of an unauthorized product or service or in a manner not first authorized by us in writing. You may not directly or indirectly contest or aid in contesting the validity of the trademarks or the ownership of the trademarks by us, nor may you directly or indirectly apply to register or otherwise seek to use or control our trademarks or any confusingly similar variation or form in the United States or any other country, nor may you assist any others to do so. You must modify or discontinue the use of a trademark if we modify or discontinue it, at your sole cost.

You must immediately notify us of any apparent infringement of, or challenge to your use of, any of our trademarks, or any claim by any person of any rights in any of our trademarks. You must not communicate with any person other than us and our legal counsel in connection with any such infringement, challenge or claim. We will have the sole discretion to take such action as we may deem appropriate to protect our trademarks and the right to exclusively control any litigation, United States Patent and Trademark Office proceeding, or other proceeding arising out of any such infringement, challenge or claim or otherwise relating to our trademarks. The Franchise Agreement does not require us to take affirmative action when notified of these uses or claims, but indicates we have the sole discretion to take such action as we may deem appropriate. You must execute such documents, render such assistance, and do such acts and things as may, in the opinion of our counsel, be necessary or advisable to protect and maintain our interests in connection with any such litigation or proceeding, or to otherwise protect and maintain our interests in our trademarks.

The Franchise Agreement requires that we will indemnify and hold you harmless for, from and against any and all claims, liabilities, causes of action, demands, obligations, costs and expenses, including reasonable attorneys' fees, arising out of any claim of infringement or unfair competition in connection with your use of our trademarks, provided that such use is in accordance with the provisions of the Franchise Agreement.

We may, in our sole discretion, modify or discontinue use of any of the above-referenced trademarks and/or use one or more additional or substitute service marks or trademarks. If we decide to do so, you must do so also, at your own expense. The Franchise Agreement does not provide you any additional rights if we require you to modify or discontinue using a trademark. However, if we require you to modify or discontinue use of our trademarks and/or use other trademarks in its place at any time other than upon renewal of the Franchise Agreement, and that requirement is a direct result of proceedings or litigation that determined that our and our franchisees' use of the trademarks infringed upon a third party's rights, we will bear the cost of those modifications or discontinuances.

We do not know of any superior prior rights or infringing uses or effective material determinations of the United States Patent and Trademark Office, Trademark Trial and Appeal Board, trademark administrator of this

state or of any court, nor do we know of any pending infringement, opposition or cancellation proceeding that could materially affect your use of our trademarks. We do not know of any pending material federal or state court litigation regarding our use or ownership rights in the above registered trademarks or pending applications.

As stated in the Master Facility License Agreement, you do not have any rights to use any intellectual property of LA Fitness, including any of its trademarks or service marks, if your *NrGize Lifestyle Cafe* is located within an LA Fitness health club.

ITEM 14: PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

We own proprietary information and rights in numerous items, such as menu formats, advertising designs, processes, techniques, formulae for *NrGize* drinks and smoothies, the method of production and storage of products and information contained in the ~~Operations~~Confidential Manual and related documents. In connection with the operation of the franchise, we may disclose to you certain information in which we claim proprietary rights. For example, our Operations Manual incorporate certain information that we believe is protected under the law of trade secrets, including sales and marketing techniques and restaurant operations. In addition, although we have not registered the copyright with the United States Copyright Office, the Operations Manual are protected against unauthorized copying under United States Copyright laws for 100 years from the date of creation or 75 years from the date of publication, whichever is shorter. You must use the proprietary information only in the manner required by us and in no other manner. This information is strictly confidential and you may not disclose it to any person, or use any of that information for any purpose, except disclosure to a person who has signed and delivered to us the "Confidentiality Agreement" included in the Operations Manual, and you may only use this information as necessary in connection with the operation of your Franchised Business. In addition, you must fully and strictly comply with all security measures required by us for maintaining the confidentiality of all information designated by us as trade secrets.

No agreements limit our right to use or license the use of our statutory copyright of the Operations Manual.

If you reproduce any items or materials suitable for copyright protection, you must make sure that each item bears a copyright notice in the form specified by us. You must use the proprietary information only in the manner required by us and in no other manner. This information is strictly confidential and you may not disclose to any person or use any of that information for any purpose, except disclosure to a person who has signed and delivered to us a confidentiality agreement, and use as necessary in connection with the operation of your Franchised Business. In addition, you must fully and strictly comply with all security measures required by us for maintaining the confidentiality of all information designated by us as trade secrets.

You will not have the exclusive right to use the innovations or any of our patents or patent applications, copyrights or proprietary information, nor will you acquire, by use or otherwise, any right, title or interest in or to the innovations, the copyrights or the proprietary information, other than as expressly contained in, and limited by, the Franchise Agreement. Your right to use the innovations, the claimed subject matter of any patents or patent applications, the copyrights and the proprietary information is limited and temporary. Upon expiration or termination of the Franchise Agreement, you may not, directly or indirectly, use the innovations, the claimed subject matter of any patents or patent applications, the copyrights or the proprietary information in any manner or for any purpose whatsoever.

You must immediately notify us of any conduct that could constitute infringement of or challenge to the innovations, the patents or patent applications, the copyrights and our proprietary information. We will decide, in our sole discretion, whether to institute any action in connection with infringement of or challenge to the innovations, the patents or patent applications, the copyrights and our proprietary information, and will control all proceedings and litigation. The Franchise Agreement does not require us to take affirmative action when notified of infringement, but indicates we have the sole discretion to take such action as we may deem appropriate. We are not required to protect your right to use the innovations, the patents or patent applications, the copyrights and proprietary information. As indicated in the Franchise Agreement, we will indemnify you for all damages for which you are held liable in any lawsuit arising out of your proper use of the innovations, the patents or patent applications, the copyrights and our proprietary information in compliance with the Franchise Agreement.

We may, in our sole discretion, modify or discontinue use of the innovations, the patents or patent applications, the copyrights and our proprietary information and/or use other information and/or rights in its place. If we decide to do so, you must do so also, at your expense. The Franchise Agreement does not provide you any additional rights if we require you to modify or discontinue use of the innovations, the patents or patent applications, the copyrights and our proprietary information. However, if we require you to modify or discontinue use of the innovations, the patents or patent applications, the copyrights and our proprietary information and/or use other information and/or rights in its place at any time other than upon renewal of the Franchise Agreement, and that requirement is a direct result of proceedings or litigation that determined that our and our franchisees' use of the innovations, the patents or patent applications, the copyrights and the proprietary information infringed upon a third party's rights, we will bear the cost of those modifications or discontinuances.

We do not own any rights in any patents that are material to the franchise of your *NrGize Lifestyle Cafe* restaurant. We have no pending patent applications that are material to the franchise. We do not know of any current material determinations of the United States Patent and Trademark Office, United States Copyright Office, or of any court, nor do we know of any effective determinations or any material proceedings pending in the United States Patent and Trademark Office or of any court regarding the patent application. We do not know of any patent or copyright infringement that could materially affect the franchisee.

ITEM 15: OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS.

While the Franchise Agreement does not specifically require you or your principals to personally participate in the direct operation of the franchise, it is our intention to select as *NrGize* franchisees only those who plan to actively participate in the direct operation and daily affairs of the *NrGize Lifestyle Cafe*. The franchise must be personally managed with on-premises supervision and directly operated by you or another partner, shareholder or member of your business organization, or a manager who must have successfully completed the Training Program.

If you are an individual, ~~you (and~~ married, your spouse, if married) must sign the Guaranty of Franchise Agreement in which ~~you (and~~ you (and your spouse, if married) agrees to perform, and guarantees, all of the franchisee's obligations to us and our affiliates contained in the Franchise Agreement, ~~and (see Exhibit F-1) and a Non-Disclosure and Non-Competition Agreement (see Exhibit F-2); if applicable, sign the Guaranty of Sublease in which your spouse agrees to perform, and guarantees, all of the sublessee's obligations to us and our affiliates contained in the Sublease (see Exhibit O);~~ if you purchase a corporate restaurant, ~~you (and your spouse, if married) must also~~ sign the Guaranty of Promissory Note and Security Agreement and Guaranty of Sublease in which ~~you (and~~ you (and your spouse, if married) agrees to perform, and guarantees, all of the franchisee's obligations to us and our affiliates contained in the Promissory Note and Security Agreement, and all of the sublessee's obligations to us and our affiliates contained in the Sublease (see Exhibit D: Guaranty of Promissory Note and Security Agreement and Guaranty of Sublease Exhibit O: Guaranty of Sublease); ~~and, if applicable, sign the Guaranty to the Single-Unit Facility License Agreement in which your spouse agrees to perform, and guarantee, all of the franchisee's obligations to us and our affiliates contained in the Single-Unit Facility License Agreement (See Exhibit O-3: Single-Unit Facility License Agreement).~~ Each person, corporation, partnership, limited liability company or other entity that owns, directly or indirectly, an equity interest in the franchised entity ("Principal"), and each executive officer must sign the Personal Acceptance attached to the Franchise Agreement ("Personal Acceptance") in which the Principal agrees to be bound by the restrictive covenants, the confidentiality provisions and certain other provisions contained in the Franchise Agreement. Each Principal (and his/her spouse, if married) must also sign the Guaranty of Franchise Agreement in which the Principal (and his/her spouse, if married) agree to perform, and guarantee, all of the franchisee's obligations to us and our affiliates contained in the Franchise Agreement, ~~and; his/her spouse, if married, sign the Non-disclosure and Non-Competition Agreement; if applicable, sign the Guaranty of Sublease in which the Principal (and his/her spouse, if married) agree to perform, and guarantee, all of the sublessee's obligations to us and our affiliates contained in the Sublease;~~ if purchasing a corporate restaurant, ~~each Principal (and his/her spouse, if married) must also~~ sign the Guaranty of Promissory Note and Security Agreement and Guaranty of Sublease in which each Principal (and his or her spouse, if married) agrees to perform, and guarantees, all of the franchisee's obligations to us and our affiliates contained in the Promissory Note and Security Agreement and all of the sublessee's obligations to us and our affiliates contained in the Sublease; ~~and, if applicable, sign the Guarantee to the Single-Unit Facility License Agreement, in which the Principal (and his/her spouse, if married) agrees to perform, and guarantees, all of the franchisee's obligations~~

to us and our affiliates contained in the Single-Unit Facility License Agreement. In the event that any person who has not signed an appropriate guaranty becomes your spouse or the holder of any class or your stock or ownership interests or a spouse of such holder, at any time after the execution of the respective agreement as referenced above, you must cause such person(s) to immediately execute and deliver the required guaranty to us.

We are not seeking to license you to operate an *NrGize Lifestyle Cafe* if your principals are merely seeking a passive investment.

We strongly recommend that you devote a substantial amount of time to your *NrGize Lifestyle Cafe* restaurant, whether or not you hire a manager. Franchisees that do not devote their full time efforts to the establishment and operation of their restaurants may have lower gross sales, higher operating costs and lesser name recognition in their areas than those franchisees that do devote their full efforts to the business. Examples of the types of functions that you might perform include training and supervision of employees, inventory checks, review of sales and food costs, local store marketing, bookkeeping and all reasonable efforts to ensure smooth and efficient operations.

Additionally, you must employ on a full time basis at least one on-premises supervisor (the "Manager") for the restaurant. The Manager of the restaurant must at all times be a person who meets our criteria as a qualified restaurant operator. The Manager is not required to have any equity interest in the Franchised Business. The Manager must devote his or her entire time during normal business hours to the management, operation and development of the Franchised Business and must maintain the confidentiality of the trade secrets and proprietary information, comply with the use of the proprietary marks, conform with the covenants not to compete, and conform with the operating standards in the Franchise Agreement and Operations Manual. The Manager is required to sign a Confidentiality Agreement included in the confidential Operations Manual.

In the interest of safe and efficient job performance, business operation and public health and safety, you must have a Manager on each shift who is able to read and understand our written materials and communicate with your employees and customers in the English language. This requirement will not restrict the Manager or your employees from speaking in any other language with you, other employees or customers, and shall not apply to any employee while on personal time or breaks.

All personnel employed by you in connection with the operation of your *NrGize Lifestyle Cafe* restaurant must maintain standards of sanitation, cleanliness and demeanor as may be established by us. All personnel must wear a uniform or other clothing approved by us. In addition, you must ensure that all employees whose duties include customer service have sufficient literacy and fluency in the English language (or such other language that is the primary language in your market) to adequately serve the public at your *NrGize Lifestyle Cafe* restaurant.

ITEM 16: RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

We require that your business is solely that of an *NrGize Lifestyle Cafe*, and you may not conduct any other business or activity at the site of the restaurant without our prior written approval. For traditional *NrGize Lifestyle Cafe* franchises, you must offer the full menu prescribed by us, subject to change from time to time in our sole discretion. Non-traditional *NrGize Lifestyle Cafe* franchises may offer a more limited menu than the traditional *NrGize Lifestyle Cafe* franchises, as detailed in the Operations Manual. We have the right to require you to sell additional authorized products and services from time to time that we believe will be successful. You will be obligated to offer and sell those new products and to participate in all local, regional, seasonal and promotional programs, initiatives and campaigns adopted by us in which we require you to participate. We reserve the right to designate which of our franchisees may, or will be required to, participate in new product or service tests, new or modified product or service offerings and other programs and initiatives that we may periodically develop. If we designate you for participation in any such program, initiative or campaign, you must participate when and as required by us. There are no limits on our right to

require you to offer and sell those new products or to participate in those programs, initiatives and campaigns. You may not add any item to your menu unless it is first researched and tested through our research and development center and approved by us in writing. In addition, you may not offer or sell any products or services specified by us in any configuration, form or manner (including items for resale) other than those specifically approved by us. You are prohibited from offering or selling any products or services not authorized or approved by us. You may only use products, materials, ingredients, supplies, paper goods, uniforms, fixtures, furnishings, signs, equipment, POS System, debit and credit card and Gift/Loyalty Card processing service, and methods of product preparation and delivery that meet our requirements as specified in the ~~confidential~~ OperationsConfidential Manual.

If we believe in good faith that any product offered by you may be unhealthy, unsafe or unsanitary, and we request that you discard that product, you must do so immediately. In addition, we may require you to close your *NrGize Lifestyle Cafe* restaurant until we are satisfied that any unhealthy, unsafe or unsanitary condition has been completely corrected.

ITEM 17: RENEWAL, TERMINATION, TRANSFER AND DISPUTE
RESOLUTION THE FRANCHISE RELATIONSHIP

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. Length of the Term of the Franchise	Section 1.3	If you are purchasing a new or existing non- operating <i>NrGize Lifestyle Cafe</i> restaurant, the term is (i) 10 years from the date the restaurant opens to the public if you own the property, or enter into a lease directly with the landlord¹ or other third party, or (ii) the term of the sublease if you enter into a sublease with a Kahala Franchising affiliate excluding any extensions or renewal options. If you are purchasing an existing and operating <i>NrGize Lifestyle Cafe</i> restaurant, the term is 10 years from the effective date of the franchise agreement if you own the property, or enter into a lease directly with the landlord or other third party, or ~~(ii)- (ii)~~ the term of the sublease if you enter into a sublease with a Kahala Franchising affiliate excluding any extensions or renewal options¹. If you are purchasing an <i>NrGize Lifestyle Cafe</i> restaurant that will be co-branded into another Kahala-brand restaurant, the term of your franchise agreement for this brand will equal the remaining term of the existing franchise agreement for the store which this brand will be co-branded into, so both franchise agreements will expire concurrently. If the franchise is to be located within an LA Fitness health club: Term is the earlier of the following: (i) the five year anniversary of the date of the Franchise Agreement; (ii) the expiration of the term of the single-unit facility license agreement for the premises of the Franchised Business; - ~~(iii)-~~ <u>(iii)</u> the termination or expiration of the Master Facility License Agreement; <u>or (iv) the date that LA Fitness ceases operating a health club at the location where the Franchised Business is located.</u>

<u>b-1. Renewal or extension of the Term</u>	<u>Section13 (New & Transfer)</u>	<u>If you are not in default and satisfy certain conditions, you may renew for a single renewal terms of 5 years, with no further right to renew at the end of the renewal term.</u>
Provision	Section in Franchise Agreement	Summary
		~~or (iv) the date that LA Fitness ceases operating a health club at the location where the Franchised-Business is located.~~
~~b-1. Renewal or extension of the Term~~	~~Section13 (New & Transfer)~~	~~If you are not in default and satisfy certain conditions, you may renew for a single renewal terms of 5 years, with no further right to renew at the end of the renewal term.~~ <u>If the franchise is to be located within an LA Fitness health club; If you are not in default and satisfy certain conditions, you may renew for the shorter of the following: ~~(i)~~ <u>(i)</u> five years; or (ii) the term of the new single-unit facility license agreement for the premises of the Franchised Business.</u>
c-1. Requirements for you to renew or extend	Section 13 (New & Transfer)	“Renewal” means to sign a renewal Franchise Agreement (which will be in the form of the Franchise Agreement then customarily used by us in renewing franchises) and all other agreements then customarily used by us in the granting of franchises. The renewal Franchise Agreement may have materially different terms and conditions than the original Franchise Agreement, including higher royalty and advertising fees. If offered, you must: give 120 days’ notice prior to the expiration date of the term; not be in default; be in compliance with the terms of the Franchise Agreement and Operations Manual; not have received more than 3 notices of default or breach of the Franchise Agreement during its term, nor more than 2 such notices during the 5 years immediately before the proposed renewal date; have a premises; sign a Franchise Agreement which may have materially different terms and conditions than the original Franchise Agreement; pay a renewal franchise fee; remodel or refurbish if necessary; and be current on all financial obligations to us. You must also sign the General Release in form attached to the Disclosure Document as <u>Exhibit Q</u>.
Provision	Section in Franchise Agreement	Summary
b-2. Successor Term	Section 13 (Renewal)	If at the end of your renewal term, you are not in default and satisfy certain conditions, you may apply for a successor term.

c-2 Requirements for you to obtain a successor term		Applying for and entering into a “successor” term means to sign a new Franchise Agreement (which will be in the form of the Franchise Agreement then customarily used by us in entering into new franchises) and all other agreements then customarily used by us in the granting of franchises. The successor term Franchise Agreement may have materially different terms and conditions than the original Franchise Agreement, including higher royalty and advertising fees. In the event you desire to apply to us to extend your rights to operate the Franchised Business for a successor term, you must: give 120 days’ notice prior to the expiration date of the renewal term; not be in default; be in compliance with the terms of the Franchise Agreement and Operations Manual; not have received more than 3 notices of default or breach of the Franchise Agreement during its term, nor more than 2 such notices during the 5 years immediately before the proposed successor term effective date; have a premises; sign a Franchise Agreement which may have materially different terms and conditions than the original Franchise Agreement; pay an initial franchise fee; remodel or refurbish if necessary; and be current on all financial obligations to us. You must also sign the General Release in form attached to the Disclosure Document as <u>Exhibit Q</u> . We reserve the right to reject your application for a successor term, at our sole discretion, for any reason, without limitation, failure to meet our then- current standards or requirements for new franchisees. If we decide to reject your application for a successor term to operate the Franchise Business, we will give you a notice to that effect within sixty (60) days after you deliver to us your notice of intent to apply for a successor term.
d. Termination by you	Not Applicable	-----
e. Termination by us without cause	Not Applicable	-----
f. Termination by us with cause	Sections 3.1 and 14.1	We can terminate only if you are in default under the Franchise Agreement or any other Franchise Agreements between you and us.
g. "Cause" defined— defaults that can be cured	Sections ~~14.1~~ <u>14.1</u> and 14.2	You have an immediate cure period of less than 24 hours to cure defaults of your violation of our social media policy regarding posting content containing public displays of affection, confidential information, <u>violations of health or safety standards, foul or obscene language, or images that have not been consented to. You have 24 hours to cure defaults of your violation of (i) any law, regulation, or order; (ii) our standards relating to health, sanitation, or safety; or (iii) our policy regarding posting defamatory or offensive comments online. You have 48 hours to cure defaults of your violation of our social media policy where you hold out your social medium site to be the official site of NrGize Lifestyle Cafe. You have 7 days to cure defaults of failure to (i) pay us monies owing; or (ii)</u>
Provision	Section in Franchise Agreement	Summary

		~~violations of health or safety standards, foul or obscene language, or images that have not been consented to. You have 24 hours to cure defaults of your violation of (i) any law, regulation, or order; (ii) our standards relating to health, sanitation, or safety; or (iii) our policy regarding posting defamatory or offensive comments online. You have 48 hours to cure defaults of your violation of our social media policy where you hold out your social medium site to be the official site of NrGize Lifestyle Cafe. You have 7 days to cure defaults of failure to (i) pay us monies owing; or (ii) maintain insurance.~~ You have 14 days to cure other defaults, except those which have no cure period. If a statute in the state or municipality in which the Franchised Business is located requires application of that state or municipal law, and that statute requires a cure period for the applicable default which is longer than the cure period listed in the Franchise Agreement, the statutory cure period will apply.
h. "Cause" defined— defaults that cannot be cured	i. Sections 12.1, ~~14.1~~ <u>14.1</u> and 14.2	Non-curable defaults: failure to open your restaurant within the time period listed in your Franchise Agreement, transferring or attempting to transfer your Franchise Agreement or Franchised Business to a third party, bankruptcy, insolvency and similar events; conviction of felony; repeated defaults even if previously cured; abandonment; trademark misuse; breach of confidentiality or non-competition covenants; fraud with respect to obligations under the Franchise Agreement, and intentionally underreporting weekly Gross Sales.
j. Your obligations on termination/non-renewal	Section ~~14.5~~ <u>14.5, 14.9</u>	Obligations include complete de-identification and payment of amounts due us (also see "r" below).
k. Assignment of contract by us	Section 12.5	No restriction on our right to assign.
l. "Transfer" by you— definition	Section 12.1	Any voluntary, involuntary (including by operation of law), direct or indirect assignment, sale, gift or other transfer by you.
m. Our approval of transfer by franchise owner	Section 12.1	We have the right to approve all transfers, but we will not unreasonably withhold approval.
n. Conditions for our approval of transfer	Section 12.3	New franchise owner qualifies, no existing defaults, transfer franchise fee and transfer training fee paid, new franchisee completes training for two individuals (additional fee for additional individuals trained), release signed by you, new agreements signed.
o. Our right of first refusal to acquire your business	Section 12.2	We can match any offer for your business.
p. Our option to purchase your business	Section 12.2	We can match any offer for your business.
~~p. — Your death or disability~~	~~Section 12.4~~	~~If representative of franchisee wants the Franchised~~
Provision	Section in Franchise Agreement	Summary
<u>q. Your death or disability</u>	<u>Section 12.4</u>	<u>If representative of franchisee wants the Franchised Business to continue operating, it must be transferred within 90 days to an approved buyer. Upon non-compliance, all of franchisee's rights under the Franchise Agreement will be automatically terminated.</u>

r. Non-competition covenants during the term of the franchise	Section 14.6	No involvement in any competing business.
s. Non-competition covenants after the Franchise Agreement is terminated or expires	Section 14.6	No competing business for 2 years, within 10 miles of another <i>NrGize Lifestyle Cafe</i> or LA Fitness health club.
t. Modification of the Agreement	Sections 4.5 and 16.13	Confidential Operations Manual subject to change at any time; otherwise no modifications unless in writing and signed by both parties.
u. Integration/merger clause	Section 16.14	Only the terms of the Franchise Agreement are binding (subject to state law). Any representations or promises outside the Disclosure Document and Franchise Agreement may not be enforceable.
<u>Provision</u>	<u>Section in Franchise Agreement</u>	<u>Summary</u>
v. Dispute resolution by arbitration or mediation	Section 16.3	Any dispute that cannot be resolved by, or is not subject to, mediation shall be settled by arbitration administered by the American Arbitration Association in Maricopa County, Arizona. This does not apply to a dispute where we bring an action for an express obligation to pay monies, declaratory relief, preliminary or permanent equitable relief, any action at law for damage to Kahala Franchising's goodwill, the proprietary information, the trademarks or other property or for fraudulent conduct by franchisee, or if a delay in the mediation process may adversely affect the public. Either party may appeal the arbitrator's final award to the appropriate U.S. District Court.
w. Choice of forum	Section 16.4	Litigation must be in Maricopa County, Arizona.
x. Choice of law	Section 16.4	Except to the extent governed by the United States trademark laws or the franchise laws of any state, Arizona law applies.

See Exhibit E: Franchise Agreement.

Sublease

This table lists certain important provisions of the Sublease. You should read these provisions in the agreements attached to this disclosure document.

<u>Provision</u>	<u>Section in Sublease</u>	<u>Summary</u>
<u>A. Term of the Sublease</u>	<u>2.1</u>	<u>Ends one day before expiration of Master Lease, including any renewals of Master Lease.</u>
<u>B. Renewal or extension of the term</u>	<u>2.2 and 2.3</u>	<u>If the Master Lease contains a renewal option, you must notify us to exercise it.</u>
<u>C. Requirements for you to renew or extend</u>	<u>2.2 and 2.3</u>	<u>You must be in good standing and you must notify us of your intent to renew at least 60 (but not more than 90) days before we are required to notify the Master Landlord of intent to renew.</u>
<u>D. Termination by you</u>	<u>Not Applicable</u>	<u>You have no right to terminate the Sublease.</u>
<u>E. Termination by us without cause</u>	<u>Not Applicable</u>	<u>There is no right to terminate the Sublease without cause.</u>

<u>E.</u>	<u>Termination by us with cause</u>	<u>15</u>	<u>Our Leasing Affiliate may terminate the Sublease for cause. Our Leasing Affiliate can terminate only if you default under the Master Lease, Sublease or the Franchise Agreement.</u>
<u>G.</u>	<u>“Cause” defined – curable defaults</u>	<u>15.1</u>	<u>Our Leasing Affiliate can terminate if you default in the: (i) payment of any sums you owe; (ii) performance of any of the terms, covenants, or conditions of the Master Lease or Sublease; or (iii) default under the Franchise Agreement or any other agreement between you or your affiliates and us or our affiliates.</u>
<u>H.</u>	<u>“Cause” defined – defaults that cannot be cured</u>	<u>15.1</u>	<u>Failure to pay amounts due under Master Lease or Sublease; Bankruptcy of, or general assignment for the benefit of creditors by, franchisee; defaults under the Master Lease that are not curable</u>
	<u>Provision</u>	<u>Section in Sublease</u>	<u>Summary</u>
<u>I.</u>	<u>Your obligations on termination/ nonrenewal</u>	<u>15</u>	<u>Our Leasing Affiliate may enter and take possession of the premises and all of the furniture, fixtures, equipment, signage, inventory and other items covered by our lien under Section 4.2 of the Sublease; you are not relieved of further obligations under the Sublease.</u>
<u>J.</u>	<u>Assignment of agreement by us</u>	<u>22</u>	<u>Our Leasing Affiliate has the right to assign under the Master Lease.</u>
<u>K.</u>	<u>“Transfer” by you – defined</u>	<u>9 and 22</u>	<u>Approval of Leasing Affiliate is required.</u>
<u>L.</u>	<u>Our approval of transfer by you</u>	<u>9</u>	<u>Approval of Leasing Affiliate is required and will not be unreasonably withheld and approval of landlord.</u>
<u>M.</u>	<u>Conditions for our approval of transfer</u>	<u>9</u>	<u>Our Leasing Affiliate must consent.</u>
<u>N.</u>	<u>Our right of first refusal to acquire your business</u>	<u>Not Applicable</u>	<u>None. Our Leasing Affiliate already holds the Master Lease.</u>
<u>O.</u>	<u>Our option to purchase your business</u>	<u>Not Applicable</u>	<u>None. Our Leasing Affiliate already holds the Master Lease.</u>
<u>P.</u>	<u>Your death or disability</u>	<u>Not Applicable</u>	<u>None</u>
<u>Q.</u>	<u>Non-competition covenants during the term of the franchise</u>	<u>Not Applicable</u>	<u>None</u>
<u>R.</u>	<u>Non-competition covenants after the franchise is terminated or expires</u>	<u>Not Applicable</u>	<u>None</u>
<u>S.</u>	<u>Modification of the agreement</u>	<u>Not Applicable</u>	<u>None</u>
<u>T.</u>	<u>Integration/merger clause</u>	<u>24</u>	<u>The Sublease, including any exhibits, contains the entire agreement of the parties.</u>
<u>U.</u>	<u>Dispute resolution by arbitration or mediation</u>	<u>Not Applicable</u>	<u>None</u>
<u>V.</u>	<u>Choice of forum</u>	<u>Not Applicable</u>	<u>None</u>
<u>W.</u>	<u>Choice of law</u>	<u>20</u>	<u>Arizona law applies</u>

Single-Unit Facility License Agreement (only applies if your *NrGize* franchise is located within an LA Fitness health club)

Provision	Section in Single-Unit Facility License Agreement	Summary
~~a. Length of the Term of the~~	~~Section 2~~	~~Term is the earlier of the following: (i) the five year~~
Provision	Section in Single-Unit Facility License Agreement	Summary
a. <u>Length of the Term of the Franchise</u>	<u>Section 2</u>	<u>Term is the earlier of the following: (i) the five year anniversary of the date of the Single-Unit Facility License Agreement; (ii) the termination of the Master Facility License Agreement; (iii) the termination of Kahala Holdings' right of access to the LA Fitness site where your Franchised Business is located; (iv) the date that LA Fitness ceases operating a health club at the location where the Franchised Business is located; or (v) the expiration or termination of the Franchise Agreement.</u>
b. <u>Renewal or extension of the Term</u>	<u>Section 2</u>	<u>There is no renewal term under the Single-Unit Facility License Agreement; however, if the terms of the</u>
<u>Provision</u>	<u>Section in Single-Unit Facility License Agreement</u>	<u>Summary</u>
~~b. Renewal or extension of the Term~~	~~Section 2~~	~~There is no renewal term under the Single-Unit Facility License Agreement; however, if the terms of the~~ Franchise Agreement and the Master Facility License Agreement (in whole or in part, as that Agreement relates to your <i>NrGize Lifestyle Cafe</i>) are extended, Kahala Holdings and franchisee may extend the Term of the Single-Unit Facility License Agreement for a coterminous period. Operator may extend the term for one five-year period (the "Extension Term") subject to approval by LA Fitness, which approval is in the sole discretion of LA Fitness.
c. Requirements for you to renew or extend	Not Applicable	If offered, you must give 120 days' notice prior to the expiration date of the term.
d. Termination by you	Not Applicable	-----

e. Termination by us without cause	Section 2 and Section 15	The Single-Unit Facility License Agreement can only be terminated by us or our affiliate, Kahala Holdings, without cause upon one of the following events: (i) the termination of the Master Facility License Agreement; (ii) the termination of Kahala Holdings' right of access to the LA Fitness site where your Franchised Business is located; or ~~(iii)~~ <u>(iii)</u> if LA Fitness ceases operating a health club at the location where the Franchised Business is located.
f. Termination by us with cause	Section 10(b)	We can terminate only if you are in default.
g. "Cause" defined— defaults that can be cured	Sections 10(a)(ii) and 10(a)(vii)	(i) You have five days to cure any default for failure to pay any amounts owing under the Single-Unit Facility License Agreement; and (ii) you have three days to cure any default regarding failure to perform any other material provision of the Single-Unit Facility License Agreement.
~~h. "Cause" defined— defaults that cannot be cured~~	~~Sections 10(a)(i); 10(a)(iii-vi); and 10(a)(viii-xii)~~	~~Non-curable defaults: (i) failure to begin operating <i>NrGize Lifestyle Cafe</i> by deadline in Franchise Agreement; (ii) <i>NrGize Lifestyle Cafe</i> is closed for 10 days in any 12-month period when the LA Fitness it is located in is open; (iii) bankruptcy, insolvency and similar events; (iv) failure to obtain or maintain insurance; (v) assignment of Franchised Business by~~
Provision	Section in Single-Unit Facility License Agreement	Summary
<u>h. "Cause" defined—defaults that cannot be cured</u>	<u>Sections 10(a)(i); 10(a)(iii-vi); and 10(a)(viii-xii)</u>	<u>Non-curable defaults: (i) failure to begin operating <i>NrGize Lifestyle Cafe</i> by deadline in Franchise Agreement; (ii) <i>NrGize Lifestyle Cafe</i> is closed for 10 days in any 12-month period when the LA Fitness it is located in is open; (iii) bankruptcy, insolvency and similar events; (iv) failure to obtain or maintain insurance; (v) assignment of Franchised Business by</u> franchisee without obtaining prior approval of Kahala Holdings; (vi) repeated defaults even if previously cured; (vii) failure to comply with the LA Fitness health club rules and regulations; (viii) offering any product or service at the ~~<i>NrGize Lifestyle Cafe</i>~~ <u><i>NrGize Lifestyle Cafe</i></u> that is not authorized by LA Fitness; (ix) violation of the non-disclosure provision; and (x) any material breach of any other agreement between franchisee and Kahala Franchising or any of its affiliates, including Kahala Holdings.
i. Your obligations on termination/non-renewal	Section 11	Obligations include: (i) payment of amounts due Kahala Holdings, its parent, subsidiaries and affiliates; and (ii) immediately vacate premises in the same condition when received, ordinary wear and tear excepted (also see "r" below).
j. Assignment of contract by us	Section 9(a)	No restriction on our right to assign; however, Kahala Holdings shall deliver written notice of such assignment to franchisee within 5 days after being effective.
k. "Transfer" by you— definition	Section 9(b)	Franchisee must obtain prior written consent of Kahala Holdings.

<u>Provision</u>	<u>Section in Single-Unit Facility License Agreement</u>	<u>Summary</u>
l. Our approval of transfer by franchise owner	Section 9(b)	We have the right to approve all transfers, but we will not unreasonably withhold approval.
m. Conditions for our approval of transfer	Section 9(b)	Approval by Kahala Franchising for the assignment of the Franchise Agreement.
n. Our right of first refusal to acquire your business	Not Applicable	-----
o. Our option to purchase your business	Not Applicable	-----
p. Your death or disability	Not Applicable	-----
q. Non-competition covenants during the term of the franchise	Not Applicable	-----
r. Non-competition covenants after the Franchise Agreement is terminated or expires	Not Applicable	-----
Modification of the Agreement	Section 16(e)	May only be modified in writing and signed by both parties.
s. Integration/Merger Clause	Section 16(e)	Only the terms of the Single-Unit Facility License Agreement are binding (subject to state law). Any representations or promises outside the Disclosure Document and Single-Unit Facility License Agreement may not be enforceable.
~~u. Dispute resolution by arbitration or mediation~~	~~Section 14(a)~~	~~Arbitration shall be conducted in accordance with the provisions of the Federal Arbitration Act, and with the then existing rules of the American Arbitration~~
Provision	Section in Single-Unit Facility License Agreement	Summary
<u>t. Dispute resolution by arbitration or mediation</u>	<u>Section 14(a)</u>	<u>Arbitration shall be conducted in accordance with the provisions of the Federal Arbitration Act, and with the then existing rules of the American Arbitration</u> Association for commercial arbitration. Each party shall be entitled to conduct reasonable discovery in accordance with the provisions of the Federal Rules of Civil Procedure. The arbitration shall be binding and shall survive the termination of the Single-Unit Facility License Agreement. Judgment on the award of the arbitration may be entered in any court of competent jurisdiction.
u. Choice of forum	Section 14(a)	Arbitration must be in the county in which the <i>NrGize Lifestyle Cafe</i> is located.
v. Choice of law	Section 14(b)	Except to the extent governed by the United States trademark laws or the franchise laws of any state, the law of the state where the LA Fitness health club in which the <i>NrGize Lifestyle Cafe</i> is located in applies.

ITEM 18: PUBLIC FIGURES

We currently do not use any public figure to promote our *NrGize* franchise System.

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 financial performance 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 John Wuycheck, Kahala Franchising, L.L.C., 9311 E. Via De Ventura, Scottsdale, Arizona 85258, ~~(480)~~ (480) 362-4800, the Federal Trade Commission, and the appropriate state regulatory agencies.

ITEM 20: OUTLETS AND FRANCHISEE INFORMATION

Table No. 1

Systemwide Outlet Summary
For years ~~2015~~2016 to ~~2017~~2018

Column 1 Outlet Type	Column 2 Year	Column 3 Outlets at the Start of the Year	Column 4 Outlets at the End of the Year	Column 5 Net Change
Franchised	~~2015~~ <u>2016</u>	~~101~~ <u>90</u>	~~90~~ <u>87</u>	~~-11~~ <u>-3</u>
	~~2016~~	~~90~~	~~87~~	~~-3~~
	2017	87	83	-4
	~~2015~~ <u>2018</u>	~~0~~ <u>83</u>	~~0~~ <u>81</u>	~~0~~ <u>-2</u>
Company- Owned	2016	0	0	0
	2017	0	0	0
	~~2018~~	~~0~~	~~0~~	~~0~~
Total Outlets	~~2015~~	~~101~~	~~90~~	~~-11~~
	2016	90	87	-3
	2017	87	~~83~~ <u>81</u>	~~-4~~ <u>-6</u>
	~~2018~~	~~81~~	~~79~~	~~-2~~

Table No. 2

Transfers of Outlets from Franchisees to New Owners (other than the Franchisor)
For years ~~2015~~2016 to ~~2017~~2018

Column 1	Column 2	Column 3
State	Year	Number of Transfers

Arizona	2015	0
	2016	1
	2017	0
California	2015	2
	2016	0
	2017	3

	<u>2017</u>	<u>0</u>
	<u>2018</u>	<u>0</u>
<u>California</u>	<u>2016</u>	<u>0</u>
	<u>2017</u>	<u>3</u>
	<u>2018</u>	<u>0</u>
Connecticut	~~2015~~ <u>2016</u>	0
	~~2016~~ <u>2017</u>	0
	~~2017~~ <u>2018</u>	0
Florida	~~2015~~ <u>2016</u>	~~0~~ <u>2</u>
	~~2016~~	~~2~~
	2017	1
	<u>2018</u>	<u>0</u>
Georgia	~~2015~~ <u>2016</u>	~~0~~ <u>5</u>
	~~2016~~	~~5~~
	<u>2017</u>	<u>0</u>
	~~2017~~ <u>2018</u>	0
Michigan	~~2015~~ <u>2016</u>	0
	~~2016~~ <u>2017</u>	0
	~~2017~~ <u>2018</u>	0
New Jersey	~~2015~~ <u>2016</u>	1
	~~2016~~ <u>2017</u>	~~1~~ <u>0</u>
	~~2017~~	~~0~~
	<u>2018</u>	<u>1</u>
New York	~~2015~~ <u>2016</u>	0
	~~2016~~ <u>2017</u>	0
	~~2017~~ <u>2018</u>	0
Pennsylvania	~~2015~~ <u>2016</u>	~~1~~ <u>3</u>
	~~2016~~ <u>2017</u>	~~3~~ <u>0</u>
	~~2017~~ <u>2018</u>	0
Oregon	~~2015~~ <u>2016</u>	~~0~~ <u>1</u>
	~~2016~~	~~1~~
	<u>2017</u>	<u>0</u>
	~~2017~~ <u>2018</u>	0
Texas	~~2015~~ <u>2016</u>	~~1~~ <u>2</u>
	~~2016~~	~~2~~
	~~2017~~	~~0~~
~~Washington~~	~~2015~~	~~0~~
	~~2016~~	~~1~~
	2017	0
	<u>2018</u>	<u>1</u>
<u>Washington</u>	<u>2016</u>	<u>1</u>
	<u>2017</u>	<u>0</u>
Virginia	~~2015~~ <u>2018</u>	0
	2016	1
	<u>2017</u>	<u>0</u>
	<u>2018</u>	<u>0</u>
	~~2017~~	~~0~~
Total	~~2015~~ <u>2016</u>	~~5~~ <u>17</u>

	2016	17
	2017	<u>54</u>
	<u>2018</u>	<u>2</u>

Table No. 3

Status of Franchised Outlets
For years ~~2015~~2016 to
~~2017~~2018

Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8	Col. 9
<u>Col. 1</u>	<u>Col. 2</u>	<u>Col. 3</u>	<u>Col. 4</u>	<u>Col. 5</u>	<u>Col. 6</u>	<u>Col. 7</u>	<u>Col. 8</u>	<u>Col. 9</u>
State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-renewals	Reacquired by Franchisor	Ceased Operations – Other Reasons	Outlets at End of the Year
Arizona	~~2015~~ <u>2016</u>	4	0	0	~~0~~ <u>1</u>	0	0	~~4~~ <u>3</u>
	~~2016~~ <u>2017</u>	~~4~~ <u>3</u>	0	0	~~1~~ <u>0</u>	0	~~0~~ <u>1</u>	~~3~~ <u>2</u>
	~~2017~~ <u>2018</u>	~~3~~ <u>2</u>	0	0	0	0	~~1~~ <u>0</u>	2
California	~~2015~~ <u>2016</u>	~~17~~ <u>11</u>	0	0	~~0~~ <u>1</u>	~~1~~ <u>0</u>	~~5~~ <u>0</u>	~~11~~ <u>10</u>
	~~2016~~ <u>2017</u>	~~11~~ <u>10</u>	0	0	~~1~~ <u>0</u>	0	0	10
	~~2017~~ <u>2018</u>	10	0	0	0	0	0	10
Colorado	~~2015~~ <u>2016</u>	~~1~~ <u>0</u>	0	0	0	0	~~1~~ <u>0</u>	0
	~~2016~~ <u>2017</u>	0	0	0	0	0	0	0
	~~2017~~ <u>2018</u>	0	0	0	0	0	0	0
Connecticut	~~2015~~ <u>2016</u>	~~4~~ <u>2</u>	0	0	0	0	~~2~~ <u>0</u>	2
	~~2016~~ <u>2017</u>	2	0	0	0	0	0	2
	~~2017~~ <u>2018</u>	2	0	0	0	0	0	2
Florida	~~2015~~ <u>2016</u>	~~15~~ <u>16</u>	1	0	0	0	0	~~16~~ <u>17</u>
	~~2016~~ <u>2017</u>	~~16~~ <u>17</u>	1	0	0	0	~~0~~ <u>1</u>	17
	~~2017~~ <u>2018</u>	17	~~1~~ <u>0</u>	0	0	0	~~1~~ <u>0</u>	17
Georgia	~~2015~~ <u>2016</u>	6	0	0	0	0	0	6
	~~2016~~ <u>2017</u>	6	0	0	0	0	0	6
	~~2017~~ <u>2018</u>	6	0	~~0~~ <u>1</u>	0	0	0	~~6~~ <u>5</u>
Illinois	~~2015~~ <u>2016</u>	0	0	0	0	0	0	0
	~~2016~~ <u>2017</u>	0	0	0	0	0	0	0
	~~2017~~ <u>2018</u>	0	0	0	0	0	0	0
Indiana	~~2015~~ <u>2016</u>	1	0	0	0	0	~~0~~ <u>1</u>	~~1~~ <u>0</u>
	~~2016~~ <u>2017</u>	~~1~~ <u>0</u>	0	0	0	0	~~1~~ <u>0</u>	0
	~~2017~~ <u>2018</u>	0	0	0	0	0	0	0

Iowa	<u>2015201</u> <u>6</u>	0	0	0	0	0	0	0
	<u>2016201</u> <u>7</u>	0	0	0	0	0	0	0
	<u>2017201</u> <u>8</u>	0	0	0	0	0	0	0
Michigan	<u>2015201</u> <u>6</u>	1	0	0	0	0	0	1
	<u>2016201</u> <u>7</u>	1	0	0	0	0	0	1
	<u>2017201</u> <u>8</u>	1	0	0	0	0	0	1
Minnesota	<u>2015201</u> <u>6</u>	1	0	0	0	0	0	1
	<u>2016</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
	2017	1	0	0	0	0	0	1
	<u>2015201</u> <u>8</u>	<u>101</u>	<u>10</u>	0	0	0	<u>10</u>	<u>101</u>
New Jersey	2016	10	0	0	0	0	0	10
	2017	10	1	0	0	0	3	8
	<u>2015201</u> <u>8</u>	<u>178</u>	0	0	0	0	<u>10</u>	<u>168</u>
New York	2016	16	0	0	0	0	0	16
	2017	16	0	0	0	0	3	13
	<u>2014201</u> <u>8</u>	<u>113</u>	0	0	0	0	0	<u>113</u>
	<u>2015</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
Oregon	2016	1	0	0	0	0	0	1
Pennsylvania		<u>2015201</u> <u>7</u>	<u>71</u>	<u>10</u>	0	0	0	0
	<u>2018</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>0</u>
TexasPennsylvania		2016	8	0	0	0	1	7
		2017	7	0	0	0	0	7
		<u>2015201</u> <u>8</u>	<u>97</u>	0	0	0	<u>20</u>	7
VirginiaTexas		2016	7	0	0	0	1	6
		2017	6	1	0	0	2	5
		<u>2015201</u> <u>8</u>	<u>45</u>	0	0	0	<u>10</u>	<u>35</u>
WashingtonVirginia		2016	3	0	0	0	0	3
		2017	3	2	0	0	1	4
		<u>2015201</u> <u>8</u>	<u>34</u>	0	0	0	0	<u>34</u>
TotalsWashington		2016	3	1	0	0	0	4
		2017	4	0	0	0	0	4
		<u>2015201</u> <u>8</u>	<u>1014</u>	<u>30</u>	0	0	<u>10</u>	<u>130</u>
Totals		2016	90	2	0	2	3	87
		2017	87	5	0	0	11	81
		<u>2018</u>	<u>81</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>1</u>	<u>79</u>

Table No. 4

Status of Company Owned Outlets
For years ~~2015~~2016 to ~~2017~~2018

Col. 1 State	Col.2 Year	Col.3 Outlets at Start of Year	Col.4 Outlets Opened	Col. 5 Outlets Reacquired from Franchisee	Col. 6 Outlets Closed	Col. 7 Outlets Sold to Franchisee	Col. 8 Outlets at End of the Year
	2015	0	0	0	0	0	0
~~Arizona~~ ALL States	2016	0	0	0	0	0	0
	2017	0	0	0	0	0	0
	~~2015~~ 2018	0	0	~~1~~ 0	~~1~~ 0	0	0
~~California~~ Tota ls	2016	0	0	0	0	0	0
	2017	0	0	0	0	0	0
	~~2015~~ 2018	0	0	0	0	0	0
	2016	0	0	0	0	0	0
	2017	0	0	0	0	0	0
Totals	2015	0	0	1	1	0	0
	2016	0	0	0	0	0	0
	2017	0	0	0	0	0	0

Table No. 5

Projected Openings As Of November 30,
~~2017~~2018

<u>Column 1</u>	<u>Column 2</u>	<u>Column 3</u>	<u>Column 4</u>

~~Column-1~~ State	Column-2	Column-3	Column-4
	Franchise Agreements Signed But Outlet Not Opened	Projected New Franchised Outlets In The Next Fiscal Year	Projected New Company-Owned Outlets in the Next Fiscal Year
~~NO~~ ALL STATES	0	0	0
Total	0	0	0

A list of the names of all franchisees and the address and telephone number of each of their restaurants is attached to this Disclosure Document as Exhibit U.

We had ~~nineteen~~ franchise owners in the United States who had an outlet terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the Franchise Agreements during the year ending November 30, ~~2017-2018~~. We also had ~~four~~ franchise owners, some who had ~~multiple units, who had~~ an outlet transfer during the year ending November 30, ~~2017-2018~~. We have not had any franchisees who have not communicated with us for the 10-week period before the date of this Disclosure Document. The name, city and state and current business telephone number, or if unknown, the last known home telephone number or email address, of these franchisees are as follows:

Franchisees who had an outlet terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the Franchise Agreements during the year ending November 30, ~~2017-2018~~.

Franchisee Name	Store Address	City	State	Zip Code	Telephone Number
~~Virginia Mohammed Puente Ali~~	~~3200 East Airfield Drive DFW 21970 NW Imbrie Dr~~	~~Dallas Hillsboro~~	~~TX~~	~~75261-97124~~	~~972-832-574-575 5250-8837~~
~~Colin Stuckert Priscilla Jenkins William Bolden~~	~~10058 Gulf Center Dr 261 19th St NW Ste 1140~~	~~Fort Myers Atlanta~~	~~FL GA~~	~~33913 30363~~	~~239-404-415 541-738 09799~~
~~Fabio Rocha~~	~~2100 N. Dobson Road~~	~~Chandler~~	~~AZ~~	~~85224~~	
~~Vasileios Panousopoulos~~	~~2100 Route #110 Broad-Hollow Rd~~	~~Farmingdale~~	~~NY~~	~~11735~~	~~718-267-2800~~
~~Giuseppe Fidilio~~	~~341 State Route 18~~	~~Brunswick~~	~~NJ~~	~~8816~~	~~908-616-9627~~
~~Vasileios Panousopoulos~~	~~3601 C Hempstead Trunpike~~	~~Levittontown~~	~~NY~~	~~11756~~	~~718-267-2800~~
~~Manpreet Hemnani~~	~~620 John Paul Jones Cir, 2nd Fl, Bldg 215~~	~~Portsmouth~~	~~VA~~	~~23708~~	~~757-673-0892~~
~~Aleksander Furman~~	~~140 State Route 10 #5 1934 Middle Country Road~~	~~Randolph~~	~~NJ~~	~~7869~~	~~917-862-5234~~
~~Gary Tsirelman~~	~~Centereach~~	~~NY~~	~~11720~~	~~917-215-9114~~	
~~Giuseppe Fidilio And Irene Yacoub~~	~~341 State Route 18~~	~~Brunswick~~	~~NJ~~	~~08816~~	~~908-616-9627~~
~~Dishman Enterprises LLC~~	~~Brian Dishman~~	~~Keller~~	~~TX~~	~~76248~~	~~817-914-0315~~

Franchisees who had an outlet transfer during the year ending
November 30, ~~2017~~2018

Franchise Company Name	Franchisee Name	City	State	Telephone Number or Email Address
	~~Chaipat Jaengsrivong~~	~~Chaipat Jaengsrivong~~	~~Irvine~~	~~GA~~
~~Namasivayam Balaji Arulass Ono Miracles, LLC Jasmine~~	~~Patricia Miracle, Mae Nekoba and Ray Miracle Namasivayam Balaji Arulass Jasmine~~	~~La Verne Houston~~	~~CATX~~	~~951-832-316-264 9705-0213~~
~~Nicamat Enterprises, LLC Patchogue Juice Café Corp~~	~~Gatherine V Murray Panousopoul OS~~	~~Boynton Beach Patchogue~~	~~FL NY~~	~~734-631-6377 76-03087696~~
~~Bila Mourban~~	~~Bilal Mourban~~	~~La Verne~~	~~GA~~	~~909-525-0355~~

We had no franchisees that transferred their Franchise Agreements during the year ending November 30, ~~2017~~2018 for restaurants that were not yet open.

If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system. Some of our franchisees have signed confidentiality clauses during the last three fiscal

years. In some instances, current and former franchisees sign provisions restricting their ability to speak openly about their experience with the *NrGize Lifestyle Cafe* franchise system. You may wish to speak with current and former franchisees, but be aware that not all such franchisees will be able to communicate with you.

If you are purchasing a company-owned outlet from one of our affiliates that was previously owned by a franchisee but is now owned and operated corporately by our affiliate, we will provide you with an addendum to this Disclosure Document disclosing additional information for that outlet for the last five fiscal years. A sample form of the addendum is attached to this Disclosure Document as Exhibit X.

There are no trademark-specific franchisee organizations associated with the franchise system being offered under this Disclosure Document that have been created, sponsored or endorsed by us.

ITEM 21: FINANCIAL STATEMENTS

Attached to this Disclosure Document as Exhibit V are the audited consolidated financial statements of ~~Franchisor's parent company,~~ MTY Franchising USA, Inc. ~~– (“Guarantor”),~~ for the fiscal years ended November 30, ~~2017, November 30, 2016, 2018~~ and November 30, ~~2015, 2017~~ along with the independent auditor's reports for the years ended November 30, ~~2016 2017~~ and November 30, ~~2017-2018~~.

Guarantor absolutely and unconditionally guarantees to assume the duties and obligations of Franchisor under its franchise registration in each state where the franchise is registered, and under the Franchise Agreement, as it may be amended, and as that Franchise Agreement may be entered into with franchisees and amended, modified or extended from time to time. This guarantee continues until all such obligations of the Franchisor under its franchise registrations and the Franchise Agreement are satisfied or until the liability of Franchisor to its franchisees under the Franchise Agreement has been completely discharged, whichever first occurs. Guarantor is not discharged from liability if a claim by a franchisee against the Franchisor remains outstanding. Notice of acceptance is waived. Guarantor does not waive receipt of notice of default on the part of the Franchisor. This guarantee is binding on the Guarantor and its successors and assigns. (See Exhibit W: Performance Guaranty).

ITEM 22: CONTRACTS

Attached to this Disclosure Document are the following franchise-related contracts:

- Exhibit D Asset Purchase Agreement (For Sale of a Corporate Store or store located within an LA Fitness health club to a Franchisee) with Promissory Note and Security Agreement and Guaranty (if applicable)
- Exhibit E-1 Franchise Agreement (New) and Franchisee Questionnaire
- Exhibit E-2 Franchise Agreement (Renewal) and Franchisee Questionnaire
- Exhibit E-3 Franchise Agreement (Transfer) and Franchisee Questionnaire
- Exhibit F-1 Guaranty of Franchise Agreement
- Exhibit F-2 Non-Disclosure and Non-Competition Agreement
- Exhibit G Collateral Assignment and Irrevocable Special Power of Attorney
- Exhibit H Amendment to Franchise Agreement (for non-traditional locations – excluding those co-branded with another ~~Kahala Franchising, L.L.C.-affiliated~~ brand)
- Exhibit H-1 Amendment to Franchise Agreement (for stores to be located within current LA Fitness Health Clubs: newly-constructed only)
- Exhibit H-2 Amendment to Franchise Agreement (for stores to be located within future LA Fitness Health Clubs: newly-constructed stores only)
- Exhibit H-3 Amendment to Franchise Agreement (for stores to be located within LA Fitness Health Clubs: conversions only)

Exhibit H-4 Bill of Sale (applicable only for stores located within LA Fitness health clubs) Exhibit I
 Amendment to Franchise Agreement (for co-branded non-traditional locations) Exhibit J
~~Amendment to Franchise Agreement (for franchises in Georgia)~~ Intentionally Omitted Exhibit
 K Addendum to the Franchise Agreement for SBA Loans Exhibit M Lease Guaranty
 Acknowledgment Exhibit N Lease Review and/or Negotiation Agreement and Release and State Addenda
 Exhibit O-1 Sublease and Guaranty of Sublease (Franchisee pays rent directly to Landlord)
 Exhibit O-2 Sublease and Guaranty of Sublease (Kahala collects rent from Franchisee and pays to
 Landlord)
Exhibit O-3 Single-Unit Facility License Agreement (for LA Fitness locations only) and Consent of Spouse
 Exhibit P Pre-Authorized Electronic Funds Transfer Form
 Exhibit Q General Release for Renewal of Franchise Agreement
 Exhibit R-1 Consent to Transfer and Release Agreement (without Sublease)
Exhibit R-2 Consent to Transfer and Release Agreement (with Sublease)
 Exhibit S State Specific Addenda to Franchise Documents
 Exhibit W Performance Guaranty
 Exhibit X Addendum for Sale of Company-Affiliated Owned Stores
 Exhibit Y Receipts

ITEM 23: RECEIPTS

Exhibit Y to this Disclosure Document is a detachable receipt. You are to keep one copy and return the other copy to us.

EXHIBIT A

TO THE FRANCHISE DISCLOSURE DOCUMENT

State Addenda to Franchise Disclosure Document

**ADDENDUM TO THE KAHALA FRANCHISING, L.L.C.
DISCLOSURE DOCUMENT REQUIRED BY THE STATE OF CALIFORNIA**

- A. 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 DISCLOSURE DOCUMENT.**
- B. Neither the franchisor, franchise broker nor any person in Item 2 of the Disclosure Document are subject to any currently effective order of any National Securities Association or National Securities Exchange, as defined in the Securities Exchange Act of 1934, 15 U.S.C.A. 78A et seq., suspending or expelling such person from membership in such association or exchange.**
- C. 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.).**
- D. The Franchise Agreement contains a covenant not to compete which extends beyond the termination of the agreements. This provision may not be enforceable under California law.**
- E. The Franchise Agreement requires application of the laws of the State of Arizona. This provision may not be enforceable under California Law.**
- F. Section 31125 of the California Corporations Code requires us to give you a disclosure document, in a form containing the information that the commissioner may by rule or order require, before a solicitation of a proposed material modification of an existing franchise.**
- G. YOU MUST SIGN A GENERAL RELEASE IF YOU RENEW OR TRANSFER YOUR FRANCHISE. CALIFORNIA CORPORATIONS CODE §31512 VOIDS A WAIVER OF YOUR RIGHTS UNDER THE FRANCHISE INVESTMENT LAW (CALIFORNIA CORPORATIONS CODE §§31000 THROUGH 31516).**
- H. BUSINESS AND PROFESSIONS CODE §20010 VOIDS A WAIVER OF YOUR RIGHTS UNDER THE FRANCHISE RELATIONS ACT (BUSINESS AND PROFESSIONS CODE §§20000 THROUGH 20043).**
- I. 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.**
- J. If the Franchisee resides in the State of California or the franchised business is located within the State of California, the venue for any dispute may be within the State of California. Business and Professions Code Section 20040.5 voids restricting a venue to a forum outside California with respect to any claim arising under or relating to a Franchise Agreement involving a franchise business operating in California.**
- K. OUR WEBSITE HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT. ANY COMPLAINTS CONCERNING THE CONTENTS OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT at www.dbo.ca.gov.**

ADDENDUM TO THE KAHALA FRANCHISING, L.L.C.
DISCLOSURE DOCUMENT REQUIRED BY THE STATE OF HAWAII

These franchises will be/have been filed under the Franchise Investment Law of the ~~S-tate~~State of Hawaii. ~~Fi ling doe s~~Filing does not constitute ~~a pproval, r ecommendation o r approval, recommendation or~~ endorsement by the Director of Commerce and Consumer Affairs or a finding by the Director of Commerce ~~a nd C onsumer and Consumer~~ Affairs ~~t hat t he~~that the information ~~pr ovided he re~~provided herein is true, complete and not misleading.

The Franchise Investment Law makes it unlawful to offer or sell any franchise in this state without first providing to the prospective franchisee, or subfranchisor, at least seven days prior to the execution by the prospective franchisee of any binding franchise ~~o r o ther ag reement, o r at l east sev en d ays p rior t o t he p ayment o f an y~~or other agreement, or at least seven days prior to the payment of any consideration by the franchisee, or ~~su bfranchisor~~subfranchisor, whichever ~~o ccurs f irst~~occurs first, a ~~c opy~~copy of the Disclosure Document, together with a copy of all proposed agreements relating to the sale of the franchise.

This Disclosure ~~D ocument~~Document contains a ~~su mmary o nly o f c ertain m aterial~~summary only of certain material provisions ~~o f t he F ranchise~~of the Franchise Agreement. ~~T he co ntract o r ag reement~~The contract or agreement should ~~b e~~be referred ~~t o~~to for a ~~s tatement o f a ll r ights~~statement of all rights, conditions, ~~r estrictions a nd o bl igations o f~~restrictions and obligations of both the franchisor and the franchisee.

A Federal ~~T rade C ommission r ule m akes i t u nlawful t o o ffer o r sell an y~~Trade Commission rule makes it unlawful to offer or sell any franchise without ~~f irst p r oviding t his~~first providing this Disclosure ~~D ocument t o t he p r o~~Document to the prospective franchisee at ~~t he~~the earlier ~~o f~~(1) fourteen calendar days ~~b e f ore t he s igning o f a ny~~calendar days before the signing of any franchise or related agreement; or (2) fourteen calendar days ~~b e f ore~~before any ~~p a yment~~payment. The prospective franchisee must also receive a Franchise Agreement containing all material ~~t erms a t l east sev en c alendar d ays p rior t o t he s igning o f t he F ranchise~~terms at least seven calendar days prior to the signing of the Franchise Agreement.

If ~~t h is~~this Disclosure ~~D ocument~~Document is not ~~d elivered o n t ime, o r i f i t~~delivered on time, or if it contains a ~~f alse~~false, incomplete, inaccurate ~~o r o r misleading~~statement, a ~~v iolation o f federal a nd s tate l aw m ay h a ve o c curred a nd s hould b e r eported t o t he F e deral T rade C ommission, W a shington D~~violation of federal and state law may have occurred and should be reported to the ~~F ederal T rade C ommission, W a shington D.C. 20 580~~Federal Trade Commission, Washington D.C. 20580 and to ~~H awaii~~Hawaii Department of ~~C ommerce a nd C onsumer~~Commerce and Consumer Affairs which administers and enforces the Hawaii Franchise Disclosure Act.

Registered agent in the state authorized to receive service of process:

Department of Commerce and Consumer Affairs
Business Registration Division Commissioner of Securities Securities Compliance Branch

335 Merchant Street, Room 203 Honolulu, Hawaii 96813

1. The following paragraph is added to Item 17:

Section 482E-6(3) of the Hawaii Revised Statutes provides that upon termination or refusal to renew the Franchise Agreement, Kahala Franchising, L.L.C. is obligated to compensate you for the fair market value, at the time of the termination or expiration of the Franchise Agreement, of your inventory, supplies, equipment and furnishings purchased from Kahala Franchising, L.L.C. or a supplier designated by Kahala Franchising, L.L.C.; provided that personalized materials which have no value to us need not be compensated for. If Kahala Franchising, L.L.C. refuses to renew a Franchise Agreement for the purpose of converting your business to one owned and operated by Kahala Franchising, ~~L.L.C., Kahala Franchising,~~ L.L.C., in addition to the remedies provided above, shall compensate you for the loss of goodwill. Kahala Franchising, L.L.C. may deduct from such compensation reasonable costs incurred in removing, transporting and disposing of your inventory, supplies, equipment and furnishings pursuant to this requirement, and may offset from such compensation any monies due Kahala Franchising, L.L.C.

2. The following list reflects the status of the franchise registration of the Franchisor in the states which require registration:

A. The states in which this proposed registration is effective: ~~California, Illinois, Indiana and New York~~ None.

B. The states in which this proposed registration is or will be shortly on file: California, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington, ~~and~~ Wisconsin.

C. The states, if any, which have refused, by order or otherwise, to register these franchises: None.

D. The states, if any, which have revoked or suspended the right to offer these franchises: None.

E. The states, if any, in which the proposed registration of these franchises has been withdrawn by the Franchisor: None.

3. Section 482E-3(a) of the Hawaii Franchise Investment Law requires the franchisor to give you a copy of the Franchise Disclosure Document at least 7 calendar days prior to signing the franchise agreement. The Receipt is amended to reflect the 7 calendar-day waiting period.

**ADDENDUM TO THE KAHALA FRANCHISING, L.L.C.
DISCLOSURE DOCUMENT REQUIRED BY THE STATE OF ILLINOIS**

1. Items 17.f and 17.i are supplemented with the following language:

The conditions under which your Franchise Agreement may be terminated and your rights upon non-renewal may be affected by Illinois Law, 815 ILCS 705/19 and 705/20.
2. Items 17.f, 17.g, 17.t, 17.v, and 17.w are supplemented with the following language:

This summary applies to both the Franchise Agreement and the Area Representative Agreement.
3. The Summary in Item 17.v is deleted and replaced by the following Summary:

Litigation in Illinois.
4. The Summary in Item 17.w is deleted and replaced by the following Summary:

Illinois law applies.
5. Section 41 of the Illinois Franchise Disclosure Act states that “any condition, stipulation, or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of this Act is void.”

**ADDENDUM TO THE KAHALA FRANCHISING, L.L.C.
DISCLOSURE DOCUMENT REQUIRED BY THE STATE OF INDIANA**

1. Item 17.c may be modified by Indiana Code § 23-2-2.7.
2. The Summary in Item 17.r. is deleted and replaced with the following Summary:

For one year after the termination of your Franchise Agreement, you may not establish a similar type of business within your exclusive territory.
3. Item 17.t is supplemented with the following language:

However, you do not waive any rights under the Indiana Statutes with regard to prior representations made by Kahala Franchising, L.L.C. in the Disclosure Document.
4. Items 17.v and 17.w are supplemented with the following language:

Except that under Indiana law, you may have the right to bring an action in Indiana, and have Indiana law apply.
5. The Indiana Deceptive Franchise Practices Act, IC 23-2-2.7-1 (10) prohibits the limitation of litigation brought for breach of a Franchise Agreement including any limitation on the forum chosen. Any provision in the Franchise Agreement, specifying a forum contrary to Indiana law, shall not apply to any claims brought under the Indiana Deceptive Franchise Practices Act and/or the Indiana Franchise Act, Ind. Code ANN.§§ 1-51 (1994).

6. The Indiana Deceptive Franchise Practices Act, IC 23-2-2.7-1 (10) prohibits the limitation of litigation brought for breach of a Franchise Agreement. Any provision in the Franchise Agreement requiring the application of another state's law shall not apply to any claims brought under the Indiana Deceptive Franchise Practices Act and/or the Indiana Franchise Act, Ind. Code ANN. §§ 1-51 (1994).
7. Indiana Code § 23-2-2.5-9 (2) requires a franchisor to give you a copy of the Franchise Disclosure Document at the earlier of: (i) 10 days prior to signing the franchise agreement; or (ii) 10 days prior to franchisor's receipt of any consideration. The Receipt is amended to reflect the 10 day waiting period.

**ADDENDUM TO THE KAHALA FRANCHISING, L.L.C.
DISCLOSURE DOCUMENT REQUIRED BY THE STATE OF MARYLAND**

1. Item 5 of the Franchise Disclosure Document and all agreements in this offering are amended to disclose the following:

All initial fees and payments shall be deferred until such time as the franchisor completes its initial obligations under the Franchise Agreement.

2. The following amends Item 11 and replaces the last sentence of paragraph 8.a. under the section titled "During the operation of the Franchised Business:"

A Franchisee may, at any time after 120 days following the end of the calendar year, obtain an accounting of expenditures for the Advertising Fund and any Cooperative Regional Funds for the entire preceding calendar year by submitting a written request to Kahala Franchising, L.L.C.'s Chief Financial Officer at the principal business address listed in Item 1 of the Franchise Disclosure Document.

3. The Summary in Item 17.v is deleted, and the following Summary is inserted in its place:

A Franchisee may file a civil lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law. Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within three years after the grant of the franchise.

4. Item 17 is amended to disclose the following:

Any 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.

5. The following paragraph is added to the end of Item 17:

The Franchise Agreement provides for termination upon Franchisee's bankruptcy. This provision may not be enforceable under Federal Bankruptcy Law (11 U.S.C. Section 101 et seq.).

**ADDENDUM TO KAHALA FRANCHISING, L.L.C.
DISCLOSURE DOCUMENT
FOR THE STATE OF MICHIGAN**

Section 445.1508(1) of the Michigan Franchise Investment Law requires franchisor to give you a copy of the Franchise Disclosure Document earlier of: (i) 10 business days prior to signing the Agreement; or (ii) 10 business days prior to franchisor's receipt of any consideration.

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

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

- (iii) The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.
- (iv) The failure of the franchisee or proposed transferee to pay any sums owing to the franchisor or to cure any default in the Franchise Agreement existing at the time of the proposed transfer.

(H) A provision that requires the franchisee to resell to the franchisor items that are not uniquely identified with the franchisor. This subdivision does not prohibit a provision that grants to a franchisor a right of first refusal to purchase the assets of a franchise on the same terms and conditions as a bona fide third party willing and able to purchase those assets, nor does this subdivision prohibit a provision that grants the franchisor the right to acquire the assets of a franchise for the market or appraised value of such assets if the franchisee has breached the lawful provisions of the Franchise Agreement and has failed to cure the breach in the manner provided in subdivision (c).

(I) A provision which permits the franchisor to directly or indirectly convey, assign, or otherwise transfer its obligations to fulfill contractual obligations to the franchisee unless provision has been made for providing the required contractual services.

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

Any questions regarding this notice shall be directed to:

STATE OF MICHIGAN
DEPARTMENT OF THE ATTORNEY GENERAL
ATTENTION: FRANCHISE SECTION
P.O. BOX 30213 LANSING, MICHIGAN 48909
(517) 373-7117

**ADDENDUM TO THE KAHALA FRANCHISING, L.L.C.
DISCLOSURE DOCUMENT REQUIRED BY THE STATE OF MINNESOTA**

1. The following legends are added to the Risk Factors on the Cover Page:

THESE FRANCHISES HAVE BEEN REGISTERED UNDER THE MINNESOTA FRANCHISE ACT. REGISTRATION DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION, OR ENDORSEMENT BY THE COMMISSIONER OF SECURITIES OF MINNESOTA OR A FINDING BY THE COMMISSIONER THAT THE INFORMATION PROVIDED HEREIN IS TRUE, COMPLETE, AND NOT MISLEADING.

THE MINNESOTA FRANCHISE ACT MAKES IT UNLAWFUL TO OFFER OR SELL ANY FRANCHISE IN THIS STATE WHICH IS SUBJECT TO REGISTRATION WITHOUT FIRST PROVIDING TO THE PROSPECTIVE FRANCHISEE AT LEAST 7 DAYS PRIOR TO THE PAYMENT OF ANY CONSIDERATION, BY THE FRANCHISEE, WHICHEVER OCCURS FIRST, A COPY OF THIS PUBLIC OFFERING STATEMENT, TOGETHER WITH A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE FRANCHISE. THIS PUBLIC OFFERING STATEMENT CONTAINS A SUMMARY ONLY OF CERTAIN MATERIAL PROVISIONS OF THE FRANCHISE AGREEMENT. THE CONTRACT OR AGREEMENT SHOULD BE REFERRED TO FOR AN UNDERSTANDING OF ALL RIGHTS AND OBLIGATIONS OF BOTH THE FRANCHISOR AND THE FRANCHISEE.

IF THIS DISCLOSURE DOCUMENT IS NOT DELIVERED ON TIME, OR IF IT CONTAINS A FALSE, INCOMPLETE, INACCURATE OR MISLEADING STATEMENT, A VIOLATION OF FEDERAL AND STATE LAW MAY HAVE OCCURRED AND SHOULD BE REPORTED TO THE FEDERAL TRADE COMMISSION, WASHINGTON, D.C. 20580 AND TO THE COMMISSIONER OF SECURITIES, DEPARTMENT OF COMMERCE, SECURITIES DIVISION, 85 7TH PLACE EAST, SUITE 500, ST. PAUL, MINNESOTA 55101, WHICH ADMINISTERS AND ENFORCES THE MINNESOTA FRANCHISE ACT.

2. Pursuant to Minnesota Rules 604.113, in Item 6, the table entry in the second column pertaining to “Amount” for “Non-Sufficient Funds Fee” is hereby deleted and replaced with the following:

\$30 for each electronic funds transfer returned for non-sufficient funds; \$25 for each check or draft returned for non-sufficient funds

3. The following paragraph is added to Item 13:

The franchisor will protect the franchisee’s rights to use the trademarks, service marks, trade names, logotypes or other commercial symbols or indemnify the franchisee from any loss, costs or expenses arising out of any claim, suit or demand regarding the use of the name.

Minnesota considers it unfair to not protect the franchisee’s right to use the trademarks. Refer to Minnesota Statutes, Section 80C.12, Subd. 1(g).

4. The following statement is added at the end of Item 17.c and 17.m:

Minnesota Rules 2860.4400(D) prohibits a franchisor from requiring a franchisee to assent to a general release.

5. The following statement is added at the end of 17.v and 17.w.:

Minnesota Statutes, Section 80C.21 and Minnesota Rules 2860.4400(J) prohibit the franchisor from requiring litigation to be conducted outside Minnesota, requiring waiver of a jury trial, or

requiring the franchisee to consent to liquidated damages, termination penalties or judgment notes. In addition, nothing in the Franchise Disclosure Document or agreement(s) can abrogate or reduce (1) any of the franchisee's rights as provided for in Minnesota Statutes, Chapter 80C or (2) franchisee's rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.

The franchisee cannot consent to the franchisor obtaining injunctive relief. The franchisor may seek injunctive relief. See Minn. Rules 2860.4400J.

Also, a court will determine if a bond is required.

6. The following statement is added at the end of Item 17:

With respect to franchises governed by Minnesota law, the franchisor will comply with Minnesota Statutes, Section 80C.14, Subd. 3-5, which require (except in certain specified cases) (1) 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 and (2) that consent to the transfer of the franchise will not be unreasonably withheld.

7. The Summary in Item 17.v is deleted, and the following Summary is inserted in its place:

The Limitations of Claims section must comply with Minnesota Statutes, Section 80C.17, Subd. 5.

**ADDENDUM TO THE KAHALA FRANCHISING, L.L.C.
DISCLOSURE DOCUMENT REQUIRED BY 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 B OR YOUR PUBLIC LIBRARY FOR SOURCES OF INFORMATION. REGISTRATION OF THIS FRANCHISE BY NEW YORK STATE DOES NOT MEAN THAT NEW YORK STATE RECOMMENDS IT OR HAS VERIFIED THE INFORMATION IN THIS DISCLOSURE DOCUMENT. IF YOU LEARN THAT ANYTHING IN THE 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.

2. The following is added at the end of Item 3:

~~FLOOR, NEW~~

Except as provided ~~a bove~~above, with regard ~~t o~~to the franchisor, its predecessor, a person identified ~~i n I tem 2, o r an af filiate of fering f ranchises under t he f ranchisor i n I tem 2, or an af filiate offering franchises under the franchisor~~'s principal trademark:

A. No ~~su ch party has an adm inistrative, cr iminal or ci vil act ion pe nding aga inst t hat person a lleging: a f elony~~such party has an administrative, criminal or civil action pending against that person alleging: a felony, a violation of a franchise, ~~ant i trust~~antitrust, or ~~se curities~~securities law, ~~f raud~~fraud, embezzlement, fraudulent conversion, misappropriation of property, unfair or deceptive practices, or comparable civil or misdemeanor allegations.

B. No ~~su ch par ty h as~~such party has pending ~~act ions, ot her t han~~actions, other than routine litigation incidental ~~t o~~to the business, which ~~ar e si gnificant i n t he co ntext of t he nu mber o f~~are significant in the context of the number of franchisees and ~~t he si ze~~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 ~~ye ar~~year period immediately ~~pr eceding t he a pplication f or~~preceding the application for registration, has been ~~co nvicted~~convicted of or ~~pl eaded no lo co ntendere~~pleaded nolo contendere to a misdemeanor ~~ch arge~~charge or has been the ~~su bject o f a ci vil act ion al leging~~subject of a civil action alleging: violation of a franchise, ~~an t ifraud~~antifraud, or ~~se curities~~securities law; fraud; ~~e mbezzlement~~embezzlement; fraudulent ~~co nversion o r~~conversion or misappropriation of ~~p roperty~~property; or ~~unf air~~unfair or deceptive practices or comparable allegations.

D. No ~~su ch par ty i s~~such party is subject ~~t o~~to a ~~cu rrently~~currently effective injunctive or ~~r estrictive o r~~restrictive order or decree ~~r elating t o t he f ranchise~~relating to the franchise, or under a ~~F ederal, S tate, o r C anadian f ranchise~~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 ~~o r~~order of any national ~~se curities~~securities association or ~~nat ional se curities~~national securities exchange, as defined in ~~t he S ecurities~~the Securities and Exchange ~~A ct~~Act of 1934, ~~su spending~~suspending or expelling ~~su ch per sons~~such person from membership ~~i n su ch asso ciation o r e xchange~~in such association or exchange; ~~o r i s~~or is subject ~~t o a cu rrently ef fectiveto~~to a currently effective injunctive or restrictive order relating to any ~~o t her busi ness~~other business activity as a ~~r esult~~result of an ~~act ion~~action brought by a ~~pub lie~~public agency or ~~de partment, i ncluding~~department, including, without ~~i mitation, act ions~~limitation, actions affecting a license as a real estate broker or sales agent.

3. 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.

4. The ~~f ollowing i s~~following is added ~~t o t he~~to the end of ~~t he~~the “Summary” ~~se ctions~~sections of ~~I tem~~Item 17(c), ~~t itled~~titled “Requirements for franchisee ~~t o r enew~~to renew or ~~ex tend~~extend,” and ~~I tem~~Item 17(m), ~~ent itled~~entitled “Conditions for franchisor approval of transfer”:

However, to the extent required by applicable law, all rights you enjoy and any causes of action arising in your favor from the provisions of Article 33 of the General Business Law of the State of New York and the regulations issued thereunder shall remain in force; it being the intent of this proviso that the non-waiver provisions of General Business Law ~~S ections~~Sections 687.4 and 687.5 be satisfied.

5. 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.

6. 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.

7. The franchisor ~~m ay~~may, if it chooses, negotiate with you about items covered in the prospectus. 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 prospectus.

8. The Franchise Agreement and the other documents to be ~~si gned~~signed by the franchisee

provide that we do not grant you any exclusive or protected territory for your restaurant.

9. The Franchise Agreement and the other documents to be signed by you further allow the franchisor ~~to locate franchised or corporate-owned locations~~ to locate franchised or corporate-owned locations of food ~~concepts~~ concepts similar ~~to~~ to *NrGize Lifestyle Cafe™* in the immediate vicinity of your restaurant. There may also be locations of food concepts similar to *NrGize Lifestyle Cafe* that are owned by affiliates of the franchisor already open and operating in the immediate vicinity of your restaurant.

10. Section 683.8 of the General Business Law of the State of New York requires franchisor to give you a ~~copy~~ copy of ~~the Franchise Disclosure Document at the earlier of~~ the Franchise Disclosure Document at the earlier of: (i) ~~the~~ the first ~~personal~~ personal meeting; (ii) 10 ~~business~~ business days before ~~the~~ the execution of ~~the Franchise Agreement~~ the Franchise Agreement; or (iii) ~~1-010~~ 1-010 business days before the payment of any consideration that relates to the franchise relationship.

FACTORS TO BE CONSIDERED:

Any disputes, differences or ~~controversies~~ controversies that ~~arise pursuant to~~ arise pursuant to ~~the~~ the Franchise ~~Agreement or breach thereof which cannot~~ Agreement or breach thereof which cannot be ~~settled by~~ settled by mediation ~~shall be settled by~~ shall be settled by arbitration. ~~All~~ All such proceedings shall be held in Maricopa County, Arizona. This information should be taken into consideration in determining whether or not to purchase this franchise.

The franchisor represents that this prospectus does not knowingly omit any material fact or contain any untrue statement of a material fact.

ADDENDUM TO THE KAHALA FRANCHISING, L.L.C. DISCLOSURE DOCUMENT REQUIRED BY THE STATE OF NORTH DAKOTA

ALTHOUGH THESE FRANCHISES HAVE BEEN REGISTERED UNDER THE FRANCHISE INVESTMENT LAW OF THE STATE OF NORTH DAKOTA, REGISTRATION DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION, OR ENDORSEMENT BY THE STATE OF NORTH DAKOTA THAT THE INFORMATION PROVIDED IN THIS DISCLOSURE DOCUMENT IS TRUE, COMPLETE, ACCURATE, OR NOT MISLEADING.

NORTH DAKOTA LAW MODIFICATIONS

1. The North Dakota Securities Commissioner requires that certain provisions contained in franchise documents be amended to be consistent with North Dakota Law, including the North Dakota Franchise Investment Law, North Dakota Century Code Annotated Chapter 51-19, Sections 51-19-01 through 51-19-17 (1993). To the extent that the Franchise Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

- a. If the Franchisee is required in the Franchise 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 Law, or a rule or order under the Law, such release shall exclude claims arising under the North Dakota Franchise Investment Law, and such acknowledgements shall be void with respect to claims under the Law.
- b. Covenants not to compete during the term and upon termination or expiration of the Franchise Agreement are enforceable only under certain conditions according to North Dakota Law. If the Franchise Agreement contains a covenant not to compete which is inconsistent with North Dakota Law, the

covenant may be unenforceable.

- c. If the Franchise Agreement requires litigation to be conducted in a forum other than the State of North Dakota, the requirement is void with respect to claims under the North Dakota Franchise Investment Law.
- d. If the Franchise Agreement requires that it be governed by a state's law, other than the State of North Dakota, to the extent that such law conflicts with the North Dakota Franchise Investment Law, the North Dakota Franchise Investment Law will control.
- e. If the Franchise Agreement requires mediation or arbitration to be conducted in a forum other than the State of North Dakota, the requirement may be unenforceable under the North Dakota Franchise Investment Law. Arbitration involving a franchise purchased in the State of North Dakota must be held either in a location mutually agreed upon prior to the arbitration or if the parties cannot agree on a location, the location will be determined by the arbitrator.
- f. If the Franchise Agreement requires payment of a termination penalty, the requirement may be unenforceable under the North Dakota Franchise Investment Law.
- g. Section 51-19-08 of the North Dakota Franchise Investment Law requires franchisor to give you a copy of the Franchise Disclosure Document at the earlier of: (i) seven days prior to signing the franchise agreement; or (ii) seven days prior to franchisor's receipt of any consideration.

2. THE SECURITIES COMMISSIONER HAS HELD THE FOLLOWING TO BE UNFAIR, UNJUST OR INEQUITABLE TO NORTH DAKOTA FRANCHISEES (SECTION 51-19-09, N.D.C.C.):

- A. Restrictive Covenants: Franchise Disclosure Documents which disclose the existence of covenants restricting competition contrary to Section 9-08-06, N.D.C.C., without further disclosing that such covenants will be subject to the statute.
- B. Situs of Arbitration Proceedings: Franchise agreements providing that the parties must agree to the arbitration of disputes at a location that is remote from the site of the franchisee's business.
- C. Restrictions on Forum: Requiring North Dakota franchisees to consent to the jurisdiction of courts outside of North Dakota.
- D. Liquidated Damages and Termination Penalties: Requiring North Dakota franchisees to consent to liquidated damages or termination penalties.
- E. Applicable Laws: Franchise agreements which specify that they are to be governed by the laws of a state other than North Dakota.
- F. Waiver of Trial by Jury: Requiring North Dakota Franchises to consent to the waiver of a trial by jury.
- G. Waiver of Exemplary & Punitive Damages: Requiring North Dakota Franchisees to consent to a waiver of exemplary and punitive damage.

- H. General Release: Franchise Agreements that require the franchisee to sign a general release upon renewal of the franchise agreement.
- I. Limitation of Claims: Franchise Agreements that require the franchisee to consent to a limitation of claims. The statute of limitations under North Dakota law applies.
- J. Enforcement of Agreement: Franchise Agreements that require the franchisee to pay all costs and expenses incurred by the franchisor in enforcing the agreement. The prevailing party in any enforcement action is entitled to recover all costs and expenses including attorney's fees.

3. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of the North Dakota Franchise Investment Law, with respect to each such provision, are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

**ADDENDUM TO THE KAHALA FRANCHISING, L.L.C.
DISCLOSURE DOCUMENT REQUIRED BY THE STATE OF RHODE ISLAND**

RHODE ISLAND LAW MODIFICATIONS

1. The Rhode Island Securities Division requires that certain provisions contained in franchise documents be amended to be consistent with Rhode Island law, including the Franchise Investment Act, R.I. Gen. Law. ch. 395 Sec. 19-28.1-1 – 19-28.1-34. To the extent that the Franchise Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

- a. If the Franchise Agreement restricts jurisdiction or venue to a forum other than the State of Rhode Island, the requirement is void under Rhode Island Franchise Investment Act Sec. 19-28.1-14.
- b. If the Franchise Agreement requires that it be governed by a state's law, other than the State of Rhode Island, to the extent that such law conflicts with Rhode Island Franchise Investment Act it is void under Sec. 19-28.1-14.
- c. If the Franchisee is required in the Franchise 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 Act, or a rule or order under the Act, such release shall exclude claims arising under the Rhode Island Franchise Investment Act, and such acknowledgements shall be void with respect to claims under the Act.

2. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of the Rhode Island Franchise Investment Act, with respect to each such provision, are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

ADDENDUM TO KAHALA FRANCHISING, L.L.C. DISCLOSURE DOCUMENT FOR THE STATE OF SOUTH DAKOTA

1. The Director of the South Dakota Division of Securities requires that certain provisions contained in franchise documents be amended to be consistent with South Dakota law, including the South Dakota Franchise Investment Law, South Dakota Codified Laws, Title 37, Chapter 37-5B, Sections 37-5B-1 through 37-5B-53 (2008). To the extent that the Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

- a. 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 Law, or a rule or order under the Law, such release shall exclude claims arising under the South Dakota Franchise Investment Law, and such acknowledgements shall be void with respect to claims under the Law.
- b. Covenants not to compete upon termination or expiration of the Agreement are generally unenforceable in the state of South Dakota, except in certain limited instances as provided by law. If this Agreement contains a covenant not to compete which is inconsistent with South Dakota Law, the covenant may be unenforceable.
- c. Regardless of the terms of the Agreement concerning termination, if Franchisee fails to meet performance and quality standards or fails to make any royalty payments under the Agreement, Franchisee will be afforded thirty (30) days' written notice with an opportunity to cure the default before termination.
- d. If the Agreement requires payment of liquidated damages that are inconsistent with South Dakota law, the liquidated damage clause may be void under SDCL 53-9-5.
- e. If the Agreement requires litigation to be conducted in a forum other than the State of South Dakota, the requirement is void with respect to any cause of action otherwise enforceable under South Dakota Law.
- f. If the Agreement requires that it be governed by a state's law, other than the State of South Dakota, matters regarding franchise registration, employment, covenants not to compete, and other matters of local concern will be governed by the laws of the State of South Dakota; but as to contractual and all other matters, the Agreement and all provisions of this Amendment will be and remain subject to the application, construction, enforcement, interpretation under the governing law set forth in the Agreement.
- g. If the Agreement requires that disputed between Franchisor and Franchisee be mediated/arbitrated at a location that is outside the State of South Dakota, the mediation/arbitration will be conducted at a location mutually agreed upon by the parties. If the parties cannot agree on location for the mediation/arbitration, the location shall be determined by the mediator/arbitrator selected.

- h. Any condition, stipulation or provision in the Agreement requiring Franchisee to waive compliance of a provision under the South Dakota Franchise Investment Law is void.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the South Dakota Franchise Investment Law, with respect to each such provision, are met independent of this Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met.

**ADDENDUM TO KAHALA FRANCHISING, L.L.C. DISCLOSURE DOCUMENT
FOR THE STATE OF VIRGINIA**

1. The following amends Item 17 and is stated at the end of Item 17:

Pursuant to Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a franchisor to cancel a franchise without reasonable cause. If any grounds for default or termination stated in the 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.

**ADDENDUM TO THE KAHALA FRANCHISING, L.L.C.
DISCLOSURE DOCUMENT REQUIRED BY THE STATE OF WASHINGTON**

The State of Washington has a statute, RCW 19.100.180, which may supersede the Franchise Agreement in your relationship with the Franchisor, including the areas of termination and renewal of your Franchise Agreement. There may also be court decisions which may supersede the Franchise Agreement in your relationship with the Franchisor, including the areas of termination and renewal of your Franchise Agreement.

1. If any provisions governing termination or non-renewal disclosed herein are inconsistent with Washington law, then Washington law shall apply. The applicable law reads as follows:

Section 19.100.180. Without limiting the other provisions of this chapter, the following specific rights and prohibitions shall govern the relation between the franchisor or subfranchisor and the franchisees:

(2) For the purpose of this chapter and without limiting its general application, it shall be an unfair or deceptive act or practice or an unfair method of competition and therefore unlawful and violation of this chapter for any person to:

(a) Restrict or inhibit the right of the franchisees to join an association of franchisees.

(b) Require a franchisee to purchase or lease goods or services of the franchisor or from approved sources of supply unless and to the extent that the franchisor satisfies the burden of proving that such restrictive purchasing agreements are reasonably necessary for a lawful purpose justified on business grounds, and do not substantially affect competition: PROVIDED, That this provision shall not apply to the initial inventory of the franchise. In determining whether a requirement to purchase or lease goods or services constitutes an unfair or deceptive act or practice or an unfair method of competition the courts shall be guided by the decisions of the courts of the United States interpreting and applying the anti-trust laws of the United States.

(c) Discriminate between franchisees in the charges offered or made for royalties, goods, services, equipment, rentals, advertising services, or in any other business dealing, unless and to the extent that the franchisor satisfies the burden of proving that any classification of or discrimination between franchisees is: (i) Reasonable, (ii) based on franchises granted at materially different times and such discrimination is reasonably related to such difference in time, or is based on other proper and justifiable distinctions considering the purposes of this chapter, and (iii) is not arbitrary. However, nothing in (c) of this subsection precludes negotiation of the terms and conditions of a franchise at the initiative of the franchisees.

(d) Sell, rent, or offer to sell to a franchisee any product or service for more than a fair and reasonable price.

(e) Obtain money, goods, services, anything of value, or any other benefit from any other person with whom the franchisee does business on account of such business unless such benefit is disclosed to the franchisee.

(f) If the franchise provides that the franchisee has an exclusive territory, which exclusive territory shall be specified in the franchise agreement, for the franchisor or subfranchisor to compete with the franchisee in an exclusive territory or to grant competitive franchises in the exclusive territory area previously granted to another franchisee.

(g) Require franchisee to assent to a release, assignment, novation, or waiver which would relieve any person from liability imposed by this chapter, except as otherwise

permitted by RCW 19.100.220.

(h) Impose on a franchisee by contract, rule, or regulation, whether written or oral, any standard of conduct unless the person so doing can sustain the burden of proving such to be reasonable and necessary.

(i) Refuse to renew a Franchise Agreement without fairly compensating the franchisee for the fair market value, at the time of expiration of the Franchise Agreement, or the franchisee's inventory, supplies, equipment, and furnishings purchased from the franchisor and good will, exclusive of personalized materials which have no value to the franchisor, and inventory, supplies, equipment and furnishings not reasonably required in the conduct of the franchised business: PROVIDED, that compensation need not be made to a franchisee for good will if: (i) the franchisee has been given one year's notice of nonrenewal; and (ii) the franchisor agrees in writing not to enforce any covenant which restrains the franchisee from competing with the franchisor: PROVIDED FURTHER, that a franchisor may offset against amounts owed to a franchisee under this subsection any amounts owed by such franchisee to franchisor.

(j) Terminate a franchise prior to the expiration of its term except for good cause. Good cause shall include, without limitation, the failure of the franchisee to comply with lawful material provisions of the franchise or other agreement between the franchisor and the franchisee and to cure such default after being given written notice thereof and a reasonable opportunity, which in no event need be more than thirty days, to cure such default, or if such default cannot reasonably be cured within thirty days, the failure of the franchisee to initiate within thirty days substantial and continuing action to cure such default: PROVIDED, that after three willful and material breaches of the same term of the Franchise Agreement occurring within a twelve month period, for which the franchisee has been given notice and an opportunity to cure as provided in this subsection, the franchisor may terminate the Franchise Agreement upon any subsequent month period without providing notice or opportunity cure: PROVIDED FURTHER, that a franchisor may terminate a Franchise Agreement without prior notice or opportunity to cure a default if the franchisee: (i) is adjudicated bankrupt or insolvent;

(ii) makes an assignment for the benefit of creditors or similar disposition of the assets of the franchised business; (iii) voluntarily abandons the franchised business; or (iv) is convicted of or pleads guilty or no contest to a charge of violating any law relating to the franchised business. Upon termination for good cause the franchisor shall purchase from the franchisee at a fair market value at the time of termination, the franchisee's inventory and supplies, exclusive of: (i) personalized materials which have no value to the franchisor; (ii) inventory and supplies not reasonably required in the conduct of the franchised business; and (iii) if the franchisee is to retain control of the premises of the franchised business, any inventory and supplies not purchased from the franchisor or on his express requirement: PROVIDED, that a franchisor may offset against amounts owed to a franchisee under this subsection any amounts owed by such franchisee to the franchisor."

2. In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW shall prevail.

3. A release or waiver of rights executed by a franchisee shall not include rights under the Washington Franchise Investment Protection Act except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, rights or remedies under the Act such as a right to a jury trial may not be enforceable.

4. Transfer fees are collectable to the extent that they reflect the Franchisor's reasonable estimated or actual costs in effecting a transfer.

5. Ranch*1, Inc. and its subsidiaries, all affiliates of Kahala Franchising, L.L.C., filed for Bankruptcy Protection Code Chapter 11 of the United States Bankruptcy Code on July 3, 2001. Full disclosure of the particulars of this filing is in Item 4 of this Disclosure Document.

**ADDENDUM TO THE KAHALA FRANCHISING, L.L.C.
DISCLOSURE DOCUMENT REQUIRED BY THE STATE OF WISCONSIN**

THESE FRANCHISES HAVE BEEN REGISTERED UNDER THE WISCONSIN FRANCHISE INVESTMENT LAW. REGISTRATION DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION, OR ENDORSEMENT BY THE COMMISSIONER THAT THE INFORMATION PROVIDED HEREIN IS TRUE, COMPLETE, AND NOT MISLEADING.

WISCONSIN LAW MODIFICATIONS

1. The Securities Commissioner of the State of Wisconsin requires that certain provisions contained in franchise documents be amended to be consistent with Wisconsin Fair Dealership Law, Wisconsin Statutes, Chapter 135 ("Fair Dealership Law") and the Wisconsin franchise Investment Law, Chapter 553. To the extent that the Franchise Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

- a. The Wisconsin Fair Dealership Law, among other things, grants you the right, in most circumstances, to 90 days' prior written notice of non-renewal and 60 days within which to remedy any claimed deficiencies. If the Franchise Agreement contains a provision that is inconsistent with the Wisconsin Fair Dealership Law, the provisions of the Franchise Agreement shall be superseded by the Law's requirements and shall have no force or effect.
- b. The Wisconsin Fair Dealership Law, among other things, grants you the right, in most circumstances, to 90 days' prior written notice of termination and 60 days within which to remedy any claimed deficiencies. If the Franchise Agreement contains a provision that is inconsistent with the Wisconsin Fair Dealership Law, the provisions of the Franchise Agreement shall be superseded by the Law's requirements and shall have no force or effect.
- c. If the Franchise Agreement requires that it be governed by a state's law, other than the State of Wisconsin, to the extent that any provision of the Franchise Agreement conflicts with the Wisconsin Fair Dealership Law such provision shall be superseded by the law's requirements.
- d. Any condition, stipulation or provision in the Agreement requiring Franchisee to waive compliance with any provision under the Wisconsin Franchise Investment law may be void.

2. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of the Wisconsin law applicable to the provision are met independent of this Amendment. This Amendment shall have no force or effect if such

jurisdictional requirements

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met.

3.

EXHIBIT B
TO THE FRANCHISE DISCLOSURE DOCUMENT

Directory of State Agencies and Administrators

DIRECTORY OF STATE AGENCIES AND ADMINISTRATORS

CALIFORNIA Department of Business Oversight 320 4th Street, #750 Los Angeles, CA 90013-~~(213)~~ <u>(213)</u> 576-7500 HAWAII Commissioner of Securities Dept. of Commerce and Consumer Affairs Business Registration Division Securities Compliance Branch 335 Merchant Street, Room 203 Honolulu, Hawaii 96813 (808) 586-2722 ILLINOIS Office of the Attorney General Franchise Division 500 South Second Street Springfield, IL 62706 (217) 782-4465 INDIANA Indiana Secretary of State Securities Division 302 W. Washington St, Room E111 Indianapolis, IN 46204 (317) 232-6681 MARYLAND Office of the Attorney General Securities Division 200 St. Paul Place Baltimore, Maryland 21202 (410) 576-6360 MICHIGAN Michigan Department of Attorney General Consumer Protection Division Antitrust and Franchise Unit 525 W. Ottawa Street, 6th Floor Lansing, MI 48933 (517) 373-7117	(518) M INNES OTA D e p a r t m e n t o f C o m m e r c e S e c u r i t i e s U n i t 8 5 S e v e n t h P l a c e E a s t, # 5 0 0	VIRGINIA State Corporation Commission Division of Securities and Retail Franchising P.O. Box 1197 Richmond, VA 23218-~~(804)~~ <u>(804)</u> 371-9051 WASHINGTON Department of Financial Institutions Securities Division 150 Israel Rd SW Tumwater, WA 98501 (360) 902-8760 WISCONSIN State of Wisconsin Department of Financial Institutions Division of Securities 201 W Washington Ave, Suite 300 Madison, WI 53703 (608) 267-9140

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EXHIBIT C
TO THE FRANCHISE DISCLOSURE DOCUMENT

Franchisor's Agent for Service of Process

FRANCHISOR'S AGENT FOR SERVICE OF PROCESS

ARIZONA

CT CORPORATION SYSTEM
2394 E. Camelback Road
Phoenix, AZ 85016

NEW YORK

SECRETARY OF STATE One Commerce Plaza
99 Washington Avenue Albany, NY 12231

CALIFORNIA

COMMISSIONER OF BUSINESS OVERSIGHT
320 4th Street, #750 Los Angeles, CA 90013

NORTH DAKOTA

SECURITIES COMMISSIONER 600 E. Boulevard
Ave Bismarck, North Dakota 58505

HAWAII

COMMISSIONER OF SECURITIES
335 Merchant Street, Room 203
Honolulu, Hawaii 96813

RHODE ISLAND

Director Of The Rhode Island Department Of
Business Regulation, Securities Division
John O. Pastore Complex, Building 69-1
1511 Pontiac Avenue Cranston, Rhode
Island 02920

ILLINOIS

ILLINOIS ATTORNEY GENERAL
500 South Second Street
Springfield, Illinois 62706

SOUTH DAKOTA

Director of Department of Labor and Regulation
Division of Securities
124 S. Euclid Ave., Suite 104
Pierre, South Dakota 57501

INDIANA

SECRETARY OF STATE 302 W.
Washington St, Room E111
Indianapolis, IN 46204

VIRGINIA

CLERK OF THE STATE CORPORATION
COMMISSION
1300 East Main Street, 1st Floor
Richmond, Virginia 23219

MARYLAND

MARYLAND SECURITIES COMMISSIONER
200 St. Paul Place Baltimore, Maryland
21202-2020

WASHINGTON

DIRECTOR OF FINANCIAL INSTITUTIONS 150
Israel Rd SW Tumwater, WA 98501

MINNESOTA

COMMISSIONER OF COMMERCE
85 Seventh Place East, Suite 500
St. Paul, Minnesota 55101-2198

WISCONSIN

ADMINISTRATOR, DIVISION OF SECURITIES,
DEPARTMENT OF FINANCIAL INSTITUTIONS
201 W Washington Ave, Suite 300 Madison, WI
53703

ARIZONA

CT CORPORATION SYSTEM 2394 E. Camelback
Road Phoenix, AZ 85016

NEW YORK

SECRETARY OF STATE One Commerce Plaza
99 Washington Avenue Albany, NY 12231

~~CALIFORNIA~~

~~COMMISSIONER OF BUSINESS OVERSIGHT-
320 4th Street, #750 Los Angeles, CA 90013~~

~~NORTH DAKOTA~~

~~SECURITIES COMMISSIONER 600 E. Boulevard
Ave Bismarck, North Dakota 58505~~

~~HAWAII~~

~~COMMISSIONER OF SECURITIES 335 Merchant
Street, Room 203 Honolulu, Hawaii 96813~~

~~RHODE ISLAND~~

~~Director Of The Rhode Island Department Of
Business Regulation, Securities Division-
John O. Pastore Complex, Building 69-1-
1511 Pontiac Avenue Cranston, Rhode-
Island 02920~~

~~ILLINOIS~~

~~ILLINOIS ATTORNEY GENERAL 500 South-
Second Street Springfield, Illinois 62706~~

~~SOUTH DAKOTA~~

~~Director of Department of Labor and Regulation-
Division of Securities
124 S. Euclid Ave., Suite 104
Pierre, South Dakota 57501~~

~~INDIANA~~

~~SECRETARY OF STATE 302 W. Washington St.,
Room E111 Indianapolis, IN 46204~~

~~VIRGINIA~~

~~CLERK OF THE STATE CORPORATION
COMMISSION
1300 East Main Street, 1st Floor
Richmond, Virginia 23219~~

~~MARYLAND~~

~~MARYLAND SECURITIES COMMISSIONER 200-
St. Paul Place Baltimore, Maryland 21202-2020~~

~~WASHINGTON~~

~~DIRECTOR OF FINANCIAL INSTITUTIONS 150-
Israel Rd SW Tumwater, WA 98501~~

~~MINNESOTA~~

~~COMMISSIONER OF COMMERCE 85 Seventh-
Place East, Suite 500 St. Paul, Minnesota-
55101-2198~~

~~WISCONSIN~~

~~ADMINISTRATOR, DIVISION OF SECURITIES,
DEPARTMENT OF FINANCIAL INSTITUTIONS-
201 W Washington Ave, Suite 300 Madison, WI-
53703~~

If a state is not listed, Kahala Franchising, L.L.C. has not appointed an agent for service of process in that state in connection with the requirements of franchise laws. There may be states in addition to those listed above in which Kahala Franchising, L.L.C. has appointed an agent for service of process. There may also be additional agents appointed in some of the states listed.

EXHIBIT D

TO THE FRANCHISE DISCLOSURE DOCUMENT

**Asset Purchase Agreement
(For Sale of a Corporate Store to a Franchisee)
with
Promissory Note and Security Agreement and Guaranty (if applicable)**

ASSET PURCHASE AGREEMENT

This ASSET PURCHASE AGREEMENT ("Agreement"), dated 20 ("Effective Date") by and between [SELLING ENTITY], a [state] [Corporation/Limited Liability Company, etc.] ("Seller"), and _____, a [state] [Corporation/Limited Liability Company, etc.] ("Purchaser"). Seller and Purchaser may also be referred to in this Agreement as a "Party" and collectively as "Parties."

Recitals

A. Seller owns and operates *NrGize Lifestyle Cafe*TM restaurant no. _____ ("Franchised Business") located at [store address, city and state] ("Premises").

B. Seller [Kahala Holdings, LLC] ("Sublicensor") has executed a Master Facility License Agreement, as amended, with FITNESS INTERNATIONAL, LLC (formerly L.A. Fitness International, LLC), a California limited liability company ("LA Fitness"), with respect to the Premises.

C. Seller desires to sell and transfer to Purchaser, and Purchaser desires to purchase and acquire from Seller, substantially all of the assets owned by Seller and to be used in connection with the operation of the Franchised Business.

D. In conjunction with the execution of this Agreement, Purchaser executed a franchise agreement[, as amended,] effective _____20 ("Franchise Agreement") with Kahala Franchising, L.L.C., an Arizona limited liability company, affiliated with Seller ("Franchisor").

E. In conjunction with the execution of this Agreement, Purchaser has executed a Single Unit Facility License with Seller.

Agreement

NOW, THEREFORE, in consideration of the foregoing promises and the mutual covenants and agreements contained herein, the Parties hereby agree as follows:

1. Sale of Assets. At Closing (as defined in Section 5(a), below), Seller shall sell, transfer, convey, assign and deliver to Purchaser, and Purchaser shall purchase and acquire from Seller, all of the furniture, fixtures and equipment and other items owned by Seller and to be used in connection with the Franchised Business (excluding cash, company record books and tax records) (collectively, "Transferred Assets"), and to Seller's knowledge, free and clear of all liens, claims, charges, encumbrances and security interests of any nature or type whatsoever][**OR**][subject to the terms of the Franchise Agreement]. A list of the Transferred Assets is attached hereto as **Schedule 1 to Exhibit A**. Seller makes no representation or warranty, express or implied, regarding the merchantability of the Transferred Assets or the condition or quality thereof AND HEREBY EXPRESSLY DISCLAIMS ANY IMPLIED WARRANTY OF MERCHANTABILITY OR OF FITNESS FOR A PARTICULAR PURPOSE and the Parties hereby agree that the Transferred Assets are being purchased in as "**AS IS**" condition.

Purchase Price.

- (a) In consideration of the sale of the Transferred Assets, Purchaser shall pay:
- [Simultaneously with the execution and delivery of this Agreement, the Purchase Price (as defined in Section 2(b) below) by electronic funds transfer, wire or cashiers' or certified check in immediately available funds.]
- [OR]
- [Simultaneously with the execution and delivery of this Agreement, the Purchase Price (as defined in Section 2(b) below) payable as set forth in the attached Promissory Note ("Deferred Payment").]
- [OR]
- [(i) Simultaneously with the execution and delivery of this Agreement, a non-refundable deposit in the amount of XX Thousand Dollars (**\$XX,000**) ("Deposit"), by electronic funds transfer, wire or cashiers' or certified check in immediately available funds; and
- (ii) At Closing, an amount equal to the difference between the Purchase Price (as defined in Section 2(b) below) minus the Deposit (such difference is referred to as "Purchase Price Balance"), by electronic funds transfer, wire or cashiers' or certified check in immediately available funds.] OR [At Closing, XX Thousand Dollars (**\$XX,000**) ("Deferred Payment"), payable as set forth in the attached Promissory Note.]
- (b) The "Purchase Price" is XX Thousand Dollars (**\$XX,000**), which shall be allocated as follows: [(i) XX Thousand Dollars (**\$XX,000**) to the leasehold improvements at the Premises;] [(ii) XX Thousand Dollars (**\$XX,000**) to the Transferred Assets, including all furniture, fixtures and equipment, as more fully described in **Schedule 1** to the Bill of Sale, attached hereto as **Exhibit A**, and incorporated herein by reference.

[The Purchase Price does not include: (i) consumable inventory including food products, perishables and paper products; or (ii) cash on hand.]

2. Representations and Warranties.

- (a) To induce Purchaser to enter into this Agreement and to perform Purchaser's obligations hereunder, and with full knowledge that Purchaser will rely thereon, Seller represents and warrants as follows:
- (i) Seller has title to and rightful possession to the Transferred Assets, and each of the Transferred Assets is and shall, upon the delivery thereof to Purchaser, be free and clear of recorded and publicly available liens, claims, charges, encumbrances and security interests.
- (ii) Seller is a limited liability company duly organized, validly existing and in good standing under the law of the State of Arizona.
- (iii) Seller has full right, power and authority to execute and deliver this

Agreement, and to consummate the transactions contemplated hereby.

- (iv) This Agreement has been duly executed and delivered by Seller and constitutes the legal, valid and binding obligation of Seller, enforceable against Seller in accordance with its terms.
 - (v) Neither the execution and delivery of this Agreement, nor the consummation of the transactions contemplated hereby, will conflict with, violate or result in a breach of or default under (with or without the giving of notice or the passage of time, or both): (a) any license, instrument, contract or agreement to which Seller is a party or by which Seller is bound, or (b) the articles of incorporation or the bylaws of Seller. Neither the execution and delivery of this Agreement, nor the consummation of the transactions contemplated hereby, will result in the creation of any lien, claim, charge, encumbrance or security interest of any nature or type whatsoever with respect to the Transferred Assets. Neither the execution and delivery of this Agreement, nor the consummation of the transactions contemplated hereby, will require any consent or approval of, or any filing with, any governmental entity or other person.
 - (vi) At Closing, the Transferred Assets are being purchased in “**AS IS**” condition and will comprise all of the assets and property necessary to conduct the Franchised Business in accordance with Franchisor’s operations manual (“Manual”).
 - (vii) The development and/or conduct of the Franchised Business, and the ownership and use of the Transferred Assets in accordance with Franchisor’s Manual, complies, or will (as of the date of Closing) comply, with all applicable federal, foreign, state and local laws, regulations and ordinances; provided, however, that Purchaser may be required to obtain certain licenses and permits in connection with the operation of the Franchised Business.
- (b) To induce Seller to enter into this Agreement and to perform Seller’s obligations hereunder, and with full knowledge that Seller will rely thereon, Purchaser represents and warrants as follows:
- (i) Purchaser is a [type of entity] duly organized, validly existing and in good standing under the law of the State of [state].
 - (ii) Purchaser has full right, power and authority to execute and deliver this Agreement, and to consummate the transactions contemplated hereby.
 - (iii) This Agreement has been duly executed and delivered by Purchaser and constitutes the legal, valid and binding obligation of Purchaser, enforceable against Purchaser in accordance with its terms.
 - (iv) Neither the execution and delivery of this Agreement, nor the consummation of the transactions contemplated hereby, will conflict with, violate or result in a breach of or default under (with or without the giving of notice or the passage of time, or both): (a) any license, instrument, contract or agreement to which Purchaser is a party or by which Purchaser is bound,

or (b) the certificate of incorporation or the bylaws (or other comparable charter documents) of Purchaser. Neither the execution and delivery of this Agreement, nor the consummation of the transactions contemplated hereby, will require any consent or approval of, or any filing with, any governmental entity or other person.

(v) Purchaser acknowledges that:

- (a) There are several potential locations for the location of Purchaser's *NrGize Lifestyle Cafe* restaurant;
- (b) The decision to establish and operate Purchaser's *NrGize Lifestyle Cafe* restaurant at the Premises was made solely by Purchaser, without any reliance upon any information provided (if any), recommendation made (if any) or approval given by Seller, any area representative, ~~Sublicensor~~Sublessor, or any of their respective shareholders, directors, officers, employees, representatives, agents or affiliates;
- (c) Seller's selection and approval of the Premises as a site for a *NrGize Lifestyle Cafe* restaurant provides no assurance or guaranty as to Purchaser's results of operations in connection with its *NrGize Lifestyle Cafe* restaurant at the Premises;
- (d) Purchaser has reviewed the lease (including all amendments and addendums) with respect to the Premises and approves of the terms thereof, including rental payment amounts;
- (e) Purchaser accepts full responsibility for the consequences of Purchaser's decision to open and operate a *NrGize Lifestyle Cafe* restaurant at the Premises.

3. Interim Period.

- (a) Between the date hereof and the Closing, Seller has operated the Franchised Business, in accordance with Seller's standard operating procedures for operating *NrGize Lifestyle Cafe* restaurants and the Franchised Business is open to the public for business.
- (b) Purchaser shall attend Seller's training program, if so required by Seller in the Franchise Agreement.

4. Closing.

- (a) Subject to the conditions set forth in Sections 5(b) and 5(c) hereof, the transactions contemplated by this Agreement shall be consummated on the Effective Date ("Closing") at Seller's office or at another mutually agreeable location.
- (b) The obligations of Seller to consummate the transactions contemplated by this Agreement are subject to the satisfaction at or prior to the Closing of the following conditions, any of which may be waived by Seller, in its sole discretion. Purchaser shall use its best efforts to cause each and every one of the following conditions to be satisfied at or before the Closing.

[(i) Purchaser shall have delivered to Seller the [Purchase Price] or [Purchase Price Balance], as set forth in Section 2 of this Agreement;]

[OR]

[(i) Purchaser shall have executed and delivered to Seller the Promissory Note and Security Agreement attached hereto as **Exhibit B** ("Promissory Note") in the amount of the Deferred Payment and a portion of the Purchase Price in the form of cash or by cashiers' or certified check;]

(ii) Purchaser shall have executed and delivered to Franchisor the Franchise Agreement and to Licensor the Single-Unit Facility License Agreement with respect to the Premises, in the forms then being executed by new franchisees of Franchisor and and licensees of Licensor;

~~(iii)~~ ~~(iv)~~ Purchaser shall have delivered to Franchisor the Initial Franchise Fee in the amount of ___Dollars (\$_.) as defined in the Franchise Agreement; and

~~(iv)~~ ~~(v)~~ The representations and warranties of Purchaser contained in this Agreement shall be true and correct on and as of Closing, with the same effect as though such representations and warranties had been made on and as of the date of Closing; and each and all of the terms, covenants, conditions and agreements to be performed or complied with by Purchaser on or before Closing shall have been performed or complied with. This provision shall be self- executing, and the consummation of the transactions contemplated by this Agreement by Purchaser shall constitute Purchaser's certification of the conditions stated herein.

Assuming that Seller has satisfied all of the conditions precedent contained in Section 5(c), if any of the requirements of this Section 5(b) have not been satisfied by Closing, Purchaser shall be in breach of its obligations hereunder.

(c) The obligations of Purchaser to consummate the transactions contemplated by this Agreement are subject to the satisfaction at or prior to Closing of the following conditions, any of which may be waived by Purchaser, in its sole discretion. Seller shall use its best efforts to cause each and every one of the following conditions to be satisfied at or before Closing.

(i) As of Closing, there shall have been no material adverse change in the Franchised Business, the Transferred Assets or the Premises, or the condition thereof, since the date of this Agreement, other than changes contemplated by Section 5;

(ii) Seller shall have delivered to Purchaser the Bill of Sale executed by Seller; and

- (iii) The representations and warranties of Seller contained in this Agreement shall be true and correct on and as of Closing, with the same effect as though such representations and warranties had been made on and as of the date of Closing; and each and all of the terms, covenants, conditions and agreements to be performed or complied with by Seller on or before Closing shall have been performed or complied with. This provision shall be self-executing, and the consummation of the transactions contemplated by this Agreement by Seller shall constitute Seller's certification of the conditions stated herein.

Assuming that Purchaser has satisfied all of the conditions precedent contained in Section 5(b) if any of the requirements of this Section 5(c) (other than the requirement contained in clause (i) if such material adverse change shall be beyond the control of Seller) has not been satisfied by Closing, Seller shall be in breach of its obligations hereunder.

- (d) The rent payable pursuant to the lease for the Premises shall be paid by Seller for the month in which the Closing occurs and Purchaser shall pay to Seller (on a per diem basis, based upon a thirty (30)-day month) an amount equal to the rent prepaid by Seller with respect to the period on and after the date of Closing, via an ACH debit or Seller will bill Purchaser for such pro-rated rent amount.
- (e) Seller shall be responsible for all compensation to employees of the Franchised Business for the period through the date immediately preceding the Closing. Purchaser shall be responsible for all compensation to employees of the Franchised Business for the period on and after the date of Closing. Notwithstanding anything contained in this Agreement to the contrary, Purchaser shall not be obligated to employ any of Seller's employees after Closing.
- (f) Seller shall be responsible for all costs, fees and expenses relating to the Franchised Business, including but not limited to CAM reconciliation charges, and property taxes, on a pro-rated basis for the period through the date immediately preceding the Closing. Purchaser shall be responsible for all costs, fees and expenses relating to the Franchised Business, including but not limited to, CAM reconciliation charges, property taxes, etc., on a pro-rated basis for the period on and after the date of Closing.

5. Notices. All notices, consents, approvals or other instruments required or permitted to be given by either Party pursuant to this Agreement shall be in writing and given by (a) hand delivery, (b) facsimile, (c) express overnight delivery service or (d) certified or registered mail, return receipt requested, and shall be deemed to have been delivered upon (i) receipt, if hand- delivered, (ii) transmission, if delivered by facsimile, (iii) the next business day following the date of deposit with the delivery service, if delivered by express overnight delivery service, or (iv) the third business day following the day of deposit of such notice with the United States Postal Service, if sent by certified or registered mail, return receipt requested. Notices shall be provided to the Parties at the addresses and facsimile numbers specified below:

If to Seller: [Selling Entity]
Attention: Legal Department
9311 East Via De Ventura
Scottsdale, Arizona 85258

Telephone Number: (480) 362-4800 Facsimile Number: (480) 362-4819

If to Purchaser: [Purchaser]
[address]
Telephone Number:
Facsimile Number: OR Email:

~~If to Seller:~~ ~~[Selling Entity] Attention: Legal-~~
~~Department 9311 East Via De Ventura~~
~~Scottsdale, Arizona 85258 Telephone-~~
~~Number: (480) 362-4800 Facsimile-~~
~~Number: (480) 362-4819~~

~~If to Purchaser:~~ ~~[name]-~~
~~[address]~~
~~Telephone Number:-~~
~~Facsimile Number: OR~~
~~Email:~~

Any Party may change its address or facsimile number by giving notice in writing, stating its new address or facsimile number, to the other Party to this Agreement as provided in the foregoing manner.

6. [USE ONLY IF BROKER INVOLVED WITH SALE, OTHERWISE RESERVE][Brokers' Fees. Seller has retained Broker Entity ("Broker") as broker in connection with the sale of the Transferred Assets contemplated hereby. The Seller shall be solely responsible for the payment of any fees due Broker in connection with the sale of the Transferred Assets contemplated hereby.]

7. Survival. Each of the representations, warranties and covenants contained herein shall survive Closing, irrespective of any investigation or inquiry made by, or any knowledge of, any Party.

8. Successors and Assigns. This Agreement shall be binding upon, and inure to the benefit of, the Parties and their respective assigns, legal representatives, executors, heirs and successors.

9. Amendment, Modification or Waiver.

- (a) No amendment, modification or waiver of any condition, provision or term of this Agreement shall be valid or of any effect unless made in writing, signed by the Parties and specifying with particularity the nature and extent of the amendment, modification or waiver. Waiver of any matter shall not be deemed a waiver of the same or any other matter on any future occasion.
- (b) Failure on the part of any Party to complain of any act or failure to act of the other Party or to declare the other Party in default, irrespective of how long the failure continues, shall not constitute a waiver by that Party of its rights under this Agreement.

10. Entire Agreement. This Agreement, including the exhibits hereto, contains the entire

understanding and agreement of the Parties with respect to the subject matter hereof and supersedes all prior agreements and understandings between the Parties with respect to such subject matter. Each of the exhibits is incorporated in this Agreement by this reference and constitutes a part of this Agreement.

11. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the Parties and delivered to the other Party.

12. Dispute Resolution.

- (a) Except as otherwise provided herein, any dispute, claim or controversy arising out of or relating to this Agreement, the breach hereof, the rights and obligations of the Parties hereto or the relationship between the Parties, or the entry, making, interpretation, or performance of either Party under this Agreement ("Dispute"), which cannot be resolved by mediation under Section 13(d) below or is not subject to mediation under the terms of this Agreement, shall be settled by arbitration administered by the American Arbitration Association ("AAA") in accordance with its Commercial Arbitration Rules as modified below.
- (b) Any arbitration shall take place before a sole arbitrator in Maricopa County, Arizona or, if our headquarters are no longer located in Maricopa County, Arizona, then the arbitration shall take place in the county in which our principal place of business is located at the time the arbitration is commenced. Purchaser agrees to conducting the arbitration where Seller is located is appropriate. The Parties agree that the arbitrator shall be an attorney licensed to practice law in the United States and must have a minimum of five (5) years of experience in franchise law. Judgment on the award rendered by the arbitrator may be entered in any court of competent jurisdiction. The arbitrator shall, in the award, allocate all of the costs of the arbitration, including the fees of the arbitrator and the reasonable attorney's fees of the prevailing Party, against the Party who did not prevail. To the extent permitted by applicable law, no issue of fact or law shall be given preclusive or collateral estoppel effect in any other dispute, arbitration proceeding or litigation, except to the extent such issue may have been specifically determined in another proceeding between the Parties. This agreement to arbitrate shall survive any termination or expiration of this Agreement, however effected. The Parties agree that any arbitration shall be solely between them (including any affiliates) and shall not include as a Party, by consolidation, joinder, or in any other manner, any other person or entity, unless both Parties consent in writing. Both Parties shall have the absolute right to refuse such consent. Further, the Parties expressly waive any right to bring and/or participate in any class or other consolidated, joined or multi-party arbitration claim or proceeding, whether or not permissible under the AAA Commercial Arbitration Rules, including, but not limited to, any claim brought on their behalf by an association of which it, he or she is a member. At the request of any Party, the arbitration shall be conducted in a manner that maintains the confidentiality of the proceedings.
- (c) The arbitrator(s) will issue a reasoned award, with findings of fact and conclusions of law. Actions to enforce an express obligation to pay monies may be brought under the Expedited Procedures of the AAA's Commercial Arbitration Rules. The Federal Arbitration Act shall govern, excluding all state arbitration laws. Arizona law will govern all other issues. With respect to discovery, the arbitrator shall require each Party to make a good cause showing before any discovery exceeding that

specifically authorized by the AAA Commercial Arbitration Rules will be granted.

- (d) Prior to the commencement of an arbitration proceeding, the Parties must first submit any Dispute to non-binding mediation. At the request of any Party, the mediation will be confidential. The mediation shall be conducted in Maricopa County, Arizona or in the county in which our headquarters are located at the time of mediation, unless the Parties shall mutually agree to a different location. The Parties to the mediation will share equally in its costs and expenses, except those costs and expenses incurred separately by each Party, including, without limitation, counsel fees and expenses. The mediation process will be deemed "Completed" when the Parties agree that it has been completed, the mediator declares that any impasse exists or sixty (60) days have elapsed since the date of the initiating Party's notice to the other Party that it is initiating the mediation process, whichever occurs first.
- (e) Notwithstanding anything contained in this Agreement to the contrary, the provisions of Sections 13(a), 13(b), 13(c) and 13(d) do not apply to a Dispute where: (i) Seller brings an action for an express obligation to pay monies, declaratory relief, preliminary or permanent equitable relief, any action at law for damage to Seller's goodwill, the confidential information, the proprietary marks or for fraudulent conduct by Purchaser; or (ii) the delay resulting from the mediation process may endanger or adversely affect the public (for example, unhealthy, unsafe or unsanitary conditions would continue to exist). For such disputes, Seller may bring an action in any federal or state court having jurisdiction, whether for monetary damages and/or for temporary preliminary and permanent injunctive relief or specific performance in addition to, and not exclusive of, any other remedies available to Seller. Purchaser hereby consents to and waives any objection or defense and agrees not to contest venue, forum non conveniens or jurisdiction of such court or arbitration.
- (f) Disputes concerning the validity or scope of arbitration, including whether a dispute is subject to arbitration, are beyond the authority of the arbitrator(s) and will be determined by a court of competent jurisdiction pursuant to the Federal Arbitration Act, 9 U.S.C. § 1 et seq., as amended from time to time.
- (g) Either Party may appeal the final award of the arbitrator, if it is over One Hundred Thousand Dollars (\$100,000), to the appropriate U.S. District Court. The Court's review of the arbitrator's findings of fact will be under the clearly erroneous standard, and the Court's review of all legal rulings will be *de novo*. If it should be determined that this provision for federal court review is not enforceable, then either Party may appeal the arbitrator's final award, if it is over One Hundred Thousand Dollars (\$100,000), to a panel of three arbitrators chosen under AAA procedures, which will employ the same standards of review stated immediately above.

13. Applicable Law and Forum; Waiver of Jury; Statute of Limitations.

Except to the extent that the United States Trademark Act of 1946, as amended (15 U.S.C., § 1051 et seq.) or the franchising laws of any state that may be applicable, the laws of the State of Arizona govern all rights and obligations of the Parties under this Agreement. Seller and Purchaser agree, subject to the mandatory mediation and arbitration provisions of Section 13 of this Agreement, that any appropriate state or federal court located in Maricopa County, Arizona has exclusive jurisdiction over any Dispute arising under or in connection with this Agreement and is the proper forum in which to adjudicate the case or controversy. Notwithstanding the foregoing, any action initiated by Seller may, at Seller's election, be brought in any jurisdiction where Purchaser is

domiciled or that has jurisdiction over Purchaser. The Parties hereto irrevocably submit to the jurisdiction of, and venue in, any such court, and hereby waive any objection or defense thereto. THE PARTIES AGREE THAT ALL DISPUTES SUBMITTED TO THE COURT PURSUANT TO THIS SECTION SHALL BE TRIED TO THE COURT SITTING WITHOUT A JURY, NOTWITHSTANDING ANY STATE OR FEDERAL CONSTITUTIONAL OR STATUTORY RIGHTS OR PROVISIONS.

Notwithstanding anything contained in this Agreement to the contrary, the Parties agree that any claims under, arising out of, or related to, this Agreement must be brought within two (2) years of the date on which the underlying cause of action accrued, and Seller and Purchaser hereby waive any right to bring any such action after such two-year period except for the collection of any unpaid amounts due to Seller or its affiliate.

14. Attorneys' Fees. In the event of any claim, controversy or dispute arising out of or relating to this Agreement, or the breach thereof, the prevailing Party may recover reasonable attorneys' fees incurred in connection with any court or arbitration proceeding.

15. Remedies Cumulative. The remedies of the Parties under this Agreement are cumulative and shall not exclude any other remedies to which any Party may be lawfully entitled.

16. Captions. Captions used throughout this Agreement are for convenience of reference only and shall not be considered in any manner in the construction or interpretation hereof.

17. Additional Actions. Each Party agrees to do all acts and things and to make, execute and deliver such written instruments as may from time to time be reasonably required to carry out the terms and provisions of this Agreement.

18. Construction. The Parties acknowledge that each Party was represented (or had the opportunity to be represented) by legal counsel in connection with this Agreement, the exhibits hereto and the transactions contemplated by this Agreement and that each of them and its counsel have reviewed this Agreement, or have had an opportunity to do so, and that any rule of construction to the effect that ambiguities are to be resolved against the drafting Party shall not be employed in the interpretation of this Agreement or any amendments or any exhibits hereto or thereto.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Parties hereto, by and through its respective representatives with full rights, power and authority to enter into and bind his or her respective Party without further consent or approval of any kind, has duly executed and delivered this Agreement as of the Effective Date.

SELLER:

[SELLING ENTITY,] a(n)_____

By: [Name,] [Title]

PURCHASER:

[NAME OF PURCHASER,] a(n)_____

By: [Name, Title]

By: [Name, Title]

SELLER:

[SELLING ENTITY,] a(n)_____

By: [Name,] [Title]

PURCHASER:

[PURCHASER], a(n)_____

By: [Name, Title]

By: [Name, Title]

EXHIBIT A
TO ASSET PURCHASE AGREEMENT
(BILL OF SALE)

BILL OF SALE

This BILL OF SALE, dated _____, 20
_____, executed by [SELLING ENTITY], a(n) _____
_____, ("Grantor") in
favor of _____ [NAME]
_____ OF _____ [PURCHASER],
a(n) _____ ("Grantee").

FOR GOOD AND VALUABLE CONSIDERATION, the receipt and sufficiency of which are hereby acknowledged, Grantor does hereby convey, grant, bargain, sell, transfer, set over, assign, alien, remise, release, deliver and confirm unto Grantee, its successors and assigns forever, free and clear of all liens, security interests, claims, charges or encumbrances of any kind, the assets listed on **Schedule 1** attached hereto (collectively, "Assets"), TO HAVE AND TO HOLD all of the Assets unto Grantee, its successors and assigns to their own use and behoof forever.

The following are excluded assets and are excluded from **Schedule 1**:

- a. Cash deposits, including, but not limited to, any utility and security deposits, banks accounts, certificates of deposit, securities or evidences of indebtedness received prior to and including the date of this Bill of Sale;
- b. Credit card or house accounts receivable from sales generated from the Franchised Business and constituting a part thereof, prior to and including the date of this Bill of Sale, any other accounts receivable, or choses of action accruing on or before Closing, as defined in the Asset Purchase Agreement; and
- c. Consumable inventory including, but not limited to, food products, perishables, paper products, cash on hand and other goods.

EXECUTED as of the date first set forth above.

GRANTOR:

[SELLING ENTITY], a(n)____

By: _ [Name, Title]

**Schedule 1 to Bill of Sale List of
Assets**

1. All telephone numbers used in connection with the Franchised Business, including, without limitation, the following:

2. All leasehold improvements associated with the Franchised Business.

3. All goodwill associated with the Franchised Business.

4. All of Grantor's furniture, fixtures and equipment, appliances and personal property located at the Franchised Business, including, without limitation, the following:

<u>Quantity</u>	<u>Description</u>	<u>Serial Number</u>
~~Quantity~~	~~Description~~	~~Serial Number~~

EXHIBIT B

TO ASSET PURCHASE AGREEMENT

(PROMISSORY NOTE AND SECURITY AGREEMENT)

[Attached]

[Not Applicable] [OR] [Applicable only if Purchaser enters into a Promissory Note and Security Agreement]

PROMISSORY NOTE AND SECURITY AGREEMENT

Note Amount:
[**\$AMOUNT**]

Scottsdale, Arizona
[**DATE**]

1. Promise to Pay. For value received, [NAME], a(n) [_____] corporation / limited liability company / individual] ("**Maker**"), promises to pay to the order of [Holder Entity], a [state] [Corporation/Limited Liability Company, etc.] ("**Holder**"), at 9311 East Via De Ventura, Scottsdale, Arizona 85258, or at such other address as Holder may designate at any time by written notice to Maker, in lawful money of the United States of America, the principal sum of XX Thousand Dollars (**\$XX,000.00**) together with all then-accrued and unpaid interest and other amounts that are Maker's obligations under this Promissory and Security Agreement ("**Note**"), if any. Maker and Holder may also be referred to in this Agreement as a "Party" and collectively as "Parties." The Note balance represents the principal amount owing by Maker to Holder for the purchase price of the Store (as defined below) due under the Asset Purchase Agreement in the aggregate amount of XX Thousand Dollars (**\$XX,000.00**) [plus the UCC-1 filing fee (as described in Section 7) in the amount of One Hundred Dollars (\$100)]([collectively,]"Debt") for the *NrGize Lifestyle Cafe*TM store number ____ at the following location _____ ("**Store**").

2. Computation of Interest. Except as otherwise set forth in this Note, this Note shall [not bear interest OR bear interest at the rate of % per annum] based on a [month/year] amortization schedule.

3. Required Payments; Method of Payment. Principal and interest, if any, shall be repaid to Holder in a total of _____(XX) [weekly/monthly] installments, which installments shall be due and payable in _____(XX) equal installments each in the amount of \$, with the first installment due on [DATE OF] and the remaining _____(XX) installments due on the [DAY OF THE WEEK, or DATE OF THE MONTH] of each consecutive [week / month] thereafter, with a final payment in the amount of \$ due on [MATURITY DATE], all as set forth on the Amortization Schedule attached hereto as **EXHIBIT "1"** and incorporated herein by reference. Maker authorizes Holder (or one of its affiliates) to deduct payments owed by Maker (or one of its affiliates) to Holder under this Note out of Maker's bank accounts via electronic funds transfer in the same way Holder (or one of its affiliates) is authorized to collect payment under the Franchise Agreement entered into by and between Holder and Maker dated _____, 20 or other franchise documents that Maker (or a related entity) entered into with Holder (or one of its affiliates) for the Store (individually and collectively, "Franchise Agreement"). All payments due under this Note shall be deducted by Holder's close of business from Maker's Depository Account (as defined in the Franchise Agreement) on the day they are due (or the preceding banking business day if such date is a holiday or falls on a weekend). Holder shall not be responsible for any interest charges for any overage collected due to Maker's failure to timely authorize payment. Additionally, Holder shall not be responsible for any bank service charges incurred by Maker which result in the withdrawal of funds from Maker's Depository Account. Maker shall pay Holder FIFTY AND 00/100 DOLLARS (\$50.00) for each withdrawal attempted from Maker's Depository Account pursuant to this Section 3 that is returned for non-sufficient funds. Maker shall also reimburse Holder for all other costs incurred by Holder in collecting or attempting to collect funds due Holder from the Depository Account (for example, without limitation, charges for non-sufficient funds, uncollected funds or other discrepancies in deposits or maintenance of the Depository Account balance in accordance with the terms of the Franchise Agreement). Holder does not have to make or give "presentment, demand, protest or notice" to get paid. Maker hereby waives any right to "presentment, demand, protest and notice" as set forth in Section 10 below.

Application of Payments. All payments and other credits due under this Note shall be applied: [if part of Note balance a non-refundable fee (i) first to the amount of principal allocated to the Initial Franchise Fee/Renewal Fee/Transfer Fee,] [(i) first][(ii) second,] to fees, costs and expenses payable by Maker under this Note, [(ii) second,][(iii) third,] to accrued and unpaid interest, if any, and [(iii) third][(iv) fourth,] to principal.

4. Collection Costs. If suit, arbitration, or other legal proceeding or any non-judicial foreclosure proceeding is instituted or any other action is taken by Holder to collect all or any part of the indebtedness evidenced hereby or to proceed against the Collateral (as defined below) for any portion of such indebtedness or against any guarantor of the payment of any portion of the indebtedness, Maker promises to pay Holder's attorneys' fees and other costs (to be determined by the court and not by a jury) incurred thereby. Such fees and costs shall be included in any judgment or arbitration award obtained by Holder, and shall bear interest at the default rate set forth in Section 12.

5. Optional Prepayments. Maker shall have the option to prepay this Note, in full or in part, at any time and from time to time, without penalty. Maker shall identify each optional prepayment of principal as such by written notice to Holder at the time of payment, and no such prepayment shall decrease or defer the monthly installment payments required by Section 3 above.

6. Security Interest. The indebtedness evidenced by this Note shall be secured by, and Maker hereby grants to Holder, a security interest in the equipment, inventory, leasehold improvements, and all proceeds thereof, and all increases, additions, accessories, accessions, substitutions, and replacements thereto located at the Store including, without limitation, insurance proceeds ("Collateral"). A description of the Collateral is attached hereto as **EXHIBIT "2"** and incorporated herein by reference. Concurrent with the execution of this Note or at any time after the execution of this Note so long as a balance remains outstanding under this Note, Maker shall execute and deliver to Holder, or alternatively Maker gives Holder permission to file, at Maker's expense, a UCC-1 financing statement, evidencing the security interest granted by this Section 7.

7. ~~[If Maker is a Corporate Entity]~~ Guaranty of Promissory Note and Security Agreement. ~~If Maker is an individual and married,~~ Maker represents and warrants that Maker's obligations under this Note are guaranteed by ~~each of the persons who owns, directly or indirectly, a five percent (5%) or more interest in Maker's stock or other equity; Maker's spouse~~ and/or any other individuals requested by Holder as consideration for its agreements herein (together, "Guarantors"), pursuant to the Guaranty of Promissory Note and Security Agreement attached hereto as **EXHIBIT "3"** and incorporated herein by reference. ~~[Maker further If Maker is a corporation, limited liability company, or other business entity, Maker~~ represents and warrants that ~~Holder received the signature of the spouse of any individual Guarantor, if applicable, in the consent of spouse signature block.~~ ~~[If Maker is an individual]~~ ~~[Reserved.]~~ ~~Maker's obligations under this Note are guaranteed by each of the persons who are shareholders, members, or other owners, direct or indirect, of Maker (and their respective spouses, if married); and/or any other individuals requested by Holder as consideration for its agreements herein (together, also "Guarantors"), pursuant to the Guaranty of Promissory Note and Security Agreement. In the event any person who has not previously signed a Guaranty of Promissory Note and Security Agreement becomes Maker's spouse; person who is a shareholder, member, or other owner, direct or indirect, of Maker (or their respective spouses, if married); and/or any other individual requested by Holder as consideration for its agreements herein, at any time after the execution of this Agreement, Maker must cause such person(s) to immediately execute and deliver a Guaranty~~

of Franchise Agreement to Holder.

8. Maker's Representations and Warranties. Maker represents and warrants the following:

A. Collateral.

(i) Maker will make sure that the Collateral is maintained and in good operating condition, necessary to the conduct of Maker's business. All maintenance must also comply with any legal or regulatory requirements.

(ii) Maker will make sure that Maker has not suffered any material adverse change in Maker's financial condition or operations.

(iii) Maker will protect and preserve the Collateral and Holder's security interest therein, and assist Holder in all ways in enforcing Holder's security interests in the Collateral.

(iv) Maker will not incur any debts beyond Maker's ability to pay such debts as they mature.

(v) Maker will pay, before they become delinquent, all taxes and claims, assessments, charges, and the like, as well as all amounts due under all agreements with third parties.

(vi) Maker will take all actions necessary or appropriate to protect the Collateral that consists of technology and proprietary information. This includes, without limitation, filing all applicable documentation with the United States and foreign patent and trademark offices.

(vii) Holder will give Maker prior notice if Holder, or Holder's agents, want to inspect the Collateral. Holder may inspect the Collateral during regular business hours. Holder will take reasonable steps not to interfere with Maker's business operations during any such inspection. If Holder finds during an inspection that Maker is not complying with this Note or if Maker is otherwise in default under this Note, Maker (and not Holder) will pay Holder's reasonable travel, meals and lodging costs, Holder's salary costs, and Holder's costs and fees and those of Holder's agents for re-inspection. Maker will promptly cure any problems with the Collateral that are discovered during Holder's inspections.

(viii) Maker will use the Collateral only for business purposes. Maker will obey all legal and regulatory requirements in Maker's use of the Collateral and the conduct of Maker's business.

(ix) Maker will make all additions, modifications and improvements to the Collateral to the extent necessary. Otherwise, Maker will not alter the Collateral without Holder's written permission.

(x) Maker will not remove the Collateral from the Store location.

(xi) Maker has and will continue to have good and merchantable title to all of the Collateral, free and clear of all security interests, liens and other encumbrances, with the exception of Holder's lien described in Section 7 above.

(xii) Maker will not convey, assign, sell, mortgage, transfer, encumber, pledge, hypothecate, grant a security interest in, grant options with respect to, lease or otherwise dispose of all or any part of any interest whatsoever in or to any or all of the Collateral, or any interest therein.

B. Insurance.

(i) Until Maker has made all payments to Holder under this Note in full, Maker will keep the Collateral insured. The amount of insurance, the coverage, and the insurance company must be acceptable to Holder.

(ii) If Maker does not provide Holder with written evidence of insurance that is acceptable to Holder, Holder may buy the insurance, at Maker's expense. Maker will promptly pay Holder the cost of this insurance. Holder has no obligation to purchase any insurance. Any insurance that Holder purchases will be Holder's insurance, and not Maker's, and Holder may insure the Collateral beyond the date of satisfaction of the Debt.

(iii) Insurance proceeds may be used to repair or replace damaged or lost Collateral or to pay Holder the present value of the payments described herein.

(iv) Maker appoints Holder as Maker's "attorney-in-fact" to make claims under the insurance policies, to receive payments under the insurance policies, and to endorse Maker's name on all documents, checks or drafts relating to insurance claims for Collateral. Upon request by Maker, Holder will provide Maker with copies of any and all documents signed as Maker's attorney-in-fact. Holder agrees to pay Maker any insurance proceeds received by Holder in excess of the any and all amounts due Holder under this Note.

9. Waivers and Acknowledgments. Maker, and any sureties, endorsers and guarantors of all or any portion of the indebtedness evidenced by this Note waive: (a) demand, notice, diligence, protest, presentment for payment, and notice of extension, dishonor, protest, demand and nonpayment of this Note; and (b) any release or discharge by reason of (i) any release or substitution of, or other change in, any security given for the indebtedness evidenced by this Note or the obligation of any other person or entity who or which is now or may become directly or indirectly liable for all or any portion of the indebtedness evidenced by this Note, or (ii) any extension or other modification of the time or terms of payment of all or any portion of the indebtedness evidenced by this Note. Maker, and any sureties, endorsers and guarantors agree that their liability for the indebtedness evidenced hereby shall be joint and several.

10. Default, Take-Back Rights and Additional Remedies.

A. Default. Maker will be in default if any of the following occurs:

(i) Maker does not pay Holder, within seven (7) days after written notice is received by Maker from Holder, any payment that Maker owes Holder under this Note, the Franchise Agreement (including, but not limited to, royalty and advertising fees) or any other agreement, loan, debt, lease or other financial arrangement that Maker has with Holder or one of its affiliates (each a "Payment Default").

(ii) Any of the financial information that Maker gives Holder is not materially true and complete, or Maker fails to tell Holder anything that would make the financial information not materially misleading.

(iii) Maker does something it is not permitted to do, or Maker fails to do anything that is required of them, under this Note, the Franchise Agreement or any other lease, loan, debt or other financial arrangement that Maker has with Holder and such breach continues uncured for a period of seven (7) days after Holder has given written notice of such default to Maker, provided that such cure period shall not apply to any covenant relating to insurance covering the Collateral described in Section 7.

(iv) An event of default occurs under the Franchise Agreement, or under any other lease, loan, debt or obligation of Maker (or any guarantor) that exceeds Fifty Thousand Dollars (\$50,000) in the aggregate that results in the acceleration or mandatory prepayment thereof.

(v) Maker files bankruptcy, or involuntary bankruptcy is filed against Maker or any guarantor and such involuntary bankruptcy is not dismissed within sixty (60) days.

(vi) Maker is subject to any other insolvency proceeding other than bankruptcy (for example, a receivership action or an assignment for the benefit of creditors) and such proceeding that is involuntary is not dismissed within sixty (60) days.

(vii) Without Holder's permission, Maker sells all or a substantial part of Maker's assets, merges or consolidates (other than with an affiliate where Maker is the surviving entity), or a majority of Maker's voting stock or interests (or any guarantor's voting stock or interests) is transferred.

(viii) There is a material adverse change in Maker's financial condition, business or operations.

B. "Take Back Rights." In the event of a Payment Default, Maker hereby grants Holder the following "Take Back Rights" (as defined below in this Section 11.B.) with respect to the Store. Maker shall have seven (7) days after receipt of written notice from Holder to cure any such Payment Default. If Maker does not timely cure the Payment Default, Maker hereby grants Holder the irrevocable right to immediately enter the Store and take possession and full ownership of the Store going forward, and further agrees to execute any and all reasonably necessary documents to transfer ownership of the Store, including all assets located therein, to Holder or its designee and to assign the lease for the premises of the Store to Holder or its designee ("Take Back Rights"). In the event of an uncured Payment Default, Maker further acknowledges and agrees to the following: (i) the Take Back Rights represent Holder's liquidated damages for Maker's Payment Default; (ii) that such damages are reasonable under the circumstances; (iii) that Maker shall have no right to contest, and hereby waives any such rights to contest or appeal, Holder's Take Back Rights, including Holder's entry into the Store and subsequent possession, control; and ownership of the Store thereafter; and (iv) that Maker shall receive no compensation or other monetary consideration from Holder for the Store. For purposes of the Take Back Rights under this Section 11, all notices shall be sent by certified mail, return receipt requested, or via overnight delivery service, to the other Party at the addresses listed in Section 16.

C. Acceleration in the Event of Default. In the event of any default, including a Payment Default, under this Note which is not cured within seven (7) calendar days after receipt of written notice from Holder, the principal sum hereof, together with all accrued and unpaid interest, shall, at the option of the Holder (and without limiting any remedies available to Holder), become immediately due and payable without further notice or demand by the Holder.

D. Consent to Credit Reports. Maker hereby agrees that upon notice of default or upon an uncured default of this Note, the Franchise Agreement or any other agreement between Maker (or a legal entity thereof) and Holder or its affiliates, and with no prior notice, Maker consents to Holder's (or its affiliates' or third-party contractors') acquisition and use of non-business consumer credit reports on Maker in order to evaluate as necessary the financial condition of Maker as principal(s), member(s), manager(s), franchisee(s), and/or guarantor(s) in connection with the collection of monetary obligations as contemplated by this Note, Maker's Franchise Agreement, the Guaranty of Agreement, or any other agreements between Maker (or a legal entity thereof), and Holder or its affiliates.

11. Default Interest. After maturity, including maturity upon acceleration as described in Section 11 above, or at any time that Maker is more than seven (7) calendar days delinquent in the payment of money as required by this Note (whether or not Holder has given any notice of default or any cure period has expired), then all amounts outstanding hereunder and any advances thereafter made from the Debt evidenced hereby and any accruing costs and reasonable attorneys' fees which are the obligation of Maker shall thereafter bear interest at the rate of eighteen percent (**18%**) per annum until paid.

12. Indemnity. Maker shall indemnify, defend and hold Holder harmless for, from and against any and all claims, expenses and reasonable attorneys' fees actually incurred by Holder concerning or arising from the Collateral, this Note, or Maker's breach of any material representation, warranty or covenant. It includes, without limitation, any claims, losses or charges actually incurred concerning, arising out of or in connection with the manufacture, selection, delivery, possession, use, operation or return of the Collateral and any claims, losses or damages actually incurred concerning, arising out of or in connection with this Note. This obligation of Maker's to indemnify Holder continues even after satisfaction of this Note.

13. No Waiver by Holder. Failure of the Holder to exercise any option hereunder shall not constitute a waiver of the right to exercise the same in the event of any subsequent default or in the event of continuance of any existing default after demand for strict performance thereof.

14. Time of Essence. Time is of the essence of this Note.

15. Notices. All notices required or permitted to be given by either Party pursuant to this Note shall be in writing and given by (a) hand delivery, (b) express overnight delivery service or (c) certified or registered mail, return receipt requested, and shall be deemed to have been delivered upon (i) receipt, if hand delivered, (ii) the next business day following the date of deposit with the delivery service, if delivered by express overnight delivery service, or (iii) the third business day following the day of deposit of such notice with the United States Postal Service, if sent by certified or registered mail, return receipt requested. Notices shall be provided to the Parties at the addresses and facsimile numbers specified below:

If to Holder: [Seller Entity]
Attention: Legal Department
9311 East Via De Ventura
Scottsdale, Arizona 85258
Telephone Number: (480) 362-4800 Facsimile Number: (480)
362-4819

If to Maker: _____

Telephone Number: Facsimile Number:

If to Holder:

[Seller Entity] Attention: Legal-
Department 9311 East Via De Ventura
Scottsdale, Arizona 85258 Telephone
Number: (480) 362-4800 Facsimile
Number: (480) 362-4819

If to Maker:

Telephone Number:
Facsimile Number:

16. Governing Law. This Note shall be construed according to the substantive laws and judicial decisions of the State of Arizona, without regard to any conflict of laws principles. Any action brought to enforce this Note may be commenced and maintained in the Superior Court of the State of Arizona in and for the County of Maricopa. Maker and any sureties, endorsers and guarantors irrevocably consent to jurisdiction and venue in such court for such purposes.

17. RELEASE. IN EXCHANGE FOR HOLDER'S AGREEMENT TO ARRANGE FOR MAKER'S PAYMENT OF THE DEBT, MAKER AND EACH OF ITS CURRENT, PAST AND FUTURE PREDECESSORS, SUCCESSORS AND ASSIGNS, AND EACH OF ITS AND THE FOREGOING ENTITIES' RESPECTIVE PARENTS, SUBSIDIARIES, SHAREHOLDERS, MEMBERS, MANAGERS, OWNERS, PARTNERS, DIRECTORS, OFFICERS, EMPLOYEES, REPRESENTATIVES, AGENTS, SUCCESSORS, ASSIGNS, GUARANTORS, INSURERS, SPOUSES, HEIRS, EXECUTORS, TRUSTEES, AND ESTATES, IF ANY, OF ANY AND ALL SUCH ENTITIES (COLLECTIVELY WITH MAKER "MAKER PARTIES"), HEREBY IRREVOCABLY AND UNCONDITIONALLY RELEASE, REMISE AND FOREVER DISCHARGE HOLDER AND EACH OF ITS CURRENT, PAST AND FUTURE PREDECESSORS, SUCCESSORS AND ASSIGNS, AND EACH OF ITS AND THE FOREGOING ENTITIES RESPECTIVE PARENTS, SUBSIDIARIES, SHAREHOLDERS, MEMBERS, MANAGERS, OWNERS, PARTNERS, DIRECTORS, OFFICERS, EMPLOYEES, REPRESENTATIVES, AGENTS, SUCCESSORS, ASSIGNS, GUARANTORS, INSURERS, SPOUSES, HEIRS, EXECUTORS, TRUSTEES, AND ESTATES, IF ANY, OF ANY AND ALL SUCH ENTITIES (COLLECTIVELY WITH HOLDER "HOLDER PARTIES"), FROM ANY AND ALL CLAIMS, DEMANDS, CAUSES OF ACTION, SUITS, DEBTS, DUTIES, ACCOUNTS, COVENANTS, CONTRACTS, AGREEMENTS, PROMISES, DAMAGES, JUDGMENTS, TAXES, LIABILITIES AND OBLIGATIONS, BOTH CONTINGENT AND FIXED, KNOWN AND UNKNOWN, NOW EXISTING OR HEREFTER, OF EVERY KIND AND NATURE WHATSOEVER, IN LAW OR EQUITY, OR OTHERWISE, UNDER LOCAL, STATE, OR FEDERAL LAW OR THE LAW OF ANY OTHER APPLICABLE JURISDICTION, THAT ANY OF THE MAKER PARTIES HAVE AGAINST ANY OF THE HOLDER PARTIES, INCLUDING, WITHOUT LIMITATION, THOSE ARISING FROM, IN CONNECTION WITH OR RELATING TO: (I) THE FRANCHISE AGREEMENT (INCLUDING ANY AMENDMENTS OR MODIFICATIONS THERETO); (II) THE OPERATION, LEASING OR SUBLEASING OF THE STORE; AND (III) THE OFFERING AND SALE OF THE FRANCHISE FOR THE STORE; ARISING FROM AN ACT, OMISSION, CONDUCT OR ACTIVITY OCCURRING BEFORE AND INCLUDING THE DATE OF THIS NOTE WRITTEN ABOVE.

IT IS UNDERSTOOD BY MAKER THAT IF THE FACTS OR LAW WITH RESPECT TO THE FOREGOING RELEASE HEREFTER TURN OUT TO BE DIFFERENT FROM THE FACTS OR LAW KNOWN TO BE OR BELIEVED BY MAKER TO BE TRUE AT THE TIME OF EXECUTION OF THIS NOTE, THEN MAKER EXPRESSLY ASSUMES THE RISK OF THE FACTS OR LAW TURNING OUT TO BE SO DIFFERENT, AND AGREES THAT THE FOREGOING RELEASE SHALL BE IN ALL RESPECTS EFFECTIVE AND NOT SUBJECT TO TERMINATION OR RESCISSION, IN WHOLE OR IN PART, BASED UPON SUCH DIFFERENCES.

18. Counterparts; Signatures. This Note may be executed in one or more counterparts, each of which shall be deemed to be an original copy of this Note and all of which, when taken together, shall be deemed to constitute one and the same Note. The signatures required for execution may be transmitted to the other Party via facsimile or a scanned .pdf file sent via email and such signature shall be deemed a duplicate original, shall be effective upon receipt by the other Party, may be admitted in evidence and shall fully bind the Party and person making such signature.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, Maker, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective Party without further consent or approval of any kind, has duly executed and delivered this Note as of the date first written above.

MAKER:

_____, a(n)_____

By: _ [Name, Title]

EXHIBIT “1” TO PROMISSORY NOTE
AMORTIZATION SCHEDULE

(Attached)

EXHIBIT "2" TO PROMISSORY NOTE

COLLATERAL

All assets owned by [NAME], a(n) [State] [corporation / limited liability company] ("Borrower"), whether now owned or hereafter acquired by Borrower and located at the following location: [Store Address], including, without limitation, the following properties of Borrower:

- (a) All accounts, contract rights, rights to payment, accounts receivable, chattel paper, leases, instruments, notes, securities, documents of title, deposit accounts, certificates of deposit and general intangibles;
- (b) All inventory, including, without limitation, raw materials, work-in-process or materials used or consumed in the business of Borrower, whether in the possession of Borrower, warehouseman, bailee or any other person or entity;
- (c) All machinery, furniture, fixtures and other equipment;
- (d) All negotiable and nonnegotiable documents of title;
- (e) All proceeds of any of the above-described property;
- (f) All books and records pertaining to any of the above-described property, including, without limitation, any computer readable memory and any computer hardware or software necessary to process such memory;
- (g) All rights under contracts of insurance covering any of the above-described property;
- (h) All attachments, accessions, tools, parts, supplies, increases and additions to and all replacements of and substitutions for any of the above-described property; and
- (i) All products of any of the above-described property.

(i)

EXHIBIT “3” TO PROMISSORY NOTE

**[GUARANTY OF PROMISSORY NOTE AND SECURITY AGREEMENT] or [NOT
APPLICABLE]**

GUARANTY OF PROMISSORY NOTE AND SECURITY AGREEMENT

This GUARANTY OF PROMISSORY NOTE AND SECURITY AGREEMENT ("Guaranty") is dated as of [Date] ("Effective Date"), and is executed by each of the undersigned ([individually and collectively,]"Guarantor") in favor of [SELLING ENTITY], ~~L.L.C.~~, a [state] [Corporation/Limited Liability Company, etc.] ("Seller"). To the extent this Guaranty contains terms and conditions that differ from those contained in the Note (as defined in Recital A below), this Guaranty shall control. All capitalized terms not otherwise defined in this Guaranty will have the same meanings ascribed to such terms in the Note.

Recitals

A. As an inducement for ~~Kahala~~Seller to provide debt to [Franchisee], a [State] [corporation/limited liability company], ("Franchisee"), and to perform ~~Kahala~~Seller's obligations under the Promissory Note and Security Agreement dated [Start Date] ("Note") in the amount of _____ Dollars (\$_____), Guarantor has agreed to jointly and severally guarantee the obligations of Franchisee under the Note.

B. Franchisee and {~~Seller~~} OR {~~Kahala Franchising, L.L.C.~~} signed a Franchise Agreement, as amended, with respect to *NrGize Lifestyle Cafe™* Store No. ("Franchise") dated [Franchise Agreement Date] ("Franchise Agreement").

C. Guarantor is Franchisee's spouse; owns, directly or indirectly, a five percent (5%) or greater equity interest in the Franchise; or has agreed to guarantee the Franchisee's obligations pursuant to the Franchise Agreement and Note.

NOW THEREFORE, in consideration of the foregoing, the execution and delivery of the Note by Seller, and the performance of Seller's obligations under the Note, Guarantor agrees, for the benefit of Seller and its affiliates as follows:

Agreement

1. Guarantor unconditionally guarantees and promises to pay to Seller and/or its affiliates and to perform, for the benefit of Seller and/or its affiliates, on demand, any and all obligations and liabilities of Franchisee in connection with, with respect to, or arising out of, the Note and all Schedules entered into in connection therewith ("Obligations").

2. This is a guaranty of payment and not of collection. This Guaranty will remain in full force and effect until all amounts payable by Guarantor have been validly, finally and irrevocably paid-in-full and all Obligations will have been validly, finally and irrevocably satisfied or performed-in-full.

3. Guarantor's Obligations under this Guaranty are joint and several and are independent of the obligations of Franchisee. A separate action or actions may be brought and prosecuted against Guarantor regardless of whether an action is brought against the Franchisee or whether the Franchisee (or, if more than one Guarantor, the other Guarantors) is joined in any such action. Guarantor waives the benefit of any statute of limitations affecting Guarantor's liability under this Guaranty or the enforcement of this Guaranty. Guarantor waives its rights under A.R.S. Section 12-1641, *et seq.* and Rule 17(f) of the Arizona Rules of Civil Procedure for the Superior Courts of Arizona, which set forth certain rights and obligations among guarantors, debtors and creditors, if applicable, including the right to require Seller to bring an action against the Franchisee prior to enforcing its rights under this Guaranty. Guarantor waives any right to require Seller to proceed against or exhaust any security interest held in the property of Franchisee or to pursue any other remedies that Seller may have. Guarantor waives all

requirements as to presentment, demand for performance, notice of non-performance, protest, notice of protest, notice of dishonor, and notice of acceptance of this Guaranty and of the existence, creation or incurring of new or additional Obligations or indebtedness.

4. Guarantor authorizes Seller, without notice or demand and without affecting Guarantor's liability under this Guaranty to renew, compromise, modify, extend, accelerate or otherwise change the terms of any present or future Obligations and/or agreements between Franchisee and Seller or Seller's affiliates. Any change in the Obligations and/or agreements will have no effect on Guarantor's liability under this Guaranty. Guarantor will remain liable for the Obligations as set forth in this Guaranty if Franchisee fails to satisfy any of its obligations.

5. If any one or more of the provisions in this Guaranty will be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provision of this Guaranty, and this Guaranty will be construed as if such provision had never been contained herein. Notwithstanding the foregoing, if the provision held invalid, illegal or unenforceable is a material part of this Guaranty, as determined by Seller, the Parties shall promptly negotiate a substitute provision consistent with then-current law and the Parties' original intent to replace the provision held to be invalid, illegal or unenforceable.

6. If Seller is required to take any legal action to enforce its rights under this Guaranty, Seller may recover from Guarantor Seller's costs and expenses in connection therewith, including, without limitation, reasonable attorneys' fees, whether or not suit is filed, and all costs of collection, suit, and preparation for suit (whether at the trial or appellate level).

7. Nothing in this Guaranty will constitute a waiver or limitation of any other rights or remedies of Seller or its affiliates against Franchisee or Guarantor. No failure or delay on the part of Seller or its affiliates in exercising its rights under this Guaranty will operate as a waiver of, or impair, any such right. No single or partial exercise of any such right will preclude any other or further exercise thereof or the exercise of any other right. No waiver of any right will be effective unless given in writing, specifying with particularity the nature of the waiver. No waiver of any right will be deemed a waiver of any other right. The rights provided for in this Guaranty are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

8. Guarantor agrees that it will not exercise any rights of subrogation that Guarantor may acquire due to any payment or performance of the Obligations of the Franchisee pursuant to this Guaranty unless and until all amounts payable to Seller or its affiliates, and all Obligations for the benefit of Seller or its affiliates, due under the Note will have been validly, finally and irrevocably paid and performed in full.

9. This Guaranty will be binding upon Guarantor and its respective successors, heirs and assigns, and will inure to the benefit of Seller, its affiliates and their respective successors and assigns.

10. If more than one person signs this Guaranty, each Guarantor's obligations will be joint and several. Guarantor acknowledges and agrees that Seller will materially rely upon Guarantor's promises and obligations under this Guaranty.

[11. Guarantor [if multiple guarantors, include names here,_,_] hereby represents that he or she is not married as of the Effective Date.]

This Guaranty will be governed by, and construed and enforced in accordance with, the law of the State of Arizona, notwithstanding any conflict of law provisions to the contrary. Guarantor agrees that any litigation in connection with this Guaranty will be commenced and maintained only in the courts located in Maricopa County, Arizona, and Guarantor

consents to the jurisdiction of such courts.

GUARANTOR:

_____ <u>[Name], an individual</u>	_____ <u>[Name], an individual</u>

_____ <u>[Name], an individual</u>	_____ <u>[Name], an individual</u>
_____ <u>[Name], an individual</u>	_____ <u>[Name], an individual</u>

EXHIBIT E-1

TO THE FRANCHISE DISCLOSURE DOCUMENT

Franchise Agreement (New) and Franchisee Questionnaire

NRGIZE LIFESTYLE CAFE

**FRANCHISE AGREEMENT
(New)**

between

KAHALA FRANCHISING, L.L.C.

and

, a(n)

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Exhibits Exhibit 1 Franchisee Questionnaire

NRGIZE LIFESTYLE CAFETM -
FRANCHISE AGREEMENT
("Agreement")

PARTIES:

KAHALA FRANCHISING, L.L.C.,
an Arizona limited liability
company Attn: Legal Department
9311 E. Via De Ventura
Scottsdale, Arizona 85258

("Franchisor")

a(n)

([individually and collectively,] "Franchisee")

~~KAHALA FRANCHISING, L.L.C., an Arizona limited~~
~~liability company Attn.: Legal Department 9311 E. Via~~
~~De Ventura Scottsdale, Arizona 85258~~

~~("Franchisor")~~

Telephone No.: _____

a(n)

~~([individually and collectively,] "Franchisee")~~

Telephone No.: _____

RESTAURANT NO.: _____

EFFECTIVE DATE: _____

EFFECTIVE DATE: _____

~~("Effective Date")~~

TRADITIONAL RESTAURANT (YES or NO): _____

~~("Effective Date")~~

~~**IF HEALTH CLUB LOCATION: HEALTH CLUB**~~
~~**NAME: _____ HEALTH CLUB NUMBER: _____**~~

RESTAURANT DESCRIPTION IF NON-TRADITIONAL: _____

A "traditional" restaurant is a restaurant that is easily accessible by the general public, such as a free-standing building, inline retail shop, shopping mall and street front location. A traditional *NrGize Lifestyle Cafe* restaurant normally offers a full menu. A "non-traditional" restaurant is ~~an~~ *NrGize Lifestyle Cafe* restaurant that is located in a non-traditional marketplace, as determined by us (in our sole discretion), such as an airport, amusement park, sports or entertainment venue, train station, travel plaza, toll roads, cafeteria, retail store, convenience store, military base, hospital, office building, movie theater, hotel, casino, kiosk, cart, or high school or college campus. A non-traditional restaurant may also be a *NrGize Lifestyle Cafe* restaurant that is co-branded into another brand restaurant, at Franchisor's sole discretion. A

non-traditional *NrGize Lifestyle Cafe* restaurant normally offers a limited version of the full *NrGize Lifestyle Cafe* menu.

To simplify the language in this Agreement, the terms “we,” “us,” “our” and the like may be used to refer to the Franchisor, and the terms “you,” “your” and the like may be used to refer to the Franchisee. The term “you” as used herein is applicable to one (1) or more persons, a corporation, partnership, trust, other entity, association or form of organization as the case may be, and the singular usage includes the plural, masculine, neuter, feminine, and possessive usages. Franchisor and Franchisee may individually be referred to as a “party” and collectively referred to as the “parties.”

[store #] [doc #]

RECITALS:

This Agreement is entered into with reference to the following facts and circumstances:

A. We have, over a period of time and at considerable expense, developed and established a uniform and unique method of operation, customer service, advertising, publicity, processes, recipes, techniques and technical knowledge in connection with the restaurant business, specializing in low-calorie smoothies, fruit drinks, nutritional supplements, and other related beverage and food items. These restaurants do business under the trade name “NrGize Lifestyle Cafe” ~~—~~[®] sometimes referred to as “NrGize”). These NrGize Lifestyle Cafe recipes, techniques, processes and methods constitute our “Trade Secrets.” All of our knowledge, experience, Trade Secrets, processes, methods, specifications, techniques, Proprietary Marks (as defined in Recital B.), System Standards (as defined in *Section 1.4*) and information are referred to in this Agreement as the “System.” The System may be changed, supplemented, improved and further developed by us from time to time.

B. We have owned and issued franchises to others for the operation of franchised restaurants in the United States and in other countries. We have registered and applied for proprietary marks with the United States Patent and Trademark Office and with offices in other countries serving similar functions. These proprietary interests, trademarks, service marks, logos, insignias, trade names and trade dress are referred to in this Agreement as the “Proprietary Marks.”

C. We are engaged in the business of licensing the right to use the Proprietary Marks in connection with the operation and promotion of the System.

D. You understand and recognize that: (1) our Trade Secrets, Proprietary Marks, developments and other properties as recited above are of considerable value; and (2) it is of importance to us and all of our franchisees to maintain the development of the System in a uniform and distinctive manner, allowing you and our other franchisees to enjoy a public image and reputation greater than most single franchisees could establish.

E. You desire to make use of the “NrGize Lifestyle Cafe”[™] trademark and to enjoy the benefits of that mark, the other Proprietary Marks, and the System; and to establish ~~an~~ “NrGize Lifestyle Cafe” franchise to be operated in accordance with System Standards set forth from time to time by us. System Standards are set forth in, without limitation, the confidential “ops package,” which consists of the “operations manual” (“Operations Manual”), “ops toolkit,” and related printed and electronic documents, both now existing and hereinafter developed (individually and collectively, “OperationsConfidential Manual”). We are willing to grant you the right to do so under the terms, conditions and provisions set forth in this Agreement, which includes any and all appendices, addenda, amendments, attachments and exhibits.

F. You recognize the necessity and desirability of protecting our reputation, goodwill, Trade Secrets, and other confidential business information; and that disclosure of Trade Secrets and confidential business information, including specifics of the System to any third-party, will cause irreparable damage and harm to us.

AGREEMENT:

The parties agree as follows:

ARTICLE 1. GRANT OF FRANCHISE; TERM; SYSTEM STANDARDS

1.1 Franchise Grant.

We hereby grant to you ~~an~~ a *NrGize Lifestyle Cafe* franchise that includes the right to use the System ("Franchised Business") as provided in this Agreement, at the following location:

Arena, Mall, Facility, or Center Name: _____
(if applicable)

Street Address: _____

City/State/Zip Code: _____ ("Location")

1.2 Location of the Franchised Business; No Exclusive Territory or Other Rights.

You must operate the Franchised Business only from the Location, including any catering services of *NrGize Lifestyle Cafe* menu items you provide. You acknowledge that the *NrGize Lifestyle Cafe* franchise granted under this Agreement is non-exclusive, that we are not granting you any territorial protection or any other exclusive rights, and that we, directly or through one (1) or more affiliates, reserve the right in our sole discretion, and without compensating you or seeking your prior approval: (i) to establish, and grant to other franchisees or licensees the right to establish, a *NrGize Lifestyle Cafe* restaurant or any other business using the Proprietary Marks, the *NrGize Lifestyle Cafe* System or any variation thereof, in any location other than the approved Location (including locations in the immediate vicinity of your Location), on any terms and conditions that we deem appropriate; (ii) to establish, and grant to other franchisees or licensees the right to establish, any restaurant concept other than *NrGize Lifestyle Cafe* in any location on any terms and conditions that we deem appropriate (including locations in the immediate vicinity of the Location); (iii) to sell products identified by the Proprietary Marks or other trademarks, service marks or commercial symbols in any location through any distribution channels, including grocery stores, convenience stores, supermarkets, club stores, vending machines, delivery services and restaurants other than *NrGize Lifestyle Cafe* restaurants; and (iv) to take any other action that we are not expressly prohibited from taking under this Agreement.

We hereby grant to you during the term of this Agreement, a non-exclusive right and license to operate a single restaurant at the Location only, according to the System Standards and subject to the terms, conditions and restrictions contained in this Agreement. This Agreement is limited to the operation of one ~~(1)~~ traditional restaurant, unless otherwise amended, and does not grant you the right to buy, own or operate additional restaurants.

Except as expressly limited in this Agreement, we (for ourselves and our affiliates and designees) retain all rights with respect to all Proprietary Marks and the sale of *NrGize Lifestyle Cafe* products anywhere in the world with no compensation or liability to you, including the right to:

a. Establish and operate (or license to any other person or entity the right to establish and operate) *NrGize Lifestyle Cafe* ~~stores~~restaurants owned or licensed by us at any location;

b. Develop, market, own, operate and participate in any other business under the Proprietary Marks or any other trademarks (including trademarks identified in the Uniform Franchise Disclosure Document ("Disclosure Document") and other trademarks we or our affiliates own or have the right to license);

c. Develop, lease and license the use of, at any location, trademarks other than the Proprietary Marks, in connection with the operation of a system that offers products or services

that are the same as, or similar to, those offered by us under this Agreement on any terms or conditions that we deem advisable, in our sole discretion;

d. Merge with, acquire or be acquired by any other business, including a business that competes with your Franchised Business, or acquire and convert any retail stores, including retail stores operated by competitors, or otherwise operated independently or as part of, or in association with, any other system or chain, whether franchised or corporate-owned;

e. Distribute, sell and license other persons or entities to distribute and sell products through all other channels of distribution, including catalog sales, telemarketing, grocery stores, warehouses, big box shops, specialty shops, limited access highway food facilities, vending machines and similar automated dispensing systems, mobile units, off-site sales accounts, electronic mail, Internet sales, and movie theaters (individually and collectively, "Other Channels"); and

f. Implement multi-area marketing programs that may allow us or others to solicit or sell to customers anywhere. We also reserve the right to issue mandatory policies to coordinate such multi-area marketing programs.

1.3 Term of Agreement.

This Agreement will commence on the Effective Date and continue as set forth in either SectionsSection 1.3a. or 1.3b. below ("Term").

a. If you are purchasing a new or existing non-operating Franchised Business, the Term will expire on either: (1) the ten (10) year anniversary of the date you open this Franchised Business to the public if you own the property where this Franchised Business is located or if you enter into a lease directly with the landlord or other third-party for the property where this Franchised Business is located; or (2) if you have entered into a sublease with one of our affiliates, the expiration of the term of the sublease for the Location excluding any extensions or renewal options, unless terminated earlier in accordance with *Article 14* or any other provisions of this Agreement; renewed in accordance with *Article 13*, or transferred in accordance with *Article 12*; or

b. If you are purchasing an existing and operating Franchised Business, the Term will expire on either: (1) the ten (10) year anniversary of the Effective Date if you own the property where this Franchised Business is located or if you enter into a lease directly with the landlord or other third-party for the property where this Franchised Business is located; or (2) if you have entered into a sublease with one of our affiliates, the expiration of the term of the sublease for the Location excluding any extensions or renewal options, unless terminated earlier in accordance with *Article 14* or any other provisions of this Agreement; renewed in accordance with *Article 13*, or transferred in accordance with *Article 12*.

1.4 System Standards.

You shall operate the restaurant in accordance with our standards, including the following:

- a. restaurant design, maintenance, health and safety and remodeling;
- b. types, models, brands and suppliers of required fixtures, furnishings, equipment, signs, materials and supplies;

- c. recipes and ingredients, menu items and menu design;
- d. cooperation with and participation in sales, marketing, advertising and promotional programs (including discount coupons, discount gift cards, special menu promotions, and entering into product and service agreements directly with third-party vendors and service providers as required by us) and materials and media used in those programs, including discontinued use and removal of promotional materials as directed by us;
- e. use and display of the Proprietary Marks;
- f. restaurant operations, including matters related to the management of the restaurant; training of your employees consistent with the System Standards; and commercial impression of the Franchised Business to the public;
- g. cooperation with and participation consistent with our responses and resolutions in response to customer feedback;
- h. cooperation with and participation in: (i) market research and testing; and (ii) product and service development programs;
- i. acceptance of our stored value gift cards, including gift cards sold at a discount, loyalty cards, frequency cards, gift certificates, vouchers, and any other similar electronic card and payment programs (individually and collectively, "Gift/Loyalty Card"), credit and debit cards, other payment systems, check verification services and use of point of sale computer systems; You agree to enter into a separate participation agreement with the approved vendor for data processing services;
- j. bookkeeping, accounting, data processing and record keeping systems; computer hardware and software; connections to the Internet or to proprietary networks; forms, methods, formats, content and frequency of reports to us of Gross Sales (as defined in *Article 5*), financial performance and condition; and providing tax returns and other operating and financial information to us; and
- k. conduct and maintain the Franchised Business and Location so as not to distract from or interfere with the integrity of the System (individually and collectively, "System Standards"). We may, in whole or in part, change, improve, update and further develop the System Standards, from time to time during the term. You shall comply with the updated System Standards as directed by us.

The operation and maintenance of your restaurant according to the System Standards are essential to the well-being and vitality of the System and to preserve the goodwill of the Proprietary Marks for us and for all other franchisees operating under the System. It is critical to the *NrGize Lifestyle Cafe* System for all restaurants operating under the *NrGize Lifestyle Cafe* System to present a uniform and professional image to *NrGize Lifestyle Cafe* customers regardless of which location the customer visits. Any information regarding the operation of the restaurant will be considered a mandatory System Standard, unless it is clear from the express language of our communication that the information is merely optional or is intended by us as a suggestion, rather than a requirement.

You agree that System Standards constitute binding provisions of this Agreement as if they were an integral part of this Agreement.

ARTICLE 2. SELECTION OF LOCATION; CONSTRUCTION AND RELOCATION

2.1 Location Selection Procedures.

You must select a Location that satisfies our minimum site requirements (such confirmation will be provided to you by us in writing), for your Franchised Business within one ~~(1)~~ (1) year from the Effective Date. If you cannot secure an acceptable Location for your Franchised Business within one (1) year from the Effective Date, then we may terminate this Agreement by giving you notice to that effect. You are ultimately responsible for the selection of the Location. We will not have any liability to you with respect to your selection of the Location, any assistance we provide you in making your selection, our recommendation of any location, or our allowing you to move forward on any location. You agree that your selection of the Location will be based on your own independent investigation of the suitability of the Location.

2.2 Lease and Purchase Approval.

If you intend to lease the Location for your Franchised Business, the lease will be subject to our prior limited review and acknowledgment so that we can confirm that certain lease terms are incorporated into the lease. You must provide us, at least thirty (30) days prior to executing the lease, a copy of the lease and details relating to square footage, rent per square foot, the term of the lease, and either confirmation that such other terms as we reasonably require are incorporated into the lease or that you and the landlord agree to incorporate the lease addendum to lease agreement as an exhibit to the lease. You or your attorney shall be responsible for negotiating the terms of the lease, which shall be subject to our final limited review and acknowledgment. If you do not submit all of the required documents to us, we will not allow you to move forward with your lease. We have no liability to you regarding the terms or negotiations of the lease.

If, prior to executing the lease, you or your attorney request a full review of your lease, including any and all exhibits attached thereto, and we or our designated affiliate review your entire lease and exhibits and provide to you or your attorney its review of the entire lease and suggested changes to the lease ("Lease Review"), you must pay a Lease Review Fee (as defined in *Section 5.7*) to compensate for time and effort in reviewing the lease. The Lease Review is optional and only completed by us or our designated affiliate at your or your attorney's request. The Lease Review Fee is due only in the event that you or your attorney ~~requests~~request us or our affiliate to complete a Lease Review. Each lease must contain the required lease terms set forth in the Lease Addendum to Lease Agreement, and must specifically state that we are a third-party beneficiary of the lease. If we cure any default by you under the lease, any amounts that we pay to cure the default will be payable by you to us on demand, together with interest thereon, at the lesser rate of one and one-half percent (1½%) or the maximum rate that does not violate applicable state usury laws ("Default Rate") per month from the date we make such payment.

You acknowledge and agree that on the earlier of thirty (30) days after: (i) you receive a fully-~~executed~~ copy of your lease for the Location of your Franchised Business; or (ii) you open your Franchised Business to the public, you must provide a fully-executed copy of your lease for the Location to us. Failure to timely provide us with a fully-executed copy of the lease will result in a default under this Agreement.

If you intend to purchase the Location for your Franchised Business, the terms of such purchase shall be subject to our prior approval, and you must provide us, at least thirty (30) days prior to executing the purchase agreement, a copy of the purchase agreement and details relating

to square footage, price per square foot and such other terms as we reasonably require.

You acknowledge and understand that our confirmation that you may move forward with any specific location, lease or purchase agreement does not in any way guarantee or ensure the success or profitability of the Franchised Business, or the conformity of the Location, lease or purchase agreement to applicable laws, and such confirmations are only for our own benefit.

2.3 Construction.

a. You must, at your sole cost and expense, construct, furnish, make improvements to and equip, if necessary, the Franchised Business at the Location selected by you and meeting our minimum site requirements, in accordance with plans and specifications approved by us or our third-party approved architect, if applicable. Our approval of plans is solely for complying with our System Standards, and not for determining compliance with codes, ordinances and other legal requirements, including the Americans with Disabilities Act (“ADA”). You are solely responsible for ensuring that your Location conforms to all codes and ordinances, including the ADA. You must, at your sole cost and expense, use our designated and approved third-party design architect (“Design Architect”) to prepare the initial design drawings for any construction, alterations or improvements, as applicable, for your Franchised Business. The Design Architect must provide us with one (1) set of the design drawings, including landscaping and parking spaces if applicable, which are the detailed plans and specifications (“Plans”) for your Franchised Business. We will provide you with a copy of the Plans upon our approval of the Plans. You must also, at your sole cost and expense, retain a licensed architect of record to prepare the permitted construction set of drawings for any construction, alterations or improvements. The permitted construction set of drawings must be submitted to us for our files prior to the start of construction, alterations or improvements. In addition, you must obtain the appropriate construction documents, and all mechanical, plumbing, electrical and architectural plans must be sealed and stamped, as we may require, even if local laws in the jurisdiction where your restaurant is located do not require same.

b. Any material modifications to the approved Plans must be submitted to us for approval, and you will not undertake any construction, alterations or improvements until such modifications have been approved by us. Approval of such modifications does not constitute any representation by us of compliance with applicable zoning laws, building codes or other laws.

c. You will be solely responsible for the cost and expense of obtaining all necessary governmental construction permits and licenses, and you must, at your sole cost and expense, comply with all laws, zoning ordinances, rules and regulations of any governmental agencies that may govern any construction, alterations or improvements of the Franchised Business in accordance with the approved Plans. We will have the right, but are not required, to meet with the Design Architect and to inspect any construction, alterations or improvements during its course to ensure that the provisions of this *Section 2.3* are being observed; and you agree to allow our authorized representatives, at any and all times while construction, alterations or improvements are in progress, to meet with the licensed architect and general contractor and enter onto the Location for this purpose. If we determine in good faith that the provisions of this *Section 2.3* are not being observed, you will, at your sole cost and expense, immediately take all necessary corrective action.

d. You must, at your sole cost and expense, use a general contractor that is licensed, and if applicable, registered in the state and local jurisdiction where your restaurant is located for any and all construction, alterations and improvements. The general contractor must have prior experience in the construction, alterations and improvement of quick-service restaurants.

e. You acknowledge that the design and appearance of the *NrGize Lifestyle Cafe* restaurant is part of the System, and that uniformity is essential to the System. Therefore, you agree that after the restaurant has been constructed, altered or improved, you will not make any material changes to the building plan or design or its appearance without our prior written consent, and you will, at your sole cost and expense, maintain the interior and exterior decor of the restaurant in a first class condition and in such manner as we may reasonably prescribe from time to time. In addition to any remodeling required by us upon the transfer of the Franchised Business and upon the renewal of this Agreement, as set forth in *Articles 12* and *13*, respectively, you will, upon thirty (30) days' prior notice from us, and at your sole cost and expense, remodel and make all alterations and improvements ~~and alterations~~ in and to your Franchised Business as reasonably determined by us to reflect the then-current *NrGize Lifestyle Cafe* System specifications, standards, format, image and appearance.

f. A certificate of occupancy for your Franchised Business must be submitted to us approximately six (6) days prior to the day you open your Franchised Business to the public and as otherwise requested by us throughout the Term.

2.4 Signage.

You will acquire, repair and replace, as necessary, and maintain in a first class condition throughout the Term, signs for advertising and identifying the Franchised Business as *NrGize Lifestyle Cafe* restaurant. All signs must be in accordance with the System Standards, specifications and any local governing body (i.e., city or county governments), as well as any other applicable laws, including the Americans with Disabilities Act ("ADA"), and exterior signage must be the maximum size allowed by the landlord and local governing body. You acknowledge that quality control is essential to protect and promote our Proprietary Marks, standards, and uniform image, and you shall acquire all signs only from approved suppliers. In addition, you shall prominently display on all communications, forms, advertising, business stationery and business cards, and in a sign easily visible to consumers at the Franchised Business, the following words: "INDEPENDENTLY OWNED AND OPERATED."

2.5 Relocation.

a. If you desire to relocate the Franchised Business, you may request our consent upon the following conditions:

(i) Not less than sixty (60) days prior to the desired date of relocation (unless prior notice is impractical because of a required relocation, due to a third-party or our request, in which event notice shall be made as soon as possible), you must make a written request for consent to relocate, describing the reasons for the relocation and providing details respecting any proposed new location.

(ii) Within twenty-one (21) days after receiving your written request, we shall advise you in writing if the proposed new location meets our minimum real estate site requirements as provided in *Section 2.1* and if you have our authorization to proceed with the relocation. In the event of our denial to proceed with the relocation, you may request an alternative proposed new location pursuant to the provisions of this *Section 2.5*.

(iii) The Term will not be extended in connection with the requested relocation.

b. At the time you request to relocate the Franchised Business, you must also meet

each of the following requirements:

(i) You must not be in default under this Agreement or any other agreement or note then in effect between us or you and any affiliate of ours, and no event shall have occurred that, with the giving of notice, the passage of time, or both, would constitute a default under this Agreement;

(ii) You must neither have received more than three (3) notices of default or breach during the Term; nor more than two (2) notices of default or breach during the five (5) years immediately preceding the effective date of the proposed relocation;

(iii) The equipment, fixtures and signage used in connection with the operation of the Franchised Business must either meet our then-existing System specifications and System Standards, or you must agree, within a timeframe required by us, to replace or refurbish such items, and otherwise modify the methods of operation of the Franchised Business at your cost and expense, in order to comply with our System specifications and System Standards then applicable to new franchise owners; and

(iv) You shall have paid to us ~~the~~a Relocation Fee (as defined in *Section 5.14*).

c. If we approve the relocation of your Franchised Business, (i) you and we must execute an amendment to this Agreement indicating the address for your relocated Franchised Business, and (ii) you must open your Franchised Business at the new location within ninety (90) days after you close your Franchised Business at the current Location. During the period of time between the closure of your Franchised Business at the current Location, and the opening of the Franchised Business at the approved relocation address, you will not owe the Royalty Fee (as defined in *Section 5.2*).

2.6 Restricted Use of Restaurant Location.

You may not wholly or partially sublet the Location without our prior written consent. The Location may be used only for the operation of ~~an~~a *NrGize Lifestyle Cafe* restaurant in compliance with this Agreement and the System Standards. You shall not conduct other businesses or activities at the Location without our prior written consent.

2.7 Not Applicable.

ARTICLE 3. OPERATIONS

3.1 Commencing Operations.

You agree to start operating your *NrGize Lifestyle Cafe* restaurant at the confirmed Location within ~~twoone~~ (21) yearsyear from the Effective Date. You acknowledge that before starting operations you must, at your own expense, do the following (in addition to any other requirements set forth in this Agreement):

a. Complete a food safety training program at your sole cost and expense. We will accept the certificate for the required program through your local county or state health department or any other nationally recognized food safety program. You must provide us with a copy of your certificate prior to commencing training;

b. Successfully complete the Training Program described in *Section 4.1*;

c. Purchase, lease or otherwise acquire from the list of approved sources provided by us all the signage, supplies, equipment, fixtures, inventory and other items necessary to operate the *NrGize Lifestyle Cafe* Franchised Business; and

d. Obtain liability insurance in accordance with the requirements described in *Section 9.5* and provide to us evidence that such insurance has been obtained.

Prior to opening the Franchised Business, you must notify us that you have satisfied all requirements to begin operations, and provide us with such documents as we may reasonably request that show your compliance with all such requirements. Upon receipt of our acknowledgment that such requirements have been satisfied, you will have five (5) days to begin operations of your *NrGize Lifestyle Cafe* restaurant. If you do not begin operations of your restaurant at the confirmed Location before the expiration of the ~~twoone~~ (21) year period from the Effective Date, then we may terminate this Agreement by giving you notice to that effect.

3.2 Supplies and Promotional Materials; Rollouts.

You agree to sell only those menu items, products and services authorized under the terms of this Agreement and as specified in the OperationsConfidential Manual, and you shall use only supplies and ingredients in making those menu items that are in compliance with the standards as set forth in the OperationsConfidential Manual or other documents provided by, or approved by, us as they presently exist or may exist in the future. You shall purchase all such services, supplies and ingredients only from approved vendors and utilize approved distributor(s) as specified in the documents provided by, or approved by, us as they presently exist or may exist in the future. You must purchase promotional materials containing the Proprietary Marks, including stationery, business cards, promotional and advertising materials and similar items, from suppliers approved by us, except that we must first approve all such promotional and advertising materials before you use them, and all such printed materials containing any of the Proprietary Marks shall be accompanied by the words "INDEPENDENTLY OWNED AND OPERATED." Additionally, during the Term, you agree to participate in any Rollout of new products and suppliers, as defined in *Section 9.3*.

3.3 Fixtures, Furnishings, and Equipment.

Unless otherwise approved by us in writing, you will: (1) acquire, repair and replace, as necessary, and maintain in a first class condition throughout the Term, fixtures, furnishings, and equipment to be used in the operation of your Franchised Business that is in accordance with the System Standards ~~and~~ specifications set forth by us in the OperationsConfidential Manual or other documents provided by, or approved by, us as they presently exist or may exist in the future, and with applicable laws including, without limitation, including the Americans with Disabilities Act ("ADA"); and (2) procure the fixtures, furnishings, and equipment from suppliers or vendors previously approved in writing by us.

3.4 Online Presence.

You may not maintain a website, software application, an App (application), social media account (including an account, group or page on Facebook®, Flickr®, Foursquare®, Google+®, Instagram®, LinkedIn®, Pinterest®, Snapchat®, Tumblr®, Twitter®, YouTube®, Vine®, VKontakte or Weibo®), or otherwise maintain a presence or advertise on the Internet or any other public computer network (individually and collectively, "Site") in connection with the Franchised Business without our prior written approval, which we may withhold in our sole discretion. If we

grant you written approval, you agree to submit to us for approval before use, true and correct printouts, of all Site pages you propose to use in connection with the Franchised Business. You understand and agree that our right of approval of all such Site pages is necessitated by the fact that such Site pages will include and be inextricably linked with our Proprietary Marks. If we approve your use of a Site, you may only use Site pages that we have approved. Your Site must conform to all of online presence requirements, policies and procedures per our System Standards. You agree to provide all information regarding your online presence that we require. If we grant approval for a Site, you may not use any of the Proprietary Marks on the Site except as we expressly permit. You may not post any of our proprietary, confidential or copyrighted material or information on the Site without our prior written permission. If you wish to modify your approved Site, all proposed modifications must also receive our prior written approval. You explicitly understand that you may not post on any Site (whether yours or someone else's) any material in which a third-party has any direct or indirect ownership interest (including video clips, photographs, sound bites, copyrighted text, trademarks or service marks, or any other text or image which any third-party may claim intellectual property or other rights in). If we grant approval, you agree to list on the Site any website and social media account maintained by us, and any other information we require in the manner we dictate. You agree to obtain our prior written approval for any Internet domain name, home page address and Uniform Resource Locator. The requirement for our prior approval set forth in this *Section 3.4* will apply to all activities on the Internet or other communications network to be conducted by you, except that you may maintain one (1) or more email-mail addresses and may conduct individual email-mail communications without our prior written approval. You agree to obtain our prior approval as provided above if you propose to send advertising to multiple addressees via email-mail or text messages. You may not use a Site to represent that: (1) the Site is an official account, application, page or group of, or video produced by us; or (2) you are the owner of the *NrGize Lifestyle Cafe* brand. On any Site you use in connection with the Franchised Business, you must affirmatively state: (a) that you are a franchisee and the opinion and content being expressed are your own and not that of the *NrGize Lifestyle Cafe* brand; and (b) the Location of your Franchised Business.

3.5 Not Applicable.

ARTICLE 4. TRAINING, ASSISTANCE AND START-UP MATERIALS

4.1 Training Program.

We will provide up to two (2) natural persons (individually and collectively, "Trainees") with a training program designed to inform the participants as to the fundamentals of operating the Franchised Business prior to your opening of the Franchised Business. At minimum, one (1) of the two (2) natural persons must have an ownership interest in the Franchised Business. The remaining position may be filled by a natural person with an ownership interest in or management responsibility for the Franchised Business. ~~Notwithstanding the foregoing, Franchisor has the right to require Franchisee and/or its manager(s) to attend additional In-Store Training (as defined below), as provided for in this Section and Section 5.9, in the event Franchisee is not operating the Franchised Business pursuant to Franchisor's Systems Standards.~~ The training program is made up of the "In-Store Training," which is approximately ~~twosixteen~~ (216) ~~dayshours~~, and "New Owner Training," which is approximately ~~fiveforty~~ (540) ~~dayshours~~ (collectively, "Training Program"). You will be solely responsible for all transportation costs, food, lodging and other personal expenses incurred by you and your employees in connection with the Training Program. The New Owner Training will be conducted at the ~~Kahala Training and Education Center~~ Franchisor training and education center in Scottsdale, Arizona

and the In-Store Training will be conducted at a training store in Arizona or such other location as we may designate at our sole discretion. You acknowledge that adequate knowledge regarding the operation of the Franchised Business is essential to the growth of your franchise and to the promotion of the System. Notwithstanding the foregoing, Franchisor has the right to require Franchisee and/or its manager(s) to attend additional In-Store Training (as defined below), as provided for in this Section 4.1 and Section 5.9, in the event Franchisee is not operating the Franchised Business pursuant to Franchisor's Systems Standards.

4.2 Employee Training.

You acknowledge that the employees of your *NrGize Lifestyle Cafe* Franchised Business are an integral and important part of the Franchised Business, as they will have substantial contact with customers. You alone are responsible, and acknowledge that we have no direct or indirect control and no right or authority, for the hiring, firing, training, supervising, setting the terms and conditions of employment (including employee tasks and work schedules) ~~and,~~ compensation of your employees, or maintaining employment records, for the safety of your employees and for your employees' compliance with the System Standards. The System Standards are in place to protect our interests in the System and not for exercising any control over you, your employees or your Franchised Business. You must ensure that your employees who have direct interaction with the public are able to speak and read English and any other language that may be required to adequately meet the public needs in your Franchised Business.

4.3 Additional Programs; Continuing Assistance.

We will provide one (1) of our representatives to come to your restaurant during opening week for up to three (3) days, at our expense, to work with you or your manager on your grand opening, and on operating and marketing your restaurant. We may, in the future, request that Trainees participate in refresher or additional training programs. We may also hold an annual conference to introduce new products, discuss sales and marketing techniques, personnel training, advertising programs, merchandising procedures and other subjects. You may be charged a nominal registration fee for these programs, and you will be solely responsible for the cost of transportation, food, lodging and other expenses incurred by Trainees at any such program. Attendance at these additional training programs and conferences is mandatory. They will be held in the metropolitan Phoenix, Arizona area, or at other locations in the United States chosen by us, at our sole discretion.

In addition to the initial training available under *Section 4.1*, we shall provide such periodic evaluations or inspections as we deem appropriate, utilizing our field representatives who may visit the Franchised Business from time to time. The frequency and duration of such visits to a Franchised Business by our representatives shall be in our sole discretion. Any such evaluation or inspection is not intended to exercise any control over your employees or the daily operation of your Franchised Business. In addition, we will be available on an ongoing basis at our offices for consultation and guidance with respect to the operation and management of the Franchised Business. In addition to the Operations Manual, we may, but are not required to, from time to time, provide you with additional materials relating to the Franchised Business.

4.4 Area Representatives.

We may retain the services of an independent third-party area representative ("Area Representative") to represent us in the area in which the restaurant is located and perform some or all of the services we provide under this Agreement. The services the Area Representative may

perform could include: (i) assistance in location selection and evaluating and confirming that the Location meets our minimum site requirements; (ii) advice and guidance regarding lease negotiations; (iii) assistance in opening new *NrGize Lifestyle Cafe* locations; (iv) assistance with training on the approved POS System (as defined in *Section 4.6a.*); (v) assistance with marketing advice; (vi) periodic Quality Service Cleanliness and Experience (“QSCE”) evaluations; (vii) assistance with collection of the various sums due to us from *NrGize Lifestyle Cafe* franchisees; and (viii) coordination with other *NrGize Lifestyle Cafe* franchisees in your area and general supervision and monitoring of your Franchised Business on our behalf. You agree in advance to our delegation to an Area Representative of some or all of our obligations, and assignment to an Area Representative of some or all of our rights, under this Agreement. You agree that we may require you to submit to an Area Representative any reports you are required to submit to us. Upon our request, you will provide the Area Representative with access, inspection and audit rights to the same extent we have those rights under this Agreement. You are not a third-party beneficiary of any agreement between us and any Area Representative. If we have designated an Area Representative for your restaurant as of the Effective Date, the name and contact information of the Area Representative is shown in *Section 17.3h*. We reserve the right in our sole discretion to remove any Area Representative in your area at any time and to appoint any other Area Representative for your area. We have no obligation to appoint an Area Representative in the area in which your restaurant is located, and we have no obligation to appoint a new Area Representative after we have removed an Area Representative.

You acknowledge that Area Representatives and their owners and employees may not contractually bind us without our express written authorization. You further acknowledge no Area Representative has the authority to: (i) enter into agreements or execute any agreements on our behalf; or (ii) bind us in any way without our prior written consent. Unless expressly authorized and agreed to by us in writing, we disavow any agreements, whether verbal or written, entered into by an Area Representative that in any way attempts to bind us. In any litigation or arbitration proceeding, you agree to waive any claim or defense that an Area Representative is our express or implied agent and such an assertion by you constitutes a material default under this Agreement.

4.5 Confidential ~~Operations~~ Manual.

To protect the reputation and goodwill of the System and to maintain the uniform standards of operation under the Proprietary Marks, you must conduct your business in accordance with our ~~Operations Manual~~Confidential Manual. The Confidential Manual is confidential and remains our property.

The Operations Manual will be provided to you at the New Owner Training referred to in *Section 4.1*.

So that you may benefit from new knowledge gained by us as to improved techniques in the operation of the Franchised Business, we may from time to time revise, amend, restate or supplement the content of the ~~Operations Manual~~Confidential Manual or other documents provided by, or approved by, us as they presently exist or may exist in the future. You will at all times ensure that your copy of the ~~Operations~~Confidential Manual is kept current and up to date. In the event of a dispute regarding any of the content of the ~~Operations~~Confidential Manual, the master ~~copy~~copies maintained by us at our corporate office will control.

4.6 Computer Systems; Debit and Credit Card Processing.

a. Prior to the opening of your restaurant, you will be required to acquire to maintain, and to exclusively use an approved cash register/computer system (“POS System”) during the operation of the Franchised Business. You and your employees must complete training for the POS System as we require, and you will be required to use the POS System to produce sales reports, keep inventory control and post sales tax, refunds, credits and allowances and submit that information to us immediately upon our request. You are required to obtain DSL/high- speed Internet connection service for your POS System. If neither DSL nor cable is available in your area, dial-up Internet access may be used until DSL or cable service becomes available in your area. The POS System must be configured so that we will have remote access to the information and data stored in the POS System, which may include inventory information. This access will allow us to exchange/collect data and other information on such bases as we will communicate to you from time to time. You will be required to maintain the POS System in good working order at all times, and to upgrade or update the POS System during the Term as we may require from time to time. It will be your responsibility to enter into contracts for the maintenance, upgrades and updates to the POS System with an approved supplier of such services identified by us on the list of approved vendors and distributors or other notification to you from us advising of suppliers for your market area. You shall also be required to own a personal computer or similar device with access to the Internet that allows you to report your Gross Sales (as defined in *Section 5.2*) online and send and receive emails with us, send and receive e-mails with us, and receive online orders. If implemented by us, all NrGize Lifestyle Cafe franchisees of traditional restaurants will be required to participate in an online ordering program. We may provide specifications that you must follow for the hardware, software, and Internet provider for such computer equipment. We may require you to upgrade the hardware and software as reasonably necessary to provide reports and information required by us.

b. You are required to accept debit and credit cards and Gift/Loyalty Cards from consumers at the Franchised Business. Prior to the opening of your restaurant, you will be required to acquire and maintain an approved debit, credit and Gift/Loyalty Card processing system to use during the operation of the Franchised Business. Additionally, you must utilize our approved third-party Gift/Loyalty payment card processor for processing all such ~~debit, credit, rewards, and~~ Gift/Loyalty Card transactions, including entering into a Gift Card Participation Agreement with ~~KGC, LLC~~ one of our affiliates, or its successors or assigns, or other approved vendor for the Gift/Loyalty Card processing services. The Payment Card Industry (“PCI”) requires all companies that process, store, or transmit credit card information to protect the cardholders’ information by complying with the PCI Data Security Standard (“PCI DSS”). Therefore, as a franchisee who accepts credit cards, you are required to be PCI compliant by following and adhering to PCI DSS, which includes ensuring that your POS System, back office computer (if supplied), and any other device that is plugged into the network is **only** used for business purposes. You are also required to complete an annual questionnaire and quarterly network PCI scans and install a network firewall appliance for logging, tracking, reporting, and security assessment. You are also required to validate with Franchisor that your store is PCI compliant. To show such validation you must send us your Passing Certificate showing your store is PCI compliant. You are also required to verify that you have a PCI compliant firewall appliance installed at your location if you process credit cards via high speed internet connectivity. We require your Franchised Business’ POS System, including terminals, computers, and software to be in compliance with the PCI DSS at all times. The PCI DSS is often updated, and you are required to obtain and comply with all updated standards. You must also be PCI compliant in order to obtain cyber liability/data breach insurance coverage.

ARTICLE 5. FEES AND DEPOSITS

You agree to pay each of the following amounts to us via a lump sum, with each and every amount being non-refundable because of our investment in time and money, in addition to any other benefits conferred upon you, including processing your application, reviewing your documents, and providing you with relevant information, unless otherwise expressly specified below, in accordance with the provisions set forth in this *Article 5*. Notwithstanding your designation to the contrary, we have the sole discretion to apply any of your payments, in part or in whole, to any of your indebtedness to us.

5.1 Initial Franchise Fee.

The initial franchise fee is Thirty Thousand Dollars (\$30,000) ("Initial Franchise Fee"). The Initial Franchise Fee will be due and payable by you to us by cashier's check, wire transfer or other form of immediately available funds acceptable to us, upon your execution of this Agreement. You and we agree that our grant of the franchise and your payment of the Initial Franchise Fee provided for in this *Section 5.1* does not give you any rights with respect to other franchises, if any, as we in our sole discretion may elect to make available in the future.

5.2 Royalty Fee and Surcharge.

For the period of time commencing on the later of the Effective Date or the date the Franchised Business opens to the public until the end of the first six (6) months your store is opened to the public, you must pay to us a weekly royalty fee equal to six percent (6%) of total Gross Sales (as defined below); and for the period of time commencing on the first day of the seventh month after your store opened to the public, ~~and for the duration of the Term,~~ you must pay to us a weekly royalty fee equal to the greater of the following: (i) six percent (6%) of total Gross Sales (as defined below); or (ii) One Hundred Fifty Dollars (\$150) ("Royalty Fee"). If we or the landlord of the Location require you to remodel your Franchised Business in such a way that your Franchised Business (including catering) stops offering items to the public, or if there is a disaster at your Franchised Business, such as a fire, flood or damage caused by an act of God, that requires you to temporarily close your Franchised Business, you are not required to pay the Royalty Fee during the period of time of such temporary closure; provided you provide us or our authorized representative with notice of such temporary closure as soon as reasonably possible, but in no event more than twenty-four (24) hours after such closure begins. Notwithstanding the above, all amounts owed to us under this Agreement prior to the temporary closure shall still be fully due and payable. The temporary closure of your Franchised Business shall not exceed ninety ~~(90)~~ (90) days, but may be extended on a case-by-case basis at our sole discretion and with our prior written approval.

In our sole discretion, we may charge, in addition to the Royalty Fee, a surcharge of up to Ten Dollars (\$10) per week if your Franchised Business is located in a state that imposes additional reporting requirements on a franchisor ("Surcharge"). The Royalty Fee and applicable Surcharge shall be due and payable no later than Thursday of each week, which day may be modified by us without prior notice to or approval from you, for the week ending on the preceding Sunday in which applicable Gross Sales (as defined below) were earned from the Franchised Business. The weekly Royalty Fee and applicable Surcharge shall be paid by electronic funds transfer, as detailed below.

For the period of time commencing on the later of the Effective Date or the date the Franchised Business opens to the public, and for the duration of the Term, you are required to report Gross Sales to our designated accounting office via the Internet at

~~<http://franchisee.kahalamgmt.com>~~ <http://franchisee.kahalamgmt.com>, as set forth in *Section 5.6*. You shall be required to establish a Depository Account (as defined in *Section 5.6*) at the time you execute this Agreement as set forth in *Section 5.6*. Payment of the Royalty Fee, Advertising Fee (as defined in *Section 5.3*), and all other fees due under this Agreement to us shall be made via electronic transfer of funds from the Depository Account. To accomplish this electronic transfer of funds from the Depository Account, you must complete, sign and deliver to us, and maintain for the duration of the Term, a current Electronic Funds Transfer Authorization in a form that we provide.

As used in this Agreement, "Gross Sales" means all sales, money or things of value, received or receivable, directly or indirectly, by Franchisee on account of the Franchised Business, less applicable sales taxes and any properly documented refunds, credits and allowances given by you to customers in accordance with the System Standards, but without deducting any of your income taxes, costs and other expenses. All sales made from catering services must be included in the Gross Sales.

5.3 Advertising Fee.

a. Unless your Franchised Business is located in an enclosed shopping mall or other enclosed structure identified in *Section 1.1*, and in addition to the Advertising Fees under *Section 5.3b.*, you shall spend on advertising and on promotion at least Five Thousand Dollars (\$5,000) within the first six (6) months following the opening of the Franchised Business.

b. You must pay to us, or directly into a national advertising fund or also any regional advertising funds, as designated by us at our sole discretion, (individually and collectively, "Advertising Fund") a weekly advertising fee of one half of one percent (0.5%) of the Gross Sales for the preceding week ("Advertising Fee"). Upon thirty (30) days' notice by us to you, we may unilaterally increase the Advertising Fee from its current level, not to exceed four percent (4%) of your weekly Gross Sales. The Advertising Fee shall be due and payable with the Royalty Fee under *Section 5.2*. The Advertising Fee is our property and may be deposited by us into our general operating account.

c. The Advertising Funds will be used for marketing, advertising, production and media expenses to promote the *NrGize Lifestyle Cafe* name, System, products and services. We are entitled to deduct, free of charge, the following from the Advertising Fund: (i) reimbursement of expenses, overhead, and employee salaries for services provided; and (ii) rent for office space provided to the Advertising Fund. We have no fiduciary obligation to you in connection with the operation of any Advertising Fund. No interest on an unexpended Advertising Fee shall be imputed or otherwise charged for the benefit of, or payable to, you. You understand and agree that the only obligations we have regarding the collection and spending of the Advertising Fee or the administration of the Advertising Fund are the express contractual obligations in this *Section 5.3*. We are not acting as a trustee, fiduciary, agent or in any other special capacity. We do not give any representation or warranty regarding the quality or effectiveness of the advertising and marketing activities funded by the Advertising Fee or of the Advertising Fund, and we will have no liability to you with respect to how these funds are spent.

d. Your own local marketing and advertising should be developed to maximize your particular customer base.

5.4 Not Applicable.

5.5 Not Applicable.

5.6 Depository Account; Payment Procedures.

You are required to establish, at the time you execute this Agreement, and maintain for the duration of the Term a depository account ("Depository Account") at a bank or other federally insured financial institution ("Depository"). You will initially deposit no less than Three Thousand Dollars (\$3,000) into the Depository Account and are required to maintain a balance of at least Three Thousand Dollars (\$3,000) in the Depository Account at all times during the Term by replenishing the Depository Account to at minimum Three Thousand Dollars (\$3,000) after any withdrawals. We shall not be responsible for any bank service charges incurred by you which result from the withdrawal of funds from your Depository Account.

On ~~Monday~~Tuesday of each week, you must submit a report to us regarding the weekly period which ended on the preceding Sunday, including details on Gross Sales and other statistical data as provided in this Agreement, ~~Operations~~Confidential Manual, or as otherwise specified from time to time by us. We will withdraw funds electronically on Thursday of each week from the Depository Account. The withdrawals are based upon the figures you report and constitute the Royalty Fee and Advertising Fee as described in *Sections 5.2 and 5.3*. If you do not submit a report on any ~~Monday~~Tuesday, we may estimate the Royalty Fee and Advertising Fee based upon prior reports and withdraw the estimated amounts up to the entire Three Thousand Dollars (\$3,000). We will return or credit back to you, in our sole discretion, any overage within thirty (30) days after our receipt of your report(s). We shall not be responsible to you for any interest charges for any overage collected due to your failure to timely report your sales. You shall instruct the Depository to disburse each week to our designated bank, via electronic funds transfer by the close of business on Thursday-~~of each week~~ (or preceding banking business day, if Thursday is a bank holiday), the weekly Royalty Fee and Advertising Fee and other fees due for that week, which week shall end on the preceding Sunday.

We will also withdraw the monthly POS Help Desk Phone Support Maintenance Fee (as defined in *Section 5.20*) from the Depository Account on the last Thursday of each month. Under no circumstances shall such access to the Depository Account be deemed control or joint control of the Depository Account by us.

Subject to reasonable advance notice for non-recurring payment amounts, we have the right to debit your Depository Account, or any other depository account you have with us, according to the terms of your Electronic Funds Transfer Authorization for any of the payments described in this *Article 5*. If you do not pay all amounts due by the due date, we may suspend our and our affiliates' services and support until your payment default is cured. Repeated failure to pay all amounts when due, whether or not the defaults are subsequently cured, may be cause for termination under *Article 14*.

You shall pay us Fifty Dollars (\$50) for each electronic funds transfer attempted from your Depository Account pursuant to this *Section 5.6* that is returned for non-sufficient funds. You shall also reimburse us for all other costs and expenses incurred by us in collecting or attempting to collect funds due to us from the Depository Account (for example, without limitation, charges for non-sufficient funds, uncollected funds or other discrepancies in deposits or maintenance of the Depository Account balance in accordance with the terms hereof). The Depository Account shall be established and maintained solely for the purposes set forth in this *Section 5.6* and any other fees authorized under this Agreement and any other agreements between you and us or any of our affiliates.

5.7 Lease Review Fee.

If you request us or one of our designated affiliates to complete a Lease Review, you are required to pay us or our designated affiliate a lease review fee in the amount of ~~One~~Two Thousand ~~Two~~Five Hundred ~~Fifty~~ Dollars (\$~~1,250~~2,500) ("Lease Review Fee") for reviewing and providing comments to your proposed lease.

5.8 Lease Guarantee Fee.

If, in order to obtain the lease agreement for the Location of your Franchised Business, the landlord requires you to obtain a lease guarantee, and we or one of our affiliates agree to serve as such guarantor, you will pay us or our affiliate a fee in the amount of ten percent (10%) of the total amount of the rental obligations being guaranteed under the lease during its term up to a maximum fee of Ten Thousand Dollars (\$10,000) ("Lease Guarantee Fee"). The Lease Guarantee Fee will be due and payable upon our or our affiliate's execution of the applicable lease guarantee agreement with the landlord. Neither we nor any of our affiliates are required to serve as a guarantor of your lease for the Location of your Franchised Business; rather, the decision of whether to serve as a guarantor shall be made in our sole discretion. In the event that you request us or our affiliate to either agree to be the tenant under the lease or execute a separate guarantee to the lease, and you pay the required Lease Guarantee Fee, you agree and acknowledge that payment of the Lease Guarantee Fee shall not, in any manner, be deemed as an insurance policy which limits your liability in connection with the Franchised Business, including any and all financial liability under the sublease or lease related to the Location. You further agree and acknowledge that our or our affiliate's agreement to act as tenant or guarantor under the lease, and your payment of the Lease Guarantee Fee to us~~;~~ or our affiliate, does not result in the assumption or transfer of your liability, in connection with the Franchised Business, by or to us or our affiliate.

5.9 Additional Persons Training Fee.

The training of two (2) individuals is included in the Initial Franchise Fee. If you desire to have more than two (2) people attend the Training Program, you must pay an additional training fee of Five Hundred Dollars (\$500) for each such person to attend the In-Store Training and an additional Five Hundred Dollars (\$500) for each such person to attend the New Owner Training (individually and collectively, "Additional Persons Training Fee") (see *Section 4.1*).

5.10 Additional Training Fee.

If, after attending the Training Program, you desire to receive additional training, we will provide additional training time to you for a fee of Three Hundred Dollars (\$300) per person per day. Such additional training will be at a time reasonably agreed to by you and us, and will be conducted at Franchisor's headquarters~~;~~ or such other location as we may designate in our sole discretion. You will be solely responsible for all transportation costs and expenses, food, lodging and other personal costs and expenses incurred by you and your employees in connection with this additional training.

5.11 Document Administration Fee.

A document administration fee of Five Hundred Dollars (\$500) ("Document Administration Fee") is payable to us when we must prepare an amendment to your franchise documents (see *Section 12.3g*).

5.12 Renewal Franchise Fee.

A renewal franchise fee ~~in the amount~~ of fifty percent (50%) of the then-current initial franchise fee not including any discounts or reductions ("Renewal Franchise Fee") is payable to us when you renew this Agreement (see *Section 13.h.i*).

5.13 Transfer Franchise Fee.

a. Not applicable.

b. A Potential Transferee (as defined in *Section 12.1c.*) receiving this Agreement, as may be amended, in connection with a Full Transfer (as defined in *Section 12.1a.1.*), must pay to us a transfer franchise fee of Seven Thousand Five Hundred Dollars (\$7,500) ("Transfer Franchise Fee").

5.14 Relocation Fee.

A relocation fee of Five Hundred Dollars (\$500) ("Relocation Fee") is payable to us when you sign the amendment to ~~this~~your Franchise Agreement for your relocation (see *Section 2.5*).

5.15 Transfer Training Fee.

A Potential Transferee receiving this Agreement, as may be amended, in connection with a Full Transfer, must pay to us, in addition to the Transfer Franchise Fee, a transfer training fee of Two Thousand Five Hundred Dollars (\$2,500) ("Transfer Training Fee"). The Transfer Training Fee is used to provide training for two (2) individuals, and a fee of Five Hundred Dollars (\$500) will be charged for each additional individual trained over two (2).

5.16 Annual Meeting Registration Fee.

If we hold an annual meeting ("Meeting"), the Meeting may be held at various locations throughout the United States as we may designate in our sole discretion. Because the planning and funding of the Meeting must be done well in advance and requires a substantial financial commitment, we have the right to debit your Depository Account for up to One Thousand Dollars (\$1,000) for the Meeting registration fee at any time sixty (60) to ~~–~~ ninety (90) days prior to the first day of the Meeting. This fee may be debited from your account (even if you do not attend the Meeting). If you do not attend the Meeting, we will make available to you one (1) full set of the substantive materials that were presented at the Meeting.

5.17 Late Report, Default and Non-Sufficient Funds Fees, Breaching Royalties and Collection Costs and Expenses.

If you fail to submit to us any financial statements, forms, reports or records required to be provided under this Agreement by its due date, including your weekly Gross Sales report for calculating your Royalty Fee and Advertising Fee, you must pay to us a non-refundable late report charge of One Hundred Dollars (\$100) per report.

If any fees or assessments due under this Agreement, including the Royalty Fee and Advertising Fee, are not paid when due, interest shall accrue on the late payment (from the date payment is due until the date it is paid) at the Default Rate or the maximum legal interest rate (whichever is higher), which amount, plus a Fifty Dollar (\$50) late fee, shall be added to each late payment. For any payments made by you to us under this Agreement which are returned for

non-sufficient funds of a processed check, you shall be charged a non-sufficient funds fee of Twenty-Five Dollars (\$25) per occurrence. Pursuant to *Section 5.6*, for each electronic funds transfer that is attempted from the Depository Account but returned for non-sufficient funds, you shall be charged a non-sufficient funds fee of Fifty Dollars (\$50) per occurrence.

~~The Royalty Fee may, in our sole discretion, Franchisor has the absolute right to charge Franchisee the greater of: three (3) times the fixed Royalty fee; or, if on a percentage Royalty fee the Royalties will~~ be increased up to eighteen percent (18%) of Gross Sales, with respect to any period during which ~~you are Franchisee is~~ in breach or default of ~~your~~its/his/her obligations under this Agreement. ~~(The Royalty Fee Royalties paid or owing to us Franchisor with respect to the period during which you are Franchisee is in breach or default is are referred to as "Breaching Royalties.")~~ Breaching Royalties will be charged for a minimum fourteen (14) day period, regardless of the length of the actual breach or default.

If, as a result of your failure to remit payments required under any provision of this Agreement, we retain an attorney or a collection agency to collect such payments, you must pay all collection costs and expenses, including reasonable attorneys' fees and expenses, whether or not legal proceedings are initiated. Our rights under this *Section 5.17* are in addition to any other rights or remedies that we may have as a result of your default under this Agreement.

5.18 Audit Fees.

For the purpose of this *Section 5.18*, we have the right, at any time during business hours, and with or without prior notice to you, to inspect and audit, or cause to be inspected and audited, the business records, cash control devices, bookkeeping and accounting records, sales and income tax records and returns and other records of the Franchised Business and your entity's books and records.

You hereby grant us access to any computers utilized by you for such purposes and we will have the ability, at all times, via modem, to obtain daily and weekly sales reports and other financial records that the POS System provides. You will fully cooperate with our representatives, the Area Representative, if applicable, and independent accountants hired by us to conduct any such inspection or audit. In addition, in the event such inspection or audit is made necessary by your failure to furnish reports, supporting records or other information, as required herein, or to furnish such reports, records or information on a timely basis, or if an understatement of Gross Sales, resulting in an underpayment of the Royalty Fee or Advertising Fee for the period of any audit (which shall not be for less than one (1) month) is determined by any such audit or inspection to be five percent (5%) or greater, you will pay to us, immediately after receipt of the inspection or audit report, any additional Royalty Fee and Advertising Fee and other amounts due as a result of any such understatement, plus interest at the Default Rate from the date originally due until the date of payment and you must reimburse us for such audit or inspection, including the charges of any independent accountants, and the travel expenses, room, board and compensation of such accountants and our employees.

The remedies in this *Section 5.18* will be in addition to all other remedies and rights available to us under this Agreement or otherwise available.

5.19 Data Fee.

We may require you to pay us or a third-party we designate a data fee of up to Seventy-Five Dollars (\$75) per month for polling or collecting data from your POS System.

5.20 POS Help Desk Phone Support Maintenance Service Fee.

You must purchase from us a help desk phone support maintenance service that covers phone support for both the software and hardware of your POS System that is supported by the help desk, the cost of which is currently Fifty-Five Dollars (\$55) monthly, and subject to increase upon thirty (30) days' notice ("POS Help Desk Phone Support Maintenance Service Fee"). The POS Help Desk Phone Support Maintenance Service Fee shall be paid by electronic funds transfer, as detailed in *Section 5.6*, and debited from your account on the last Thursday of each month.

5.21 New Supplier Approval Fee.

All requests for approving new or alternative suppliers must be submitted in writing by you or the supplier to our Purchasing Department. Each request will be reviewed in accordance with our then-current procedures and the supplier must meet our then-current requirements, which may include that our representatives be allowed to inspect the facilities of the proposed supplier, and that samples from the proposed supplier be delivered, at no charge, either to us or to our designee for testing. A charge not to exceed the amounts incurred in connection with the inspection and the test, with such cumulative amount not to exceed Five Thousand Dollars (\$5,000), must be paid to us either by you or by the proposed supplier. If approved, in our sole discretion, we will notify you or the supplier in writing within sixty (60) days after our receipt of an approval request. You must not offer or sell in any manner any of the proposed alternative supplier's products until you receive our written approval of the proposed alternative supplier.

~~5.22 Early Termination Fee.~~

~~If you stop operating your Franchised Business before this Agreement expires, with or without obtaining our prior written consent, or in the event of a termination arising from or related to your default under this Agreement, you must pay us an early termination fee ("Early Termination Fee") for breaching your Agreement. The payment of an Early Termination Fee is not in lieu of other damages and does not constitute a release of the obligations to us. The amount of the Early Termination Fee is calculated as follows:~~

~~a. Compute the average monthly Royalty Fee and Advertising Fee due for any consecutive twelve (12) month period within the forty-eight (48) months immediately preceding the date we receive notification of the closure, or if you failed to timely notify us of the closure then the date the Franchise Business closed, or, if the Franchised Business has been open for less than twelve (12) months, the average monthly Royalty Fee and Advertising Fee due since the opening of the Franchised Business ("Monthly Average");~~

~~b. Multiply the Monthly Average by the number of months remaining in the Term;
and~~

~~c. Divide the resulting total computed in b. above by two (2).~~

~~For example purposes only: If the average monthly Royalty Fee and Advertising Fee were collectively \$1,000 and there were five (5) years (sixty (60) months) remaining in the Term, the Early Termination Fee would be \$30,000, calculated as follows: \$1,000 x 60 months = \$60,000 ÷ 2 = \$30,000.~~

~~If you unilaterally terminate this Agreement prior to the end of the Term, you must give us~~

~~ninety (90) days prior notice of the early termination (“Early Termination Notice”). Within ten (10) days after our receipt of your Early Termination Notice, we will calculate the Early Termination Fee, which will be due and payable thirty (30) days prior to the closure of your Franchised Business. In the event of a termination arising from or related to your default under this Agreement, or that you do not: (i) provide us with the Early Termination Notice at least ninety (90) days prior to the early termination of your Franchised Business and this Agreement; (ii) remain open for at least ninety (90) days after providing us with the Early Termination Notice; and (iii) pay the Early Termination Fee in full at least thirty (30) days prior to closing of the Franchised Business, the Early Termination Fee due may, in our sole discretion, be increased as follows: it will be calculated by multiplying the Monthly Average by the number of months remaining in the Term, and will not be divided by two (2).~~

5.22 ~~If you have not paid your Royalty Fee and Advertising Fee for any period(s) within the forty-eight (48) months prior to notifying us of your early termination, or if you have not reported your Gross Sales for any period(s) within the forty-eight (48) months prior to notifying us of your intended early termination, we will estimate the Royalty Fee and Advertising Fee based upon prior reports to calculate the Monthly Average.~~ **Reserved.**

5.23 Non-participation Fee.

You must offer and sell at the Location of the Franchised Business all products designated by us, consistent with our System Standards. In addition, you must immediately incorporate into the Franchised Business all new products and services designated by us and must fully participate in all local, regional, seasonal, promotional and other programs, initiatives and campaigns adopted by us in which we require you to participate. If you fail or refuse to fully participate in any such program, initiative or campaign, you may, in our sole discretion, be required to pay a non-participation fee of One Hundred Dollars (\$100) per day that you are not in compliance (“Non-participation Fee”).

5.24 Grand Opening Marketing.

~~Ten Thousand Dollars (\$10,000) (“Grand Opening Marketing”) is payable to us on the earlier of: (i) prior to you executing a lease for the premises where the Franchised Business will be located; or (ii) prior to construction commencing at the premises where the Franchised Business will be located. We or our designated affiliate will create a marketing plan for (i) a grand opening event at your Franchised Business, and (ii) the initial advertising of your Franchised Business, and will work with you to obtain your input on the marketing plan. We or our designated affiliate will use the Grand Opening Marketing to pay for the grand opening and initial advertising, but may, in our sole discretion, reimburse you for some local store marketing expenses that you pay if you received our prior approval. The Grand Opening Marketing should be used within six (6) months of the opening of your Franchised Business to the public. However, if a portion of the Grand Opening Marketing is not used within those six (6) months, we may, in our discretion, spend the remaining portion of the Grand Opening Marketing after six (6) months from the opening of your Franchised Business to the public.~~

5.25 ~~5.24~~through 5.35 Not Applicable.

ARTICLE 6. PROPRIETARY MARKS

6.1 Ownership and Right to Use.

We warrant to you that:

- a. We are the owner of all right, title and interest in and to the Proprietary Marks;
- b. We have granted to you the personal, non-exclusive, limited, revocable right and license to use the Proprietary Marks in connection with the operation of your Franchised Business;
- c. We have taken and will take all steps reasonably necessary to preserve and protect our rights in the Proprietary Marks; and
- d. We will only permit you to use the Proprietary Marks in accordance with the System Standards.

6.2 Covenants of Franchise Owners.

a. You acknowledge our ownership of the Proprietary Marks, and you agree that during the Term and after its expiration or termination, you will not directly or indirectly contest, or aid in contesting, the validity of the Proprietary Marks or our ownership of the Proprietary Marks, nor will you take any action which might impair or prejudice our ownership of the Proprietary Marks. You shall not, directly or indirectly, apply to register, register or otherwise seek to own or control any of the Proprietary Marks, or any confusingly similar mark thereto, whether in whole or in part, in any place or jurisdiction either within or outside of the United States; nor will you assist any others to do so.

b. You agree that the license granted pursuant to this Agreement authorizes you to use the Proprietary Marks solely in connection with the Franchised Business only at the Location, and for no other purpose. You have no right to license or sublicense any aspect of the System Standards or any of the Proprietary Marks.

c. You agree to use the Proprietary Marks only in the manner and to the extent specifically licensed by this Agreement. You further agree that any unauthorized use or continued use of the Proprietary Marks after the termination or expiration of this Agreement will constitute irreparable harm subject to injunctive relief.

d. The license granted by this Agreement includes only the Proprietary Marks, now existing or which may exist in the future. This license does not include the right to use any other trademarks, service marks, trade name or trade dress owned by us or our licensor anywhere in the world. You agree that any and all goodwill associated with and identified by your use of the Proprietary Marks will inure directly and exclusively to our benefit, and that, on the expiration or termination of this Agreement, no monetary amount will be due or payable to you as a result of any goodwill associated with your ownership or operation of the Franchised Business.

6.3 Limitations on Franchisee's Use of Proprietary Marks.

To develop and maintain high and uniform standards of quality and service and thereby protect our reputation and goodwill and that of the System, you agree:

- a. To operate and advertise the Franchised Business only under the Proprietary Marks authorized by us;
- b. To adopt and use the Proprietary Marks licensed by this Agreement solely in the

manner prescribed by us;

c. That your corporate, partnership or other entity name including trade name, will not include any of the Proprietary Marks, in whole or in part, or any terms confusingly similar thereto, unless first authorized by us in writing;

d. To submit all advertising, promotional materials and all printed matter, including stationery ~~and~~, business cards, and any materials to be used on the Internet to us for our written approval before you use any of these items; and

e. That we may from time to time change or modify the System Standards, including modifying existing Proprietary Marks or adopting new marks. You agree, at your own expense, to adopt, use and display any such new or modified Proprietary Marks within ninety (90) days after notification from us. However, if we require you to modify or discontinue use of our proprietary information or use other information or rights in its place at any time other than upon renewal of this Agreement, and that requirement is a direct result of proceedings or litigation that determined that our and our franchisees' use of the proprietary information infringed upon a third-party's rights, we or our affiliate will bear the cost of those modifications or discontinuances.

Upon your abandonment of the Franchised Business (whether voluntary or involuntary), termination or expiration of this Agreement, you must immediately cease to use, in any manner whatsoever, any of the Proprietary Marks or any other marks which, in whole or in part, may be confusingly similar to any of the Proprietary Marks.

6.4 Non-Exclusive License of Proprietary Marks.

You understand and agree that your license to use the Proprietary Marks is non-exclusive; that we, in our sole discretion, can grant to other franchisees the right to use the Proprietary Marks and obtain the benefits of the System Standards, in addition to the licenses and rights granted to you under this Agreement; and that we or our affiliates may develop and license other proprietary marks in conjunction with concepts other than the NrGize Lifestyle Cafe concept, on any terms and conditions we deem advisable. You will have no right or interest in any such other licenses, proprietary marks or systems.

6.5 Notification of Infringement and Claims.

You agree that you will notify us immediately of any apparent infringement of, or challenge to your use of any of the Proprietary Marks, or any claim by any person of any rights in any of the Proprietary Marks. You agree that you will not communicate with any person, other than us and our legal counsel, in connection with any such infringement, challenge or claim. We will have the sole discretion to take such action as we may deem appropriate to protect the Proprietary Marks and the exclusive right to control any litigation, United States Patent and Trademark Office proceeding, or other proceeding arising out of any such infringement, challenge, claim or otherwise relating to any Proprietary Marks. You agree to execute any and all instruments and documents, render such assistance, and do such acts and things as may, in the opinion of our counsel, be necessary or advisable to protect and maintain our interests in connection with any such litigation or proceeding, or to otherwise protect and maintain our interests in the Proprietary Marks.

ARTICLE 7. TRADE SECRETS AND PROPRIETARY INFORMATION

7.1 Innovations.

During the Term, you and your principals, officers, managers and employees may conceive, invent, create, design or develop various ideas, techniques, methods, processes and procedures, recipes, formulae, products, packaging or other concepts and features relating to restaurant operations, business practices or the manufacturing, production, marketing and sale of low-calorie smoothies, fruit drinks, nutritional supplements, and other food and beverage items, and related goods now in existence or later developed, adopted, or improved in connection with the Franchised Business (individually and collectively, "Innovations"). You, without further consideration, hereby assign any and all of your rights, title and interest in the Innovations, including any intellectual property rights, to us, and also agree to cooperate with us and our counsel in the protection of the Innovations, including the perfecting of title thereto in us. In addition, you will require all of your principals, officers, managers and employees to sign an agreement in the form set forth in our System Standards and incorporated herein by reference ("Confidentiality Agreement"), and shall be liable to us for obligating your principals, officers, managers and employees to assign all of their rights, title and interest to the Innovations to us and requiring your principals, officers, managers and employees to cooperate in obtaining, protecting, maintaining and enforcing our right, title and interest in the Innovations.

7.2 Confidentiality Agreement.

a. In connection with the operation of the Franchised Business, you will from time to time receive, have access to, or learn certain information and materials that are proprietary to us or our affiliate. You and any person signing this Agreement under the heading "Personal Acceptance of *Sections 7.1, 7.2, 14.6 and 14.8*" agree that you will keep confidential, and will not use for your own purposes, nor supply or divulge to any other person, any of our Trade Secrets, including our methods of operation, processes, techniques, formulae and procedures, information a reasonable person would believe to be confidential and any other proprietary information regardless of whether such is expressly marked as confidential ("Confidential Information"). You acknowledge that much of the information imparted to you by us is confidential, constitutes Trade Secrets, are unique to us, and remains our sole exclusive property. Our Confidential Information includes the following:

1. The ~~Operations~~Confidential Manual and any amendments thereto;
2. Ingredients, recipes, and methods of preparation of food products;
3. Methods of operation of *NrGize Lifestyle Cafe* restaurants;
4. Information about products, services, or procedures before they become public knowledge;
5. Information which relates in any manner to our business or the System Standards, whether oral or reduced to writing, and which is not generally known to, or readily ascertainable by, other persons who might derive economic benefit from its disclosure or use; and
6. Any other information which may be imparted to you from time to time and designated by us as confidential.

b. You and any person signing this Agreement under the heading "Personal Acceptance of *Sections 7.1, 7.2, 14.6 and 14.8*" acknowledge and agree that the Confidential Information and any business goodwill of the Franchised Business is our sole and exclusive property, and that you will preserve the confidentiality thereof. Upon termination or expiration of

this Agreement, all items, records or documentation recording or incorporating any Confidential Information, including any copies thereof, will be immediately turned over by you to us or our authorized representative.

c. You agree to take all steps necessary, at your own expense, to protect the Confidential Information, including our Trade Secrets, and to adopt and implement all reasonable procedures prescribed by us from time to time to prevent the unauthorized use or disclosure of any of the Confidential Information. We require that all of your executive officers, agents, directors, shareholders, trustees, beneficiaries, partners and managers who may or are likely to obtain knowledge concerning the Proprietary Information (and who do not sign this Agreement under the heading "Personal Acceptance of Sections 7.1, 7.2, 14.6 and 14.8") sign the Confidentiality Agreement binding such person to preserve the confidentiality of the Confidential Information as part of the terms and conditions of such person's employment or association with you. You must obtain a Confidentiality Agreement signed by any such person prior to or at the same time that you begin employment of, or association with, that person. This will be a continuing obligation on your part throughout the Term. You must keep each original signed Confidentiality Agreement and provide us with a copy of each Confidentiality Agreement when requested by us or our authorized representative.

d. Notwithstanding the above, Confidential Information shall not include information which you can reasonably prove: (i) entered the public domain through no breach by you or your affiliate of any duty of confidentiality, or (ii) you received our prior express written consent to disclose in the manner in which you disclosed it.

e. If anyone under a Confidentiality Agreement is legally compelled or required by a regulatory body to disclose any Confidential Information, he/she/it will notify us as soon as possible and will use his/her/its best efforts to obtain, and give us an opportunity to obtain, appropriate assurances of confidential treatment.

f. The requirements under this Section 7.2 will remain in full force and effect during the Term and after termination or expiration of this Agreement.

ARTICLE 8. RELATIONSHIP OF THE PARTIES AND INDEMNIFICATION

8.1 Relationship of the Parties.

You and we agree that this Agreement does not create any fiduciary or employment relationship between you, or any of your employees, and us, that you are an independent contractor, and that nothing in this Agreement is intended to make either you or us a general or special agent, legal representative, subsidiary, joint venture, partner, employee or servant of the other for any purpose. You shall not enter into any agreement on behalf of or otherwise bind us for any purpose.

8.2 Indemnification of Franchisor.

You agree to indemnify, defend, and hold us and our affiliates (including our parent and subsidiary companies, current, past and future predecessors, successors and assigns), and each of our shareholders, owners, directors, officers, members, managers, partners, joint venturers, attorneys, employees, contractors, agents, representatives, guarantors, insurers, spouses, heirs, executors, trustees and estates (collectively with us, "Indemnified Parties") harmless for, from and against any and all claims, liabilities, causes of action, suits, debts, duties, accounts, covenants,

contracts, agreements, promises, taxes, demands, obligations, costs and expenses, including reasonable attorneys' fees, damages, judgments, and proceedings, of every kind and nature whatsoever, in law or equity, or otherwise, under local, state or federal law including, without limitation the Americans with Disabilities Act ("ADA"), or the law of any other applicable jurisdiction (individually and collectively, "Claims") suffered or incurred by any of the Indemnified Parties arising out of or relating to your construction, ownership, marketing, Promotions (as defined in *Article 10*), operation, including your failure to comply with PCI DSS or any law, statute, regulation, order, rule, or ordinance, or management of the Franchised Business, except for Claims held to have resulted solely from our gross negligence or willful misconduct. Notwithstanding the foregoing, we will have the right, at our option, to defend any Claim, but you must reimburse us upon demand for the costs and expenses of such defense. You shall immediately give us notice of any demand, investigation, written inquiry, action, suit, proceeding, or claim in any way related to us or the *NrGize Lifestyle Cafe* brand.

8.3 Indemnification of Franchisee.

We agree to indemnify, defend, and hold you and your affiliates, and their shareholders, directors, officers, members, managers, partners, employees, agents, successors and assignees harmless for, from and against any and all Claims, arising out of any Claim of infringement or unfair competition in connection with your authorized use of the Proprietary Marks or Confidential Information, provided that such use is in accordance with the provisions of this Agreement. However, if we require you to modify or discontinue use of our Proprietary Marks or Confidential Information or use other information or rights in its place at any time other than upon renewal of this Agreement, and that requirement is a direct result of proceedings or litigation that determined that our and our franchisees' use of the Proprietary Marks or Confidential Information infringed upon a third-party's rights, we will bear the cost of those modifications or discontinuances.

8.4 Special Power of Attorney.

You agree to cooperate with and assist us as we may request from time to time to obtain, protect, maintain or enforce our intellectual property and Proprietary Marks, including executing documents and appearing as a witness. You hereby appoint us as your attorney-in-fact and hereby grant us an irrevocable Special Power of Attorney, coupled with an interest, with full power and authority for the purpose of executing documents or taking such action as necessary or appropriate as you might or could do if personally present, hereby ratifying all that we, as your attorney-in-fact, shall lawfully do or cause to be done by virtue of this Special Power of Attorney to obtain, protect, maintain or enforce our intellectual property and Proprietary Marks if we are, for any reason, unable to obtain your cooperation or assistance. The Special Power of Attorney granted by this *Section 8.4*, shall survive your dissolution, death, incompetence or disability and the termination or expiration of this Agreement.

ARTICLE 9. OPERATING STANDARDS AND DUTIES OF FRANCHISE OWNER

9.1 Compliance with System Standards and OperationsConfidential Manual.

You understand and acknowledge that every detail of the operation of the Franchised Business is important in order to develop and maintain high and uniform standards of quality, cleanliness, appearance, service, facilities and techniques^{1.3} to increase the demand for the System^{1.3} and to protect our reputation and goodwill and that of other *NrGize Lifestyle Cafe* franchisees. You also acknowledge that the operation of the Franchised Business is your sole responsibility, and that neither we nor our affiliates have any responsibility to obtain customers for

you. The System Standards will constitute provisions of this Agreement as if fully set forth herein.

9.2 Authorized Products and Services.

a. You agree that you will not, without our prior written approval, offer at the Location any menu items, beverages, products or services that are not authorized by us for the Franchised Business, as set forth in the System Standards.

b. You have complete discretion in establishing the minimum price you charge for your products. Although we may suggest pricing strategy, you will have the final pricing decision.

c. Notwithstanding the terms of *Section 9.2b.*, we may conduct periodic promotional campaigns during which a specified product or products are promoted at a specified price. During the promotional period, you may not charge your customers more than the specified promotional price, although you may charge less than the promotional price.

d. We may conduct new marketing, research and development, branding and operational program tests, which will generally be conducted with experienced, existing franchisees and may include incentives and other rights that are not available to all franchisees.

e. You hereby consent to third-party vendors, suppliers and distributors sharing with us any and all information, reports, invoices and related documentation covering and otherwise detailing your purchases for the Franchised Business.

f. You are required to accept debit and credit cards (including Visa®, MASTERCARD® and AMERICAN EXPRESS®) and Gift/Loyalty Cards from consumers at the Franchised Business. Prior to the opening of your Franchised Business, you are required to acquire, and maintain during the Term, an approved debit, credit and Gift/Loyalty Card processing system ("Card Processing System") to use during the operation of the Franchised Business. Additionally, you must utilize our approved third-party payment card processor, as identified in the System Standards, for processing all Card Processing System transactions.

9.3 Specifications and Standards for Supplies; Approved Suppliers; Rollouts.

a. You must purchase or otherwise acquire certain proprietary or required equipment and supplies utilized in the Franchised Business only from our designated approved distributors or suppliers. If, during the Term, we change designated approved distributors or suppliers for any of the proprietary or required equipment and supplies utilized in the Franchised Business, you shall change to the new designated approved distributor or supplier within sixty ~~(60)~~ (60) days after written notification of such change from us.

b. If you desire to purchase or otherwise acquire any equipment, supplies or inventory items required by the System Standards but not previously approved by us, or from sources not previously approved by us, you must submit to us sufficient specifications, photographs, drawings, and other information sufficient to allow us to determine whether such equipment, supplies or inventory items meet our System Standards. We may require that our representatives be allowed to inspect the facilities of the proposed supplier and revoke its approval upon the supplier's failure to meet any of our then-current minimum System Standards. We may also require that samples from the proposed supplier be delivered, at no charge to us, either to us or to our designee for testing. A charge not to exceed the reasonable cost and expense of the inspection and the actual cost and expense of the test must be paid to us either by you or by the proposed supplier. We will notify you within sixty (60) days after your request of our

approval or disapproval of the proposed product or supplier, with such determination to be made at our sole discretion. You acknowledge and agree that our approval of any item or supplier of equipment, supplies or inventory not previously approved by us will not, in and of itself, make the supplier of that item an approved supplier for other *NrGize Lifestyle Cafe* franchise owners in the System. We may, in our sole discretion, at any time and from time to time, re-inspect the facilities and products of any approved supplier and revoke its approval upon the supplier's failure to meet any of our then-current System Standards. If you receive a notice of revocation from us, you must immediately stop selling disapproved products and purchasing from the disapproved supplier.

c. We will provide to you a list of all recommended and required items of equipment, fixtures, supplies, smallwares and interior decor. This list will be included in the System Standards.

d. At any time and from time to time, we may in our sole option engage in new product rollouts to add to or change the menu items offered for sale in the Franchised Business and the ingredients or supplier of ingredients utilized in the preparation of the menu items sold in the Franchised Business ("Rollout"). If we engage in a Rollout, you shall participate in the changes that are the subject of such Rollout, including offering the new menu items, changing the menu items, changing to the new supplier of the ingredients utilized in the preparation of the menu items, and changing to the new ingredients utilized in the preparation of the menu items. If we engage in a Rollout, we will notify you of the details of the Rollout and provide you sixty (60) days from said notification to take the applicable actions required by the Rollout.

9.4 Compliance with Legal Requirements and Good Business Practices.

You must, at your sole expense, operate the Franchised Business in full compliance with all applicable Federal, state and local statutes, laws, ordinances and regulations, including health and safety regulations, food and drug laws, disability laws, labor and employment laws and data privacy laws, as may be amended, supplemented or enacted from time to time. You must pay all costs and expenses incurred by, and in the conduct of, the Franchised Business, including all rent, salaries, taxes (excluding our income taxes), disbursements, license or permit fees, insurance premiums, traveling expenses and any other business expenses. If you receive any demand, action, suit or proceeding, or the issuance of any order, writ, injunction, award or decree of any court, agency or other governmental instrumentality relating to your Franchised Business, you must immediately notify us, and in no event, later than three (3) days after ~~such~~your receipt. Any such notice must be accompanied by a copy of the demand, complaint, order, writ, injunction, award, decree or other similar document. You must, in all dealings with your customers, suppliers, the public, and us adhere to the highest standards of honesty, integrity, fair dealing and ethical conduct. You agree to refrain from any business practice that may be injurious to the System or the goodwill associated with the Proprietary Marks.

9.5 Maintenance of Insurance.

At all times during the Term, you must maintain in full force and effect commercial general liability insurance against claims for bodily and personal injury, death and property damage caused by or occurring in connection with the construction, ownership, operation or conduct of the Franchised Business. The insurance must also include coverage for product liability and fire claims.

Such liability insurance coverage must be maintained under one (1) or more policies of insurance (each of which shall be primary coverage and shall not be contributory or secondary to any other coverage maintained by us) containing minimum liability limits of One Million Dollars

(\$1,000,000) (or greater if applicable state laws or regulations require) for each occurrence and with an aggregate of not less than Two Million Dollars (\$2,000,000). Such insurance policy or policies must be “occurrence” policies and not “claims made” policies; must not provide for a deductible greater than One Thousand Dollars (\$1,000) in the aggregate and must provide that no act or omission of ours or of any officer, director or employee of ours or any affiliate of ours shall invalidate or diminish any coverage thereunder.

Such insurance policies must be issued by insurers acceptable to us having an A.M. Best’s financial strength rating of at minimum “A-~~VII~~.” The general liability insurance required by this Agreement must: (i) name ~~our parent company, Kahala Brands, Ltd., Franchising, L.L.C.~~ as the certificate holder; (ii) name Kahala Franchising, L.L.C., ~~Kahala Brands, Ltd., and MTY Franchising USA, Inc. and~~ their parents, subsidiaries, affiliates, officers, directors, and employees as additional ~~insuredinsureds~~; (iii) contain a waiver by the insurance carrier of all subrogation rights against us and our affiliates and our affiliates’ respective officers, directors and employees for casualty losses; (iv) indicate the address of the Franchised Business being insured; and (v) provide that we will receive, via an endorsement, thirty (30) days’ prior notice of cancellation of any such policy. Our minimum insurance coverage requirements (subject to increase in our sole discretion) are as follows:

Type of Coverage	Limits/Specifications
General Liability	\$1,000,000 bodily injury/property damage per occurrence / \$2,000,000 aggregate
Building Improvements and Betterments	100% of full replacement cost – no coinsurance (minimum of \$100,000)
Business Personal Property	100% of full replacement cost – no coinsurance – special form or equivalent (minimum of \$100,000)
Spoilage	\$5,000
Business Income	actual loss sustained or at least 50% of annual sales
Flood, Earthquake and Volcanic Eruption	subject to territory limitations – required if in a designated flood zone
Workers’ Compensation	statutory requirements
Stop Gap or Employer Liability	bodily injury by accident: \$1,000,000 each accident bodily injury by disease: \$1,000,000 policy limit bodily injury by disease: \$1,000,000 each employee
Hired and Non-Owned Automobile Liability	\$1,000,000 combined single limit per accident

In addition, we recommend that you obtain cyber liability/data breach insurance coverage.

You are responsible for maintaining insurance coverage and limits as required by us, at minimum, pursuant to this *Section 9.5*, provided, if your landlord requires additional coverage, higher limits, or any other requirements not required by us, then you are responsible for maintaining such additional items as well. You must always keep the required insurance coverage in force at all times during the operation of the Franchised Business, and you must comply with any changes we make periodically to our insurance requirements. If your restaurant is located in a flood zone or an area subject to earthquakes, hurricanes, tornadoes, other similar hazards, you may want to obtain additional specific insurance to cover these risks. Such insurance may significantly increase your premiums. Upon thirty (30) days’ notice to you, we may require you to increase the minimum coverage of the insurance referred to above as of the next renewal date of any policy, and require different or additional kinds of insurance at any time, including excess liability (umbrella) insurance, to reflect inflation, identification of special risks, changes in law or

standards of liability, higher damage awards or other relevant changes in circumstances.

Subject to *Section 3.1*, and annually thereafter, at least ten (10) days prior to renewal of your insurance coverage, and at any other time on our request, you must provide us with certificates of insurance or copies of insurance policies showing that you are in compliance with our insurance requirements, as well as proof that you have paid the premiums you owe for the insurance we require. You will pay your insurance premiums to your insurance broker or to the insurance company issuing the policy. You must have insurance and provide a copy of your certificate of insurance to us which meets our requirements before you may open your restaurant. We or our affiliate may, at our option and in addition to our other rights and remedies under this Agreement, obtain such insurance coverage on your behalf, and you must promptly execute any applications or other forms or instruments required to obtain any such insurance and pay to us, on demand, any costs, expenses and premiums incurred by us. Your obligation to obtain and maintain the insurance described above will not be limited in any way by reason of any insurance maintained by us, nor will your performance of such obligations relieve you of any obligations under *Section 8.2*.

9.6 Management of the Franchised Business.

You are directly responsible for all aspects of operating the Franchised Business, and you agree that you will, at all times, operate the Franchised Business and use your best efforts to enhance your Franchised Business and the System. The Franchised Business must be personally managed and directly operated by either you or another partner, shareholder or member of your business organization, or a manager.

9.7 Inspections by Franchisor.

For the purpose of this *Section 9.7*, you must make available to us or our authorized representatives such financial and other information concerning the Franchised Business, and you must permit us or our authorized representatives to have full and free access to such information at your Franchised Business Location during regular business hours without prior notice. We and our authorized representatives will have the right to communicate freely with your employees, and make extracts from, and copies of, all such information. Our authorized representative may make announced or unannounced inspections of your Franchised Business to ensure compliance with all of the requirements of this Agreement.

9.8 ~~Shareholder Guaranty~~Personal Guaranty; Non-Disclosure and Non-Competition Agreement.

If you are an individual and married, your spouse must execute and deliver to us a Guaranty of Franchise Agreement and a Non-Disclosure and Non-Competition Agreement at the same time that you sign the Agreement unless your spouse is also signing the Agreement as an individual.

If you are a corporation, limited liability company, or other business entity, each of your shareholders, members, or other owners, whether direct or indirect (and their respective spouses, if married) must execute and deliver to us a Guaranty of Franchise Agreement and a Non-Disclosure and Non-Competition Agreement at the same time that you sign this Agreement.

In the event any person who has not previously signed a Guaranty of Franchise Agreement or a Non-Disclosure and Non-Competition Agreement becomes ~~the holder of any class of your stock or ownership interests~~your spouse or shareholder, member, or other owner,

direct or indirect or a spouse of such shareholders, members, or other owner, at any time after the execution of this Agreement, you must cause ~~that~~such person(s) to immediately execute and deliver a Guaranty of Franchise Agreement and a Non-Disclosure and Non-Competition Agreement to us.

Failure to provide a Guaranty of Franchise Agreement or a Non-Disclosure and Non-Competition Agreement to us may, in our sole discretion, be grounds for termination of this Agreement as set forth in *Section 14.2a*.

9.9 Not Applicable.

ARTICLE 10. ADVERTISING AND PROMOTION

10.1 Advertising by Franchisor.

We (or, at our election, a third-party which may be an affiliate of ours) will administer the Advertising Fund that will include your Advertising Fee and those of other franchise owners in the System. If an affiliate of ours administers the Advertising Fund or places advertising in connection with the System, such affiliate may be paid a fee that will not exceed the fee that would be payable to unrelated third-parties for comparable services. Unless required by applicable law, we will have no obligation to create a trust account, escrow account or other special account for the Advertising Fund, and the monies comprising the Advertising Fund may be placed in our general account. We may also reserve the Advertising Fee for use in a subsequent year.

We will direct all advertising and promotional programs. We will have sole discretion over all creative concepts, materials and media used in such programs and the placement and allocation of such programs. The Advertising Fund will be used for marketing, advertising, production and media expenses to promote the *NrGize Lifestyle Cafe* trade name, System, products and services. We are entitled to deduct, free of charge, the following from the Advertising Fund: ~~(i)~~ reimbursement of expenses, overhead, and employee salaries for services provided; and ~~(ii)~~ rent for office space provided to the Advertising Fund. We are not required to use any specific amounts from the Advertising Fund in your market. However, we will use all amounts contributed by you to any Advertising Fund, if any, (see *Section 5.3*) in the same geographic area in which your Franchised Business is located.

10.2 Advertising by Franchisee.

In addition to your Advertising Fee, if applicable, and your grand opening promotional advertising program required under *Section 5.3, 5.24*, and unless your Franchised Business is located in an enclosed shopping mall or other enclosed structure identified in *Section 1.1*, you agree to pay for a regular (white pages) and classified (yellow pages) telephone directory advertisement in the main directory distributed in the area where your Franchised Business is located, in such directory categories as we specify, utilizing forms of listing and classified directory advertisements approved by us. We also recommend that, in addition to your Advertising Fee, you spend at least two percent (2%) of your monthly Gross Sales on local advertising.

Your own local marketing and advertising plan should be developed to maximize your particular customer base. You should not rely upon a marketing program or plan by us as the sole means of obtaining customers. All marketing and advertising materials must be reviewed by the marketing department for look and feel. The marketing department's review is not for determining compliance with federal, state and local laws.

All advertising by you in any medium must be conducted in a professional manner and must conform to the System Standards. We may make available to you, from time to time, advertising, promotional plans and materials for purchase.

Under no circumstances may you use, without limitation, the name, image, or voice of a celebrity, public figure, character or other person in connection with the Proprietary Marks or the Franchised Business without our prior written consent. We retain the sole and exclusive right to use, without limitation, the name, services or image of any celebrity, public figure, character or other person in advertising, endorsing or recommending the System.

ARTICLE 11. ACCOUNTING PROCEDURES AND REPORTS

11.1 Maintenance of Records.

You shall keep full, complete, and accurate books and accounts in accordance with generally accepted accounting principles, and in the form and manner indicated below or as from time to time further required by us. You agree to submit reports and data to us electronically if we advise you to do so. You agree:

- a. to submit to us electronically the weekly Gross Sales as set forth in *Section 5.6*;
- b. to submit to us, on or before the thirtieth (30th) day of each month, commencing with the opening of the Franchised Business, on a form approved by us, a profit and loss statement of the Franchised Business for the preceding calendar month prepared in accordance with generally accepted accounting principles;
- c. to submit to us, within ninety (90) days after the end of each calendar year, commencing with the opening of the Franchised Business, on a form approved by us, a profit and loss statement and balance sheet (including a statement of retained earnings or partnership account) for the preceding calendar year;
- d. to submit to us, at the times required, such other periodic forms, reports and information as may from time to time be required by us;
- e. to preserve, in the English language and for the time periods set forth below, all accounting records and supporting documents related to the Franchised Business (individually and collectively, "Records"), including:
 1. daily cash reports;
 2. cash receipts journal and general ledger;
 3. cash disbursements journal and weekly payroll register;
 4. monthly bank statements, daily deposit slips and canceled checks;
 5. all tax returns, including your personal returns, and those of your officers, shareholders, partners and members;
 6. suppliers invoices (paid and unpaid);
 7. dated cash register tapes (detailed and summary);
 8. semi-annual balance sheets and monthly profit and loss statements;

9. daily production, throwaway and finishing records and weekly inventories;
10. records of promotion and coupon redemptions;
11. records of all outside sales; and
12. such other records as we may from time to time request.

f. to record all sales on cash registers approved by us, as specified in the ~~Operations~~Confidential Manual;

g. to file all of your federal and state tax returns on a timely basis and to provide copies of them to us. We may, where applicable, require that tax returns from all of your shareholders, members or partners be provided to us, if you are other than an individual;

h. During the Term, you shall preserve the Records for at least the current fiscal year and for the three (3) immediately preceding fiscal years. For three (3) years after the date of any transfer of an interest in this Agreement, the transferor of such interest will preserve the Records for its last three (3) fiscal years of operation under this Agreement. For three (3) years after the expiration of the Term (or after any earlier termination), you shall preserve the Records for the last three (3) fiscal years of operation of the Franchised Business; and

i. In connection with our efforts to attract additional franchise owners to the System, we will have the right to use (without identifying you, except as required or allowed by law) any financial statements, sales reports, profit and loss statements or balance sheets provided by you and, in connection therewith, you authorize us to disclose any information contained on such financial reports as may be required by any federal or state registration or disclosure law.

11.2 Audit by Franchisor.

We will have the right, at any time during business hours, and with or without prior notice to you, to inspect and audit, or cause to be inspected and audited, the Records and cash control devices of the Franchised Business, and your corporate, partnership or limited liability company books and records (if you are a corporation, partnership, limited liability company, or other entity). You agree that we may access any computers utilized by you for such purposes.

You will fully cooperate with our authorized representatives and independent accountants hired by us to conduct any such inspection or audit. In the event any such inspection or audit discloses an understatement of your Gross Sales for any period in question, you will pay to us, immediately after receipt of the inspection or audit report, any additional Royalty Fee or Advertising Fee due as a result of any such understatement, plus interest at the Default Rate from the date originally due until the date such understatement is paid in full.

In addition, in the event such inspection or audit is made necessary by your failure to timely furnish Records, or if an understatement of the Royalty Fee or Advertising Fee for the period of any audit (which period shall not be for less than one (1) month) is determined by any such audit or inspection to be five percent (5%) or greater, you must reimburse us all amounts incurred in connection with such audit or inspection including our employee costs and expenses, any independent accountants' and attorneys' fees, transportation, room, and meal expenses.

The remedies in this *Section 11.2* will be in addition to all our other remedies and rights under this Agreement or under applicable law.

ARTICLE 12. TRANSFER

Sections 12.1 through 12.4 apply to all transfers, except transfers by us, which are described in Section 12.5.

12.1 Prior Consent of Franchisor.

a. As used in this Agreement, "Transfer" means any voluntary, involuntary (including by operation of law), direct or indirect assignment, sale, gift or other transfer by you, including:

1. "Full Transfer," which is any act or circumstance, except those set forth in Section 12.1.a.2., by which fifty percent (50%) or more of the ownership or control is shifted from any individual or corporation, partnership or other business entity (individually and collectively, "Entity") to another, including:

(i) Transfer of this Agreement or the Franchised Business, or any right or interest granted by this Agreement;

(ii) Transfer of an interest in you, if you are an Entity;

(iii) Merger, consolidation or issuance of additional ownership interests or redemption of ownership interests in you, if you are an Entity; or

(iv) Transfer of an interest in any other Entity holding an interest in this Agreement or you, if you are an Entity.

2. "Affiliate Transfer," which includes:

(i) Transfer in a separation or divorce, regardless of how much of the ownership or control is shifted from any individual or Entity to another;

(ii) Transfer of this Agreement or the Franchised Business, or any right or interest granted by this Agreement, from your name as an individual(s) to your Entity name in which you are the sole owner(s) of the Entity;

(iii) Transfer of this Agreement or the Franchised Business, or any right or interest granted by this Agreement, from your Entity name in which you are the sole owner(s) to your name as an individual(s);

(iv) Transfer of this Agreement or the Franchised Business, or any right or interest granted by this Agreement from one Entity name to another Entity name in which the owners of the entities are the same;

(v) Removing an owner from the Franchisee (unless the person has a fifty percent (50%) or more ownership interest);

(vi) Adding an owner to the Franchisee (unless the person has a fifty percent (50%) or more ownership interest); or

(vii) Transfer by which less than fifty percent (50%) of the ownership or control is shifted from any individual or entity to another for any act or circumstance listed in Section 12.1.a.1.

b. We are entering into this Agreement based upon our knowledge of and faith in your ability. Therefore, the Franchised Business and all the rights granted by this Agreement are personal to you and you may not Transfer without our prior written consent. Any attempted Transfer without our prior written consent will be null and void, and will give us the right to terminate this Agreement and your rights under it, in addition to any remedies which we may have for the breach of this covenant by reason of an attempted Transfer.

c. We shall not unreasonably withhold or delay our consent to a Transfer, so long as it is shown to our satisfaction that the potential transferee ("Potential Transferee") can perform a franchisee's obligations under the then-current form of franchise agreement and all other agreements, legal instruments and documents required of new franchisees.

12.2 Advance Notice of Proposed Terms and Right of First Refusal.

a. If you, or any of your shareholders, members or partners, have received and desire to accept a signed bona fide written offer from a third-party to Transfer, you shall notify us and provide us with a complete copy of the offer (letter of intent) which must include the name, address and telephone number for every Potential Transferee. You must also include information as to the identity of all who will own an interest in this Agreement or in the Franchised Business after the completion of the Transfer, their respective interests, and the proposed terms and conditions of sale and payment.

b. We shall have the right and option, exercisable within thirty (30) days after the date we receive a copy of the offer, to purchase the interest proposed to be transferred, at the price and upon the same terms and conditions specified in the notice.

c. If we do not exercise our option, and the terms of the unaccepted offer are altered, you must, in each such instance, notify us of the changed offer; and we will again have thirty ~~(30)~~ (30) days to exercise our right to purchase on the altered terms. If we do not exercise our option, then the Transfer may take place on the terms and price set forth in the notice; provided:

(i) we give our written consent; (ii) the Transfer takes place no later than six (6) months from receipt of our written refusal to exercise our option to purchase; and (iii) all the conditions set forth in *Section 12.3* are satisfied.

12.3 Requirement for Consent to Transfer.

If a Transfer is proposed and we do not exercise our right of first refusal pursuant to *Section 12.2*, then we will consent to the Transfer, provided that:

a. All your obligations under this Agreement are fully paid and satisfied, including the Royalty Fee and Advertising Fee; you are not in default under any provisions of this Agreement or any other agreement, legal instrument or document with us or any of our affiliates; and you enter into written agreements with us, including (except where prohibited by law) a general release by you of all claims against us;

b. Potential Transferee provides to us a completed application and financial documents, is financially acceptable, is not associated with any of our competitors, is of good moral character and reputation, and meets our criteria, which includes: work experience and aptitude; ability to devote time and best efforts to the Franchised Business; equity interest in the Franchised Business; ability to speak and read English sufficient in our opinion to communicate with employees, customers and suppliers and to satisfactorily complete our training; no conflicting interests; and other criteria and conditions that we apply to new franchisees;

c. Potential Transferee provides us with copies of all governing documents of ~~the~~ Potential Transferee (e.g., certificate of incorporation or organization, by-laws, stock certificates, operating agreement, membership certificates (if any)) which must be reasonably satisfactory to us in our sole discretion;

d. You provide to us a copy of the purchase and sale agreement, if a Full Transfer, or other documentation evidencing the Transfer, if an Affiliate Transfer, and following our analysis of the terms and conditions of the proposed Transfer, we, in our sole discretion, conclude that such terms and conditions will not interfere with the financial feasibility of the future operation of the Franchised Business;

e. Potential Transferee enters into all agreements, legal instruments and other documents, whether our then-current agreements, legal instruments and documents or a transfer of this Agreement and related legal instruments and documents, as determined by us (individually and collectively, "Transfer Documents"). The terms of the Transfer Documents may vary materially from the current agreements used by us, including the payment of a higher Royalty Fee and Advertising Fee;

f. Not Applicable;

g. Potential Transferee pays to us the transfer franchise fee set forth in the Transfer Documents, if a Full Transfer; or, Potential Transferee pays us the Document Administration Fee, if an Affiliate Transfer; Franchisee shall be liable to the Franchisor for the transfer franchise fee or Document Administration Fee in the event the Potential Transferee fails to pay such fee that is owing in full;

h. Potential Transferee pays to us the transfer training fee set forth in the Transfer Documents, if a Full Transfer; Franchisee shall be liable to Franchisor for the training fee if Potential Transferee fails to pay the training fee owing in full; If Potential Transferee or any of its employees or representatives cancel or reschedule participation in any training course or program which Potential Transferee schedules with Franchisor, Potential Transferee or Franchisee must reimburse Franchisor for all of its employee's travel expenses, wages and other expenses incurred as a result of such cancellation or rescheduling;

i. Potential Transferee successfully completes the training program required by the Transfer Documents, if a Full Transfer;

j. Potential Transferee agrees to complete all remodeling and improvements as required by us, and must upgrade the POS System to the then-current required POS System, within the time period specified by us, if a Full Transfer;

k. You and Potential Transferee agree not to assert any security interest, lien, right or claim now or in the future, in the Franchised Business. Any security interest, lien, claim or right asserted with respect to any personal property at the Location must not include any after-acquired property and must be subject, junior and subordinate to any security interest, lien, right or claim now or in the future, asserted by us, our successors or assigns; and

l. You agree to complete and sign a letter of agency, letter of authorization, or equivalent and provide it to Potential Transferee so that Potential Transferee may keep the existing telephone number when the store is transferred to Potential Transferee.

12.4 Death or Incapacity of Individual Franchisee; Change in Entity.

a. Death or incapacity of Franchisee when Franchisee is an individual:

(i) In the event of your death or incapacity, your legal representative may, for a period of ninety (90) days from the date of death or incapacitation, continue to operate the Franchised Business, provided that the operation is conducted in accordance with this Agreement and any other agreements with us.

(ii) If your representative desires to continue the operation of the Franchised Business beyond the ninety (90) day period, then, prior to the expiration of this period, your legal representative must apply in writing for the right to transfer the Franchised Business to the person or persons (whether spouse, heir, devisee, purchaser, or any other person), as the legal representative may specify. The application for transfer will be treated in the same manner as any other proposed Transfer under this Agreement.

(iii) If your legal representative does not comply with the provisions of the preceding paragraph, or does not propose a ~~transferee~~Potential Transferee acceptable to us under the standards set forth in this Agreement, all rights licensed to you under this Agreement will terminate immediately and automatically revert to us. We shall have the right and option, in our sole discretion, exercisable upon such termination, to purchase all removable furniture, fixtures, signs, equipment and other chattels, but not leasehold improvements, at a price to be agreed upon by the parties or, if no agreement as to price is reached by the parties, at such price as may be determined by a qualified appraiser, approved by both parties, such approval not to be unreasonably withheld. We shall give notice of our intent to exercise the option no later than twenty-one (21) days prior to termination.

b. Death or incapacity of any shareholder, partner, or member in Franchisee when Franchisee is a business entity:

(i) In the event of the death or incapacity of any of your shareholders, partners, or members, the surviving shareholders, partners, or members may, for a period of ninety (90) days from the date of death or incapacitation, continue to operate the Franchised Business, provided that the operation is conducted in accordance with this Agreement and any other agreements with us.

(ii) If your shareholders, partners, or members desire to continue the operation of the Franchised Business beyond the ninety (90) day period, then, prior to the expiration of this period, your shareholders, partners, or members must apply jointly with all surviving shareholders, partners, or members in writing, for the right to transfer the Franchised Business (or the interest of the deceased or incapacitated shareholder, partner, or member in the Franchised Business), to the person or business entity as the surviving shareholders, partners, or members may specify. The application for transfer will be treated in the same manner as any other proposed Transfer under this Agreement.

(iii) If all surviving shareholders, partners or members do not comply with the provisions of the preceding paragraph, or do not propose a ~~transferee~~Potential Transferee acceptable to us under the standards set forth in this Agreement, all rights licensed to you under this Agreement will terminate immediately and automatically revert to us. We shall have the right and option, in our sole discretion, exercisable upon such termination, to purchase all removable

furniture, fixtures, signs, equipment and other chattels, but not leasehold improvements, at a price to be agreed upon by the parties or, if no agreement as to price is reached by the parties, at such price as may be determined by a qualified appraiser, approved by both parties, such approval not to be unreasonably withheld. We shall give notice of our intent to exercise the option no later than twenty-one (21) days prior to termination.

12.5 Assignment by Franchisor.

You agree and affirm that we may, without your prior consent, sell our business, our assets, or our System, in whole or in part, to a third-party; may issue a public offering of our securities; may engage in private placement of some or all of our securities; may merge with or acquire other corporations, or be acquired by another corporation; and may undertake a refinancing, recapitalization, leveraged buyout or other economic or financial restructuring. You further agree and affirm that we have the right, now and in the future, without your prior consent, to purchase, merge, acquire or affiliate with an existing competitive or non-competitive franchise network, chain or any other business regardless of the location of such franchise network, chain or business, which you acknowledge may be proximate to your Franchised Business, and to operate, franchise or license such franchise networks, chains or businesses operating under the Proprietary Marks or any other marks following our purchase, merger, acquisition or affiliation.

With regard to any of the above sales, assignments and dispositions, you expressly and specifically waive any claims, demands or damages against us arising from or related to the loss of your rights to use the System as authorized under this Agreement.

This Agreement will inure to the benefit of our successors and assigns. In conjunction with one (1) or more of the transactions contemplated above, or as otherwise determined by us, we have the right to assign our rights and obligations under this Agreement to any person or entity, without your prior consent. Upon such assignment, we will be relieved of all obligations or liabilities then existing or thereafter able to be asserted under this Agreement.

12.6 Restrictions on Security Interests and Subfranchising.

Except as otherwise set forth in this *Section 12.6*, you shall not have any rights to pledge, encumber, hypothecate or otherwise give any third-party a security interest in this Agreement in any manner whatsoever, nor subfranchise or otherwise transfer, or attempt to subfranchise or transfer the Franchised Business, in whole or in part, so long as it is operated as the Franchised Business, without our express prior written permission, which permission may be withheld for any reason whatsoever in our sole discretion. Notwithstanding anything contained herein to the contrary, you shall have the right to pledge your accounts receivable, net of royalties and rent, without our prior written consent for the sole purpose of obtaining financing for the operation of the Franchised Business, provided you are in full compliance with this Agreement and any other agreement, arrangement or understanding with us.

ARTICLE 13. RENEWAL

Subject to the terms and conditions described below, you will have the right to renew your license to operate the Franchised Business for an additional term of five (5) years. In the event you desire to renew your license, you must give us notice to that effect at least one hundred twenty (120) days prior to the expiration date of the Term. In addition to giving the notice of renewal referred to above in a timely manner, in order to have the right to renew the license to operate the Franchised Business for an additional term, you must also meet each of the following requirements:

a. You must not then be in default under this Agreement or any other agreement, legal instrument or document with us or any of our affiliates, and no event shall have occurred that, with the giving of notice, the passage of time, or both, would constitute a default under this Agreement, including all financial obligations to us;

b. You must be in complete compliance with the terms of this Agreement, including all financial obligations to us, and the then-current ~~Operations~~Confidential Manual;

c. You must not have received more than three (3) notices of default or breach of this Agreement during its term, nor more than two (2) notices of default or breach during the five-~~(5)~~(5) years immediately preceding the effective date of the proposed renewal;

d. You must have the existing right to maintain possession of the Location or you must have secured and developed a suitable substitute location that meets our then-current minimum site requirements (such confirmation will be provided to you by us in writing);

e. You must sign a general release provided by us;

f. You and we must execute all agreements, legal instruments and other documents (individually and collectively, "Renewal Documents") then used by us in the renewal of franchises and then being required of new franchise owners in connection with the System. The Renewal Documents will supersede this Agreement, but will not terminate your liability to perform any obligations which you have not yet performed under this Agreement, or which survive the termination of this Agreement; nor will the Renewal Documents terminate or supersede any Guaranty of Franchise Agreement~~-or~~, Confidentiality Agreement, or Non-Disclosure and Non-Competition Agreement executed pursuant to this Agreement. The terms of the Renewal Documents may vary materially from the current agreements used by us, including the payment of a higher Royalty Fee and Advertising Fee;

g. The equipment, fixtures and signage used in connection with the operation of the Franchised Business must either meet our then-existing System specifications and standards, or you must agree, within a timeframe required by us, to replace or refurbish such items, and otherwise modify the methods of operation of the Franchised Business at your cost and expense, in order to comply with our System specifications and standards then applicable to new franchise owners;

h. You agree to complete all remodeling and improvements as required by us, and must upgrade the POS System to the then-current required POS System, within the time period specified by us; and

i. You shall have paid to us the Renewal Franchise Fee as required under *Section 5.12*.

If you do not meet any of the requirements for renewal, we will give you a notice to that effect which will specify the requirements not met. The notice will be given to you within sixty (60) days after you deliver to us your notice of intent to renew.

ARTICLE 14. DEFAULT AND TERMINATION

14.1 Default; Termination.

a. You will be in default under this Agreement:

(i) If: (a) you become insolvent or make an assignment for the benefit of creditors; (b) you file a petition in bankruptcy, or if such a petition is filed against and consented to by you, and such petition is not dismissed within thirty (30) days from the filing date of such petition; (c) you are adjudicated bankrupt; (d) a bill in equity or other proceeding for the appointment of your receiver or other custodian for your business or assets is filed and is consented to by you or is not dismissed within thirty (30) days from the filing date of such bill or other proceeding; (e) a receiver or other custodian is appointed; (f) proceedings for composition with creditors under any state or federal law is instituted by or against you; (g) the real or personal property of the Franchised Business is sold at levy thereupon by any sheriff, marshal or constable, or sold by a secured party under any state's Commercial Code;

(ii) If you fail to pay, perform, observe or comply with any of your duties and obligations under this Agreement or the ~~Operations~~Confidential Manual, including failure to provide a fully- executed copy of the lease to us when due and failure to pay when due, any sum due to us under this Agreement (including the Royalty Fee and Advertising Fee); or if you breach any of your obligations under any lease, sublease, mortgage, equipment agreement, promissory note, vendor account, conditional sales contract or other contract arising from, or in connection with, the Franchised Business, to which you are a party or by which you are bound, whether or not we are a party thereto;

(iii) If your lease or sublease for the Location of the Franchised Business is either: (a) in default and you fail to cure such default as provided in the lease or sublease; (b) is terminated for reason of default by you; or (c) the Location is lost as a result of your failure to comply with the lease or sublease;

(iv) If you fail, within thirty (30) days of the entry of a final judgment against you in an amount exceeding Two Thousand Dollars (\$2,000), to discharge, vacate or reverse the judgment or to stay its execution pending appeal, or to discharge any judgment which is not vacated or reversed within thirty (30) days after expiration of the stay of execution;

(v) If we determine that a serious health or safety problem exists at the Franchised Business, in which case, we may require you to immediately correct the problem or cease operating until the problem is corrected;

(vi) If you, or any owner, co-owner or principal of the Franchised Business, is convicted of a felony, a crime involving moral turpitude, or any other crime or offense that is reasonably likely to adversely affect the System, the goodwill associated therewith, or our interest therein;

(vii) Except for any reason provided in *Section 5.2*, if you abandon the Franchised Business, which abandonment shall conclusively be deemed established if the Franchised Business is closed for more than three (3) consecutive days;

(viii) Except for any reason provided in *Section 5.2*, if you close or relocate the Franchised Business, without our express advance written consent;

(ix) If you fail to maintain an independent contractor relationship with us;

(x) If you either negligently or knowingly inaccurately report, or fail to report, any information in your franchise application;

(xi) If you or any owner, co-owner or principal of the Franchised Business commits an act, or permits an act to be committed, that violates any federal, state or local law that adversely impacts the Franchised Business;

(xii) If you fail to participate in any Rollout detailed in *Section 9.3*;

(xiii) If you violate any of the provisions of *Sections 2.3, 3.2, 9.2, 9.3 or 9.4* including the requirement that you: (a) sell or offer for sale only those products and services authorized by us; (b) purchase such authorized products and services only from suppliers or service providers who are approved in writing by us; and (c) utilize or switch to any of our designated approved suppliers, including a supplier who has entered into a national or regional master supplier agreement with us;

(xiv) If you transfer or attempt to transfer any rights or obligations under this Agreement or any other property or assets to any third-party in violation of the provisions of *Article 12*;

(xv) If you or any of your owners, officers, directors, managers, members, or partners (as applicable): (a) ~~becomes~~become subject to U.S. Executive Order 13224 or ~~is~~are involved in any activity that violates the U.S. Foreign Corrupt Practices Act or any other anti-corruption, bribery or any other laws, orders or governmental notices affecting your ability to conduct business in or with the United States, as may be amended and whether in effect as of the Effective Date or at any time during the Term, (b) are identified on the U.S. Department of the Treasury's Office of Foreign Assets Control Specialty Designated National and Blocked Persons list, or (c) ~~receives~~receive any funding from any country that is subject to an embargo by the United States, any foreign government or government official, political party; or

(xvi) If you intentionally made any false representations and warranties under *Section 17.1*.

b. Cross-default: A default by you under this Agreement will be deemed a default of all agreements between: (i) you and your principals in his or her individual capacity or any other entity in which your principals are owners, members, managers, shareholders or partners (individually and collectively, "Franchisee Entity"); and (ii) us or any of our affiliates or predecessors (individually and collectively, "Franchisor Entity"). A Franchisee Entity's default of any other agreement, legal instrument or other document between the Franchisee Entity and a Franchisor Entity will be deemed a default under this Agreement. A default by any guarantor of your obligations under this Agreement or any agreement, legal instrument or document between a Franchisee Entity and a Franchisor Entity will be deemed a default of this Agreement.

c. Termination: If you fail to cure any default to our satisfaction, within the applicable period following notice from us, if applicable, or otherwise breach this Agreement, we may, in addition to all other remedies at law or in equity or as otherwise set forth in this Agreement, immediately terminate this Agreement. This termination will be effective immediately upon the giving of notice pursuant to *Article 15*.

d. Cross-termination: If this Agreement is terminated as a result of your default of this Agreement or any other agreement related to the Franchised Business, we may, at our option, elect to terminate any or all other agreements, legal instruments or documents between a Franchisee Entity and a Franchisor Entity. If any agreement, legal instrument or document between a Franchisee Entity and a Franchisor Entity is terminated as a result of a default by the

Franchisee Entity, we may, at our sole discretion, elect to terminate this Agreement. It is agreed that an incurable or uncured default under this Agreement or any other agreement, legal instrument or document between a Franchisee Entity and a Franchisor Entity will be grounds for termination of this Agreement or any other agreement, legal instrument or document between a Franchisee Entity and a Franchisor Entity, without additional notice or opportunity to cure.

14.2 Opportunity to Cure.

a. Fourteen- Day Cure Period - Except as otherwise provided in this *Section 14.2*, you will have the right to cure your default under this Agreement within fourteen (14) days after notice of default is given by us pursuant to *Article 15*. Notwithstanding the foregoing, the following lesser periods will apply under the circumstances described:

b. Seven-Day Cure Period - A seven (7) day cure period will apply if you fail, refuse, or neglect to pay when due, any monies owing to us (including the Royalty Fee and Advertising Fee), or to any Advertising Fund, or if you fail to maintain the insurance coverage set forth in this Agreement;

c. 48-Hour Cure Period – A forty-eight (48) hour cure period will apply (1) if you ~~-(1)~~ are in default of *Section 3.4*; or (2) if you fail to participate in any limited time product offering, value offering, contest, promotion or charity event. You must initiate your participation in such offering, contest, promotion or event within forty-eight (48) hours and fully participate in such offering, contest, promotion or event as soon as reasonably possible, in our sole discretion, thereafter;

d. 24-Hour Cure Period - A twenty-four (24) hour cure period will apply to your violation of any law, regulation, order or our standards relating to health, sanitation or safety; or, except as provided in *Section 5.2*, if you cease to operate the Franchised Business for a period of forty-eight (48) hours without our prior written consent. In addition, a twenty-four (24) hour cure period will apply if you post on any Site or direct others to any site or page, post, blog or other social medium site where there are posted any defamatory or offensive comments about: other franchisees; the *NrGize Lifestyle Cafe* brand; other brands franchised by us or one of our affiliates; your or other franchisees' customers; any of our, your or franchisees' vendors; us or any of our affiliates; or any of our, your or franchisees' competitors;

e. Immediate Cure Period (less than 24 hours) – An immediate cure period (less than twenty-four (24) hours) will apply if you post any content to a Site in which the content includes any inappropriate public displays of affection, our or others' confidential information or materials, violations of health or safety standards, foul or obscene language, or any images of or information about any persons from whom you did not obtain prior written consent;

f. No Cure Period - No cure period will be available: (1) if you are in default of *Sections 3.1, 9.4, 14.1a.(i), 14.1a.(iii), 14.1a.(vi), 14.1a.(vii), 14.1a.(viii), 14.1a.(xiv), 14.1a.(xv), or 14.6*; (2) if you intentionally underreport weekly Gross Sales, falsify financial data, fail to promptly provide upon our request financial data and records specified in this Agreement, or otherwise commit an act of fraud with respect to your rights or obligations under this Agreement; (3) if you repeatedly fail to comply with the provisions of this Agreement, whether or not subsequently cured; (4) if you, having twice previously cured a default of this Agreement, commit the default again; or (5) if you made any false representations and warranties under *Sections 17.1f., 17.1g., 17.1m. or 17.1n.*;

g. Statutory Cure Period - If a statute in the state or municipality in which the

Franchised Business is located requires application of that state or municipal law, and that statute requires a cure period for the applicable default which is longer than any cure period specified in this *Article 14*, the statutory cure period will apply.

14.3 Our Right to Take Over Management.

We have the right (but not the obligation), under the circumstances described below, to enter the Franchised Business and assume the Franchised Business' management for any period of time we feel is appropriate. If we assume the Franchised Business' management, you must pay us, in addition to the Royalty Fee and Advertising Fee, six percent (6%) of the Gross Sales, plus our direct out-of-pocket cost and expenses, for the period of time we assume the Franchised Business' management. If we assume the Franchised Business' management, you acknowledge that our duty is limited to using our reasonable efforts, and we will not be liable to you or your owners for any debts, losses or obligations the Franchised Business incurs, or to any of your creditors for any supplies or services the Franchised Business purchases. We may assume the Franchised Business' management if you abandon the Franchised Business or if you fail to comply with any provision of this Agreement and did not cure the failure within the time period we specify in our notice to you. You agree to complete and sign a letter of agency, letter of authorization, or equivalent and provide it to us upon our request if we assume the Franchised Business' management so that we may keep the existing telephone, facsimile, alarm, and credit card machine numbers (as applicable) in operation under our phone service provider. You also agree to keep the phone, water, gas, electric service (as applicable) turned on and active for one (1) week after we assume the Franchised Business's management to allow us to switch the services over to us or our affiliate. Our exercise of our management rights under this *Section 14.3* will not affect our right to terminate this Agreement.

14.4 Remedies.

a. Interest, Costs and Damages - If you fail to remit when due any payments required under this Agreement, you agree to pay, in addition to the unpaid amounts, all of our collection costs and expenses, expert fees, reasonable attorneys' fees, and costs and expenses, including all fees, costs and expenses of court, including all appeals, with interest on the unpaid amounts at the Default Rate or the highest permissible rate. If you fail to cure a default, following notice, within the applicable time period set forth in *Section 14.2*, or if this Agreement is terminated as a result of your default, you shall pay to us all damages of any kind and nature whatsoever and all collection costs and expenses, expert fees, reasonable attorneys' fees, and costs and expenses, including all fees, costs and expenses of court, including all appeals, together with interest at the Default Rate or the highest permissible rate. If you fail to report Gross Sales in accordance with *Sections 5.2* and *5.6*, we may estimate your Royalty Fee and Advertising Fee based on prior reports, and may sue for and obtain judgment for such estimates unless you prove, prior to the entry of any default order or judgment, that your Royalty Fee and Advertising Fee are different than the estimates.

b. Waiver of Punitive Damages - Both we and you waive, to the full extent permitted by law, any right they otherwise may have had to claim, pursue, demand or receive any exemplary or punitive damages arising out of or related in any way to this Agreement and its addenda, amendments, appendices, exhibits and attachments.

c. If you breach any of the terms of this Agreement, including if you are in default of this Agreement, we may enforce our rights by injunction, specific performance, or any other remedy available under this Agreement, at law or in equity, including termination. These remedies

are cumulative and not exclusive and we may use all remedies available. In addition, we may elect to terminate this Agreement and all your rights under it as set forth in *Section 14.5*.

d. If you breach any of the terms of this Agreement, including if you are in default of this Agreement, we have the right to have a receiver appointed to take possession, manage and control the assets of the Franchised Business, collect the profits, and pay the net income for the operation of the Franchised Business as ordered by a court of competent jurisdiction. The right to appoint a receiver will be available regardless of whether waste or danger of loss or destruction of the assets exists.

14.5 Effect of Termination or Expiration.

Upon termination or expiration of this Agreement, we can advise all suppliers of *NrGize Lifestyle Cafe* proprietary food items and other supplies bearing any of the Proprietary Marks or service marks to cease delivering the items and products to you.

Upon your abandonment of the Franchised Business (whether voluntary or involuntary), any termination of this Agreement (whether pursuant to *Sections 14.1, 14.2 or 14.4*, ~~14.2, 14.4~~, or otherwise), or upon expiration of the Term, you must immediately cease to hold yourself out to the public as a franchise owner of the System, and you must comply with the following:

a. Immediately pay to us or any affiliate of ours all sums owing from you to us or such affiliate, including the Royalty Fee and Advertising Fee, for any period prior to the date of termination, the applicable Early Termination ~~Fee~~Damages (as defined in Section 14.9 below), and all amounts owed for services, supplies or other items purchased by you from us or any affiliate of ours, or that were financed by us or any affiliate of ours, or which we or any affiliate of ours loaned to you, together with any interest or late fees accrued thereon, together with all other sums due to us under this Agreement, and all damages of any kind or nature whatsoever that may be allowed by law;

b. Immediately cease to use, in any manner whatsoever, including in all advertising, the Proprietary Marks, any Trade Secrets, any Confidential Information, any benefits of the System or any part thereof, any methods associated with the System, any forms, recipes, ~~Operations~~Confidential Manual, slogans, signs, sign posts, marks, symbols, or devices used in connection with the operation of the Franchised Business; and you must deliver or destroy all of the above- mentioned materials, including any materials containing or referencing any of the foregoing, to us as directed by us. If we do not recover any such items, such items shall be valued at their then-current replacement cost, for purposes of determining the damages owing by you to us for failure to return such items, if we pursue a damage claim as a result thereof;

c. Immediately discontinue all advertising as a franchisee of the System, and thereafter refrain from any advertising that would indicate that you are or ever were a franchisee or licensee of ours, or otherwise were affiliated with us or the System;

d. Immediately take such steps as may be necessary or appropriate to:

(i) delete your listing in all telephone directories, if applicable, and terminate any other listings that indicate that you are or were a franchisee or licensee of ours, or otherwise were affiliated with us or the System; and

(ii) transfer to our designee or us all telephone numbers used by you in connection with the Franchised Business. You acknowledge that between you and us, we have

the sole right and interest in all telephone numbers and directory listings associated with any Proprietary Marks, and you authorize us and appoint us and any officer or agent of ours, as your attorney-in-fact, to direct the telephone company and all listings agencies to accept such direction, or this Agreement, as conclusive evidence of our exclusive rights in such telephone numbers and directory listings and our authority to direct their transfer;

e. Immediately take such action as may be required to cancel all fictitious or assumed names, amend any entity name, or dissolve any entity that contains any Proprietary Mark, in whole or in part, regardless of whether the entity name was authorized by us, and amend or cancel any and all equivalent registrations relating to your use of any Proprietary Mark. You acknowledge that between you and us, we have the sole right and interest in all such fictitious or assumed names, entity name, and equivalent registrations, and you authorize us and appoint us and any officer or agent of ours as your attorney-in-fact, to effect the termination or cancellation of such fictitious or assumed names or equivalent registrations should you fail or refuse to do so, and the appropriate federal, state, and local agencies may accept your direction or this Agreement as conclusive evidence of our exclusive rights in such fictitious or assumed names or equivalent registrations, and our authority to direct their termination or cancellation;

f. Comply with the confidentiality requirements and the covenant against competition in this Agreement for the specified period. You acknowledge that you, or (if an entity) your authorized representative, has carefully reviewed the confidentiality requirements and the covenant against competition in this Agreement; and that you have agreed to be bound by all the requirements and covenants; and

g. Maintain at a place made known to us all books, records and reports required under this Agreement for a period of not less than three (3) years after the date of termination or expiration of this Agreement, to allow us to make a final inspection of your books and records for the purpose of verifying that all amounts owing have been paid.

If you fail to do any of the foregoing, we may pursue any remedy available at law or in equity against: (i) you; (ii) any or all guarantors of your obligations under this Agreement; and (iii) you and any or all guarantors of your obligations under this Agreement.

We have the right, but not the obligation, to purchase from you any assets or property (but not leasehold improvements) used in the operation of the Franchised Business for an amount equal to the Value (as defined below), as of the termination date. If we are required, by law, regulation or court order, to purchase the equipment and other tangible assets used in connection with the Franchised Business, the purchase price will be equal to the Value. For purposes of this Agreement, the term "Value" means, subject to applicable law, an amount equal to your cost for such assets, less depreciation and amortization using a two hundred percent (200%) declining balance method over a five (5) year period. If all, or any portion of, your assets that are being purchased by us or our authorized representative are subject to lien(s), we or our authorized representative may pay, on your behalf, the lienholder(s) that portion of the purchase price for your assets (which may be the entire purchase price) that is necessary to obtain the release of those assets from the lien(s), in lieu of paying you those funds. Further, we may offset any amounts payable to you pursuant to this *Section 14.5*, or otherwise pursuant to this Agreement, against any unpaid amounts payable to us or our affiliates pursuant to this Agreement or any agreement executed in connection with this Agreement.

14.6 Covenant Not to Compete; Conflicting Interests.

a. During the Term and for a period of two (2) years after your abandonment of the Franchised Business, expiration of this Agreement, or termination of this Agreement (whether voluntary or involuntary), you shall not engage in any Competing Business (as defined in *Section 14.6c.*) with any *NrGize Lifestyle Cafe* restaurant, nor shall you have any Conflicting Interest (as defined in *Section 14.6d.*) in a Competing Business. The provisions of this

Agreement bind you in any capacity, including as a franchisee, sole proprietor, partner, limited partner, member, employer, franchisor, shareholder, officer, director or employee.

b. During the Term, and for a period of two (2) years after your abandonment of the Franchised Business, expiration of this Agreement, or termination of this Agreement, (whether voluntary or involuntary), you shall not divert or attempt to divert any business, customers, or potential customers of the *NrGize Lifestyle Cafe* System to any Competing Business, by direct or indirect inducement or otherwise. In addition, you shall not at any time do or perform any act, directly or indirectly, which harms the goodwill or reputation of us or the System.

c. For purposes of this *Section 14.6*, "Competing Business" means a business which is primarily engaged in the sale of smoothies, protein shakes, meal replacement shakes, chillers, and all variations thereof, within a geographical area consisting of: (1) during the Term, anywhere else; and (2) after abandonment, expiration or termination of this Agreement, within a ten (10) mile radius from the Location or location of any *NrGize Lifestyle Cafe* restaurant of ours, our third-party licensees or our third-party franchisees. The term "*NrGize Lifestyle Cafe* restaurant" includes not only the restaurants now in existence, but also those established at a later date. The term of this covenant will be extended by any time consumed in litigation to enforce it in both trial and appellate courts. If a court of competent jurisdiction determines that the restrictions in this paragraph are excessive in time, geographic scope, or otherwise, the court may reduce the restriction to the level that provides the maximum restriction allowed by law.

d. For purposes of this *Section 14.6*, "Conflicting Interest" means an interest by which you, or your executive officers, directors and shareholders (if you are a corporation), or your partners (if you are a partnership), or your members (if you are a limited liability company), or your designated manager, directly or indirectly, have a controlling interest in, lend money to, consult with or otherwise assist any Competing Business. If any of the persons named above do not sign this Agreement under the heading "*Personal Acceptance of Sections 7.1, 7.2, 14.6 and 14.8*," then you agree to obtain the execution by such person of a written agreement setting forth the foregoing in a form acceptable to us.

14.7 Continuing Obligations.

All your obligations that expressly survive the expiration or termination of this Agreement, including *Sections 14.5* and *14.6*, or by the implicit nature thereof require performance after the expiration or termination of this Agreement, will continue in full force and effect (subsequent to, and notwithstanding, your abandonment of the Franchised Business (whether voluntary or involuntary) the expiration of the Term, or termination of this Agreement), until they are satisfied in full or by their nature expire. The indemnities and obligations set forth in *Article 8* will continue in full force and effect subsequent to, and notwithstanding, the expiration or termination of this Agreement.

14.8 Remedies.

You acknowledge and agree that the restrictions contained in this Agreement, including in this *Article 14*, are fair and reasonable and necessary for the protection of our legitimate business

interests and you intend and agree that such restrictions be enforceable and enforced to their fullest extent. You further understand and agree that, notwithstanding any other provision of this Agreement, your breach of your obligations under this *Article 14*, will cause us irreparable harm for which recovery of monetary damages alone would not be an adequate remedy. Both parties shall be entitled to obtain timely injunctive relief, including a temporary restraining order, preliminary and permanent injunctions, to protect their rights under this Agreement, in addition to and not exclusive of any and all other remedies available to each party.

14.9 Early Termination Damages.

If you discontinue operating your Franchised Business before this Agreement expires, with or without obtaining our prior written consent, or in the event of a termination of this Agreement arising from or related to your default and breach of its provisions, you will become obligated to pay Franchisor early termination damages ("Early Termination Damages"). The Early Termination Damages shall be considered damages and not a penalty, are not in lieu of other damages, and your payment of these damages shall not constitute a release of any other obligation owed to us. Franchisor, Franchisee, each individual signing on behalf of Franchisee, and each guarantor guaranteeing Franchisee's obligations hereunder, hereby acknowledge and agree that Franchisor's losses due to Franchisee's unilateral closure of the Franchised Business or termination of this Agreement would be highly difficult or impossible to calculate with reasonable certainty and, therefore, have agreed at the outset of this Agreement that the Early Termination Damages, and the formula for calculating these damages, constitutes a reasonable, good faith forecast of Franchisor's estimated losses and damages due to the premature closure of the Franchised Business or termination of this Agreement.

The amount of the Early Termination Damages is calculated as follows:

a. Compute the average monthly Royalty Fee and Advertising Fee due for any consecutive twelve (12) month period within the forty-eight (48) months immediately preceding the date we receive notification of the closure, or if you failed to timely notify us of the closure then the date the Franchise Business closed, or, if the Franchised Business has been open for less than twelve (12) months, the average monthly Royalty Fee and Advertising Fee due since the opening of the Franchised Business ("Monthly Average");

b. Multiply the Monthly Average by the number of months remaining in the Term; and

c. Divide the resulting total computed in b. above by two (2).

For example purposes only: If the average monthly Royalty Fee and Advertising Fee were collectively \$1,000 and there were five years (60 months) remaining in the Term, the Early Termination Damages would be \$30,000, calculated as follows: $\$1,000 \times 60 \text{ months} = \$60,000 \div 2 = \$30,000$.

If you unilaterally terminate this Agreement prior to the end of the Term, you must give us ninety (90) days prior notice of the early termination ("Early Termination Notice"). Within ten (10) days after our receipt of your Early Termination Notice, we will calculate the Early Termination Damages, which will be due and payable thirty (30) days prior to the closure of your Franchised Business. In the event of a termination arising from or related to your default under this Agreement, or that you do not: (i) provide us with the Early Termination Notice at least ninety (90) days prior to the early termination of your Franchised Business and this Agreement; (ii) remain open for at least ninety (90) days after providing us with the Early Termination Notice;

and (iii) pay the Early Termination Damages in full at least thirty (30) days prior to closing of the Franchised Business, the Early Termination Damages due may, in our sole discretion, be increased as follows: it will be calculated by multiplying the Monthly Average by the number of months remaining in the Term, and will not be divided by two (2).

If you have not paid your Royalty Fee and Advertising Fee for any period(s) within the forty-eight (48) months prior to notifying us of your early termination, or if you have not reported your Gross Sales for any period(s) within the forty-eight (48) months prior to notifying us of your intended early termination, we will estimate the Royalty Fee and Advertising Fee based upon prior reports to calculate the Monthly Average.

ARTICLE 15. NOTICES

Unless otherwise provided in this *Article 15*, all notices specified by this Agreement or required by law must be in writing and given by personal delivery, sent by carrier (i.e., FedEx®, UPS®, etc.), U.S. certified mail, return receipt requested. All notices to us must be given at the address set forth on page 1 of this Agreement or to such other address as we may designate in writing from time to time in accordance with this *Article 15*. All notices to you may be given at the address set forth on page 1 of this Agreement, at the address of the Franchised Business, at any of your franchised restaurants, at your residence (if an individual), or at the residence of your principal shareholder(s), partner(s), or member(s) (if a business entity). Notices will be conclusively deemed to be given, delivered, and effective when sent pre-paid and actually left in the custody of an adult agent, employee or resident at a place of business or residence if given by personal delivery; or if given by carrier, twenty-four (24) hours after deposited with carrier, or if by U.S. mail or certified mail, three (3) days after deposited with the U.S. Postal Service. You have an obligation to promptly notify us pursuant to this *Article 15* whenever your mailing address, phone number or email address change. Notwithstanding the foregoing, we may give you written notice via email to the email address you provide us regarding updates or information related to System Standards, including compliance matters, with such email notification to be deemed received by you twenty-four (24) hours after we send it, unless you otherwise earlier acknowledge receipt.

ARTICLE 16. CONSTRUCTION AND ENFORCEMENT; MISCELLANEOUS

16.1 Independent Contractors.

The relationship between you and us is that of independent contractors. You are in no way to be deemed our partner, joint venturer, agent, employee, or servant. You have no authority to bind us to any contractual obligation or incur any liability for or on our behalf. You shall identify yourself as an independent owner of the Franchised Business in all dealings with customers, lessors, contractors, suppliers, public officials, employees, and others.

16.2 Severability and Substitution of Provisions.

Except as provided to the contrary in this Agreement, each article, section, term and provision of this Agreement, and any portion thereof, will be considered severable, and if, for any reason, any such portion of this Agreement is held to be invalid, contrary to, or in conflict with any applicable present or future law or regulation, or as a result of a final, non-appealable ruling issued by any court, agency or tribunal with competent jurisdiction in a proceeding to which we are a party, that regulation or ruling will not impair the operation of, or have any other effect upon, such other portions of this Agreement as may otherwise remain valid, and such other portions will continue to be given full force and effect and bind the parties to this Agreement. If the severed

provision is material to this Agreement, we shall promptly provide a substitute provision to replace the invalid severed provision consistent with then-current law and the original intent of the parties.

If any applicable and binding law or rule of any jurisdiction requires a greater prior notice of the termination of, or refusal to renew, this Agreement than is required under this Agreement, or the taking of some other action not required under this Agreement, or if under any applicable law, regulation, or court ruling of any jurisdiction, any provision of this Agreement or any specification, standard or operating procedure prescribed by us is invalid or unenforceable, the prior notice or other action required by such law, regulation, or court ruling will be substituted for the comparable provisions of this Agreement, and we will have the right, in our sole discretion, to modify such invalid or unenforceable provision, specification, standard or operating procedure to the extent required to be valid and enforceable. Such modifications to this Agreement shall be effective only in such jurisdiction, unless we elect to give them greater applicability, and otherwise shall be enforced as originally made and entered into in all other jurisdictions.

16.3 Dispute Resolution.

a. Except as otherwise provided herein, any dispute, claim or controversy arising out of or relating to this Agreement, the breach hereof, the rights and obligations of the parties hereto or the relationship between the parties, or the entry, making, interpretation, or performance of either party under this Agreement ("Dispute"), which cannot be resolved by mediation under *Section 16.3d*, or is not subject to mediation under the terms of this Agreement, shall be settled by arbitration administered by the American Arbitration Association ("AAA") in accordance with its Commercial Arbitration Rules as modified below.

b. Any arbitration shall take place before a sole arbitrator in Maricopa County, Arizona or, if our headquarters are no longer located in Maricopa County, Arizona, then the arbitration shall take place in the county in which our headquarters are located at the time the arbitration is commenced. You agree that conducting the arbitration where we are located is appropriate due to the multiple locations throughout the United States where our franchisees are located. The parties agree that the arbitrator shall be an attorney licensed to practice law in the United States, and must have a minimum of five (5) years of experience in franchise law. Judgment on the award rendered by the arbitrator may be entered in any court of competent jurisdiction. The arbitrator shall, in the award, allocate all of the costs and expenses of the arbitration, including the fees of the arbitrator and the reasonable attorneys' fees of the prevailing party, against the party who did not prevail. To the extent permitted by applicable law, no issue of fact or law shall be given preclusive or collateral estoppel effect in any other dispute, arbitration proceeding or litigation, except to the extent such issue may have been specifically determined in another proceeding between the parties. This agreement to arbitrate shall survive any termination or expiration of this Agreement, however effected. The parties agree that any arbitration shall be solely between them (including any affiliates) and shall not include as a party, by consolidation, joinder, or in any other manner, any other person or entity, unless both parties consent in writing. Both parties shall have the absolute right to refuse such consent. Further, the parties expressly waive any right to bring or participate in any class or other consolidated, joined or multi-party arbitration claim or proceeding, whether or not permissible under the AAA Commercial Arbitration Rules, including any claim brought on their behalf by an association of which it, he or she is a member. At the request of any party, the arbitration shall be conducted in a manner that maintains the confidentiality of the proceedings.

c. The arbitrator will issue a reasoned award, with findings of fact and conclusions of law. Actions to enforce an express obligation to pay monies may be brought under the Expedited Procedures of the AAA's Commercial Arbitration Rules. The Federal Arbitration Act shall govern,

excluding all state arbitration laws. Arizona law will govern all other issues. With respect to discovery, the arbitrator shall require each party to make a good cause showing before any discovery exceeding that specifically authorized by the AAA Commercial Arbitration Rules will be granted.

d. Prior to the commencement of an arbitration proceeding, the parties must first submit any Dispute to non-binding mediation. At the request of any party, the mediation will be confidential. The mediation shall be conducted in Maricopa County, Arizona or in the county in which our headquarters are located at the time of mediation, unless the parties shall mutually agree to a different location. The parties to the mediation will share equally in its costs and expenses, except those costs and expenses incurred separately by each party, including counsel fees and expenses. The mediation process will be deemed "Completed" when the parties agree that it has been completed, the mediator declares that any impasse exists, or sixty (60) days have elapsed since the date of the initiating party's notice to the other party that it is initiating the mediation process, whichever occurs first.

e. Notwithstanding anything contained in this Agreement to the contrary, the provisions of Sections 16.3a., 16.3b., 16.3c. and 16.3d. do not apply to a Dispute where: (i) we bring an action for an express obligation to pay monies, declaratory relief, preliminary or permanent equitable relief, any action at law for damage to our goodwill, the Confidential Information, the Proprietary Marks or for fraudulent conduct by you; or (ii) the delay resulting from the mediation process may endanger or adversely affect the public (for example, unhealthy, unsafe or unsanitary conditions would continue to exist). For such disputes, we may bring an action in any federal or state court having jurisdiction, whether for monetary damages, temporary preliminary and permanent injunctive relief or specific performance in addition to, and not exclusive of, any other remedies available to us. You hereby consent to and waive any objection or defense and agree not to contest venue, forum non conveniens or jurisdiction of such court or arbitration.

f. Disputes concerning the validity or scope of arbitration, including whether the Dispute is subject to arbitration, are beyond the authority of the arbitrator and will be determined by a court of competent jurisdiction pursuant to the Federal Arbitration Act, 9 U.S.C. §1 et seq., as amended from time to time.

g. Either party may appeal the final award of the arbitrator, if it is over One Hundred Thousand Dollars (\$100,000), to the appropriate U.S. District Court. The Court's review of the arbitrator's findings of fact will be under the clearly erroneous standard, and the Court's review of all legal rulings will be *de novo*. If it should be determined that this provision for federal court review is not enforceable, then either party may appeal the arbitrator's final award, if it is over One Hundred Thousand Dollars (\$100,000), to a panel of three (3) arbitrators chosen under AAA Optional Appellate Arbitration Rules, which will employ the same standards of review stated immediately above.

16.4 Applicable Law and Forum; Waiver of Jury; Statute of Limitations.

a. Except to the extent that the United States Trademark Act of 1946, as amended (15 U.S.C., § 1051 et seq.) or the franchising laws of any state that may be applicable, the laws of the State of Arizona govern all rights and obligations of the parties under this Agreement without regard to conflict of law. The parties agree, subject to the mandatory mediation and arbitration provisions of Section 16.3, that any appropriate state or federal court located in Maricopa County, Arizona has exclusive jurisdiction over any Dispute arising under or in connection with this

Agreement and is the proper forum in which to adjudicate the case or controversy. Notwithstanding the foregoing any action initiated by us may, at our election, be brought in any jurisdiction where you are domiciled or that has jurisdiction over you. The parties hereto irrevocably submit to the jurisdiction of, and venue in, any such court, and hereby waive any objection or defense thereto. THE PARTIES AGREE THAT ALL DISPUTES SUBMITTED TO THE COURT PURSUANT TO THIS SECTION SHALL BE TRIED TO THE COURT SITTING WITHOUT A JURY, NOTWITHSTANDING ANY STATE OR FEDERAL CONSTITUTIONAL OR STATUTORY RIGHTS OR PROVISIONS.

b. Notwithstanding anything contained in this Agreement to the contrary, the parties agree that any claims under, arising out of, or related to, this Agreement must be brought within two (2) years of the date on which the underlying cause of action accrued, and the parties hereby waive any right to bring any such action after such two (2)-year period, except for the collection of any unpaid Royalty Fee, Advertising Fee, and any other amount due to us or our affiliate.

c. **YOU HEREBY WAIVE THE RIGHT TO SEEK OR COLLECT PUNITIVE, MULTIPLE, CONSEQUENTIAL AND SPECIAL DAMAGES IN ANY FORUM, INCLUDING ARBITRATION. YOU HEREBY FURTHER WAIVE THE RIGHT, IF ANY, OF ANY ASSOCIATION OR MEMBERSHIP GROUP TO ASSERT CLAIMS ON YOUR BEHALF IN ANY ACTION.**

d. **YOU HEREBY WAIVE THE RIGHT TO ANY DAMAGES IN CONNECTION WITH OR RESULTING FROM THE WRONGFUL ISSUANCE OF AN INJUNCTION.**

e. The parties agree that the maximum damages that you may recover in connection with a wrongful termination of your franchise and this Agreement will be an amount equal to the product of:

(i) the annual net profit (as defined below) multiplied by

(ii) the lesser of:

(a) The number of full years existing between the date on which the franchise and this agreement were wrongfully terminated and the date on which the Term would have otherwise expired; or

(b) Three.

For purposes of this Agreement, the term "net profit" means an amount equal to the net profits of your Franchised Business, as reflected on your tax return filed with the Internal Revenue Service prior to such termination; provided, however, that if such tax return reflects the operations of your Franchised Business for a period less than one (1) year, such net profits will be annualized based upon the net profits reflected in such tax return.

16.5 No Guarantee of Franchisee's Success.

You have been informed of and acknowledge the highly competitive nature of the business involved, and agree that the successful operation of your Franchised Business will depend in part, upon your best efforts, capabilities, management, and efficient operation; as well as the general economic trend and other market conditions.

16.6 Existence of Various Forms of Franchise Agreements.

You acknowledge that our present and future franchisees operate under a number of forms of franchise agreements and consequently, our obligations and rights with respect to our various franchisees may differ materially in certain instances. The existence of different forms or versions of the franchise agreement does not entitle you to benefit from any such difference; nor does it operate to alter or amend the agreement of the parties set forth in this Agreement.

16.7 Franchise Owner May Not Withhold Payments.

You agree that you will not, on grounds of alleged or actual nonperformance or breach by us of any of our obligations under this Agreement, withhold payment of any Royalty Fee, Advertising Fee, amounts due to us or any of our affiliates for goods or services purchased by you, or any other amounts due to us or any of our affiliates.

16.8 Remedies Are Cumulative.

The rights and remedies of the parties to this Agreement are cumulative and not exclusive, and no exercise or enforcement by either party of any right or remedy under this Agreement shall preclude the exercise or enforcement by such party of any other right or remedy under this Agreement or otherwise available at law or in equity to such party.

16.9 Interpretation.

All the terms and provisions of this Agreement will be binding upon and inure to the benefit of the successors and assigns of the parties. However, nothing in this *Section 16.9* may be construed as our consent to the Transfer of this Agreement or any rights by you.

16.10 Waiver.

Our failure to insist upon the strict performance of any term, covenant or condition contained in this Agreement will not constitute or be construed as a waiver or relinquishment of our right to enforce thereafter any such term, covenant or condition and such term, covenant or condition will continue in full force and effect.

16.11 Litigation Expense.

If an action at law or suit in equity is brought to establish, obtain or enforce any right by either of the parties to this Agreement, the prevailing party in the suit or action, in the trial and appellate courts, will be entitled to recover from the non-prevailing party reasonable attorneys' fees, costs and expenses and disbursements incurred in such suit or action.

16.12 No Third-Party Beneficiaries.

This Agreement is not intended to benefit any other person or entity except the named parties hereto and no other person or entity shall be entitled to any rights hereunder by virtue of so-called "third-party beneficiary rights" or otherwise.

16.13 Binding Effect; Modification.

This Agreement is binding upon the parties to this Agreement and their respective executors, administrators, personal representatives, heirs, permitted assigns and successors in interest. No amendment, change, or modification of this Agreement shall be binding on any party unless executed in writing by you and us.

16.14 Entire Agreement; Nature and Scope; Construction.

This Agreement, all exhibits, attachments, addendums, and amendments, constitute the entire understanding and agreement between the parties, and there are no other oral or written understandings or agreements between us and you relating to the subject matter of this Agreement. If required to be signed, any state specific addendums are incorporated herein by reference. Any representation not specifically contained in this Agreement made prior to entering into this Agreement does not survive subsequent to the execution of this Agreement. We and you have entered into this Agreement for the sole purpose of authorizing you to use the System licensed by this Agreement in the operation of the Franchised Business during the Term in which those specific items designated by us for sale and use in such locations are offered for sale and use in individual, face-to-face transactions with patrons visiting the Franchised Business (and equivalent telephone or mail transactions accepted as a convenience to that customer group). All consideration being furnished by us to you during the course of performance of this Agreement has been determined based on the limited rights and other limitations expressed herein. No other rights have been bargained for or paid for. This provision is intended to define the nature and extent of the parties' mutual contractual intent, there being no mutual intent to enter into contract relations, whether by agreement or by implication, other than as set forth in this Agreement. The parties further acknowledge that these limitations are intended to achieve the highest possible degree of certainty in the definition of the contract being formed, in recognition of the fact that uncertainty creates economic risks for both parties which, if not addressed as provided in this Agreement, would affect the economic terms of this bargain.

Nothing in this Agreement or in any related agreement is intended to disclaim the representations we made in the Disclosure Document. Nothing in this Agreement is intended, nor shall be deemed, to confer any rights or remedies upon any person or legal entity not a party hereto.

16.15 Terminology.

In addition to the terms defined elsewhere in this Agreement, the following terms defined below are incorporated in this Agreement by reference and shall be deemed to include all persons who succeed to the interest of the original, where applicable:

The term "affiliate" means any person who, directly or indirectly through one (1) or more intermediaries, controls, is controlled by, or is under common control with any person; The term "Dollars" means United States Dollars and all amounts due under this Agreement shall be paid in United States currency;

The use of the terms "includes" and "including" in any provision of this Agreement followed by specific examples used shall not be construed to limit application of the provision to only the specific examples used;

The term "person" means any natural person, corporation, partnership, trust, other entity, association or form of organization;

The term "will" and "shall" shall be synonymous, and shall be mandatory and not discretionary, unless otherwise specifically provided herein; and

Any references to articles or sections refer to articles and sections in this Agreement unless specified otherwise.

16.16 Counterparts.

This Agreement may be executed in one (1) or more original counterparts, and all of which, when taken together, shall be deemed to be one (1) original Agreement. A fully- executed copy of this Agreement shall be of the same force and effect as the original.

16.17 Offerings.

If you are a corporation, partnership or other entity, and if you intend to offer securities, partnership interests or other ownership interests in you through any public or private offering, you shall not use any Proprietary Marks in such public or private offering, except to reflect your franchise relationship with us; nor shall you misrepresent your relationship with us by any statement or omission of an essential statement. You shall indemnify and hold us harmless from any liability in connection with such offering. Nothing in the foregoing shall modify the provisions of *Article 12*, and no such offering shall be made without first complying with any applicable provisions of *Article 12*.

16.18 Time.

Time is of the essence of each and every provision of this Agreement.

16.19 Force Majeure.

Neither of the parties will be liable for loss or damage or be deemed to be in breach of this Agreement if the failure to perform the party's obligations results from: (a) transportation shortages, inadequate supply of equipment, merchandise, supplies, labor, material or energy, or the voluntary foregoing of the right to acquire or use any of the foregoing in order to accommodate or comply with the orders, requests, regulations, recommendations or instructions of any government or any department or agency thereof; or (b) acts of God. Any delay resulting from any of these causes will extend performance accordingly or excuse performance, in whole or in part, as may be reasonable, except that no such cause will excuse payments of amounts owed at the time of such occurrence or payment of the Royalty Fee and all other amounts due to us and our affiliates thereafter.

16.20 Plurals and Captions.

Words in the singular number include the plural when the context requires (and vice-versa). The table of contents and the captions are inserted only for convenience and are not a part of this Agreement or a limitation of the scope of the particular article or section to which each refers.

16.21 Joint and Several Liability.

If you consist of two (2) or more individuals, whether in the form of separate individuals or a business entity controlled by the individuals, then each individual will be jointly and severally liable under the provisions of this Agreement.

16.22 Trademark Notice.

All trademarks referenced in this Agreement are those of their respective owners.

16.23 No Accord or Satisfaction.

If you pay, or we otherwise receive, a lesser amount than the full amount provided for under this Agreement for any payment due hereunder, such payment or receipt shall be applied against the earliest amount due us. In addition, if interest or late fees are owed, we may apply any amounts paid to the late fees and interest before such amounts are applied to the principal amount owed. We may accept any check or other payment in any amount without prejudice to our right to recover the entire balance of the amount due or to pursue any other right or remedy. No endorsement or statement by you on any check or payment or in any letter accompanying any check or payment or elsewhere shall constitute or be construed as an accord or satisfaction.

ARTICLE 17. ACKNOWLEDGMENTS AND REPRESENTATIONS OF FRANCHISEE

17.1 Certain Representations and Warranties of Franchisee.

You represent and warrant that the following statements are true and complete as of the Effective Date:

a. You do not seek to obtain the Franchised Business for speculative or investment purposes and have no present intention to sell or transfer or attempt to sell or transfer the Franchised Business except as previously approved by Franchisor and subject and conditioned to Article 12 of this Agreement.

b. You understand and acknowledge the value to the System of uniform and ethical standards of quality, appearance and service described in and required by the OperationsConfidential Manual and the necessity of operating the Franchised Business under the System Standards. You represent that you have the capabilities, professionally, financially and otherwise, to comply with our System Standards.

c. If you are a corporation, limited liability company, partnership, or other form of entity, you are duly incorporated, organized, or formed and are qualified to do business in the state and any other applicable jurisdiction within which the Franchised Business is located, and you are and shall remain duly organized and in good standing during the Term.

d. You represent and warrant that: (i) if you are an individual, you are; or (ii) if you are an entity, that each of your owners, shareholders, partners, and members are, a United States citizen or a lawful resident alien of the United States.

e. All financial and other information that you have provided to us in connection with your application for this franchise is true and accurate.

f. The execution of this Agreement by you will not constitute or violate any other agreement or commitment to which you are a party.

g. Any individual executing this Agreement on your behalf is duly authorized to do so and the Agreement shall constitute your valid and binding obligation and, if applicable, all of your partners, members, or shareholders, if you are a partnership, limited liability company, or corporation.

h. You have, or if you are a partnership, corporation or other entity, your partners or ~~your~~ principals have, carefully read this Agreement and all other related documents to be executed by you concurrently or in conjunction with the execution hereof; ~~that~~ that you have obtained, or had the opportunity to obtain, the advice of counsel in connection with the execution and

delivery of this Agreement; that you understand the nature of this Agreement; and that you intend to comply with and be bound by this Agreement.

i. You have read and understand the information and disclosures made in the Disclosure Document provided to you as acknowledged in *Section 17.3e*. You understand and acknowledge that: (i) estimates for initial startupstart-up expenses are estimates only and there can be additional start-up expenses; and (ii) your sales may differ substantially from any sales provided in Item 19 of the Disclosure Document, and there is no assurance that your sales will meet or exceed any sales listed in Item 19 of the Disclosure Document. You have had the opportunity to and have consulted or elected not to consult with your attorney, accountant and business advisors before entering into this Agreement.

j. You understand and agree that, while not applicable in every case, our past experience indicates that owner-operated restaurants generally perform better than absentee owners with hired managers. The food business is a personal business and is dependent upon your business skill and judgment. This includes your choice of employees. Your skill in hiring the right people to work in your Franchised Business is very important in determining whether people decide to purchase menu items from your Franchised Business or from another restaurant in the same vicinity.

k. You understand and agree that ownership of a franchise and the Franchised Business carries certain risks. These risks include the loss of your initial investment, other continued financial losses such as rent payments due under lease obligations and other contractual obligations, the loss of your time and energy in starting up and running your Franchised Business, and loss of earnings and investment income from your investment in the Franchised Business. You understand and agree that the Franchised Business may make money and may lose money and are entering this business venture with this express understanding. You are not relying upon anything which is not contained within this Agreement or the Disclosure Document in determining and deciding to become a franchisee.

l. Notwithstanding the foregoing, you understand and agree that the System must not remain static if it is to meet (without limitation) presently unforeseen changes in technology, competitive circumstances, demographics, populations, consumer trends, social trends and other market place variables, and if it is to best serve the interests of us, you and all other franchisees. Accordingly, you expressly understand and agree that we may from time to time change the components of the System, including altering the products, programs, services, methods, standards, forms, policies and procedures of that System; abandoning the System altogether in favor of another system in connection with a merger, acquisition or other business combination or for other reasons; adding to, deleting from or modifying those products, programs and services which your Franchised Business is authorized and required to offer, modifying or substituting entirely the equipment, signage, trade dress, décor, color schemes and uniform System Standards and specifications and all other unit constructions, design, appearance and operation attributes which you are required to observe under this Agreement; and, abandoning, changing, improving, modifying or substituting the Proprietary Marks. You expressly agree to comply with any such modifications, changes, additions, deletions, substitutions and alterations. You shall accept, use and effectuate any such changes or modifications to, or substitution of, the System as if they were part of the System at the time that this Agreement was executed. Except as provided herein, we shall not be liable to you for any expenses, losses or damages sustained by you as a result of any of the modifications contemplated hereby.

m. You represent that neither you nor any of your affiliates, officers, directors,

managers, members, or partners (as applicable) or funding sources are subject to U.S. Executive Order 13224, identified on the U.S. Department of the Treasury's Office of Foreign Assets Control Specially Designated National and Blocked Persons list, or any terrorist list or other blocked persons list. In addition, you represent that you have not received funding from , nor are you owned, controlled, or acting on behalf of the government of any country that is subject to an embargo by the United States, any foreign government official, political party or international organization, and that no foreign government or government official, political party or international organization has any financial interest in the Franchised Business or any monies earned by the Franchised Business.

n. You represent, warrant and agree that you, your officers, directors, managers, members, or partners (as applicable) will each at all times conduct themselves in an ethical manner and avoid any activity that might result in a violation of the U.S. Foreign Corrupt Practices Act, Anti-Terrorism Laws, or any other applicable anti-corruption or bribery laws.

17.2 Additional Information Respecting Franchisee.

a. You have delivered to us or will deliver concurrent herewith, complete and accurate copies of all of your organizational documents, including all partnership agreements, certificates of partnership, articles of organization, operating agreements, articles or certificates of incorporation, by-laws and shareholder agreements, including all amendments, side letters and other items modifying such documents.

b. You have completed and signed the Franchisee Questionnaire attached hereto as Exhibit 1 and incorporated herein by reference.

17.3 Acknowledgements of Franchisee.

a. You acknowledge that you have conducted an independent investigation of the business venture contemplated by this Agreement and recognize that this business venture involves substantial business risks and will largely depend upon your ability. ~~We~~Other than the financial performance representation contained in Item 19 of the Disclosure Document, if any, we expressly disclaim making, and you acknowledge that you have not received or relied on, any warranty or guarantee, express or implied, as to the potential volume, profits , or success of the Franchised Business contemplated by this Agreement.

Franchisee Initials _____ / _____

b. You hereby certify that none of our employees, no other person speaking on our behalf, and no Area Representative, if applicable, have: (i) made any oral, written, visual, or other representation, agreement, commitment, claim, or statement that stated or suggested any level or range of actual or potential sales, costs, income, expenses, profits, cash flow, or otherwise other than any financial performance representation contained in Item 19 of the Disclosure Document; or (ii) made any oral, written, visual, or other representation, agreement, commitment, claim, or statement from which any level or range of actual or potential sales, costs, income, expenses, profits, cash flow, or otherwise might be ascertained, related to ~~an~~a *NrGize Lifestyle Cafe* franchise, that is different from, contrary to, or not contained in the *NrGize Lifestyle Cafe* Disclosure Document; or (iii) made any representation, agreement, commitment, claim or statement to you that is different from, contrary to, or not contained in, the *NrGize Lifestyle Cafe* Disclosure Document. You acknowledge and agree that we do not make or endorse, nor do we allow any of our employees or other persons speaking on our behalf to make or endorse, any additional oral, written, visual, or other representation, agreement, commitment, claim, or

statement that states or suggests any level or range of actual or potential sales, costs, income, expenses, profits, cash flow, or otherwise with respect to ~~an~~ NrGize Lifestyle Cafe franchise other than any financial performance representation contained in Item 19 of the Disclosure Document.

Franchisee Initials _____ / _____

c. You acknowledge that you have received, read and understand this Agreement and the related exhibits, attachments and agreements and that we have afforded you sufficient time and opportunity to consult with advisors selected by you about the potential benefits and risks of entering into this Agreement.

Franchisee Initials _____ / _____

d. You understand that this Agreement, including any amendments and exhibits, contains the entire agreement between the parties concerning the Franchised Business, and that any prior oral or written statements that are not set out in this Agreement, including any amendments, exhibits and attachments will not be binding. You acknowledge and agree that we do not permit any representations, agreements, commitments, claims, or statements or approve any changes in this Agreement or any of the amendments, exhibits and attachments to this Agreement, except by means of a written amendment or addendum signed by all parties to this Agreement. You acknowledge that nothing in this Agreement or in any related agreement is intended to disclaim the representations we made in the Disclosure Document.

Franchisee Initials _____ / _____

e. You acknowledge receipt of our Disclosure Document fourteen (14) days prior to the execution of this Agreement or your payment of any monies to us or our agent (or sooner if required by applicable state law).

Franchisee Initials _____ / _____

f. You acknowledge that, other than what was previously disclosed to you in our Disclosure Document to which you acknowledge receipt thereof, you have not: (1) received any financial statements for any of our parent or affiliated companies; or (2) relied on the financial condition of any of our parent or affiliated companies when making the decision to purchase the Franchised Business.

Franchisee Initials _____ / _____

g. You acknowledge, as detailed in *Section 2.3*, that you must, at your own cost and expense, use only our designated and approved Design Architect for the design of your Franchised Business.

Franchisee Initials _____ / _____

h. You acknowledge that the following is your Area Representative (if applicable):

Franchisee Initials _____ / _____

i. If an Area Representative is identified in *Section 17.3h.*, you make the following representations with respect to the Area Representative:

(i) You have met or spoken to only _____, the Area Representative;

(ii) At Other than any financial performance representation contained in Item 19 of the Disclosure Document, at no time did the Area Representative make any promises or statements, or projections or forecasts, or estimates or warranties or representations or other statement or agreement concerning profits or expenses or costs or actual or projected sales of any kind directly or by implication about *NrGize Lifestyle Cafe* restaurants or about the Franchised Business that we desire to develop under this Agreement or about obtaining the confirmed Location or about any other matter other than what is contained in the *NrGize Lifestyle Cafe* Disclosure Document or *NrGize Lifestyle Cafe* restaurant brochure.

(iii) You acknowledge that you have not received any written materials from us or the Area Representative except for the *NrGize Lifestyle Cafe* brochure and Disclosure Document; and

If there are any exceptions to *Sections 17.3i (i) – (iii)*, identify the item number and list the exception here:

Franchisee Initials _____ / _____

j. You acknowledge there have been no other inducements made with any person or entity, including the Identified Area Representative, encouraging you to purchase the Franchised Business, such as a “side deal” or other promise or agreement not included in the Agreement.

Franchisee Initials _____ / _____

k. You acknowledge and understand that *Article 6* ~~of this Agreement~~ covers the use of the *NrGize Lifestyle Cafe* trademark and prohibition on registration of our Proprietary Marks. You acknowledge the ownership of the Proprietary Marks by us, and you agree that during the Term and after its expiration or termination, you will not, directly or indirectly, apply to register, register or otherwise seek to use or control or in any way use “*NrGize Lifestyle Cafe*”, or any other of our proprietary marks, or any confusingly similar form or variation, in any place or jurisdiction either within or outside the United States; nor will you assist any others to do so. You further agree that your corporate, partnership or other entity name will not include any of the Proprietary Marks or phrases similar thereto as a part thereof. Furthermore, you acknowledge and understand that you are prohibited from filing applications for the registration of our trade names used in connection with your Franchised Business.

Franchisee Initials _____ / _____

l. You acknowledge and understand that in the event you have registered a trade name or entity name containing our trademarks, you will be required to immediately discontinue all further use of the trademark, all Proprietary Marks and any other marks or names confusingly similar thereto in your entity name. Furthermore, you will take such action as may be required to

amend your entity name and affirmatively cancel or terminate and dissolve all fictitious or assumed names or other registrations that contain our Proprietary Marks. In the event you do not comply and execute any and all instruments and documents necessary to protect and maintain our interests in the Proprietary Marks, we will then have power of attorney to execute any documents necessary to protect and maintain our interests in the Proprietary Marks.

Franchisee Initials _____ / _____

ARTICLE 18. SUBMISSION OF AGREEMENT

The submission of this Agreement to you does not constitute an offer and this Agreement shall become effective only upon the execution thereof by the parties. THIS AGREEMENT SHALL NOT BE BINDING ON US UNLESS AND UNTIL IT SHALL HAVE BEEN ACCEPTED AND SIGNED BY OUR PRESIDENT OR ONE OF OUR OTHER EXECUTIVE OFFICERS.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, has duly executed and delivered this Agreement as of the Effective Date.

FRANCHISEE: _____, a(n) _____

By: [Name, Title]

By: [Name, Title]

FRANCHISOR: _____ KAHALA FRANCHISING, L.L.C., an
Arizona limited liability company

By: [Name, Title]

FRANCHISEE: _____, a(n) _____

By: [Name, Title]

By: [Name, Title]

FRANCHISOR:

~~KAHALA FRANCHISING, L.L.C., an
Arizona limited liability company~~

By: [Name, Title]

PERSONAL ACCEPTANCE OF SECTIONS 7.1, 7.2, 14.6, AND 14.8

Each of the undersigned individually and personally accepts and agrees to be bound by the provisions of Sections 7.1, 7.2, 14.6, and 14.8 of the foregoing Franchise Agreement.

_____, _____, an individual
(signature) Date: _____

_____, _____, an individual
(signature) Date: _____

_____, _____, an individual
(signature) Date: _____

_____, _____, an individual-
(signature) Date: _____

_____, _____, ~~an individual~~
(signature) Date: _____

EXHIBIT 1

FRANCHISEE QUESTIONNAIRE

FRANCHISEE QUESTIONNAIRE

The undersigned is in the process of negotiating and consummating the purchase of a Kahala Franchising, L.L.C. ("Kahala") Franchise Agreement ("Agreement") for NrGize Lifestyle CafeTM.

We have been informed that since the laws of franchising limit the type of information that may be provided to prospective franchisees, the Kahala Legal Department has established a compliance audit program to ensure that all pre-sale negotiations have been lawfully completed.

We understand that if improper sales practices have occurred, the Kahala Legal Department, with appropriate notice prior to Agreement execution, will be able to either rectify and cure the violation, or in the alternative, reject the franchise sale.

In order to comply with your compliance audit program we hereby make the following acknowledgments and representations concerning events during the course of the negotiations and offer of sale of the Agreement knowing that Kahala will rely thereon in agreeing to accept the franchise sale.

1. In the course of the negotiations and the offer and sale of the Agreement we have met or spoken only to: _____

List any additional people: _____

2. Did any of the individuals identified in paragraph number one (1) or any other person or entity acting on behalf of or at the direction of Kahala make any promises, statements, projections, forecasts, estimates, warranties or representations or other statement or agreement

(a) concerning the actual or potential financial performance of the franchised or franchisor owned-outlets, profits or expenses or actual or projected sales of any kind directly or by implication concerning NrGize Lifestyle Cafe restaurants or about the NrGize Lifestyle Cafe restaurant that is to be developed or about obtaining the approved location or about any other matter relating to the prospect for financial performance to the prospective franchisee, or (b) about any other matter other than what is contained in the Franchise Disclosure Document ("FDD"), and as stated in ITEM 19 of the NrGize Lifestyle Cafe FDD?

Check one: ☐ Yes ☐ No

If yes, please state in detail the oral, written, or visual claim or representation:

3. Other than what was previously disclosed to you in the NrGize Lifestyle Cafe FDD to which you acknowledge receipt thereof, did you: (1) receive any financial statements for any of Franchisor's parent or affiliated companies; or (2) rely on the financial condition of any of Franchisor's parent or affiliated companies when making the decision to purchase the Franchised Business?

Check one: ☐ Yes ☐ No

If yes, please comment, in detail:

[store #] [doc #]

4. Have there been any other inducements made with any person or entity encouraging you to purchase the Agreement such as a “side deal” or other promise or agreement not included in the Agreement?

Check one: ☐ Yes ☐ No

If yes, please comment, in detail:

5. Did you receive a copy of the NrGize Lifestyle Cafe FDD at least fourteen (14) calendar days prior to signing any binding agreement with, or making a payment to Kahala or any of its affiliates in connection with the proposed franchise sale? If you reside in New York, ~~Oklahoma or Rhode Island~~, or if the location of your prospective franchise is located within one of those states, did you receive a copy of the NrGize Lifestyle Cafe FDD at the earlier of (i) the first personal meeting; or (ii) ten ~~(10)~~ (10) business days prior to signing any binding agreement or payment of any consideration? If you reside in Michigan or Washington, or if the location of your prospective business is located within one of those states, did you receive the NrGize Lifestyle Cafe FDD at least ten (10) business days before the execution of any binding franchise or other agreement or the payment of any consideration?

Check one: ☐ Yes ☐ No

If no, please comment:

6. Have you received, studied, and reviewed carefully the NrGize Lifestyle Cafe FDD and Franchise Agreement?

Check one: ☐ Yes ☐ No

If no, please comment:

7. Do you understand that the license granted in the Franchise Agreement is for the right to operate a franchise at the authorized location only and includes no exclusive area or protected territory, and that we and our affiliates have the right to issue franchises or operate competing businesses for or at locations, as we may determine, near your authorized location? In addition, do you understand that these locations may include freestanding buildings, strip centers, shopping malls, and other similar locations, as well as non-traditional locations such as office buildings, petroleum stations, food courts, transportation terminals, sports facilities, airports, hotels, hospitals, and college and university student unions, dormitories, and food service areas?

Check one: ☐ Yes ☐ No

If no, please comment:

8. Do you understand that the success or failure of your franchise will depend in large part upon your adherence to the NrGize Lifestyle Cafe System Standards, your skills and experience, your business acumen, your location, the local market for products under our trademarks, interest rates, the economy, inflation, the number of employees you hire and their compensation, competition, and other economic and business factors? Further, do you understand that the economic and business factors that exist at the time you open your franchise may change?

Check one: ☐ Yes ☐ No

If no, please comment:

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.

[NAME OF FRANCHISEE]

By: _____

By: _____

[Name]
[Title]

Date

[Name]
[Title]

Date

EXHIBIT E-2

TO THE FRANCHISE DISCLOSURE DOCUMENT

Franchise Agreement (Renewal) and Franchisee Questionnaire

NRGIZE LIFESTYLE CAFE

**FRANCHISE AGREEMENT
(Renewal)**

between

KAHALA FRANCHISING, L.L.C.

and

, a(n)

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Exhibits Exhibit 1 Franchisee Questionnaire

NRGIZE LIFESTYLE CAFETM -
FRANCHISE AGREEMENT
("Agreement")

PARTIES:

KAHALA FRANCHISING, L.L.C.,
an Arizona limited liability
company Attn: Legal Department
9311 E. Via De Ventura
Scottsdale, Arizona 85258

("Franchisor")

a(n)

([individually and collectively,] "Franchisee")

~~KAHALA FRANCHISING, L.L.C., an Arizona limited~~
~~liability company Attn: Legal Department 9311 E. Via~~
~~De Ventura Scottsdale, Arizona 85258~~

~~("Franchisor")~~

Telephone No.: _____

a(n)

([individually and collectively,] "Franchisee")

Telephone No.: _____

RESTAURANT NO.: _____

EFFECTIVE DATE: _____

EFFECTIVE DATE: _____

("Effective Date")

TRADITIONAL RESTAURANT (YES or NO): _____

("Effective Date")

~~**IF HEALTH CLUB LOCATION: HEALTH CLUB**~~
~~**NAME: _____ HEALTH CLUB NUMBER: _____**~~

RESTAURANT DESCRIPTION IF NON-TRADITIONAL: _____

A "traditional" restaurant is a restaurant that is easily accessible by the general public, such as a free-standing building, inline retail shop, shopping mall and street front location. A traditional *NrGize Lifestyle Cafe* restaurant normally offers a full menu. A "non-traditional" restaurant is ~~an~~ *NrGize Lifestyle Cafe* restaurant that is located in a non-traditional marketplace, as determined by us (in our sole discretion), such as an airport, amusement park, sports or entertainment venue, train station, travel plaza, toll roads, cafeteria, retail store, convenience store, military base, hospital, office building, movie theater, hotel, casino, kiosk, cart, or high school or college campus. A non-traditional restaurant may also be a *NrGize Lifestyle Cafe* restaurant that is co-branded into another brand restaurant, at Franchisor's sole discretion. A

non-traditional *NrGize Lifestyle Cafe* restaurant normally offers a limited version of the full *NrGize Lifestyle Cafe* menu.

To simplify the language in this Agreement, the terms “we,” “us,” “our” and the like may be used to refer to the Franchisor, and the terms “you,” “your” and the like may be used to refer to the Franchisee. The term “you” as used herein is applicable to one (1) or more persons, a corporation, partnership, trust, other entity, association or form of organization as the case may be, and the singular usage includes the plural, masculine, neuter, feminine, and possessive usages. Franchisor and Franchisee may individually be referred to as a “party” and collectively referred to as the “parties.”

[store #] [doc #]

RECITALS:

This Agreement is entered into with reference to the following facts and circumstances:

A. We have, over a period of time and at considerable expense, developed and established a uniform and unique method of operation, customer service, advertising, publicity, processes, recipes, techniques and technical knowledge in connection with the restaurant business, specializing in low-calorie smoothies, fruit drinks, nutritional supplements, and other related beverage and food items. These restaurants do business under the trade name "*NrGize Lifestyle Cafe*" [®] _{TM} (sometimes referred to as "*NrGize*"). These *NrGize Lifestyle Cafe* recipes, techniques, processes and methods constitute our "Trade Secrets." All of our knowledge, experience, Trade Secrets, processes, methods, specifications, techniques, Proprietary Marks (as defined in Recital B.), System Standards (as defined in *Section 1.4*) and information are referred to in this Agreement as the "System." The System may be changed, supplemented, improved and further developed by us from time to time.

B. We have owned and issued franchises to others for the operation of franchised restaurants in the United States and in other countries. We have registered and applied for proprietary marks with the United States Patent and Trademark Office and with offices in other countries serving similar functions. These proprietary interests, trademarks, service marks, logos, insignias, trade names and trade dress are referred to in this Agreement as the "Proprietary Marks."

C. We are engaged in the business of licensing the right to use the Proprietary Marks in connection with the operation and promotion of the System.

D. You understand and recognize that: (1) our Trade Secrets, Proprietary Marks, developments and other properties as recited above are of considerable value; and (2) it is of importance to us and all of our franchisees to maintain the development of the System in a uniform and distinctive manner, allowing you and our other franchisees to enjoy a public image and reputation greater than most single franchisees could establish.

E. You desire to make use of the "*NrGize Lifestyle Cafe*" [®] _{TM} trademark and to enjoy the benefits of that mark, the other Proprietary Marks, and the System; and to establish an "*NrGize Lifestyle Cafe*" franchise to be operated in accordance with System Standards set forth from time to time by us. System Standards are set forth in, without limitation, the confidential "ops package," which consists of the "operations manual" ("Operations Manual"), "ops toolkit," and related printed and electronic documents, both now existing and hereinafter developed (individually and collectively, "OperationsConfidential Manual"). We are willing to grant you the right to do so under the terms, conditions and provisions set forth in this Agreement, which includes any and all appendices, addenda, amendments, attachments and exhibits.

F. You recognize the necessity and desirability of protecting our reputation, goodwill, Trade Secrets, and other confidential business information; and that disclosure of Trade Secrets and confidential business information, including specifics of the System to any third-party, will cause irreparable damage and harm to us.

AGREEMENT:

The parties agree as follows:

ARTICLE 1. GRANT OF FRANCHISE; TERM; SYSTEM STANDARDS

1.1 Franchise Grant.

We hereby grant to you ~~an~~ a *NrGize Lifestyle Cafe* franchise that includes the right to use the System ("Franchised Business") as provided in this Agreement, at the following location:

Arena, Mall, Facility, or Center Name: _____
(if applicable)

Street Address: _____

City/State/Zip Code: _____ ("Location")

1.2 Location of the Franchised Business; No Exclusive Territory or Other Rights.

You must operate the Franchised Business only from the Location, including any catering services of *NrGize Lifestyle Cafe* menu items you provide. You acknowledge that the *NrGize Lifestyle Cafe* franchise granted under this Agreement is non-exclusive, that we are not granting you any territorial protection or any other exclusive rights, and that we, directly or through one (1) or more affiliates, reserve the right in our sole discretion, and without compensating you or seeking your prior approval: (i) to establish, and grant to other franchisees or licensees the right to establish, a *NrGize Lifestyle Cafe* restaurant or any other business using the Proprietary Marks, the *NrGize Lifestyle Cafe* System or any variation thereof, in any location other than the approved Location (including locations in the immediate vicinity of your Location), on any terms and conditions that we deem appropriate; (ii) to establish, and grant to other franchisees or licensees the right to establish, any restaurant concept other than *NrGize Lifestyle Cafe* in any location on any terms and conditions that we deem appropriate (including locations in the immediate vicinity of the Location); (iii) to sell products identified by the Proprietary Marks or other trademarks, service marks or commercial symbols in any location through any distribution channels, including grocery stores, convenience stores, supermarkets, club stores, vending machines, delivery services and restaurants other than *NrGize Lifestyle Cafe* restaurants; and (iv) to take any other action that we are not expressly prohibited from taking under this Agreement.

We hereby grant to you during the term of this Agreement, a non-exclusive right and license to operate a single restaurant at the Location only, according to the System Standards and subject to the terms, conditions and restrictions contained in this Agreement. This Agreement is limited to the operation of one ~~(1)~~ traditional restaurant, unless otherwise amended, and does not grant you the right to buy, own or operate additional restaurants.

Except as expressly limited in this Agreement, we (for ourselves and our affiliates and designees) retain all rights with respect to all Proprietary Marks and the sale of *NrGize Lifestyle Cafe* products anywhere in the world with no compensation or liability to you, including the right to:

a. Establish and operate (or license to any other person or entity the right to establish and operate) *NrGize Lifestyle Cafe* ~~stores~~restaurants owned or licensed by us at any location;

b. Develop, market, own, operate and participate in any other business under the Proprietary Marks or any other trademarks (including trademarks identified in the Uniform Franchise Disclosure Document ("Disclosure Document") and other trademarks we or our affiliates own or have the right to license);

c. Develop, lease and license the use of, at any location, trademarks other than the Proprietary Marks, in connection with the operation of a system that offers products or services

that are the same as, or similar to, those offered by us under this Agreement on any terms or conditions that we deem advisable, in our sole discretion;

d. Merge with, acquire or be acquired by any other business, including a business that competes with your Franchised Business, or acquire and convert any retail stores, including retail stores operated by competitors, or otherwise operated independently or as part of, or in association with, any other system or chain, whether franchised or corporate-owned;

e. Distribute, sell and license other persons or entities to distribute and sell products through all other channels of distribution, including catalog sales, telemarketing, grocery stores, warehouses, big box shops, specialty shops, limited access highway food facilities, vending machines and similar automated dispensing systems, mobile units, off-site sales accounts, electronic mail, Internet sales, and movie theaters (individually and collectively, "Other Channels"); and

f. Implement multi-area marketing programs that may allow us or others to solicit or sell to customers anywhere. We also reserve the right to issue mandatory policies to coordinate such multi-area marketing programs.

1.3 Term of Agreement.

~~This~~The term for this Agreement is for a single renewal term that will commence on the Effective Date and will expire on the ~~ten~~five (105) year anniversary of the Effective Date, unless terminated earlier in accordance with *Article 14* or any other provisions of this Agreement, ~~renewed in accordance with Article 13,~~ or transferred in accordance with *Article 12* ("Term").

1.4 System Standards.

You shall operate the restaurant in accordance with our standards, including the following:

- a. restaurant design, maintenance, health and safety and remodeling;
- b. types, models, brands and suppliers of required fixtures, furnishings, equipment, signs, materials and supplies;
- c. recipes and ingredients, menu items and menu design;
- d. cooperation with and participation in sales, marketing, advertising and promotional programs (including discount coupons, discount gift cards, special menu promotions, and entering into product and service agreements directly with third-party vendors and service providers as required by us) and materials and media used in those programs, including discontinued use and removal of promotional materials as directed by us;
- e. use and display of the Proprietary Marks;
- f. restaurant operations, including matters related to the management of the restaurant; training of your employees consistent with the System Standards; and commercial impression of the Franchised Business to the public;
- g. cooperation with and participation consistent with our responses and resolutions in response to customer feedback;
- h. cooperation with and participation in: (i) market research and testing; and (ii)

product and service development programs;

i. acceptance of our stored value gift cards, including gift cards sold at a discount, loyalty cards, frequency cards, gift certificates, vouchers, and any other similar electronic card and payment programs (individually and collectively, "Gift/Loyalty Card"), credit and debit cards, other payment systems, check verification services and use of point of sale computer systems; You agree to enter into a separate participation agreement with the approved vendor for data processing services;

j. bookkeeping, accounting, data processing and record keeping systems; computer hardware and software; connections to the Internet or to proprietary networks; forms, methods, formats, content and frequency of reports to us of Gross Sales (as defined in *Article 5*), financial performance and condition; and providing tax returns and other operating and financial information to us; and

k. conduct and maintain the Franchised Business and Location so as not to distract from or interfere with the integrity of the System (individually and collectively, "System Standards"). We may, in whole or in part, change, improve, update and further develop the System Standards, from time to time during the term. You shall comply with the updated System Standards as directed by us.

The operation and maintenance of your restaurant according to the System Standards are essential to the well-being and vitality of the System and to preserve the goodwill of the Proprietary Marks for us and for all other franchisees operating under the System. It is critical to the *NrGize Lifestyle Cafe* System for all restaurants operating under the *NrGize Lifestyle Cafe* System to present a uniform and professional image to *NrGize Lifestyle Cafe* customers regardless of which location the customer visits. Any information regarding the operation of the restaurant will be considered a mandatory System Standard, unless it is clear from the express language of our communication that the information is merely optional or is intended by us as a suggestion, rather than a requirement.

You agree that System Standards constitute binding provisions of this Agreement as if they were an integral part of this Agreement.

ARTICLE 2. SELECTION OF LOCATION; CONSTRUCTION AND RELOCATION

2.1 Location Selection Procedures.

You are ultimately responsible for the selection of the Location. We will not have any liability to you with respect to your selection of the Location, any assistance we provide you in making your selection, our recommendation of any location, or our allowing you to move forward on any location. You agree that your selection of the Location will be based on your own independent investigation of the suitability of the Location.

2.2 Lease and Purchase Approval.

If you intend to lease the Location for your Franchised Business, the lease will be subject to our prior limited review and acknowledgment so that we can confirm that certain lease terms are incorporated into the lease. You must provide us, at least thirty (30) days prior to executing the lease, a copy of the lease and details relating to square footage, rent per square foot, the term of the lease, and either confirmation that such other terms as we reasonably require are incorporated into the lease or that you and the landlord agree to incorporate the lease addendum

to lease agreement as an exhibit to the lease. You or your attorney shall be responsible for negotiating the terms of the lease, which shall be subject to our final limited review and acknowledgment. If you do not submit all of the required documents to us, we will not allow you to move forward with your lease. We have no liability to you regarding the terms or negotiations of the lease.

If, prior to executing the lease, you or your attorney request a full review of your lease, including any and all exhibits attached thereto, and we or our designated affiliate review your entire lease and exhibits and provide to you or your attorney its review of the entire lease and suggested changes to the lease ("Lease Review"), you must pay a Lease Review Fee (as defined in *Section 5.7*) to compensate for time and effort in reviewing the lease. The Lease Review is optional and only completed by us or our designated affiliate at your or your attorney's request. The Lease Review Fee is due only in the event that you or your attorney ~~requests~~request us or our affiliate to complete a Lease Review. Each lease must contain the required lease terms set forth in the Lease Addendum to Lease Agreement, and must specifically state that we are a third-party beneficiary of the lease. If we cure any default by you under the lease, any amounts that we pay to cure the default will be payable by you to us on demand, together with interest thereon, at the lesser rate of one and one-half percent (1½%) or the maximum rate that does not violate applicable state usury laws ("Default Rate") per month from the date we make such payment.

You acknowledge and agree that on the earlier of thirty (30) days after: (i) you receive a fully-~~executed~~ copy of your lease for the Location of your Franchised Business; or (ii) you open your Franchised Business to the public, you must provide a fully-executed copy of your lease for the Location to us. Failure to timely provide us with a fully-executed copy of the lease will result in a default under this Agreement.

If you intend to purchase the Location for your Franchised Business, the terms of such purchase shall be subject to our prior approval, and you must provide us, at least thirty (30) days prior to executing the purchase agreement, a copy of the purchase agreement and details relating to square footage, price per square foot and such other terms as we reasonably require.

You acknowledge and understand that our confirmation that you may move forward with any specific location, lease or purchase agreement does not in any way guarantee or ensure the success or profitability of the Franchised Business, or the conformity of the Location, lease or purchase agreement to applicable laws, and such confirmations are only for our own benefit.

2.3 Construction.

a. You must, at your sole cost and expense, construct, furnish, make improvements to and equip, if necessary, the Franchised Business at the Location selected by you and meeting our minimum site requirements, in accordance with plans and specifications approved by us or our third-party approved architect, if applicable. Our approval of plans is solely for complying with our System Standards, and not for determining compliance with codes, ordinances and other legal requirements, including the Americans with Disabilities Act ("ADA"). You are solely responsible for ensuring that your Location conforms to all codes and ordinances, including the ADA. You must, at your sole cost and expense, use our designated and approved third-party design architect ("Design Architect") to prepare the initial design drawings for any construction, alterations or improvements, as applicable, for your Franchised Business. The Design Architect must provide us with one (1) set of the design drawings, including landscaping and parking spaces if applicable, which are the detailed plans and specifications ("Plans") for your Franchised Business. We will provide you with a copy of the Plans upon our approval of the Plans. You must also, at your sole cost and expense, retain a licensed architect of record to prepare the permitted

construction set of drawings for any construction, alterations or improvements. The permitted construction set of drawings must be submitted to us for our files prior to the start of construction, alterations or improvements. In addition, you must obtain the appropriate construction documents, and all mechanical, plumbing, electrical and architectural plans must be sealed and stamped, as we may require, even if local laws in the jurisdiction where your restaurant is located do not require same.

b. Any material modifications to the approved Plans must be submitted to us for approval, and you will not undertake any construction, alterations or improvements until such modifications have been approved by us. Approval of such modifications does not constitute any representation by us of compliance with applicable zoning laws, building codes or other laws.

c. You will be solely responsible for the cost and expense of obtaining all necessary governmental construction permits and licenses, and you must, at your sole cost and expense, comply with all laws, zoning ordinances, rules and regulations of any governmental agencies that may govern any construction, alterations or improvements of the Franchised Business in accordance with the approved Plans. We will have the right, but are not required, to meet with the Design Architect and to inspect any construction, alterations or improvements during its course to ensure that the provisions of this *Section 2.3* are being observed; and you agree to allow our authorized representatives, at any and all times while construction, alterations or improvements are in progress, to meet with the licensed architect and general contractor and enter onto the Location for this purpose. If we determine in good faith that the provisions of this *Section 2.3* are not being observed, you will, at your sole cost and expense, immediately take all necessary corrective action.

d. You must, at your sole cost and expense, use a general contractor that is licensed, and if applicable, registered in the state and local jurisdiction where your restaurant is located for any and all construction, alterations and improvements. The general contractor must have prior experience in the construction, alterations and improvement of quick-service restaurants.

e. You acknowledge that the design and appearance of the *NrGize Lifestyle Cafe* restaurant is part of the System, and that uniformity is essential to the System. Therefore, you agree that after the restaurant has been constructed, altered or improved, you will not make any material changes to the building plan or design or its appearance without our prior written consent, and you will, at your sole cost and expense, maintain the interior and exterior ~~decor~~décor of the restaurant in a first class condition and in such manner as we may reasonably prescribe from time to time. In addition to any remodeling required by us upon the transfer of the Franchised Business and upon the granting of a successor term to operate the Franchised Business, as set forth in *Articles 12 and 13*, respectively, you will, upon thirty (30) days' prior notice from us, and at your sole cost and expense, remodel and make all alterations and improvements ~~and alterations~~ in and to your Franchised Business as reasonably determined by us to reflect the then-current *NrGize Lifestyle Cafe* System specifications, standards, format, image and appearance.

f. You must submit to us a certificate of occupancy for your Franchised Business at any time upon our request.

2.4 Signage.

You will acquire, repair and replace, as necessary, and maintain in a first class condition throughout the Term, signs for advertising and identifying the Franchised Business as ~~an~~a *NrGize Lifestyle Cafe* restaurant. All signs must be in accordance with the System Standards,

specifications and any local governing body (i.e., city or county governments), as well as any other applicable laws, including the Americans with Disabilities Act ("ADA"), and exterior signage must be the maximum size allowed by the landlord and local governing body. You acknowledge that quality control is essential to protect and promote our Proprietary Marks, standards, and uniform image, and you shall acquire all signs only from approved suppliers. In addition, you shall prominently display on all communications, forms, advertising, business stationery and business cards, and in a sign easily visible to consumers at the Franchised Business, the following words: "INDEPENDENTLY OWNED AND OPERATED."

2.5 Relocation.

a. If you desire to relocate the Franchised Business, you may request our consent upon the following conditions:

(i) Not less than sixty (60) days prior to the desired date of relocation (unless prior notice is impractical because of a required relocation, due to a third-party or our request, in which event notice shall be made as soon as possible), you must make a written request for consent to relocate, describing the reasons for the relocation and providing details respecting any proposed new location.

(ii) Within twenty-one (21) days after receiving your written request, we shall advise you in writing if the proposed new location meets our minimum real estate site requirements as provided in *Section 2.1* and if you have our authorization to proceed with the relocation. In the event of our denial to proceed with the relocation, you may request an alternative proposed new location pursuant to the provisions of this *Section 2.5*.

(iii) The Term will not be extended in connection with the requested relocation.

b. At the time you request to relocate the Franchised Business, you must also meet each of the following requirements:

(i) You must not be in default under this Agreement or any other agreement or note then in effect between us or you and any affiliate of ours, and no event shall have occurred that, with the giving of notice, the passage of time, or both, would constitute a default under this Agreement;

(ii) You must neither have received more than three (3) notices of default or breach during the Term; nor more than two (2) notices of default or breach during the five (5) years immediately preceding the effective date of the proposed relocation;

(iii) The equipment, fixtures and signage used in connection with the operation of the Franchised Business must either meet our then-existing System specifications and System Standards, or you must agree, within a timeframe required by us, to replace or refurbish such items, and otherwise modify the methods of operation of the Franchised Business at your cost and expense, in order to comply with our System specifications and System Standards then applicable to new franchise owners; and

(iv) You shall have paid to us ~~the~~a Relocation Fee (as defined in *Section 5.14*).

c. If we approve the relocation of your Franchised Business, (i) you and we must execute an amendment to this Agreement indicating the address for your relocated Franchised Business, and (ii) you must open your Franchised Business at the new location within ninety

(90) days after you close your Franchised Business at the current Location. During the period of time between the closure of your Franchised Business at the current Location, and the opening of the Franchised Business at the approved relocation address, you will not owe the Royalty Fee (as defined in *Section 5.2*).

2.6 Restricted Use of Restaurant Location.

You may not wholly or partially sublet the Location without our prior written consent. The Location may be used only for the operation of ~~an~~ NrGize Lifestyle Cafe restaurant in compliance with this Agreement and the System Standards. You shall not conduct other businesses or activities at the Location without our prior written consent.

2.7 Not Applicable.

ARTICLE 3. OPERATIONS

3.1 Not Applicable.

3.2 Supplies and Promotional Materials; Rollouts.

You agree to sell only those menu items, products and services authorized under the terms of this Agreement and as specified in the OperationsConfidential Manual, and you shall use only supplies and ingredients in making those menu items that are in compliance with the standards as set forth in the OperationsConfidential Manual or other documents provided by, or approved by, us as they presently exist or may exist in the future. You shall purchase all such services, supplies and ingredients only from approved vendors and utilize approved distributor(s) as specified in the documents provided by, or approved by, us as they presently exist or may exist in the future. You must purchase promotional materials containing the Proprietary Marks, including stationery, business cards, promotional and advertising materials and similar items, from suppliers approved by us, except that we must first approve all such promotional and advertising materials before you use them, and all such printed materials containing any of the Proprietary Marks shall be accompanied by the words "INDEPENDENTLY OWNED AND OPERATED." Additionally, during the Term, you agree to participate in any Rollout of new products and suppliers, as defined in *Section 9.3*.

3.3 Fixtures, Furnishings, and Equipment.

Unless otherwise approved by us in writing, you will: (1) acquire, repair and replace, as necessary, and maintain in a first class condition throughout the Term, fixtures, furnishings, and equipment to be used in the operation of your Franchised Business that is in accordance with the System Standards ~~and~~ specifications set forth by us in the OperationsConfidential Manual or other documents provided by, or approved by, us as they presently exist or may exist in the future, and with applicable laws including, without limitation, including the Americans with Disabilities Act ("ADA"); and (2) procure the fixtures, furnishings, and equipment from suppliers or vendors previously approved in writing by us.

3.4 Online Presence.

You may not maintain a website, software application, an App (application), social media account (including an account, group or page on Facebook®, Flickr®, Foursquare®, Google+®, Instagram®, LinkedIn®, Pinterest®, Snapchat®, Tumblr®, Twitter®, YouTube®, Vine®, VKontakte or Weibo®), or otherwise maintain a presence or advertise on the Internet or any other public

computer network (individually and collectively, "Site") in connection with the Franchised Business without our prior written approval, which we may withhold in our sole discretion. If we grant you written approval, you agree to submit to us for approval before use, true and correct printouts, of all Site pages you propose to use in connection with the Franchised Business. You understand and agree that our right of approval of all such Site pages is necessitated by the fact that such Site pages will include and be inextricably linked with our Proprietary Marks. If we approve your use of a Site, you may only use Site pages that we have approved. Your Site must conform to all of online presence requirements, policies and procedures per our System Standards. You agree to provide all information regarding your online presence that we require. If we grant approval for a Site, you may not use any of the Proprietary Marks on the Site except as we expressly permit. You may not post any of our proprietary, confidential or copyrighted material or information on the Site without our prior written permission. If you wish to modify your approved Site, all proposed modifications must also receive our prior written approval. You explicitly understand that you may not post on any Site (whether yours or someone else's) any material in which a third-party has any direct or indirect ownership interest (including video clips, photographs, sound bites, copyrighted text, trademarks or service marks, or any other text or image which any third-party may claim intellectual property or other rights in). If we grant approval, you agree to list on the Site any website and social media account maintained by us, and any other information we require in the manner we dictate. You agree to obtain our prior written approval for any Internet domain name, home page address and Uniform Resource Locator. The requirement for our prior approval set forth in this *Section 3.4* will apply to all activities on the Internet or other communications network to be conducted by you, except that you may maintain one (1) or more email-mail addresses and may conduct individual email-mail communications without our prior written approval. You agree to obtain our prior approval as provided above if you propose to send advertising to multiple addressees via email-mail or text

messages. You may not use a Site to represent that: (1) the Site is an official account, application, page or group of, or video produced by us; or (2) you are the owner of the *NrGize Lifestyle Cafe* brand. On any Site you use in connection with the Franchised Business, you must affirmatively state: (a) that you are a franchisee and the opinion and content being expressed are your own and not that of the *NrGize Lifestyle Cafe* brand; and (b) the Location of your Franchised Business.

3.5 Not Applicable.

ARTICLE 4. TRAINING, ASSISTANCE AND START-UP MATERIALS

4.1 Training Program.

The training program is made up of the "In-Store Training," which is approximately ~~two(2)~~ days~~sixteen (16) hours~~, and "New Owner Training," which is approximately ~~five~~forty (540) ~~days~~hours (collectively, "Training Program"). You will be solely responsible for all transportation costs, food, lodging and other personal expenses incurred by you and your employees in connection with the Training Program. The New Owner Training will be conducted at the ~~Kahala Training and Education Center~~Franchisor training and education center in Scottsdale, Arizona and the In-Store Training will be conducted at a training store in Arizona or such other location as we may designate at our sole discretion. You acknowledge that adequate knowledge regarding the operation of the Franchised Business is essential to the growth of your franchise and to the promotion of the System. Notwithstanding the foregoing, Franchisor has the right to require Franchisee and/or its manager(s) to attend additional In-Store Training (as defined below), as provided for in this Section 4.1, in the event Franchisee is not operating the Franchised Business pursuant to Franchisor's Systems Standards. Notwithstanding the foregoing, because Franchisee has prior experience in the food service industry, and in particular with the operation of a *NrGize*

Lifestyle Cafe restaurant, Franchisor hereby waives the requirement for Franchisee to attend and successfully complete the Training Program at the time Franchisee executes this Agreement. Franchisor and Franchisee hereby agree that Franchisor has no obligation to provide the Training Program to Franchisee, or any persons who have an ownership interest in the Franchised Business, prior to, or in connection with Franchisee's continuing operations of the Franchised Business. Franchisee understands and agrees that the foregoing waiver is not a permanent waiver by Franchisor and Franchisor does not waive and hereby reserves the right to require Franchisee to later attend and successfully complete any training as may be prescribed by Franchisor at any time during the Term. Furthermore, Franchisor has the right to require Franchisee and/or its manager(s) to attend additional In- Store Training, as provided for in this ~~Section~~ and Section 5.9.4.1, in the event Franchisee is not operating the Franchised Business pursuant to Franchisor's Systems Standards.

4.2 Employee Training.

You acknowledge that the employees of your *NrGize Lifestyle Cafe* Franchised Business are an integral and important part of the Franchised Business, as they will have substantial contact with customers. You alone are responsible, and acknowledge that we have no direct or indirect control and no right or authority, for the hiring, firing, training, supervising, setting the terms and conditions of employment (including employee tasks and work schedules) ~~and~~, compensation of your employees, or maintaining employment records; ~~for~~ for the safety of your employees and for your employees' compliance with the System Standards. The System Standards are in place to protect our interests in the System and not for exercising any control over you, your employees or your Franchised Business. You must ensure that your employees who have direct interaction with the public are able to speak and read English and any other language that may be required to adequately meet the public needs in your Franchised Business.

4.3 Additional Programs; Continuing Assistance.

We may, in the future, request that you participate in refresher or additional training programs. We may also hold an annual conference to introduce new products, discuss sales and marketing techniques, personnel training, advertising programs, merchandising procedures and other subjects. You may be charged a nominal registration fee for these programs; and you will be solely responsible for the cost of transportation, food, lodging and other expenses incurred by you at any such program. Attendance at these additional training programs and conferences is mandatory. They will be held in the metropolitan Phoenix, Arizona area, or at other locations in the United States chosen by us, at our sole discretion.

We shall provide such periodic evaluations or inspections as we deem appropriate, utilizing our field representatives who may visit the Franchised Business from time to time. The frequency and duration of such visits to a Franchised Business by our representatives shall be in our sole discretion. Any such evaluation or inspection is not intended to exercise any control over your employees or the daily operation of your Franchised Business. In addition, we will be available on an ongoing basis at our offices for consultation and guidance with respect to the operation and management of the Franchised Business. In addition to the Operations Manual, we may, but are not required to, from time to time; provide you with additional materials relating to the Franchised Business.

4.4 Area Representatives.

We may retain the services of an independent third-party area representative ("Area

Representative") to represent us in the area in which the restaurant is located and perform some or all of the services we provide under this Agreement. The services the Area Representative may perform could include: (i) assistance in location selection and evaluating and confirming that the Location meets our minimum site requirements; (ii) advice and guidance regarding lease negotiations; (iii) assistance in opening new *NrGize Lifestyle Cafe* locations; (iv) assistance with training on the approved POS System (as defined in *Section 4.6a.*); (v) assistance with marketing advice; (vi) periodic Quality Service Cleanliness and Experience ("QSCE") evaluations; (vii) assistance with collection of the various sums due to us from *NrGize Lifestyle Cafe* franchisees; and (viii) coordination with other *NrGize Lifestyle Cafe* franchisees in your area and general supervision and monitoring of your Franchised Business on our behalf. You agree in advance to our delegation to an Area Representative of some or all of our obligations, and assignment to an Area Representative of some or all of our rights, under this Agreement. You agree that we may require you to submit to an Area Representative any reports you are required to submit to us. Upon our request, you will provide the Area Representative with access, inspection and audit rights to the same extent we have those rights under this Agreement. You are not a third-party beneficiary of any agreement between us and any Area Representative. If we have designated an Area Representative for your restaurant as of the Effective Date, the name and contact information of the Area Representative is shown in *Section 17.3h*. We reserve the right in our sole discretion to remove any Area Representative in your area at any time and to appoint any other Area Representative for your area. We have no obligation to appoint an Area Representative in the area in which your restaurant is located, and we have no obligation to appoint a new Area Representative after we have removed an Area Representative.

You acknowledge that Area Representatives and their owners and employees may not contractually bind us without our express written authorization. You further acknowledge no Area Representative has the authority to: (i) enter into agreements or execute any agreements on our behalf; or (ii) bind us in any way without our prior written consent. Unless expressly authorized and agreed to by us in writing, we disavow any agreements, whether verbal or written, entered into by an Area Representative that in any way attempts to bind us. In any litigation or arbitration proceeding, you agree to waive any claim or defense that an Area Representative is our express or implied agent and such an assertion by you constitutes a material default under this Agreement.

4.5 Confidential-~~Operations~~ Manual.

To protect the reputation and goodwill of the System and to maintain the uniform standards of operation under the Proprietary Marks, you must conduct your business in accordance with our ~~Operations Manual~~Confidential Manual. The Confidential Manual is confidential and remains our property.

A new Operations Manual will be sent to Franchisee within approximately six (6) weeks of the Effective Date.

So that you may benefit from new knowledge gained by us as to improved techniques in the operation of the Franchised Business, we may from time to time revise, amend, restate or supplement the content of the ~~Operations Manual~~Confidential Manual or other documents provided by, or approved by, us as they presently exist or may exist in the future. You will at all times ensure that your copy of the ~~Operations~~Confidential Manual is kept current and up to date. In the event of a dispute regarding the content of the ~~Operations~~Confidential Manual, the master copy maintained by us at our corporate office will control.

4.6 Computer Systems; Debit and Credit Card Processing.

a. You are required to acquire, as necessary, to maintain, and to exclusively use an approved cash register/computer system (“POS System”) during the operation of the Franchised Business. You and your employees must complete training for the POS System as we require, and you will be required to use the POS System to produce sales reports, keep inventory control and post sales tax, refunds, credits and allowances and submit that information to us immediately upon our request. You are required to obtain DSL/high-speed Internet connection service for your POS System. If neither DSL nor cable is available in your area, dial-up Internet access may be used until DSL or cable service becomes available in your area. The POS System must be configured so that we will have remote access to the information and data stored in the POS System, which may include inventory information. This access will allow us to exchange/collect data and other information on such bases as we will communicate to you from time to time. You will be required to maintain the POS System in good working order at all times, and to upgrade or update the POS System during the Term as we may require from time to time. It will be your responsibility to enter into contracts for the maintenance, upgrades and updates to the POS System with an approved supplier of such services identified by us on the list of approved vendors and distributors or other notification to you from us advising of suppliers for your market area. You shall also be required to own a personal computer or similar device with access to the Internet that allows you to report your Gross Sales (as defined in *Section 5.2*) online ~~and send and receive emails with us, send and receive e-mails with us, and receive online orders. If implemented by us, all NrGize Lifestyle Cafe franchisees of traditional restaurants will be required to participate in an online ordering program.~~ We may provide specifications that you must follow for the hardware, software, and Internet provider for such computer equipment. We may require you to upgrade the hardware and software as reasonably necessary to provide reports and information required by us.

b. You are required to accept debit and credit cards and Gift/Loyalty Cards from consumers at the Franchised Business. You are required to acquire, as necessary, and to maintain an approved debit, credit and Gift/Loyalty Card processing system to use during the operation of the Franchised Business. Additionally, you must utilize our approved third-party Gift/Loyalty payment card processor for processing all such ~~debit, credit, rewards, and~~ Gift/Loyalty Card transactions, including entering into a Gift Card Participation Agreement with ~~KGC, LLC one of our affiliates,~~ or its successors or assigns, or other approved vendor for the Gift/Loyalty Card processing services. The Payment Card Industry (“PCI”) requires all companies that process, store, or transmit credit card information to protect the cardholders’ information by complying with the PCI Data Security Standard (“PCI DSS”). Therefore, as a franchisee who accepts credit cards, you are required to be PCI compliant by following and adhering to PCI DSS, which includes ensuring that your POS System, back office computer (if supplied), and any other device that is plugged into the network is **only** used for business purposes. You are also required to complete an annual questionnaire and quarterly network PCI scans and install a network firewall appliance for logging, tracking, reporting, and security assessment. You are also required to validate with Franchisor that your store is PCI compliant. To show such validation you must send us your Passing Certificate showing your store is PCI compliant. You are also required to verify that you have a PCI compliant firewall appliance installed at your location if you process credit cards via high speed internet connectivity. We require your Franchised Business’ POS System, including terminals, computers, and software to be in compliance with the PCI DSS at all times. The PCI DSS is often updated, and you are required to obtain and comply with all updated standards. You must also be PCI compliant in order to obtain cyber liability/data breach insurance coverage.

ARTICLE 5. FEES AND DEPOSITS

You agree to pay each of the following amounts to us via a lump sum, with each and every amount being non-refundable because of our investment in time and money, in addition to any other benefits conferred upon you, including processing your application, reviewing your documents, and providing you with relevant information, unless otherwise expressly specified below, in accordance with the provisions set forth in this *Article 5*. Notwithstanding your designation to the contrary, we have the sole discretion to apply any of your payments, in part or in whole, to any of your indebtedness to us.

5.1 Not Applicable.

5.2 Royalty Fee and Surcharge.

For the period of time commencing on the later of the Effective Date or the date the Franchised Business opens to the public until the end of the first six (6) months your store is opened to the public, you must pay to us a weekly royalty fee equal to six percent (6%) of total Gross Sales (as defined below); and for the period of time commencing on the first day of the seventh month after your store opened to the public, ~~and for the duration of the Term,~~ you must pay to us a weekly royalty fee equal to the greater of the following: (i) six percent (6%) of total Gross Sales (as defined below); or (ii) One Hundred Fifty Dollars (\$150) ("Royalty Fee"). If we or the landlord of the Location require you to remodel your Franchised Business in such a way that your Franchised Business (including catering) stops offering items to the public, or if there is a disaster at your Franchised Business, such as a fire, flood or damage caused by an act of God, that requires you to temporarily close your Franchised Business, you are not required to pay the Royalty Fee during the period of time of such temporary closure; provided you provide us or our authorized representative with notice of such temporary closure as soon as reasonably possible, but in no event more than twenty-four (24) hours after such closure begins. Notwithstanding the above, all amounts owed to us under this Agreement prior to the temporary closure shall still be fully due and payable. The temporary closure of your Franchised Business shall not exceed ninety ~~(90)~~ (90) days, but may be extended on a case-by-case basis at our sole discretion and with our prior written approval.

In our sole discretion, we may charge, in addition to the Royalty Fee, a surcharge of up to Ten Dollars (\$10) per week if your Franchised Business is located in a state that imposes additional reporting requirements on a franchisor ("Surcharge"). The Royalty Fee and applicable Surcharge shall be due and payable no later than Thursday of each week, which day may be modified by us without prior notice to or approval from you, for the week ending on the preceding Sunday in which applicable Gross Sales (as defined below) were earned from the Franchised Business. The weekly Royalty Fee and applicable Surcharge shall be paid by electronic funds transfer, as detailed below.

For the period of time commencing on the later of the Effective Date or the date the Franchised Business opens to the public, and for the duration of the Term, you are required to report Gross Sales to our designated accounting office via the Internet at <http://franchisee.kahalamgmt.com> ~~http://franchisee.kahalamgmt.com~~, as set forth in *Section 5.6*. You shall be required to establish a Depository Account (as defined in *Section 5.6*) at the time you execute this Agreement as set forth in *Section 5.6*. Payment of the Royalty Fee, Advertising Fee (as defined in Section 5.3), and all other fees due under this Agreement to us shall be made via electronic transfer of funds from the Depository Account. To accomplish this electronic transfer of

funds from the Depository Account, you must complete, sign and deliver to us, and maintain for the duration of the Term, a current Electronic Funds Transfer Authorization in a form that we provide.

As used in this Agreement, "Gross Sales" means all sales, money or things of value, received or receivable, directly or indirectly, by Franchisee on account of the Franchised Business, less applicable sales taxes and any properly documented refunds, credits and allowances given by you to customers in accordance with the System Standards, but without deducting any of your income taxes, costs and other expenses. All sales made from catering services must be included in the Gross Sales.

5.3 Advertising Fee.

a. Not ~~Applicable~~applicable.

b. You must pay to us, or directly into a national advertising fund or also any regional advertising funds, as designated by us at our sole discretion, (individually and collectively, "Advertising Fund") a weekly advertising fee of one half of one percent (0.5%) of the Gross Sales for the preceding week ("Advertising Fee"). Upon thirty (30) days' notice by us to you, we may unilaterally increase the Advertising Fee from its current level, not to exceed four percent (4%) of your weekly Gross Sales. The Advertising Fee shall be due and payable with the Royalty Fee under *Section 5.2*. The Advertising Fee is our property and may be deposited by us into our general operating account.

c. The Advertising Funds will be used for marketing, advertising, production and media expenses to promote the *NrGize Lifestyle Cafe* name, System, products and services. We are entitled to deduct, free of charge, the following from the Advertising Fund: (i) reimbursement of expenses, overhead, and employee salaries for services provided; and (ii) rent for office space provided to the Advertising Fund. We have no fiduciary obligation to you in connection with the operation of any Advertising Fund. No interest on an unexpended Advertising Fee shall be imputed or otherwise charged for the benefit of, or payable to, you. You understand and agree that the only obligations we have regarding the collection and spending of the Advertising Fee or the administration of the Advertising Fund are the express contractual obligations in this *Section 5.3*. We are not acting as a trustee, fiduciary, agent or in any other special capacity. We do not give any representation or warranty regarding the quality or effectiveness of the advertising and marketing activities funded by the Advertising Fee or of the Advertising Fund, and we will have no liability to you with respect to how these funds are spent.

d. Your own local marketing and advertising should be developed to maximize your particular customer base.

5.4 Not Applicable.

5.5 Not Applicable.

5.6 Depository Account; Payment Procedures.

As of the Effective Date, you are required to maintain for the duration of the Term a depository account ("Depository Account") at a bank or other federally insured financial institution ("Depository"). You are required to maintain a balance of at least Three Thousand Dollars (\$3,000) in the Depository Account at all times during the Term by replenishing the Depository Account to at minimum Three Thousand Dollars (\$3,000) after any withdrawals. We shall not be

responsible for any bank service charges incurred by you which result from the withdrawal of funds from your Depository Account.

On ~~Monday~~Tuesday of each week, you must submit a report to us regarding the weekly period which ended on the preceding Sunday, including details on Gross Sales and other statistical data as provided in this Agreement, ~~Operations~~Confidential Manual, or as otherwise specified from time to time by us. We will withdraw funds electronically on Thursday of each week from the Depository Account. The withdrawals are based upon the figures you report and constitute the Royalty Fee and Advertising Fee as described in *Sections 5.2 and 5.3*. If you do not submit a report on any Monday, we may estimate the Royalty Fee and Advertising Fee based upon prior reports and withdraw the estimated amounts up to the entire Three Thousand Dollars (\$3,000). We will return or credit back to you, in our sole discretion, any overage within thirty (30) days after our receipt of your report(s). We shall not be responsible to you for any interest charges for any overage collected due to your failure to timely report your sales. You shall instruct the Depository to disburse each week to our designated bank, via electronic funds transfer by the close of business on Thursday~~-of each week~~ (or preceding banking business day, if Thursday is a bank holiday), the weekly Royalty Fee and Advertising Fee and other fees due for that week, which week shall end on the preceding Sunday.

We will also withdraw the monthly POS Help Desk Phone Support Maintenance Fee (as defined in *Section 5.20*) from the Depository Account on the last Thursday of each month. Under no circumstances shall such access to the Depository Account be deemed control or joint control of the Depository Account by us.

Subject to reasonable advance notice for non-recurring payment amounts, we have the right to debit your Depository Account, or any other depository account you have with us, according to the terms of your Electronic Funds Transfer Authorization for any of the payments described in this *Article 5*. If you do not pay all amounts due by the due date, we may suspend our and our affiliates' services and support until your payment default is cured. Repeated failure to pay all amounts when due, whether or not the defaults are subsequently cured, may be cause for termination under *Article 14*.

You shall pay us Fifty Dollars (\$50) for each electronic funds transfer attempted from your Depository Account pursuant to this *Section 5.6* that is returned for non-sufficient funds. You shall also reimburse us for all other costs and expenses incurred by us in collecting or attempting to collect funds due to us from the Depository Account (for example, without limitation, charges for non-sufficient funds, uncollected funds or other discrepancies in deposits or maintenance of the Depository Account balance in accordance with the terms hereof). The Depository Account shall be established and maintained solely for the purposes set forth in this *Section 5.6* and any other fees authorized under this Agreement and any other agreements between you and us or any of our affiliates.

5.7 Lease Review Fee.

If you request us or one of our designated affiliates to complete a Lease Review, you are required to pay us or our designated affiliate a lease review fee in the amount of ~~One~~Two Thousand ~~Two~~Five Hundred ~~Fifty~~ Dollars (\$~~1,250~~2,500) ("Lease Review Fee") for reviewing and providing comments to your proposed lease.

5.8 Lease Guarantee Fee.

If, in order to obtain the lease agreement for the Location of your Franchised Business, the

landlord requires you to obtain a lease guarantee, and we or one of our affiliates agree to serve as such guarantor, you will pay us or our affiliate a fee in the amount of ten percent (10%) of the total amount of the rental obligations being guaranteed under the lease during its term up to a maximum fee of Ten Thousand Dollars (\$10,000) ("Lease Guarantee Fee"). The Lease Guarantee Fee will be due and payable upon our or our affiliate's execution of the applicable lease guarantee agreement with the landlord. Neither we nor any of our affiliates are required to serve as a guarantor of your lease for the Location of your Franchised Business; rather, the decision of whether to serve as a guarantor shall be made in our sole discretion. In the event that you request us or our affiliate to either agree to be the tenant under the lease or execute a separate guarantee to the lease, and you pay the required Lease Guarantee Fee, you agree and acknowledge that payment of the Lease Guarantee Fee shall not, in any manner, be deemed as an insurance policy which limits your liability in connection with the Franchised Business, including any and all financial liability under the sublease or lease related to the Location. You further agree and acknowledge that our or our affiliate's agreement to act as tenant or guarantor under the lease, and your payment of the Lease Guarantee Fee to us, or our affiliate, does not result in the assumption or transfer of your liability, in connection with the Franchised Business, by or to us or our affiliate.

5.9 Not Applicable.

5.10 Additional Training Fee.

If you desire to receive additional training, we will provide additional training time to you for a fee of Three Hundred Dollars (\$300) per person per day. Such additional training will be at a time reasonably agreed to by you and us, and will be conducted at Franchisor's headquarters, or such other location as we may designate in our sole discretion. You will be solely responsible for all transportation costs and expenses, food, lodging and other personal costs and expenses incurred by you and your employees in connection with this additional training.

5.11 Document Administration Fee.

A document administration fee of Five Hundred Dollars (\$500) ("Document Administration Fee") is payable to us when we must prepare an amendment to your franchise documents (see *Section 12.3g.*).

5.12 Not Applicable.

5.13 Transfer Franchise Fee.

a. Not applicable.

b. A Potential Transferee (as defined in *Section 12.1c.*) receiving this Agreement, as may be amended, in connection with a Full Transfer (as defined in *Section 12.1a.1.*), must pay to us a transfer franchise fee of Seven Thousand Five Hundred Dollars (\$7,500) ("Transfer Franchise Fee").

5.14 Relocation Fee.

A relocation fee of Five Hundred Dollars (\$500) ("Relocation Fee") is payable to us when you sign the amendment to ~~this~~your Franchise Agreement for your relocation (see *Section 2.5*).

5.15 Transfer Training Fee.

A Potential Transferee receiving this Agreement, as may be amended, in connection with a Full Transfer, must pay to us, in addition to the Transfer Franchise Fee, a transfer training fee of Two Thousand Five Hundred Dollars (\$2,500) ("Transfer Training Fee"). The Transfer Training Fee is used to provide training for two (2) individuals, and a fee of Five Hundred Dollars (\$500) will be charged for each additional individual trained over two (2).

5.16 Annual Meeting Registration Fee.

If we hold an annual meeting ("Meeting"), the Meeting may be held at various locations throughout the United States as we may designate in our sole discretion. Because the planning and funding of the Meeting must be done well in advance and requires a substantial financial commitment, we have the right to debit your Depository Account for up to One Thousand Dollars (\$1,000) for the Meeting registration fee at any time sixty (60) to ~~ninety~~ ninety (90) days prior to the first day of the Meeting. This fee may be debited from your account (even if you do not attend the Meeting). If you do not attend the Meeting, we will make available to you one (1) full set of the substantive materials that were presented at the Meeting.

5.17 Late Report, Default and Non-Sufficient Funds Fees, Breaching Royalties and Collection Costs and Expenses.

If you fail to submit to us any financial statements, forms, reports or records required to be provided under this Agreement by its due date, including your weekly Gross Sales report for calculating your Royalty Fee and Advertising Fee, you must pay to us a non-refundable late report charge of One Hundred Dollars (\$100) per report.

If any fees or assessments due under this Agreement, including the Royalty Fee and Advertising Fee, are not paid when due, interest shall accrue on the late payment (from the date payment is due until the date it is paid) at the Default Rate or the maximum legal interest rate (whichever is higher), which amount, plus a Fifty Dollar (\$50) late fee, shall be added to each late payment. For any payments made by you to us under this Agreement which are returned for non-sufficient funds of a processed check, you shall be charged a non-sufficient funds fee of Twenty-Five Dollars (\$25) per occurrence. Pursuant to *Section 5.6*, for each electronic funds transfer that is attempted from the Depository Account but returned for non-sufficient funds, you shall be charged a non-sufficient funds fee of Fifty Dollars (\$50) per occurrence.

~~The Royalty Fee may, in our sole discretion, Franchisor has the absolute right to charge Franchisee the greater of: three (3) times the fixed Royalty fee; or, if on a percentage Royalty fee the Royalties will~~ be increased up to eighteen percent (18%) of Gross Sales, with respect to any period during which ~~you are~~ Franchisee is in breach or default of ~~your~~ its/his/her obligations under this Agreement. ~~(The Royalty Fee Royalties paid or owing to us Franchisor with respect to the period during which you are Franchisee is in breach or default is are referred to as "Breaching Royalties.")~~ Breaching Royalties will be charged for a minimum fourteen (14) day period, regardless of the length of the actual breach or default.

If, as a result of your failure to remit payments required under any provision of this Agreement, we retain an attorney or a collection agency to collect such payments, you must pay all collection costs and expenses, including reasonable attorneys' fees and expenses, whether or not legal proceedings are initiated. Our rights under this *Section 5.17* are in addition to any other rights or remedies that we may have as a result of your default under this Agreement.

5.18 Audit Fees.

For the purpose of this *Section 5.18*, we have the right, at any time during business hours, and with or without prior notice to you, to inspect and audit, or cause to be inspected and audited, the business records, cash control devices, bookkeeping and accounting records, sales and income tax records and returns and other records of the Franchised Business and your entity's books and records.

You hereby grant us access to any computers utilized by you for such purposes and we will have the ability, at all times, via modem, to obtain daily and weekly sales reports and other financial records that the POS System provides. You will fully cooperate with our representatives, the Area Representative, if applicable, and independent accountants hired by us to conduct any such inspection or audit. In addition, in the event such inspection or audit is made necessary by your failure to furnish reports, supporting records or other information, as required herein, or to furnish such reports, records or information on a timely basis, or if an understatement of Gross Sales, resulting in an underpayment of the Royalty Fee or Advertising Fee for the period of any audit (which shall not be for less than one (1) month) is determined by any such audit or inspection to be five percent (5%) or greater, you will pay to us, immediately after receipt of the inspection or audit report, any additional Royalty Fee and Advertising Fee and other amounts due as a result of any such understatement, plus interest at the Default Rate from the date originally due until the date of payment and you must reimburse us for such audit or inspection, including the charges of any independent accountants, and the travel expenses, room, board and compensation of such accountants and our employees.

The remedies in this *Section 5.18* will be in addition to all other remedies and rights available to us under this Agreement or otherwise available.

5.19 Data Fee.

We may require you to pay us or a third-party we designate a data fee of up to Seventy-Five Dollars (\$75) per month for polling or collecting data from your POS System.

5.20 POS Help Desk Phone Support Maintenance Service Fee.

You must purchase from us a help desk phone support maintenance service that covers phone support for both the software and hardware of your POS System that is supported by the help desk, the cost of which is currently Fifty-Five Dollars (\$55) monthly, and subject to increase upon thirty (30) days' notice ("POS Help Desk Phone Support Maintenance Service Fee"). The POS Help Desk Phone Support Maintenance Service Fee shall be paid by electronic funds transfer, as detailed in *Section 5.6*, and debited from your account on the last Thursday of each month.

5.21 New Supplier Approval Fee.

All requests for approving new or alternative suppliers must be submitted in writing by you or the supplier to our Purchasing Department. Each request will be reviewed in accordance with our then-current procedures and the supplier must meet our then-current requirements, which may include that our representatives be allowed to inspect the facilities of the proposed supplier, and that samples from the proposed supplier be delivered, at no charge, either to us or to our designee for testing. A charge not to exceed the amounts incurred in connection with the inspection and the test, with such cumulative amount not to exceed Five Thousand Dollars (\$5,000), must be paid to us either by you or by the proposed supplier. If approved, in our sole discretion, we will notify you or the supplier in writing within sixty (60) days after our receipt of an

approval request. You must not offer or sell in any manner any of the proposed alternative supplier's products until you receive our written approval of the proposed alternative supplier.

~~5.22~~ Early Termination Fee.

~~If you stop operating your Franchised Business before this Agreement expires, with or without obtaining our prior written consent, or in the event of a termination arising from or related to your default under this Agreement, you must pay us an early termination fee ("Early Termination Fee") for breaching your Agreement. The payment of an Early Termination Fee is not in lieu of other damages and does not constitute a release of the obligations to us. The amount of the Early Termination Fee is calculated as follows:~~

~~a. Compute the average monthly Royalty Fee and Advertising Fee due for any consecutive twelve (12) month period within the forty-eight (48) months immediately preceding the date we receive notification of the closure, or if you failed to timely notify us of the closure then the date the Franchise Business closed, or, if the Franchised Business has been open for less than twelve (12) months, the average monthly Royalty Fee and Advertising Fee due since the opening of the Franchised Business ("Monthly Average");~~

~~b. Multiply the Monthly Average by the number of months remaining in the Term; and~~

~~c. Divide the resulting total computed in b. above by two (2).~~

~~For example purposes only: If the average monthly Royalty Fee and Advertising Fee were collectively \$1,000 and there were five (5) years (sixty (60) months) remaining in the Term, the Early Termination Fee would be \$30,000, calculated as follows: $\$1,000 \times 60 \text{ months} = \$60,000 \div 2 = \$30,000$.~~

~~If you unilaterally terminate this Agreement prior to the end of the Term, you must give us ninety (90) days prior notice of the early termination ("Early Termination Notice"). Within ten (10) days after our receipt of your Early Termination Notice, we will calculate the Early Termination Fee, which will be due and payable thirty (30) days prior to the closure of your Franchised Business. In the event of a termination arising from or related to your default under this Agreement, or that you do not: (i) provide us with the Early Termination Notice at least ninety (90) days prior to the early termination of your Franchised Business and this Agreement; (ii) remain open for at least ninety (90) days after providing us with the Early Termination Notice; and (iii) pay the Early Termination Fee in full at least thirty (30) days prior to closing of the Franchised Business, the Early Termination Fee due may, in our sole discretion, be increased as follows: it will be calculated by multiplying the Monthly Average by the number of months remaining in the Term, and will not be divided by two (2).~~

5.22 ~~If you have not paid your Royalty Fee and Advertising Fee for any period(s) within the forty-eight (48) months prior to notifying us of your early termination, or if you have not reported your Gross Sales for any period(s) within the forty-eight (48) months prior to notifying us of your intended early termination, we will estimate the Royalty Fee and Advertising Fee based upon prior reports to calculate the Monthly Average. Reserved.~~

5.23 Non-participation Fee.

You must offer and sell at the Location of the Franchised Business all products designated by us, consistent with our System Standards. In addition, you must immediately incorporate into the Franchised Business all new products and services designated by us and must fully

participate in all local, regional, seasonal, promotional and other programs, initiatives and campaigns adopted by us in which we require you to participate. If you fail or refuse to fully participate in any such program, initiative or campaign, you may, in our sole discretion, be required to pay a non-participation fee of One Hundred Dollars (\$100) per day that you are not in compliance ("Non-participation Fee").

5.24 Not Applicable.

5.25 ~~5.24~~ through 5.35 Not Applicable.

ARTICLE 6. PROPRIETARY MARKS

6.1 Ownership and Right to Use.

We warrant to you that:

- a. We are the owner of all right, title and interest in and to the Proprietary Marks;
- b. We have granted to you the personal, non-exclusive, limited, revocable right and license to use the Proprietary Marks in connection with the operation of your Franchised Business;
- c. We have taken and will take all steps reasonably necessary to preserve and protect our rights in the Proprietary Marks; and
- d. We will only permit you to use the Proprietary Marks in accordance with the System Standards.

6.2 Covenants of Franchise Owners.

- a. You acknowledge our ownership of the Proprietary Marks, and you agree that during the Term and after its expiration or termination, you will not directly or indirectly contest, or aid in contesting, the validity of the Proprietary Marks or our ownership of the Proprietary Marks, nor will you take any action which might impair or prejudice our ownership of the Proprietary Marks. You shall not, directly or indirectly, apply to register, register or otherwise seek to own or control any of the Proprietary Marks, or any confusingly similar mark thereto, whether in whole or in part, in any place or jurisdiction either within or outside of the United States; nor will you assist any others to do so.
- b. You agree that the license granted pursuant to this Agreement authorizes you to use the Proprietary Marks solely in connection with the Franchised Business only at the Location, and for no other purpose. You have no right to license or sublicense any aspect of the System Standards or any of the Proprietary Marks.
- c. You agree to use the Proprietary Marks only in the manner and to the extent specifically licensed by this Agreement. You further agree that any unauthorized use or continued use of the Proprietary Marks after the termination or expiration of this Agreement will constitute irreparable harm subject to injunctive relief.
- d. The license granted by this Agreement includes only the Proprietary Marks, now existing or which may exist in the future. This license does not include the right to use any other trademarks, service marks, trade name or trade dress owned by us or our licensor anywhere in

the world. You agree that any and all goodwill associated with and identified by your use of the Proprietary Marks will inure directly and exclusively to our benefit, and that, on the expiration or termination of this Agreement, no monetary amount will be due or payable to you as a result of any goodwill associated with your ownership or operation of the Franchised Business.

6.3 Limitations on Franchisee's Use of Proprietary Marks.

To develop and maintain high and uniform standards of quality and service and thereby protect our reputation and goodwill and that of the System, you agree:

- a. To operate and advertise the Franchised Business only under the Proprietary Marks authorized by us;
- b. To adopt and use the Proprietary Marks licensed by this Agreement solely in the manner prescribed by us;
- c. That your corporate, partnership or other entity name including trade name, will not include any of the Proprietary Marks, in whole or in part, or any terms confusingly similar thereto, unless first authorized by us in writing;
- d. To submit all advertising, promotional materials and all printed matter, including stationery ~~and~~, business cards, and any materials to be used on the Internet to us for our written approval before you use any of these items; and
- e. That we may from time to time change or modify the System Standards, including modifying existing Proprietary Marks or adopting new marks. You agree, at your own expense, to adopt, use and display any such new or modified Proprietary Marks within ninety (90) days after notification from us. However, if we require you to modify or discontinue use of our proprietary information or use other information or rights in its place at any time other than upon us granting you a successor term to operate the Franchised Business pursuant to *Article 13*, and that requirement is a direct result of proceedings or litigation that determined that our and our franchisees' use of the proprietary information infringed upon a third-party's rights, we or our affiliate will bear the cost of those modifications or discontinuances.

Upon your abandonment of the Franchised Business (whether voluntary or involuntary), termination or expiration of this Agreement, you must immediately cease to use, in any manner whatsoever, any of the Proprietary Marks or any other marks which, in whole or in part, may be confusingly similar to any of the Proprietary Marks.

6.4 Non-Exclusive License of Proprietary Marks.

You understand and agree that your license to use the Proprietary Marks is non-exclusive; that we, in our sole discretion, can grant to other franchisees the right to use the Proprietary Marks and obtain the benefits of the System Standards, in addition to the licenses and rights granted to you under this Agreement; and that we or our affiliates may develop and license other proprietary marks in conjunction with concepts other than the NrGize Lifestyle Cafe concept, on any terms and conditions we deem advisable. You will have no right or interest in any such other licenses, proprietary marks or systems.

6.5 Notification of Infringement and Claims.

You agree that you will notify us immediately of any apparent infringement of, or challenge

to your use of any of the Proprietary Marks, or any claim by any person of any rights in any of the Proprietary Marks. You agree that you will not communicate with any person, other than us and our legal counsel, in connection with any such infringement, challenge or claim. We will have the sole discretion to take such action as we may deem appropriate to protect the Proprietary Marks and the exclusive right to control any litigation, United States Patent and Trademark Office proceeding, or other proceeding arising out of any such infringement, challenge, claim or otherwise relating to any Proprietary Marks. You agree to execute any and all instruments and documents, render such assistance, and do such acts and things as may, in the opinion of our counsel, be necessary or advisable to protect and maintain our interests in connection with any such litigation or proceeding, or to otherwise protect and maintain our interests in the Proprietary Marks.

ARTICLE 7. TRADE SECRETS AND PROPRIETARY INFORMATION

7.1 Innovations.

During the Term, you and your principals, officers, managers and employees may conceive, invent, create, design or develop various ideas, techniques, methods, processes and procedures, recipes, formulae, products, packaging or other concepts and features relating to restaurant operations, business practices or the manufacturing, production, marketing and sale of low-calorie smoothies, fruit drinks, nutritional supplements, and other food and beverage items, and related goods now in existence or later developed, adopted, or improved in connection with the Franchised Business (individually and collectively, "Innovations"). You, without further consideration, hereby assign any and all of your rights, title and interest in the Innovations, including any intellectual property rights, to us, and also agree to cooperate with us and our counsel in the protection of the Innovations, including the perfecting of title thereto in us. In addition, you will require all of your principals, officers, managers and employees to sign an agreement in the form set forth in our System Standards and incorporated herein by reference ("Confidentiality Agreement"), and shall be liable to us for obligating your principals, officers, managers and employees to assign all of their rights, title and interest to the Innovations to us and requiring your principals, officers, managers and employees to cooperate in obtaining, protecting, maintaining and enforcing our right, title and interest in the Innovations.

7.2 Confidentiality Agreement.

a. In connection with the operation of the Franchised Business, you will from time to time receive, have access to, or learn certain information and materials that are proprietary to us or our affiliate. You and any person signing this Agreement under the heading "Personal Acceptance of Sections 7.1, 7.2, 14.6 and 14.8" agree that you will keep confidential, and will not use for your own purposes, nor supply or divulge to any other person, any of our Trade Secrets, including our methods of operation, processes, techniques, formulae and procedures, information a reasonable person would believe to be confidential and any other proprietary information regardless of whether such is expressly marked as confidential ("Confidential Information"). You acknowledge that much of the information imparted to you by us is confidential, constitutes Trade Secrets, are unique to us, and remains our sole exclusive property. Our Confidential Information includes the following:

1. The ~~Operations~~Confidential Manual and any amendments thereto;
2. Ingredients, recipes, and methods of preparation of food products;

3. Methods of operation of *NrGize Lifestyle Cafe* restaurants;
4. Information about products, services, or procedures before they become public knowledge;
5. Information which relates in any manner to our business or the System Standards, whether oral or reduced to writing, and which is not generally known to, or readily ascertainable by, other persons who might derive economic benefit from its disclosure or use; and
6. Any other information which may be imparted to you from time to time and designated by us as confidential.

b. You and any person signing this Agreement under the heading "Personal Acceptance of *Sections 7.1, 7.2, 14.6 and 14.8*" acknowledge and agree that the Confidential Information and any business goodwill of the Franchised Business is our sole and exclusive property, and that you will preserve the confidentiality thereof. Upon termination or expiration of this Agreement, all items, records or documentation recording or incorporating any Confidential Information, including any copies thereof, will be immediately turned over by you to us or our authorized representative.

c. You agree to take all steps necessary, at your own expense, to protect the Confidential Information, including our Trade Secrets, and to adopt and implement all reasonable procedures prescribed by us from time to time to prevent the unauthorized use or disclosure of any of the Confidential Information. We require that all of your executive officers, agents, directors, shareholders, trustees, beneficiaries, partners and managers who may or are likely to obtain knowledge concerning the Proprietary Information (and who do not sign this Agreement under the heading "Personal Acceptance of *Sections 7.1, 7.2, 14.6 and 14.8*") sign the Confidentiality Agreement binding such person to preserve the confidentiality of the Confidential Information as part of the terms and conditions of such person's employment or association with you. You must obtain a Confidentiality Agreement signed by any such person prior to or at the same time that you begin employment of, or association with, that person. This will be a continuing obligation on your part throughout the Term. You must keep each original signed Confidentiality Agreement and provide us with a copy of each Confidentiality Agreement when requested by us or our authorized representative.

d. Notwithstanding the above, Confidential Information shall not include information which you can reasonably prove: (i) entered the public domain through no breach by you or your affiliate of any duty of confidentiality, or (ii) you received our prior express written consent to disclose in the manner in which you disclosed it.

e. If anyone under a Confidentiality Agreement is legally compelled or required by a regulatory body to disclose any Confidential Information, he/she/it will notify us as soon as possible and will use his/her/its best efforts to obtain, and give us an opportunity to obtain, appropriate assurances of confidential treatment.

f. The requirements under this *Section 7.2* will remain in full force and effect during the Term and after termination or expiration of this Agreement.

ARTICLE 8. RELATIONSHIP OF THE PARTIES AND INDEMNIFICATION

8.1 Relationship of the Parties.

You and we agree that this Agreement does not create any fiduciary or employment

relationship between you, or any of your employees, and us, that you are an independent contractor, and that nothing in this Agreement is intended to make either you or us a general or special agent, legal representative, subsidiary, joint venture, partner, employee or servant of the other for any purpose. You shall not enter into any agreement on behalf of or otherwise bind us for any purpose.

8.2 Indemnification of Franchisor.

You agree to indemnify, defend, and hold us and our affiliates (including our parent and subsidiary companies, current, past and future predecessors, successors and assigns), and each of our shareholders, owners, directors, officers, members, managers, partners, joint venturers, attorneys, employees, contractors, agents, representatives, guarantors, insurers, spouses, heirs, executors, trustees and estates (collectively with us, "Indemnified Parties") harmless for, from and against any and all claims, liabilities, causes of action, suits, debts, duties, accounts, covenants, contracts, agreements, promises, taxes, demands, obligations, costs and expenses, including reasonable attorneys' fees, damages, judgments, and proceedings, of every kind and nature whatsoever, in law or equity, or otherwise, under local, state or federal law including, without limitation the Americans with Disabilities Act ("ADA"), or the law of any other applicable jurisdiction (individually and collectively, "Claims") suffered or incurred by any of the Indemnified Parties arising out of or relating to your construction, ownership, marketing, Promotions (as defined in *Article 10*), operation, including your failure to comply with PCI DSS or any law, statute, regulation, order, rule, or ordinance, or management of the Franchised Business, except for Claims held to have resulted solely from our gross negligence or willful misconduct. Notwithstanding the foregoing, we will have the right, at our option, to defend any Claim, but you must reimburse us upon demand for the costs and expenses of such defense. You shall immediately give us notice of any demand, investigation, written inquiry, action, suit, proceeding, or claim in any way related to us or the *NrGize Lifestyle Cafe* brand.

8.3 Indemnification of Franchisee.

We agree to indemnify, defend, and hold you and your affiliates, and their shareholders, directors, officers, members, managers, partners, employees, agents, successors and assignees harmless for, from and against any and all Claims, arising out of any Claim of infringement or unfair competition in connection with your authorized use of the Proprietary Marks or Confidential Information, provided that such use is in accordance with the provisions of this Agreement. However, if we require you to modify or discontinue use of our Proprietary Marks or Confidential Information or use other information or rights in its place at any time other than upon us granting you a successor term to operate the Franchised Business pursuant to *Article 13*, and that requirement is a direct result of proceedings or litigation that determined that our and our franchisees' use of the Proprietary Marks or Confidential Information infringed upon a third-party's rights, we will bear the cost of those modifications or discontinuances.

8.4 Special Power of Attorney.

You agree to cooperate with and assist us as we may request from time to time to obtain, protect, maintain or enforce our intellectual property and Proprietary Marks, including executing documents and appearing as a witness. You hereby appoint us as your attorney-of- fact and hereby grant us an irrevocable Special Power of Attorney, coupled with an interest, with full power and authority for the purpose of executing documents or taking such action as necessary or appropriate as you might or could do if personally present, hereby ratifying all that we, as your attorney-in-fact, shall lawfully do or cause to be done by virtue of this Special Power of Attorney to obtain, protect, maintain or enforce our intellectual property and Proprietary Marks if we are, for

any reason, unable to obtain your cooperation or assistance. The Special Power of Attorney granted by this *Section 8.4*, shall survive your dissolution, death, incompetence or disability and the termination or expiration of this Agreement.

ARTICLE 9. OPERATING STANDARDS AND DUTIES OF FRANCHISE OWNER

9.1 Compliance with System Standards and ~~Operations~~Confidential Manual.

You understand and acknowledge that every detail of the operation of the Franchised Business is important in order to develop and maintain high and uniform standards of quality, cleanliness, appearance, service, facilities and techniques; to increase the demand for the System; and to protect our reputation and goodwill and that of other *NrGize Lifestyle Cafe* franchisees. You also acknowledge that the operation of the Franchised Business is your sole responsibility, and that neither we nor our affiliates have any responsibility to obtain customers for you. The System Standards will constitute provisions of this Agreement as if fully set forth herein.

9.2 Authorized Products and Services.

a. You agree that you will not, without our prior written approval, offer at the Location any menu items, beverages, products or services that are not authorized by us for the Franchised Business, as set forth in the System Standards.

b. You have complete discretion in establishing the minimum price you charge for your products. Although we may suggest pricing strategy, you will have the final pricing decision.

c. Notwithstanding the terms of *Section 9.2b.*, we may conduct periodic promotional campaigns during which a specified product or products are promoted at a specified price. During the promotional period, you may not charge your customers more than the specified promotional price, although you may charge less than the promotional price.

d. We may conduct new marketing, research and development, branding and operational program tests, which will generally be conducted with experienced, existing franchisees and may include incentives and other rights that are not available to all franchisees.

e. You hereby consent to third-party vendors, suppliers and distributors sharing with us any and all information, reports, invoices and related documentation covering and otherwise detailing your purchases for the Franchised Business.

f. You are required to accept debit and credit cards (including Visa®, MASTERCARD® and AMERICAN EXPRESS®) and Gift/Loyalty Cards from consumers at the Franchised Business. You are required to acquire, as necessary, and maintain during the Term, an approved debit, credit and Gift/Loyalty Card processing system ("Card Processing System") to use during the operation of the Franchised Business. Additionally, you must utilize our approved third-party payment card processor, as identified in the System Standards, for processing all Card Processing System transactions.

9.3 Specifications and Standards for Supplies; Approved Suppliers; Rollouts.

a. You must purchase or otherwise acquire certain proprietary or required equipment and supplies utilized in the Franchised Business only from our designated approved distributors or suppliers. If, during the Term, we change designated approved distributors or suppliers for any of the proprietary or required equipment and supplies utilized in the Franchised Business, you

shall change to the new designated approved distributor or supplier within sixty ~~(60)~~ (60) days after written notification of such change from us.

b. If you desire to purchase or otherwise acquire any equipment, supplies or inventory items required by the System Standards but not previously approved by us, or from sources not previously approved by us, you must submit to us sufficient specifications, photographs, drawings, and other information sufficient to allow us to determine whether such equipment, supplies or inventory items meet our System Standards. We may require that our representatives be allowed to inspect the facilities of the proposed supplier and revoke its approval upon the supplier's failure to meet any of our then-current minimum System Standards. We may also require that samples from the proposed supplier be delivered, at no charge to us, either to us or to our designee for testing. A charge not to exceed the reasonable cost and expense of the inspection and the actual cost and expense of the test must be paid to us either by you or by the proposed supplier. We will notify you within sixty (60) days after your request of our approval or disapproval of the proposed product or supplier, with such determination to be made at our sole discretion. You acknowledge and agree that our approval of any item or supplier of equipment, supplies or inventory not previously approved by us will not, in and of itself, make the supplier of that item an approved supplier for other *NrGize Lifestyle Cafe* franchise owners in the System. We may, in our sole discretion, at any time and from time to time, re-inspect the facilities and products of any approved supplier and revoke its approval upon the supplier's failure to meet any of our then-current System Standards. If you receive a notice of revocation from us, you must immediately stop selling disapproved products and purchasing from the disapproved supplier.

c. We will provide to you a list of all recommended and required items of equipment, fixtures, supplies, smallwares and interior decor. This list will be included in the System Standards.

d. At any time and from time to time, we may in our sole option engage in new product rollouts to add to or change the menu items offered for sale in the Franchised Business and the ingredients or supplier of ingredients utilized in the preparation of the menu items sold in the Franchised Business ("Rollout"). If we engage in a Rollout, you shall participate in the changes that are the subject of such Rollout, including offering the new menu items, changing the menu items, changing to the new supplier of the ingredients utilized in the preparation of the menu items, and changing to the new ingredients utilized in the preparation of the menu items.

If we engage in a Rollout, we will notify you of the details of the Rollout and provide you sixty (60) days from said notification to take the applicable actions required by the Rollout.

9.4 Compliance with Legal Requirements and Good Business Practices.

You must, at your sole expense, operate the Franchised Business in full compliance with all applicable Federal, state and local statutes, laws, ordinances and regulations, including health and safety regulations, food and drug laws, disability laws, labor and employment laws and data privacy laws, as may be amended, supplemented or enacted from time to time. You must pay all costs and expenses incurred by, and in the conduct of, the Franchised Business, including all rent, salaries, taxes (excluding our income taxes), disbursements, license or permit fees, insurance premiums, traveling expenses and any other business expenses. If you receive any demand, action, suit or proceeding, or the issuance of any order, writ, injunction, award or decree of any court, agency or other governmental instrumentality relating to your Franchised Business, you must immediately notify us, and in no event, later than three (3) days after ~~such~~your receipt. Any such notice must be accompanied by a copy of the demand, complaint, order, writ, injunction, award, decree or other similar document. You must, in all dealings with your customers, suppliers,

the public, and us adhere to the highest standards of honesty, integrity, fair dealing and ethical conduct. You agree to refrain from any business practice that may be injurious to the System or the goodwill associated with the Proprietary Marks.

9.5 Maintenance of Insurance.

At all times during the Term, you must maintain in full force and effect commercial general liability insurance against claims for bodily and personal injury, death and property damage caused by or occurring in connection with the construction, ownership, operation or conduct of the Franchised Business. The insurance must also include coverage for product liability and fire claims.

Such liability insurance coverage must be maintained under one (1) or more policies of insurance (each of which shall be primary coverage and shall not be contributory or secondary to any other coverage maintained by us) containing minimum liability limits of One Million Dollars (\$1,000,000) (or greater if applicable state laws or regulations require) for each occurrence and with an aggregate of not less than Two Million Dollars (\$2,000,000). Such insurance policy or policies must be "occurrence" policies and not "claims made" policies; must not provide for a deductible greater than One Thousand Dollars (\$1,000) in the aggregate and must provide that no act or omission of ours or of any officer, director or employee of ours or any affiliate of ours shall invalidate or diminish any coverage thereunder.

Such insurance policies must be issued by insurers acceptable to us having an A.M. Best's financial strength rating of at minimum "A-VII." The general liability insurance required by this Agreement must: (i) name ~~our parent company, Kahala Brands, Ltd., Franchising, L.L.C.~~ as the certificate holder; (ii) name Kahala Franchising, L.L.C., ~~Kahala Brands, Ltd., and MTY Franchising USA, Inc. and~~ their ~~parents,~~ subsidiaries, affiliates, officers, directors, and employees as additional ~~insuredinsureds~~; (iii) contain a waiver by the insurance carrier of all subrogation rights against us and our affiliates and our affiliates' respective officers, directors and employees for casualty losses; (iv) indicate the address of the Franchised Business being insured; and (v) provide that we will receive, via an endorsement, thirty (30) days' prior notice of cancellation of any such policy. Our minimum insurance coverage requirements (subject to increase in our sole discretion) are as follows:

Type of Coverage	Limits/Specifications
General Liability	\$1,000,000 bodily injury/property damage per occurrence / \$2,000,000 aggregate
Building Improvements and Betterments	100% of full replacement cost – no coinsurance (minimum of \$100,000)
Business Personal Property	100% of full replacement cost – no coinsurance – special form or equivalent (minimum of \$100,000)
Spoilage	\$5,000
Business Income	actual loss sustained or at least 50% of annual sales
Flood, Earthquake and Volcanic Eruption	subject to territory limitations – required if in a designated flood zone
Workers' Compensation	statutory requirements
Stop Gap or Employer Liability	bodily injury by accident: \$1,000,000 each accident bodily injury by disease: \$1,000,000 policy limit bodily injury by disease: \$1,000,000 each employee
Hired and Non-Owned Automobile Liability	\$1,000,000 combined single limit per accident

In addition, we recommend that you obtain cyber liability/data breach insurance coverage.

You are responsible for maintaining insurance coverage and limits as required by us, at minimum, pursuant to this *Section 9.5*, provided, if your landlord requires additional coverage, higher limits, or any other requirements not required by us, then you are responsible for maintaining such additional items as well. You must always keep the required insurance coverage in force at all times during the operation of the Franchised Business, and you must comply with any changes we make periodically to our insurance requirements. If your restaurant is located in a flood zone or an area subject to earthquakes, hurricanes, tornadoes, other similar hazards, you may want to obtain additional specific insurance to cover these risks. Such insurance may significantly increase your premiums. Upon thirty (30) days' notice to you, we may require you to increase the minimum coverage of the insurance referred to above as of the next renewal date of any policy, and require different or additional kinds of insurance at any time, including excess liability (umbrella) insurance, to reflect inflation, identification of special risks, changes in law or standards of liability, higher damage awards or other relevant changes in circumstances.

~~Subject to Section 3.1,~~ As of the Effective Date and annually thereafter, at least ten (10) days prior to renewal of your insurance coverage, and at any other time on our request, you must provide us with certificates of insurance or copies of insurance policies showing that you are in compliance with our insurance requirements, as well as proof that you have paid the premiums you owe for the insurance we require. You will pay your insurance premiums to your insurance broker or to the insurance company issuing the policy. You must have insurance and provide a copy of your certificate of insurance to us which meets our requirements before you may open your restaurant. We or our affiliate may, at our option and in addition to our other rights and remedies under this Agreement, obtain such insurance coverage on your behalf, and you must promptly execute any applications or other forms or instruments required to obtain any such insurance and pay to us, on demand, any costs, expenses and premiums incurred by us. Your obligation to obtain and maintain the insurance described above will not be limited in any way by reason of any insurance maintained by us, nor will your performance of such obligations relieve you of any obligations under *Section 8.2*.

9.6 Management of the Franchised Business.

You are directly responsible for all aspects of operating the Franchised Business, and you agree that you will, at all times, operate the Franchised Business and use your best efforts to enhance your Franchised Business and the System. The Franchised Business must be personally managed and directly operated by either you or another partner, shareholder or member of your business organization, or a manager.

9.7 Inspections by Franchisor.

For the purpose of this *Section 9.7*, you must make available to us or our authorized representatives such financial and other information concerning the Franchised Business, and you must permit us or our authorized representatives to have full and free access to such information at your Franchised Business Location during regular business hours without prior notice. We and our authorized representatives will have the right to communicate freely with your employees, and make extracts from, and copies of, all such information. Our authorized representative may make announced or unannounced inspections of your Franchised Business to ensure compliance with all of the requirements of this Agreement.

9.8 Shareholder Guaranty-Personal Guaranty; Non-Disclosure and Non-Competition Agreement.

If you are an individual and married, your spouse must execute and deliver to us a Guaranty of Franchise Agreement and a Non-Disclosure and Non-Competition Agreement at the same time that you sign the Agreement unless your spouse is also signing the Agreement as an individual.

If you are a corporation, limited liability company, or other business entity, each of your shareholders, members, or other owners, whether direct or indirect (and their respective spouses, if married) must execute and deliver to us a Guaranty of Franchise Agreement and a Non-Disclosure and Non-Competition Agreement at the same time that you sign this Agreement.

In the event any person who has not previously signed a Guaranty of Franchise Agreement or a Non-Disclosure and Non-Competition Agreement becomes ~~the holder of any class of your stock or ownership interests~~your spouse or shareholder, member, or other owner, direct or indirect or a spouse of such shareholders, members, or other owner, at any time after the execution of this Agreement, you must cause ~~that~~such person(s) to immediately execute and deliver a Guaranty of Franchise Agreement and a Non-Disclosure and Non-Competition Agreement to us.

Failure to provide a Guaranty of Franchise Agreement or a Non-Disclosure and Non-Competition Agreement to us may, in our sole discretion, be grounds for termination of this Agreement as set forth in *Section 14.2a*.

9.9 Not Applicable.

ARTICLE 10. ADVERTISING AND PROMOTION

10.1 Advertising by Franchisor.

We (or, at our election, a third-party which may be an affiliate of ours) will administer the Advertising Fund that will include your Advertising Fee and those of other franchise owners in the System. If an affiliate of ours administers the Advertising Fund or places advertising in connection with the System, such affiliate may be paid a fee that will not exceed the fee that would be payable to unrelated third-parties for comparable services. Unless required by applicable law, we will have no obligation to create a trust account, escrow account or other special account for the Advertising Fund, and the monies comprising the Advertising Fund may be placed in our general account. We may also reserve the Advertising Fee for use in a subsequent year.

We will direct all advertising and promotional programs. We will have sole discretion over all creative concepts, materials and media used in such programs and the placement and allocation of such programs. The Advertising Fund will be used for marketing, advertising, production and media expenses to promote the *NrGize Lifestyle Cafe* trade name, System, products and services. We are entitled to deduct, free of charge, the following from the Advertising Fund: ~~(i)~~ reimbursement of expenses, overhead, and employee salaries for services provided; and ~~(ii)~~ rent for office space provided to the Advertising Fund. We are not required to use any specific amounts from the Advertising Fund in your market. However, we will use all amounts contributed by you to any Advertising Fund, if any, (see *Section 5.3*) in the same geographic area in which your Franchised Business is located.

10.2 Advertising by Franchisee.

In addition to your Advertising Fee, if applicable, and unless your Franchised Business is located in an enclosed shopping mall or other enclosed structure identified in *Section 1.1*, you agree to pay for a regular (white pages) and classified (yellow pages) telephone directory advertisement in the main directory distributed in the area where your Franchised Business is located, in such directory categories as we specify, utilizing forms of listing and classified directory advertisements approved by us. We also recommend that, in addition to your Advertising Fee, you spend at least two percent (2%) of your monthly Gross Sales on local advertising.

Your own local marketing and advertising plan should be developed to maximize your particular customer base. You should not rely upon a marketing program or plan by us as the sole means of obtaining customers. All marketing and advertising materials must be reviewed by the marketing department for look and feel. The marketing department's review is not for determining compliance with federal, state and local laws.

All advertising by you in any medium must be conducted in a professional manner and must conform to the System Standards. We may make available to you, from time to time, advertising, promotional plans and materials for purchase.

Under no circumstances may you use, without limitation, the name, image, or voice of a celebrity, public figure, character or other person in connection with the Proprietary Marks or the Franchised Business without our prior written consent. We retain the sole and exclusive right to use, without limitation, the name, services or image of any celebrity, public figure, character or other person in advertising, endorsing or recommending the System.

ARTICLE 11. ACCOUNTING PROCEDURES AND REPORTS

11.1 Maintenance of Records.

You shall keep full, complete, and accurate books and accounts in accordance with generally accepted accounting principles, and in the form and manner indicated below or as from time to time further required by us. You agree to submit reports and data to us electronically if we advise you to do so. You agree:

- a. to submit to us electronically the weekly Gross Sales as set forth in *Section 5.6*;
- b. to submit to us, on or before the thirtieth (30th) day of each month, commencing with the opening of the Franchised Business, on a form approved by us, a profit and loss statement of the Franchised Business for the preceding calendar month prepared in accordance with generally accepted accounting principles;
- c. to submit to us, within ninety (90) days after the end of each calendar year, commencing with the opening of the Franchised Business, on a form approved by us, a profit and loss statement and balance sheet (including a statement of retained earnings or partnership account) for the preceding calendar year;
- d. to submit to us, at the times required, such other periodic forms, reports and information as may from time to time be required by us;
- e. to preserve, in the English language and for the time periods set forth below, all accounting records and supporting documents related to the Franchised Business (individually and collectively, "Records"), including:

1. daily cash reports;
2. cash receipts journal and general ledger;
3. cash disbursements journal and weekly payroll register;
4. monthly bank statements, daily deposit slips and canceled checks;
5. all tax returns, including your personal returns, and those of your officers, shareholders, partners and members;
6. suppliers invoices (paid and unpaid);
7. dated cash register tapes (detailed and summary);
8. semi-annual balance sheets and monthly profit and loss statements;
9. daily production, throwaway and finishing records and weekly inventories;
10. records of promotion and coupon redemptions;
11. records of all outside sales; and
12. such other records as we may from time to time request.

f. to record all sales on cash registers approved by us, as specified in the ~~Operations~~Confidential Manual;

g. to file all of your federal and state tax returns on a timely basis and to provide copies of them to us. We may, where applicable, require that tax returns from all of your shareholders, members or partners be provided to us, if you are other than an individual;

h. During the Term, you shall preserve the Records for at least the current fiscal year and for the three (3) immediately preceding fiscal years. For three (3) years after the date of any transfer of an interest in this Agreement, the transferor of such interest will preserve the Records for its last three (3) fiscal years of operation under this Agreement. For three (3) years after the expiration of the Term (or after any earlier termination), you shall preserve the Records for the last three (3) fiscal years of operation of the Franchised Business; and

i. In connection with our efforts to attract additional franchise owners to the System, we will have the right to use (without identifying you, except as required or allowed by law) any financial statements, sales reports, profit and loss statements or balance sheets provided by you and, in connection therewith, you authorize us to disclose any information contained on such financial reports as may be required by any federal or state registration or disclosure law.

11.2 Audit by Franchisor.

We will have the right, at any time during business hours, and with or without prior notice to you, to inspect and audit, or cause to be inspected and audited, the Records and cash control devices of the Franchised Business, and your corporate, partnership or limited liability company books and records (if you are a corporation, partnership, limited liability company, or other entity). You agree that we may access any computers utilized by you for such purposes.

You will fully cooperate with our authorized representatives and independent accountants hired by us to conduct any such inspection or audit. In the event any such inspection or audit

discloses an understatement of your Gross Sales for any period in question, you will pay to us, immediately after receipt of the inspection or audit report, any additional Royalty Fee or Advertising Fee due as a result of any such understatement, plus interest at the Default Rate from the date originally due until the date such understatement is paid in full.

In addition, in the event such inspection or audit is made necessary by your failure to timely furnish Records, or if an understatement of the Royalty Fee or Advertising Fee for the period of any audit (which period shall not be for less than one (1) month) is determined by any such audit or inspection to be five percent (5%) or greater, you must reimburse us all amounts incurred in connection with such audit or inspection including our employee costs and expenses, any independent accountants' and attorneys' fees, transportation, room, and meal expenses.

The remedies in this *Section 11.2* will be in addition to all our other remedies and rights under this Agreement or under applicable law.

ARTICLE 12. TRANSFER

Sections 12.1 through 12.4 apply to all transfers, except transfers by us, which are described in *Section 12.5*.

12.1 Prior Consent of Franchisor.

a. As used in this Agreement, "Transfer" means any voluntary, involuntary (including by operation of law), direct or indirect assignment, sale, gift or other transfer by you, including:

1. "Full Transfer," which is any act or circumstance, except those set forth in *Section 12.1.a.2.*, by which fifty percent (50%) or more of the ownership or control is shifted from any individual or corporation, partnership or other business entity (individually and collectively, "Entity") to another, including:

(i) Transfer of this Agreement or the Franchised Business, or any right or interest granted by this Agreement;

(ii) Transfer of an interest in you, if you are an Entity;

(iii) Merger, consolidation or issuance of additional ownership interests or redemption of ownership interests in you, if you are an Entity; or

(iv) Transfer of an interest in any other Entity holding an interest in this Agreement or you, if you are an Entity.

2. "Affiliate Transfer," which includes:

(i) Transfer in a separation or divorce, regardless of how much of the ownership or control is shifted from any individual or Entity to another;

(ii) Transfer of this Agreement or the Franchised Business, or any right or interest granted by this Agreement, from your name as an individual(s) to your Entity name in which you are the sole owner(s) of the Entity;

(iii) Transfer of this Agreement or the Franchised Business, or any right or interest granted by this Agreement, from your Entity name in which you are the sole owner(s) to your name as an individual(s);

(iv) Transfer of this Agreement or the Franchised Business, or any right or interest granted by this Agreement from one Entity name to another Entity name in which the owners of the entities are the same;

(v) Removing an owner from the Franchisee (unless the person has a fifty percent (50%) or more ownership interest);

(vi) Adding an owner to the Franchisee (unless the person has a fifty percent (50%) or more ownership interest); or

(vii) Transfer by which less than fifty percent (50%) of the ownership or control is shifted from any individual or entity to another for any act or circumstance listed in *Section 12.1.a.1*.

b. We are entering into this Agreement based upon our knowledge of and faith in your ability. Therefore, the Franchised Business and all the rights granted by this Agreement are personal to you and you may not Transfer without our prior written consent. Any attempted Transfer without our prior written consent will be null and void, and will give us the right to terminate this Agreement and your rights under it, in addition to any remedies which we may have for the breach of this covenant by reason of an attempted Transfer.

c. We shall not unreasonably withhold or delay our consent to a Transfer, so long as it is shown to our satisfaction that the potential transferee ("Potential Transferee") can perform a franchisee's obligations under the then-current form of franchise agreement and all other agreements, legal instruments and documents required of new franchisees.

12.2 Advance Notice of Proposed Terms and Right of First Refusal.

a. If you, or any of your shareholders, members or partners, have received and desire to accept a signed bona fide written offer from a third-party to Transfer, you shall notify us and provide us with a complete copy of the offer (letter of intent) which must include the name, address and telephone number for every Potential Transferee. You must also include information as to the identity of all who will own an interest in this Agreement or in the Franchised Business after the completion of the Transfer, their respective interests, and the proposed terms and conditions of sale and payment.

b. We shall have the right and option, exercisable within thirty (30) days after the date we receive a copy of the offer, to purchase the interest proposed to be transferred, at the price and upon the same terms and conditions specified in the notice.

c. If we do not exercise our option, and the terms of the unaccepted offer are altered, you must, in each such instance, notify us of the changed offer; and we will again have thirty ~~(30)~~ (30) days to exercise our right to purchase on the altered terms. If we do not exercise our option, then the Transfer may take place on the terms and price set forth in the notice; provided:

(i) we give our written consent; (ii) the Transfer takes place no later than six (6) months from receipt of our written refusal to exercise our option to purchase; and (iii) all the conditions set forth in *Section 12.3* are satisfied.

12.3 Requirement for Consent to Transfer.

If a Transfer is proposed and we do not exercise our right of first refusal pursuant to

Section 12.2, then we will consent to the Transfer, provided that:

a. All your obligations under this Agreement are fully paid and satisfied, including the Royalty Fee and Advertising Fee; you are not in default under any provisions of this Agreement or any other agreement, legal instrument or document with us or any of our affiliates; and you enter into written agreements with us, including (except where prohibited by law) a general release by you of all claims against us;

b. Potential Transferee provides to us a completed application and financial documents, is financially acceptable, is not associated with any of our competitors, is of good moral character and reputation, and meets our criteria, which includes: work experience and aptitude; ability to devote time and best efforts to the Franchised Business; equity interest in the Franchised Business; ability to speak and read English sufficient in our opinion to communicate with employees, customers and suppliers and to satisfactorily complete our training; no conflicting interests; and other criteria and conditions that we apply to new franchisees;

c. Potential Transferee provides us with copies of all governing documents of ~~the~~ Potential Transferee (e.g., certificate of incorporation or organization, by-laws, stock certificates, operating agreement, membership certificates (if any)) which must be reasonably satisfactory to us in our sole discretion;

d. You provide to us a copy of the purchase and sale agreement, if a Full Transfer, or other documentation evidencing the Transfer, if an Affiliate Transfer, and following our analysis of the terms and conditions of the proposed Transfer, we, in our sole discretion, conclude that such terms and conditions will not interfere with the financial feasibility of the future operation of the Franchised Business;

e. Potential Transferee enters into all agreements, legal instruments and other documents, whether our then-current agreements, legal instruments and documents or a transfer of this Agreement and related legal instruments and documents, as determined by us (individually and collectively, "Transfer Documents"). The terms of the Transfer Documents may vary materially from the current agreements used by us, including the payment of a higher Royalty Fee and Advertising Fee;

f. Not Applicable;

g. Potential Transferee pays to us the transfer franchise fee set forth in the Transfer Documents, if a Full Transfer; or, Potential Transferee pays us the Document Administration Fee, if an Affiliate Transfer; Franchisee shall be liable to the Franchisor for the transfer franchise fee or Document Administration Fee in the event the Potential Transferee fails to pay such fee that is owing in full;

h. Potential Transferee pays to us the transfer training fee set forth in the Transfer Documents, if a Full Transfer; Franchisee shall be liable to Franchisor for the training fee if Potential Transferee fails to pay the training fee owing in full; If Potential Transferee or any of its employees or representatives cancel or reschedule participation in any training course or program which Potential Transferee schedules with Franchisor, Potential Transferee or Franchisee must reimburse Franchisor for all of its employee's travel expenses, wages and other expenses incurred as a result of such cancellation or rescheduling;

i. Potential Transferee successfully completes the training program required by the Transfer Documents, if a Full Transfer;

j. Potential Transferee agrees to complete all remodeling and improvements as required by us, and must upgrade the POS System to the then-current required POS System, within the time period specified by us, if a Full Transfer;

k. You and Potential Transferee agree not to assert any security interest, lien, right or claim now or in the future, in the Franchised Business. Any security interest, lien, claim or right asserted with respect to any personal property at the Location must not include any after-acquired property and must be subject, junior and subordinate to any security interest, lien, right or claim now or in the future, asserted by us, our successors or assigns; and

l. You agree to complete and sign a letter of agency, letter of authorization, or equivalent and provide it to Potential Transferee so that Potential Transferee may keep the existing telephone number when the store is transferred to Potential Transferee.

12.4 Death or Incapacity of Individual Franchisee; Change in Entity.

a. Death or incapacity of Franchisee when Franchisee is an individual:

(i) In the event of your death or incapacity, your legal representative may, for a period of ninety (90) days from the date of death or incapacitation, continue to operate the Franchised Business, provided that the operation is conducted in accordance with this Agreement and any other agreements with us.

(ii) If your representative desires to continue the operation of the Franchised Business beyond the ninety (90) day period, then, prior to the expiration of this period, your legal representative must apply in writing for the right to transfer the Franchised Business to the person or persons (whether spouse, heir, devisee, purchaser, or any other person), as the legal representative may specify. The application for transfer will be treated in the same manner as any other proposed Transfer under this Agreement.

(iii) If your legal representative does not comply with the provisions of the preceding paragraph, or does not propose a ~~transferee~~Potential Transferee acceptable to us under the standards set forth in this Agreement, all rights licensed to you under this Agreement will terminate immediately and automatically revert to us. We shall have the right and option, in our sole discretion, exercisable upon such termination, to purchase all removable furniture, fixtures, signs, equipment and other chattels, but not leasehold improvements, at a price to be agreed upon by the parties or, if no agreement as to price is reached by the parties, at such price as may be determined by a qualified appraiser, approved by both parties, such approval not to be unreasonably withheld. We shall give notice of our intent to exercise the option no later than twenty-one (21) days prior to termination.

b. Death or incapacity of any shareholder, partner, or member in Franchisee when Franchisee is a business entity:

(i) In the event of the death or incapacity of any of your shareholders, partners, or members, the surviving shareholders, partners, or members may, for a period of ninety (90) days from the date of death or incapacitation, continue to operate the Franchised Business, provided that the operation is conducted in accordance with this Agreement and any other agreements with us.

(ii) If your shareholders, partners, or members desire to continue the operation of the Franchised Business beyond the ninety (90) day period, then, prior to the expiration of this period, your shareholders, partners, or members must apply jointly with all surviving shareholders, partners, or members in writing, for the right to transfer the Franchised Business (or the interest of the deceased or incapacitated shareholder, partner, or member in the Franchised Business), to the person or business entity as the surviving shareholders, partners, or members may specify. The application for transfer will be treated in the same manner as any other proposed Transfer under this Agreement.

(iii) If all surviving shareholders, partners or members do not comply with the provisions of the preceding paragraph, or do not propose a ~~transferee~~Potential Transferee acceptable to us under the standards set forth in this Agreement, all rights licensed to you under this Agreement will terminate immediately and automatically revert to us. We shall have the right and option, in our sole discretion, exercisable upon such termination, to purchase all removable furniture, fixtures, signs, equipment and other chattels, but not leasehold improvements, at a price to be agreed upon by the parties or, if no agreement as to price is reached by the parties, at such price as may be determined by a qualified appraiser, approved by both parties, such approval not to be unreasonably withheld. We shall give notice of our intent to exercise the option no later than twenty-one (21) days prior to termination.

12.5 Assignment by Franchisor.

You agree and affirm that we may, without your prior consent, sell our business, our assets, or our System, in whole or in part, to a third-party; may issue a public offering of our securities; may engage in private placement of some or all of our securities; may merge with or acquire other corporations, or be acquired by another corporation; and may undertake a refinancing, recapitalization, leveraged buyout or other economic or financial restructuring. You further agree and affirm that we have the right, now and in the future, without your prior consent, to purchase, merge, acquire or affiliate with an existing competitive or non-competitive franchise network, chain or any other business regardless of the location of such franchise network, chain or business, which you acknowledge may be proximate to your Franchised Business, and to operate, franchise or license such franchise networks, chains or businesses operating under the Proprietary Marks or any other marks following our purchase, merger, acquisition or affiliation. With regard to any of the above sales, assignments and dispositions, you expressly and specifically waive any claims, demands or damages against us arising from or related to the loss of your rights to use the System as authorized under this Agreement.

This Agreement will inure to the benefit of our successors and assigns. In conjunction with one (1) or more of the transactions contemplated above, or as otherwise determined by us, we have the right to assign our rights and obligations under this Agreement to any person or entity, without your prior consent. Upon such assignment, we will be relieved of all obligations or liabilities then existing or thereafter able to be asserted under this Agreement.

12.6 Restrictions on Security Interests and Subfranchising.

Except as otherwise set forth in this *Section 12.6*, you shall not have any rights to pledge, encumber, hypothecate or otherwise give any third-party a security interest in this Agreement in any manner whatsoever, nor subfranchise or otherwise transfer, or attempt to subfranchise or transfer the Franchised Business, in whole or in part, so long as it is operated as the Franchised Business, without our express prior written permission, which permission may be withheld for any reason whatsoever in our sole discretion. Notwithstanding anything contained herein to the

contrary, you shall have the right to pledge your accounts receivable, net of royalties and rent, without our prior written consent for the sole purpose of obtaining financing for the operation of the Franchised Business, provided you are in full compliance with this Agreement and any other agreement, arrangement or understanding with us.

ARTICLE 13. SUCCESSOR TERM

We have no obligation under any circumstances to extend your rights to operate the Franchised Business beyond the Term. Notwithstanding the foregoing, in the event the Term expires in accordance with *Section 1.3*, you may apply to us to extend your rights to operate the Franchised Business for a successor term. In the event you desire to apply to us to extend your rights to operate the Franchised Business for a successor term, you must give us notice to that effect at least one hundred twenty (120) days prior to the expiration date of the Term. In addition to giving the notice of intent to apply for a successor term referred to above in a timely manner, in order to qualify for a license to operate the Franchised Business for a successor term, you must also, at a minimum, meet each of the following requirements:

a. You must successfully complete the then-current application process required of new franchisees;

b. You must not then be in default under this Agreement or any other agreement, legal instrument or document with us or any of our affiliates, and no event shall have occurred that, with the giving of notice, the passage of time, or both, would constitute a default under this Agreement, including all financial obligations to us;

c. You must be in complete compliance with the terms of this Agreement, including all financial obligations to us, and the then-current ~~Operations~~Confidential Manual;

d. You must not have received more than three (3) notices of default or breach of this Agreement during its term, nor more than two (2) notices of default or breach during the five ~~(5)~~ (5) years immediately preceding the effective date of the proposed successor term;

e. You must have the existing right to maintain possession of the Location or you must have secured and developed a suitable substitute location that meets our then-current minimum site requirements (such confirmation will be provided to you by us in writing);

f. You must sign a general release provided by us;

g. You and we must execute all agreements, legal instruments and other documents (individually and collectively, "Successor Franchise Documents") then used by us in the granting of franchises and then being required of new franchise owners in connection with the System. The Successor Franchise Documents will supersede this Agreement, but will not terminate your liability to perform any obligations which you have not yet performed under this Agreement, or which survive the termination of this Agreement; nor will the Successor Franchise Documents terminate or supersede any Guaranty of Franchise Agreement ~~or~~ Confidentiality Agreement, or Non-Disclosure and Non-Competition Agreement executed pursuant to this Agreement. The terms of the Successor Franchise Documents may vary materially from the current agreements used by us, including the payment of a higher Royalty Fee and Advertising Fee;

h. The equipment, fixtures and signage used in connection with the operation of the Franchised Business must either meet our then-existing System specifications and standards, or you must agree, within a timeframe required by us, to replace or refurbish such items, and

otherwise modify the methods of operation of the Franchised Business at your cost and expense, in order to comply with our System specifications and standards then applicable to new franchise owners;

~~i.~~ ~~h.~~ You agree to complete all remodeling and improvements as required by us, and must upgrade the POS System to the then-current required POS System, within the time period specified by us; and

~~i.~~ ~~i.~~ You shall have paid to us the then-current initial franchise fee.

We reserve the right to reject your application for a successor term, at our sole discretion, for any reason, without limitation, failure to meet our then-current standards or requirements for new franchisees. If we decide to reject your application for a successor term to operate the Franchise Business, we will give you a notice to that effect within sixty (60) days after you deliver to us your notice of intent to apply for a successor term.

ARTICLE 14. DEFAULT AND TERMINATION

14.1 Default; Termination.

a. You will be in default under this Agreement:

(i) If: (a) you become insolvent or make an assignment for the benefit of creditors; (b) you file a petition in bankruptcy, or if such a petition is filed against and consented to by you, and such petition is not dismissed within thirty (30) days from the filing date of such petition; (c) you are adjudicated bankrupt; (d) a bill in equity or other proceeding for the appointment of your receiver or other custodian for your business or assets is filed and is consented to by you or is not dismissed within thirty (30) days from the filing date of such bill or other proceeding; (e) a receiver or other custodian is appointed; (f) proceedings for composition with creditors under any state or federal law is instituted by or against you; (g) the real or personal property of the Franchised Business is sold at levy thereupon by any sheriff, marshal or constable, or sold by a secured party under any state's Commercial Code;

(ii) If you fail to pay, perform, observe or comply with any of your duties and obligations under this Agreement or the ~~Operations~~Confidential Manual, including failure to provide a fully- executed copy of the lease to us when due and failure to pay when due, any sum due to us under this Agreement (including the Royalty Fee and Advertising Fee); or if you breach any of your obligations under any lease, sublease, mortgage, equipment agreement, promissory note, vendor account, conditional sales contract or other contract arising from, or in connection with, the Franchised Business, to which you are a party or by which you are bound, whether or not we are a party thereto;

(iii) If your lease or sublease for the Location of the Franchised Business is either: (a) in default and you fail to cure such default as provided in the lease or sublease; (b) is terminated for reason of default by you; or (c) the Location is lost as a result of your failure to comply with the lease or sublease;

(iv) If you fail, within thirty (30) days of the entry of a final judgment against you in an amount exceeding Two Thousand Dollars (\$2,000), to discharge, vacate or reverse the judgment or to stay its execution pending appeal, or to discharge any judgment which is not vacated or reversed within thirty (30) days after expiration of the stay of execution;

(v) If we determine that a serious health or safety problem exists at the Franchised Business, in which case, we may require you to immediately correct the problem or cease operating until the problem is corrected;

(vi) If you, or any owner, co-owner or principal of the Franchised Business, is convicted of a felony, a crime involving moral turpitude, or any other crime or offense that is reasonably likely to adversely affect the System, the goodwill associated therewith, or our interest therein;

(vii) Except for any reason provided in *Section 5.2*, if you abandon the Franchised Business, which abandonment shall conclusively be deemed established if the Franchised Business is closed for more than three (3) consecutive days;

(viii) Except for any reason provided in *Section 5.2*, if you close or relocate the Franchised Business, without our express advance written consent;

(ix) If you fail to maintain an independent contractor relationship with us;

(x) If you either negligently or knowingly inaccurately report, or fail to report, any information in your franchise application;

(xi) If you or any owner, co-owner or principal of the Franchised Business commits an act, or permits an act to be committed, that violates any federal, state or local law that adversely impacts the Franchised Business;

(xii) If you fail to participate in any Rollout detailed in *Section 9.3*;

(xiii) If you violate any of the provisions of *Sections 2.3, 3.2, 9.2, 9.3 or 9.4* including the requirement that you: (a) sell or offer for sale only those products and services authorized by us; (b) purchase such authorized products and services only from suppliers or service providers who are approved in writing by us; and (c) utilize or switch to any of our designated approved suppliers, including a supplier who has entered into a national or regional master supplier agreement with us;

(xiv) If you transfer or attempt to transfer any rights or obligations under this Agreement or any other property or assets to any third-party in violation of the provisions of *Article 12*;

(xv) If you or any of your owners, officers, directors, managers, members, or partners (as applicable): (a) ~~becomes~~become subject to U.S. Executive Order 13224 or ~~is~~are involved in any activity that violates the U.S. Foreign Corrupt Practices Act or any other anti-corruption, bribery or any other laws, orders or governmental notices affecting your ability to conduct business in or with the United States, as may be amended and whether in effect as of the Effective Date or at any time during the Term, (b) are identified on the U.S. Department of the Treasury's Office of Foreign Assets Control Specialty Designated National and Blocked Persons list, or (c) ~~receives~~receive any funding from any country that is subject to an embargo by the United States, any foreign government or government official, political party; or

(xvi) If you intentionally made any false representations and warranties under *Section 17.1*.

b. Cross-default: A default by you under this Agreement will be deemed a default of

all agreements between: (i) you and your principals in his or her individual capacity or any other entity in which your principals are owners, members, managers, shareholders or partners (individually and collectively, "Franchisee Entity"); and (ii) us or any of our affiliates or predecessors (individually and collectively, "Franchisor Entity"). A Franchisee Entity's default of any other agreement, legal instrument or other document between the Franchisee Entity and a Franchisor Entity will be deemed a default under this Agreement. A default by any guarantor of your obligations under this Agreement or any agreement, legal instrument or document between a Franchisee Entity and a Franchisor Entity will be deemed a default of this Agreement.

c. Termination: If you fail to cure any default to our satisfaction, within the applicable period following notice from us, if applicable, or otherwise breach this Agreement, we may, in addition to all other remedies at law or in equity or as otherwise set forth in this Agreement, immediately terminate this Agreement. This termination will be effective immediately upon the giving of notice pursuant to *Article 15*.

d. Cross-termination: If this Agreement is terminated as a result of your default of this Agreement or any other agreement related to the Franchised Business, we may, at our option, elect to terminate any or all other agreements, legal instruments or documents between a Franchisee Entity and a Franchisor Entity. If any agreement, legal instrument or document between a Franchisee Entity and a Franchisor Entity is terminated as a result of a default by the Franchisee Entity, we may, at our sole discretion, elect to terminate this Agreement. It is agreed that an incurable or uncured default under this Agreement or any other agreement, legal instrument or document between a Franchisee Entity and a Franchisor Entity will be grounds for termination of this Agreement or any other agreement, legal instrument or document between a Franchisee Entity and a Franchisor Entity, without additional notice or opportunity to cure.

14.2 Opportunity to Cure.

a. Fourteen- Day Cure Period - Except as otherwise provided in this *Section 14.2*, you will have the right to cure your default under this Agreement within fourteen (14) days after notice of default is given by us pursuant to *Article 15*. Notwithstanding the foregoing, the following lesser periods will apply under the circumstances described:

b. Seven-Day Cure Period - A seven (7) day cure period will apply if you fail, refuse, or neglect to pay when due, any monies owing to us (including the Royalty Fee and Advertising Fee), or to any Advertising Fund, or if you fail to maintain the insurance coverage set forth in this Agreement;

c. 48-Hour Cure Period – A forty-eight (48) hour cure period will apply (1) if you: ~~(1)~~ are in default of *Section 3.4*; or (2) if you fail to participate in any limited time product offering, value offering, contest, promotion or charity event. You must initiate your participation in such offering, contest, promotion or event within forty-eight (48) hours and fully participate in such offering, contest, promotion or event as soon as reasonably possible, in our sole discretion, thereafter;

d. 24-Hour Cure Period - A twenty-four (24) hour cure period will apply to your violation of any law, regulation, order or our standards relating to health, sanitation or safety; or, except as provided in *Section 5.2*, if you cease to operate the Franchised Business for a period of forty-eight (48) hours without our prior written consent. In addition, a twenty-four (24) hour cure period will apply if you post on any Site or direct others to any site or page, post, blog or other social medium site where there are posted any defamatory or offensive comments about: other franchisees; the *NrGize Lifestyle Cafe* brand; other brands franchised by us or one of our

affiliates; your or other franchisees' customers; any of our, your or franchisees' vendors; us or any of our affiliates; or any of our, your or franchisees' competitors;

e. Immediate Cure Period (less than 24 hours) – An immediate cure period (less than twenty-four (24) hours) will apply if you post any content to a Site in which the content includes any inappropriate public displays of affection, our or others' confidential information or materials, violations of health or safety standards, foul or obscene language, or any images of or information about any persons from whom you did not obtain prior written consent;

f. No Cure Period - No cure period will be available: (1) if you are in default of *Sections 3.1, 9.4, 14.1a.(i), 14.1a.(iii), 14.1a.(vi), 14.1a.(vii), 14.1a.(viii), 14.1a.(xiv), 14.1a.(xv), or 14.6*; (2) if you intentionally underreport weekly Gross Sales, falsify financial data, fail to promptly provide upon our request financial data and records specified in this Agreement, or otherwise commit an act of fraud with respect to your rights or obligations under this Agreement; (3) if you repeatedly fail to comply with the provisions of this Agreement, whether or not subsequently cured; (4) if you, having twice previously cured a default of this Agreement, commit the default again; or (5) if you made any false representations and warranties under *Sections 17.1f., 17.1g., 17.1m. or 17.1n.*;

g. Statutory Cure Period - If a statute in the state or municipality in which the Franchised Business is located requires application of that state or municipal law, and that statute requires a cure period for the applicable default which is longer than any cure period specified in this *Article 14*, the statutory cure period will apply.

14.3 Our Right to Take Over Management.

We have the right (but not the obligation), under the circumstances described below, to enter the Franchised Business and assume the Franchised Business' management for any period of time we feel is appropriate. If we assume the Franchised Business' management, you must pay us, in addition to the Royalty Fee and Advertising Fee, six percent (6%) of the Gross Sales, plus our direct out-of-pocket cost and expenses, for the period of time we assume the Franchised Business' management. If we assume the Franchised Business' management, you acknowledge that our duty is limited to using our reasonable efforts, and we will not be liable to you or your owners for any debts, losses or obligations the Franchised Business incurs, or to any of your creditors for any supplies or services the Franchised Business purchases. We may assume the Franchised Business' management if you abandon the Franchised Business or if you fail to comply with any provision of this Agreement and did not cure the failure within the time period we specify in our notice to you. You agree to complete and sign a letter of agency, letter of authorization, or equivalent and provide it to us upon our request if we assume the Franchised Business' management so that we may keep the existing telephone, facsimile, alarm, and credit card machine numbers (as applicable) in operation under our phone service provider. You also agree to keep the phone, water, gas, electric service (as applicable) turned on and active for one (1) week after we assume the Franchised Business's management to allow us to switch the services over to us or our affiliate. Our exercise of our management rights under this *Section 14.3* will not affect our right to terminate this Agreement.

14.4 Remedies.

a. Interest, Costs and Damages - If you fail to remit when due any payments required under this Agreement, you agree to pay, in addition to the unpaid amounts, all of our collection costs and expenses, expert fees, reasonable attorneys' fees, and costs and expenses, including

all fees, costs and expenses of court, including all appeals, with interest on the unpaid amounts at the Default Rate or the highest permissible rate. If you fail to cure a default, following notice, within the applicable time period set forth in *Section 14.2*, or if this Agreement is terminated as a result of your default, you shall pay to us all damages of any kind and nature whatsoever and all collection costs and expenses, expert fees, reasonable attorneys' fees, and costs and expenses, including all fees, costs and expenses of court, including all appeals, together with interest at the Default Rate or the highest permissible rate. If you fail to report Gross Sales in accordance with *Sections 5.2 and 5.6*, we may estimate your Royalty Fee and Advertising Fee based on prior reports, and may sue for and obtain judgment for such estimates unless you prove, prior to the entry of any default order or judgment, that your Royalty Fee and Advertising Fee are different than the estimates.

b. Waiver of Punitive Damages - Both we and you waive, to the full extent permitted by law, any right they otherwise may have had to claim, pursue, demand or receive any exemplary or punitive damages arising out of or related in any way to this Agreement and its addenda, amendments, appendices, exhibits and attachments.

c. If you breach any of the terms of this Agreement, including if you are in default of this Agreement, we may enforce our rights by injunction, specific performance, or any other remedy available under this Agreement, at law or in equity, including termination. These remedies are cumulative and not exclusive and we may use all remedies available. In addition, we may elect to terminate this Agreement and all your rights under it as set forth in *Section 14.5*.

d. If you breach any of the terms of this Agreement, including if you are in default of this Agreement, we have the right to have a receiver appointed to take possession, manage and control the assets of the Franchised Business, collect the profits, and pay the net income for the operation of the Franchised Business as ordered by a court of competent jurisdiction. The right to appoint a receiver will be available regardless of whether waste or danger of loss or destruction of the assets exists.

14.5 Effect of Termination or Expiration.

Upon termination or expiration of this Agreement, we can advise all suppliers of *NrGize Lifestyle Cafe* proprietary food items and other supplies bearing any of the Proprietary Marks or service marks to cease delivering the items and products to you.

Upon your abandonment of the Franchised Business (whether voluntary or involuntary), any termination of this Agreement (whether pursuant to *Sections 14.1, 14.2 or 14.4* ~~14.2, 14.4~~, or otherwise), or upon expiration of the Term, you must immediately cease to hold yourself out to the public as a franchise owner of the System, and you must comply with the following:

a. Immediately pay to us or any affiliate of ours all sums owing from you to us or such affiliate, including the Royalty Fee and Advertising Fee, for any period prior to the date of termination, the applicable Early Termination ~~Fee~~ Damages (as defined in Section 14.9 below), and all amounts owed for services, supplies or other items purchased by you from us or any affiliate of ours, or that were financed by us or any affiliate of ours, or which we or any affiliate of ours loaned to you, together with any interest or late fees accrued thereon, together with all other sums due ~~to~~ us under this Agreement, and all damages of any kind or nature whatsoever that may be allowed by law;

b. Immediately cease to use, in any manner whatsoever, including in all advertising, the Proprietary Marks, any Trade Secrets, any Confidential Information, any benefits of the

System or any part thereof, any methods associated with the System, any forms, recipes, OperationsConfidential Manual, slogans, signs, sign posts, marks, symbols, or devices used in connection with the operation of the Franchised Business; and you must deliver or destroy all of the above- mentioned materials, including any materials containing or referencing any of the foregoing, to us as directed by us. If we do not recover any such items, such items shall be valued at their then-current replacement cost, for purposes of determining the damages owing by you to us for failure to return such items, if we pursue a damage claim as a result thereof;

c. Immediately discontinue all advertising as a franchisee of the System, and thereafter refrain from any advertising that would indicate that you are or ever were a franchisee or licensee of ours, or otherwise were affiliated with us or the System;

d. Immediately take such steps as may be necessary or appropriate to:

(i) delete your listing in all telephone directories, if applicable, and terminate any other listings that indicate that you are or were a franchisee or licensee of ours, or otherwise were affiliated with us or the System; and

(ii) transfer to our designee or us all telephone numbers used by you in connection with the Franchised Business. You acknowledge that between you and us, we have the sole right and interest in all telephone numbers and directory listings associated with any Proprietary Marks, and you authorize us and appoint us and any officer or agent of ours, as your attorney-in-fact, to direct the telephone company and all listings agencies to accept such direction, or this Agreement, as conclusive evidence of our exclusive rights in such telephone numbers and directory listings and our authority to direct their transfer;

e. Immediately take such action as may be required to cancel all fictitious or assumed names, amend any entity name, or dissolve any entity that contains any Proprietary Mark, in whole or in part, regardless of whether the entity name was authorized by us, and amend or cancel any and all equivalent registrations relating to your use of any Proprietary Mark. You acknowledge that between you and us, we have the sole right and interest in all such fictitious or assumed names, entity name, and equivalent registrations, and you authorize us and appoint us and any officer or agent of ours as your attorney-in-fact, to effect the termination or cancellation of such fictitious or assumed names or equivalent registrations should you fail or refuse to do so, and the appropriate federal, state, and local agencies may accept your direction or this Agreement as conclusive evidence of our exclusive rights in such fictitious or assumed names or equivalent registrations, and our authority to direct their termination or cancellation;

f. Comply with the confidentiality requirements and the covenant against competition in this Agreement for the specified period. You acknowledge that you, or (if an entity) your authorized representative, has carefully reviewed the confidentiality requirements and the covenant against competition in this Agreement; and that you have agreed to be bound by all the requirements and covenants; and

g. Maintain at a place made known to us all books, records and reports required under this Agreement for a period of not less than three (3) years after the date of termination or expiration of this Agreement, to allow us to make a final inspection of your books and records for the purpose of verifying that all amounts owing have been paid.

If you fail to do any of the foregoing, we may pursue any remedy available at law or in equity against: (i) you; (ii) any or all guarantors of your obligations under this Agreement; and (iii) you and any or all guarantors of your obligations under this Agreement.

We have the right, but not the obligation, to purchase from you any assets or property (but not leasehold improvements) used in the operation of the Franchised Business for an amount equal to the Value (as defined below), as of the termination date. If we are required, by law, regulation or court order, to purchase the equipment and other tangible assets used in connection with the Franchised Business, the purchase price will be equal to the Value. For purposes of this Agreement, the term "Value" means, subject to applicable law, an amount equal to your cost for such assets, less depreciation and amortization using a two hundred percent (200%) declining balance method over a five (5) year period. If all, or any portion of, your assets that are being purchased by us or our authorized representative are subject to lien(s), we or our authorized representative may pay, on your behalf, the lienholder(s) that portion of the purchase price for your assets (which may be the entire purchase price) that is necessary to obtain the release of those assets from the lien(s), in lieu of paying you those funds. Further, we may offset any amounts payable to you pursuant to this *Section 14.5*, or otherwise pursuant to this Agreement, against any unpaid amounts payable to us or our affiliates pursuant to this Agreement or any agreement executed in connection with this Agreement.

14.6 Covenant Not to Compete; Conflicting Interests.

a. During the Term and for a period of two (2) years after your abandonment of the Franchised Business, expiration of this Agreement, or termination of this Agreement (whether voluntary or involuntary), you shall not engage in any Competing Business (as defined in *Section 14.6c.*) with any *NrGize Lifestyle Cafe* restaurant, nor shall you have any Conflicting Interest (as defined in *Section 14.6d.*) in a Competing Business. The provisions of this Agreement bind you in any capacity, including as a franchisee, sole proprietor, partner, limited partner, member, employer, franchisor, shareholder, officer, director or employee.

b. During the Term, and for a period of two (2) years after your abandonment of the Franchised Business, expiration of this Agreement, or termination of this Agreement, (whether voluntary or involuntary), you shall not divert or attempt to divert any business, customers, or potential customers of the *NrGize Lifestyle Cafe* System to any Competing Business, by direct or indirect inducement or otherwise. In addition, you shall not at any time do or perform any act, directly or indirectly, which harms the goodwill or reputation of us or the System.

c. For purposes of this *Section 14.6*, "Competing Business" means a business which is primarily engaged in the sale of smoothies, protein shakes, meal replacement shakes, chillers, and all variations thereof, within a geographical area consisting of: (1) during the Term, anywhere else; and (2) after abandonment, expiration or termination of this Agreement, within a ten (10) mile radius from the Location or location of any *NrGize Lifestyle Cafe* restaurant of ours, our third-party licensees or our third-party franchisees. The term "*NrGize Lifestyle Cafe* restaurant" includes not only the restaurants now in existence, but also those established at a later date. The term of this covenant will be extended by any time consumed in litigation to enforce it in both trial and appellate courts. If a court of competent jurisdiction determines that the restrictions in this paragraph are excessive in time, geographic scope, or otherwise, the court may reduce the restriction to the level that provides the maximum restriction allowed by law.

d. For purposes of this *Section 14.6*, "Conflicting Interest" means an interest by which you, or your executive officers, directors and shareholders (if you are a corporation), or your partners (if you are a partnership), or your members (if you are a limited liability company), or your designated manager, directly or indirectly, have a controlling interest in, lend money to, consult with or otherwise assist any Competing Business. If any of the persons named above do not sign this Agreement under the heading "*Personal Acceptance of Sections 7.1, 7.2, 14.6 and*

~~14.8~~14.8." then you agree to obtain the execution by such person of a written agreement setting forth the foregoing in a form acceptable to us.

14.7 Continuing Obligations.

All your obligations that expressly survive the expiration or termination of this Agreement, including *Sections 14.5 and 14.6*, or by the implicit nature thereof require performance after the expiration or termination of this Agreement, will continue in full force and effect (subsequent to, and notwithstanding, your abandonment of the Franchised Business (whether voluntary or involuntary) the expiration of the Term, or termination of this Agreement), until they are satisfied in full or by their nature expire. The indemnities and obligations set forth in *Article 8* will continue in full force and effect subsequent to, and notwithstanding, the expiration or termination of this Agreement.

14.8 Remedies.

You acknowledge and agree that the restrictions contained in this Agreement, including in this *Article 14*, are fair and reasonable and necessary for the protection of our legitimate business interests and you intend and agree that such restrictions be enforceable and enforced to their fullest extent. You further understand and agree that, notwithstanding any other provision of this Agreement, your breach of your obligations under this *Article 14*, will cause us irreparable harm for which recovery of monetary damages alone would not be an adequate remedy. Both parties shall be entitled to obtain timely injunctive relief, including a temporary restraining order, preliminary and permanent injunctions, to protect their rights under this Agreement, in addition to and not exclusive of any and all other remedies available to each party.

14.9 Early Termination Damages.

If you discontinue operating your Franchised Business before this Agreement expires, with or without obtaining our prior written consent, or in the event of a termination of this Agreement arising from or related to your default and breach of its provisions, you will become obligated to pay Franchisor early termination damages ("Early Termination Damages"). The Early Termination Damages shall be considered damages and not a penalty, are not in lieu of other damages, and your payment of these damages shall not constitute a release of any other obligation owed to us. Franchisor, Franchisee, each individual signing on behalf of Franchisee, and each guarantor guaranteeing Franchisee's obligations hereunder, hereby acknowledge and agree that Franchisor's losses due to Franchisee's unilateral closure of the Franchised Business or termination of this Agreement would be highly difficult or impossible to calculate with reasonable certainty and, therefore, have agreed at the outset of this Agreement that the Early Termination Damages, and the formula for calculating these damages, constitutes a reasonable, good faith forecast of Franchisor's estimated losses and damages due to the premature closure of the Franchised Business or termination of this Agreement.

The amount of the Early Termination Damages is calculated as follows:

a. Compute the average monthly Royalty Fee and Advertising Fee due for any consecutive twelve (12) month period within the forty-eight (48) months immediately preceding the date we receive notification of the closure, or if you failed to timely notify us of the closure then the date the Franchise Business closed, or, if the Franchised Business has been open for less than twelve (12) months, the average monthly Royalty Fee and Advertising Fee due since the opening of the Franchised Business ("Monthly Average");

- b. Multiply the Monthly Average by the number of months remaining in the Term; and
- c. Divide the resulting total computed in b. above by two (2).

For example purposes only: If the average monthly Royalty Fee and Advertising Fee were collectively \$1,000 and there were five years (60 months) remaining in the Term, the Early Termination Damages would be \$30,000, calculated as follows: $\$1,000 \times 60 \text{ months} = \$60,000 \div 2 = \$30,000$.

If you unilaterally terminate this Agreement prior to the end of the Term, you must give us ninety (90) days prior notice of the early termination ("Early Termination Notice"). Within ten (10) days after our receipt of your Early Termination Notice, we will calculate the Early Termination Damages, which will be due and payable thirty (30) days prior to the closure of your Franchised Business. In the event of a termination arising from or related to your default under this Agreement, or that you do not: (i) provide us with the Early Termination Notice at least ninety (90) days prior to the early termination of your Franchised Business and this Agreement; (ii) remain open for at least ninety (90) days after providing us with the Early Termination Notice; and (iii) pay the Early Termination Damages in full at least thirty (30) days prior to closing of the Franchised Business, the Early Termination Damages due may, in our sole discretion, be increased as follows: it will be calculated by multiplying the Monthly Average by the number of months remaining in the Term, and will not be divided by two (2).

If you have not paid your Royalty Fee and Advertising Fee for any period(s) within the forty-eight (48) months prior to notifying us of your early termination, or if you have not reported your Gross Sales for any period(s) within the forty-eight (48) months prior to notifying us of your intended early termination, we will estimate the Royalty Fee and Advertising Fee based upon prior reports to calculate the Monthly Average.

ARTICLE 15. NOTICES

Unless otherwise provided in this *Article 15*, all notices specified by this Agreement or required by law must be in writing and given by personal delivery, sent by carrier (i.e., FedEx[®], UPS[®], etc.), U.S. certified mail, return receipt requested. All notices to us must be given at the address set forth on page 1 of this Agreement or to such other address as we may designate in writing from time to time in accordance with this *Article 15*. All notices to you may be given at the address set forth on page 1 of this Agreement, at the address of the Franchised Business, at any of your franchised restaurants, at your residence (if an individual), or at the residence of your principal shareholder(s), partner(s), or member(s) (if a business entity). Notices will be conclusively deemed to be given, delivered, and effective when sent pre-paid and actually left in the custody of an adult agent, employee or resident at a place of business or residence if given by personal delivery; or if given by carrier, twenty-four (24) hours after deposited with carrier, or if by U.S. mail or certified mail, three (3) days after deposited with the U.S. Postal Service. You have an obligation to promptly notify us pursuant to this *Article 15* whenever your mailing address, phone number or email address change. Notwithstanding the foregoing, we may give you written notice via email to the email address you provide us regarding updates or information related to System Standards, including compliance matters, with such email notification to be deemed received by you twenty-four (24) hours after we send it, unless you otherwise earlier acknowledge receipt.

ARTICLE 16. CONSTRUCTION AND ENFORCEMENT; MISCELLANEOUS

16.1 Independent Contractors.

The relationship between you and us is that of independent contractors. You are in no way to be deemed our partner, joint venturer, agent, employee, or servant. You have no authority to bind us to any contractual obligation or incur any liability for or on our behalf. You shall identify yourself as an independent owner of the Franchised Business in all dealings with customers, lessors, contractors, suppliers, public officials, employees, and others.

16.2 Severability and Substitution of Provisions.

Except as provided to the contrary in this Agreement, each article, section, term and provision of this Agreement, and any portion thereof, will be considered severable, and if, for any reason, any such portion of this Agreement is held to be invalid, contrary to, or in conflict with any applicable present or future law or regulation, or as a result of a final, non-appealable ruling issued by any court, agency or tribunal with competent jurisdiction in a proceeding to which we are a party, that regulation or ruling will not impair the operation of, or have any other effect upon, such other portions of this Agreement as may otherwise remain valid, and such other portions will continue to be given full force and effect and bind the parties to this Agreement. If the severed provision is material to this Agreement, we shall promptly provide a substitute provision to replace the invalid severed provision consistent with then-current law and the original intent of the parties.

If any applicable and binding law or rule of any jurisdiction requires a greater prior notice of the termination of, or refusal to renew, or grant a successor term to, this Agreement than is required under this Agreement, or the taking of some other action not required under this Agreement, or if under any applicable law, regulation, or court ruling of any jurisdiction, any provision of this Agreement or any specification, standard or operating procedure prescribed by us is invalid or unenforceable, the prior notice or other action required by such law, regulation, or court ruling will be substituted for the comparable provisions of this Agreement, and we will have the right, in our sole discretion, to modify such invalid or unenforceable provision, specification, standard or operating procedure to the extent required to be valid and enforceable. Such modifications to this Agreement shall be effective only in such jurisdiction, unless we elect to give them greater applicability, and otherwise shall be enforced as originally made and entered into in all other jurisdictions.

16.3 Dispute Resolution.

a. Except as otherwise provided herein, any dispute, claim or controversy arising out of or relating to this Agreement, the breach hereof, the rights and obligations of the parties hereto or the relationship between the parties, or the entry, making, interpretation, or performance of either party under this Agreement ("Dispute"), which cannot be resolved by mediation under *Section 16.3d*, or is not subject to mediation under the terms of this Agreement, shall be settled by arbitration administered by the American Arbitration Association ("AAA") in accordance with its Commercial Arbitration Rules as modified below.

b. Any arbitration shall take place before a sole arbitrator in Maricopa County, Arizona or, if our headquarters are no longer located in Maricopa County, Arizona, then the arbitration shall take place in the county in which our headquarters are located at the time the arbitration is commenced. You agree that conducting the arbitration where we are located is appropriate due to the multiple locations throughout the United States where our franchisees are located. The parties agree that the arbitrator shall be an attorney licensed to practice law in the United States, and must have a minimum of five (5) years of experience in franchise law. Judgment on the award rendered by the arbitrator may be entered in any court of competent jurisdiction. The arbitrator shall, in the award, allocate all of the costs and expenses of the

arbitration, including the fees of the arbitrator and the reasonable attorneys' fees of the prevailing party, against the party who did not prevail. To the extent permitted by applicable law, no issue of fact or law shall be given preclusive or collateral estoppel effect in any other dispute, arbitration proceeding or litigation, except to the extent such issue may have been specifically determined in another proceeding between the parties. This agreement to arbitrate shall survive any termination or expiration of this Agreement, however effected. The parties agree that any arbitration shall be solely between them (including any affiliates) and shall not include as a party, by consolidation, joinder, or in any other manner, any other person or entity, unless both parties consent in writing. Both parties shall have the absolute right to refuse such consent. Further, the parties expressly waive any right to bring or participate in any class or other consolidated, joined or multi-party arbitration claim or proceeding, whether or not permissible under the AAA Commercial Arbitration Rules, including any claim brought on their behalf by an association of which it, he or she is a member. At the request of any party, the arbitration shall be conducted in a manner that maintains the confidentiality of the proceedings.

c. The arbitrator will issue a reasoned award, with findings of fact and conclusions of law. Actions to enforce an express obligation to pay monies may be brought under the Expedited Procedures of the AAA's Commercial Arbitration Rules. The Federal Arbitration Act shall govern, excluding all state arbitration laws. Arizona law will govern all other issues. With respect to discovery, the arbitrator shall require each party to make a good cause showing before any discovery exceeding that specifically authorized by the AAA Commercial Arbitration Rules will be granted.

d. Prior to the commencement of an arbitration proceeding, the parties must first submit any Dispute to non-binding mediation. At the request of any party, the mediation will be confidential. The mediation shall be conducted in Maricopa County, Arizona or in the county in which our headquarters are located at the time of mediation, unless the parties shall mutually agree to a different location. The parties to the mediation will share equally in its costs and expenses, except those costs and expenses incurred separately by each party, including counsel fees and expenses. The mediation process will be deemed "Completed" when the parties agree that it has been completed, the mediator declares that any impasse exists, or sixty (60) days have elapsed since the date of the initiating party's notice to the other party that it is initiating the mediation process, whichever occurs first.

e. Notwithstanding anything contained in this Agreement to the contrary, the provisions of Sections 16.3a., 16.3b., 16.3c. and 16.3d. do not apply to a Dispute where: (i) we bring an action for an express obligation to pay monies, declaratory relief, preliminary or permanent equitable relief, any action at law for damage to our goodwill, the Confidential Information, the Proprietary Marks or for fraudulent conduct by you; or (ii) the delay resulting from the mediation process may endanger or adversely affect the public (for example, unhealthy, unsafe or unsanitary conditions would continue to exist). For such disputes, we may bring an action in any federal or state court having jurisdiction, whether for monetary damages, temporary preliminary and permanent injunctive relief or specific performance in addition to, and not exclusive of, any other remedies available to us. You hereby consent to and waive any objection or defense and agree not to contest venue, forum non conveniens or jurisdiction of such court or arbitration.

f. Disputes concerning the validity or scope of arbitration, including whether the Dispute is subject to arbitration, are beyond the authority of the arbitrator and will be determined by a court of competent jurisdiction pursuant to the Federal Arbitration Act, 9 U.S.C. §1 et seq., as amended from time to time.

g. Either party may appeal the final award of the arbitrator, if it is over One Hundred Thousand Dollars (\$100,000), to the appropriate U.S. District Court. The Court's review of the arbitrator's findings of fact will be under the clearly erroneous standard, and the Court's review of all legal rulings will be *de novo*. If it should be determined that this provision for federal court review is not enforceable, then either party may appeal the arbitrator's final award, if it is over One Hundred Thousand Dollars (\$100,000), to a panel of three (3) arbitrators chosen under AAA Optional Appellate Arbitration Rules , which will employ the same standards of review stated immediately above.

16.4 Applicable Law and Forum; Waiver of Jury; Statute of Limitations.

a. Except to the extent that the United States Trademark Act of 1946, as amended (15 U.S.C., § 1051 et seq.) or the franchising laws of any state that may be applicable, the laws of the State of Arizona govern all rights and obligations of the parties under this Agreement without regard to conflict of law. The parties agree, subject to the mandatory mediation and arbitration provisions of *Section 16.3*, that any appropriate state or federal court located in Maricopa County, Arizona has exclusive jurisdiction over any Dispute arising under or in connection with this Agreement and is the proper forum in which to adjudicate the case or controversy. Notwithstanding the foregoing any action initiated by us may, at our election, be brought in any jurisdiction where you are domiciled or that has jurisdiction over you. The parties hereto irrevocably submit to the jurisdiction of, and venue in, any such court, and hereby waive any objection or defense thereto. THE PARTIES AGREE THAT ALL DISPUTES SUBMITTED TO THE COURT PURSUANT TO THIS SECTION SHALL BE TRIED TO THE COURT SITTING WITHOUT A JURY, NOTWITHSTANDING ANY STATE OR FEDERAL CONSTITUTIONAL OR STATUTORY RIGHTS OR PROVISIONS.

b. Notwithstanding anything contained in this Agreement to the contrary, the parties agree that any claims under, arising out of, or related to, this Agreement must be brought within two (2) years of the date on which the underlying cause of action accrued, and the parties hereby waive any right to bring any such action after such two (2)-year period, except for the collection of any unpaid Royalty Fee, Advertising Fee, and any other amount due to us or our affiliate.

c. **YOU HEREBY WAIVE THE RIGHT TO SEEK OR COLLECT PUNITIVE, MULTIPLE, CONSEQUENTIAL AND SPECIAL DAMAGES IN ANY FORUM, INCLUDING ARBITRATION. YOU HEREBY FURTHER WAIVE THE RIGHT, IF ANY, OF ANY ASSOCIATION OR MEMBERSHIP GROUP TO ASSERT CLAIMS ON YOUR BEHALF IN ANY ACTION.**

d. **YOU HEREBY WAIVE THE RIGHT TO ANY DAMAGES IN CONNECTION WITH OR RESULTING FROM THE WRONGFUL ISSUANCE OF AN INJUNCTION.**

e. The parties agree that the maximum damages that you may recover in connection with a wrongful termination of your franchise and this Agreement will be an amount equal to the product of:

- (i) the annual net profit (as defined below) multiplied by
- (ii) the lesser of:

(a) The number of full years existing between the date on which the franchise and this agreement were wrongfully terminated and the date on which the Term would have otherwise expired; or

(b) Three.

For purposes of this Agreement, the term "net profit" means an amount equal to the net profits of your Franchised Business, as reflected on your tax return filed with the Internal Revenue Service prior to such termination; provided, however, that if such tax return reflects the operations of your Franchised Business for a period less than one (1) year, such net profits will be annualized based upon the net profits reflected in such tax return.

16.5 No Guarantee of Franchisee's Success.

You have been informed of and acknowledge the highly competitive nature of the business involved, and agree that the successful operation of your Franchised Business will depend in part, upon your best efforts, capabilities, management, and efficient operation; as well as the general economic trend and other market conditions.

16.6 Existence of Various Forms of Franchise Agreements.

You acknowledge that our present and future franchisees operate under a number of forms of franchise agreements and consequently, our obligations and rights with respect to our various franchisees may differ materially in certain instances. The existence of different forms or versions of the franchise agreement does not entitle you to benefit from any such difference; nor does it operate to alter or amend the agreement of the parties set forth in this Agreement.

16.7 Franchise Owner May Not Withhold Payments.

You agree that you will not, on grounds of alleged or actual nonperformance or breach by us of any of our obligations under this Agreement, withhold payment of any Royalty Fee, Advertising Fee, amounts due to us or any of our affiliates for goods or services purchased by you, or any other amounts due to us or any of our affiliates.

16.8 Remedies Are Cumulative.

The rights and remedies of the parties to this Agreement are cumulative and not exclusive, and no exercise or enforcement by either party of any right or remedy under this Agreement shall preclude the exercise or enforcement by such party of any other right or remedy under this Agreement or otherwise available at law or in equity to such party.

16.9 Interpretation.

All the terms and provisions of this Agreement will be binding upon and inure to the benefit of the successors and assigns of the parties. However, nothing in this *Section 16.9* may be construed as our consent to the Transfer of this Agreement or any rights by you.

16.10 Waiver.

Our failure to insist upon the strict performance of any term, covenant or condition contained in this Agreement will not constitute or be construed as a waiver or relinquishment of our right to enforce thereafter any such term, covenant or condition and such term, covenant or condition will continue in full force and effect.

16.11 Litigation Expense.

If an action at law or suit in equity is brought to establish, obtain or enforce any right by either of the parties to this Agreement, the prevailing party in the suit or action, in the trial and appellate courts, will be entitled to recover from the non-prevailing party reasonable attorneys' fees, costs and expenses and disbursements incurred in such suit or action.

16.12 No Third-Party Beneficiaries.

This Agreement is not intended to benefit any other person or entity except the named parties hereto and no other person or entity shall be entitled to any rights hereunder by virtue of so-called "third-party beneficiary rights" or otherwise.

16.13 Binding Effect; Modification.

This Agreement is binding upon the parties to this Agreement and their respective executors, administrators, personal representatives, heirs, permitted assigns and successors in interest. No amendment, change, or modification of this Agreement shall be binding on any party unless executed in writing by you and us.

16.14 Entire Agreement; Nature and Scope; Construction.

This Agreement, all exhibits, attachments, addendums, and amendments, constitute the entire understanding and agreement between the parties, and there are no other oral or written understandings or agreements between us and you relating to the subject matter of this Agreement. If required to be signed, any state specific addendums are incorporated herein by reference. Any representation not specifically contained in this Agreement made prior to entering into this Agreement does not survive subsequent to the execution of this Agreement. We and you have entered into this Agreement for the sole purpose of authorizing you to use the System licensed by this Agreement in the operation of the Franchised Business during the Term in which those specific items designated by us for sale and use in such locations are offered for sale and use in individual, face-to-face transactions with patrons visiting the Franchised Business (and equivalent telephone or mail transactions accepted as a convenience to that customer group). All consideration being furnished by us to you during the course of performance of this Agreement has been determined based on the limited rights and other limitations expressed herein. No other rights have been bargained for or paid for. This provision is intended to define the nature and extent of the parties' mutual contractual intent, there being no mutual intent to enter into contract relations, whether by agreement or by implication, other than as set forth in this Agreement. The parties further acknowledge that these limitations are intended to achieve the highest possible degree of certainty in the definition of the contract being formed, in recognition of the fact that uncertainty creates economic risks for both parties which, if not addressed as provided in this Agreement, would affect the economic terms of this bargain.

Nothing in this Agreement or in any related agreement is intended to disclaim the representations we made in the Disclosure Document. Nothing in this Agreement is intended, nor shall be deemed, to confer any rights or remedies upon any person or legal entity not a party hereto.

16.15 Terminology.

In addition to the terms defined elsewhere in this Agreement, the following terms defined below are incorporated in this Agreement by reference and shall be deemed to include all persons who succeed to the interest of the original, where applicable:

The term “affiliate” means any person who, directly or indirectly through one (1) or more intermediaries, controls, is controlled by, or is under common control with any person;

The term “Dollars” means United States Dollars and all amounts due under this Agreement shall be paid in United States currency; The use of the terms “includes” and “including” in any provision of this Agreement followed by specific examples used shall not be construed to limit application of the provision to only the specific examples used;

The term “person” means any natural person, corporation, partnership, trust, other entity, association or form of organization;

The term “will” and “shall” shall be synonymous, and shall be mandatory and not discretionary, unless otherwise specifically provided herein; and

Any references to articles or sections refer to articles and sections in this Agreement unless specified otherwise.

16.16 Counterparts.

This Agreement may be executed in one (1) or more original counterparts, and all of which, when taken together, shall be deemed to be one (1) original Agreement. A fully- executed copy of this Agreement shall be of the same force and effect as the original.

16.17 Offerings.

If you are a corporation, partnership or other entity, and if you intend to offer securities, partnership interests or other ownership interests in you through any public or private offering, you shall not use any Proprietary Marks in such public or private offering, except to reflect your franchise relationship with us; nor shall you misrepresent your relationship with us by any statement or omission of an essential statement. You shall indemnify and hold us harmless from any liability in connection with such offering. Nothing in the foregoing shall modify the provisions of *Article 12*, and no such offering shall be made without first complying with any applicable provisions of *Article 12*.

16.18 Time.

Time is of the essence of each and every provision of this Agreement.

16.19 Force Majeure.

Neither of the parties will be liable for loss or damage or be deemed to be in breach of this Agreement if the failure to perform the party’s obligations results from: (a) transportation shortages, inadequate supply of equipment, merchandise, supplies, labor, material or energy, or the voluntary foregoing of the right to acquire or use any of the foregoing in order to accommodate or comply with the orders, requests, regulations, recommendations or instructions of any government or any department or agency thereof; or (b) acts of God. Any delay resulting from any of these causes will extend performance accordingly or excuse performance, in whole or in part, as may be reasonable, except that no such cause will excuse payments of amounts owed at the time of such occurrence or payment of the Royalty Fee and all other amounts due to us and our affiliates thereafter.

16.20 Plurals and Captions.

Words in the singular number include the plural when the context requires (and vice-versa). The table of contents and the captions are inserted only for convenience and are not a part of this Agreement or a limitation of the scope of the particular article or section to which each refers.

16.21 Joint and Several Liability.

If you consist of two (2) or more individuals, whether in the form of separate individuals or a business entity controlled by the individuals, then each individual will be jointly and severally liable under the provisions of this Agreement.

16.22 Trademark Notice.

All trademarks referenced in this Agreement are those of their respective owners.

16.23 No Accord or Satisfaction.

If you pay, or we otherwise receive, a lesser amount than the full amount provided for under this Agreement for any payment due hereunder, such payment or receipt shall be applied against the earliest amount due us. In addition, if interest or late fees are owed, we may apply any amounts paid to the late fees and interest before such amounts are applied to the principal amount owed. We may accept any check or other payment in any amount without prejudice to our right to recover the entire balance of the amount due or to pursue any other right or remedy. No endorsement or statement by you on any check or payment or in any letter accompanying any check or payment or elsewhere shall constitute or be construed as an accord or satisfaction.

ARTICLE 17. ACKNOWLEDGMENTS AND REPRESENTATIONS OF FRANCHISEE

17.1 Certain Representations and Warranties of Franchisee.

You represent and warrant that the following statements are true and complete as of the Effective Date:

a. You do not seek to obtain the Franchised Business for speculative or investment purposes and have no present intention to sell or transfer or attempt to sell or transfer the Franchised Business except as previously approved by Franchisor and subject and conditioned to Article 12 of this Agreement.

b. You understand and acknowledge the value to the System of uniform and ethical standards of quality, appearance and service described in and required by the OperationsConfidential Manual and the necessity of operating the Franchised Business under the System Standards. You represent that you have the capabilities, professionally, financially and otherwise, to comply with our System Standards.

c. If you are a corporation, limited liability company, partnership, or other form of entity, you are duly incorporated, organized, or formed and are qualified to do business in the state and any other applicable jurisdiction within which the Franchised Business is located, and you are and shall remain duly organized and in good standing during the Term.

d. You represent and warrant that: (i) if you are an individual, you are; or (ii) if you are an entity, that each of your owners, shareholders, partners, and members are, a United States

citizen or a lawful resident alien of the United States.

e. All financial and other information that you have provided to us in connection with your application for this franchise is true and accurate.

f. The execution of this Agreement by you will not constitute or violate any other agreement or commitment to which you are a party.

g. Any individual executing this Agreement on your behalf is duly authorized to do so and the Agreement shall constitute your valid and binding obligation and, if applicable, all of your partners, members, or shareholders, if you are a partnership, limited liability company, or corporation.

h. You have, or if you are a partnership, corporation or other entity, your partners or ~~your~~ principals have, carefully read this Agreement and all other related documents to be executed by you concurrently or in conjunction with the execution hereof; that you have obtained, or had the opportunity to obtain, the advice of counsel in connection with the execution and delivery of this Agreement; that you understand the nature of this Agreement; and that you intend to comply with and be bound by this Agreement.

i. You have read and understand the information and disclosures made in the Disclosure Document provided to you as acknowledged in *Section 17.3e*. You understand and acknowledge that: (i) estimates for initial ~~startup~~start-up expenses are estimates only and there can be additional start-up expenses; and (ii) your sales may differ substantially from any sales provided in Item 19 of the Disclosure Document, and there is no assurance that your sales will meet or exceed any sales listed in Item 19 of the Disclosure Document. You have had the opportunity to and have consulted or elected not to consult with your attorney, accountant and business advisors before entering into this Agreement.

j. You understand and agree that, while not applicable in every case, our past experience indicates that owner-operated restaurants generally perform better than absentee owners with hired managers. The food business is a personal business and is dependent upon your business skill and judgment. This includes your choice of employees. Your skill in hiring the right people to work in your Franchised Business is very important in determining whether people decide to purchase menu items from your Franchised Business or from another restaurant in the same vicinity.

k. You understand and agree that ownership of a franchise and the Franchised Business carries certain risks. These risks include the loss of your initial investment, other continued financial losses such as rent payments due under lease obligations and other contractual obligations, the loss of your time and energy in starting up and running your Franchised Business, and loss of earnings and investment income from your investment in the Franchised Business. You understand and agree that the Franchised Business may make money and may lose money and are entering this business venture with this express understanding. You are not relying upon anything which is not contained within this Agreement or the Disclosure Document in determining and deciding to become a franchisee.

l. Notwithstanding the foregoing, you understand and agree that the System must not remain static if it is to meet (without limitation) presently unforeseen changes in technology, competitive circumstances, demographics, populations, consumer trends, social trends and other market place variables, and if it is to best serve the interests of us, you and all other franchisees.

Accordingly, you expressly understand and agree that we may from time to time change the components of the System, including altering the products, programs, services, methods, standards, forms, policies and procedures of that System; abandoning the System altogether in favor of another system in connection with a merger, acquisition or other business combination or for other reasons; adding to, deleting from or modifying those products, programs and services which your Franchised Business is authorized and required to offer, modifying or substituting entirely the equipment, signage, trade dress, décor, color schemes and uniform System Standards and specifications and all other unit constructions, design, appearance and operation attributes which you are required to observe under this Agreement; and, abandoning, changing, improving, modifying or substituting the Proprietary Marks. You expressly agree to comply with any such modifications, changes, additions, deletions, substitutions and alterations. You shall accept, use and effectuate any such changes or modifications to, or substitution of, the System as if they were part of the System at the time that this Agreement was executed. Except as provided herein, we shall not be liable to you for any expenses, losses or damages sustained by you as a result of any of the modifications contemplated hereby.

m. You represent that neither you nor any of your affiliates, officers, directors, managers, members, or partners (as applicable) or funding sources are subject to U.S. Executive Order 13224, identified on the U.S. Department of the Treasury's Office of Foreign Assets Control Specially Designated National and Blocked Persons list, or any terrorist list or other blocked persons list. In addition, you represent that you have not received funding from , nor are you owned, controlled, or acting on behalf of the government of any country that is subject to an embargo by the United States, any foreign government official, political party or international organization, and that no foreign government or government official, political party or international organization has any financial interest in the Franchised Business or any monies earned by the Franchised Business.

n. You represent, warrant and agree that you, your officers, directors, managers, members, or partners (as applicable) will each at all times conduct themselves in an ethical manner and avoid any activity that might result in a violation of the U.S. Foreign Corrupt Practices Act, Anti-Terrorism Laws, or any other applicable anti-corruption or bribery laws.

17.2 Additional Information Respecting Franchisee.

a. You have delivered to us or will deliver concurrent herewith, complete and accurate copies of all of your organizational documents, including all partnership agreements, certificates of partnership, articles of organization, operating agreements, articles or certificates of incorporation, by-laws and shareholder agreements, including all amendments, side letters and other items modifying such documents.

b. You have completed and signed the Franchisee Questionnaire attached hereto as Exhibit 1 and incorporated herein by reference.

17.3 Acknowledgements of Franchisee.

a. You acknowledge that you have conducted an independent investigation of the business venture contemplated by this Agreement and recognize that this business venture involves substantial business risks and will largely depend upon your ability. WeOther than the financial performance representation contained in Item 19 of the Disclosure Document, if any, we expressly disclaim making, and you acknowledge that you have not received or relied on, any warranty or guarantee, express or implied, as to the potential volume, profits , or success of the Franchised Business contemplated by this Agreement.

Franchisee Initials _____ / _____

b. You hereby certify that none of our employees, no other person speaking on our behalf, and no Area Representative, if applicable, have: (i) made any oral, written, visual, or other representation, agreement, commitment, claim, or statement that stated or suggested any level or range of actual or potential sales, costs, income, expenses, profits, cash flow, or otherwise other than any financial performance representation contained in Item 19 of the Disclosure Document; or (ii) made any oral, written, visual, or other representation, agreement, commitment, claim, or statement from which any level or range of actual or potential sales, costs, income, expenses, profits, cash flow, or otherwise might be ascertained, related to ana *NrGize Lifestyle Cafe* franchise, that is different from, contrary to, or not contained in the *NrGize Lifestyle Cafe* Disclosure Document; or (iii) made any representation, agreement, commitment, claim or statement to you that is different from, contrary to, or not contained in, the *NrGize Lifestyle Cafe* Disclosure Document. You acknowledge and agree that we do not make or endorse, nor do we allow any of our employees or other persons speaking on our behalf to make or endorse, any additional oral, written, visual, or other representation, agreement, commitment, claim, or statement that states or suggests any level or range of actual or potential sales, costs, income, expenses, profits, cash flow, or otherwise with respect to ana *NrGize Lifestyle Cafe* franchise other than any financial performance representation contained in Item 19 of the Disclosure Document.

Franchisee Initials _____ / _____

c. You acknowledge that you have received, read and understand this Agreement and the related exhibits, attachments and agreements and that we have afforded you sufficient time and opportunity to consult with advisors selected by you about the potential benefits and risks of entering into this Agreement.

Franchisee Initials _____ / _____

d. You understand that this Agreement, including any amendments and exhibits, contains the entire agreement between the parties concerning the Franchised Business, and that any prior oral or written statements that are not set out in this Agreement, including any amendments, exhibits and attachments will not be binding. You acknowledge and agree that we do not permit any representations, agreements, commitments, claims, or statements or approve any changes in this Agreement or any of the amendments, exhibits and attachments to this Agreement, except by means of a written amendment or addendum signed by all parties to this Agreement. You acknowledge that nothing in this Agreement or in any related agreement is intended to disclaim the representations we made in the Disclosure Document.

Franchisee Initials _____ / _____

e. You acknowledge receipt of our Disclosure Document fourteen (14) days prior to the execution of this Agreement or your payment of any monies to us or our agent (or sooner if required by applicable state law).

Franchisee Initials _____ / _____

f. You acknowledge that, other than what was previously disclosed to you in our Disclosure Document to which you acknowledge receipt thereof, you have not: (1) received any financial statements for any of our parent or affiliated companies; or (2) relied on the financial

condition of any of our parent or affiliated companies when making the decision to purchase the Franchised Business.

Franchisee Initials _____ / _____

g. You acknowledge, as detailed in *Section 2.3*, that you must, at your own cost and expense, use only our designated and approved Design Architect for the design of your Franchised Business.

Franchisee Initials _____ / _____

h. You acknowledge that the following is your Area Representative (if applicable):

Franchisee Initials _____ / _____

i. If an Area Representative is identified in *Section 17.3h.*, you make the following representations with respect to the Area Representative:

(i) You have met or spoken to only _____, the Area Representative;

(ii) At Other than any financial performance representation contained in Item 19 of the Disclosure Document, at no time did the Area Representative make any promises or statements, or projections or forecasts, or estimates or warranties or representations or other statement or agreement concerning profits or expenses or costs or actual or projected sales of any kind directly or by implication about *NrGize Lifestyle Cafe* restaurants or about the Franchised Business that we desire to develop under this Agreement or about obtaining the confirmed Location or about any other matter other than what is contained in the *NrGize Lifestyle Cafe* Disclosure Document or *NrGize Lifestyle Cafe* restaurant brochure.

(iii) You acknowledge that you have not received any written materials from us or the Area Representative except for the *NrGize Lifestyle Cafe* brochure and Disclosure Document; and

If there are any exceptions to *Sections 17.3i (i) – (iii)*, identify the item number and list the exception here:

Franchisee Initials _____ / _____

j. You acknowledge there have been no other inducements made with any person or entity, including the Identified Area Representative, encouraging you to purchase the Franchised Business, such as a “side deal” or other promise or agreement not included in the Agreement.

Franchisee Initials _____ / _____

k. You acknowledge and understand that *Article 6-of this Agreement* covers the use of the *NrGize Lifestyle Cafe* trademark and prohibition on registration of our Proprietary Marks.

You acknowledge the ownership of the Proprietary Marks by us, and you agree that during the Term and after its expiration or termination, you will not, directly or indirectly, apply to register, register or otherwise seek to use or control or in any way use "NrGize Lifestyle Cafe", or any other of our proprietary marks, or any confusingly similar form or variation, in any place or jurisdiction either within or outside the United States; nor will you assist any others to do so. You further agree that your corporate, partnership or other entity name will not include any of the Proprietary Marks or phrases similar thereto as a part thereof. Furthermore, you acknowledge and understand that you are prohibited from filing applications for the registration of our trade names used in connection with your Franchised Business.

Franchisee Initials _____ / _____

I. You acknowledge and understand that in the event you have registered a trade name or entity name containing our trademarks, you will be required to immediately discontinue all further use of the trademark, all Proprietary Marks and any other marks or names confusingly similar thereto in your entity name. Furthermore, you will take such action as may be required to amend your entity name and affirmatively cancel or terminate and dissolve all fictitious or assumed names or other registrations that contain our Proprietary Marks. In the event you do not comply and execute any and all instruments and documents necessary to protect and maintain our interests in the Proprietary Marks, we will then have power of attorney to execute any documents necessary to protect and maintain our interests in the Proprietary Marks.

Franchisee Initials _____ / _____

ARTICLE 18. SUBMISSION OF AGREEMENT

The submission of this Agreement to you does not constitute an offer and this Agreement shall become effective only upon the execution thereof by the parties. THIS AGREEMENT SHALL NOT BE BINDING ON US UNLESS AND UNTIL IT SHALL HAVE BEEN ACCEPTED AND SIGNED BY OUR PRESIDENT OR ONE OF OUR OTHER EXECUTIVE OFFICERS.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, has duly executed and delivered this Agreement as of the Effective Date.

FRANCHISEE: _____, a(n) _____

By: [Name, Title]

By: [Name, Title]

FRANCHISOR: _____ KAHALA FRANCHISING, L.L.C., an
Arizona limited liability company

FRANCHISEE:

By: [Name, Title]

_____, a(n) _____

By: [Name, Title]

By: [Name, Title]

FRANCHISOR:

~~KAHALA FRANCHISING, L.L.C., an~~
~~Arizona limited liability company~~

By: [Name, Title]

PERSONAL ACCEPTANCE OF SECTIONS 7.1, 7.2, 14.6, AND 14.8

Each of the undersigned individually and personally accepts and agrees to be bound by the provisions of Sections 7.1, 7.2, 14.6, and 14.8 of the foregoing Franchise Agreement.

_____, an individual
(signature)

Date: _____

_____, an individual
(signature)

Date: _____

_____, an individual
(signature)

Date: _____

_____, an individual-
(signature)

Date: _____

_____, ~~an individual~~
(signature)

Date: _____

EXHIBIT 1

FRANCHISEE QUESTIONNAIRE

FRANCHISEE QUESTIONNAIRE

The undersigned is in the process of negotiating and consummating the purchase of a Kahala Franchising, L.L.C. ("Kahala") Franchise Agreement ("Agreement") for NrGize Lifestyle CafeTM.

We have been informed that since the laws of franchising limit the type of information that may be provided to prospective franchisees, the Kahala Legal Department has established a compliance audit program to ensure that all pre-sale negotiations have been lawfully completed.

We understand that if improper sales practices have occurred, the Kahala Legal Department, with appropriate notice prior to Agreement execution, will be able to either rectify and cure the violation, or in the alternative, reject the franchise sale.

In order to comply with your compliance audit program we hereby make the following acknowledgments and representations concerning events during the course of the negotiations and offer of sale of the Agreement knowing that Kahala will rely thereon in agreeing to accept the franchise sale.

1. In the course of the negotiations and the offer and sale of the Agreement we have met or spoken only to: _____

List any additional people: _____

2. Did any of the individuals identified in paragraph number one (1) or any other person or entity acting on behalf of or at the direction of Kahala make any promises, statements, projections, forecasts, estimates, warranties or representations or other statement or agreement

(a) concerning the actual or potential financial performance of the franchised or franchisor owned-outlets, profits or expenses or actual or projected sales of any kind directly or by implication concerning NrGize Lifestyle Cafe restaurants or about the NrGize Lifestyle Cafe restaurant that is to be developed or about obtaining the approved location or about any other matter relating to the prospect for financial performance to the prospective franchisee, or (b) about any other matter other than what is contained in the Franchise Disclosure Document ("FDD"), and as stated in ITEM 19 of the NrGize Lifestyle Cafe FDD?

Check one: ☐ Yes ☐ No

If yes, please state in detail the oral, written, or visual claim or representation:

3. Other than what was previously disclosed to you in the NrGize Lifestyle Cafe FDD to which you acknowledge receipt thereof, did you: (1) receive any financial statements for any of Franchisor's parent or affiliated companies; or (2) rely on the financial condition of any of Franchisor's parent or affiliated companies when making the decision to purchase the Franchised Business?

Check one: ☐ Yes ☐ No

If yes, please comment, in detail:

4. Have there been any other inducements made with any person or entity encouraging you to purchase the Agreement such as a “side deal” or other promise or agreement not included in the Agreement?

Check one: ☐ Yes ☐ No

If yes, please comment, in detail:

5. Did you receive a copy of the NrGize Lifestyle Cafe FDD at least fourteen (14) calendar days prior to signing any binding agreement with, or making a payment to Kahala or any of its affiliates in connection with the proposed franchise sale? If you reside in New York, ~~Oklahoma or Rhode Island~~, or if the location of your prospective franchise is located within one of those states, did you receive a copy of the NrGize Lifestyle Cafe FDD at the earlier of (i) the first personal meeting; or (ii) ten ~~(10)~~ (10) business days prior to signing any binding agreement or payment of any consideration? If you reside in Michigan or Washington, or if the location of your prospective business is located within one of those states, did you receive the NrGize Lifestyle Cafe FDD at least ten (10) business days before the execution of any binding franchise or other agreement or the payment of any consideration?

Check one: ☐ Yes ☐ No

If no, please comment:

6. Have you received, studied, and reviewed carefully the NrGize Lifestyle Cafe FDD and Franchise Agreement?

Check one: ☐ Yes ☐ No

If no, please comment:

7. Do you understand that the license granted in the Franchise Agreement is for the right to

operate a franchise at the authorized location only and includes no exclusive area or protected territory, and that we and our affiliates have the right to issue franchises or operate competing businesses for or at locations, as we may determine, near your authorized location? In addition, do you understand that these locations may include freestanding buildings, strip centers, shopping malls, and other similar locations, as well as non-traditional locations such as office buildings, petroleum stations, food courts, transportation terminals, sports facilities, airports, hotels, hospitals, and college and university student unions, dormitories, and food service areas?

Check one: ☐ Yes ☐ No

If no, please comment:

8. Do you understand that the success or failure of your franchise will depend in large part upon your adherence to the NrGize Lifestyle Cafe System Standards, your skills and experience, your business acumen, your location, the local market for products under our trademarks, interest rates, the economy, inflation, the number of employees you hire and their compensation, competition, and other economic and business factors? Further, do you understand that the economic and business factors that exist at the time you open your franchise may change?

Check one: ☐ Yes ☐ No

If no, please comment:

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.

[NAME OF FRANCHISEE]

By: _____

By: _____

[Name]
[Title]

Date

[Name]
[Title]

Date

EXHIBIT E-3

TO THE FRANCHISE DISCLOSURE DOCUMENT

Franchise Agreement (Transfer) and Franchisee Questionnaire

NRGIZE LIFESTYLE CAFE

**FRANCHISE AGREEMENT
(Transfer)**

between

KAHALA FRANCHISING, L.L.C.

and

, a(n)

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Exhibits Exhibit 1 Franchisee Questionnaire

NRGIZE LIFESTYLE CAFETM -
FRANCHISE AGREEMENT
("Agreement")

PARTIES:

KAHALA FRANCHISING, L.L.C.,
an Arizona limited liability
company Attn: Legal Department
9311 E. Via De Ventura
Scottsdale, Arizona 85258

("Franchisor")

a(n)

([individually and collectively,] "Franchisee")

~~KAHALA FRANCHISING, L.L.C., an Arizona limited~~
~~liability company Attn.: Legal Department 9311 E. Via~~
~~De Ventura Scottsdale, Arizona 85258~~

~~("Franchisor")~~

Telephone No.: _____

a(n)

~~([individually and collectively,] "Franchisee")~~

Telephone No.: _____

RESTAURANT NO.: _____

EFFECTIVE DATE: _____

EFFECTIVE DATE: _____

~~("Effective Date")~~

TRADITIONAL RESTAURANT (YES or NO): _____

~~("Effective Date")~~

~~**IF HEALTH CLUB LOCATION: HEALTH CLUB**~~
~~**NAME: _____ HEALTH CLUB NUMBER: _____**~~

RESTAURANT DESCRIPTION IF NON-TRADITIONAL: _____

A "traditional" restaurant is a restaurant that is easily accessible by the general public, such as a free-standing building, inline retail shop, shopping mall and street front location. A traditional *NrGize Lifestyle Cafe* restaurant normally offers a full menu. A "non-traditional" restaurant is ~~an~~ *NrGize Lifestyle Cafe* restaurant that is located in a non-traditional marketplace, as determined by us (in our sole discretion), such as an airport, amusement park, sports or entertainment venue, train station, travel plaza, toll roads, cafeteria, retail store, convenience store, military base, hospital, office building, movie theater, hotel, casino, kiosk, cart, or high school or college campus. A non-traditional restaurant may also be a NrGize Lifestyle Cafe restaurant that is co-branded into another brand restaurant, at Franchisor's sole discretion. A

non-traditional *NrGize Lifestyle Cafe* restaurant normally offers a limited version of the full *NrGize Lifestyle Cafe* menu.

To simplify the language in this Agreement, the terms “we,” “us,” “our” and the like may be used to refer to the Franchisor, and the terms “you,” “your” and the like may be used to refer to the Franchisee. The term “you” as used herein is applicable to one (1) or more persons, a corporation, partnership, trust, other entity, association or form of organization as the case may be, and the singular usage includes the plural, masculine, neuter, feminine, and possessive usages. Franchisor and Franchisee may individually be referred to as a “party” and collectively referred to as the “parties.”

[store #] [doc #]

RECITALS:

This Agreement is entered into with reference to the following facts and circumstances:

A. We have, over a period of time and at considerable expense, developed and established a uniform and unique method of operation, customer service, advertising, publicity, processes, recipes, techniques and technical knowledge in connection with the restaurant business, specializing in low-calorie smoothies, fruit drinks, nutritional supplements, and other related beverage and food items. These restaurants do business under the trade name "*NrGize Lifestyle Cafe*" [®] _{TM} (sometimes referred to as "*NrGize*"). These *NrGize Lifestyle Cafe* recipes, techniques, processes and methods constitute our "Trade Secrets." All of our knowledge, experience, Trade Secrets, processes, methods, specifications, techniques, Proprietary Marks (as defined in Recital B.), System Standards (as defined in *Section 1.4*) and information are referred to in this Agreement as the "System." The System may be changed, supplemented, improved and further developed by us from time to time.

B. We have owned and issued franchises to others for the operation of franchised restaurants in the United States and in other countries. We have registered and applied for proprietary marks with the United States Patent and Trademark Office and with offices in other countries serving similar functions. These proprietary interests, trademarks, service marks, logos, insignias, trade names and trade dress are referred to in this Agreement as the "Proprietary Marks."

C. We are engaged in the business of licensing the right to use the Proprietary Marks in connection with the operation and promotion of the System.

D. You understand and recognize that: (1) our Trade Secrets, Proprietary Marks, developments and other properties as recited above are of considerable value; and (2) it is of importance to us and all of our franchisees to maintain the development of the System in a uniform and distinctive manner, allowing you and our other franchisees to enjoy a public image and reputation greater than most single franchisees could establish.

E. You desire to make use of the "*NrGize Lifestyle Cafe*" [®] _{TM} trademark and to enjoy the benefits of that mark, the other Proprietary Marks, and the System; and to establish an "*NrGize Lifestyle Cafe*" franchise to be operated in accordance with System Standards set forth from time to time by us. System Standards are set forth in, without limitation, the confidential "ops package," which consists of the "operations manual" ("Operations Manual"), "ops toolkit," and related printed and electronic documents, both now existing and hereinafter developed (individually and collectively, "OperationsConfidential Manual"). We are willing to grant you the right to do so under the terms, conditions and provisions set forth in this Agreement, which includes any and all appendices, addenda, amendments, attachments and exhibits.

F. You recognize the necessity and desirability of protecting our reputation, goodwill, Trade Secrets, and other confidential business information; and that disclosure of Trade Secrets and confidential business information, including specifics of the System to any third-party, will cause irreparable damage and harm to us.

AGREEMENT:

The parties agree as follows:

ARTICLE 1. GRANT OF FRANCHISE; TERM; SYSTEM STANDARDS

1.1 Franchise Grant.

We hereby grant to you ~~an~~ an *NrGize Lifestyle Cafe* franchise that includes the right to use the System ("Franchised Business") as provided in this Agreement, at the following location:

Arena, Mall, Facility, or Center Name: _____
(if applicable)

Street Address: _____

City/State/Zip Code: _____ ("Location")

1.2 Location of the Franchised Business; No Exclusive Territory or Other Rights.

You must operate the Franchised Business only from the Location, including any catering services of *NrGize Lifestyle Cafe* menu items you provide. You acknowledge that the *NrGize Lifestyle Cafe* franchise granted under this Agreement is non-exclusive, that we are not granting you any territorial protection or any other exclusive rights, and that we, directly or through one (1) or more affiliates, reserve the right in our sole discretion, and without compensating you or seeking your prior approval: (i) to establish, and grant to other franchisees or licensees the right to establish, a *NrGize Lifestyle Cafe* restaurant or any other business using the Proprietary Marks, the *NrGize Lifestyle Cafe* System or any variation thereof, in any location other than the approved Location (including locations in the immediate vicinity of your Location), on any terms and conditions that we deem appropriate; (ii) to establish, and grant to other franchisees or licensees the right to establish, any restaurant concept other than *NrGize Lifestyle Cafe* in any location on any terms and conditions that we deem appropriate (including locations in the immediate vicinity of the Location); (iii) to sell products identified by the Proprietary Marks or other trademarks, service marks or commercial symbols in any location through any distribution channels, including grocery stores, convenience stores, supermarkets, club stores, vending machines, delivery services and restaurants other than *NrGize Lifestyle Cafe* restaurants; and (iv) to take any other action that we are not expressly prohibited from taking under this Agreement.

We hereby grant to you during the term of this Agreement, a non-exclusive right and license to operate a single restaurant at the Location only, according to the System Standards and subject to the terms, conditions and restrictions contained in this Agreement. This Agreement is limited to the operation of one ~~(1)~~ traditional restaurant, unless otherwise amended, and does not grant you the right to buy, own or operate additional restaurants.

Except as expressly limited in this Agreement, we (for ourselves and our affiliates and designees) retain all rights with respect to all Proprietary Marks and the sale of *NrGize Lifestyle Cafe* products anywhere in the world with no compensation or liability to you, including the right to:

- a. Establish and operate (or license to any other person or entity the right to establish and operate) *NrGize Lifestyle Cafe* ~~stores~~restaurants owned or licensed by us at any location;
- b. Develop, market, own, operate and participate in any other business under the Proprietary Marks or any other trademarks (including trademarks identified in the Uniform Franchise Disclosure Document ("Disclosure Document") and other trademarks we or our affiliates own or have the right to license);
- c. Develop, lease and license the use of, at any location, trademarks other than the

Proprietary Marks, in connection with the operation of a system that offers products or services that are the same as, or similar to, those offered by us under this Agreement on any terms or conditions that we deem advisable, in our sole discretion;

d. Merge with, acquire or be acquired by any other business, including a business that competes with your Franchised Business, or acquire and convert any retail stores, including retail stores operated by competitors, or otherwise operated independently or as part of, or in association with, any other system or chain, whether franchised or corporate-owned;

e. Distribute, sell and license other persons or entities to distribute and sell products through all other channels of distribution, including catalog sales, telemarketing, grocery stores, warehouses, big box shops, specialty shops, limited access highway food facilities, vending machines and similar automated dispensing systems, mobile units, off-site sales accounts, electronic mail, Internet sales, and movie theaters (individually and collectively, "Other Channels"); and

f. Implement multi-area marketing programs that may allow us or others to solicit or sell to customers anywhere. We also reserve the right to issue mandatory policies to coordinate such multi-area marketing programs.

1.3 Term of Agreement.

This Agreement will commence on the Effective Date and will expire on either: (1) the ten (10) year anniversary of the Effective Date if you own the property where this Franchised Business is located or if you enter into a lease directly with the landlord or other third-party for the property where this Franchised Business is located; or (2) if you have entered into a sublease with one of our affiliates, the expiration of the term of the sublease for the Location excluding any extensions or renewal options, unless terminated earlier in accordance with *Article 14* or any other provisions of this Agreement, renewed in accordance with *Article 13*, or transferred in accordance with *Article 12* ("Term").

1.4 System Standards.

You shall operate the restaurant in accordance with our standards, including the following:

- a. restaurant design, maintenance, health and safety and remodeling;
- b. types, models, brands and suppliers of required fixtures, furnishings, equipment, signs, materials and supplies;
- c. recipes and ingredients, menu items and menu design;
- d. cooperation with and participation in sales, marketing, advertising and promotional programs (including discount coupons, discount gift cards, special menu promotions, and entering into product and service agreements directly with third-party vendors and service providers as required by us) and materials and media used in those programs, including discontinued use and removal of promotional materials as directed by us;
- e. use and display of the Proprietary Marks;
- f. restaurant operations, including matters related to the management of the restaurant; training of your employees consistent with the System Standards; and commercial

impression of the Franchised Business to the public;

g. cooperation with and participation consistent with our responses and resolutions in response to customer feedback;

h. cooperation with and participation in: (i) market research and testing; and (ii) product and service development programs;

i. acceptance of our stored value gift cards, including gift cards sold at a discount, loyalty cards, frequency cards, gift certificates, vouchers, and any other similar electronic card and payment programs (individually and collectively, "Gift/Loyalty Card"), credit and debit cards, other payment systems, check verification services and use of point of sale computer systems; You agree to enter into a separate participation agreement with the approved vendor for data processing services;

j. bookkeeping, accounting, data processing and record keeping systems; computer hardware and software; connections to the Internet or to proprietary networks; forms, methods, formats, content and frequency of reports to us of Gross Sales (as defined in *Article 5*), financial performance and condition; and providing tax returns and other operating and financial information to us; and

k. conduct and maintain the Franchised Business and Location so as not to distract from or interfere with the integrity of the System (individually and collectively, "System Standards"). We may, in whole or in part, change, improve, update and further develop the System Standards, from time to time during the term. You shall comply with the updated System Standards as directed by us.

The operation and maintenance of your restaurant according to the System Standards are essential to the well-being and vitality of the System and to preserve the goodwill of the Proprietary Marks for us and for all other franchisees operating under the System. It is critical to the *NrGize Lifestyle Cafe* System for all restaurants operating under the *NrGize Lifestyle Cafe* System to present a uniform and professional image to *NrGize Lifestyle Cafe* customers regardless of which location the customer visits. Any information regarding the operation of the restaurant will be considered a mandatory System Standard, unless it is clear from the express language of our communication that the information is merely optional or is intended by us as a suggestion, rather than a requirement.

You agree that System Standards constitute binding provisions of this Agreement as if they were an integral part of this Agreement.

ARTICLE 2. SELECTION OF LOCATION; CONSTRUCTION AND RELOCATION

2.1 Location Selection Procedures.

You are ultimately responsible for the selection of the Location. We will not have any liability to you with respect to your selection of the Location, any assistance we provide you in making your selection, our recommendation of any location, or our allowing you to move forward on any location. You agree that your selection of the Location will be based on your own independent investigation of the suitability of the Location.

2.2 Lease and Purchase Approval.

If you intend to lease the Location for your Franchised Business, the lease will be subject to our prior limited review and acknowledgment so that we can confirm that certain lease terms are incorporated into the lease. You must provide us, at least thirty (30) days prior to executing the lease, a copy of the lease and details relating to square footage, rent per square foot, the term of the lease, and either confirmation that such other terms as we reasonably require are incorporated into the lease or that you and the landlord agree to incorporate the lease addendum to lease agreement as an exhibit to the lease. You or your attorney shall be responsible for negotiating the terms of the lease, which shall be subject to our final limited review and acknowledgment. If you do not submit all of the required documents to us, we will not allow you to move forward with your lease. We have no liability to you regarding the terms or negotiations of the lease.

If, prior to executing the lease, you or your attorney request a full review of your lease, including any and all exhibits attached thereto, and we or our designated affiliate review your entire lease and exhibits and provide to you or your attorney its review of the entire lease and suggested changes to the lease ("Lease Review"), you must pay a Lease Review Fee (as defined in *Section 5.7*) to compensate for time and effort in reviewing the lease. The Lease Review is optional and only completed by us or our designated affiliate at your or your attorney's request. The Lease Review Fee is due only in the event that you or your attorney ~~requests~~request us or our affiliate to complete a Lease Review. Each lease must contain the required lease terms set forth in the Lease Addendum to Lease Agreement, and must specifically state that we are a third-party beneficiary of the lease. If we cure any default by you under the lease, any amounts that we pay to cure the default will be payable by you to us on demand, together with interest thereon, at the lesser rate of one and one-half percent (1½%) or the maximum rate that does not violate applicable state usury laws ("Default Rate") per month from the date we make such payment.

You acknowledge and agree that on the earlier of thirty (30) days after: (i) you receive a fully- executed copy of your lease for the Location of your Franchised Business; or (ii) you open your Franchised Business to the public, you must provide a fully-executed copy of your lease for the Location to us. Failure to timely provide us with a fully-executed copy of the lease will result in a default under this Agreement.

If you intend to purchase the Location for your Franchised Business, the terms of such purchase shall be subject to our prior approval, and you must provide us, at least thirty (30) days prior to executing the purchase agreement, a copy of the purchase agreement and details relating to square footage, price per square foot and such other terms as we reasonably require.

You acknowledge and understand that our confirmation that you may move forward with any specific location, lease or purchase agreement does not in any way guarantee or ensure the success or profitability of the Franchised Business, or the conformity of the Location, lease or purchase agreement to applicable laws, and such confirmations are only for our own benefit.

2.3 Construction.

a. You must, at your sole cost and expense, construct, furnish, make improvements to and equip, if necessary, the Franchised Business at the Location selected by you and meeting our minimum site requirements, in accordance with plans and specifications approved by us or our third-party approved architect, if applicable. Our approval of plans is solely for complying with our System Standards, ~~and~~ and not for determining compliance with codes, ordinances and other legal requirements, including the Americans with Disabilities Act ("ADA"). You are solely responsible for ensuring that your Location conforms to all codes and ordinances, including the ADA. You must, at your sole cost and expense, use our designated and approved third-party

design architect ("Design Architect") to prepare the initial design drawings for any construction, alterations or improvements, as applicable, for your Franchised Business. The Design Architect must provide us with one (1) set of the design drawings, including landscaping and parking spaces if applicable, which are the detailed plans and specifications ("Plans") for your Franchised Business. We will provide you with a copy of the Plans upon our approval of the Plans. You must also, at your sole cost and expense, retain a licensed architect of record to prepare the permitted construction set of drawings for any construction, alterations or improvements. The permitted construction set of drawings must be submitted to us for our files prior to the start of construction, alterations or improvements. In addition, you must obtain the appropriate construction documents, and all mechanical, plumbing, electrical and architectural plans must be sealed and stamped, as we may require, even if local laws in the jurisdiction where your restaurant is located do not require same.

b. Any material modifications to the approved Plans must be submitted to us for approval, and you will not undertake any construction, alterations or improvements until such modifications have been approved by us. Approval of such modifications does not constitute any representation by us of compliance with applicable zoning laws, building codes or other laws.

c. You will be solely responsible for the cost and expense of obtaining all necessary governmental construction permits and licenses, and you must, at your sole cost and expense, comply with all laws, zoning ordinances, rules and regulations of any governmental agencies that may govern any construction, alterations or improvements of the Franchised Business in accordance with the approved Plans. We will have the right, but are not required, to meet with the Design Architect and to inspect any construction, alterations or improvements during its course to ensure that the provisions of this *Section 2.3* are being observed; and you agree to allow our authorized representatives, at any and all times while construction, alterations or improvements are in progress, to meet with the licensed architect and general contractor and enter onto the Location for this purpose. If we determine in good faith that the provisions of this *Section 2.3* are not being observed, you will, at your sole cost and expense, immediately take all necessary corrective action.

d. You must, at your sole cost and expense, use a general contractor that is licensed, and if applicable, registered in the state and local jurisdiction where your restaurant is located for any and all construction, alterations and improvements. The general contractor must have prior experience in the construction, alterations and improvement of quick-service restaurants.

e. You acknowledge that the design and appearance of the *NrGize Lifestyle Cafe* restaurant is part of the System, and that uniformity is essential to the System. Therefore, you agree that after the restaurant has been constructed, altered or improved, you will not make any material changes to the building plan or design or its appearance without our prior written consent, and you will, at your sole cost and expense, maintain the interior and exterior ~~decor~~décor of the restaurant in a first class condition and in such manner as we may reasonably prescribe from time to time. In addition to any remodeling required by us upon the transfer of the Franchised Business and upon the renewal of this Agreement, as set forth in *Articles 12* and *13*, respectively, you will, upon thirty (30) days' prior notice from us, and at your sole cost and expense, remodel and make all alterations and improvements ~~and alterations~~ in and to your Franchised Business as reasonably determined by us to reflect the then-current *NrGize Lifestyle Cafe* System specifications, standards, format, image and appearance.

f. A certificate of occupancy for your Franchised Business must be submitted to us approximately six (6) days prior to the day you open your Franchised Business to the public and

as otherwise requested by us throughout the Term.

2.4 Signage.

You will acquire, repair and replace, as necessary, and maintain in a first class condition throughout the Term, signs for advertising and identifying the Franchised Business as ana NrGize Lifestyle Cafe restaurant. All signs must be in accordance with the System Standards, specifications and any local governing body (i.e., city or county governments), as well as any other applicable laws, including the Americans with Disabilities Act ("ADA"), and exterior signage must be the maximum size allowed by the landlord and local governing body. You acknowledge that quality control is essential to protect and promote our Proprietary Marks, standards, and uniform image, and you shall acquire all signs only from approved suppliers. In addition, you shall prominently display on all communications, forms, advertising, business stationery and business cards, and in a sign easily visible to consumers at the Franchised Business, the following words: "INDEPENDENTLY OWNED AND OPERATED."

2.5 Relocation.

a. If you desire to relocate the Franchised Business, you may request our consent upon the following conditions:

(i) Not less than sixty (60) days prior to the desired date of relocation (unless prior notice is impractical because of a required relocation, due to a third-party or our request, in which event notice shall be made as soon as possible), you must make a written request for consent to relocate, describing the reasons for the relocation and providing details respecting any proposed new location.

(ii) Within twenty-one (21) days after receiving your written request, we shall advise you in writing if the proposed new location meets our minimum real estate site requirements as provided in *Section 2.1* and if you have our authorization to proceed with the relocation. In the event of our denial to proceed with the relocation, you may request an alternative proposed new location pursuant to the provisions of this *Section 2.5*.

(iii) The Term will not be extended in connection with the requested relocation.

b. At the time you request to relocate the Franchised Business, you must also meet each of the following requirements:

(i) You must not be in default under this Agreement or any other agreement or note then in effect between us or you and any affiliate of ours, and no event shall have occurred that, with the giving of notice, the passage of time, or both, would constitute a default under this Agreement;

(ii) You must neither have received more than three (3) notices of default or breach during the Term; nor more than two (2) notices of default or breach during the five (5) years immediately preceding the effective date of the proposed relocation;

(iii) The equipment, fixtures and signage used in connection with the operation of the Franchised Business must either meet our then-existing System specifications and System Standards, or you must agree, within a timeframe required by us, to replace or refurbish such items, and otherwise modify the methods of operation of the Franchised Business at your cost and expense, in order to comply with our System specifications and System Standards then

applicable to new franchise owners; and

(iv) You shall have paid to us ~~the~~an Relocation Fee (as defined in *Section 5.14*).

c. If we approve the relocation of your Franchised Business, (i) you and we must execute an amendment to this Agreement indicating the address for your relocated Franchised Business, and (ii) you must open your Franchised Business at the new location within ninety (90) days after you close your Franchised Business at the current Location. During the period of time between the closure of your Franchised Business at the current Location, and the opening of the Franchised Business at the approved relocation address, you will not owe the Royalty Fee (as defined in *Section 5.2*).

2.6 Restricted Use of Restaurant Location.

You may not wholly or partially sublet the Location without our prior written consent. The Location may be used only for the operation of ~~an~~a *NrGize Lifestyle Cafe* restaurant in compliance with this Agreement and the System Standards. You shall not conduct other businesses or activities at the Location without our prior written consent.

2.7 Not Applicable.

ARTICLE 3. OPERATIONS

3.1 Commencing Operations.

You agree to start operating your *NrGize Lifestyle Cafe* restaurant at the Location as of the Effective Date. You acknowledge that before starting operations you must, at your own expense, do the following (in addition to any other requirements set forth in this Agreement):

a. Complete a food safety training program at your sole cost and expense. We will accept the certificate for the required program through your local county or state health department or any other nationally recognized food safety program. You must provide us with a copy of your certificate prior to commencing training;

b. Successfully complete the Training Program described in *Section 4.1*;

c. Purchase, lease or otherwise acquire from the list of approved sources provided by us all the signage, supplies, equipment, fixtures, inventory and other items necessary to operate the *NrGize Lifestyle Cafe* Franchised Business; and

d. Obtain liability insurance in accordance with the requirements described in *Section 9.5* and provide to us evidence that such insurance has been obtained.

Prior to starting operations of the Franchised Business, you must notify us that you have satisfied all requirements to begin operations, and provide us with such documents as we may reasonably request that show your compliance with all such requirements. If you do not begin operations of your restaurant at the Location as of the Effective Date, then we may terminate this Agreement by giving you notice to that effect.

3.2 Supplies and Promotional Materials; Rollouts.

You agree to sell only those menu items, products and services authorized under the

terms of this Agreement and as specified in the OperationsConfidential Manual, and you shall use only supplies and ingredients in making those menu items that are in compliance with the standards as set forth in the OperationsConfidential Manual or other documents provided by, or approved by, us as they presently exist or may exist in the future. You shall purchase all such services, supplies and ingredients only from approved vendors and utilize approved distributor(s) as specified in the documents provided by, or approved by, us as they presently exist or may exist in the future. You must purchase promotional materials containing the Proprietary Marks, including stationery, business cards, promotional and advertising materials and similar items, from suppliers approved by us, except that we must first approve all such promotional and advertising materials before you use them, and all such printed materials containing any of the Proprietary Marks shall be accompanied by the words "INDEPENDENTLY OWNED AND OPERATED." Additionally, during the Term, you agree to participate in any Rollout of new products and suppliers, as defined in *Section 9.3*.

3.3 Fixtures, Furnishings, and Equipment.

Unless otherwise approved by us in writing, you will: (1) acquire, repair and replace, as necessary, and maintain in a first class condition throughout the Term, fixtures, furnishings, and equipment to be used in the operation of your Franchised Business that is in accordance with the System Standards ~~and~~ specifications set forth by us in the OperationsConfidential Manual or other documents provided by, or approved by, us as they presently exist or may exist in the future, and with applicable laws including, without limitation, including the Americans with Disabilities Act ("ADA"); and (2) procure the fixtures, furnishings, and equipment from suppliers or vendors previously approved in writing by us.

3.4 Online Presence.

You may not maintain a website, software application, an App (application), social media account (including an account, group or page on Facebook®, Flickr®, Foursquare®, Google+®, Instagram®, LinkedIn®, Pinterest®, Snapchat®, Tumblr®, Twitter®, YouTube®, Vine®, VKontakte or Weibo®), or otherwise maintain a presence or advertise on the Internet or any other public computer network (individually and collectively, "Site") in connection with the Franchised Business without our prior written approval, which we may withhold in our sole discretion. If we grant you written approval, you agree to submit to us for approval before use, true and correct printouts, of all Site pages you propose to use in connection with the Franchised Business. You understand and agree that our right of approval of all such Site pages is necessitated by the fact that such Site pages will include and be inextricably linked with our Proprietary Marks. If we approve your use of a Site, you may only use Site pages that we have approved. Your Site must conform to all of online presence requirements, policies and procedures per our System Standards. You agree to provide all information regarding your online presence that we require. If we grant approval for a Site, you may not use any of the Proprietary Marks on the Site except as we expressly permit. You may not post any of our proprietary, confidential or copyrighted material or information on the Site without our prior written permission. If you wish to modify your approved Site, all proposed modifications must also receive our prior written approval. You explicitly understand that you may not post on any Site (whether yours or someone else's) any material in which a third-party has any direct or indirect ownership interest (including video clips, photographs, sound bites, copyrighted text, trademarks or service marks, or any other text or image which any third-party may claim intellectual property or other rights in). If we grant approval, you agree to list on the Site any website and social media account maintained by us, and any other information we require in the manner we dictate. You agree to obtain our prior written approval for any Internet domain name, home page address and Uniform Resource Locator. The

requirement for our prior approval set forth in this *Section 3.4* will apply to all activities on the Internet or other communications network to be conducted by you, except that you may maintain one (1) or more email-mail addresses and may conduct individual email-mail communications without our prior written approval. You agree to obtain our prior approval as provided above if you propose to send advertising to multiple addressees via email-mail or text messages. You may not use a Site to represent that: (1) the Site is an official account, application, page or group of, or video produced by us; or (2) you are the owner of the *NrGize Lifestyle Cafe* brand. On any Site you use in connection with the Franchised Business, you must affirmatively state: (a) that you are a franchisee and the opinion and content being expressed are your own and not that of the *NrGize Lifestyle Cafe* brand; and (b) the Location of your Franchised Business.

3.5 Not Applicable.

ARTICLE 4. TRAINING, ASSISTANCE AND START-UP MATERIALS

4.1 Training Program.

We will provide up to two (2) natural persons (individually and collectively, "Trainees") with a training program designed to inform the participants as to the fundamentals of operating the Franchised Business prior to your opening of the Franchised Business. At minimum, one (1) of the two (2) natural persons must have an ownership interest in the Franchised Business. The remaining position may be filled by a natural person with an ownership interest in or management responsibility for the Franchised Business. ~~Notwithstanding the foregoing, Franchisor has the right to require Franchisee and/or its manager(s) to attend additional In-Store Training (as defined below), as provided for in this Section and Section 5.9, in the event Franchisee is not operating the Franchised Business pursuant to Franchisor's Systems Standards.~~ The training program is made up of the "In-Store Training," which is approximately ~~twosixteen~~ (216) dayshours, and "New Owner Training," which is approximately ~~fiveforty~~ (540) dayshours (collectively, "Training Program"). You will be solely responsible for all transportation costs, food, lodging and other personal expenses incurred by you and your employees in connection with the Training Program. The New Owner Training will be conducted at the ~~Kahala Training and Education Center~~ Franchisor training and education center in Scottsdale, Arizona and the In-Store Training will be conducted at a training store in Arizona or such other location as we may designate at our sole discretion. You acknowledge that adequate knowledge regarding the operation of the Franchised Business is essential to the growth of your franchise and to the promotion of the System. Notwithstanding the foregoing, Franchisor has the right to require Franchisee and/or its manager(s) to attend additional In-Store Training (as defined below), as provided for in this Section 4.1 and Section 5.9, in the event Franchisee is not operating the Franchised Business pursuant to Franchisor's Systems Standards.

4.2 Employee Training.

You acknowledge that the employees of your *NrGize Lifestyle Cafe* Franchised Business are an integral and important part of the Franchised Business, as they will have substantial contact with customers. You alone are responsible, and acknowledge that we have no direct or indirect control and no right or authority, for the hiring, firing, training, supervising, setting the terms and conditions of employment (including employee tasks and work schedules) ~~and,~~ compensation of your employees, or maintaining employment records; ~~for~~ for the safety of your employees and for your employees' compliance with the System Standards. The System Standards are in place to protect our interests in the System and not for exercising any control over you, your employees or your Franchised Business. You must ensure that your employees

who have direct interaction with the public are able to speak and read English and any other language that may be required to adequately meet the public needs in your Franchised Business.

4.3 Additional Programs; Continuing Assistance.

We will provide one (1) of our representatives to come to your restaurant during opening week for up to three (3) days, at our expense, to work with you or your manager on operating your restaurant. We may, in the future, request that Trainees participate in refresher or additional training programs. We may also hold an annual conference to introduce new products, discuss sales and marketing techniques, personnel training, advertising programs, merchandising procedures and other subjects. You may be charged a nominal registration fee for these programs, and you will be solely responsible for the cost of transportation, food, lodging and other expenses incurred by Trainees at any such program. Attendance at these additional training programs and conferences is mandatory. They will be held in the metropolitan Phoenix, Arizona area, or at other locations in the United States chosen by us, at our sole discretion.

In addition to the initial training available under *Section 4.1*, we shall provide such periodic evaluations or inspections as we deem appropriate, utilizing our field representatives who may visit the Franchised Business from time to time. The frequency and duration of such visits to a Franchised Business by our representatives shall be in our sole discretion. Any such evaluation or inspection is not intended to exercise any control over your employees or the daily operation of your Franchised Business. In addition, we will be available on an ongoing basis at our offices for consultation and guidance with respect to the operation and management of the Franchised Business. In addition to the Operations Manual, we may, but are not required to, from time to time, provide you with additional materials relating to the Franchised Business.

4.4 Area Representatives.

We may retain the services of an independent third-party area representative ("Area Representative") to represent us in the area in which the restaurant is located and perform some or all of the services we provide under this Agreement. The services the Area Representative may perform could include: (i) assistance in location selection and evaluating and confirming that the Location meets our minimum site requirements; (ii) advice and guidance regarding lease negotiations; (iii) assistance in opening new *NrGize Lifestyle Cafe* locations; (iv) assistance with training on the approved POS System (as defined in *Section 4.6a.*); (v) assistance with marketing advice; (vi) periodic Quality Service Cleanliness and Experience ("QSCE") evaluations; (vii) assistance with collection of the various sums due to us from *NrGize Lifestyle Cafe* franchisees; and (viii) coordination with other *NrGize Lifestyle Cafe* franchisees in your area and general supervision and monitoring of your Franchised Business on our behalf. You agree in advance to our delegation to an Area Representative of some or all of our obligations, and assignment to an Area Representative of some or all of our rights, under this Agreement. You agree that we may require you to submit to an Area Representative any reports you are required to submit to us. Upon our request, you will provide the Area Representative with access, inspection and audit rights to the same extent we have those rights under this Agreement. You are not a third-party beneficiary of any agreement between us and any Area Representative. If we have designated an Area Representative for your restaurant as of the Effective Date, the name and contact information of the Area Representative is shown in *Section 17.3h*. We reserve the right in our sole discretion to remove any Area Representative in your area at any time and to appoint any other Area Representative for your area. We have no obligation to appoint an Area Representative in the area in which your restaurant is located, and we have no obligation to appoint a new Area Representative after we have removed an Area Representative.

You acknowledge that Area Representatives and their owners and employees may not contractually bind us without our express written authorization. You further acknowledge no Area Representative has the authority to: (i) enter into agreements or execute any agreements on our behalf; or (ii) bind us in any way without our prior written consent. Unless expressly authorized and agreed to by us in writing, we disavow any agreements, whether verbal or written, entered into by an Area Representative that in any way attempts to bind us. In any litigation or arbitration proceeding, you agree to waive any claim or defense that an Area Representative is our express or implied agent and such an assertion by you constitutes a material default under this Agreement.

4.5 Confidential ~~Operations~~ Manual.

To protect the reputation and goodwill of the System and to maintain the uniform standards of operation under the Proprietary Marks, you must conduct your business in accordance with our ~~Operations Manual~~Confidential Manual. The Confidential Manual is confidential and remains our property.

The Operations Manual will be provided to you at the New Owner Training referred to in *Section 4.1*.

So that you may benefit from new knowledge gained by us as to improved techniques in the operation of the Franchised Business, we may from time to time revise, amend, restate or supplement the content of the ~~Operations Manual~~Confidential Manual or other documents provided by, or approved by, us as they presently exist or may exist in the future. You will at all times ensure that your copy of the ~~Operations~~Confidential Manual is kept current and up to date. In the event of a dispute regarding the content of the ~~Operations~~Confidential Manual, the master copy maintained by us at our corporate office will control.

4.6 Computer Systems; Debit and Credit Card Processing.

a. ~~Prior to the opening of your restaurant, you~~You will be required to acquire, to maintain, and to exclusively use, an approved cash register/computer system ("POS System") during the operation of the Franchised Business. You and your employees must complete training for the POS System as we require, and you will be required to use the POS System to produce sales reports, keep inventory control and post sales tax, refunds, credits and allowances and submit that information to us immediately upon our request. You are required to obtain DSL/high-speed Internet connection service for your POS System. If neither DSL nor cable is available in your area, dial-up Internet access may be used until DSL or cable service becomes available in your area. The POS System must be configured so that we will have remote access to the information and data stored in the POS System, which may include inventory information. This access will allow us to exchange/collect data and other information on such bases as we will communicate to you from time to time. You will be required to maintain the POS System in good working order at all times, and to upgrade or update the POS System during the Term as we may require from time to time. It will be your responsibility to enter into contracts for the maintenance, upgrades and updates to the POS System with an approved supplier of such services identified by us on the list of approved vendors and distributors or other notification to you from us advising of suppliers for your market area. You shall also be required to own a personal computer or similar device with access to the Internet that allows you to report your Gross Sales (as defined in *Section 5.2*) online ~~and send and receive emails with us, send and receive e-mails with us, and receive online orders. If implemented by us, all NrGize Lifestyle Cafe franchisees of traditional restaurants will be required to participate in an online ordering program.~~ We may provide specifications that

you must follow for the hardware, software, and Internet provider for such computer equipment. We may require you to upgrade the hardware and software as reasonably necessary to provide reports and information required by us.

b. You are required to accept debit and credit cards and Gift/Loyalty Cards from consumers at the Franchised Business. ~~Prior to the opening of your restaurant, you~~You will be required to acquire and maintain an approved debit, credit and Gift/Loyalty Card processing system to use during the operation of the Franchised Business. Additionally, you must utilize our approved third-party Gift/Loyalty payment card processor for processing all such ~~debit, credit, rewards, and~~ Gift/Loyalty Card transactions, including entering into a Gift Card Participation Agreement with ~~KGC, LLC one of our affiliates~~, or its successors or assigns, or other approved vendor for the Gift/Loyalty Card processing services. The Payment Card Industry ("PCI") requires all companies that process, store, or transmit credit card information to protect the cardholders' information by complying with the PCI Data Security Standard ("PCI DSS"). Therefore, as a franchisee who accepts credit cards, you are required to be PCI compliant by following and adhering to PCI DSS, which includes ensuring that your POS System, back office computer (if supplied), and any other device that is plugged into the network is **only** used for business purposes. You are also required to complete an annual questionnaire and quarterly network PCI scans and install a network firewall appliance for logging, tracking, reporting, and security assessment. You are also required to validate with Franchisor that your store is PCI compliant. To show such validation you must send us your Passing Certificate showing your store is PCI compliant. You are also required to verify that you have a PCI compliant firewall appliance installed at your location if you process credit cards via high speed internet connectivity. We require your Franchised Business' POS System, including terminals, computers, and software to be in compliance with the PCI DSS at all times. The PCI DSS is often updated, and you are required to obtain and comply with all updated standards. You must also be PCI compliant in order to obtain cyber liability/data breach insurance coverage.

ARTICLE 5. FEES AND DEPOSITS

You agree to pay each of the following amounts to us via a lump sum, with each and every amount being non-refundable because of our investment in time and money, in addition to any other benefits conferred upon you, including processing your application, reviewing your documents, and providing you with relevant information, unless otherwise expressly specified below, in accordance with the provisions set forth in this *Article 5*. Notwithstanding your designation to the contrary, we have the sole discretion to apply any of your payments, in part or in whole, to any of your indebtedness to us.

5.1 Not Applicable.

5.2 Royalty Fee and Surcharge.

For the period of time commencing on the later of the Effective Date or the date the Franchised Business opens to the public until the end of the first six (6) months your store is opened to the public, you must pay to us a weekly royalty fee equal to six percent (6%) of total Gross Sales (as defined below); and for the period of time commencing on the first day of the seventh month after your store opened to the public, ~~and for the duration of the Term~~, you must pay to us a weekly royalty fee equal to the greater of the following: (i) six percent (6%) of total Gross Sales (as defined below); or (ii) One Hundred Fifty Dollars (\$150) ("Royalty Fee"). If we or the landlord of the Location require you to remodel your Franchised Business in such a way that your Franchised Business (including catering) stops offering items to the public, or if there is a

disaster at your Franchised Business, such as a fire, flood or damage caused by an act of God, that requires you to temporarily close your Franchised Business, you are not required to pay the Royalty Fee during the period of time of such temporary closure; provided you provide us or our authorized representative with notice of such temporary closure as soon as reasonably possible, but in no event more than twenty-four (24) hours after such closure begins. Notwithstanding the above, all amounts owed to us under this Agreement prior to the temporary closure shall still be fully due and payable. The temporary closure of your Franchised Business shall not exceed ninety ~~(90)~~ (90) days, but may be extended on a case-by-case basis at our sole discretion and with our prior written approval.

In our sole discretion, we may charge, in addition to the Royalty Fee, a surcharge of up to Ten Dollars (\$10) per week if your Franchised Business is located in a state that imposes additional reporting requirements on a franchisor ("Surcharge"). The Royalty Fee and applicable Surcharge shall be due and payable no later than Thursday of each week, which day may be modified by us without prior notice to or approval from you, for the week ending on the preceding Sunday in which applicable Gross Sales (as defined below) were earned from the Franchised Business. The weekly Royalty Fee and applicable Surcharge shall be paid by electronic funds transfer, as detailed below.

For the period of time commencing on the later of the Effective Date or the date the Franchised Business opens to the public, and for the duration of the Term, you are required to report Gross Sales to our designated accounting office via the Internet at ~~<http://franchisee.kahalamgmt.com>~~ <http://franchisee.kahalamgmt.com>, as set forth in *Section 5.6*. You shall be required to establish a Depository Account (as defined in *Section 5.6*) at the time you execute this Agreement as set forth in *Section 5.6*. Payment of the Royalty Fee, Advertising Fee (as defined in Section 5.3), and all other fees due under this Agreement to us shall be made via electronic transfer of funds from the Depository Account. To accomplish this electronic transfer of funds from the Depository Account, you must complete, sign and deliver to us, and maintain for the duration of the Term, a current Electronic Funds Transfer Authorization in a form that we provide.

As used in this Agreement, "Gross Sales" means all sales, money or things of value, received or receivable, directly or indirectly, by Franchisee on account of the Franchised Business, less applicable sales taxes and any properly documented refunds, credits and allowances given by you to customers in accordance with the System Standards, but without deducting any of your income taxes, costs and other expenses. All sales made from catering services must be included in the Gross Sales.

5.3 Advertising Fee.

- a. Not ~~Applicable~~applicable.
- b. You must pay to us, or directly into a national advertising fund or also any regional advertising funds, as designated by us at our sole discretion, (individually and collectively, "Advertising Fund") a weekly advertising fee of one half of one percent (0.5%) of the Gross Sales for the preceding week ("Advertising Fee"). Upon thirty (30) days' notice by us to you, we may unilaterally increase the Advertising Fee from its current level, not to exceed four percent (4%) of your weekly Gross Sales. The Advertising Fee shall be due and payable with the Royalty Fee under *Section 5.2*. The Advertising Fee is our property and may be deposited by us into our general operating account.

c. The Advertising Funds will be used for marketing, advertising, production and media expenses to promote the *NrGize Lifestyle Cafe* name, System, products and services. We are entitled to deduct, free of charge, the following from the Advertising Fund: (i) reimbursement of expenses, overhead, and employee salaries for services provided; and (ii) rent for office space provided to the Advertising Fund. We have no fiduciary obligation to you in connection with the operation of any Advertising Fund. No interest on an unexpended Advertising Fee shall be imputed or otherwise charged for the benefit of, or payable to, you. You understand and agree that the only obligations we have regarding the collection and spending of the Advertising Fee or the administration of the Advertising Fund are the express contractual obligations in this *Section 5.3*. We are not acting as a trustee, fiduciary, agent or in any other special capacity. We do not give any representation or warranty regarding the quality or effectiveness of the advertising and marketing activities funded by the Advertising Fee or of the Advertising Fund, and we will have no liability to you with respect to how these funds are spent.

d. Your own local marketing and advertising should be developed to maximize your particular customer base.

5.4 Not Applicable.

5.5 Not Applicable.

5.6 Depository Account; Payment Procedures.

You are required to establish, at the time you execute this Agreement, and maintain for the duration of the Term a depository account ("Depository Account") at a bank or other federally insured financial institution ("Depository"). You will initially deposit no less than Three Thousand Dollars (\$3,000) into the Depository Account and are required to maintain a balance of at least Three Thousand Dollars (\$3,000) in the Depository Account at all times during the Term by replenishing the Depository Account to at minimum Three Thousand Dollars (\$3,000) after any withdrawals. We shall not be responsible for any bank service charges incurred by you which result from the withdrawal of funds from your Depository Account.

On ~~Monday~~Tuesday of each week, you must submit a report to us regarding the weekly period which ended on the preceding Sunday, including details on Gross Sales and other statistical data as provided in this Agreement, ~~Operations~~Confidential Manual, or as otherwise specified from time to time by us. We will withdraw funds electronically on Thursday of each week from the Depository Account. The withdrawals are based upon the figures you report and constitute the Royalty Fee and Advertising Fee as described in *Sections 5.2* and *5.3*. If you do not submit a report on any Monday, we may estimate the Royalty Fee and Advertising Fee based upon prior reports and withdraw the estimated amounts up to the entire Three Thousand Dollars (\$3,000). We will return or credit back to you, in our sole discretion, any overage within thirty (30) days after our receipt of your report(s). We shall not be responsible to you for any interest charges for any overage collected due to your failure to timely report your sales. You shall instruct the Depository to disburse each week to our designated bank, via electronic funds transfer by the close of business on Thursday ~~of each week~~ (or preceding banking business day, if Thursday is a bank holiday), the weekly Royalty Fee and Advertising Fee and other fees due for that week, which week shall end on the preceding Sunday.

We will also withdraw the monthly POS Help Desk Phone Support Maintenance Fee (as defined in *Section 5.20*) from the Depository Account on the last Thursday of each month. Under no circumstances shall such access to the Depository Account be deemed control or joint control

of the Depository Account by us.

Subject to reasonable advance notice for non-recurring payment amounts, we have the right to debit your Depository Account, or any other depository account you have with us, according to the terms of your Electronic Funds Transfer Authorization for any of the payments described in this *Article 5*. If you do not pay all amounts due by the due date, we may suspend our and our affiliates' services and support until your payment default is cured. Repeated failure to pay all amounts when due, whether or not the defaults are subsequently cured, may be cause for termination under *Article 14*.

You shall pay us Fifty Dollars (\$50) for each electronic funds transfer attempted from your Depository Account pursuant to this *Section 5.6* that is returned for non-sufficient funds. You shall also reimburse us for all other costs and expenses incurred by us in collecting or attempting to collect funds due to us from the Depository Account (for example, without limitation, charges for non-sufficient funds, uncollected funds or other discrepancies in deposits or maintenance of the Depository Account balance in accordance with the terms hereof). The Depository Account shall be established and maintained solely for the purposes set forth in this *Section 5.6* and any other fees authorized under this Agreement and any other agreements between you and us or any of our affiliates.

5.7 Lease Review Fee.

If you request us or one of our designated affiliates to complete a Lease Review, you are required to pay us or our designated affiliate a lease review fee in the amount of ~~One~~Two Thousand ~~Two~~Five Hundred ~~Fifty~~ Dollars (\$~~1,250~~2,500) ("Lease Review Fee") for reviewing and providing comments to your proposed lease.

5.8 Lease Guarantee Fee.

If, in order to obtain the lease agreement for the Location of your Franchised Business, the landlord requires you to obtain a lease guarantee, and we or one of our affiliates agree to serve as such guarantor, you will pay us or our affiliate a fee in the amount of ten percent (10%) of the total amount of the rental obligations being guaranteed under the lease during its term up to a maximum fee of Ten Thousand Dollars (\$10,000) ("Lease Guarantee Fee"). The Lease Guarantee Fee will be due and payable upon our or our affiliate's execution of the applicable lease guarantee agreement with the landlord. Neither we nor any of our affiliates are required to serve as a guarantor of your lease for the Location of your Franchised Business; rather, the decision of whether to serve as a guarantor shall be made in our sole discretion. In the event that you request us or our affiliate to either agree to be the tenant under the lease or execute a separate guarantee to the lease, and you pay the required Lease Guarantee Fee, you agree and acknowledge that payment of the Lease Guarantee Fee shall not, in any manner, be deemed as an insurance policy which limits your liability in connection with the Franchised Business, including any and all financial liability under the sublease or lease related to the Location. You further agree and acknowledge that our or our affiliate's agreement to act as tenant or guarantor under the lease, and your payment of the Lease Guarantee Fee to us, or our affiliate, does not result in the assumption or transfer of your liability, in connection with the Franchised Business, by or to us or our affiliate.

5.9 Additional Persons Training Fee.

The training of two (2) individuals is included in the Transfer Training Fee (as defined in *Section 5.15*). If you desire to have more than two (2) people attend the Training Program, you

must pay an additional training fee of Five Hundred Dollars (\$500) for each such person to attend the In-Store Training and an additional Five Hundred Dollars (\$500) for each such person to attend the New Owner Training (individually and collectively, "Additional Persons Training Fee") (see *Section 4.1*).

5.10 Additional Training Fee.

If, after attending the Training Program, you desire to receive additional training, we will provide additional training time to you for a fee of Three Hundred Dollars (\$300) per person per day. Such additional training will be at a time reasonably agreed to by you and us, and will be conducted at Franchisor's headquarters, or such other location as we may designate in our sole discretion. You will be solely responsible for all transportation costs and expenses, food, lodging and other personal costs and expenses incurred by you and your employees in connection with this additional training.

5.11 Document Administration Fee.

A document administration fee of Five Hundred Dollars (\$500) ("Document Administration Fee") is payable to us when we must prepare an amendment to your franchise documents (see *Section 12.3g*).

5.12 Renewal Franchise Fee.

A renewal franchise fee ~~in the amount~~ of fifty percent (50%) of the ~~tenth~~ then-current initial franchise fee ~~excluding~~ not including any discounts or reductions ("Renewal Franchise Fee") is payable to us when you renew this Agreement (see *Section 13.h-i*).

5.13 Transfer Franchise Fee.

a. A transfer franchise fee and other applicable initial fees, as set forth in the Consent to Transfer and Release Agreement executed contemporaneously herewith and to which Franchisee is also a party, are payable to us when you sign this Agreement.

b. If, following the Effective Date, Franchisee desires to complete a Full Transfer (as defined in *Section 12.1.a.1.*) of this Agreement, we will require the Potential Transferee (as defined in *Section 12.112.1.c.*) to pay us Seven Thousand Five Hundred Dollars (\$7,500) ("Transfer Franchise Fee") as one of the conditions for Franchisee to receive Franchisor's consent for such Transfer (as required in *Section 12.1b.*).

5.14 Relocation Fee.

A relocation fee of Five Hundred Dollars (\$500) ("Relocation Fee") is payable to us when you sign the amendment to ~~this~~ your Franchise Agreement for your relocation (see *Section 2.5*).

5.15 Transfer Training Fee.

a. In connection with a Full Transfer and in addition to the Transfer Franchise Fee, a training fee of Two Thousand Five Hundred Dollars (\$2,500) ("Transfer Training Fee") is payable to us when you sign this Agreement. The Transfer Training Fee is used to provide training for two (2) individuals, and a fee of Five Hundred Dollars (\$500) will be charged for each additional individual trained over two (2).

b. A Potential Transferee receiving this Agreement, as may be amended, as Potential Transferee's Transfer Documents in connection with a Full Transfer must pay to us, in addition to the Transfer Franchise Fee, the Transfer Training Fee. The Transfer Training Fee is used to provide training for two (2) individuals, and a fee of Five Hundred Dollars (\$500) will be charged for each additional individual trained over two (2).

5.16 Annual Meeting Registration Fee.

If we hold an annual meeting ("Meeting"), the Meeting may be held at various locations throughout the United States as we may designate in our sole discretion. Because the planning and funding of the Meeting must be done well in advance and requires a substantial financial commitment, we have the right to debit your Depository Account for up to One Thousand Dollars (\$1,000) for the Meeting registration fee at any time sixty (60) to ~~ninety~~ ninety (90) days prior to the first day of the Meeting. This fee may be debited from your account (even if you do not attend the Meeting). If you do not attend the Meeting, we will make available to you one (1) full set of the substantive materials that were presented at the Meeting.

5.17 Late Report, Default and Non-Sufficient Funds Fees, Breaching Royalties and Collection Costs and Expenses.

If you fail to submit to us any financial statements, forms, reports or records required to be provided under this Agreement by its due date, including your weekly Gross Sales report for calculating your Royalty Fee and Advertising Fee, you must pay to us a non-refundable late report charge of One Hundred Dollars (\$100) per report.

If any fees or assessments due under this Agreement, including the Royalty Fee and Advertising Fee, are not paid when due, interest shall accrue on the late payment (from the date payment is due until the date it is paid) at the Default Rate or the maximum legal interest rate (whichever is higher), which amount, plus a Fifty Dollar (\$50) late fee, shall be added to each late payment. For any payments made by you to us under this Agreement which are returned for non-sufficient funds of a processed check, you shall be charged a non-sufficient funds fee of Twenty-Five Dollars (\$25) per occurrence. Pursuant to *Section 5.6*, for each electronic funds transfer that is attempted from the Depository Account but returned for non-sufficient funds, you shall be charged a non-sufficient funds fee of Fifty Dollars (\$50) per occurrence.

~~The Royalty Fee may, in our sole discretion, Franchisor has the absolute right to charge Franchisee the greater of: three (3) times the fixed Royalty fee; or, if on a percentage Royalty fee the Royalties will~~ be increased up to eighteen percent (18%) of Gross Sales, with respect to any period during which ~~you are Franchisee is~~ in breach or default of ~~your/its/his/her~~ obligations under this Agreement. ~~(The Royalty Fee Royalties~~ paid or owing to ~~us Franchisor~~ with respect to the period during which ~~you are Franchisee is~~ in breach or default ~~is are~~ referred to as "Breaching Royalties.") Breaching Royalties will be charged for a minimum fourteen (14) day period, regardless of the length of the actual breach or default.

If, as a result of your failure to remit payments required under any provision of this Agreement, we retain an attorney or a collection agency to collect such payments, you must pay all collection costs and expenses, including reasonable attorneys' fees and expenses, whether or not legal proceedings are initiated. Our rights under this *Section 5.17* are in addition to any other rights or remedies that we may have as a result of your default under this Agreement.

5.18 Audit Fees.

For the purpose of this *Section 5.18*, we have the right, at any time during business hours, and with or without prior notice to you, to inspect and audit, or cause to be inspected and audited, the business records, cash control devices, bookkeeping and accounting records, sales and income tax records and returns and other records of the Franchised Business and your entity's books and records.

You hereby grant us access to any computers utilized by you for such purposes and we will have the ability, at all times, via modem, to obtain daily and weekly sales reports and other financial records that the POS System provides. You will fully cooperate with our representatives, the Area Representative, if applicable, and independent accountants hired by us to conduct any such inspection or audit. In addition, in the event such inspection or audit is made necessary by your failure to furnish reports, supporting records or other information, as required herein, or to furnish such reports, records or information on a timely basis, or if an understatement of Gross Sales, resulting in an underpayment of the Royalty Fee or Advertising Fee for the period of any audit (which shall not be for less than one (1) month) is determined by any such audit or inspection to be five percent (5%) or greater, you will pay to us, immediately after receipt of the inspection or audit report, any additional Royalty Fee and Advertising Fee and other amounts due as a result of any such understatement, plus interest at the Default Rate from the date originally due until the date of payment and you must reimburse us for such audit or inspection, including the charges of any independent accountants, and the travel expenses, room, board and compensation of such accountants and our employees.

The remedies in this *Section 5.18* will be in addition to all other remedies and rights available to us under this Agreement or otherwise available.

5.19 Data Fee.

We may require you to pay us or a third-party we designate a data fee of up to Seventy-Five Dollars (\$75) per month for polling or collecting data from your POS System.

5.20 POS Help Desk Phone Support Maintenance Service Fee.

You must purchase from us a help desk phone support maintenance service that covers phone support for both the software and hardware of your POS System that is supported by the help desk, the cost of which is currently Fifty-Five Dollars (\$55) monthly, and subject to increase upon thirty (30) days' notice ("POS Help Desk Phone Support Maintenance Service Fee"). The POS Help Desk Phone Support Maintenance Service Fee shall be paid by electronic funds transfer, as detailed in *Section 5.6*, and debited from your account on the last Thursday of each month.

5.21 New Supplier Approval Fee.

All requests for approving new or alternative suppliers must be submitted in writing by you or the supplier to our Purchasing Department. Each request will be reviewed in accordance with our then-current procedures and the supplier must meet our then-current requirements, which may include that our representatives be allowed to inspect the facilities of the proposed supplier, and that samples from the proposed supplier be delivered, at no charge, either to us or to our designee for testing. A charge not to exceed the amounts incurred in connection with the inspection and the test, with such cumulative amount not to exceed Five Thousand Dollars (\$5,000), must be paid to us either by you or by the proposed supplier. If approved, in our sole

discretion, we will notify you or the supplier in writing within sixty (60) days after our receipt of an approval request. You must not offer or sell in any manner any of the proposed alternative supplier's products until you receive our written approval of the proposed alternative supplier.

5.22~~Early Termination Fee.~~

~~If you stop operating your Franchised Business before this Agreement expires, with or without obtaining our prior written consent, or in the event of a termination arising from or related to your default under this Agreement, you must pay us an early termination fee ("Early Termination Fee") for breaching your Agreement. The payment of an Early Termination Fee is not in lieu of other damages and does not constitute a release of the obligations to us. The amount of the Early Termination Fee is calculated as follows:~~

~~a. Compute the average monthly Royalty Fee and Advertising Fee due for any consecutive twelve (12) month period within the forty-eight (48) months immediately preceding the date we receive notification of the closure, or if you failed to timely notify us of the closure then the date the Franchise Business closed, or, if the Franchised Business has been open for less than twelve (12) months, the average monthly Royalty Fee and Advertising Fee due since the opening of the Franchised Business ("Monthly Average");~~

~~b. Multiply the Monthly Average by the number of months remaining in the Term;
and~~

~~c. Divide the resulting total computed in b. above by two (2).~~

~~For example purposes only: If the average monthly Royalty Fee and Advertising Fee were collectively \$1,000 and there were five (5) years (sixty (60) months) remaining in the Term, the Early Termination Fee would be \$30,000, calculated as follows: \$1,000 x 60 months = \$60,000 ÷ 2 = \$30,000.~~

~~If you unilaterally terminate this Agreement prior to the end of the Term, you must give us ninety (90) days prior notice of the early termination ("Early Termination Notice"). Within ten (10) days after our receipt of your Early Termination Notice, we will calculate the Early Termination Fee, which will be due and payable thirty (30) days prior to the closure of your Franchised Business. In the event of a termination arising from or related to your default under this Agreement, or that you do not: (i) provide us with the Early Termination Notice at least ninety (90) days prior to the early termination of your Franchised Business and this Agreement; (ii) remain open for at least ninety (90) days after providing us with the Early Termination Notice; and (iii) pay the Early Termination Fee in full at least thirty (30) days prior to closing of the Franchised Business, the Early Termination Fee due may, in our sole discretion, be increased as follows: it will be calculated by multiplying the Monthly Average by the number of months remaining in the Term, and will not be divided by two (2).~~

5.22 ~~If you have not paid your Royalty Fee and Advertising Fee for any period(s) within the forty-eight (48) months prior to notifying us of your early termination, or if you have not reported your Gross Sales for any period(s) within the forty-eight (48) months prior to notifying us of your intended early termination, we will estimate the Royalty Fee and Advertising Fee based upon prior reports to calculate the Monthly Average.~~**Reserved.**

5.23 Non-participation Fee.

You must offer and sell at the Location of the Franchised Business all products designated by us, consistent with our System Standards. In addition, you must immediately incorporate into the Franchised Business all new products and services designated by us and must fully participate in all local, regional, seasonal, promotional and other programs, initiatives and campaigns adopted by us in which we require you to participate. If you fail or refuse to fully participate in any such program, initiative or campaign, you may, in our sole discretion, be required to pay a non-participation fee of One Hundred Dollars (\$100) per day that you are not in compliance ("Non-participation Fee").

5.24 Not Applicable.

5.25 ~~5.24~~through 5.35 Not Applicable.

ARTICLE 6. PROPRIETARY MARKS

6.1 Ownership and Right to Use.

We warrant to you that:

- a. We are the owner of all right, title and interest in and to the Proprietary Marks;
- b. We have granted to you the personal, non-exclusive, limited, revocable right and license to use the Proprietary Marks in connection with the operation of your Franchised Business;
- c. We have taken and will take all steps reasonably necessary to preserve and protect our rights in the Proprietary Marks; and
- d. We will only permit you to use the Proprietary Marks in accordance with the System Standards.

6.2 Covenants of Franchise Owners.

- a. You acknowledge our ownership of the Proprietary Marks, and you agree that during the Term and after its expiration or termination, you will not directly or indirectly contest, or aid in contesting, the validity of the Proprietary Marks or our ownership of the Proprietary Marks, nor will you take any action which might impair or prejudice our ownership of the Proprietary Marks. You shall not, directly or indirectly, apply to register, register or otherwise seek to own or control any of the Proprietary Marks, or any confusingly similar mark thereto, whether in whole or in part, in any place or jurisdiction either within or outside of the United States; nor will you assist any others to do so.
- b. You agree that the license granted pursuant to this Agreement authorizes you to use the Proprietary Marks solely in connection with the Franchised Business only at the Location, and for no other purpose. You have no right to license or sublicense any aspect of the System Standards or any of the Proprietary Marks.
- c. You agree to use the Proprietary Marks only in the manner and to the extent specifically licensed by this Agreement. You further agree that any unauthorized use or continued use of the Proprietary Marks after the termination or expiration of this Agreement will constitute

irreparable harm subject to injunctive relief.

d. The license granted by this Agreement includes only the Proprietary Marks, now existing or which may exist in the future. This license does not include the right to use any other trademarks, service marks, trade name or trade dress owned by us or our licensor anywhere in the world. You agree that any and all goodwill associated with and identified by your use of the Proprietary Marks will inure directly and exclusively to our benefit, and that, on the expiration or termination of this Agreement, no monetary amount will be due or payable to you as a result of any goodwill associated with your ownership or operation of the Franchised Business.

6.3 Limitations on Franchisee's Use of Proprietary Marks.

To develop and maintain high and uniform standards of quality and service and thereby protect our reputation and goodwill and that of the System, you agree:

a. To operate and advertise the Franchised Business only under the Proprietary Marks authorized by us;

b. To adopt and use the Proprietary Marks licensed by this Agreement solely in the manner prescribed by us;

c. That your corporate, partnership or other entity name including trade name, will not include any of the Proprietary Marks, in whole or in part, or any terms confusingly similar thereto, unless first authorized by us in writing;

d. To submit all advertising, promotional materials and all printed matter, including stationery ~~and~~, business cards, and any materials to be used on the Internet to us for our written approval before you use any of these items; and

e. That we may from time to time change or modify the System Standards, including modifying existing Proprietary Marks or adopting new marks. You agree, at your own expense, to adopt, use and display any such new or modified Proprietary Marks within ninety (90) days after notification from us. However, if we require you to modify or discontinue use of our proprietary information or use other information or rights in its place at any time other than upon renewal of this Agreement, and that requirement is a direct result of proceedings or litigation that determined that our and our franchisees' use of the proprietary information infringed upon a third-party's rights, we or our affiliate will bear the cost of those modifications or discontinuances.

Upon your abandonment of the Franchised Business (whether voluntary or involuntary), termination or expiration of this Agreement, you must immediately cease to use, in any manner whatsoever, any of the Proprietary Marks or any other marks which, in whole or in part, may be confusingly similar to any of the Proprietary Marks.

6.4 Non-Exclusive License of Proprietary Marks.

You understand and agree that your license to use the Proprietary Marks is non-exclusive; that we, in our sole discretion, can grant to other franchisees the right to use the Proprietary Marks and obtain the benefits of the System Standards, in addition to the licenses and rights granted to you under this Agreement; and that we or our affiliates may develop and license other proprietary marks in conjunction with concepts other than the NrGize Lifestyle Cafe concept, on any terms and conditions we deem advisable. You will have no right or interest in any such

other licenses, proprietary marks or systems.

6.5 Notification of Infringement and Claims.

You agree that you will notify us immediately of any apparent infringement of, or challenge to your use of any of the Proprietary Marks, or any claim by any person of any rights in any of the Proprietary Marks. You agree that you will not communicate with any person, other than us and our legal counsel, in connection with any such infringement, challenge or claim. We will have the sole discretion to take such action as we may deem appropriate to protect the Proprietary Marks and the exclusive right to control any litigation, United States Patent and Trademark Office proceeding, or other proceeding arising out of any such infringement, challenge, claim or otherwise relating to any Proprietary Marks. You agree to execute any and all instruments and documents, render such assistance, and do such acts and things as may, in the opinion of our counsel, be necessary or advisable to protect and maintain our interests in connection with any such litigation or proceeding, or to otherwise protect and maintain our interests in the Proprietary Marks.

ARTICLE 7. TRADE SECRETS AND PROPRIETARY INFORMATION

7.1 Innovations.

During the Term, you and your principals, officers, managers and employees may conceive, invent, create, design or develop various ideas, techniques, methods, processes and procedures, recipes, formulae, products, packaging or other concepts and features relating to restaurant operations, business practices or the manufacturing, production, marketing and sale of low-calorie smoothies, fruit drinks, nutritional supplements, and other food and beverage items, and related goods now in existence or later developed, adopted, or improved in connection with the Franchised Business (individually and collectively, "Innovations"). You, without further consideration, hereby assign any and all of your rights, title and interest in the Innovations, including any intellectual property rights, to us, and also agree to cooperate with us and our counsel in the protection of the Innovations, including the perfecting of title thereto in us. In addition, you will require all of your principals, officers, managers and employees to sign an agreement in the form set forth in our System Standards and incorporated herein by reference ("Confidentiality Agreement"), and shall be liable to us for obligating your principals, officers, managers and employees to assign all of their rights, title and interest to the Innovations to us and requiring your principals, officers, managers and employees to cooperate in obtaining, protecting, maintaining and enforcing our right, title and interest in the Innovations.

7.2 Confidentiality Agreement.

a. In connection with the operation of the Franchised Business, you will from time to time receive, have access to, or learn certain information and materials that are proprietary to us or our affiliate. You and any person signing this Agreement under the heading "Personal Acceptance of Sections 7.1, 7.2, 14.6 and 14.8" agree that you will keep confidential, and will not use for your own purposes, nor supply or divulge to any other person, any of our Trade Secrets, including our methods of operation, processes, techniques, formulae and procedures, information a reasonable person would believe to be confidential and any other proprietary information regardless of whether such is expressly marked as confidential ("Confidential Information"). You acknowledge that much of the information imparted to you by us is confidential, constitutes Trade Secrets, are unique to us, and remains our sole exclusive property. Our Confidential Information includes the following:

1. The ~~Operations~~Confidential Manual and any amendments thereto;
2. Ingredients, recipes, and methods of preparation of food products;
3. Methods of operation of *NrGize Lifestyle Cafe* restaurants;
4. Information about products, services, or procedures before they become public knowledge;
5. Information which relates in any manner to our business or the System Standards, whether oral or reduced to writing, and which is not generally known to, or readily ascertainable by, other persons who might derive economic benefit from its disclosure or use; and
6. Any other information which may be imparted to you from time to time and designated by us as confidential.

b. You and any person signing this Agreement under the heading "Personal Acceptance of *Sections 7.1, 7.2, 14.6 and 14.8*" acknowledge and agree that the Confidential Information and any business goodwill of the Franchised Business is our sole and exclusive property, and that you will preserve the confidentiality thereof. Upon termination or expiration of this Agreement, all items, records or documentation recording or incorporating any Confidential Information, including any copies thereof, will be immediately turned over by you to us or our authorized representative.

c. You agree to take all steps necessary, at your own expense, to protect the Confidential Information, including our Trade Secrets, and to adopt and implement all reasonable procedures prescribed by us from time to time to prevent the unauthorized use or disclosure of any of the Confidential Information. We require that all of your executive officers, agents, directors, shareholders, trustees, beneficiaries, partners and managers who may or are likely to obtain knowledge concerning the Proprietary Information (and who do not sign this Agreement under the heading "Personal Acceptance of *Sections 7.1, 7.2, 14.6 and 14.8*") sign the Confidentiality Agreement binding such person to preserve the confidentiality of the Confidential Information as part of the terms and conditions of such person's employment or association with you. You must obtain a Confidentiality Agreement signed by any such person prior to or at the same time that you begin employment of, or association with, that person. This will be a continuing obligation on your part throughout the Term. You must keep each original signed Confidentiality Agreement and provide us with a copy of each Confidentiality Agreement when requested by us or our authorized representative.

d. Notwithstanding the above, Confidential Information shall not include information which you can reasonably prove: (i) entered the public domain through no breach by you or your affiliate of any duty of confidentiality, or (ii) you received our prior express written consent to disclose in the manner in which you disclosed it.

e. If anyone under a Confidentiality Agreement is legally compelled or required by a regulatory body to disclose any Confidential Information, he/she/it will notify us as soon as possible and will use his/her/its best efforts to obtain, and give us an opportunity to obtain, appropriate assurances of confidential treatment.

f. The requirements under this *Section 7.2* will remain in full force and effect during the Term and after termination or expiration of this Agreement.

ARTICLE 8. RELATIONSHIP OF THE PARTIES AND INDEMNIFICATION

8.1 Relationship of the Parties.

You and we agree that this Agreement does not create any fiduciary or employment relationship between you, or any of your employees, and us, that you are an independent contractor, and that nothing in this Agreement is intended to make either you or us a general or special agent, legal representative, subsidiary, joint venture, partner, employee or servant of the other for any purpose. You shall not enter into any agreement on behalf of or otherwise bind us for any purpose.

8.2 Indemnification of Franchisor.

You agree to indemnify, defend, and hold us and our affiliates (including our parent and subsidiary companies, current, past and future predecessors, successors and assigns), and each of our shareholders, owners, directors, officers, members, managers, partners, joint venturers, attorneys, employees, contractors, agents, representatives, guarantors, insurers, spouses, heirs, executors, trustees and estates (collectively with us, "Indemnified Parties") harmless for, from and against any and all claims, liabilities, causes of action, suits, debts, duties, accounts, covenants, contracts, agreements, promises, taxes, demands, obligations, costs and expenses, including reasonable attorneys' fees, damages, judgments, and proceedings, of every kind and nature whatsoever, in law or equity, or otherwise, under local, state or federal law including, without limitation the Americans with Disabilities Act ("ADA"), or the law of any other applicable jurisdiction (individually and collectively, "Claims") suffered or incurred by any of the Indemnified Parties arising out of or relating to your construction, ownership, marketing, Promotions (as defined in *Article 10*), operation, including your failure to comply with PCI DSS or any law, statute, regulation, order, rule, or ordinance, or management of the Franchised Business, except for Claims held to have resulted solely from our gross negligence or willful misconduct. Notwithstanding the foregoing, we will have the right, at our option, to defend any Claim, but you must reimburse us upon demand for the costs and expenses of such defense. You shall immediately give us notice of any demand, investigation, written inquiry, action, suit, proceeding, or claim in any way related to us or the *NrGize Lifestyle Cafe* brand.

8.3 Indemnification of Franchisee.

We agree to indemnify, defend, and hold you and your affiliates, and their shareholders, directors, officers, members, managers, partners, employees, agents, successors and assignees harmless for, from and against any and all Claims, arising out of any Claim of infringement or unfair competition in connection with your authorized use of the Proprietary Marks or Confidential Information, provided that such use is in accordance with the provisions of this Agreement. However, if we require you to modify or discontinue use of our Proprietary Marks or Confidential Information or use other information or rights in its place at any time other than upon renewal of this Agreement, and that requirement is a direct result of proceedings or litigation that determined that our and our franchisees' use of the Proprietary Marks or Confidential Information infringed upon a third-party's rights, we will bear the cost of those modifications or discontinuances.

8.4 Special Power of Attorney.

You agree to cooperate with and assist us as we may request from time to time to obtain, protect, maintain or enforce our intellectual property and Proprietary Marks, including executing documents and appearing as a witness. You hereby appoint us as your attorney-of- fact and hereby grant us an irrevocable Special Power of Attorney, coupled with an interest, with full power

and authority for the purpose of executing documents or taking such action as necessary or appropriate as you might or could do if personally present, hereby ratifying all that we, as your attorney-in-fact, shall lawfully do or cause to be done by virtue of this Special Power of Attorney to obtain, protect, maintain or enforce our intellectual property and Proprietary Marks if we are, for any reason, unable to obtain your cooperation or assistance. The Special Power of Attorney granted by this *Section 8.4*, shall survive your dissolution, death, incompetence or disability and the termination or expiration of this Agreement.

ARTICLE 9. OPERATING STANDARDS AND DUTIES OF FRANCHISE OWNER

9.1 Compliance with System Standards and ~~Operations~~Confidential Manual.

You understand and acknowledge that every detail of the operation of the Franchised Business is important in order to develop and maintain high and uniform standards of quality, cleanliness, appearance, service, facilities and techniques~~;~~₁ to increase the demand for the System~~;~~₂ and to protect our reputation and goodwill and that of other *NrGize Lifestyle Cafe* franchisees. You also acknowledge that the operation of the Franchised Business is your sole responsibility, and that neither we nor our affiliates have any responsibility to obtain customers for you. The System Standards will constitute provisions of this Agreement as if fully set forth herein.

9.2 Authorized Products and Services.

a. You agree that you will not, without our prior written approval, offer at the Location any menu items, beverages, products or services that are not authorized by us for the Franchised Business, as set forth in the System Standards.

b. You have complete discretion in establishing the minimum price you charge for your products. Although we may suggest pricing strategy, you will have the final pricing decision.

c. Notwithstanding the terms of *Section 9.2b.*, we may conduct periodic promotional campaigns during which a specified product or products are promoted at a specified price. During the promotional period, you may not charge your customers more than the specified promotional price, although you may charge less than the promotional price.

d. We may conduct new marketing, research and development, branding and operational program tests, which will generally be conducted with experienced, existing franchisees and may include incentives and other rights that are not available to all franchisees.

e. You hereby consent to third-party vendors, suppliers and distributors sharing with us any and all information, reports, invoices and related documentation covering and otherwise detailing your purchases for the Franchised Business.

f. You are required to accept debit and credit cards (including Visa®, MASTERCARD® and AMERICAN EXPRESS®) and Gift/Loyalty Cards from consumers at the Franchised Business. Prior to the opening of your Franchised Business, you are required to acquire, and maintain during the Term, an approved debit, credit and Gift/Loyalty Card processing system ("Card Processing System") to use during the operation of the Franchised Business. Additionally, you must utilize our approved third-party payment card processor, as identified in the System Standards, for processing all Card Processing System transactions.

9.3 Specifications and Standards for Supplies; Approved Suppliers; Rollouts.

a. You must purchase or otherwise acquire certain proprietary or required equipment and supplies utilized in the Franchised Business only from our designated approved distributors or suppliers. If, during the Term, we change designated approved distributors or suppliers for any of the proprietary or required equipment and supplies utilized in the Franchised Business, you shall change to the new designated approved distributor or supplier within sixty ~~(60)~~ (60) days after written notification of such change from us.

b. If you desire to purchase or otherwise acquire any equipment, supplies or inventory items required by the System Standards but not previously approved by us, or from sources not previously approved by us, you must submit to us sufficient specifications, photographs, drawings, and other information sufficient to allow us to determine whether such equipment, supplies or inventory items meet our System Standards. We may require that our representatives be allowed to inspect the facilities of the proposed supplier and revoke its approval upon the supplier's failure to meet any of our then-current minimum System Standards. We may also require that samples from the proposed supplier be delivered, at no charge to us, either to us or to our designee for testing. A charge not to exceed the reasonable cost and expense of the inspection and the actual cost and expense of the test must be paid to us either by you or by the proposed supplier. We will notify you within sixty (60) days after your request of our approval or disapproval of the proposed product or supplier, with such determination to be made at our sole discretion. You acknowledge and agree that our approval of any item or supplier of equipment, supplies or inventory not previously approved by us will not, in and of itself, make the supplier of that item an approved supplier for other *NrGize Lifestyle Cafe* franchise owners in the System. We may, in our sole discretion, at any time and from time to time, re-inspect the facilities and products of any approved supplier and revoke its approval upon the supplier's failure to meet any of our then-current System Standards. If you receive a notice of revocation from us, you must immediately stop selling disapproved products and purchasing from the disapproved supplier.

c. We will provide to you a list of all recommended and required items of equipment, fixtures, supplies, smallwares and interior decor. This list will be included in the System Standards.

d. At any time and from time to time, we may in our sole option engage in new product rollouts to add to or change the menu items offered for sale in the Franchised Business and the ingredients or supplier of ingredients utilized in the preparation of the menu items sold in the Franchised Business ("Rollout"). If we engage in a Rollout, you shall participate in the changes that are the subject of such Rollout, including offering the new menu items, changing the menu items, changing to the new supplier of the ingredients utilized in the preparation of the menu items, and changing to the new ingredients utilized in the preparation of the menu items.

If we engage in a Rollout, we will notify you of the details of the Rollout and provide you sixty (60) days from said notification to take the applicable actions required by the Rollout.

9.4 Compliance with Legal Requirements and Good Business Practices.

You must, at your sole expense, operate the Franchised Business in full compliance with all applicable Federal, state and local statutes, laws, ordinances and regulations, including health and safety regulations, food and drug laws, disability laws, labor and employment laws and data privacy laws, as may be amended, supplemented or enacted from time to time. You must pay all costs and expenses incurred by, and in the conduct of, the Franchised Business, including all rent, salaries, taxes (excluding our income taxes), disbursements, license or permit fees, insurance premiums, traveling expenses and any other business expenses. If you receive any demand, action, suit or proceeding, or the issuance of any order, writ, injunction, award or decree

of any court, agency or other governmental instrumentality relating to your Franchised Business, you must immediately notify us, and in no event, later than three (3) days after such your receipt. Any such notice must be accompanied by a copy of the demand, complaint, order, writ, injunction, award, decree or other similar document. You must, in all dealings with your customers, suppliers, the public, and us adhere to the highest standards of honesty, integrity, fair dealing and ethical conduct. You agree to refrain from any business practice that may be injurious to the System or the goodwill associated with the Proprietary Marks.

9.5 Maintenance of Insurance.

At all times during the Term, you must maintain in full force and effect commercial general liability insurance against claims for bodily and personal injury, death and property damage caused by or occurring in connection with the construction, ownership, operation or conduct of the Franchised Business. The insurance must also include coverage for product liability and fire claims.

Such liability insurance coverage must be maintained under one (1) or more policies of insurance (each of which shall be primary coverage and shall not be contributory or secondary to any other coverage maintained by us) containing minimum liability limits of One Million Dollars (\$1,000,000) (or greater if applicable state laws or regulations require) for each occurrence and with an aggregate of not less than Two Million Dollars (\$2,000,000). Such insurance policy or policies must be "occurrence" policies and not "claims made" policies; must not provide for a deductible greater than One Thousand Dollars (\$1,000) in the aggregate and must provide that no act or omission of ours or of any officer, director or employee of ours or any affiliate of ours shall invalidate or diminish any coverage thereunder.

Such insurance policies must be issued by insurers acceptable to us having an A.M. Best's financial strength rating of at minimum "A-VII." The general liability insurance required by this Agreement must: (i) name ~~our parent company,~~ Kahala ~~Brands, Ltd., Franchising, L.L.C.~~ as the certificate holder; (ii) name Kahala Franchising, L.L.C., ~~Kahala Brands, Ltd., and MTY Franchising USA, Inc. and~~ their parents, subsidiaries, affiliates, officers, directors, and employees as additional ~~insureds~~; (iii) contain a waiver by the insurance carrier of all subrogation rights against us and our affiliates and our affiliates' respective officers, directors and employees for casualty losses; (iv) indicate the address of the Franchised Business being insured; and (v) provide that we will receive, via an endorsement, thirty (30) days' prior notice of cancellation of any such policy. Our minimum insurance coverage requirements (subject to increase in our sole discretion) are as follows:

Type of Coverage	Limits/Specifications
General Liability	\$1,000,000 bodily injury/property damage per occurrence / \$2,000,000 aggregate
Building Improvements and Betterments	100% of full replacement cost – no coinsurance (minimum of \$100,000)
Business Personal Property	100% of full replacement cost – no coinsurance – special form or equivalent (minimum of \$100,000)
Spoilage	\$5,000
Business Income	actual loss sustained or at least 50% of annual sales
Flood, Earthquake and Volcanic Eruption	subject to territory limitations – required if in a designated flood zone
Workers' Compensation	statutory requirements

Stop Gap or Employer Liability	bodily injury by accident: \$1,000,000 each accident bodily injury by disease: \$1,000,000 policy limit bodily injury by disease: \$1,000,000 each employee
Hired and Non-Owned Automobile Liability	\$1,000,000 combined single limit per accident

In addition, we recommend that you obtain cyber liability/data breach insurance coverage.

You are responsible for maintaining insurance coverage and limits as required by us, at minimum, pursuant to this *Section 9.5*, provided, if your landlord requires additional coverage, higher limits, or any other requirements not required by us, then you are responsible for maintaining such additional items as well. You must always keep the required insurance coverage in force at all times during the operation of the Franchised Business, and you must comply with any changes we make periodically to our insurance requirements. If your restaurant is located in a flood zone or an area subject to earthquakes, hurricanes, tornadoes, other similar hazards, you may want to obtain additional specific insurance to cover these risks. Such insurance may significantly increase your premiums. Upon thirty (30) days' notice to you, we may require you to increase the minimum coverage of the insurance referred to above as of the next renewal date of any policy, and require different or additional kinds of insurance at any time, including excess liability (umbrella) insurance, to reflect inflation, identification of special risks, changes in law or standards of liability, higher damage awards or other relevant changes in circumstances.

Subject to *Section 3.1*, and annually thereafter, at least ten (10) days prior to renewal of your insurance coverage, and at any other time on our request, you must provide us with certificates of insurance or copies of insurance policies showing that you are in compliance with our insurance requirements, as well as proof that you have paid the premiums you owe for the insurance we require. You will pay your insurance premiums to your insurance broker or to the insurance company issuing the policy. You must have insurance and provide a copy of your certificate of insurance to us which meets our requirements before you may open your restaurant. We or our affiliate may, at our option and in addition to our other rights and remedies under this Agreement, obtain such insurance coverage on your behalf, and you must promptly execute any applications or other forms or instruments required to obtain any such insurance and pay to us, on demand, any costs, expenses and premiums incurred by us. Your obligation to obtain and maintain the insurance described above will not be limited in any way by reason of any insurance maintained by us, nor will your performance of such obligations relieve you of any obligations under *Section 8.2*.

9.6 Management of the Franchised Business.

You are directly responsible for all aspects of operating the Franchised Business, and you agree that you will, at all times, operate the Franchised Business and use your best efforts to enhance your Franchised Business and the System. The Franchised Business must be personally managed and directly operated by either you or another partner, shareholder or member of your business organization, or a manager.

9.7 Inspections by Franchisor.

For the purpose of this *Section 9.7*, you must make available to us or our authorized representatives such financial and other information concerning the Franchised Business, and you must permit us or our authorized representatives to have full and free access to such

information at your Franchised Business Location during regular business hours without prior notice. We and our authorized representatives will have the right to communicate freely with your employees, and make extracts from, and copies of, all such information. Our authorized representative may make announced or unannounced inspections of your Franchised Business to ensure compliance with all of the requirements of this Agreement.

9.8 Shareholder Guaranty/Personal Guaranty; Non-Disclosure and Non-Competition Agreement.

If you are an individual and married, your spouse must execute and deliver to us a Guaranty of Franchise Agreement and a Non-Disclosure and Non-Competition Agreement at the same time that you sign the Agreement unless your spouse is also signing the Agreement as an individual.

If you are a corporation, limited liability company, or other business entity, each of your shareholders, members, or other owners whether direct or indirect (and their respective spouses, if married) must execute and deliver to us a Guaranty of Franchise Agreement and a Non-Disclosure and Non-Competition Agreement at the same time that you sign this Agreement.

In the event any person who has not previously signed a Guaranty of Franchise Agreement or a Non-Disclosure and Non-Competition Agreement becomes ~~the holder of any class of your stock or ownership interests~~your spouse or shareholder, member, or other owner, direct or indirect or a spouse of such shareholders, members, or other owner, at any time after the execution of this Agreement, you must cause ~~that~~such person(s) to immediately execute and deliver a Guaranty of Franchise Agreement and a Non-Disclosure and Non-Competition Agreement to us.

Failure to provide a Guaranty of Franchise Agreement or a Non-Disclosure and Non-Competition Agreement to us may, in our sole discretion, be grounds for termination of this Agreement as set forth in *Section 14.2a*.

9.9 Not Applicable.

ARTICLE 10. ADVERTISING AND PROMOTION

10.1 Advertising by Franchisor.

We (or, at our election, a third-party which may be an affiliate of ours) will administer the Advertising Fund that will include your Advertising Fee and those of other franchise owners in the System. If an affiliate of ours administers the Advertising Fund or places advertising in connection with the System, such affiliate may be paid a fee that will not exceed the fee that would be payable to unrelated third-parties for comparable services. Unless required by applicable law, we will have no obligation to create a trust account, escrow account or other special account for the Advertising Fund, and the monies comprising the Advertising Fund may be placed in our general account. We may also reserve the Advertising Fee for use in a subsequent year.

We will direct all advertising and promotional programs. We will have sole discretion over all creative concepts, materials and media used in such programs and the placement and allocation of such programs. The Advertising Fund will be used for marketing, advertising, production and media expenses to promote the *NrGize Lifestyle Cafe* trade name, System, products and services. We are entitled to deduct, free of charge, the following from the Advertising Fund: ~~(i)~~ reimbursement of expenses, overhead, and employee salaries for services provided;

and ~~(ii)~~ rent for office space provided to the Advertising Fund. We are not required to use any specific amounts from the Advertising Fund in your market. However, we will use all amounts contributed by you to any Advertising Fund, if any, (see *Section 5.3*) in the same geographic area in which your Franchised Business is located.

10.2 Advertising by Franchisee.

In addition to your Advertising Fee, if applicable, and unless your Franchised Business is located in an enclosed shopping mall or other enclosed structure identified in *Section 1.1*, you agree to pay for a regular (white pages) and classified (yellow pages) telephone directory advertisement in the main directory distributed in the area where your Franchised Business is located, in such directory categories as we specify, utilizing forms of listing and classified directory advertisements approved by us. We also recommend that, in addition to your Advertising Fee, you spend at least two percent (2%) of your monthly Gross Sales on local advertising.

Your own local marketing and advertising plan should be developed to maximize your particular customer base. You should not rely upon a marketing program or plan by us as the sole means of obtaining customers. All marketing and advertising materials must be reviewed by the marketing department for look and feel. The marketing department's review is not for determining compliance with federal, state and local laws.

All advertising by you in any medium must be conducted in a professional manner and must conform to the System Standards. We may make available to you, from time to time, advertising, promotional plans and materials for purchase.

Under no circumstances may you use, without limitation, the name, image, or voice of a celebrity, public figure, character or other person in connection with the Proprietary Marks or the Franchised Business without our prior written consent. We retain the sole and exclusive right to use, without limitation, the name, services or image of any celebrity, public figure, character or other person in advertising, endorsing or recommending the System.

ARTICLE 11. ACCOUNTING PROCEDURES AND REPORTS

11.1 Maintenance of Records.

You shall keep full, complete, and accurate books and accounts in accordance with generally accepted accounting principles, and in the form and manner indicated below or as from time to time further required by us. You agree to submit reports and data to us electronically if we advise you to do so. You agree:

- a. to submit to us electronically the weekly Gross Sales as set forth in *Section 5.6*;
- b. to submit to us, on or before the thirtieth (30th) day of each month, commencing with the opening of the Franchised Business, on a form approved by us, a profit and loss statement of the Franchised Business for the preceding calendar month prepared in accordance with generally accepted accounting principles;
- c. to submit to us, within ninety (90) days after the end of each calendar year, commencing with the opening of the Franchised Business, on a form approved by us, a profit and loss statement and balance sheet (including a statement of retained earnings or partnership account) for the preceding calendar year;

d. to submit to us, at the times required, such other periodic forms, reports and information as may from time to time be required by us;

e. to preserve, in the English language and for the time periods set forth below, all accounting records and supporting documents related to the Franchised Business (individually and collectively, "Records"), including:

1. daily cash reports;
2. cash receipts journal and general ledger;
3. cash disbursements journal and weekly payroll register;
4. monthly bank statements, daily deposit slips and canceled checks;
5. all tax returns, including your personal returns, and those of your officers, shareholders, partners and members;
6. suppliers invoices (paid and unpaid);
7. dated cash register tapes (detailed and summary);
8. semi-annual balance sheets and monthly profit and loss statements;
9. daily production, throwaway and finishing records and weekly inventories;
10. records of promotion and coupon redemptions;
11. records of all outside sales; and
12. such other records as we may from time to time request.

f. to record all sales on cash registers approved by us, as specified in the ~~Operations~~Confidential Manual;

g. to file all of your federal and state tax returns on a timely basis and to provide copies of them to us. We may, where applicable, require that tax returns from all of your shareholders, members or partners be provided to us, if you are other than an individual;

h. During the Term, you shall preserve the Records for at least the current fiscal year and for the three (3) immediately preceding fiscal years. For three (3) years after the date of any transfer of an interest in this Agreement, the transferor of such interest will preserve the Records for its last three (3) fiscal years of operation under this Agreement. For three (3) years after the expiration of the Term (or after any earlier termination), you shall preserve the Records for the last three (3) fiscal years of operation of the Franchised Business; and

i. In connection with our efforts to attract additional franchise owners to the System, we will have the right to use (without identifying you, except as required or allowed by law) any financial statements, sales reports, profit and loss statements or balance sheets provided by you and, in connection therewith, you authorize us to disclose any information contained on such financial reports as may be required by any federal or state registration or disclosure law.

11.2 Audit by Franchisor.

We will have the right, at any time during business hours, and with or without prior notice to

you, to inspect and audit, or cause to be inspected and audited, the Records and cash control devices of the Franchised Business, and your corporate, partnership or limited liability company books and records (if you are a corporation, partnership, limited liability company, or other entity). You agree that we may access any computers utilized by you for such purposes.

You will fully cooperate with our authorized representatives and independent accountants hired by us to conduct any such inspection or audit. In the event any such inspection or audit discloses an understatement of your Gross Sales for any period in question, you will pay to us, immediately after receipt of the inspection or audit report, any additional Royalty Fee or Advertising Fee due as a result of any such understatement, plus interest at the Default Rate from the date originally due until the date such understatement is paid in full.

In addition, in the event such inspection or audit is made necessary by your failure to timely furnish Records, or if an understatement of the Royalty Fee or Advertising Fee for the period of any audit (which period shall not be for less than one (1) month) is determined by any such audit or inspection to be five percent (5%) or greater, you must reimburse us all amounts incurred in connection with such audit or inspection including our employee costs and expenses, any independent accountants' and attorneys' fees, transportation, room, and meal expenses.

The remedies in this *Section 11.2* will be in addition to all our other remedies and rights under this Agreement or under applicable law.

ARTICLE 12. TRANSFER

Sections 12.1 through 12.4 apply to all transfers, except transfers by us, which are described in *Section 12.5*.

12.1 Prior Consent of Franchisor.

a. As used in this Agreement, "Transfer" means any voluntary, involuntary (including by operation of law), direct or indirect assignment, sale, gift or other transfer by you, including:

1. "Full Transfer," which is any act or circumstance, except those set forth in *Section 12.1.a.2.*, by which fifty percent (50%) or more of the ownership or control is shifted from any individual or corporation, partnership or other business entity (individually and collectively, "Entity") to another, including:

(i) Transfer of this Agreement or the Franchised Business, or any right or interest granted by this Agreement;

(ii) Transfer of an interest in you, if you are an Entity;

(iii) Merger, consolidation or issuance of additional ownership interests or redemption of ownership interests in you, if you are an Entity; or

(iv) Transfer of an interest in any other Entity holding an interest in this Agreement or you, if you are an Entity.

2. "Affiliate Transfer," which includes:

(i) Transfer in a separation or divorce, regardless of how much of the ownership or control is shifted from any individual or Entity to another;

(ii) Transfer of this Agreement or the Franchised Business, or any right or interest granted by this Agreement, from your name as an individual(s) to your Entity name in which you are the sole owner(s) of the Entity;

(iii) Transfer of this Agreement or the Franchised Business, or any right or interest granted by this Agreement, from your Entity name in which you are the sole owner(s) to your name as an individual(s);

(iv) Transfer of this Agreement or the Franchised Business, or any right or interest granted by this Agreement from one Entity name to another Entity name in which the owners of the entities are the same;

(v) Removing an owner from the Franchisee (unless the person has a fifty percent (50%) or more ownership interest);

(vi) Adding an owner to the Franchisee (unless the person has a fifty percent (50%) or more ownership interest); or

(vii) Transfer by which less than fifty percent (50%) of the ownership or control is shifted from any individual or entity to another for any act or circumstance listed in *Section 12.1.a.1.*

b. We are entering into this Agreement based upon our knowledge of and faith in your ability. Therefore, the Franchised Business and all the rights granted by this Agreement are personal to you and you may not Transfer without our prior written consent. Any attempted Transfer without our prior written consent will be null and void, and will give us the right to terminate this Agreement and your rights under it, in addition to any remedies which we may have for the breach of this covenant by reason of an attempted Transfer.

c. We shall not unreasonably withhold or delay our consent to a Transfer, so long as it is shown to our satisfaction that the potential transferee ("Potential Transferee") can perform a franchisee's obligations under the then-current form of franchise agreement and all other agreements, legal instruments and documents required of new franchisees.

12.2 Advance Notice of Proposed Terms and Right of First Refusal.

a. If you, or any of your shareholders, members or partners, have received and desire to accept a signed bona fide written offer from a third-party to Transfer, you shall notify us and provide us with a complete copy of the offer (letter of intent) which must include the name, address and telephone number for every Potential Transferee. You must also include information as to the identity of all who will own an interest in this Agreement or in the Franchised Business after the completion of the Transfer, their respective interests, and the proposed terms and conditions of sale and payment.

b. We shall have the right and option, exercisable within thirty (30) days after the date we receive a copy of the offer, to purchase the interest proposed to be transferred, at the price and upon the same terms and conditions specified in the notice.

c. If we do not exercise our option, and the terms of the unaccepted offer are altered, you must, in each such instance, notify us of the changed offer; and we will again have thirty ~~(30)~~ (30) days to exercise our right to purchase on the altered terms. If we do not exercise our option,

then the Transfer may take place on the terms and price set forth in the notice; provided:

(i) we give our written consent; (ii) the Transfer takes place no later than six (6) months from receipt of our written refusal to exercise our option to purchase; and (iii) all the conditions set forth in *Section 12.3* are satisfied.

12.3 Requirement for Consent to Transfer.

If a Transfer is proposed and we do not exercise our right of first refusal pursuant to *Section 12.2*, then we will consent to the Transfer, provided that:

a. All your obligations under this Agreement are fully paid and satisfied, including the Royalty Fee and Advertising Fee; you are not in default under any provisions of this Agreement or any other agreement, legal instrument or document with us or any of our affiliates; and you enter into written agreements with us, including (except where prohibited by law) a general release by you of all claims against us;

b. Potential Transferee provides to us a completed application and financial documents, is financially acceptable, is not associated with any of our competitors, is of good moral character and reputation, and meets our criteria, which includes: work experience and aptitude; ability to devote time and best efforts to the Franchised Business; equity interest in the Franchised Business; ability to speak and read English sufficient in our opinion to communicate with employees, customers and suppliers and to satisfactorily complete our training; no conflicting interests; and other criteria and conditions that we apply to new franchisees;

c. Potential Transferee provides us with copies of all governing documents of ~~the~~ Potential Transferee (e.g., certificate of incorporation or organization, by-laws, stock certificates, operating agreement, membership certificates (if any)) which must be reasonably satisfactory to us in our sole discretion;

d. You provide to us a copy of the purchase and sale agreement, if a Full Transfer, or other documentation evidencing the Transfer, if an Affiliate Transfer, and following our analysis of the terms and conditions of the proposed Transfer, we, in our sole discretion, conclude that such terms and conditions will not interfere with the financial feasibility of the future operation of the Franchised Business;

e. Potential Transferee enters into all agreements, legal instruments and other documents, whether our then-current agreements, legal instruments and documents or a transfer of this Agreement and related legal instruments and documents, as determined by us (individually and collectively, "Transfer Documents"). The terms of the Transfer Documents may vary materially from the current agreements used by us, including the payment of a higher Royalty Fee and Advertising Fee;

f. Not Applicable;

g. Potential Transferee pays to us the Transfer Franchise Fee, if a Full Transfer; or Potential Transferee pays us the Document Administration Fee, if an Affiliate Transfer; Franchisee shall be liable to the Franchisor for the transfer franchise fee or Document Administration Fee in the event the Potential Transferee fails to pay such fee that is owing in full;

h. Potential Transferee pays to us the transfer training fee set forth in the Transfer Documents, if a Full Transfer; Franchisee shall be liable to Franchisor for the training fee if Potential Transferee fails to pay the training fee owing in full; If Potential Transferee or any of its

employees or representatives cancel or reschedule participation in any training course or program which Potential Transferee schedules with Franchisor. Potential Transferee or Franchisee must reimburse Franchisor for all of its employee's travel expenses, wages and other expenses incurred as a result of such cancellation or rescheduling;

i. Potential Transferee successfully completes the training program required by the Transfer Documents, if a Full Transfer;

j. Potential Transferee agrees to complete all remodeling and improvements as required by us, and must upgrade the POS System to the then-current required POS System, within the time period specified by us, if a Full Transfer;

k. You and Potential Transferee agree not to assert any security interest, lien, right or claim now or in the future, in the Franchised Business. Any security interest, lien, claim or right asserted with respect to any personal property at the Location must not include any after-acquired property and must be subject, junior and subordinate to any security interest, lien, right or claim now or in the future, asserted by us, our successors or assigns; and

l. You agree to complete and sign a letter of agency, letter of authorization, or equivalent and provide it to Potential Transferee so that Potential Transferee may keep the existing telephone number when the store is transferred to Potential Transferee.

12.4 Death or Incapacity of Individual Franchisee; Change in Entity.

a. Death or incapacity of Franchisee when Franchisee is an individual:

(i) In the event of your death or incapacity, your legal representative may, u for a period of ninety (90) days from the date of death or incapacitation, continue to operate the Franchised Business, provided that the operation is conducted in accordance with this Agreement and any other agreements with us.

(ii) If your representative desires to continue the operation of the Franchised Business beyond the ninety (90) day period, then, u prior to the expiration of this period, your legal representative must apply in writing for the right to transfer the Franchised Business to the person or persons (whether spouse, heir, devisee, purchaser, or any other person), as the legal representative may specify. The application for transfer will be treated in the same manner as any other proposed Transfer under this Agreement.

(iii) If your legal representative does not comply with the provisions of the preceding paragraph, or does not propose a ~~transferee~~Potential Transferee acceptable to us under the standards set forth in this Agreement, all rights licensed to you under this Agreement will terminate immediately and automatically revert to us. We shall have the right and option, in our sole discretion, exercisable upon such termination, to purchase all removable furniture, fixtures, signs, equipment and other chattels, but not leasehold improvements, at a price to be agreed upon by the parties or, if no agreement as to price is reached by the parties, at such price as may be determined by a qualified appraiser, approved by both parties, such approval not to be unreasonably withheld. We shall give notice of our intent to exercise the option no later than twenty-one (21) days prior to termination.

b. Death or incapacity of any shareholder, partner, u or member in Franchisee when Franchisee is a business entity:

(i) In the event of the death or incapacity of any of your shareholders, partners, or members, the surviving shareholders, partners, or members may, for a period of ninety

(90) days from the date of death or incapacitation, continue to operate the Franchised Business, provided that the operation is conducted in accordance with this Agreement and any other agreements with us.

(ii) If your shareholders, partners, or members desire to continue the operation of the Franchised Business beyond the ninety (90) day period, then, prior to the expiration of this period, your shareholders, partners, or members must apply jointly with all surviving shareholders, partners, or members in writing, for the right to transfer the Franchised Business (or the interest of the deceased or incapacitated shareholder, partner, or member in the Franchised Business), to the person or business entity as the surviving shareholders, partners, or members may specify. The application for transfer will be treated in the same manner as any other proposed Transfer under this Agreement.

(iii) If all surviving shareholders, partners or members do not comply with the provisions of the preceding paragraph, or do not propose a ~~transferee~~Potential Transferee acceptable to us under the standards set forth in this Agreement, all rights licensed to you under this Agreement will terminate immediately and automatically revert to us. We shall have the right and option, in our sole discretion, exercisable upon such termination, to purchase all removable furniture, fixtures, signs, equipment and other chattels, but not leasehold improvements, at a price to be agreed upon by the parties or, if no agreement as to price is reached by the parties, at such price as may be determined by a qualified appraiser, approved by both parties, such approval not to be unreasonably withheld. We shall give notice of our intent to exercise the option no later than twenty-one (21) days prior to termination.

12.5 Assignment by Franchisor.

You agree and affirm that we may, without your prior consent, sell our business, our assets, or our System, in whole or in part, to a third-party; may issue a public offering of our securities; may engage in private placement of some or all of our securities; may merge with or acquire other corporations, or be acquired by another corporation; and may undertake a refinancing, recapitalization, leveraged buyout or other economic or financial restructuring. You further agree and affirm that we have the right, now and in the future, without your prior consent, to purchase, merge, acquire or affiliate with an existing competitive or non-competitive franchise network, chain or any other business regardless of the location of such franchise network, chain or business, which you acknowledge may be proximate to your Franchised Business, and to operate, franchise or license such franchise networks, chains or businesses operating under the Proprietary Marks or any other marks following our purchase, merger, acquisition or affiliation. With regard to any of the above sales, assignments and dispositions, you expressly and specifically waive any claims, demands or damages against us arising from or related to the loss of your rights to use the System as authorized under this Agreement.

This Agreement will inure to the benefit of our successors and assigns. In conjunction with one (1) or more of the transactions contemplated above, or as otherwise determined by us, we have the right to assign our rights and obligations under this Agreement to any person or entity, without your prior consent. Upon such assignment, we will be relieved of all obligations or liabilities then existing or thereafter able to be asserted under this Agreement.

12.6 Restrictions on Security Interests and Subfranchising.

Except as otherwise set forth in this *Section 12.6*, you shall not have any rights to pledge, encumber, hypothecate or otherwise give any third-party a security interest in this Agreement in any manner whatsoever, nor subfranchise or otherwise transfer, or attempt to subfranchise or transfer the Franchised Business, in whole or in part, so long as it is operated as the Franchised Business, without our express prior written permission, which permission may be withheld for any reason whatsoever in our sole discretion. Notwithstanding anything contained herein to the contrary, you shall have the right to pledge your accounts receivable, net of royalties and rent, without our prior written consent for the sole purpose of obtaining financing for the operation of the Franchised Business, provided you are in full compliance with this Agreement and any other agreement, arrangement or understanding with us.

ARTICLE 13. RENEWAL

Subject to the terms and conditions described below, you will have the right to renew your license to operate the Franchised Business for an additional term of five (5) years. In the event you desire to renew your license, you must give us notice to that effect at least one hundred twenty (120) days prior to the expiration date of the Term. In addition to giving the notice of renewal referred to above in a timely manner, in order to have the right to renew the license to operate the Franchised Business for an additional term, you must also meet each of the following requirements:

- a. You must not then be in default under this Agreement or any other agreement, legal instrument or document with us or any of our affiliates, and no event shall have occurred that, with the giving of notice, the passage of time, or both, would constitute a default under this Agreement, including all financial obligations to us;
- b. You must be in complete compliance with the terms of this Agreement, including all financial obligations to us, and the then-current ~~Operations~~Confidential Manual;
- c. You must not have received more than three (3) notices of default or breach of this Agreement during its term, nor more than two (2) notices of default or breach during the five ~~(5)~~ (5) years immediately preceding the effective date of the proposed renewal;
- d. You must have the existing right to maintain possession of the Location or you must have secured and developed a suitable substitute location that meets our then-current minimum site requirements (such confirmation will be provided to you by us in writing);
- e. You must sign a general release provided by us;
- f. You and we must execute all agreements, legal instruments and other documents (individually and collectively, "Renewal Documents") then used by us in the renewal of franchises and then being required of new franchise owners in connection with the System. The Renewal Documents will supersede this Agreement, but will not terminate your liability to perform any obligations which you have not yet performed under this Agreement, or which survive the termination of this Agreement; nor will the Renewal Documents terminate or supersede any Guaranty of Franchise Agreement ~~or~~ Confidentiality Agreement, or Non-Disclosure and Non-Competition Agreement executed pursuant to this Agreement. The terms of the Renewal Documents may vary materially from the current agreements used by us, including the payment of a higher Royalty Fee and Advertising Fee;

g. The equipment, fixtures and signage used in connection with the operation of the Franchised Business must either meet our then-existing System specifications and standards, or you must agree, within a timeframe required by us, to replace or refurbish such items, and otherwise modify the methods of operation of the Franchised Business at your cost and expense, in order to comply with our System specifications and standards then applicable to new franchise owners;

h. You agree to complete all remodeling and improvements as required by us, and must upgrade the POS System to the then-current required POS System, within the time period specified by us; and

i. You shall have paid to us the Renewal Franchise Fee as required under *Section 5.12*.

If you do not meet any of the requirements for renewal, we will give you a notice to that effect which will specify the requirements not met. The notice will be given to you within sixty (60) days after you deliver to us your notice of intent to renew.

ARTICLE 14. DEFAULT AND TERMINATION

14.1 Default; Termination.

a. You will be in default under this Agreement:

(i) If: (a) you become insolvent or make an assignment for the benefit of creditors; (b) you file a petition in bankruptcy, or if such a petition is filed against and consented to by you, and such petition is not dismissed within thirty (30) days from the filing date of such petition; (c) you are adjudicated bankrupt; (d) a bill in equity or other proceeding for the appointment of your receiver or other custodian for your business or assets is filed and is consented to by you or is not dismissed within thirty (30) days from the filing date of such bill or other proceeding; (e) a receiver or other custodian is appointed; (f) proceedings for composition with creditors under any state or federal law is instituted by or against you; (g) the real or personal property of the Franchised Business is sold at levy thereupon by any sheriff, marshal or constable, or sold by a secured party under any state's Commercial Code;

(ii) If you fail to pay, perform, observe or comply with any of your duties and obligations under this Agreement or the ~~Operations~~Confidential Manual, including failure to provide a fully- executed copy of the lease to us when due and failure to pay when due, any sum due to us under this Agreement (including the Royalty Fee and Advertising Fee); or if you breach any of your obligations under any lease, sublease, mortgage, equipment agreement, promissory note, vendor account, conditional sales contract or other contract arising from, or in connection with, the Franchised Business, to which you are a party or by which you are bound, whether or not we are a party thereto;

(iii) If your lease or sublease for the Location of the Franchised Business is either: (a) in default and you fail to cure such default as provided in the lease or sublease; (b) is terminated for reason of default by you; or (c) the Location is lost as a result of your failure to comply with the lease or sublease;

(iv) If you fail, within thirty (30) days of the entry of a final judgment against you in an amount exceeding Two Thousand Dollars (\$2,000), to discharge, vacate or reverse the judgment or to stay its execution pending appeal, or to discharge any judgment which is not

vacated or reversed within thirty (30) days after expiration of the stay of execution;

(v) If we determine that a serious health or safety problem exists at the Franchised Business, in which case, we may require you to immediately correct the problem or cease operating until the problem is corrected;

(vi) If you, or any owner, co-owner or principal of the Franchised Business, is convicted of a felony, a crime involving moral turpitude, or any other crime or offense that is reasonably likely to adversely affect the System, the goodwill associated therewith, or our interest therein;

(vii) Except for any reason provided in *Section 5.2*, if you abandon the Franchised Business, which abandonment shall conclusively be deemed established if the Franchised Business is closed for more than three (3) consecutive days;

(viii) Except for any reason provided in *Section 5.2*, if you close or relocate the Franchised Business, without our express advance written consent;

(ix) If you fail to maintain an independent contractor relationship with us;

(x) If you either negligently or knowingly inaccurately report, or fail to report, any information in your franchise application;

(xi) If you or any owner, co-owner or principal of the Franchised Business commits an act, or permits an act to be committed, that violates any federal, state or local law that adversely impacts the Franchised Business;

(xii) If you fail to participate in any Rollout detailed in *Section 9.3*;

(xiii) If you violate any of the provisions of *Sections 2.3, 3.2, 9.2, 9.3 or 9.4* including the requirement that you: (a) sell or offer for sale only those products and services authorized by us; (b) purchase such authorized products and services only from suppliers or service providers who are approved in writing by us; and (c) utilize or switch to any of our designated approved suppliers, including a supplier who has entered into a national or regional master supplier agreement with us;

(xiv) If you transfer or attempt to transfer any rights or obligations under this Agreement or any other property or assets to any third-party in violation of the provisions of *Article 12*;

(xv) If you or any of your owners, officers, directors, managers, members, or partners (as applicable): (a) ~~becomes~~become subject to U.S. Executive Order 13224 or ~~is~~are involved in any activity that violates the U.S. Foreign Corrupt Practices Act or any other anti-corruption, bribery or any other laws, orders or governmental notices affecting your ability to conduct business in or with the United States, as may be amended and whether in effect as of the Effective Date or at any time during the Term, (b) are identified on the U.S. Department of the Treasury's Office of Foreign Assets Control Specialty Designated National and Blocked Persons list, or (c) ~~receives~~receive any funding from any country that is subject to an embargo by the United States, any foreign government or government official, political party; or

(xvi) If you intentionally made any false representations and warranties under

Section 17.1.

b. Cross-default: A default by you under this Agreement will be deemed a default of all agreements between: (i) you and your principals in his or her individual capacity or any other entity in which your principals are owners, members, managers, shareholders or partners (individually and collectively, "Franchisee Entity"); and (ii) us or any of our affiliates or predecessors (individually and collectively, "Franchisor Entity"). A Franchisee Entity's default of any other agreement, legal instrument or other document between the Franchisee Entity and a Franchisor Entity will be deemed a default under this Agreement. A default by any guarantor of your obligations under this Agreement or any agreement, legal instrument or document between a Franchisee Entity and a Franchisor Entity will be deemed a default of this Agreement.

c. Termination: If you fail to cure any default to our satisfaction, within the applicable period following notice from us, if applicable, or otherwise breach this Agreement, we may, in addition to all other remedies at law or in equity or as otherwise set forth in this Agreement, immediately terminate this Agreement. This termination will be effective immediately upon the giving of notice pursuant to *Article 15*.

d. Cross-termination: If this Agreement is terminated as a result of your default of this Agreement or any other agreement related to the Franchised Business, we may, at our option, elect to terminate any or all other agreements, legal instruments or documents between a Franchisee Entity and a Franchisor Entity. If any agreement, legal instrument or document between a Franchisee Entity and a Franchisor Entity is terminated as a result of a default by the Franchisee Entity, we may, at our sole discretion, elect to terminate this Agreement. It is agreed that an incurable or uncured default under this Agreement or any other agreement, legal instrument or document between a Franchisee Entity and a Franchisor Entity will be grounds for termination of this Agreement or any other agreement, legal instrument or document between a Franchisee Entity and a Franchisor Entity, without additional notice or opportunity to cure.

14.2 Opportunity to Cure.

a. Fourteen- Day Cure Period - Except as otherwise provided in this *Section 14.2*, you will have the right to cure your default under this Agreement within fourteen (14) days after notice of default is given by us pursuant to *Article 15*. Notwithstanding the foregoing, the following lesser periods will apply under the circumstances described:

b. Seven-Day Cure Period - A seven (7) day cure period will apply if you fail, refuse, or neglect to pay when due, any monies owing to us (including the Royalty Fee and Advertising Fee), or to any Advertising Fund, or if you fail to maintain the insurance coverage set forth in this Agreement;

c. 48-Hour Cure Period – A forty-eight (48) hour cure period will apply (1) if you: ~~(1)~~ are in default of *Section 3.4*; or (2) if you fail to participate in any limited time product offering, value offering, contest, promotion or charity event. You must initiate your participation in such offering, contest, promotion or event within forty-eight (48) hours and fully participate in such offering, contest, promotion or event as soon as reasonably possible, in our sole discretion, thereafter;

d. 24-Hour Cure Period - A twenty-four (24) hour cure period will apply to your violation of any law, regulation, order or our standards relating to health, sanitation or safety; or, except as provided in *Section 5.2*, if you cease to operate the Franchised Business for a period of

forty-eight (48) hours without our prior written consent. In addition, a twenty-four (24) hour cure period will apply if you post on any Site or direct others to any site or page, post, blog or other social medium site where there are posted any defamatory or offensive comments about: other franchisees; the *NrGize Lifestyle Cafe* brand; other brands franchised by us or one of our affiliates; your or other franchisees' customers; any of our, your or franchisees' vendors; us or any of our affiliates; or any of our, your or franchisees' competitors;

e. Immediate Cure Period (less than 24 hours) – An immediate cure period (less than twenty-four (24) hours) will apply if you post any content to a Site in which the content includes any inappropriate public displays of affection, our or others' confidential information or materials, violations of health or safety standards, foul or obscene language, or any images of or information about any persons from whom you did not obtain prior written consent;

f. No Cure Period - No cure period will be available: (1) if you are in default of *Sections 3.1, 9.4, 14.1a.(i), 14.1a.(iii), 14.1a.(vi), 14.1a.(vii), 14.1a.(viii), 14.1a.(xiv), 14.1a.(xv), or 14.6*; (2) if you intentionally underreport weekly Gross Sales, falsify financial data, fail to promptly provide upon our request financial data and records specified in this Agreement, or otherwise commit an act of fraud with respect to your rights or obligations under this Agreement; (3) if you repeatedly fail to comply with the provisions of this Agreement, whether or not subsequently cured; (4) if you, having twice previously cured a default of this Agreement, commit the default again; or (5) if you made any false representations and warranties under *Sections 17.1f., 17.1g., 17.1m. or 17.1n.*;

g. Statutory Cure Period - If a statute in the state or municipality in which the Franchised Business is located requires application of that state or municipal law, and that statute requires a cure period for the applicable default which is longer than any cure period specified in this *Article 14*, the statutory cure period will apply.

14.3 Our Right to Take Over Management.

We have the right (but not the obligation), under the circumstances described below, to enter the Franchised Business and assume the Franchised Business' management for any period of time we feel is appropriate. If we assume the Franchised Business' management, you must pay us, in addition to the Royalty Fee and Advertising Fee, six percent (6%) of the Gross Sales, plus our direct out-of-pocket cost and expenses, for the period of time we assume the Franchised Business' management. If we assume the Franchised Business' management, you acknowledge that our duty is limited to using our reasonable efforts, and we will not be liable to you or your owners for any debts, losses or obligations the Franchised Business incurs, or to any of your creditors for any supplies or services the Franchised Business purchases. We may assume the Franchised Business' management if you abandon the Franchised Business or if you fail to comply with any provision of this Agreement and did not cure the failure within the time period we specify in our notice to you. You agree to complete and sign a letter of agency, letter of authorization, or equivalent and provide it to us upon our request if we assume the Franchised Business' management so that we may keep the existing telephone, facsimile, alarm, and credit card machine numbers (as applicable) in operation under our phone service provider. You also agree to keep the phone, water, gas, electric service (as applicable) turned on and active for one (1) week after we assume the Franchised Business's management to allow us to switch the services over to us or our affiliate. Our exercise of our management rights under this *Section 14.3* will not affect our right to terminate this Agreement.

14.4 Remedies.

a. Interest, Costs and Damages - If you fail to remit when due any payments required under this Agreement, you agree to pay, in addition to the unpaid amounts, all of our collection costs and expenses, expert fees, reasonable attorneys' fees, and costs and expenses, including all fees, costs and expenses of court, including all appeals, with interest on the unpaid amounts at the Default Rate or the highest permissible rate. If you fail to cure a default, following notice, within the applicable time period set forth in *Section 14.2*, or if this Agreement is terminated as a result of your default, you shall pay to us all damages of any kind and nature whatsoever and all collection costs and expenses, expert fees, reasonable attorneys' fees, and costs and expenses, including all fees, costs and expenses of court, including all appeals, together with interest at the Default Rate or the highest permissible rate. If you fail to report Gross Sales in accordance with *Sections 5.2 and 5.6*, we may estimate your Royalty Fee and Advertising Fee based on prior reports, and may sue for and obtain judgment for such estimates unless you prove, prior to the entry of any default order or judgment, that your Royalty Fee and Advertising Fee are different than the estimates.

b. Waiver of Punitive Damages - Both we and you waive, to the full extent permitted by law, any right they otherwise may have had to claim, pursue, demand or receive any exemplary or punitive damages arising out of or related in any way to this Agreement and its addenda, amendments, appendices, exhibits and attachments.

c. If you breach any of the terms of this Agreement, including if you are in default of this Agreement, we may enforce our rights by injunction, specific performance, or any other remedy available under this Agreement, at law or in equity, including termination. These remedies are cumulative and not exclusive and we may use all remedies available. In addition, we may elect to terminate this Agreement and all your rights under it as set forth in *Section 14.5*.

d. If you breach any of the terms of this Agreement, including if you are in default of this Agreement, we have the right to have a receiver appointed to take possession, manage and control the assets of the Franchised Business, collect the profits, and pay the net income for the operation of the Franchised Business as ordered by a court of competent jurisdiction. The right to appoint a receiver will be available regardless of whether waste or danger of loss or destruction of the assets exists.

14.5 Effect of Termination or Expiration.

Upon termination or expiration of this Agreement, we can advise all suppliers of *NrGize Lifestyle Cafe* proprietary food items and other supplies bearing any of the Proprietary Marks or service marks to cease delivering the items and products to you.

Upon your abandonment of the Franchised Business (whether voluntary or involuntary), any termination of this Agreement (whether pursuant to *Sections 14.1, ~~14.2 or 14.4~~ 14.2, 14.4*, or otherwise), or upon expiration of the Term, you must immediately cease to hold yourself out to the public as a franchise owner of the System, and you must comply with the following:

a. Immediately pay to us or any affiliate of ours all sums owing from you to us or such affiliate, including the Royalty Fee and Advertising Fee, for any period prior to the date of termination, the applicable Early Termination ~~Fee~~Damages (as defined in Section 14.9 below), and all amounts owed for services, supplies or other items purchased by you from us or any affiliate of ours, or that were financed by us or any affiliate of ours, or which we or any affiliate of ours loaned to you, together with any interest or late fees accrued thereon, together with all other sums due ~~to~~ us under this Agreement, and all damages of any kind or nature whatsoever that may

be allowed by law;

b. Immediately cease to use, in any manner whatsoever, including in all advertising, the Proprietary Marks, any Trade Secrets, any Confidential Information, any benefits of the System or any part thereof, any methods associated with the System, any forms, recipes, ~~Operations~~Confidential Manual, slogans, signs, sign posts, marks, symbols, or devices used in connection with the operation of the Franchised Business; and you must deliver or destroy all of the above- mentioned materials, including any materials containing or referencing any of the foregoing, to us as directed by us. If we do not recover any such items, such items shall be valued at their then-current replacement cost, for purposes of determining the damages owing by you to us for failure to return such items, if we pursue a damage claim as a result thereof;

c. Immediately discontinue all advertising as a franchisee of the System, and thereafter refrain from any advertising that would indicate that you are or ever were a franchisee or licensee of ours, or otherwise were affiliated with us or the System;

d. Immediately take such steps as may be necessary or appropriate to:

(i) delete your listing in all telephone directories, if applicable, and terminate any other listings that indicate that you are or were a franchisee or licensee of ours, or otherwise were affiliated with us or the System; and

(ii) transfer to our designee or us all telephone numbers used by you in connection with the Franchised Business. You acknowledge that between you and us, we have the sole right and interest in all telephone numbers and directory listings associated with any Proprietary Marks, and you authorize us and appoint us and any officer or agent of ours, as your attorney-in-fact, to direct the telephone company and all listings agencies to accept such direction, or this Agreement, as conclusive evidence of our exclusive rights in such telephone numbers and directory listings and our authority to direct their transfer;

e. Immediately take such action as may be required to cancel all fictitious or assumed names, amend any entity name, or dissolve any entity that contains any Proprietary Mark, in whole or in part, regardless of whether the entity name was authorized by us, and amend or cancel any and all equivalent registrations relating to your use of any Proprietary Mark. You acknowledge that between you and us, we have the sole right and interest in all such fictitious or assumed names, entity name, and equivalent registrations, and you authorize us and appoint us and any officer or agent of ours as your attorney-in-fact, to effect the termination or cancellation of such fictitious or assumed names or equivalent registrations should you fail or refuse to do so, and the appropriate federal, state, and local agencies may accept your direction or this Agreement as conclusive evidence of our exclusive rights in such fictitious or assumed names or equivalent registrations, and our authority to direct their termination or cancellation;

f. Comply with the confidentiality requirements and the covenant against competition in this Agreement for the specified period. You acknowledge that you, or (if an entity) your authorized representative, has carefully reviewed the confidentiality requirements and the covenant against competition in this Agreement; and that you have agreed to be bound by all the requirements and covenants; and

g. Maintain at a place made known to us all books, records and reports required under this Agreement for a period of not less than three (3) years after the date of termination or expiration of this Agreement, to allow us to make a final inspection of your books and records for the purpose of verifying that all amounts owing have been paid.

If you fail to do any of the foregoing, we may pursue any remedy available at law or in equity against: (i) you; (ii) any or all guarantors of your obligations under this Agreement; and (iii) you and any or all guarantors of your obligations under this Agreement.

We have the right, but not the obligation, to purchase from you any assets or property (but not leasehold improvements) used in the operation of the Franchised Business for an amount equal to the Value (as defined below), as of the termination date. If we are required, by law, regulation or court order, to purchase the equipment and other tangible assets used in connection with the Franchised Business, the purchase price will be equal to the Value. For purposes of this Agreement, the term "Value" means, subject to applicable law, an amount equal to your cost for such assets, less depreciation and amortization using a two hundred percent (200%) declining balance method over a five (5) year period. If all, or any portion of, your assets that are being purchased by us or our authorized representative are subject to lien(s), we or our authorized representative may pay, on your behalf, the lienholder(s) that portion of the purchase price for your assets (which may be the entire purchase price) that is necessary to obtain the release of those assets from the lien(s), in lieu of paying you those funds. Further, we may offset any amounts payable to you pursuant to this *Section 14.5*, or otherwise pursuant to this Agreement, against any unpaid amounts payable to us or our affiliates pursuant to this Agreement or any agreement executed in connection with this Agreement.

14.6 Covenant Not to Compete; Conflicting Interests.

a. During the Term and for a period of two (2) years after your abandonment of the Franchised Business, expiration of this Agreement, or termination of this Agreement (whether voluntary or involuntary), you shall not engage in any Competing Business (as defined in *Section 14.6c.*) with any *NrGize Lifestyle Cafe* restaurant, nor shall you have any Conflicting Interest (as defined in *Section 14.6d.*) in a Competing Business. The provisions of this Agreement bind you in any capacity, including as a franchisee, sole proprietor, partner, limited partner, member, employer, franchisor, shareholder, officer, director or employee.

b. During the Term, and for a period of two (2) years after your abandonment of the Franchised Business, expiration of this Agreement, or termination of this Agreement, (whether voluntary or involuntary), you shall not divert or attempt to divert any business, customers, or potential customers of the *NrGize Lifestyle Cafe* System to any Competing Business, by direct or indirect inducement or otherwise. In addition, you shall not at any time do or perform any act, directly or indirectly, which harms the goodwill or reputation of us or the System.

c. For purposes of this *Section 14.6*, "Competing Business" means a business which is primarily engaged in the sale of smoothies, protein shakes, meal replacement shakes, chillers, and all variations thereof, within a geographical area consisting of: (1) during the Term, anywhere else; and (2) after abandonment, expiration or termination of this Agreement, within a ten (10) mile radius from the Location or location of any *NrGize Lifestyle Cafe* restaurant of ours, our third-party licensees or our third-party franchisees. The term "*NrGize Lifestyle Cafe* restaurant" includes not only the restaurants now in existence, but also those established at a later date. The term of this covenant will be extended by any time consumed in litigation to enforce it in both trial and appellate courts. If a court of competent jurisdiction determines that the restrictions in this paragraph are excessive in time, geographic scope, or otherwise, the court may reduce the restriction to the level that provides the maximum restriction allowed by law.

d. For purposes of this *Section 14.6*, "Conflicting Interest" means an interest by which

you, or your executive officers, directors and shareholders (if you are a corporation), or your partners (if you are a partnership), or your members (if you are a limited liability company), or your designated manager, directly or indirectly, have a controlling interest in, lend money to, consult with or otherwise assist any Competing Business. If any of the persons named above do not sign this Agreement under the heading "Personal Acceptance of *Sections 7.1, 7.2, 14.6 and ~~14.8~~14.8*", then you agree to obtain the execution by such person of a written agreement setting forth the foregoing in a form acceptable to us.

14.7 Continuing Obligations.

All your obligations that expressly survive the expiration or termination of this Agreement, including *Sections 14.5 and 14.6*, or by the implicit nature thereof require performance after the expiration or termination of this Agreement, will continue in full force and effect (subsequent to, and notwithstanding, your abandonment of the Franchised Business (whether voluntary or involuntary) the expiration of the Term, or termination of this Agreement), until they are satisfied in full or by their nature expire. The indemnities and obligations set forth in *Article 8* will continue in full force and effect subsequent to, and notwithstanding, the expiration or termination of this Agreement.

14.8 Remedies.

You acknowledge and agree that the restrictions contained in this Agreement, including in this *Article 14*, are fair and reasonable and necessary for the protection of our legitimate business interests and you intend and agree that such restrictions be enforceable and enforced to their fullest extent. You further understand and agree that, notwithstanding any other provision of this Agreement, your breach of your obligations under this *Article 14*, will cause us irreparable harm for which recovery of monetary damages alone would not be an adequate remedy. Both parties shall be entitled to obtain timely injunctive relief, including a temporary restraining order, preliminary and permanent injunctions, to protect their rights under this Agreement, in addition to and not exclusive of any and all other remedies available to each party.

14.9 Early Termination Damages.

If you discontinue operating your Franchised Business before this Agreement expires, with or without obtaining our prior written consent, or in the event of a termination of this Agreement arising from or related to your default and breach of its provisions, you will become obligated to pay Franchisor early termination damages ("Early Termination Damages"). The Early Termination Damages shall be considered damages and not a penalty, are not in lieu of other damages, and your payment of these damages shall not constitute a release of any other obligation owed to us. Franchisor, Franchisee, each individual signing on behalf of Franchisee, and each guarantor guaranteeing Franchisee's obligations hereunder, hereby acknowledge and agree that Franchisor's losses due to Franchisee's unilateral closure of the Franchised Business or termination of this Agreement would be highly difficult or impossible to calculate with reasonable certainty and, therefore, have agreed at the outset of this Agreement that the Early Termination Damages, and the formula for calculating these damages, constitutes a reasonable, good faith forecast of Franchisor's estimated losses and damages due to the premature closure of the Franchised Business or termination of this Agreement.

The amount of the Early Termination Damages is calculated as follows:

a. Compute the average monthly Royalty Fee and Advertising Fee due for any

consecutive twelve (12) month period within the forty-eight (48) months immediately preceding the date we receive notification of the closure, or if you failed to timely notify us of the closure then the date the Franchise Business closed, or, if the Franchised Business has been open for less than twelve (12) months, the average monthly Royalty Fee and Advertising Fee due since the opening of the Franchised Business ("Monthly Average"):

b. Multiply the Monthly Average by the number of months remaining in the Term; and

c. Divide the resulting total computed in b. above by two (2).

For example purposes only: If the average monthly Royalty Fee and Advertising Fee were collectively \$1,000 and there were five years (60 months) remaining in the Term, the Early Termination Damages would be \$30,000, calculated as follows: $\$1,000 \times 60 \text{ months} = \$60,000 \div 2 = \$30,000$.

If you unilaterally terminate this Agreement prior to the end of the Term, you must give us ninety (90) days prior notice of the early termination ("Early Termination Notice"). Within ten (10) days after our receipt of your Early Termination Notice, we will calculate the Early Termination Damages, which will be due and payable thirty (30) days prior to the closure of your Franchised Business. In the event of a termination arising from or related to your default under this Agreement, or that you do not: (i) provide us with the Early Termination Notice at least ninety (90) days prior to the early termination of your Franchised Business and this Agreement; (ii) remain open for at least ninety (90) days after providing us with the Early Termination Notice; and (iii) pay the Early Termination Damages in full at least thirty (30) days prior to closing of the Franchised Business, the Early Termination Damages due may, in our sole discretion, be increased as follows: it will be calculated by multiplying the Monthly Average by the number of months remaining in the Term, and will not be divided by two (2).

If you have not paid your Royalty Fee and Advertising Fee for any period(s) within the forty-eight (48) months prior to notifying us of your early termination, or if you have not reported your Gross Sales for any period(s) within the forty-eight (48) months prior to notifying us of your intended early termination, we will estimate the Royalty Fee and Advertising Fee based upon prior reports to calculate the Monthly Average.

ARTICLE 15. NOTICES

Unless otherwise provided in this *Article 15*, all notices specified by this Agreement or required by law must be in writing and given by personal delivery, sent by carrier (i.e., FedEx®, UPS®, etc.), U.S. certified mail, return receipt requested. All notices to us must be given at the address set forth on page 1 of this Agreement or to such other address as we may designate in writing from time to time in accordance with this *Article 15*. All notices to you may be given at the address set forth on page 1 of this Agreement, at the address of the Franchised Business, at any of your franchised restaurants, at your residence (if an individual), or at the residence of your principal shareholder(s), partner(s), or member(s) (if a business entity). Notices will be conclusively deemed to be given, delivered, and effective when sent pre-paid and actually left in the custody of an adult agent, employee or resident at a place of business or residence if given by personal delivery; or if given by carrier, twenty-four (24) hours after deposited with carrier, or if by U.S. mail or certified mail, three (3) days after deposited with the U.S. Postal Service. You have an obligation to promptly notify us pursuant to this *Article 15* whenever your mailing address, phone number or email address change. Notwithstanding the foregoing, we may give you written notice via email to the email address you provide us regarding updates or information related to System

Standards, including compliance matters, with such email notification to be deemed received by you twenty-four (24) hours after we send it, unless you otherwise earlier acknowledge receipt.

ARTICLE 16. CONSTRUCTION AND ENFORCEMENT; MISCELLANEOUS

16.1 Independent Contractors.

The relationship between you and us is that of independent contractors. You are in no way to be deemed our partner, joint venturer, agent, employee, or servant. You have no authority to bind us to any contractual obligation or incur any liability for or on our behalf. You shall identify yourself as an independent owner of the Franchised Business in all dealings with customers, lessors, contractors, suppliers, public officials, employees, and others.

16.2 Severability and Substitution of Provisions.

Except as provided to the contrary in this Agreement, each article, section, term and provision of this Agreement, and any portion thereof, will be considered severable, and if, for any reason, any such portion of this Agreement is held to be invalid, contrary to, or in conflict with any applicable present or future law or regulation, or as a result of a final, non-appealable ruling issued by any court, agency or tribunal with competent jurisdiction in a proceeding to which we are a party, that regulation or ruling will not impair the operation of, or have any other effect upon, such other portions of this Agreement as may otherwise remain valid, and such other portions will continue to be given full force and effect and bind the parties to this Agreement. If the severed provision is material to this Agreement, we shall promptly provide a substitute provision to replace the invalid severed provision consistent with then-current law and the original intent of the parties.

If any applicable and binding law or rule of any jurisdiction requires a greater prior notice of the termination of, or refusal to renew, this Agreement than is required under this Agreement, or the taking of some other action not required under this Agreement, or if under any applicable law, regulation, or court ruling of any jurisdiction, any provision of this Agreement or any specification, standard or operating procedure prescribed by us is invalid or unenforceable, the prior notice or other action required by such law, regulation, or court ruling will be substituted for the comparable provisions of this Agreement, and we will have the right, in our sole discretion, to modify such invalid or unenforceable provision, specification, standard or operating procedure to the extent required to be valid and enforceable. Such modifications to this Agreement shall be effective only in such jurisdiction, unless we elect to give them greater applicability, and otherwise shall be enforced as originally made and entered into in all other jurisdictions.

16.3 Dispute Resolution.

a. Except as otherwise provided herein, any dispute, claim or controversy arising out of or relating to this Agreement, the breach hereof, the rights and obligations of the parties hereto or the relationship between the parties, or the entry, making, interpretation, or performance of either party under this Agreement ("Dispute"), which cannot be resolved by mediation under *Section 16.3d*, or is not subject to mediation under the terms of this Agreement, shall be settled by arbitration administered by the American Arbitration Association ("AAA") in accordance with its Commercial Arbitration Rules as modified below.

b. Any arbitration shall take place before a sole arbitrator in Maricopa County, Arizona or, if our headquarters are no longer located in Maricopa County, Arizona, then the arbitration shall take place in the county in which our headquarters are located at the time the arbitration is commenced. You agree that conducting the arbitration where we are located is

appropriate due to the multiple locations throughout the United States where our franchisees are located. The parties agree that the arbitrator shall be an attorney licensed to practice law in the United States, and must have a minimum of five (5) years of experience in franchise law. Judgment on the award rendered by the arbitrator may be entered in any court of competent jurisdiction. The arbitrator shall, in the award, allocate all of the costs and expenses of the arbitration, including the fees of the arbitrator and the reasonable attorneys' fees of the prevailing party, against the party who did not prevail. To the extent permitted by applicable law, no issue of fact or law shall be given preclusive or collateral estoppel effect in any other dispute, arbitration proceeding or litigation, except to the extent such issue may have been specifically determined in another proceeding between the parties. This agreement to arbitrate shall survive any termination or expiration of this Agreement, however effected. The parties agree that any arbitration shall be solely between them (including any affiliates) and shall not include as a party, by consolidation, joinder, or in any other manner, any other person or entity, unless both parties consent in writing. Both parties shall have the absolute right to refuse such consent. Further, the parties expressly waive any right to bring or participate in any class or other consolidated, joined or multi-party arbitration claim or proceeding, whether or not permissible under the AAA Commercial Arbitration Rules, including any claim brought on their behalf by an association of which it, he or she is a member. At the request of any party, the arbitration shall be conducted in a manner that maintains the confidentiality of the proceedings.

c. The arbitrator will issue a reasoned award, with findings of fact and conclusions of law. Actions to enforce an express obligation to pay monies may be brought under the Expedited Procedures of the AAA's Commercial Arbitration Rules. The Federal Arbitration Act shall govern, excluding all state arbitration laws. Arizona law will govern all other issues. With respect to discovery, the arbitrator shall require each party to make a good cause showing before any discovery exceeding that specifically authorized by the AAA Commercial Arbitration Rules will be granted.

d. Prior to the commencement of an arbitration proceeding, the parties must first submit any Dispute to non-binding mediation. At the request of any party, the mediation will be confidential. The mediation shall be conducted in Maricopa County, Arizona or in the county in which our headquarters are located at the time of mediation, unless the parties shall mutually agree to a different location. The parties to the mediation will share equally in its costs and expenses, except those costs and expenses incurred separately by each party, including counsel fees and expenses. The mediation process will be deemed "Completed" when the parties agree that it has been completed, the mediator declares that any impasse exists, or sixty

(60) days have elapsed since the date of the initiating party's notice to the other party that it is initiating the mediation process, whichever occurs first.

e. Notwithstanding anything contained in this Agreement to the contrary, the provisions of Sections 16.3a., 16.3b., 16.3c. and 16.3d. do not apply to a Dispute where: (i) we bring an action for an express obligation to pay monies, declaratory relief, preliminary or permanent equitable relief, any action at law for damage to our goodwill, the Confidential Information, the Proprietary Marks or for fraudulent conduct by you; or (ii) the delay resulting from the mediation process may endanger or adversely affect the public (for example, unhealthy, unsafe or unsanitary conditions would continue to exist). For such disputes, we may bring an action in any federal or state court having jurisdiction, whether for monetary damages, temporary preliminary and permanent injunctive relief or specific performance in addition to, and not exclusive of, any other remedies available to us. You hereby consent to and waive any objection or defense and agree not to contest venue, forum non conveniens or jurisdiction of such court or arbitration.

f. Disputes concerning the validity or scope of arbitration, including whether the Dispute is subject to arbitration, are beyond the authority of the arbitrator and will be determined by a court of competent jurisdiction pursuant to the Federal Arbitration Act, 9 U.S.C. §1 et seq., as amended from time to time.

g. Either party may appeal the final award of the arbitrator, if it is over One Hundred Thousand Dollars (\$100,000), to the appropriate U.S. District Court. The Court's review of the arbitrator's findings of fact will be under the clearly erroneous standard, and the Court's review of all legal rulings will be *de novo*. If it should be determined that this provision for federal court review is not enforceable, then either party may appeal the arbitrator's final award, if it is over One Hundred Thousand Dollars (\$100,000), to a panel of three (3) arbitrators chosen under AAA Optional Appellate Arbitration Rules, which will employ the same standards of review stated immediately above.

16.4 Applicable Law and Forum; Waiver of Jury; Statute of Limitations.

a. Except to the extent that the United States Trademark Act of 1946, as amended (15 U.S.C., § 1051 et seq.) or the franchising laws of any state that may be applicable, the laws of the State of Arizona govern all rights and obligations of the parties under this Agreement without regard to conflict of law. The parties agree, subject to the mandatory mediation and arbitration provisions of *Section 16.3*, that any appropriate state or federal court located in Maricopa County, Arizona has exclusive jurisdiction over any Dispute arising under or in connection with this Agreement and is the proper forum in which to adjudicate the case or controversy. Notwithstanding the foregoing any action initiated by us may, at our election, be brought in any jurisdiction where you are domiciled or that has jurisdiction over you. The parties hereto irrevocably submit to the jurisdiction of, and venue in, any such court, and hereby waive any objection or defense thereto. THE PARTIES AGREE THAT ALL DISPUTES SUBMITTED TO THE COURT PURSUANT TO THIS SECTION SHALL BE TRIED TO THE COURT SITTING WITHOUT A JURY, NOTWITHSTANDING ANY STATE OR FEDERAL CONSTITUTIONAL OR STATUTORY RIGHTS OR PROVISIONS.

b. Notwithstanding anything contained in this Agreement to the contrary, the parties agree that any claims under, arising out of, or related to, this Agreement must be brought within two (2) years of the date on which the underlying cause of action accrued, and the parties hereby waive any right to bring any such action after such two (2)-year period, except for the collection of any unpaid Royalty Fee, Advertising Fee, and any other amount due to us or our affiliate.

c. **YOU HEREBY WAIVE THE RIGHT TO SEEK OR COLLECT PUNITIVE, MULTIPLE, CONSEQUENTIAL AND SPECIAL DAMAGES IN ANY FORUM, INCLUDING ARBITRATION. YOU HEREBY FURTHER WAIVE THE RIGHT, IF ANY, OF ANY ASSOCIATION OR MEMBERSHIP GROUP TO ASSERT CLAIMS ON YOUR BEHALF IN ANY ACTION.**

d. **YOU HEREBY WAIVE THE RIGHT TO ANY DAMAGES IN CONNECTION WITH OR RESULTING FROM THE WRONGFUL ISSUANCE OF AN INJUNCTION.**

e. The parties agree that the maximum damages that you may recover in connection with a wrongful termination of your franchise and this Agreement will be an amount equal to the product of:

- (i) the annual net profit (as defined below) multiplied by
- (ii) the lesser of:

- (a) The number of full years existing between the date on which the franchise and this agreement were wrongfully terminated and the date on which the Term would have otherwise expired; or

- (b) Three.

For purposes of this Agreement, the term "net profit" means an amount equal to the net profits of your Franchised Business, as reflected on your tax return filed with the Internal Revenue Service prior to such termination; provided, however, that if such tax return reflects the operations of your Franchised Business for a period less than one (1) year, such net profits will be annualized based upon the net profits reflected in such tax return.

16.5 No Guarantee of Franchisee's Success.

You have been informed of and acknowledge the highly competitive nature of the business involved, and agree that the successful operation of your Franchised Business will depend in part, upon your best efforts, capabilities, management, and efficient operation; as well as the general economic trend and other market conditions.

16.6 Existence of Various Forms of Franchise Agreements.

You acknowledge that our present and future franchisees operate under a number of forms of franchise agreements and consequently, our obligations and rights with respect to our various franchisees may differ materially in certain instances. The existence of different forms or versions of the franchise agreement does not entitle you to benefit from any such difference; nor does it operate to alter or amend the agreement of the parties set forth in this Agreement.

16.7 Franchise Owner May Not Withhold Payments.

You agree that you will not, on grounds of alleged or actual nonperformance or breach by us of any of our obligations under this Agreement, withhold payment of any Royalty Fee, Advertising Fee, amounts due to us or any of our affiliates for goods or services purchased by you, or any other amounts due to us or any of our affiliates.

16.8 Remedies Are Cumulative.

The rights and remedies of the parties to this Agreement are cumulative and not exclusive, and no exercise or enforcement by either party of any right or remedy under this Agreement shall preclude the exercise or enforcement by such party of any other right or remedy under this Agreement or otherwise available at law or in equity to such party.

16.9 Interpretation.

All the terms and provisions of this Agreement will be binding upon and inure to the benefit of the successors and assigns of the parties. However, nothing in this *Section 16.9* may be construed as our consent to the Transfer of this Agreement or any rights by you.

16.10 Waiver.

Our failure to insist upon the strict performance of any term, covenant or condition contained in this Agreement will not constitute or be construed as a waiver or relinquishment of our right to enforce thereafter any such term, covenant or condition and such term, covenant or condition will continue in full force and effect.

16.11 Litigation Expense.

If an action at law or suit in equity is brought to establish, obtain or enforce any right by either of the parties to this Agreement, the prevailing party in the suit or action, in the trial and appellate courts, will be entitled to recover from the non-prevailing party reasonable attorneys' fees, costs and expenses and disbursements incurred in such suit or action.

16.12 No Third-Party Beneficiaries.

This Agreement is not intended to benefit any other person or entity except the named parties hereto and no other person or entity shall be entitled to any rights hereunder by virtue of so-called "third-party beneficiary rights" or otherwise.

16.13 Binding Effect; Modification.

This Agreement is binding upon the parties to this Agreement and their respective executors, administrators, personal representatives, heirs, permitted assigns and successors in interest. No amendment, change, or modification of this Agreement shall be binding on any party unless executed in writing by you and us.

16.14 Entire Agreement; Nature and Scope; Construction.

This Agreement, all exhibits, attachments, addendums, and amendments, constitute the entire understanding and agreement between the parties, and there are no other oral or written understandings or agreements between us and you relating to the subject matter of this Agreement. If required to be signed, any state specific addendums are incorporated herein by reference. Any representation not specifically contained in this Agreement made prior to entering into this Agreement does not survive subsequent to the execution of this Agreement. We and you have entered into this Agreement for the sole purpose of authorizing you to use the System licensed by this Agreement in the operation of the Franchised Business during the Term in which those specific items designated by us for sale and use in such locations are offered for sale and use in individual, face-to-face transactions with patrons visiting the Franchised Business (and equivalent telephone or mail transactions accepted as a convenience to that customer group). All consideration being furnished by us to you during the course of performance of this Agreement has been determined based on the limited rights and other limitations expressed herein. No other rights have been bargained for or paid for. This provision is intended to define the nature and extent of the parties' mutual contractual intent, there being no mutual intent to enter into contract relations, whether by agreement or by implication, other than as set forth in this Agreement. The parties further acknowledge that these limitations are intended to achieve the highest possible degree of certainty in the definition of the contract being formed, in recognition of the fact that uncertainty creates economic risks for both parties which, if not addressed as provided in this Agreement, would affect the economic terms of this bargain.

Nothing in this Agreement or in any related agreement is intended to disclaim the representations we made in the Disclosure Document. Nothing in this Agreement is intended, nor

shall be deemed, to confer any rights or remedies upon any person or legal entity not a party hereto.

16.15 Terminology.

In addition to the terms defined elsewhere in this Agreement, the following terms defined below are incorporated in this Agreement by reference and shall be deemed to include all persons who succeed to the interest of the original, where applicable:

The term “affiliate” means any person who, directly or indirectly through one (1) or more intermediaries, controls, is controlled by, or is under common control with any person;

The term “Dollars” means United States Dollars and all amounts due under this Agreement shall be paid in United States currency;

The use of the terms “includes” and “including” in any provision of this Agreement followed by specific examples used shall not be construed to limit application of the provision to only the specific examples used;

The term “person” means any natural person, corporation, partnership, trust, other entity, association or form of organization;

The term “will” and “shall” shall be synonymous, and shall be mandatory and not discretionary, unless otherwise specifically provided herein; and

Any references to articles or sections refer to articles and sections in this Agreement unless specified otherwise.

16.16 Counterparts.

This Agreement may be executed in one (1) or more original counterparts, and all of which, when taken together, shall be deemed to be one (1) original Agreement. A fully- executed copy of this Agreement shall be of the same force and effect as the original.

16.17 Offerings.

If you are a corporation, partnership or other entity, and if you intend to offer securities, partnership interests or other ownership interests in you through any public or private offering, you shall not use any Proprietary Marks in such public or private offering, except to reflect your franchise relationship with us; nor shall you misrepresent your relationship with us by any statement or omission of an essential statement. You shall indemnify and hold us harmless from any liability in connection with such offering. Nothing in the foregoing shall modify the provisions of *Article 12*, and no such offering shall be made without first complying with any applicable provisions of *Article 12*.

16.18 Time.

Time is of the essence of each and every provision of this Agreement.

16.19 Force Majeure.

Neither of the parties will be liable for loss or damage or be deemed to be in breach of this

Agreement if the failure to perform the party's obligations results from: (a) transportation shortages, inadequate supply of equipment, merchandise, supplies, labor, material or energy, or the voluntary foregoing of the right to acquire or use any of the foregoing in order to accommodate or comply with the orders, requests, regulations, recommendations or instructions of any government or any department or agency thereof; or (b) acts of God. Any delay resulting from any of these causes will extend performance accordingly or excuse performance, in whole or in part, as may be reasonable, except that no such cause will excuse payments of amounts owed at the time of such occurrence or payment of the Royalty Fee and all other amounts due to us and our affiliates thereafter.

16.20 Plurals and Captions.

Words in the singular number include the plural when the context requires (and vice-versa). The table of contents and the captions are inserted only for convenience and are not a part of this Agreement or a limitation of the scope of the particular article or section to which each refers.

16.21 Joint and Several Liability.

If you consist of two (2) or more individuals, whether in the form of separate individuals or a business entity controlled by the individuals, then each individual will be jointly and severally liable under the provisions of this Agreement.

16.22 Trademark Notice.

All trademarks referenced in this Agreement are those of their respective owners.

16.23 No Accord or Satisfaction.

If you pay, or we otherwise receive, a lesser amount than the full amount provided for under this Agreement for any payment due hereunder, such payment or receipt shall be applied against the earliest amount due us. In addition, if interest or late fees are owed, we may apply any amounts paid to the late fees and interest before such amounts are applied to the principal amount owed. We may accept any check or other payment in any amount without prejudice to our right to recover the entire balance of the amount due or to pursue any other right or remedy. No endorsement or statement by you on any check or payment or in any letter accompanying any check or payment or elsewhere shall constitute or be construed as an accord or satisfaction.

ARTICLE 17. ACKNOWLEDGMENTS AND REPRESENTATIONS OF FRANCHISEE

17.1 Certain Representations and Warranties of Franchisee.

You represent and warrant that the following statements are true and complete as of the Effective Date:

a. You do not seek to obtain the Franchised Business for speculative or investment purposes and have no present intention to sell or transfer or attempt to sell or transfer the Franchised Business except as previously approved by Franchisor and subject and conditioned to Article 12 of this Agreement.

b. You understand and acknowledge the value to the System of uniform and ethical standards of quality, appearance and service described in and required by the

~~Operations~~Confidential Manual and the necessity of operating the Franchised Business under the System Standards. You represent that you have the capabilities, professionally, financially and otherwise, to comply with our System Standards.

c. If you are a corporation, limited liability company, partnership, or other form of entity, you are duly incorporated, organized, or formed and are qualified to do business in the state and any other applicable jurisdiction within which the Franchised Business is located, and you are and shall remain duly organized and in good standing during the Term.

d. You represent and warrant that: (i) if you are an individual, you are; or (ii) if you are an entity, that each of your owners, shareholders, partners, and members are, a United States citizen or a lawful resident alien of the United States.

e. All financial and other information that you have provided to us in connection with your application for this franchise is true and accurate.

f. The execution of this Agreement by you will not constitute or violate any other agreement or commitment to which you are a party.

g. Any individual executing this Agreement on your behalf is duly authorized to do so and the Agreement shall constitute your valid and binding obligation and, if applicable, all of your partners, members, or shareholders, if you are a partnership, limited liability company, or corporation.

h. You have, or if you are a partnership, corporation or other entity, your partners or ~~your~~ principals have, carefully read this Agreement and all other related documents to be executed by you concurrently or in conjunction with the execution hereof; ~~that~~ that you have obtained, or had the opportunity to obtain, the advice of counsel in connection with the execution and delivery of this Agreement; ~~that~~ that you understand the nature of this Agreement; and that you intend to comply with and be bound by this Agreement.

i. You have read and understand the information and disclosures made in the Disclosure Document provided to you as acknowledged in *Section 17.3e*. You understand and acknowledge that: (i) estimates for initial ~~startup~~start-up expenses are estimates only and there can be additional start-up expenses; and (ii) your sales may differ substantially from any sales provided in Item 19 of the Disclosure Document, and there is no assurance that your sales will meet or exceed any sales listed in Item 19 of the Disclosure Document. You have had the opportunity to and have consulted or elected not to consult with your attorney, accountant and business advisors before entering into this Agreement.

j. You understand and agree that, while not applicable in every case, our past experience indicates that owner-operated restaurants generally perform better than absentee owners with hired managers. The food business is a personal business and is dependent upon your business skill and judgment. This includes your choice of employees. Your skill in hiring the right people to work in your Franchised Business is very important in determining whether people decide to purchase menu items from your Franchised Business or from another restaurant in the same vicinity.

k. You understand and agree that ownership of a franchise and the Franchised Business carries certain risks. These risks include the loss of your initial investment, other continued financial losses such as rent payments due under lease obligations and other contractual obligations, the loss of your time and energy in starting up and running your

Franchised Business, and loss of earnings and investment income from your investment in the Franchised Business. You understand and agree that the Franchised Business may make money and may lose money and are entering this business venture with this express understanding. You are not relying upon anything which is not contained within this Agreement or the Disclosure Document in determining and deciding to become a franchisee.

l. Notwithstanding the foregoing, you understand and agree that the System must not remain static if it is to meet (without limitation) presently unforeseen changes in technology, competitive circumstances, demographics, populations, consumer trends, social trends and other market place variables, and if it is to best serve the interests of us, you and all other franchisees. Accordingly, you expressly understand and agree that we may from time to time change the components of the System, including altering the products, programs, services, methods, standards, forms, policies and procedures of that System; abandoning the System altogether in favor of another system in connection with a merger, acquisition or other business combination or for other reasons; adding to, deleting from or modifying those products, programs and services which your Franchised Business is authorized and required to offer, modifying or substituting entirely the equipment, signage, trade dress, décor, color schemes and uniform System Standards and specifications and all other unit constructions, design, appearance and operation attributes which you are required to observe under this Agreement; and, abandoning, changing, improving, modifying or substituting the Proprietary Marks. You expressly agree to comply with any such modifications, changes, additions, deletions, substitutions and alterations. You shall accept, use and effectuate any such changes or modifications to, or substitution of, the System as if they were part of the System at the time that this Agreement was executed. Except as provided herein, we shall not be liable to you for any expenses, losses or damages sustained by you as a result of any of the modifications contemplated hereby.

m. You represent that neither you nor any of your affiliates, officers, directors, managers, members, or partners (as applicable) or funding sources are subject to U.S. Executive Order 13224, identified on the U.S. Department of the Treasury's Office of Foreign Assets Control Specially Designated National and Blocked Persons list, or any terrorist list or other blocked persons list. In addition, you represent that you have not received funding from, nor are you owned, controlled, or acting on behalf of the government of any country that is subject to an embargo by the United States, any foreign government official, political party or international organization, and that no foreign government or government official, political party or international organization has any financial interest in the Franchised Business or any monies earned by the Franchised Business.

n. You represent, warrant and agree that you, your officers, directors, managers, members, or partners (as applicable) will each at all times conduct themselves in an ethical manner and avoid any activity that might result in a violation of the U.S. Foreign Corrupt Practices Act, Anti-Terrorism Laws, or any other applicable anti-corruption or bribery laws.

17.2 Additional Information Respecting Franchisee.

a. You have delivered to us or will deliver concurrent herewith, complete and accurate copies of all of your organizational documents, including all partnership agreements, certificates of partnership, articles of organization, operating agreements, articles or certificates of incorporation, by-laws and shareholder agreements, including all amendments, side letters and other items modifying such documents.

b. You have completed and signed the Franchisee Questionnaire attached hereto as

Exhibit 1 and incorporated herein by reference.

17.3 Acknowledgements of Franchisee.

a. You acknowledge that you have conducted an independent investigation of the business venture contemplated by this Agreement and recognize that this business venture involves substantial business risks and will largely depend upon your ability. ~~We~~Other than the financial performance representation contained in Item 19 of the Disclosure Document, if any, we expressly disclaim making, and you acknowledge that you have not received or relied on, any warranty or guarantee, express or implied, as to the potential volume, profits, or success of the Franchised Business contemplated by this Agreement.

Franchisee Initials _____ / _____

b. You hereby certify that none of our employees, no other person speaking on our behalf, and no Area Representative, if applicable, have: (i) made any oral, written, visual, or other representation, agreement, commitment, claim, or statement that stated or suggested any level or range of actual or potential sales, costs, income, expenses, profits, cash flow, or otherwise other than any financial performance representation contained in Item 19 of the Disclosure Document; or (ii) made any oral, written, visual, or other representation, agreement, commitment, claim, or statement from which any level or range of actual or potential sales, costs, income, expenses, profits, cash flow, or otherwise might be ascertained, related to ~~ana~~ *NrGize Lifestyle Cafe* franchise, that is different from, contrary to, or not contained in the *NrGize Lifestyle Cafe* Disclosure Document; or (iii) made any representation, agreement, commitment, claim or statement to you that is different from, contrary to, or not contained in, the *NrGize Lifestyle Cafe* Disclosure Document. You acknowledge and agree that we do not make or endorse, nor do we allow any of our employees or other persons speaking on our behalf to make or endorse, any additional oral, written, visual, or other representation, agreement, commitment, claim, or statement that states or suggests any level or range of actual or potential sales, costs, income, expenses, profits, cash flow, or otherwise with respect to ~~ana~~ *NrGize Lifestyle Cafe* franchise other than any financial performance representation contained in Item 19 of the Disclosure Document.

Franchisee Initials _____ / _____

c. You acknowledge that you have received, read and understand this Agreement and the related exhibits, attachments and agreements and that we have afforded you sufficient time and opportunity to consult with advisors selected by you about the potential benefits and risks of entering into this Agreement.

Franchisee Initials _____ / _____

d. You understand that this Agreement, including any amendments and exhibits, contains the entire agreement between the parties concerning the Franchised Business, and that any prior oral or written statements that are not set out in this Agreement, including any amendments, exhibits and attachments will not be binding. You acknowledge and agree that we do not permit any representations, agreements, commitments, claims, or statements or approve any changes in this Agreement or any of the amendments, exhibits and attachments to this Agreement, except by means of a written amendment or addendum signed by all parties to this Agreement. You acknowledge that nothing in this Agreement or in any related agreement is intended to disclaim the representations we made in the Disclosure Document.

Franchisee Initials _____ / _____

e. You acknowledge receipt of our Disclosure Document fourteen (14) days prior to the execution of this Agreement or your payment of any monies to us or our agent (or sooner if required by applicable state law).

Franchisee Initials _____ / _____

f. You acknowledge that, other than what was previously disclosed to you in our Disclosure Document to which you acknowledge receipt thereof, you have not: (1) received any financial statements for any of our parent or affiliated companies; or (2) relied on the financial condition of any of our parent or affiliated companies when making the decision to purchase the Franchised Business.

Franchisee Initials _____ / _____

g. You acknowledge, as detailed in *Section 2.3*, that you must, at your own cost and expense, use only our designated and approved Design Architect for the design of your Franchised Business.

Franchisee Initials _____ / _____

h. You acknowledge that the following is your Area Representative (if applicable):

Franchisee Initials _____ / _____

i. If an Area Representative is identified in *Section 17.3h.*, you make the following representations with respect to the Area Representative:

(i) You have met or spoken to only _____, the Area Representative;

(ii) At Other than any financial performance representation contained in Item 19 of the Disclosure Document, at no time did the Area Representative make any promises or statements, or projections or forecasts, or estimates or warranties or representations or other statement or agreement concerning profits or expenses or costs or actual or projected sales of any kind directly or by implication about *NrGize Lifestyle Cafe* restaurants or about the Franchised Business that we desire to develop under this Agreement or about obtaining the confirmed Location or about any other matter other than what is contained in the *NrGize Lifestyle Cafe* Disclosure Document or *NrGize Lifestyle Cafe* restaurant brochure.

(iii) You acknowledge that you have not received any written materials from us or the Area Representative except for the *NrGize Lifestyle Cafe* brochure and Disclosure Document; and

If there are any exceptions to *Sections 17.3i (i) – (iii)*, identify the item number and list the exception here:

Franchisee Initials_____ / _____

j. You acknowledge there have been no other inducements made with any person or entity, including the Identified Area Representative, encouraging you to purchase the Franchised Business, such as a “side deal” or other promise or agreement not included in the Agreement.

Franchisee Initials_____ / _____

k. You acknowledge and understand that *Article 6-of this Agreement* covers the use of the *NrGize Lifestyle Cafe* trademark and prohibition on registration of our Proprietary Marks. You acknowledge the ownership of the Proprietary Marks by us, and you agree that during the Term and after its expiration or termination, you will not, directly or indirectly, apply to register, register or otherwise seek to use or control or in any way use “*NrGize Lifestyle Cafe*”, or any other of our proprietary marks, or any confusingly similar form or variation, in any place or jurisdiction either within or outside the United States; nor will you assist any others to do so. You further agree that your corporate, partnership or other entity name will not include any of the Proprietary Marks or phrases similar thereto as a part thereof. Furthermore, you acknowledge and understand that you are prohibited from filing applications for the registration of our trade names used in connection with your Franchised Business.

Franchisee Initials_____ / _____

l. You acknowledge and understand that in the event you have registered a trade name or entity name containing our trademarks, you will be required to immediately discontinue all further use of the trademark, all Proprietary Marks and any other marks or names confusingly similar thereto in your entity name. Furthermore, you will take such action as may be required to amend your entity name and affirmatively cancel or terminate and dissolve all fictitious or assumed names or other registrations that contain our Proprietary Marks. In the event you do not comply and execute any and all instruments and documents necessary to protect and maintain our interests in the Proprietary Marks, we will then have power of attorney to execute any documents necessary to protect and maintain our interests in the Proprietary Marks.

Franchisee Initials_____ / _____

ARTICLE 18. SUBMISSION OF AGREEMENT

The submission of this Agreement to you does not constitute an offer and this Agreement shall become effective only upon the execution thereof by the parties. THIS AGREEMENT SHALL NOT BE BINDING ON US UNLESS AND UNTIL IT SHALL HAVE BEEN ACCEPTED AND SIGNED BY OUR PRESIDENT OR ONE OF OUR OTHER EXECUTIVE OFFICERS.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, has duly executed and delivered this Agreement as of the Effective Date.

FRANCHISEE: _____, a(n) _____

By: [Name, Title]

By: [Name, Title]

FRANCHISOR: KAHALA FRANCHISING, L.L.C., an
Arizona limited liability company

By: [Name, Title]

FRANCHISEE: _____, a(n) _____

By: [Name, Title]

By: [Name, Title]

FRANCHISOR: KAHALA FRANCHISING, L.L.C., an
Arizona limited liability company

By: [Name, Title]

PERSONAL ACCEPTANCE OF SECTIONS 7.1, 7.2, 14.6, AND 14.8

Each of the undersigned individually and personally accepts and agrees to be bound by the provisions of Sections 7.1, 7.2, 14.6, and 14.8 of the foregoing Franchise Agreement.

_____, _____, an individual
(signature)

Date: _____

_____, an individual
(signature)

Date: _____

_____, an individual
(signature)

Date: _____

_____, _____, an individual-
(signature)

Date: _____

_____, _____, an individual-
(signature)

Date: _____

EXHIBIT 1

FRANCHISEE QUESTIONNAIRE

FRANCHISEE QUESTIONNAIRE

The undersigned is in the process of negotiating and consummating the purchase of a Kahala Franchising, L.L.C. ("Kahala") Franchise Agreement ("Agreement") for NrGize Lifestyle CafeTM.

We have been informed that since the laws of franchising limit the type of information that may be provided to prospective franchisees, the Kahala Legal Department has established a compliance audit program to ensure that all pre-sale negotiations have been lawfully completed.

We understand that if improper sales practices have occurred, the Kahala Legal Department, with appropriate notice prior to Agreement execution, will be able to either rectify and cure the violation, or in the alternative, reject the franchise sale.

In order to comply with your compliance audit program we hereby make the following acknowledgments and representations concerning events during the course of the negotiations and offer of sale of the Agreement knowing that Kahala will rely thereon in agreeing to accept the franchise sale.

1. In the course of the negotiations and the offer and sale of the Agreement we have met or spoken only to: _____

List any additional people: _____

2. Did any of the individuals identified in paragraph number one (1) or any other person or entity acting on behalf of or at the direction of Kahala make any promises, statements, projections, forecasts, estimates, warranties or representations or other statement or agreement

(a) concerning the actual or potential financial performance of the franchised or franchisor owned-outlets, profits or expenses or actual or projected sales of any kind directly or by implication concerning NrGize Lifestyle Cafe restaurants or about the NrGize Lifestyle Cafe restaurant that is to be developed or about obtaining the approved location or about any other matter relating to the prospect for financial performance to the prospective franchisee, or (b) about any other matter other than what is contained in the Franchise Disclosure Document ("FDD"), and as stated in ITEM 19 of the NrGize Lifestyle Cafe FDD?

Check one: ☐ Yes ☐ No

If yes, please state in detail the oral, written, or visual claim or representation:

3. Other than what was previously disclosed to you in the NrGize Lifestyle Cafe FDD to which you acknowledge receipt thereof, did you: (1) receive any financial statements for any of Franchisor's parent or affiliated companies; or (2) rely on the financial condition of any of Franchisor's parent or affiliated companies when making the decision to purchase the Franchised Business?

Check one: ☐ Yes ☐ No

If yes, please comment, in detail:

4. Have there been any other inducements made with any person or entity encouraging you to purchase the Agreement such as a “side deal” or other promise or agreement not included in the Agreement?

Check one: ☐ Yes ☐ No

If yes, please comment, in detail:

5. Did you receive a copy of the NrGize Lifestyle Cafe FDD at least fourteen (14) calendar days prior to signing any binding agreement with, or making a payment to Kahala or any of its affiliates in connection with the proposed franchise sale? If you reside in New York, ~~Oklahoma or Rhode Island~~, or if the location of your prospective franchise is located within one of those states, did you receive a copy of the NrGize Lifestyle Cafe FDD at the earlier of (i) the first personal meeting; or (ii) ten ~~(10)~~ (10) business days prior to signing any binding agreement or payment of any consideration? If you reside in Michigan or Washington, or if the location of your prospective business is located within one of those states, did you receive the NrGize Lifestyle Cafe FDD at least ten (10) business days before the execution of any binding franchise or other agreement or the payment of any consideration?

Check one: ☐ Yes ☐ No

If no, please comment:

6. Have you received, studied, and reviewed carefully the NrGize Lifestyle Cafe FDD and Franchise Agreement?

Check one: ☐ Yes ☐ No

If no, please comment:

7. Do you understand that the license granted in the Franchise Agreement is for the right to

operate a franchise at the authorized location only and includes no exclusive area or protected territory, and that we and our affiliates have the right to issue franchises or operate competing businesses for or at locations, as we may determine, near your authorized location? In addition, do you understand that these locations may include freestanding buildings, strip centers, shopping malls, and other similar locations, as well as non-traditional locations such as office buildings, petroleum stations, food courts, transportation terminals, sports facilities, airports, hotels, hospitals, and college and university student unions, dormitories, and food service areas?

Check one: ☐ Yes ☐ No

If no, please comment:

8. Do you understand that the success or failure of your franchise will depend in large part upon your adherence to the NrGize Lifestyle Cafe System Standards, your skills and experience, your business acumen, your location, the local market for products under our trademarks, interest rates, the economy, inflation, the number of employees you hire and their compensation, competition, and other economic and business factors? Further, do you understand that the economic and business factors that exist at the time you open your franchise may change?

Check one: ☐ Yes ☐ No

If no, please comment:

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.

[NAME OF FRANCHISEE]

By: _____

By: _____

[Name]
[Title]

Date

[Name]
[Title]

Date

EXHIBIT F-1
TO THE FRANCHISE DISCLOSURE DOCUMENT

Guaranty of Franchise Agreement

GUARANTY OF FRANCHISE AGREEMENT

This GUARANTY OF FRANCHISE AGREEMENT ("Guaranty") is entered into as of _____, ~~20~~ by each of the undersigned ([individually and collectively,]"Guarantor") in favor of KAHALA FRANCHISING, L.L.C., an Arizona limited liability company ("Franchisor"). To the extent this Guaranty contains terms and conditions that differ from those contained in the Franchise Agreement (as defined in Recital A below), this Guaranty shall control. All capitalized terms not otherwise defined in this Guaranty will have the same meanings ascribed to such terms in the Franchise Agreement.

Recitals

A. Franchisor and _____, a(n) _____ ("Franchisee") entered into a Franchise Agreement dated _____, 20 [, as amended,] for a _____ *NrGize Lifestyle Cafe* TM restaurant located at _____ ("Franchise Agreement").

B. Guarantor is a shareholder, partner, member, or other person or entity interested in effecting the grant or transfer of the Franchise Agreement.

C. Without this Guaranty, Franchisor cannot be assured that there are sufficient assets to operate the franchise or to protect Franchisor in the event of a default by Franchisee.

D. Franchisor is willing to enter into the Franchise Agreement only if Guarantor personally guarantees faithful performance of all the terms of the Franchise Agreement.

E. Guarantor acknowledges Guarantor has received and read the Franchise Agreement and agrees to be bound to the obligations in this Guaranty with regard to the Franchise Agreement.

Agreement

1. In consideration of the above recitals, Guarantor personally guarantees, for the benefit of Franchisor, its parent, subsidiary, affiliates and successors and assigns, the prompt and complete performance of all the covenants and conditions contained in the foregoing Franchise Agreement.

2. This Guaranty is effective until all terms of the Franchise Agreement have been fully and completely performed by Franchisee. No release of Franchisee or discharge of Franchisee under bankruptcy law, or any other law, shall impair or effect the obligations of Guarantor to Franchisor hereunder.

3. Franchisor is not required to proceed first against the Franchisee, but may proceed first against the Guarantor alone or concurrent with proceeding against Franchisee. The obligations of Guarantor hereunder are absolute and unconditional.

4. Franchisee and Franchisor may from time to time alter or modify the Franchise Agreement between themselves, possibly changing or increasing the extent of Guarantor's obligation under this Guaranty. Guarantor consents to any and all modifications or amendments of the Franchise Agreement and the documents and Operations Manuals referred to in the Franchise Agreement, without requiring notice to Guarantor or Guarantor's consent.

Guarantor agrees specifically to be bound by the confidentiality requirements and the covenant against competition in the Franchise Agreement.

5. Guarantor waives notice of acceptance of this Guaranty and notice of non-performance or non-payment by Franchisee of any of its obligations or liabilities under the Franchise Agreement.

6. A default by Guarantor under this Guaranty will be deemed a default under all Franchise Agreements guaranteed by the Guarantor.

7. Guarantor agrees to pay all attorneys' fees, costs and expenses (including any and all Royalty Fees and Advertising Fees and associated interest on such amounts, that are determined to be owing to Franchisor due to underreporting by Franchisee) incurred by Franchisor in enforcing this Guaranty, whether or not suit or action is filed, and if suit or action is filed, then through trial and all appeals, and also in any proceedings or matter in Bankruptcy Court; Guarantor assumes all liability for all losses, costs, attorneys' fees, and expenses that Franchisor incurs as a result of a default by Franchisee, including those fees and expenses incurred in a bankruptcy proceeding involving Franchisee.

8. Guarantor hereby agrees that upon notice of default or upon an uncured default of the Franchise Agreement or any other agreement between Guarantor (or a legal entity thereof) and Franchisor or its affiliates, and with no prior notice, Guarantor consents to Franchisor's (or any of its affiliate's or third-party contractor's) acquisition and use of non-business consumer credit reports on Guarantor in order to evaluate as necessary the financial condition of Guarantor as principal, member, manager, franchisee, and/or guarantor in connection with the collection of monetary obligations as contemplated by the Franchise Agreement, this Guaranty, a promissory note, or any other agreements between Guarantor (or a legal entity thereof), and Franchisor or its affiliates. Guarantor as an individual or individuals hereby knowingly consent to the use of such credit reports consistent with the Federal Fair Credit Reporting Act as contained in 15 U.S.C. § 1681 et seq.

9. This Guaranty is personal to Guarantor and the obligations and duties imposed herein may not be delegated or assigned; provided, however, that this Guaranty shall be binding upon the successors, assigns, heirs, estate, trustee(s) and personal representative(s) of Guarantor. This Guaranty shall inure to the benefit of Franchisor, its affiliates, successors and assigns.

10. In the event that any one or more provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof and this Guaranty shall be construed to bind Guarantor to the maximum extent permitted by law that is subsumed within the terms of such provision as though it were separately articulated herein.

11. This Guaranty shall be interpreted and construed under the laws of the State of Arizona, which laws shall prevail in the event of any conflict of law. Any appropriate state or federal court located in Maricopa County, Arizona has exclusive jurisdiction over any case or controversy arising under or in connection with this Agreement and is the proper forum in which to adjudicate the case or controversy, and the parties hereto irrevocably submit to the jurisdiction of any such court. THE PARTIES AGREE THAT ALL DISPUTES ADMITTED TO THE COURT PURSUANT TO THIS SECTION 12 SHALL BE TRIED TO THE COURT SITTING WITHOUT A JURY, NOTWITHSTANDING ANY STATE OR FEDERAL CONSTITUTIONAL OR STATUTORY RIGHTS OR PROVISIONS.

12. If Guarantor consists of two (2) or more persons, then each person will be jointly and severally liable under the provisions of this Guaranty.

13. [Guarantor, _____ [include name here], represents that he or she is not married as of the Effective Date.]

14. 14. Guarantor acknowledges that (i) it is a condition to the granting of the Franchise Agreement to Franchisee that Guarantor shall execute and deliver this Guaranty to Franchisor, (ii) that Franchisor has entered into the Franchise Agreement in reliance upon the agreement of Guarantor to do so, and (iii) that, as owner of the Franchisee, Guarantor has received adequate consideration to support its execution of this Guaranty. This Guaranty does not grant or create in Guarantor any interests, rights or privileges in any franchise or Franchise Agreement.

15. 15. This Guaranty may be executed in one or more counterparts, each of which shall be deemed to be an original copy of this Guaranty and all of which, when taken together, shall be deemed to constitute one and the same Guaranty.

16. 16. Words in the singular number include the plural when the context requires (and vice- versa), and defined terms include the possessive when the context requires (and vice-versa).

GUARANTOR:

[Name], an individual [Name], an individual

[Name], an individual [Name], an individual

[Name], an individual [Name], an individual

EXHIBIT F-2

TO THE FRANCHISE DISCLOSURE DOCUMENT

Non-Disclosure and Non-Competition Agreement

NON-DISCLOSURE AND NON-COMPETITION AGREEMENT

This NON-DISCLOSURE AND NON-COMPETITION AGREEMENT ("Agreement") is made and entered into as of the last date set forth below ("Effective Date"), by and between KAHALA FRANCHISING, L.L.C., an Arizona limited liability company, having an office located at 9311 East Via De Ventura, Scottsdale, Arizona 85258 ("Franchisor") and the undersigned, _____ an individual, _____ having _____ an _____ address _____ of _____ . Franchisor and the undersigned may also be referred to in this Agreement individually as "Party" and collectively as "Parties."

Recitals

A. Franchisor is in the business of licensing franchise systems in the quick service restaurant market and is the owner and/or licensee of certain proprietary, confidential and/or trade secret information related to its business.

B. The undersigned is the spouse of the franchisee or spouse of an employee, officer, director, member, manager, partner or owner of an interest in the equity or voting interests of [Franchisee], the "Franchisee" under and signatory to, that certain "Franchise Agreement" dated _____, 20 entered into with Franchisor granting Franchisee the right to own and operate one *NrGize Lifestyle Cafe* restaurant ("Franchised Business") on the terms and conditions stated therein.

C. The undersigned acknowledges that, in order to induce Franchisor to enter into the Franchise Agreement, Franchisee must cause certain persons who are the spouse of the franchisee or spouse of an employee, officer, director, member, manager, partner or owner of an interest in the equity or voting interests of Franchisee to execute this Agreement for the benefit of Franchisor.

NOW, THEREFORE, in consideration of the foregoing and of the representations, terms, covenants, conditions and agreements set forth in this Agreement and intending to be legally bound, the Parties hereby agree as follows:

Agreement

1. **Definition of Confidential Information.** "Confidential Information" includes, without limitation, knowledge and information which Franchisee knows, or should reasonably know, Company regards as confidential concerning: (i) formulation, ingredients, raw materials, recipes, and food preparation processes for Proprietary Products, Non-Proprietary Products, Collateral Logo Merchandise or other items or services that Company permits Franchisee to sell at or from the Franchised Business; (ii) Company's supply relationships, inventory requirements and control procedures; (iii) pricing, sales, profit performance or other results of operations of any and all *NrGize Lifestyle Cafe* restaurants, including the Franchised Business; (iv) demographic data for determining sites and territories; (v) the results of customer surveys and promotional programs; and (vi) in general, business methods, trade secrets, specifications, customer data, cost data, procedures, information systems and knowledge about the operation of *NrGize Lifestyle Cafe* restaurants or the *NrGize Lifestyle Cafe* System, whether it is now known or exists or is acquired or created in the future, and whether or not the information is included in the

Confidential Manual or Franchisor expressly designates the information as confidential. Confidential Information does not include (x) information which the undersigned can demonstrate came to his or her attention independent of entering into this Agreement; and (y) information that Franchisor agrees is, or has become, generally known in the public domain, except where public knowledge is the result of the undersigned's wrongful disclosure (whether or not deliberate or inadvertent).

2 **Non-Disclosure of Confidential Information.**

a The undersigned agrees not to possess, obtain, or seek to obtain, either directly or indirectly, any Confidential Information from any person or other source, unless authorized in writing by Franchisor. In the event that the undersigned does possess, or comes to possess, any Confidential Information, the undersigned shall immediately notify Franchisor of that fact and return the Confidential Information, and all copies and portions thereof, to Franchisor.

b The undersigned agrees not to disclose, duplicate, sell, reveal, divulge, publish, furnish or communicate, either directly or indirectly, any Confidential Information to any other person, firm or entity, unless authorized in writing by Franchisor.

c The undersigned agrees not to use any Confidential Information for his or her own personal gain or to further the purposes of others, whether or not the Confidential Information has been conceived, originated, discovered or developed, in whole or in part, by the undersigned or represents the undersigned's work product. To the extent the undersigned has assisted in the preparation of any information that Franchisor considers Confidential Information or has prepared or created such information by himself or herself, the undersigned hereby assigns any rights that he or she may have in such information as creator to Franchisor, including all ideas made or conceived by the undersigned.

d The undersigned acknowledges that the use, publication or duplication of the Confidential Information for any purpose not authorized by this Agreement constitutes an unfair method of competition by the undersigned.

e The provisions of this Section 2 shall apply forever, surviving the expiration or termination of all contracts between Franchisor and Franchisee.

f The provisions concerning non-disclosure of Confidential Information shall not apply if disclosure of Confidential Information is legally compelled in a judicial or administrative proceeding, provided the undersigned shall have used its best efforts, and shall have afforded Franchisor the opportunity, to obtain an appropriate protective order or other assurance satisfactory to Franchisor of confidential treatment for the information required to be disclosed. If the undersigned is required to disclose Confidential Information, whether in whole or in part, to any third party pursuant to a subpoena or a court or agency order, the undersigned agrees to only disclose the minimum amount of Confidential Information required to be disclosed.

3 **Agreements Regarding Competition.**

a For as long as Franchisee is a party to any Franchise Agreement with Franchisor, the undersigned agrees that he or she shall not, directly or indirectly, own (neither beneficially nor of record), engage in or render services to, whether as an investor, partner, lender, director, officer,

manager, employee, consultant, representative or agent, any Competitive Business (as defined in Section 3.f below); provided, however, the restrictions stated in this paragraph shall not apply to the undersigned after two (2) years from the date that the undersigned ceases to be a spouse of the Franchisee or spouse of an employee, officer, director, member, manager, partner or owner of an interest in the equity or voting interests of Franchisee or otherwise associated in any capacity with Franchisee.

b For a period of two (2) years after expiration or termination of the last Franchise Agreement between Franchisee and Franchisor, it shall be a breach of this Agreement for the undersigned to directly or indirectly, own, engage in or render services to, whether as an investor, partner, lender, director, officer, manager, employee, consultant, representative or agent, any Competitive Business; provided, however, the restrictions stated in this paragraph shall not apply to the undersigned after two (2) years from the date that the undersigned ceases to be a spouse of the Franchisee or spouse of an employee, officer, director, member, manager, partner or owner of an interest in the equity or voting interests of Franchisee or otherwise associated in any capacity with Franchisee.

c The undersigned may engage in any activities not expressly prohibited by this Agreement. However, in connection with permitted activities, the undersigned shall not (i) use the Confidential Information or any of *NrGize Lifestyle Cafe* intellectual property including without limitation, any and all rights currently existing or that may come into being which Franchisor or Franchisor's affiliates now own or later acquire in *NrGize Lifestyle Cafe* trademarks, proprietary products and/or Confidential Information arising under any patent, trade secret, copyright, trade dress, design protection, database protection, trademark, or similar laws of the United States or any other country in which Franchisor or its affiliates operate (collectively "*NrGize Lifestyle Cafe* Intellectual Property"); (ii) engage in any conduct or activity which suggests or implies that Franchisor endorses, or authorizes, the undersigned's activities; or (iii) induce any person to engage in conduct prohibited by this Agreement.

d The undersigned acknowledges that the covenants regarding competition are independent of the other covenants and provisions of this Agreement. If any provision regarding competition is void or unenforceable under California law, but would be enforceable as written or as modified under the laws of the state in which the Franchised Business is located (the "Local Laws"), the parties agree that the Local Laws shall govern any dispute concerning or involving the construction, interpretation, validity or enforcement of the provisions regarding competition. Franchisee expressly authorizes Franchisor to conform the scope of any void or unenforceable covenant in order to conform it to the Local Laws.

e For purposes of this Section 3, "*NrGize Lifestyle Cafe* System" means, collectively, all of the distinctive business methods, proprietary products, Confidential Information and *NrGize Lifestyle Cafe* Intellectual Property which Franchisor now or in the future authorizes or requires Franchisee to use as a condition of the Franchise Agreement, as Franchisor may modify in its sole discretion at any time.

f For purposes of this Section 3, "Competitive Business" means a business which is primarily engaged in the sale of smoothies, protein shakes, meal replacement shakes, chillers, and all variations thereof within a geographical area consisting of: (1) for as long as Franchisee is a party to any Franchise Agreement with Franchisor, anywhere including the location of the

Franchised Business; and (2) after expiration or termination of the last Franchise Agreement between Franchisee and Franchisor, within a ten (10) mile radius from the location of the Franchised Business or location of any *NrGize Lifestyle Cafe* restaurant of Franchisor, Franchisor's third-party licensees or Franchisor's third-party franchisees. The term "*NrGize Lifestyle Cafe* restaurant" includes not only the restaurants now in existence, but also those established at a later date. The term of this covenant will be extended by any time consumed in litigation to enforce it in both trial and appellate courts. If a court of competent jurisdiction determines that the restrictions in this paragraph are excessive in time, geographic scope, or otherwise, the court may reduce the restriction to the level that provides the maximum restriction allowed by law.

g For purposes of this Section 3, "Confidential Manual" refers collectively to all of the confidential operating manuals, recipe manuals, operations guides and other instructions loaned or delivered to the Franchisee during the term of the Franchise Agreement, which may be memorialized in written or electronic format and modified periodically to reflect changes in the *NrGize Lifestyle Cafe* System.

4 **Interference.**

The undersigned agrees not to, directly or indirectly, for himself or herself or on behalf of any other person: divert, or attempt to divert, any business or customer of any *NrGize Lifestyle Cafe* restaurant to any competitor by direct or indirect inducement or perform any act which directly or indirectly could, or may, injure or prejudice the goodwill and reputation of *NrGize Lifestyle Cafe* Intellectual Property or *NrGize Lifestyle Cafe* System.

5 **Irreparable Harm to Franchisor.**

The undersigned understands and agrees that if the undersigned breaches or threatens to breach any of his or her obligations under this Agreement, Franchisor will be irreparably harmed and an award of monetary damages alone would be inadequate. Therefore, the undersigned agrees that Franchisor shall be entitled to seek equitable relief, including, without limitation, temporary, preliminary and permanent injunctive relief and specific performance for any actual or threatened breach by the undersigned, his or her affiliates or their respective officers, directors, shareholders, employees or agents. The remedies provided under this Section 5 shall be in addition to and not exclusive of any other right or remedy available to Franchisor under this Agreement or otherwise, including, without limitation, an award of attorneys' fees, expert witness fees and costs incurred by Franchisor or its affiliates in connection with any dispute arising from or related to this Agreement.

6 **Validity; Conformity With Applicable Law.**

Wherever possible, each provision of this Agreement shall be interpreted in a manner as to be valid under applicable law, but if any provision of this Agreement shall be invalid or prohibited thereunder, the provision shall be ineffective only to the extent of the prohibition or invalidity without invalidating the remainder of this Agreement.

7 **Miscellaneous.**

a **Waiver.** Any waiver granted to the undersigned by Franchisor excusing or reducing any obligation or restriction imposed under this Agreement shall be evidenced by a writing

executed by Franchisor in order to be effective and shall only be effective to the extent specifically allowed in such writing. No waiver granted by Franchisor shall constitute a continuing waiver. Any waiver granted by Franchisor shall be without prejudice to any other rights Franchisor may have. The rights and remedies granted to Franchisor are cumulative. No delay on the part of Franchisor in exercising any right or remedy shall preclude Franchisor from fully exercising such right or remedy or any other right or remedy.

b. *Entire Agreement; Amendment.* This Agreement sets forth the entire agreement made by the undersigned pertaining to the subject matter hereof, fully superseding any and all prior agreements or understandings that may exist between the undersigned and the Franchisor pertaining to such subject matter. No amendment, change, modification or variance to or from the terms and conditions set forth in this Agreement shall be binding on the undersigned unless it is set forth in writing and duly executed by the undersigned and Franchisor.

c. *This Agreement shall be binding on the undersigned's heirs, executors, successors and assigns as though originally executed by such persons.*

d. *Notices.* All notices permitted or required under this Agreement shall be in writing and shall be delivered by personal delivery, courier, such as FedEx[®] or UPS[®], or by U.S. Mail, sent certified or registered mail, return receipt requested, to the address set forth in the first paragraph of this Agreement, with a courtesy copy sent via email or facsimile (to the address set forth on the signature page below) for the respective Party to be noticed, which address may be amended from time to time pursuant to the terms of this *Section 7.d*. Notices provided under this *Section 7.d* shall be deemed received upon personal delivery or delivery by courier and within five (5) days after deposit in the U.S. Mail.

e. *Governing Law and Venue.* This Agreement shall be governed by and construed in accordance with the laws of the State of Arizona without reference to conflict of laws principles. Except for actions seeking injunctive relief (which may be brought in any appropriate jurisdiction) suit under this Agreement shall only be brought in the state or federal courts located in Maricopa County, Arizona. This choice of jurisdiction and venue is intended by the Parties to be mandatory and not permissive in nature, and to preclude the possibility of litigation between the Parties with respect to, or arising out of, this Agreement in any jurisdiction other than as specified in this *Section 7.e*. Each Party waives any right it may have to assert the doctrine of forum non conveniens or similar doctrine or to object to the jurisdiction and venue with respect to any proceeding brought in accordance with this *Section 7.e*.

f. *No Assignment.* The undersigned shall not assign or transfer any rights or obligations under this Agreement without Franchisor's prior written consent, which may be withheld in Franchisor's sole discretion. Any assignment made in violation of this *Section 7.f* shall be void.

g. *Counterparts; Facsimile Signatures.* This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original document as against the Party whose signature appears thereon, and all of which shall together constitute one and the same Agreement. The signatures required for execution may be transmitted to the other Party via facsimile or email and such signature shall be deemed a duplicate original, shall be effective upon receipt by the other Party, may be admitted in evidence and shall fully bind the Party and person making such signature.

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement by their duly authorized representatives with full rights, power and authority to enter into and bind the respective Party and to perform all obligations under this Agreement.

[NAME]

By: _____
[Name], an individual

Date: _____

Address: [Street Address] [City, State Zip] Phone: (xxx) xxx-xxxx Email: xxxxxxxx@xxxx.xxx

EXHIBIT G

TO THE FRANCHISE DISCLOSURE DOCUMENT

Collateral Assignment and Irrevocable Special Power of Attorney

**COLLATERAL ASSIGNMENT AND
IRREVOCABLE SPECIAL POWER OF ATTORNEY**

This COLLATERAL ASSIGNMENT AND IRREVOCABLE SPECIAL POWER OF ATTORNEY ("Assignment") is entered into on _____ ("Effective Date") in accordance with the terms of that certain Franchise Agreement dated _____, 20____ (~~"Effective Date"~~) ~~in accordance with the terms of that certain Franchise Agreement dated _____, 20____~~ [as amended] ("Franchise Agreement") by and between _____, a(n) _____ and KAHALA FRANCHISING, L.L.C., an Arizona limited liability company ("Franchisor"), executed concurrently with this Assignment and under which Franchisor granted Franchisee the right to own and operate a *NrGize Lifestyle Cafe*[™] restaurant located at _____ ("Restaurant").

FOR VALUE RECEIVED, Franchisee hereby assigns to Franchisor, its affiliates, subsidiaries, successors and assigns, all of Franchisee's right, title and interest in and to: (i) the "Telephone Numbers and Listings" which include those certain telephone numbers and regular, yellow-pages, special, classified or other telephone directory listings used at any time in connection with the operation of the Restaurant; (ii) any website page or social media addresses and accounts, including, but not limited to, a Facebook[®] page or Twitter[®] account that contains any term or any mark confusingly similar to a trademark or other intellectual property owned or licensed by Franchisor; and (iii) any corporation, limited liability company, partnership, or other entity name or trade name filed or formed by Franchisee that contains any trademark or other intellectual property owned or licensed by Franchisor (each an "Entity Name"). This Assignment is for collateral purposes only, and except as specified herein, Franchisor shall have no liability or obligation of any kind whatsoever arising from or in connection with this Assignment unless Franchisor shall notify the (i) telephone company and/or the listing agencies with which Franchisee has placed telephone directory listings (all such entities are collectively referred to herein as the "Telephone Company"); (ii) webmaster/webhost for the website or social media account; and (iii) Secretary of State, Corporation Commission or other state government agency that handles the filing of entity formation documents, to effectuate the assignment pursuant to the terms hereof.

Franchisee hereby appoints Franchisor as his/her/its attorney-of-fact and grants Franchisor an irrevocable Special Power of Attorney, coupled with an interest, with full power and authority for the purpose of executing documents or taking such action as necessary or appropriate as Franchisee might or could do if personally present, hereby ratifying all that Franchisor, as Franchisee's attorney-in-fact, shall lawfully do or cause to be done by virtue of this Special Power of Attorney to obtain, protect, maintain or enforce Franchisor's intellectual property rights if Franchisor is, for any reason, unable to obtain Franchisee's cooperation or assistance. The Special Power of Attorney granted by this Assignment, shall survive the dissolution, death, incompetence or disability of Franchisee and the termination or expiration of the Franchise Agreement or this Assignment.

Upon (i) termination of the Franchise Agreement for any reason, or (ii) expiration of the Franchise Agreement without renewal or extension, Franchisor shall have the right and is hereby empowered to effectuate the assignment of the Telephone Numbers and Listings, website and/or social media account, and Entity Name. In such event Franchisee shall have no further right, title or interest in the Telephone Numbers and Listings or the website and/or social media account, and shall remain liable to the Telephone Company for all past due fees and charges owing to the Telephone Company on or before the effective date of the assignment hereunder.

Franchisee agrees and acknowledges that as between Franchisor and Franchisee, Franchisor shall have the sole right to and interest in the Telephone Numbers and Listings, website and/or social media accounts and Entity Name upon termination or expiration of the Franchise Agreement.

Franchisee appoints Franchisor as Franchisee's true and lawful attorney-in-fact to direct the Telephone Company, webmaster/webhost, and state government agency to assign same to Franchisor and execute such documents and take such actions as may be necessary to effectuate the assignment. Upon such event Franchisee shall immediately instruct the (i) Telephone

Company to assign the Telephone Numbers and Listings to Franchisor; the webmaster/webhost to assign the website and/or social media account to Franchisor; and (iii) state government agency to allow Franchisor to file the necessary documents to change the Entity Name. If Franchisee fails to promptly direct the (i) Telephone Company to assign the Telephone Numbers and Listings to Franchisor; (ii) webmaster/webhost to assign the website or social media account(s) to Franchisor; and/or (iii) file the necessary documents with the appropriate state government agency to remove Franchisor's trademarks or other intellectual property from the Franchisee's Entity Name, Franchisor shall direct the appropriate parties to effectuate the assignment contemplated hereunder to Franchisor.

The parties agree that the Telephone Company, webmaster/webhost, and appropriate state government agency may accept Franchisor's written direction, the Franchise Agreement or this Assignment as conclusive proof of Franchisor's exclusive rights in and to the Telephone Numbers and Listings, website and/or social media accounts, and Franchisor's authority to file the necessary documents to remove Franchisor's trademark or other intellectual property from the Entity Name and that such assignment shall be made automatically and effective immediately upon Telephone Company's, webmaster's/webhost's or state government agency's receipt of such notice from Franchisor or Franchisee. The parties further agree that if the Telephone Company, webmaster/webhost, or state government agency requires that the parties execute an assignment form or other documentation at the time of termination or expiration of the Franchise Agreement Franchisor's execution of such forms or documentation on behalf of Franchisee shall effectuate Franchisee's consent and agreement to the assignment. The parties agree that at any time after the date hereof they will perform such acts and execute and deliver such documents as may be necessary to assist in or accomplish the assignment described herein upon termination or expiration of the Franchise Agreement.

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party, without further consent or approval of any kind, has duly executed and delivered this Assignment as of the Effective Date.

ASSIGNOR (Franchisee):

_____, a(n)_____

By: [Name, Title]

State of_____

County of_____

On_____ before me, personally appeared_____ known to me (or proved to me on the oath of_____ or through _____) to be the person whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her/their authorized capacity, and that by his/her signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of_____ that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

(Signature of Notary Public)

(Seal) Acknowledged by:

ASSIGNEE (Franchisor):

KAHALA FRANCHISING, L.L.C., an Arizona limited liability company

By: [Name, Title]

EXHIBIT H
TO THE FRANCHISE DISCLOSURE DOCUMENT

Amendment to Franchise Agreement
(for non-traditional locations excluding those co-branded with another
~~Kahala Franchising, L.L.C.~~affiliated brand)

[FIRST] AMENDMENT TO FRANCHISE AGREEMENT

[for non-traditional locations, excluding those co-branded with another ~~Kahala Franchising, L.L.C.-affiliated~~ brand]

This [FIRST] AMENDMENT TO FRANCHISE AGREEMENT (“[First] Amendment”) dated _____, 20 (“[First] Amendment Effective Date”), to the Franchise Agreement dated _____, 20 for the non-traditional *NrGize Lifestyle Cafe*[™] location at _____ (“Agreement”) by and between KAHALA FRANCHISING, L.L.C., an Arizona limited liability company (“Franchisor”) and _____ (“Franchisee”), is entered into by such parties to amend the Agreement as set forth in this [First] Amendment. To the extent this [First] Amendment contains terms and conditions that differ from those contained in the Agreement, this [First] Amendment shall control. The parties agree that a concept or principle covered in this [First] Amendment shall apply and be incorporated into all other provisions of the Agreement in which the concept or principle is also applicable, notwithstanding the absence of any specific cross-reference thereto. All capitalized terms not otherwise defined in this [First] Amendment will have the same meanings ascribed to such terms in the Agreement.

1. The last sentence of the second unnumbered paragraph in Section **1.2, “Location of the Franchised Business; No Exclusive Territory or Other Rights,”** is hereby deleted and replaced with the following: “This Agreement is limited to the operation of one non-traditional restaurant, unless otherwise amended, and does not grant you the right to buy, own or operate additional restaurants.”

2. Section **4.1, “Training Program,”** is hereby amended to add the following after the last sentence in Section 4.1: “Notwithstanding the foregoing, for non-traditional locations, the total number of days of training and related assistance will be a total of three (3) days.”

3. The first sentence in Section **5.1, “Initial Franchise Fee,”** is hereby deleted and replaced with the following: “The initial franchise fee is [Seven Thousand Five Hundred Dollars (\$7,500)] [Five Thousand Dollars (\$5,000)] (“Initial Franchise Fee”).”

4. The first sentence in the first paragraph in Section **5.2, “Royalty Fee and Surcharge,”** is hereby deleted in its entirety and replaced with the following:

For the period of time commencing on the later of the Effective Date or the date the Franchised Business opens to the public, and for the duration of the Term, you must pay to us a weekly royalty fee equal to six percent (6%) of total Gross Sales (as defined below) (“Royalty Fee”).

5. Paragraph a. in Section **5.3, “Advertising Fee,”** is hereby deleted in its entirety and replaced with the following: “a. Not ~~Applicable~~applicable.”

6. Paragraph b. of Section **5.13, “Transfer Franchise Fee,”** is hereby deleted ~~in its entirety~~ and replaced with the following:

~~5.13 — Transfer Franchise Fee.~~

b. A Potential Transferee (as defined in *Section 12.1c.*) receiving this Agreement, as may be amended, in connection with a Full

~~[store-#] [doc-#]~~ Transfer (as defined in *Section 12.1a.1.*), must pay to us a transfer franchise fee of Five Thousand Dollars (\$5,000) (“Transfer Franchise Fee”).~~}~~

[store #] [doc #]

7. The first sentence in Section 5.24, “Grand Opening Marketing,” is hereby deleted and replaced with the following:

Five Thousand Dollars (\$5,000) (“Grand Opening Marketing”) is payable to us on the earlier of: (i) prior to you executing a lease for the premises where the Franchised Business will be located; or (ii) prior to construction commencing at the premises where the Franchised Business will be located.

8. ~~7.~~ Except as set forth in this [First] Amendment, the terms and provisions of the Agreement shall remain in full force and effect.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, has duly executed and delivered this [First] Amendment as of the [First] Amendment Effective Date.

FRANCHISOR: KAHALA FRANCHISING, L.L.C., an Arizona limited liability company

By: [Name, Title]

FRANCHISOR: KAHALA FRANCHISING, L.L.C., an Arizona limited liability company

By: [Name, Title]

FRANCHISEE: _____, a(n) _____

By: [Name, Title]

By: [Name, Title]

FRANCHISEE: _____, a(n) _____

By: [Name, Title]

By: [Name, Title]

[store #] [doc #]

2 of 2

EXHIBIT H-1

TO THE FRANCHISE DISCLOSURE DOCUMENT

Amendment to Franchise Agreement

(for stores to be located within current LA Fitness Health Clubs: newly constructed only)

[FIRST] AMENDMENT TO FRANCHISE AGREEMENT

[for stores to be located within current LA Fitness Health Clubs: newly-constructed stores only]

This [FIRST] AMENDMENT TO FRANCHISE AGREEMENT (“[First] Amendment”) dated _____, 20____ (“[First] Amendment Effective Date”), to the Franchise Agreement dated _____, 20____ for the NrGize Lifestyle Cafe™ location at _____ (“Agreement”) by and between Kahala Franchising, L.L.C., an Arizona limited liability company (“Franchisor”) and _____ (“Franchisee”), is entered into by such parties to amend the Agreement as set forth in this [First] Amendment. To the extent this [First] Amendment contains terms and conditions that differ from those contained in the Agreement, this [First] Amendment shall control. The parties agree that a concept or principle covered in this [First] Amendment shall apply and be incorporated into all other provisions of the Agreement in which the concept or principle is also applicable, notwithstanding the absence of any specific cross reference thereto. All capitalized terms not otherwise defined in this [First] Amendment will have the same meanings ascribed to such terms in the Agreement.

1. The following paragraph G. is hereby added to the end of the **RECITALS** section after paragraph F.:

G. Kahala Holdings, LLC, an affiliate of ours, and FITNESS INTERNATIONAL, LLC (formerly L.A. Fitness International, LLC), a California limited liability company (“LA Fitness”) entered into a Master Facility License Agreement, as amended (collectively, “Master Facility License Agreement”) pursuant to which Kahala Holdings, LLC can provide or we can grant third parties the right to provide certain services at the LA Fitness health clubs. We are currently issuing franchises to others for the operation of outlets in LA Fitness health clubs.

2. Section **1.3**, “**Term of Agreement**,” is hereby deleted in its entirety and replaced with the following:

1.3 Term of Agreement.

The term of this Agreement will commence on the Effective Date and will terminate on the earlier of the following: (i) the expiration of the term of the SUFLA (as defined in *Section 2.2*) for the Location, including any renewal options thereto; (ii) the termination or expiration of the Master Facility License Agreement; or (iii) the date that LA Fitness ceases operating a health club at the location identified in *Section 1.1*, unless terminated earlier in accordance with *Article 14* or any other provisions of this Agreement, renewed in accordance with *Article 13* or *this Agreement*, or transferred in accordance with *Article 12* (“Term”).

3. Section **2.1**, “**Location Selection Procedures**,” is hereby deleted in its entirety and replaced with the following:

2.1 Location Selection Procedures.

You must select an LA Fitness health club Location approved by us in writing, for the *NrGize Lifestyle Cafe* restaurant within twenty-four (24) months after the date of this Agreement. If an acceptable Location for your restaurant in an LA Fitness health club is not secured within twenty-four (24) months after the date of this Agreement, then we may terminate this Agreement by giving you written notice to that effect. We will have no obligation to refund to you all or any part of your Initial Franchise Fee (as defined in *Section 5.1*) in the event of such a termination.

4. Section **2.2, "Lease and Purchase Approval,"** is hereby deleted in its entirety and replaced with the following:

2.2 Facility License Agreements.

Once an acceptable LA Fitness club location has been identified to locate your *NrGize Lifestyle Cafe* restaurant, you will enter into a Single-Unit Facility License Agreement ("SUFLA") with Kahala Holdings, LLC which will grant you access to the Location. Notwithstanding anything to the contrary contained in this Agreement, you acknowledge that the operation of the Franchised Business at the Location is subject to all terms and conditions in the Master Facility License Agreement and the SUFLA.

5. Section **2.3, "Construction,"** is hereby deleted in its entirety and replaced with the following:

2.3 Construction.

a. As this is a "turn-key" franchise purchase, we will oversee and manage all aspects of the on-site construction and equipping of your *NrGize Lifestyle Cafe* restaurant to assure it meets our and LA Fitness' specifications and standards.

b. You acknowledge that the design and appearance of the *NrGize Lifestyle Cafe* restaurant is part of the System, and that uniformity is essential to the success of the System. Therefore, you agree that after the restaurant has been constructed, you will not make any material changes to the building plan or design or its appearance without our prior written consent, and you will, at your expense, maintain the interior and exterior decor of the restaurant in a first class condition and in such manner as we may reasonably prescribe from time to time. In addition to any remodeling required by us upon the renewal of this Agreement and upon the assignment of the Franchised Business, as set forth in *Sections 12 and 13*, respectively, you will, upon thirty (30) days written notice from us, and at your sole cost and expense, remodel and make all improvements and alterations in and to your *NrGize Lifestyle Cafe* restaurant as reasonably determined by us to reflect the then-current *NrGize Lifestyle Cafe* specifications, standards, format, image and appearance.

6. Section **2.4, "Signage,"** is hereby deleted in its entirety and replaced with the following:

2.4 Signage.

You shall prominently display in a sign easily visible to consumers at the Franchised Business, the following words: "Each NrGize Lifestyle Cafe Restaurant is Independently Owned and Operated".

7. Section **2.5, "Relocation,"** is hereby deleted in its entirety and replaced with the following: **"2.5 Not Applicable."**

8. Section **2.6, "Restricted Use of Restaurant Location,"** is hereby deleted in its entirety and replaced with the following:

2.6 Restricted Use of Restaurant Location.

You acknowledge that the SUFLA does not grant you a possessory interest to the Location. You shall not wholly or partially sublet, transfer, assign, or otherwise dispose of the Location without our prior written consent. The Location may be used only for the operation of an *NrGize Lifestyle Cafe* restaurant in compliance with this Agreement, the SUFLA, and the Operations Manuals. You shall not conduct other businesses or activities at the Location without our prior written consent.

9. Paragraph c. in Section **3.1, "Commencing Operations,"** is hereby deleted and replaced with the following: "c. Not Applicable."

10. Section **3.3, "Fixtures, Furnishings, and Equipment,"** is hereby deleted in its entirety and replaced with the following:

3.3 Equipment.

Unless otherwise approved by us in writing, and if applicable, you will: (1) acquire equipment to be used in the operation of the *NrGize Lifestyle Cafe* Franchised Business that is in accordance with the standards and specifications set forth by us in the Operations Manuals or other documents provided by, or approved by, us as they presently exist or exist in the future; and (2) procure the equipment from suppliers or vendors previously approved in writing by us.

11. The first sentence in Section **5.1, "Initial Franchise Fee,"** is hereby deleted and replaced with the following: "The initial franchise fee for the newly constructed *NrGize Lifestyle Cafe* located within an LA Fitness health club is Fifteen Thousand Dollars (\$15,000) ("Initial Franchise Fee")."

12. Section **5.2, "Royalty Fee and Surcharge,"** is hereby deleted in its entirety and replaced with the following:

5.2 Royalty Fee and Surcharge.

[For the period of time commencing on the later of the date that you sign this Agreement or the date the store opens to the public, and for the duration of the Term, you must pay to us a monthly royalty fee equal to

_____ Dollars (\$_____) ("Royalty Fee"). The fixed monthly Royalty Fee may, in our sole discretion, be increased annually on January 1st and compounded at a rate of three percent (3%). In our sole discretion, we may charge, in addition to the Royalty Fee, a surcharge of up to Ten Dollars (\$10) per week if your franchised business is located in a state that imposed additional reporting requirements on a franchisor ("Surcharge"). The Royalty Fee and applicable Surcharge shall be due and payable on the 15th calendar day of each month.]

[OR]

[In the event we do not have current card swipe information from LA Fitness, including, but not limited to, newly constructed LA Fitness locations, your Royalty Fee will be calculated as follows:

(i) for the period of time commencing on the later of the date that you sign this Agreement or the date the store opens to the public, and for the first twelve (12) months of the Term, you must pay to us a monthly royalty fee equal to Seven Hundred Fifty Dollars (\$750) ("Royalty Fee"); and (ii) for the period of time commencing on the later of the first day of the thirteenth (13th) month after you sign this Agreement or the date the store opens to the public, and for the duration of the Term, you must pay to us a monthly royalty fee based upon the Adjusted Average Number of Daily Member Check-ins as follows:

<u>Adj. Avg. Daily Check-Ins</u>	<u>Fixed Royalty Fee</u>
0 - 800	\$300
801 – 1400	\$750
1401 – 2000	\$1,000
2001 and up	\$1,250

In the event that the Adjusted Average Number of Daily Member Check-ins for the first twelve (12) months is between 0 – 800, you will not be reimbursed the difference in the Fixed Royalty Fee. Also, in the event of a unilateral termination of this Agreement by you, or in the event of a termination arising from or related to your default under this Agreement, we shall be entitled to, in addition to any sums owing through termination, and any other sums allowed by law, the average of the prior six (6) months' (or if less than six

(6) months, the Term) royalties multiplied by the remaining number of months on the initial Term of this Agreement, or any extension thereof, less a discount of eight percent (8%). The fixed monthly Royalty Fee may, in our sole discretion, be increased annually on January 1st and compounded at a rate of three percent (3%). The Royalty Fee is due and payable on the 15th calendar day of each month.]

You are required to report Gross Sales to our designated accounting office via the Internet at <http://franchisee.NrGizejuice.com> as set forth in the Operations Manuals, by the close of business on the third day of each month for the preceding month. You shall be required to establish a Depository Account at the time you execute this Agreement as set

forth in Section 5.6 below. Payment of the Royalty Fees and all other fees due under this Agreement to us shall be made via electronic transfer of funds from the Depository Account described in Section 5.6 below. To accomplish this electronic transfer of funds from the Depository Account, you must complete, sign and deliver to us a current Electronic Funds Transfer (EFT) Authorization form.

As used in this Agreement, “Gross Sales” means all sales, money or things of value, received or receivable, directly or indirectly, by you on account of the Franchised Business, less applicable sales taxes and any documented refunds, credits and allowances given by you to customers in accordance with the Operations Manuals, but without deducting any of your costs and expenses.

13. In Section **5.3, “Advertising Fee,”** the word “weekly” is hereby deleted and replaced with the word “monthly”.

14. In Section **5.3, “Advertising Fee,”** the phrase “One half of one percent (0.5%)” is hereby deleted and replaced with the phrase “Zero percent (0%).”

15. Section **5.6, “Depository Account; Payment Procedures,”** is hereby deleted in its entirety and replaced with the following:

5.6 Depository Account; Payment Procedures.

You are required to establish, at the time you execute this Agreement, and maintain a depository account (“Depository Account”) at a bank or other federally insured financial institution (“Depository”). You will initially deposit Three Thousand Dollars (\$3,000) into the Depository Account and are required to maintain a balance of Three Thousand Dollars (\$3,000) in the Depository Account at all times by replenishing the Depository Account to Three Thousand Dollars (\$3,000) after we make withdrawals. On the third (3rd) calendar day of each month, you must submit a report to us regarding the monthly period which ended on the last calendar day of the preceding month, including details on Gross Sales and other statistical data as specified from time to time by us or the Operations Manuals. We will withdraw funds electronically on the fifteenth (15th) calendar day of each month from the Depository Account. The withdrawals are based upon the figures you report and constitute the Royalty Fee and Advertising Fee as described in Sections 5.2 and 5.3. If you do not submit a report by the third (3rd) calendar day of any month, we may estimate the Royalty Fee and Advertising Fee based upon prior reports and withdraw the estimated amounts up to the entire Three Thousand Dollars (\$3,000). We will return any overage within thirty (30) days of our receipt of your report(s). We shall not be responsible to you for any interest charges for any overage collected due to your failure to timely report your sales. Additionally, we shall not be responsible for any bank service charges incurred by you which result in the withdrawal of funds from your Depository Account. You shall instruct the Depository to disburse each month to our designated

bank, via electronic funds transfer by the close of business on the fifteenth (15th) calendar day of each month (or (i) the preceding banking business day if the fifteenth (15th) calendar day is a bank holiday, or (ii) the next business day if the fifteenth (15th) calendar day is a Saturday or Sunday), the monthly Royalty Fee and Advertising Fee and other fees due for that month, which month shall end on the last calendar day of the preceding month. Under no circumstances shall such access to the Depository Account be deemed control or joint control of the Depository Account by us. You shall pay us Fifty Dollars (\$50) for each electronic funds transfer attempted from your Depository Account pursuant to this *Section 5.6* that is returned for non-sufficient funds. You shall also reimburse us for all extraordinary costs incurred by us in collecting or attempting to collect funds due us from the Depository Account (for example, without limitation, charges for non-sufficient funds, uncollected funds or other discrepancies in deposits or maintenance of the Depository Account balance in accordance with the terms hereof). The Depository Account shall be established and maintained solely for the purposes set forth in this *Section 5.6* and the Operations Manuals.

16. Section **5.7, "Lease Review Fee,"** is hereby deleted in its entirety and replaced with the following: **"5.7 Not Applicable."**

17. Section **5.8, "Lease Guarantee Fee,"** is hereby deleted in its entirety and replaced with the following:

5.8 Construction Fee; Construction and Equipment Costs.

The Initial Deposit (see Section 4.a of the SUFLA), Reservation Fee (see Section 4.b of the SUFLA), exact Construction Fee, Access Fee, all Leasehold Improvements, Construction Costs, and Equipment Costs for us to build out and completely equip your *NrGize Lifestyle Cafe* at the Location are collectively referred to as the "NrGize Turn-Key Fees." The total NrGize Turn-Key Fees are \$ _____ Dollars (\$___). You will pay us or our designated affiliate the full Initial Franchise Fee of Fifteen Thousand Dollars (\$15,000) plus the full amount of the NrGize Turn-Key Fees simultaneously with your execution of this Agreement. No portion of the NrGize Turn-Key Fees is refundable under any circumstances. Notwithstanding the foregoing, pursuant to the SUFLA, if you perform all obligations under the SUFLA, then thirty (30) days after the expiration or termination of the SUFLA, we shall refund the Reservation Fee to you, without payment of interest. The Reservation Fee shall be applied against the cost of any damages at the Location as a result of negligence, intentional vandalism or theft. If the cost of the repairs to the damages exceeds the amount of the Reservation Fee being held, you will not receive a refund and will be responsible to pay the difference.

The projected opening date is _____, 20____
("Projected Opening Date"). The Projected Opening Date may

change depending on various factors including, but not limited to, union vs. non-union labor, the availability and delivery of construction materials and equipment, timing in obtaining applicable permits, the availability and delivery of equipment, and the delivery of the space by LA Fitness. You hereby acknowledge and agree to the following: (i) the Projected Opening Date is our good faith estimate; (ii) we are not liable in any manner whatsoever to you for any delays or changes to the Projected Opening Date (including, but not limited to, no liability by us for any claims by you for incidental or consequential costs and damages incurred by you due to the delay); and (iii) any change to the Projected Opening Date will in no way affect the validity or enforcement of the terms and conditions of this Agreement.

18. In Section **5.17, "Late Report, Default and Non-Sufficient Funds Fees, Breaching Royalties and Collection Costs and Expenses,"** the word "weekly" is hereby deleted and replaced with the word "monthly".

19. The first sentence of the second paragraph in Section **5.18, "Audit Fees,"** is hereby deleted and replaced with the following:

You agree that we may have access to any computers utilized by you for such purposes and will have the ability at all times via modem to obtain daily, weekly, and monthly sales reports and other financial records that the POS System provides.

20. **ARTICLE 8, "RELATIONSHIP OF THE PARTIES AND INDEMNIFICATION,"** is hereby amended to add the following Section **8.5, "Indemnification of LA Fitness,"** after Section **8.4, "Special Power of Attorney":**

8.5 Indemnification of LA Fitness.

To the extent applicable, you agree to indemnify and hold LA Fitness, its parent, subsidiaries and affiliates, and their respective stockholders, directors, officers, attorneys, employees, agents, successors and assignees harmless for, from and against any and all Claims, except for Claims successfully alleged to have resulted solely from LA Fitness' negligence or willful misconduct. Notwithstanding the foregoing, LA Fitness will have the right, at its option, to defend any such Claim, but you must reimburse LA Fitness upon demand for the costs of such defense.

21. Paragraph a. in Section **9.2, "Authorized Products and Services,"** is hereby deleted and replaced with the following:

a. You must limit your business at the Location as specified in the Operations Manual, and agree that you will not, without our prior written approval, offer any menu items, beverages, products or services that are not authorized by us for *NrGize Lifestyle Cafe* franchise owners, as set forth in the Operations Manual. Any related or unrelated business not provided for in the Operations Manual must have our prior written approval. At all times, your

operation of the Franchised Business shall be subject to the Master Facility License Agreement (including Exhibit A thereto) and the SUFLA.

22. The first sentence in the third paragraph in Section **9.5, "Maintenance of Insurance,"** is hereby deleted and replaced with the following: "Such insurance policies must be issued by insurance carriers having an A.M. Best's financial strength rating of at least AAA."

23. All liability insurance policies required under Section **9.5, "Maintenance of Insurance,"** must also name "Fitness International, LLC, their subsidiaries, affiliates, officers, directors, and employees, 3161 Michelson Dr., Suite 600, Irvine, CA 92612" as an additional insured, along with the landlord for the location.

24. Paragraph a. in Section **11.1, "Maintenance of Records,"** is hereby deleted and replaced with the following:

a. to submit to us on a Franchisor-approved form, on or before the close of business on the third (3rd) day of each month, a signed statement of monthly Gross Sales for the preceding month, which month ends on the last calendar day of the month;

25. Paragraph e.3. in Section **11.1, "Maintenance of Records,"** is hereby deleted and replaced with the following:

3. cash disbursements journal and monthly payroll register;

26. Paragraph e.9. in Section **11.1, "Maintenance of Records,"** is hereby deleted in its entirety and replaced with the following:

9. daily production, throwaway and finishing records and monthly inventories;

27. In Section **12.6, "Restrictions on Security Interest and Subfranchising,"** the word "rent" is hereby deleted and replaced with the words "access related fees".

28. In the first paragraph in **ARTICLE 13, "RENEWAL OF FRANCHISE,"** the phrase "ten (10) years" is hereby deleted and replaced with the phrase "five (5) years."

29. Paragraph d. in **ARTICLE 13, "RENEWAL OF FRANCHISE,"** is hereby deleted in its entirety and replaced with the following:

d. You must have entered into a new facility license agreement for your *NrGize Lifestyle Cafe* restaurant for a term co- extensive with the term of the renewal, or you must have secured and developed a suitable substitute location that meets our then-current minimum site requirements (such confirmation will be provided to you by us in writing);

30. Section **14.1, "Default; Termination,"** is hereby amended to add the following subsection (xvii) after subsection (xvi) in paragraph a.:

(xvii) If you fail to pay, perform, observe or comply with any of your duties and obligations under this Agreement or the SUFLA,

including failure to pay: (i) any sum due us under this Agreement (including, but not limited to, the Initial Franchise Fee, NrGize Invoice Fees (including any required installment payments of the NrGize Invoice Fees), Royalty Fees and Advertising Fees); or (ii) any sum to Kahala Holdings, L.L.C under the SUFLA; or if you fail to carry out in all respects your obligations under any equipment agreement, promissory note, vender account, conditional sales contract or other contract materially affecting the Franchised Business, to which you are a party or by which you are bound, whether or not we are a party thereto; or failure to maintain and utilize the security cameras, devices and applicable security software, if any, that are a part of the POS System as designated in the Operations Manuals.

31. Paragraph b., "Cross-default," in Section **14.1, "Default; Termination,"** is hereby deleted and replaced with the following:

b. Cross default. A default by you under this Agreement will be deemed a default of all agreements or SUFLAs between: (i) you and your principals in his or her individual capacity or any other entity in which your principals are owners, members, managers, shareholders or partners (individually and collectively, "Franchisee Entity"); and (ii) us or any of our affiliates or predecessors (individually and collectively, "Franchisor Entity"). A Franchisee Entity's default of any other agreement, legal instrument or other document between the Franchisee Entity and a Franchisor Entity will be deemed a default under this Agreement. A default by any guarantor of your obligations under this Agreement or any agreement, legal instrument or document between a Franchisee Entity and a Franchisor Entity will be deemed a default of this Agreement

32. Paragraph d., "Cross-termination," in Section **14.1, "Default; Termination,"** is hereby deleted and replaced with the following:

d. Cross-termination: If this Agreement is terminated as a result of your default of this Agreement or any other agreement related to the Franchised Business, including any SUFLA, we may, at our option, elect to terminate any or all other agreements, legal instruments or documents between a Franchisee Entity and a Franchisor Entity. If any agreement, legal instrument or document between a Franchisee Entity and a Franchisor Entity is terminated as a result of a default by the Franchisee Entity, we may, at our sole discretion, elect to terminate this Agreement. It is agreed that an incurable or uncured default under this Agreement or any other agreement, legal instrument or document between a Franchisee Entity and a Franchisor Entity will be grounds for termination of this Agreement or any other agreement, legal instrument or document, including any SUFLA, between a Franchisee Entity and a Franchisor Entity, without additional notice or opportunity to cure.

33. The following paragraph e. is hereby added after the end of paragraph d. in Section **14.1, "Default; Termination,"**:

e. If the SUFLA for the Location or the Master Facility License Agreement is terminated or expires, this Agreement will terminate effective immediately upon notice.

34. Paragraph b. in Section **14.2**, “**Opportunity to Cure**,” is hereby deleted in its entirety and replaced with the following:

b. Seven Day Cure Period - A seven (7) day cure period will apply if you fail, refuse, or neglect to pay when due to us any monies owing to us or our affiliate(s) (including, but not limited to, the Royalty Fee, Advertising Fee and amounts due under the SUFLA), or to any Advertising Fund, or if you fail to maintain the insurance coverage set forth in this Agreement, or if you fail to maintain and utilize the security cameras, devices and applicable security software, if any, that are a part of the POS System;

35. Paragraph f. in Section **14.2**, “**Opportunity to Cure**,” is hereby deleted in its entirety and replaced with the following:

f. No Cure Period - No cure will be available: (1) if you fail to pay the Initial Franchise Fee when due in accordance with *Section 5.1* or all or any portion of the NrGize Turn-Key Fees when due in accordance with *Section 5.8*; (2) if you are in default of *Sections 3.1, 14.1a.(i), 14.1.(iii), 14.1.(vi), 14.1.(vii), 14.1a.(viii), 14.1a.(xiv) 14.1a.(xv), 14.6* or *9.4*; or (3) if you intentionally underreport monthly Gross Sales, falsify financial data, fail to promptly provide upon our request financial data and records specified in this Agreement, or otherwise commit an act of fraud with respect to your rights or obligations under this Agreement; (4) if you repeatedly fail to comply with the provisions of this Agreement, whether or not subsequently cured; (5) if you, having twice previously cured a default or breach of this Agreement, commit the same breach or default again; or (6) if you made any false representations and warranties under *Sections 17.1f., 17.1g., 17.1m. or 17.1n.*;

36. The following paragraph h. is hereby added to Section **14.5**, “**Effect of Termination or Expiration**,” after the end of paragraph g.:

h. Immediately vacate the Location is operated and otherwise comply with all applicable requirements in the SUFLA. When vacating the Location, all machinery, equipment, furniture, fixtures, improvements, tools, and signs must be left at the Location as they will immediately be owned by and become the property of LA Fitness pursuant to the Bill of Sale that must be signed simultaneously with this Agreement.

37. Paragraph c. in Section **14.6**, “**Covenant Not to Compete; Conflicting Interests**,” is hereby deleted in its entirety and replaced with the following:

c. For purposes of this *Section 14.6*, “Competing Business”

means a business which is primarily engaged in the sale of smoothies, protein shakes, meal replacement shakes, chillers, and all variations thereof, within a geographical area consisting of:

(1) during the Term, anywhere else; and (2) after abandonment, expiration or termination of this Agreement, within a ten (10) mile radius from the Location, location of any LA Fitness health club, or location of any *NrGize Lifestyle Cafe* restaurant of ours, our third-party licensees or our third-party franchisees. The terms "*NrGize Lifestyle Cafe* restaurant" and "*NrGize Lifestyle Cafe* outlet" include not only the restaurants and outlets now in existence, but also those established at a later date. The term of this covenant will be extended by any time consumed in litigation to enforce it in both trial and appellate courts. If a court of competent jurisdiction determines that the restrictions in this paragraph are excessive in time, geographic scope, or otherwise, the court may reduce the restriction to the level that provides the maximum restriction allowed by law.

38. Section **16.12, "No Third-Party Beneficiaries,"** is hereby deleted in its entirety and replaced with the following:

16.12 No Third-Party Beneficiaries.

Except as set forth in *Section 8*, this Agreement is not intended to benefit any other person or entity except the named parties hereto and no other person or entity shall be entitled to any rights hereunder by virtue of so-called "third party beneficiary rights" or otherwise.

39. In paragraph k. in Section **17.1, "Certain Representations and Warranties of Franchisee,"** the words "rent payments due under lease obligations" are hereby deleted and replaced with the words "access fees."

40. The following paragraph o. is hereby added to the end of Section **17.1, "Certain Representations and Warranties of Franchisee,"** after paragraph k.:

o. Neither we nor Kahala Holdings, LLC shall have any liability to you for any delays in the construction, equipping, and ultimate delivery to you of the completely built-out *NrGize Lifestyle Cafe* restaurant covered by this Agreement.

41. Paragraph g. in Section **17.3, "Acknowledgements of Franchisee,"** is hereby deleted in its entirety and replaced with the following:

g. You acknowledge that this is a "turn-key" franchise opportunity, and as detailed in *Section 2.3*, we, or our affiliate(s), will be overseeing and managing the on-site construction process and equipping of your *NrGize Lifestyle Cafe* Restaurant at the Location. You further acknowledge, as detailed in *Section 5.8*, you will pay us or our designated affiliate the full Initial Franchise Fee plus the full amount of the *NrGize Turn-Key Fees* simultaneously with your execution of this Agreement, and no portion of the *NrGize Turn-Key Fees* is refundable under any circumstances.

Notwithstanding the foregoing, pursuant to the SUFLA, if you perform all obligations under the SUFLA, then thirty (30) days after the expiration or termination of the SUFLA, we shall refund the Reservation Fee to you, without payment of interest. The Reservation Fee shall be applied against the cost of any damages at the Location as a result of negligence, intentional vandalism or theft. If the cost of the repairs to the damages exceeds the amount of the Reservation Fee being held, you will not receive a refund and will be responsible to pay the difference.

Franchisee Initials _____/_____

42. The following paragraphs m., n. and o. are hereby added to the end of Section 17.3, **"Acknowledgements of Franchisee,"** after paragraph l.:

m. You acknowledge that, pursuant to the Master Facility License Agreement, LA Fitness granted certain rights to the Location to Kahala Holdings, LLC and that, pursuant to the SUFLA, Kahala Holdings, LLC in turn granted certain rights to you. You further acknowledge that, if the Master Facility License Agreement is terminated for any reason, the SUFLA will terminate and you must immediately vacate the Location.

Franchisee Initials _____/_____

n. You acknowledge that, pursuant to the Master Facility License Agreement, LA Fitness may cease operating any LA Fitness health club at any time and, if it does so, the SUFLA will terminate. You further acknowledge that, in that event, you must immediately vacate the Location. When vacating the Location, all machinery, equipment, furniture, fixtures, improvements, tools, and signs must be left at the Location as they will immediately be owned by and become the property of LA Fitness pursuant to the Bill of Sale that is attached as an amendment to the Franchise Agreement and must be signed simultaneously with the Franchise Agreement.

Franchisee Initials _____/_____

o. You acknowledge that the Master Facility License Agreement may restrict your rights as an *NrGize* franchisee. You hereby expressly acknowledge that you have carefully reviewed the Master Facility License Agreement at least five (5) business days prior to signing this Agreement (a copy of the Master Facility License Agreement is attached as Exhibit D to the SUFLA).

Franchisee Initials _____/_____

43. The following applies only for franchisees that are Maryland residents and franchisees whose franchises will be operated in Maryland: 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.

44. Except as set forth in this [First] Amendment, the terms and provisions of the Agreement shall remain in full force and effect.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, has duly executed and delivered this [First] Amendment as of the [First] Amendment Effective Date.

FRANCHISOR: KAHALA FRANCHISING, L.L.C., an Arizona
limited liability company

By: [Name, Title]

FRANCHISEE: _____, a(n) _____

By: [Name, Title]

By: [Name, Title]

FRANCHISOR: KAHALA FRANCHISING, L.L.C., an Arizona
limited liability company

By: [Name, Title]

FRANCHISEE: _____, a(n) _____

By: [Name, Title]

By: [Name, Title]

EXHIBIT H-2

TO THE FRANCHISE DISCLOSURE DOCUMENT

Amendment to Franchise Agreement

(for stores to be located within future LA Fitness Health Clubs: newly-constructed stores only)

[FIRST] AMENDMENT TO FRANCHISE AGREEMENT

[for stores to be located within future LA Fitness Health Clubs: newly-constructed stores only]

This [FIRST] AMENDMENT TO FRANCHISE AGREEMENT (“[First] Amendment”) dated _____, 20 (“[First] Amendment Effective Date”), to the Franchise Agreement dated _____, 20 for an NrGize Lifestyle Cafe™ location (“Agreement”) by and between Kahala Franchising, L.L.C., an Arizona limited liability company (“Franchisor”) and _____ (“Franchisee”), is entered into by such parties to amend the Agreement as set forth in this [First] Amendment. To the extent this [First] Amendment contains terms and conditions that differ from those contained in the Agreement, this [First] Amendment shall control. The parties agree that a concept or principle covered in this [First] Amendment shall apply and be incorporated into all other provisions of the Agreement in which the concept or principle is also applicable, notwithstanding the absence of any specific cross reference thereto. All capitalized terms not otherwise defined in this [First] Amendment will have the same meanings ascribed to such terms in the Agreement.

1. The following paragraph G. is hereby added to the end of the **RECITALS** section after paragraph F.:

G. Kahala Holdings, LLC, an affiliate of ours, and FITNESS INTERNATIONAL, LLC (formerly L.A. Fitness International, LLC), a California limited liability company (“LA Fitness”) entered into a Master Facility License Agreement, as amended (collectively, “Master Facility License Agreement”) pursuant to which Kahala Holdings, LLC can provide or we can grant third parties the right to provide certain services at the LA Fitness health clubs. We are currently issuing franchises to others for the operation of outlets in LA Fitness health clubs.

2. Section **1.3**, “**Term of Agreement**,” is hereby deleted in its entirety and replaced with the following:

1.3 Term of Agreement.

The term of this Agreement will commence on the Effective Date and will terminate on the earlier of the following: (i) the expiration of the term of the SUFLA (as defined in *Section 2.2*) for the Location, including any renewal options thereto; (ii) the termination or expiration of the Master Facility License Agreement; or (iii) the date that LA Fitness ceases operating a health club at the location identified in *Section 1.1*, unless terminated earlier in accordance with *Article 14* or any other provisions of this Agreement, renewed in accordance with *Article 13*, or transferred in accordance with *Article 12* (“Term”).

3. Section **2.1**, “**Location Selection Procedures**,” is hereby deleted in its entirety and replaced with the following:

Location Selection Procedures.

You must select an LA Fitness health club Location approved by us in writing, for the *NrGize Lifestyle Cafe* restaurant within twenty-four (24) months after the date of this Agreement. If an acceptable Location for your restaurant in an LA Fitness health club is not secured within twenty-four (24) months after the date of this Agreement, then we may terminate this Agreement by giving you written notice to that effect. Any obligations for us to refund to you all or any part of your Initial Franchise Fee (as defined in *Section 5.1*) are set forth more fully below in *Section 5.8*.

4. Section **2.2, "Lease and Purchase Approval,"** is hereby deleted in its entirety and replaced with the following:

2.1 Facility License Agreements.

Once an acceptable LA Fitness club Location has been identified to locate your *NrGize Lifestyle Cafe* restaurant, you will enter into a Single-Unit Facility License Agreement ("SUFLA") with Kahala Holdings, LLC which will grant you access to the Location. Notwithstanding anything to the contrary contained in this Agreement, you acknowledge that the operation of the Franchised Business at the Location is subject to all terms and conditions in the Master Facility License Agreement and the SUFLA.

5. Section **2.3, "Construction,"** is hereby deleted in its entirety and replaced with the following:

2.2 Construction.

a. This is a "turnkey" franchise purchase, which is conditioned upon LA Fitness obtaining a construction site to build and achieve "Substantial Completion," as defined herein, of a new LA Fitness health club Location which will incorporate a new *NrGize Lifestyle Cafe* restaurant. "Substantial Completion" is defined as: "When the LA Fitness health club Location, as a whole, is first used, is first available for use, or after final inspection by the governmental body which issued the building permit." We will only oversee and manage aspects of the on-site construction and equipping of your *NrGize Lifestyle Cafe* restaurant to assure it meets our and LA Fitness' specifications and standards. We will not have any involvement with the on-site construction of the LA Fitness facility in general.

b. You acknowledge that the design and appearance of the *NrGize Lifestyle Cafe* restaurant is part of the System, and that uniformity is essential to the success of the System. Therefore, you agree that after the restaurant has been constructed, you will not make any material changes to the building plan or design or its appearance without our prior written consent, and you will, at your expense, maintain the interior and exterior decor of the restaurant

in a first class condition and in such manner as we may reasonably prescribe from time to time. In addition to any remodeling required by us upon the renewal of this Agreement and upon the assignment of the Franchised Business, as set forth in *Sections 12 and 13*, respectively, you will, upon thirty (30) days written notice from us, and at your sole cost and expense, remodel and make all improvements and alterations in and to your *NrGize Lifestyle Cafe* restaurant as reasonably determined by us to reflect the then-current *NrGize Lifestyle Cafe* specifications, standards, format, image and appearance.

6. Section **2.4, “Signage,”** is hereby deleted in its entirety and replaced with the following:

2.3 Signage.

You shall prominently display in a sign easily visible to consumers at the Franchised Business, the following words: “Each NrGize Lifestyle Cafe Restaurant is Independently Owned and Operated”.

7. Section **2.5, “Relocation,”** is hereby deleted in its entirety and replaced with the following: **“2.5 Not Applicable.”**

8. Section **2.6, “Restricted Use of Restaurant Location,”** shall be deleted in its entirety and replaced with the following:

2.6 Restricted Use of Restaurant Location.

You acknowledge that the SUFLA does not grant you a possessory interest to the Location. You shall not wholly or partially sublet, transfer, assign, or otherwise dispose of the Location without our prior written consent. The Location may be used only for the operation of an *NrGize Lifestyle Cafe* restaurant in compliance with this Agreement, the SUFLA, and the Operations Manuals. You shall not conduct other businesses or activities at the Location without our prior written consent.

9. Paragraph c. in Section **3.1, “Commencing Operations,”** is hereby deleted and replaced with the following: “c. Not Applicable.”

10. Section **3.3, “Fixtures, Furnishings, and Equipment,”** is hereby deleted in its entirety and replaced with the following:

3.3 Equipment.

Unless otherwise approved by us in writing, and if applicable, you will: (1) acquire equipment to be used in the operation of the *NrGize Lifestyle Cafe* Franchised Business that is in accordance with the standards and specifications set forth by us in the Operations Manuals or other documents provided by, or approved by, us as they presently exist or exist in the future; and (2) procure the equipment from suppliers or vendors previously approved in writing by us.”

11. The first sentence in Section 5.1, “**Initial Franchise Fee**,” is hereby deleted and replaced with the following:

The initial franchise fee for the newly constructed *NrGize Lifestyle Cafe* located within an LA Fitness health club shall be Fifteen Thousand Dollars (\$15,000), made payable as follows: Ten Thousand Dollars (\$10,000) upon execution of the Agreement (“Execution Payment”), and Five Thousand Dollars (\$5,000) no later than sixty (60) days prior to the Substantial Completion of the LA Fitness health club Location where the Franchised Business will be located (“Final Payment”).

12. Section 5.2, “**Royalty Fee and Surcharge**,” is hereby deleted in its entirety and replaced with the following:

5.2 Royalty Fee and Surcharge.

[For the period of time commencing on the later of the date that you sign this Agreement or the date the store opens to the public, and for the duration of the Term of this Agreement, you must pay to us a monthly royalty fee equal to _____ Dollars (\$.) (“Royalty Fee”). The fixed monthly Royalty Fee may, in our sole discretion, be increased annually on January 1st and compounded at a rate of three percent (3%). In our sole discretion, we may charge, in addition to the Royalty Fee, a surcharge of up to Ten Dollars (\$10) per week if your franchised business is located in a state that imposed additional reporting requirements on a franchisor (“Surcharge”). The Royalty Fee and applicable Surcharge shall be due and payable on the 15th calendar day of each month.]

[OR]

[In the event we do not have current card swipe information from LA Fitness, including, but not limited to, newly constructed LA Fitness locations, your Royalty Fee will be calculated as follows:

(i) for the period of time commencing on the later of the date that you sign this Agreement or the date the store opens to the public, and for the first twelve (12) months of this Agreement, you must pay to us a monthly royalty fee equal to Seven Hundred Fifty Dollars (\$750) (“Royalty Fee”); and (ii) for the period of time commencing on the later of the first day of the thirteenth (13th) month after you sign this Agreement or the date the store opens to the public, and for the duration of the Term of this Agreement, you must pay to us a monthly royalty fee based upon the Adjusted Average Number of Daily Member Check-ins as follows:

<u>Adj. Avg. Daily Check-Ins</u>	<u>Fixed Royalty Fee</u>
0 - 800	\$300
801 – 1400	\$750

1401 – 2000	\$1,000
2001 and up	\$1,250

In the event that the Adjusted Average Number of Daily Member Check-ins for the first twelve (12) months is between 0 – 800, you will not be reimbursed the difference in the Fixed Royalty Fee. Also, in the event of a unilateral termination of this Agreement by you, or in the event of a termination arising from or related to your default under this Agreement, we shall be entitled to, in addition to any sums owing through termination, and any other sums allowed by law, the average of the prior six (6) months' (or if less than six

(6) months, the Term) royalties multiplied by the remaining number of months on the initial Term of this Agreement, or any extension thereof, less a discount of eight percent (8%). The fixed monthly Royalty Fee may, in our sole discretion, be increased annually on January 1st and compounded at a rate of three percent (3%). The Royalty Fee is due and payable on the 15th calendar day of each month.]

You are required to report Gross Sales to our designated accounting office via the Internet at <http://franchisee.NrGizejuice.com> as set forth in the Operations Manuals, by the close of business on the third day of each month for the preceding month. You shall be required to establish a Depository Account at the time you execute this Agreement as set forth in Section 5.4 below. Payment of the Royalty Fees and all other fees due under this Agreement to us shall be made via electronic transfer of funds from the Depository Account described in Section 5.4 below. To accomplish this electronic transfer of funds from the Depository Account, you must complete, sign and deliver to us a current Electronic Funds Transfer (EFT) Authorization form.

As used in this Agreement, "Gross Sales" means all sales, money or things of value, received or receivable, directly or indirectly, by you on account of the Franchised Business, less applicable sales taxes and any documented refunds, credits and allowances given by you to customers in accordance with the Operations Manuals, but without deducting any of your costs and expenses.

13. In Section 5.3, "**Advertising Fee**," the word "weekly" is hereby deleted and replaced with the word "monthly".

14. In Section 5.3, "**Advertising Fee**," the phrase "One half of one percent (0.5%)" is hereby deleted and replaced with the phrase "Zero percent (0%)."

15. Section 5.6, "**Depository Account; Payment Procedures**," is hereby deleted in its entirety and replaced with the following:

5.6 Depository Account; Payment Procedures.

You are required to establish, at the time you execute this Agreement, and maintain a depository account ("Depository Account") at a bank or other federally insured financial institution ("Depository"). You will initially deposit Three Thousand Dollars

(\$3,000) into the Depository Account and are required to maintain a balance of Three Thousand Dollars (\$3,000) in the Depository Account at all times by replenishing the Depository Account to Three Thousand Dollars (\$3,000) after we make withdrawals. On the third (3rd) calendar day of each month, you must submit a report to us regarding the monthly period which ended on the last calendar day of the preceding month, including details on Gross Sales and other statistical data as specified from time to time by us or the Operations Manuals. We will withdraw funds electronically on the fifteenth (15th) calendar day of each month from the Depository Account. The withdrawals are based upon the figures you report and constitute the Royalty Fee and Advertising Fee as described in *Sections 5.2 and 5.3*. If you do not submit a report by the third (3rd) calendar day of any month, we may estimate the Royalty Fee and Advertising Fee based upon prior reports and withdraw the estimated amounts up to the entire Three Thousand Dollars (\$3,000). We will return any overage within thirty (30) days of our receipt of your report(s). We shall not be responsible to you for any interest charges for any overage collected due to your failure to timely report your sales. Additionally, we shall not be responsible for any bank service charges incurred by you which result in the withdrawal of funds from your Depository Account. You shall instruct the Depository to disburse each month to our designated bank, via electronic funds transfer by the close of business on the fifteenth (15th) calendar day of each month (or (i) the preceding banking business day if the fifteenth (15th) calendar day is a bank holiday, or (ii) the next business day if the fifteenth (15th) calendar day is a Saturday or Sunday), the monthly Royalty Fee and Advertising Fee and other fees due for that month, which month shall end on the last calendar day of the preceding month. Under no circumstances shall such access to the Depository Account be deemed control or joint control of the Depository Account by us. You shall pay us Fifty Dollars (\$50) for each electronic funds transfer attempted from your Depository Account pursuant to this *Section 5.6* that is returned for non-sufficient funds. You shall also reimburse us for all extraordinary costs incurred by us in collecting or attempting to collect funds due us from the Depository Account (for example, without limitation, charges for non-sufficient funds, uncollected funds or other discrepancies in deposits or maintenance of the Depository Account balance in accordance with the terms hereof). The Depository Account shall be established and maintained solely for the purposes set forth in this *Section 5.6* and the Operations Manuals.

16. Section 5.7, "**Lease Review Fee**," is hereby deleted in its entirety and replaced with the following: "**5.7 Not Applicable**."

17. Section 5.8, "**Lease Guarantee Fee**," is hereby deleted in its entirety and replaced with the following:

5.8 Construction Fee; Construction and Equipment Costs.

The Initial Deposit (see Section 4.a of the SUFLA), Reservation Fee (see Section 4.b of the SUFLA), exact Construction Fee, Access Fee, all Leasehold Improvements, Construction Costs, and Equipment Costs for us to build out and completely equip your *NrGize Lifestyle Cafe* at the Location are collectively referred to as the "NrGize Turn-Key Fees." The total NrGize Turn-Key Fees range from Ten Thousand Dollars (\$10,000) to One Hundred Fifty Thousand Dollars (\$150,000), and will depend upon a variety of factors, including but not limited to the amounts of the above mentioned Fees, Costs, and Improvements, each of which shall be documented to you in detail prior to the Substantial Completion of the LA Fitness health club Location where the Franchised Business will be located. You will pay us or our designated affiliate Ten Thousand Dollars (\$10,000) of the Initial Franchise Fee simultaneously with your execution of this Agreement, and you will pay the remaining Five Thousand Dollars (\$5,000) of the Initial Franchise Fee to us or our designated affiliate no later than sixty (60) days prior to the Substantial Completion of the LA Fitness health club location where the Franchised Business will be located. You shall pay to us or our designated affiliate the full amount of the NrGize Turn-Key Fees no later than sixty (60) days prior to the Substantial Completion of the LA Fitness health club Location where the Franchised Business will be located. In no event shall Franchisee be eligible for any refund until after eighteen (18) months from the Effective Date of this Agreement. Should LA Fitness not obtain Substantial Completion for the LA Fitness health club Location where the Franchised Business will be located, or LA Fitness loses a potential construction site, we will work with you to find another suitable location within one hundred eighty (180) days of notice of either of these issues. If no new site is found, Franchisee will be entitled to a refund of their Ten Thousand Dollar (\$10,000) Execution Payment of the Initial Franchise Fee no earlier than twenty-four (24) months after the Effective Date of this Agreement. No portion of the NrGize Turn- Key Fees is refundable under any circumstances. Notwithstanding the foregoing, pursuant to the SUFLA, if you perform all obligations under the SUFLA, then thirty (30) days after the expiration or termination of the SUFLA, we shall refund the Reservation Fee to you, without payment of interest. The Reservation Fee shall be applied against the cost of any damages at the Location as a result of negligence, intentional vandalism or theft. If the cost of the repairs to the damages exceeds the amount of the Reservation Fee being held, you will not receive a refund and will be responsible to pay the difference.

The projected opening date is _____, 20____
("Projected Opening Date"). The Projected Opening Date may change depending on various factors including, but not limited to, union vs. non-union labor, the availability and delivery of construction materials and equipment, timing in obtaining applicable permits, the availability and delivery of equipment, LA Fitness' construction timeline, and the delivery of the space by LA Fitness. You hereby acknowledge and agree to

the following:

(i) the Projected Opening Date is our good faith estimate; (ii) we are not liable in any manner whatsoever to you for any delays or changes to the Projected Opening Date (including, but not limited to, no liability by us for any claims by you for incidental or consequential costs and damages incurred by you due to the delay); and (iii) any change to the Projected Opening Date will in no way affect the validity or enforcement of the terms and conditions of this Agreement.

18. In Section **5.17, "Late Report, Default and Non-Sufficient Funds Fees, Breach Royalties and Collection Costs and Expenses,"** the word "weekly" is hereby deleted and replaced with the word "monthly".

19. The first sentence of the second paragraph in Section **5.18, "Audit Fees** is hereby deleted and replaced with the following:

You agree that we may have access to any computers utilized by you for such purposes and will have the ability at all times via modem to obtain daily, weekly, and monthly sales reports and other financial records that the POS System provides."

20. **ARTICLE 8, "RELATIONSHIP OF THE PARTIES AND INDEMNIFICATION,"** is hereby amended to add the following Section **8.5, "Indemnification of LA Fitness,"** after Section **8.4, "Special Power of Attorney":**

8.5 Indemnification of LA Fitness.

To the extent applicable, you agree to indemnify and hold LA Fitness, its parent, subsidiaries and affiliates, and their respective stockholders, directors, officers, attorneys, employees, agents, successors and assignees harmless for, from and against any and all Claims, except for Claims successfully alleged to have resulted solely from LA Fitness' negligence or willful misconduct. Notwithstanding the foregoing, LA Fitness will have the right, at its option, to defend any such Claim, but you must reimburse LA Fitness upon demand for the costs of such defense.

21. Paragraph a. in Section **9.2, "Authorized Products and Services,"** is hereby deleted in its entirety and replaced with the following:

a. You must limit your business at the Location as specified in the Operations Manuals, and agree that you will not, without our prior written approval, offer any menu items, beverages, products or services that are not authorized by us for *NrGize Lifestyle Cafe* franchise owners, as set forth in the Operations Manuals. Any related or unrelated business not provided for in the Operations Manuals must have our prior written approval. At all times, your operation of the Franchised Business shall be subject to the Master Facility License Agreement (including Exhibit A thereto) and the SUFLA.

22. The first sentence in the third paragraph in Section **9.5, "Maintenance of Insurance,"** is hereby deleted and replaced with the following: "Such insurance policies must be issued by insurance carriers having an A.M. Best's financial strength rating of at least AAA."

23. All liability insurance policies required under Section **9.5, "Maintenance of Insurance,"** must also name "Fitness International, LLC, their subsidiaries, affiliates, officers, directors, and employees, 3161 Michelson Dr., Suite 600, Irvine, CA 92612" as an additional insured, along with the landlord for the location.

24. Paragraph a. in Section **11.1, "Maintenance of Records,"** is hereby deleted and replaced with the following:

a. to submit to us on a Franchisor-approved form, on or before the close of business on the third (3rd) day of each month, a signed statement of monthly Gross Sales for the preceding month, which month ends on the last calendar day of the month.

25. Paragraph e.3. in Section **11.1, "Maintenance of Records,"** is hereby and replaced with the following:

3. cash disbursements journal and monthly payroll register;

26. Paragraph e.9. in Section **11.1, "Maintenance of Records,"** is hereby deleted and replaced with the following:

9. daily production, throwaway and finishing records and monthly inventories;

27. In Section **12.6, "Restrictions on Security Interest and Subfranchising,"** the word "rent" is hereby deleted and replaced with the words "access related fees".

28. In the first paragraph in **ARTICLE 13, "Renewal of Franchise,"** the phrase "ten (10) years" is hereby deleted and replaced with the phrase "five (5) years."

29. Paragraph d. in **ARTICLE 13, "Renewal of Franchise,"** is hereby deleted in its entirety and replaced with the following:

d. You must have entered into a new facility license agreement for your *NrGize Lifestyle Cafe* restaurant for a term co- extensive with the term of the renewal, or you must have secured and developed a suitable substitute location that meets our then-current minimum site requirements (such confirmation will be provided to you by us in writing);

30. Section 14.1, "**Default; Termination,**" is hereby deleted amended to add the following subsection (xvii) after subsection (xvi) in paragraph a.:

(xvii) If you fail to pay, perform, observe or comply with any of your duties and obligations under this Agreement or the SUFLA, including failure to pay: (i) any sum due us under this Agreement (including, but not limited to, the Initial Franchise Fee, NrGize Invoice Fees (including any required installment payments of the NrGize Invoice Fees), Royalty Fees and Advertising Fees); or (ii)

any sum to Kahala Holdings, L.L.C under the SUFLA; or if you fail to carry out in all respects your obligations under any equipment agreement, promissory note, vendor account, conditional sales contract or other contract materially affecting the Franchised Business, to which you are a party or by which you are bound, whether or not we are a party thereto; or failure to maintain and utilize the security cameras, devices and applicable security software, if any, that are a part of the POS System as designated in the Operations Manuals;

31. Paragraph b., "Cross-default," in Section **14.1**, "**Default; Termination**," is hereby deleted and replaced with the following:

b. Cross default. A default by you under this Agreement will be deemed a default of all agreements or SUFLAs between: (i) you and your principals in his or her individual capacity or any other entity in which your principals are owners, members, managers, shareholders or partners (individually and collectively, "Franchisee Entity"); and (ii) us or any of our affiliates or predecessors (individually and collectively, "Franchisor Entity"). A Franchisee Entity's default of any other agreement, legal instrument or other document between the Franchisee Entity and a Franchisor Entity will be deemed a default under this Agreement. A default by any guarantor of your obligations under this Agreement or any agreement, legal instrument or document between a Franchisee Entity and a Franchisor Entity will be deemed a default of this Agreement

32. Paragraph d., "Cross-termination," in Section **14.1**, "**Default; Termination**," is hereby deleted and replaced with the following:

d. Cross-termination: If this Agreement is terminated as a result of your default of this Agreement or any other agreement related to the Franchised Business, including any SUFLA, we may, at our option, elect to terminate any or all other agreements, legal instruments or documents between a Franchisee Entity and a Franchisor Entity. If any agreement, legal instrument or document between a Franchisee Entity and a Franchisor Entity is terminated as a result of a default by the Franchisee Entity, we may, at our sole discretion, elect to terminate this Agreement. It is agreed that an incurable or uncured default under this Agreement or any other agreement, legal instrument or document between a Franchisee Entity and a Franchisor Entity will be grounds for termination of this Agreement or any other agreement, legal instrument or document, including any SUFLA, between a Franchisee Entity and a Franchisor Entity, without additional notice or opportunity to cure.

33. The following paragraph e. is hereby added after the end of paragraph d. in Section **14.1**, "**Default; Termination**":

e. If the SUFLA for the Location or the Master Facility License Agreement is terminated or expires, this Agreement will terminate effective immediately upon notice;

34. Paragraph b. in Section **14.2, "Opportunity to Cure,"** is hereby deleted in its entirety and replaced with the following:

b. Seven Day Cure Period - A seven (7) day cure period will apply if you fail, refuse, or neglect to pay when due to us any monies owing to us or our affiliate(s) (including, but not limited to, the Royalty Fee, Advertising Fee and amounts due under the SUFLA), or to any Advertising Fund, or if you fail to maintain the insurance coverage set forth in this Agreement, or if you fail to maintain and utilize the security cameras, devices and applicable security software, if any, that are a part of the POS System;

35. Paragraph f. in Section **14.2, "Opportunity to Cure,"** is hereby deleted in its entirety and replaced with the following:

f. No Cure Period - No cure will be available: (1) if you fail to pay the Initial Franchise Fee when due in accordance with *Section 5.1* or all or any portion of the NrGize Turn-Key Fees when due in accordance with *Section 5.8*; (2) if you are in default of *Sections 3.1, 14.1a.(i), 14.1.(iii), 14.1.(vi), 14.1.(vii), 14.1a.(viii), 14.1a.(xiv) 14.1a.(xv), 14.6 or 9.4*; or (3) if you intentionally underreport monthly Gross Sales, falsify financial data, fail to promptly provide upon our request financial data and records specified in this Agreement, or otherwise commit an act of fraud with respect to your rights or obligations under this Agreement; (4) if you repeatedly fail to comply with the provisions of this Agreement, whether or not subsequently cured; (5) if you, having twice previously cured a default or breach of this Agreement, commit the same breach or default again; or (6) if you made any false representations and warranties under *Sections 17.1f., 17.1g., 17.1m. or 17.1n.*

36. The following paragraph h. is hereby added to Section **14.5, "Effect of Termination or Expiration,"** after the end of paragraph g.:

h. Immediately vacate the Location and otherwise comply with all applicable requirements in the SUFLA. When vacating the Location, all machinery, equipment, furniture, fixtures, improvements, tools, and signs must be left at the Location as they will immediately be owned by and become the property of LA Fitness pursuant to the Bill of Sale that must be signed simultaneously with this Agreement.

37. Paragraph c. in Section **14.6, "Covenant Not to Compete; Conflicting Interests,"** is hereby deleted in its entirety and replaced with the following:

c. For purposes of this *Section 14.6, "Competing Business"* means a business which is primarily engaged in the sale of smoothies, protein shakes, meal replacement shakes, chillers, and all variations thereof, within a geographical area consisting of:
(1) during the Term, anywhere else; and (2) after abandonment,

expiration or termination of this Agreement, within a ten (10) mile radius from the Location, location of any LA Fitness health club, or location of any *NrGize Lifestyle Cafe* restaurant of ours, our third-party licensees or our third-party franchisees. The terms "*NrGize Lifestyle Cafe* restaurant" and "*NrGize Lifestyle Cafe* outlet" include not only the restaurants and outlets now in existence, but also those established at a later date. The term of this covenant will be extended by any time consumed in litigation to enforce it in both trial and appellate courts. If a court of competent jurisdiction determines that the restrictions in this paragraph are excessive in time, geographic scope, or otherwise, the court may reduce the restriction to the level that provides the maximum restriction allowed by law.

38. Section **16.12, "No Third-Party Beneficiaries,"** is hereby deleted in its entirety and replaced with the following:

16.12 No Third-Party Beneficiaries.

Except as set forth in *Section 8*, this Agreement is not intended to benefit any other person or entity except the named parties hereto and no other person or entity shall be entitled to any rights hereunder by virtue of so-called "third party beneficiary rights" or otherwise.

39. In paragraph k. in Section **17.1, "Certain Representations and Warranties of Franchisee,"** the words "rent payments due under lease obligations" are hereby deleted and replaced with the words "access fees."

40. The following paragraph o. is hereby added to the end of Section **17.1, "Certain Representations and Warranties of Franchisee,"** after paragraph k.:

o. Neither we nor Kahala Holdings, LLC shall have any liability to you for any delays in the construction, equipping, and ultimate delivery to you of the completely built-out *NrGize Lifestyle Cafe* restaurant covered by this Agreement.

41. Paragraph e. in Section **17.3, "Acknowledgements of Franchisee,"** is hereby deleted in its entirety and replaced with the following:

e. You acknowledge receipt of our Disclosure Document fourteen (14) days prior to the execution of this Agreement or your payment of any monies to us or our agent (or sooner if required by applicable state law) and acknowledges that if you have not opened your Franchised Business due to LA Fitness' construction timeline, and fees increase from year to year resulting in new disclosure documents, you will abide by the Disclosure Documents provided and not newer versions thereof. You acknowledge and agree that the Amendment to Franchise Agreement grants a deferred payment plan of the Initial Franchise Fee conditioned upon Substantial Completion of the LA Fitness facility.

Franchisee Initials_____/_____

42. Paragraph g. in Section **17.3, "Acknowledgements of Franchisee,"** is hereby deleted in its entirety and replaced with the following:

g. You acknowledge that this is a "turn-key" franchise opportunity, and as detailed in *Section 2.3*, we, or our affiliate(s), will be overseeing and managing the on-site construction process and equipping of your *NrGize Lifestyle Cafe* Restaurant at the Location. You further acknowledge, as detailed in *Section 5.8*, you will pay us or our designated affiliate the full Initial Franchise Fee plus the full amount of the NrGize Turn-Key Fees simultaneously with your execution of this Agreement, and no portion of the NrGize Turn-Key Fees is refundable under any circumstances. Notwithstanding the foregoing, pursuant to the SUFLA, if you perform all obligations under the SUFLA, then 30 days after the expiration or termination of the SUFLA, we shall refund the Reservation Fee to you, without payment of interest. The Reservation Fee shall be applied against the cost of any damages at the Location as a result of negligence, intentional vandalism or theft. If the cost of the repairs to the damages exceeds the amount of the Reservation Fee being held, you will not receive a refund and will be responsible to pay the difference.

Franchisee Initials_____/_____

43. The following paragraphs m., n. and o. are hereby added to the end of Section **17.3, "Acknowledgements of Franchisee,"** after paragraph l.:

m. You acknowledge that, pursuant to the Master Facility License Agreement, LA Fitness granted certain rights to the Location to Kahala Holdings, LLC and that, pursuant to the SUFLA, Kahala Holdings, LLC in turn granted certain rights to you. You further acknowledge that, if the Master Facility License Agreement is terminated for any reason, the SUFLA will terminate and you must immediately vacate the Location.

Franchisee Initials_____/_____

n. You acknowledge that, pursuant to the Master Facility License Agreement, LA Fitness may cease operating any LA Fitness health club at any time and, if it does so, the SUFLA will terminate. You further acknowledge that, in that event, you must immediately vacate the Location. When vacating the Location, all machinery, equipment, furniture, fixtures, improvements, tools, and signs must be left at the Location as they will immediately be owned by and become the property of LA Fitness pursuant to the Bill of Sale that is attached as an amendment to the Franchise Agreement and must be signed simultaneously with the Franchise Agreement.

Franchisee Initials_____/_____

o. You acknowledge that the Master Facility License Agreement may restrict your rights as an *NrGize* franchisee. You

hereby expressly acknowledge that you have carefully reviewed the Master Facility License Agreement at least five (5) business days prior to signing this Agreement (a copy of the Master Facility License Agreement is attached as Exhibit D to the SUFLA).

Franchisee Initials_____/_____

44. The following applies only for franchisees that are Maryland residents and Franchisees whose franchises will be operated in Maryland: 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.

45. Except as set forth in this [First] Amendment, the terms and provisions of the Agreement shall remain in full force and effect.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, has duly executed and delivered this [First] Amendment as of the [First] Amendment Effective Date.

FRANCHISOR: KAHALA FRANCHISING, L.L.C., an Arizona limited liability company

By: [Name, Title]

FRANCHISEE:

_____, a(n)_____

By:_____

[Name, Title]

By: [Name, Title]

EXHIBIT H-3

TO THE FRANCHISE DISCLOSURE DOCUMENT

**Amendment to Franchise Agreement
(for stores to be located within LA Fitness Health Clubs: conversions only)**

[FIRST] AMENDMENT TO FRANCHISE AGREEMENT

[for stores to be located within LA Fitness Health Clubs: conversions only]

This [FIRST] AMENDMENT TO FRANCHISE AGREEMENT dated _____, 20____ (“[First] Amendment Effective Date”), to the Franchise Agreement dated _____, 20____ for the NrGize Lifestyle Cafe™ location at _____ (“Agreement”) by and between Kahala Franchising, L.L.C., an Arizona limited liability company (“Franchisor”) and _____ (“Franchisee”), is entered into by such parties to amend the Agreement as set forth in this [First] Amendment. To the extent this [First] Amendment contains terms and conditions that differ from those contained in the Agreement, this [First] Amendment shall control. The parties agree that a concept or principle covered in this [First] Amendment shall apply and be incorporated into all other provisions of the Agreement in which the concept or principle is also applicable, notwithstanding the absence of any specific cross reference thereto. All capitalized terms not otherwise defined in this [First] Amendment will have the same meanings ascribed to such terms in the Agreement.

1. The following paragraph G. is hereby added to the end of the **RECITALS** section after paragraph F.:

G. Kahala Holdings, LLC, an affiliate of ours, and FITNESS INTERNATIONAL, LLC (formerly L.A. Fitness International, LLC), a California limited liability company (“LA Fitness”) entered into a Master Facility License Agreement, as amended (collectively, “Master Facility License Agreement”) pursuant to which Kahala Holdings, LLC can provide or we can grant third parties the right to provide certain services at the LA Fitness health clubs. We are currently issuing franchises to others for the operation of outlets in LA Fitness health clubs.

2. Section **1.3, “Term of Agreement,”** is hereby deleted in its entirety and replaced with the following:

1.3 Term of Agreement

The term of this Agreement will commence on the Effective Date and will terminate on the earlier of the following: (i) the expiration of the term of the SUFLA (as defined in *Section 2.2*) for the Location, including any renewal options thereto; (ii) the termination or expiration of the Master Facility License Agreement; or (iii) the date that LA Fitness ceases operating a health club at the location identified in *Section 1.1*, unless terminated earlier in accordance with *Article 14* or any other provisions of this Agreement, renewed in accordance with *Article 13*, or transferred in accordance with *Article 12* (“Term”).

3. Section **2.1, “Location Selection Procedures,”** is hereby deleted in its entirety and replaced with the following:

Location Selection Procedures.

You must select an LA Fitness health club Location approved by us in writing, for the *NrGize Lifestyle Cafe* restaurant within twenty-four (24) months after the date of this Agreement. If an acceptable Location for your restaurant in an LA Fitness health club is not secured within twenty-four (24) months after the date of this Agreement, then we may terminate this Agreement by giving you written notice to that effect. We will have no obligation to refund to you all or any part of your Initial Franchise Fee (as defined in *Section 5.1*) in the event of such a termination.

4. Section **2.2, "Lease and Purchase Approval,"** is hereby deleted in its entirety and replaced with the following:

2.1 Facility License Agreements.

Once an acceptable LA Fitness club location has been identified to locate your *NrGize Lifestyle Cafe* restaurant, you will enter into a Single-Unit Facility License Agreement ("SUFLA") with Kahala Holdings, LLC which will grant you access to the Location. Notwithstanding anything to the contrary contained in this Agreement, you acknowledge that the operation of the Franchised Business at the Location is subject to all terms and conditions in the Master Facility License Agreement and the SUFLA.

5. Section **2.3, "Construction,"** is hereby deleted in its entirety and replaced with the following:

2.2 Construction.

a. As this is a "turn-key" franchise purchase, we will oversee and manage all aspects of the on-site construction and equipping of your *NrGize Lifestyle Cafe* restaurant to assure it meets our and LA Fitness' specifications and standards.

b. You acknowledge that the design and appearance of the *NrGize Lifestyle Cafe* restaurant is part of the System, and that uniformity is essential to the success of the System. Therefore, you agree that after the restaurant has been constructed, you will not make any material changes to the building plan or design or its appearance without our prior written consent, and you will, at your expense, maintain the interior and exterior decor of the restaurant in a first class condition and in such manner as we may reasonably prescribe from time to time. In addition to any remodeling required by us upon the renewal of this Agreement and upon the assignment of the Franchised Business, as set forth in *Sections 12 and 13*, respectively, you will, upon thirty (30) days written notice from us, and at your sole cost and expense, remodel and make all improvements and alterations in and to your *NrGize Lifestyle Cafe* restaurant as reasonably determined by us

to reflect the then-current *NrGize Lifestyle Cafe* specifications, standards, format, image and appearance.

6. Section **2.4, “Signage,”** is hereby deleted in its entirety and replaced with the following:

2.3 Signage.

You shall prominently display in a sign easily visible to consumers at the Franchised Business, the following words: “Each NrGize Lifestyle Cafe Restaurant is Independently Owned and Operated”.

7. Section **2.5, “Relocation,”** is hereby deleted in its entirety and replaced with the following: **“2.5 Not Applicable.”**

8. Section **2.6, “Restricted Use of Restaurant Location,”** is hereby deleted in its entirety and replaced with the following:

2.6 Restricted Use of Restaurant Location.

You acknowledge that the SUFLA does not grant you a possessory interest to the Location. You shall not wholly or partially sublet, transfer, assign, or otherwise dispose of the Location without our prior written consent. The Location may be used only for the operation of an *NrGize Lifestyle Cafe* restaurant in compliance with this Agreement, the SUFLA, and the Operations Manuals. You shall not conduct other businesses or activities at the Location without our prior written consent.

9. Paragraph c. in Section **3.1, “Commencing Operations,”** is hereby deleted and replaced with the following: “c. Not Applicable.”

10. Section **3.3, “Fixtures, Furnishings, and Equipment,”** is hereby deleted in its entirety and replaced with the following:

3.3 Equipment.

Unless otherwise approved by us in writing, and if applicable, you will: (1) acquire equipment to be used in the operation of the *NrGize Lifestyle Cafe* Franchised Business that is in accordance with the standards and specifications set forth by us in the Operations Manuals or other documents provided by, or approved by, us as they presently exist or exist in the future; and (2) procure the equipment from suppliers or vendors previously approved in writing by us.

11. The first sentence in Section **5.1, “Initial Franchise Fee,”** is hereby deleted and replaced with the following: “The initial franchise fee for the conversion of an existing store within an LA Fitness health club to an *NrGize Lifestyle Cafe* located within the same LA Fitness health club is Fifteen Thousand Dollars (\$15,000).”

12. Section **5.2, “Royalty Fee and Surcharge,”** is hereby deleted in its entirety and replaced with the following:

5.2 Royalty Fee and Surcharge.

[For the period of time commencing on the later of the date that you sign this Agreement or the date the store opens to the public, and for the duration of the Term, you must pay to us a monthly royalty fee equal to __Dollars (\$____) ("Royalty Fee"). The fixed monthly Royalty Fee may, in our sole discretion, be increased annually on January 1st and compounded at a rate of three percent (3%). In our sole discretion, we may charge, in addition to the Royalty Fee, a surcharge of up to Ten Dollars (\$10) per week if your franchised business is located in a state that imposed additional reporting requirements on a franchisor ("Surcharge"). The Royalty Fee and applicable Surcharge shall be due and payable on the 15th calendar day of each month.]

[OR]

5.2 Royalty Fee and Surcharge.

[In the event we do not have current card swipe information from LA Fitness, including, but not limited to, newly constructed LA Fitness locations, your Royalty Fee will be calculated as follows:

(i) for the period of time commencing on the later of the date that you sign this Agreement or the date the store opens to the public, and for the first twelve (12) months of the Term, you must pay to us a monthly royalty fee equal to Seven Hundred Fifty Dollars (\$750) ("Royalty Fee"); and (ii) for the period of time commencing on the later of the first day of the thirteenth (13th) month after you sign this Agreement or the date the store opens to the public, and for the duration of the Term, you must pay to us a monthly royalty fee based upon the Adjusted Average Number of Daily Member Check-ins as follows:

<u>Adj. Avg. Daily Check-Ins</u>	<u>Fixed Royalty Fee</u>
0 - 800	\$300
801 – 1400	\$750
1401 – 2000	\$1,000
2001 and up	\$1,250

In the event that the Adjusted Average Number of Daily Member Check-ins for the first twelve (12) months is between 0 – 800, you will not be reimbursed the difference in the Fixed Royalty Fee. Also, in the event of a unilateral termination of this Agreement by you, or in the event of a termination arising from or related to your default under this Agreement, we are entitled to, in addition to any sums owing through termination, and any other sums allowed by law, the average of the prior six (6) months' (or if less than six (6) months, the Term) royalties multiplied by the remaining number of months on the initial Term of this Agreement, or any extension thereof, less a discount of eight percent (8%). The fixed monthly Royalty Fee

may, in our sole discretion, be increased annually on January 1st and compounded at a rate of three percent (3%). The Royalty Fee is due and payable on the 15th calendar day of each month.]

You are required to report Gross Sales to our designated accounting office via the Internet at <http://franchisee.NrGizejuice.com> as set forth in the Operations Manuals, by the close of business on the third day of each month for the preceding month. You are required to establish a Depository Account at the time you execute this Agreement as set forth in Section 5.6 below. Payment of the Royalty Fees and all other fees due under this Agreement to us must be made via electronic transfer of funds from the Depository Account described in Section 5.6 below. To accomplish this electronic transfer of funds from the Depository Account, you must complete, sign and deliver to us a current Electronic Funds Transfer (EFT) Authorization form.

As used in this Agreement, “Gross Sales” means all sales, money or things of value, received or receivable, directly or indirectly, by you on account of the Franchised Business, less applicable sales taxes and any documented refunds, credits and allowances given by you to customers in accordance with the Operations Manuals, but without deducting any of your costs and expenses.

13. In Section **5.3**, “**Advertising Fee**,” the word “weekly” is hereby deleted and replaced with the word “monthly”.

14. In Section **5.3**, “**Advertising Fee**,” the phrase “One half of one percent (0.5%)” is hereby deleted and replaced with the phrase “Zero percent (0%).”

15. Section **5.6**, “**Depository Account; Payment Procedures**,” is hereby deleted in its entirety and replaced with the following:

5.6 Depository Account; Payment Procedures.

You are required to establish, at the time you execute this Agreement, and maintain a depository account (“Depository Account”) at a bank or other federally insured financial institution (“Depository”). You will initially deposit Three Thousand Dollars (\$3,000) into the Depository Account and are required to maintain a balance of Three Thousand Dollars (\$3,000) in the Depository Account at all times by replenishing the Depository Account to Three Thousand Dollars (\$3,000) after we make withdrawals. On the third (3rd) calendar day of each month, you must submit a report to us regarding the monthly period which ended on the last calendar day of the preceding month, including details on Gross Sales and other statistical data as specified from time to time by us or the Operations Manuals. We will withdraw funds electronically on the fifteenth (15th) calendar day of each month from the Depository Account. The withdrawals are based upon the figures you report and constitute Royalty Fees and Advertising Fees as described in Sections 5.2 and 5.3 of this Agreement. If you do not submit a

report by the third (3rd) calendar day of any month, we may estimate the Royalty Fee and Advertising Fee based upon prior reports and withdraw the estimated amounts up to the entire Three Thousand Dollars (\$3,000). We will return any overage within thirty (30) days of our receipt of your report(s). We shall not be responsible to you for any interest charges for any overage collected due to your failure to timely report your sales. Additionally, we shall not be responsible for any bank service charges incurred by you which result in the withdrawal of funds from your Depository Account. You shall instruct the Depository to disburse each month to our designated bank, via electronic funds transfer by the close of business on the fifteenth (15th) calendar day of each month (or (i) the preceding banking business day if the fifteenth (15th) calendar day is a bank holiday, or (ii) the next business day if the fifteenth (15th) calendar day is a Saturday or Sunday), the monthly Royalty Fee and Advertising Fee and other fees due for that month, which month shall end on the last calendar day of the preceding month. Under no circumstances shall such access to the Depository Account be deemed control or joint control of the Depository Account by us. You shall pay us Fifty Dollars (\$50) for each electronic funds transfer attempted from your Depository Account pursuant to this *Section 5.6* that is returned for non-sufficient funds. You shall also reimburse us for all extraordinary costs incurred by us in collecting or attempting to collect funds due us from the Depository Account (for example, without limitation, charges for non-sufficient funds, uncollected funds or other discrepancies in deposits or maintenance of the Depository Account balance in accordance with the terms hereof). The Depository Account must be established and maintained solely for the purposes set forth in this *Section 5.6* and the Operations Manuals.

16. Section **5.7, "Lease Review Fee,"** is hereby deleted in its entirety and replaced with the following: **"5.7. Not Applicable."**

17. Section **5.8, "Lease Guarantee Fee,"** is hereby deleted in its entirety and replaced with the following:

5.8 Construction Fee; Construction and Equipment Costs:

The Initial Deposit (see Section 4.a of the SUFLA), Reservation Fee (see Section 4.b of the SUFLA), exact Construction Fee, Access Fee, all Leasehold Improvements, Construction Costs, and Equipment Costs for us to convert the existing restaurant to your *NrGize Lifestyle Cafe* at the Location are collectively referred to as the "NrGize Conversion Turn-Key Fees." The total NrGize Conversion Turn-Key Fees are \$_____Dollars (\$_). You will pay us or our designated affiliate the full Initial Franchise Fee of Fifteen Thousand Dollars (\$15,000) plus the full amount of the NrGize Conversion Turn-Key Fees simultaneously with your execution of this Agreement. No portion of the NrGize Conversion Turn-Key Fees is refundable under any circumstances. Notwithstanding the foregoing, pursuant to the SUFLA, if you perform all obligations under the SUFLA, then thirty

(30) days after the expiration or termination of the SUFLA, we shall refund the Reservation Fee to you, without payment of interest. The Reservation Fee shall be applied against the cost of any damages at the Location as a result of negligence, intentional vandalism or theft. If the cost of the repairs to the damages exceeds the amount of the Reservation Fee being held, you will not receive a refund and will be responsible to pay the difference.

The projected opening date is _____, 20____
("Projected Opening Date"). The Projected Opening Date may change depending on various factors including, but not limited to, union vs. non-union labor, the availability and delivery of construction materials and equipment, timing in obtaining applicable permits, the availability and delivery of equipment, and the delivery of the space by LA Fitness. You hereby acknowledge and agree to the following: (i) the Projected Opening Date is our good faith estimate; (ii) we are not liable in any manner whatsoever to you for any delays or changes to the Projected Opening Date (including, but not limited to, no liability by us for any claims by you for incidental or consequential costs and damages incurred by you due to the delay); and (iii) any change to the Projected Opening Date will in no way affect the validity or enforcement of the terms and conditions of this Agreement.

18. In Section **5.17, "Late Report, Default and Non-Sufficient Funds Fees, Breaching Royalties and Collection Costs and Expenses,"** the word "weekly" is hereby deleted and replaced with the word "monthly".

19. The first sentence of the second paragraph in Section **5.18, "Audit Fees,"** is hereby deleted and replaced with the following:

You agree that we may have access to any computers utilized by you for such purposes and will have the ability at all times via modem to obtain daily, weekly, and monthly sales reports and other financial records that the POS System provides."

20. **ARTICLE 8, "RELATIONSHIP OF THE PARTIES AND INDEMNIFICATION,"** is hereby amended to add the following Section **8.5, "Indemnification of LA Fitness,"** after Section **8.4, "Special Power of Attorney":**

8.5 Indemnification of LA Fitness.

To the extent applicable, you agree to indemnify and hold LA Fitness, its parent, subsidiaries and affiliates, and their respective stockholders, directors, officers, attorneys, employees, agents, successors and assignees harmless for, from and against any and all Claims, except for Claims successfully alleged to have resulted solely from LA Fitness' negligence or willful misconduct. Notwithstanding the foregoing, LA Fitness will have the right, at its option, to defend any such Claim, but you must reimburse LA Fitness upon demand for the costs of such defense.

21. Paragraph a. in Section **9.2, "Authorized Products and Services,"** is hereby

deleted and replaced with the following:

a. You must limit your business at the Location as specified in the Operations Manuals, and agree that you will not, without our prior written approval, offer any menu items, beverages, products or services that are not authorized by us for *NrGize Lifestyle Cafe* franchise owners, as set forth in the Operations Manuals. Any related or unrelated business not provided for in the Operations Manuals must have our prior written approval. At all times, your operation of the Franchised Business is subject to the Master Facility License Agreement (including Exhibit A thereto) and the SUFLA.

22. The first sentence in the third paragraph in Section **9.5, "Maintenance of Insurance,"** is hereby deleted and replaced with the following: "Such insurance policies must be issued by insurance carriers having an A.M. Best's financial strength rating of at least AAA."

23. All liability insurance policies required under Section **9.5, "Maintenance of Insurance,"** must also name "Fitness International, LLC, their subsidiaries, affiliates, officers, directors, and employees, 3161 Michelson Dr., Suite 600, Irvine, CA 92612" as an additional insured, along with the landlord for the Location.

24. Paragraph a. in Section **11.1, "Maintenance of Records,"** is hereby deleted and replaced with the following:

a. to submit to us on a Franchisor-approved form, on or before the close of business on the third (3rd) day of each month, a signed statement of monthly Gross Sales for the preceding month, which month ends on the last calendar day of the month;

25. Paragraph e.3. in Section **11.1, "Maintenance of Records,"** is hereby deleted and replaced with the following:

3. cash disbursements journal and monthly payroll register;

26. Paragraph e.9. in Section **11.1, "Maintenance of Records,"** is hereby deleted in its entirety and replaced with the following:

9. daily production, throwaway and finishing records and monthly inventories;

27. In Section **12.6, "Restrictions on Security Interest and Subfranchising,"** the word "rent" is hereby deleted and replaced with the words "access related fees".

28. In the first paragraph in **ARTICLE 13, "RENEWAL OF FRANCHISE,"** the phrase "ten (10) years" is hereby deleted and replaced with the phrase "five (5) years."

29. Paragraph d. in **ARTICLE 13, "RENEWAL OF FRANCHISE,"** is hereby deleted in its entirety and replaced with the following:

d. You must have entered into a new facility license agreement for your *NrGize Lifestyle Cafe* restaurant for a term co- extensive with the term of the renewal, or you must have secured and

developed a suitable substitute location that meets our then-current minimum site requirements (such confirmation will be provided to you by us in writing);

30. Section **14.1, “Default; Termination,”** is hereby amended to add the following subsection (xvii) after subsection (xvi) in paragraph a.:

(xvii) If you fail to pay, perform, observe or comply with any of your duties and obligations under this Agreement or the SUFLA, including failure to pay: (i) any sum due us under this Agreement (including, but not limited to, the Initial Franchise Fee, NrGize Invoice Fees (including any required installment payments of the NrGize Invoice Fees), Royalty Fees and Advertising Fees); or (ii) any sum to Kahala Holdings, L.L.C under the SUFLA; or if you fail to carry out in all respects its obligations under any equipment agreement, promissory note, vender account, conditional sales contract or other contract materially affecting the Franchised Business, to which you are a party or by which you are bound, whether or not we are a party thereto; or failure to maintain and utilize the security cameras, devices and applicable security software, if any, that are a part of the POS System as designated in the Operations Manuals.

31. Paragraph b., “Cross-default,” in Section **14.1, “Default; Termination,”** is hereby deleted and replaced with the following:

b. Cross default. A default by you under this Agreement will be deemed a default of all agreements or SUFLAs between: (i) you and your principals in his or her individual capacity or any other entity in which your principals are owners, members, managers, shareholders or partners (individually and collectively, “Franchisee Entity”); and (ii) us or any of our affiliates or predecessors (individually and collectively, “Franchisor Entity”). A Franchisee Entity’s default of any other agreement, legal instrument or other document between the Franchisee Entity and a Franchisor Entity will be deemed a default under this Agreement. A default by any guarantor of your obligations under this Agreement or any agreement, legal instrument or document between a Franchisee Entity and a Franchisor Entity will be deemed a default of this Agreement

32. Paragraph d., “Cross-termination,” in Section **14.1, “Default; Termination,”** is hereby deleted and replaced with the following:

d. Cross-termination: If this Agreement is terminated as a result of your default of this Agreement or any other agreement related to the Franchised Business, including any SUFLA, we may, at our option, elect to terminate any or all other agreements, legal instruments or documents between a Franchisee Entity and a Franchisor Entity. If any agreement, legal instrument or document between a Franchisee Entity and a Franchisor Entity is terminated as a result of a default by the Franchisee Entity, we may, at our sole

discretion, elect to terminate this Agreement. It is agreed that an incurable or uncured default under this Agreement or any other agreement, legal instrument or document between a Franchisee Entity and a Franchisor Entity will be grounds for termination of this Agreement or any other agreement, legal instrument or document, including any SUFLA, between a Franchisee Entity and a Franchisor Entity, without additional notice or opportunity to cure.

33. The following paragraph e. is hereby added after the end of paragraph d. in Section **14.1, "Default; Termination,"**:

e. If the SUFLA for the Location or the Master Facility License Agreement is terminated or expires, this Agreement will terminate effective immediately upon notice.

34. Paragraph b. in Section **14.2, "Opportunity to Cure,"** is hereby deleted in its entirety and replaced with the following:

b. Seven Day Cure Period - A seven (7) day cure period will apply if you fail, refuse, or neglect to pay when due to us any monies owing to us or our affiliate(s) (including, but not limited to, the Royalty Fee, Advertising Fee and amounts due under the SUFLA), or to any Advertising Fund, or if you fail to maintain the insurance coverage set forth in this Agreement, or if you fail to maintain and utilize the security cameras, devices and applicable security software, if any, that are a part of the POS System;

35. Paragraph f. in Section **14.2, "Opportunity to Cure,"** is hereby deleted in its entirety and replaced with the following:

f. No Cure Period - No cure will be available: (1) if you fail to pay the Initial Franchise Fee when due in accordance with *Section 5.1* or all or any portion of the NrGize Turn-Key Fees when due in accordance with *Section 5.8*; (2) if you are in default of *Sections 3.1, 14.1a.(i), 14.1.(iii), 14.1.(vi), 14.1.(vii), 14.1a.(viii), 14.1a.(xiv) 14.1a.(xv), 14.6* or *9.4*; or (3) if you intentionally underreport monthly Gross Sales, falsify financial data, fail to promptly provide upon our request financial data and records specified in this Agreement, or otherwise commit an act of fraud with respect to your rights or obligations under this Agreement; (4) if you repeatedly fail to comply with the provisions of this Agreement, whether or not subsequently cured; (5) if you, having twice previously cured a default or breach of this Agreement, commit the same breach or default again; or (6) if you made any false representations and warranties under *Sections 17.1f., 17.1g., 17.1m. or 17.1n.*;

36. The following paragraph h. is hereby added to Section **14.5, "Effect of Termination or Expiration,"** after the end of paragraph g.:

h. Immediately vacate the Location and otherwise comply with all applicable requirements in the SUFLA. When vacating the Location, all machinery, equipment, furniture, fixtures, improvements, tools, and signs must be left at the Location as they

will immediately be owned by and become the property of LA Fitness pursuant to the Bill of Sale that must be signed simultaneously with this Agreement.

37. Paragraph c. in Section **14.6**, “**Covenant Not to Compete; Conflicting Interests**,” is hereby deleted in its entirety and replaced with the following:

c. For purposes of this *Section 14.6*, “Competing Business” means a business which is primarily engaged in the sale of smoothies, protein shakes, meal replacement shakes, chillers, and all variations thereof, within a geographical area consisting of: (1) during the Term, anywhere else; and (2) after abandonment, expiration or termination of this Agreement, within a ten (10) mile radius from the Location, location of any LA Fitness health club, or location of any *NrGize Lifestyle Cafe* restaurant of ours, our third-party licensees or our third-party franchisees. The terms “*NrGize Lifestyle Cafe* restaurant” and “*NrGize Lifestyle Cafe* outlet” include not only the restaurants and outlets now in existence, but also those established at a later date. The term of this covenant will be extended by any time consumed in litigation to enforce it in both trial and appellate courts. If a court of competent jurisdiction determines that the restrictions in this paragraph are excessive in time, geographic scope, or otherwise, the court may reduce the restriction to the level that provides the maximum restriction allowed by law.

38. Section **16.12**, “**No Third-Party Beneficiaries**,” is hereby deleted in its entirety and replaced with the following:

16.12 No Third-Party Beneficiaries.

Except as set forth in *Section 8*, this Agreement is not intended to benefit any other person or entity except the named parties hereto and no other person or entity shall be entitled to any rights hereunder by virtue of so-called “third party beneficiary rights” or otherwise.

39. In paragraph k. in Section **17.1**, “**Certain Representations and Warranties of Franchisee**,” the words “rent payments due under lease obligations” are hereby deleted and replaced with the words “access fees.”

40. The following paragraph o. is hereby added to the end of Section **17.1**, “**Certain Representations and Warranties of Franchisee**,” after paragraph k.:

o. Neither we nor Kahala Holdings, LLC shall have any liability to you for any delays in the construction, equipping, and ultimate delivery to you of the completely built-out *NrGize Lifestyle Cafe* restaurant covered by this Agreement.

You acknowledge that this is a “turn-key” franchise opportunity, and as detailed in *Section 2.3*, we, or our affiliate(s), will be overseeing and managing the on-site construction process and equipping of your *NrGize Lifestyle Cafe* Restaurant at the Location. You further

acknowledge, as detailed in *Section 5.8*, you will pay us or our designated affiliate the full Initial Franchise Fee plus the full amount of the NrGize Turn-Key Fees simultaneously with your execution of this Agreement, and no portion of the NrGize Turn-Key Fees is refundable under any circumstances. Notwithstanding the foregoing, pursuant to the SUFLA, if you perform all obligations under the SUFLA, then thirty

(30) days after the expiration or termination of the SUFLA, we shall refund the Reservation Fee to you, without payment of interest. The Reservation Fee shall be applied against the cost of any damages at the Location as a result of negligence, intentional vandalism or theft. If the cost of the repairs to the damages exceeds the amount of the Reservation Fee being held, you will not receive a refund and will be responsible to pay the difference.

Franchisee Initials_____/_____

41. The following paragraphs m., n. and o. are hereby added to the end of Section **17.3**, **“Acknowledgements of Franchisee,”** after paragraph l.:

m. You acknowledge that, pursuant to the Master Facility License Agreement, LA Fitness granted certain rights to the Location to Kahala Holdings, LLC and that, pursuant to the SUFLA, Kahala Holdings, LLC in turn granted certain rights to you. You further acknowledge that, if the Master Facility License Agreement is terminated for any reason, the SUFLA will terminate and you must immediately vacate the Location.

Franchisee Initials_____/_____

n. You acknowledge that, pursuant to the Master Facility License Agreement, LA Fitness may cease operating any LA Fitness health club at any time and, if it does so, the SUFLA will terminate. You further acknowledge that, in that event, you must immediately vacate the Location. When vacating the Location, all machinery, equipment, furniture, fixtures, improvements, tools, and signs must be left at the Location as they will immediately be owned by and become the property of LA Fitness pursuant to the Bill of Sale that is attached as an amendment to the Franchise Agreement and must be signed simultaneously with the Franchise Agreement.

Franchisee Initials_____/_____

o. You acknowledge that the Master Facility License Agreement may restrict your rights as an *NrGize* franchisee. You hereby expressly acknowledge that you have carefully reviewed the Master Facility License Agreement at least five (5) business days prior to signing this Agreement (a copy of the Master Facility License Agreement is attached as Exhibit D to the SUFLA).

Franchisee Initials_____/_____

42. The following applies only for franchisees that are Maryland residents and franchisees whose franchises will be operated in Maryland: 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.

43. Except as set forth in this [First] Amendment, the terms and provisions of the Agreement shall remain in full force and effect.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, has duly executed and delivered this [First] Amendment as of the [First] Amendment Effective Date.

FRANCHISOR:

KAHALA FRANCHISING, L.L.C., an Arizona limited liability company

By: [Name, Title]

FRANCHISEE:

_____, a(n)_____

By: _____

[Name, Title]

By: [Name, Title]

EXHIBIT H-4
TO THE FRANCHISE DISCLOSURE DOCUMENT

Bill of Sale
(applicable only for stores within LA Fitness health clubs)

BILL OF SALE

FOR GOOD AND VALUABLE CONSIDERATION and in consideration of the premises, the covenants and the agreements contained herein and in the First Amendment to the Master Facility ~~License Agreement~~ License Agreement by and ~~between~~ between FITNESS INTERNATIONAL, LLC (formerly L.A. Fitness International, ~~LLC~~), ~~a California limited liability company~~ LLC, a California limited liability company, ("Buyer") and KAHALA HOLDINGS, LLC ("Kahala"), the receipt and sufficiency of which hereby are acknowledged, the Undersigned ("Seller") agrees as follows:

1. As of the ~~close of business~~ close of business on the ~~date hereof~~ date hereof, ~~Seller does hereby sell~~ Seller does hereby sell and convey to ~~Buyer~~ Buyer, ~~its~~ its successors and ~~assigns~~ assigns, forever, free and ~~clear of all liens~~ clear of all liens and encumbrances, ~~all of Seller's right, title and interest in the~~ all of Seller's right, title and interest in the following ~~assets: all machinery~~ assets: all machinery, equipment, furniture, fixtures, improvements, tools, signs and other items of tangible personal property ("Assets") located at the following *NrGize Lifestyle Cafe*[™]: _____

_____. The ~~Assets~~ Assets do not include inventories of food and ~~beverage products, paper products, operational supplies, uniforms, disposable items, heating fuel, cleaning materials, and other items of consumable and/~~ beverage products, paper products, operational supplies, uniforms, disposable items, heating fuel, cleaning materials, and other items of consumable and/ or expendable materials and supplies in the *NrGize Lifestyle Cafe* on the date hereof ("Inventory") nor do the Assets include items that bear Seller's proprietary marks.

2. **TO HAVE AND TO HOLD** the ~~Assets~~ Assets unto ~~Buyer~~ Buyer, ~~its~~ its successors and ~~assigns~~ assigns, forever, and ~~Seller~~ Seller does hereby ~~bind itself~~ bind itself and ~~its~~ its successors to **WARRANT** and **FOREVER DEFEND**, all and singular, title to the Assets unto Buyer, its successors and assigns, against every ~~person whomsoever lawfully claiming or to claim the same, or any part thereof, and~~ person whomsoever lawfully claiming or to claim the same, or any part thereof, and subject as aforesaid.

3. All of the Assets are being sold and transferred by Seller to Buyer and purchased by ~~Buyer from Seller in "AS IS" condition~~ Buyer from Seller in "AS IS" condition and "with ~~all faults~~ all faults." EXCEPT AS OTHERWISE PROVIDED IN THIS BILL OF SALE, SELLER DISCLAIMS ALL WARRANTIES CONCERNING THE ASSETS, STATUTORY, EXPRESS, AND IMPLIED, INCLUDING, BUT NOT LIMITED TO, IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, AND ANY OTHER WARRANTY OF QUALITY IN RESPECT OF THE ASSETS, AND THERE ARE NO OTHER WARRANTIES, STATUTORY, EXPRESS, OR IMPLIED THAT EXTEND BEYOND THE WARRANTIES CONTAINED IN THIS BILL OF SALE.

4. This Bill of Sale shall be binding upon the parties hereto and their successors and assigns.

IN WITNESS WHEREOF, Seller has caused this Bill of Sale to be ~~executed~~ executed by its duly authorized representative as of the day and year first above written.

ATTEST:

SELLER:

By: _____
Print Name: _____
Title: _____

By: _____
Print Name: _____
Title: _____

Date: _____

EXHIBIT I
TO THE FRANCHISE DISCLOSURE DOCUMENT

**Amendment to Franchise Agreement
(for co-branded non-traditional locations)**

[for ~~co-branded~~ non-traditional locations co-branded with an affiliated brand]

Section **4.1, "Training Program,"** is hereby amended to add the following after the last sentence in Section 4.1: "Notwithstanding the foregoing, for non-traditional restaurants, the total number of days of training and related assistance will be a total of three (3) days."

6. Section **4.6, "Computer Systems; Debit and Credit Card Processing,"** is hereby deleted in its entirety and replaced with the following:

4.6 Computer Systems; Debit and Credit Card Processing.

You hereby agree to use the same POS System for the Franchised Business under the same terms and conditions as provided in the [name of original brand] franchise agreement.

7. The first sentence of Section **5.1 "Initial Franchise Fee,"** is hereby deleted and replaced with the following: "The initial franchise fee for this non-traditional location is [Seven Thousand Five Hundred Dollars (\$7,500)] [Five Thousand Dollars (\$5,000)] ("Initial Franchise Fee")."

8. The first sentence in the first paragraph in Section **5.2, "Royalty Fee and Surcharge,"** is hereby deleted in its entirety and replaced with the following:

For the period of time commencing on the later of the Effective Date or the date the Franchised Business opens to the public, and for the duration of the Term, you must pay to us a weekly royalty fee equal to six percent (6%) of total Gross Sales (as defined below) ("Royalty Fee").

9. Franchisee agrees that the Gross Sales for this *NrGize Lifestyle Cafe* restaurant shall be reported separately from the gross sales reported under the [name of original brand] franchise agreement. Franchisee further agrees that the Royalty Fee and Advertising Fee for this *NrGize Lifestyle Cafe* restaurant shall be paid separately from the royalty fee and advertising fee payable under the [name of original brand] franchise agreement.

10. Paragraph a. in Section **5.3, "Advertising Fee,"** is hereby deleted in its entirety and replaced with the following: "a. Not ~~Applicable~~applicable."↓

11. Section **5.6, "Depository Account; Payment Procedures,"** is hereby deleted in its entirety and replaced with the following:

5.6 Depository Account; Payment Procedures.

You hereby agree to use the same Depository Account for the Franchised Business under the same terms and conditions as provided in the [name of original brand] franchise agreement.

12. Section **5.7, "Lease Review Fee,"** is hereby deleted in its entirety and replaced with the following: "**5.7 Not Applicable.**"

13. Section **5.8, "Lease Guarantee Fee,"** is hereby deleted in its entirety and replaced with the following: "**5.8 Not Applicable .**"

14. Section **5.11, "Document Administration Fee,"** is hereby deleted in its entirety and replaced with the following: "**5.11 Not Applicable.**"

15. Section **5.13 “Transfer Franchise Fee,”** is hereby deleted in its entirety and replaced with the following:

5.13 Transfer Franchise Fee.

A Potential Transferee (as defined in *Section 12.1c.*) receiving this Agreement, as may be amended, in connection with a Full Transfer (as defined in *Section 12.1a.1.*), must pay us a transfer franchise fee of Five Thousand Dollars (\$5,000) (“Transfer Franchise Fee”).¹

16. Section **5.16, “Annual Meeting Registration Fee,”** is hereby deleted in its entirety and replaced with the following: **“5.16 Not Applicable.”**

17. Section **5.19, “Data Fees,”** is hereby deleted in its entirety and replaced with the following: **“5.19 Not Applicable.”**

18. Section **5.20, “POS Help Desk Phone Support Maintenance Service Fee,”** is hereby deleted in its entirety and replaced with the following: **“5.20 Not Applicable.”**

19. The first sentence in Section 5.24, “Grand Opening Marketing,” is hereby deleted and replaced with the following:

Five Thousand Dollars (\$5,000) (“Grand Opening Marketing”) is payable to us on the earlier of: (i) prior to you executing a lease for the premises where the Franchised Business will be located; or (ii) prior to construction commencing at the premises where the Franchised Business will be located.

20. ~~20.~~ Except as set forth in this [First] Amendment, the terms and provisions of the Agreement shall remain in full force and effect.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, has duly executed and delivered this [First] Amendment as of the [First] Amendment Effective Date.

FRANCHISOR: KAHALA FRANCHISING, L.L.C., an Arizona limited liability company

By: [Name, Title]

FRANCHISEE: _____, a(n)

By: [Name, Title]

FRANCHISOR:

By: [Name, Title]

KAHALA FRANCHISING, L.L.C., an Arizona
limited liability company

By: [Name, Title]

FRANCHISEE:

_____, a(n) _____

By: [Name, Title]

By: [Name, Title]

EXHIBIT J

TO THE FRANCHISE DISCLOSURE DOCUMENT

Amendment to Franchise Agreement

(for Georgia residents and
franchisees whose franchises will be operated in Georgia)

[FIRST] AMENDMENT TO FRANCHISE AGREEMENT

[for Georgia residents and franchisees whose franchises will be operated in
Georgia]

This [FIRST] AMENDMENT TO FRANCHISE AGREEMENT (the "[First]
Amendment")

dated _____, 20____ (the "[First] Amendment Effective Date") to the Franchise
Agreement dated _____, 20____[, as amended,] for the *NrGize Lifestyle
Cafe*[™]
location at

_____ (the "Agreement") by
_____ ("Franchisee") and Kahala
Franchising,

L.L.C., an Arizona limited liability company ("Franchisor"), is entered into by such parties to
amend the Agreement as set forth in this [First] Amendment. To the extent this [First]
Amendment contains terms and conditions that differ from those contained in the
Agreement, this [First] Amendment shall control. The parties agree that a concept or
principle covered in this [First] Amendment shall apply and be incorporated into all other
provisions of the Agreement in which the concept or principle is also applicable,
notwithstanding the absence of any specific cross-reference thereto. All capitalized terms
not otherwise defined in this [First] Amendment will have the same meanings ascribed to
such terms in the Agreement.

1. Paragraph c. in Section 14.6, "**Covenant Not to Compete; Conflicting
Interests**," is hereby deleted in its entirety and replaced with the following:

c. For purposes of this Section 14.6, "Competing Business" means
a business which is primarily engaged in the sale of
smoothies, protein shakes, meal replacement shakes,
chillers, and all variations thereof, within a geographical
area consisting of a ten
(10) mile radius from the: (i) Location; and (ii) location of
any *NrGize Lifestyle Cafe* restaurant set forth in Exhibit "A,"
attached to the [First] Amendment to Agreement and
incorporated herein by reference. The term of this covenant
will be extended by any time consumed in litigation to
enforce it in both trial and appellate courts. If a court of
competent jurisdiction determines that the restrictions in
this Section 14.6 are excessive in time, geographic scope,
or otherwise, the court may reduce the restriction to the
level that provides the maximum restriction allowed by law.

2. Except as set forth in this [First] Amendment, the terms and provisions of the
Agreement shall remain in full force and effect.

[SIGNATURE PAGE FOLLOWS]

[store #] [doc#]

~~IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, has duly executed and delivered this [First] Amendment as of the [First] Amendment Effective Date.~~

FRANCHISOR:

KAHALA FRANCHISING, L.L.C., an Arizona-
limited liability company

By: _____
[Name, Title]

FRANCHISEE:

_____,

By: _____
[Name, Title]

By: _____
[Name, Title]

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Store #	Store Address	City	State	Zip Code

{store-#} {doc#}

INTENTIONALLY OMITTED

EXHIBIT K

TO THE FRANCHISE DISCLOSURE DOCUMENT

Addendum to the Franchise Agreement ~~and Single-Unit
Facility License Agreement~~ for SBA Loans



INSTRUCTIONS FOR USE OF SBA FORM 2462

ADDENDUM TO FRANCHISE AGREEMENT

SBA has issued a revised version of the Addendum to Franchise Agreement (SBA Form 2462) which became effective January 1, 2018. SBA's Standard Operating Procedure (SOP) 50 10 5(J) explains updates made to the franchise review process for the 7(a) and 504 loan programs. By executing this Addendum, the franchisor agrees that any terms in its franchise agreement or any other document the franchisor requires the franchisee to sign that are related to control by the franchisor or its franchisees (resulting in a determination by SBA of affiliation between the Franchisor and its franchisees, as defined in 13 CFR part 121 and SBA's Standard Operating Procedure 50 10) will not be enforced against the franchisee during the life of the SBA-guaranteed loan.

SBA Form 2462 has **three** locations with drop down menu options at the beginning of the form (see example below). Once a drop down option is chosen (i.e. #1 "Franchise" #2 "Franchisor" and #3 "Franchisee"), the user must hit the "tab" key to automatically populate the appropriate term in all fields.

Example of Drop-Down Options

The screenshot shows the top portion of SBA Form 2462. On the left is the SBA logo. The title is "ADDENDUM TO Franchise AGREEMENT". A drop-down menu is open for "Franchise", showing options: "Franchise", "License", "Distributor", "Membership", and "Other". A red box with the number "1" points to this menu. Below the title, the text reads: "THIS ADDENDUM ("Addendum") is made _____, 20____, by and between _____ ("Franchisor"), located at _____, and _____ ("Franchisee"), located at _____." Red boxes with numbers "2" and "3" point to the "Franchisor" and "Franchisee" drop-down menus respectively.

Once the drop down options have populated in all three locations, the remaining fillable fields must be completed manually (see example below). These fields will either be blank or contain the language "(Enter type of)" or "(type of agreement)." In each of these fields, enter the type of agreement, e.g., franchise, license, dealer, membership, etc. When completing SBA Form 2462, the text may not be altered except to insert the information required to complete the form.

Example of Fillable Fields to be Completed Manually

FORCED SALE OF ASSETS

- If Franchisor _____ has the option to purchase the business personal assets upon default or termination of the Franchise _____ Agreement and the parties are unable to agree on the value of the assets, the value will be determined by an appraiser chosen by both parties. If the Franchisee _____ owns the real estate where the franchisee _____ location is operating, Franchisee _____ will not be required to sell the real estate upon default or termination, but Franchisee _____ may be required to lease the real estate for the remainder of the (enter type of) _____ term (excluding additional renewals) for fair market value.

Note to Parties: This Addendum only addresses "affiliation" between the Franchisor _____ and Franchisee _____. Additionally, the applicant Franchisee _____ and the (type of agreement) _____ system must meet all SBA eligibility requirements.



ADDENDUM TO LICENSE

¹ AGREEMENT

¹ While relationships established under license, jobber, dealer and similar agreements are not generally described as “franchise” relationships, if such relationships meet the Federal Trade Commission’s (FTC’s) definition of a franchise (see 16 CFR § 436), they are treated by SBA as franchise relationships for franchise affiliation determinations per 13 CFR § 121.301(f)(5).

THIS ADDENDUM ("Addendum") is made and entered into on _____, 20____, by and between _____ ("Franchisor"),
Licensor
located at _____,
and _____ ("Franchisee"),
Licensee
located at _____.

Franchisor and Franchisee-

L i c e n s o r and L i c e n s e e entered into a ~~Franchise~~ Agreement on _____ a L i c e n s e _____, 20____, (such Agreement, together with any amendments, the "~~Franchise~~ L i c e n s e Agreement"). ~~Franchisee~~ L i c e n s e e is applying for a ~~loan~~ ("~~Loan~~" financing(s)) from a lender in which funding is provided with the assistance of the U. S. Small Business Administration ("SBA"). SBA requires the execution of this Addendum as a condition for obtaining ~~the~~ SBA-assisted financing.

In consideration of the mutual promises below and for good and valuable consideration, the receipt and sufficiency of which the parties acknowledge, the parties agree that notwithstanding any other terms in the ~~Franchise~~ L i c e n s e Agreement or any other document L i c e n s o r requires L i c e n s e e to sign:

CHANGE OF OWNERSHIP

- If ~~Franchisee~~ L i c e n s e e is proposing to transfer a partial interest in ~~Franchisee~~ and ~~Franchisor~~ L i c e n s e e and F r a n c h i s o r has an option to purchase or a right of first refusal with respect to that partial interest, ~~Franchisor~~ F r a n c h i s o r may exercise such option or right only if the proposed transferee is not a current owner or family member of a current owner of ~~Franchisee~~ L i c e n s e e. If the ~~Franchisor~~ F r a n c h i s o r's consent is required for any transfer (full or partial), ~~Franchisor~~ F r a n c h i s o r will not unreasonably withhold such consent. In the event of an approved transfer of the ~~franchise~~ (E n t e r t y p e o f) interest or any portion thereof, the transferor will not be liable for the actions of the transferee ~~franchisee~~ L i c e n s e e.

FORCED SALE OF ASSETS

- If ~~Franchisor~~ F r a n c h i s o r has the option to purchase the business personal assets upon default or termination of the ~~Franchise~~ L i c e n s e Agreement and the parties are unable to agree on the value of the assets, the value will be determined by an appraiser chosen by both parties. If the ~~Franchisee~~ L i c e n s e e owns the real estate where the ~~franchise~~ l i c e n s e e location is operating, ~~Franchisee~~ L i c e n s e e will not be required to sell the real estate upon default or termination, but ~~Franchisee~~ L i c e n s e e may be required to lease the real estate for the remainder of the ~~franchise~~ (e n t e r t y p e o f) term (excluding additional renewals) for fair market value.

COVENANTS

- If the Franchisee Licensee owns the real estate where the franchise licensee location is operating, ~~Franchisor may not Franchisor~~ has not and will not during the term of the License Agreement record against the real estate any restrictions on the use of the property, including any restrictive covenants, branding covenants or environmental use restrictions. If any such restrictions are currently recorded against the Licensee's real estate, they must be removed in order for the Licensee to obtain SBA-assisted financing.

EMPLOYMENT

- ~~Franchisor Franchisor~~ will not directly control (hire, fire or schedule) ~~Franchisee's employees. Licensee's~~ employees. For temporary personnel franchises, the temporary employees will be employed by the Licensee not the Franchisor.

~~This~~As to the referenced License Agreement, this Addendum automatically terminates on the earlier to occur of the following: (i) the Loan is paid in full; or (ii) when SBA no longer has any interest in the Loan any SBA-assisted financing provided to the Licensee.

Except as amended by this Addendum, the Franchise License Agreement remains in full force and effect according to its terms.

FRANCHISOR: FRANCHISEE:

Franchisor and Licensee acknowledge that submission of false information to SBA, or the withholding of material information from SBA, can result in criminal prosecution under 18 U.S.C. 1001 and other provisions, including liability for treble damages under the False Claims Act, 31 U.S.C. §§ 3729 - 3733.

Authorized Representative of F R A N C H I S O R :

By: _____ By: _____

Print Name: _____

Title: _____

Authorized Representative of L I C E N S E E :

By: _____

Print Name: _____ ~~Print Name~~

Title: _____

Note to Parties: This Addendum only addresses "affiliation" between the ~~Franchisor and Franchisee~~ Franchisor and Licensee. Additionally, the applicant ~~Franchisee~~ Licensee and the franchise (type of agreement) system must meet all SBA eligibility requirements.

EXHIBIT L
TO THE FRANCHISE DISCLOSURE DOCUMENT

Required Lease Terms
(Lease Addendum to Lease Agreement)

REQUIRED LEASE TERMS

The Terms and Conditions in the Attached Lease Addendum to Lease Agreement (“Lease Addendum”) must be included in the Franchisee’s Lease for the location of the Franchised Business via execution of the attached Lease Addendum or through modifications to the actual Lease

LEASE ADDENDUM TO LEASE AGREEMENT

("Lease Addendum")

Dated: _____, 20____

between

and

(Landlord Name)

(Tenant Name)

(Address of "Premises")

1. Use of Premises.

During the term of the Lease, the Premises may be used only for the operation of a quick service restaurant located at _____ ("Restaurant") under the *NrGize Lifestyle Cafe* system, trademarks, trade names, and logos, which specialize in the sale of smoothies, protein shakes, meal replacement shakes, chillers and any other items sold under the *NrGize Lifestyle Cafe* system. Landlord consents to Tenant's use of such trademarks, trade names, logos, tag lines, signs, décor items, color schemes, and related components of the *NrGize Lifestyle Cafe* franchise system as Kahala Franchising, L.L.C., franchisor of the *NrGize Lifestyle Cafe* brand ("Franchisor"), or any of its affiliates, may prescribe for *NrGize Lifestyle Cafe* franchisees and which may be altered or changed by Franchisor from time to time.

2. Assignment and Notices.

a. Notwithstanding anything to the contrary in the Lease, Tenant shall have the right to assign the Lease and all amendments thereto, as applicable, including this Lease Addendum (collectively, "Lease"), and all rights hereunder to Franchisor, or to a third-party *NrGize Lifestyle Cafe* franchisee approved by Franchisor upon the expiration or termination of the current franchise agreement by and between Franchisor and Tenant ("Franchise Agreement"), without obtaining Landlord's consent and without the imposition of any assignment fee or similar charge. Landlord shall not accelerate the rent owed hereunder in connection with such assignment(s), so long as Franchisor, its affiliate(s) or its third-party franchisee(s) assumes in writing the obligations of Tenant under the Lease. Nothing in this Section 2.a shall serve to extend the term of the Lease or provide Franchisor any occupancy rights, options to renew or other rights not expressly set forth to Tenant in the Lease.

b. Landlord agrees to furnish Franchisor with copies of any and all letters and notices to Tenant pertaining to the Lease and the Premises at the same time that such letters and notices are sent to Tenant. Landlord further agrees that, if it intends to terminate the Lease, the Landlord will give Franchisor the same advance written notice of such intent as provided to Tenant, specifying in such notice all defaults that are the cause of the proposed termination. Franchisor shall have the right to cure, at its sole option, any such default within the time periods granted to Tenant under the Lease. If neither Tenant nor Franchisor cures all such defaults within said time periods (or such longer cure periods as may be specifically permitted by the Lease), then the Landlord may terminate the Lease, re-enter the Premises and/or exercise all other rights as set forth in the Lease.

c. Prior to the expiration or termination of the Lease, Franchisor shall have the right to enter the Premises to make any reasonable modifications or reasonable alterations necessary to protect Franchisor's interest in the *NrGize Lifestyle Cafe* brand and its trademarks,

trade names, logos, tag lines, signs, décor items, color schemes, and related components of the NrGize Lifestyle Cafe franchise system, or to cure any default under the Lease, and Landlord agrees that Franchisor shall not be liable for trespass or any other crimes or tort.

3. Notices.

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, email or facsimile (provided that the sender confirm the facsimile by sending an original confirmation copy by certified 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 Tenant, the notice shall be addressed to:

Attn:
Facsimile:
Email:

If directed to Landlord, the notice shall be address to:

Attn:
Facsimile:
Email:

If directed to Franchisor, the notices shall be addressed to:

Kahala Franchising, L.L.C.
9311 E. Via De Ventura
Scottsdale, AZ 85258 Attn:
Real Estate
Department Facsimile:
(480) 362-4792
Email: realestate@kahalamgmt.com

Any notices sent by personal delivery shall be deemed given upon receipt. Any notices given by email or facsimile shall be deemed given on the business day of 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 fifteen (15) days written notice of such change to the other parties.

4. Amendments.

Landlord and Tenant will not amend, renew, extend or otherwise modify this Lease in any manner which would materially affect any of the foregoing provisions without Franchisor's prior written consent.

5. Third Party Beneficiary.

Landlord and Tenant agree that Franchisor is a third party beneficiary of the Lease.

6. Miscellaneous.

The terms and conditions of this Lease Addendum will supersede any conflicting terms of the Lease. Any capitalized term not specifically defined in this Addendum shall have the meaning ascribed to such term in the Lease.

IN WITNESS WHEREOF, the parties hereto, by and through their respective representatives authorized to enter into and bind each respective party without further consent or authorization, have duly executed and delivered this Lease Addendum in duplicate as of the date set forth above.

LANDLORD: _____, a(n) _____

By: _____

Name: _____

Title: _____

TENANT: _____, a(n) _____

By: _____

Name: _____

Title: _____

INTENTIONALLY OMITTED

By: _____

Name: _____

Title: _____

EXHIBIT M
TO THE FRANCHISE DISCLOSURE DOCUMENT

Lease Guaranty Acknowledgment
~~Lease Guaranty Acknowledgment~~

~~You have informed Kahala Management, L.L.C. (the "Company") that the landlord of the location which you have selected for the operation of your Franchised Business requires, as a condition for you to obtain a lease agreement, that you obtain a lease guaranty from the Company or any affiliate of the Company of your obligations under the lease. You have requested that the Company or any affiliate of the Company execute and deliver a lease guaranty in favor of the premises landlord for the location you have selected or are considering for your Franchised Business. You acknowledge that neither the Company nor any of its affiliates is required to serve as guarantor of your lease for the site of your Franchised Business and that a decision whether to serve as guarantor is within the sole and absolute discretion of the Company.~~

~~We are willing to undertake to assist you in obtaining a lease by agreeing to execute and deliver a lease guaranty, in form and substance satisfactory to the Company and its counsel. In consideration for the execution and delivery of a lease guaranty, you hereby acknowledge that you have agreed to pay a lease guaranty fee to the Company in an amount equal to the lesser of (i) ten per cent (10%) of the total amount of the rental obligations to be guaranteed under the lease during its term, and any renewal term (inclusive of any charges for real estate taxes, common area maintenance, insurance), or (ii) Ten Thousand (\$10,000) Dollars (the "Lease Guaranty Fee"). The Lease Guaranty Fee will be due and payable to the Company upon the Company's (or any affiliate of the Company) execution of the applicable lease guaranty agreement with the landlord.~~

~~Any capitalized terms not specifically defined in this Lease Guaranty Acknowledgment shall have the meaning ascribed to such terms in your *NrGize Lifestyle Cafe™* Franchise Agreement dated _____.~~

~~The undersigned understands and acknowledges that: (i) notwithstanding the agreement of the Company to execute and deliver a lease guaranty, the execution and delivery of such guaranty and any participation of the Company and/or its agents or employees, including, without limitation, its Area Representatives, and/or brand presidents in the negotiation of an LOI or a lease, and analyzing and/or approving site(s) for the Location of the Franchised Business, you are solely responsible for conducting a review of the proposed site, the LOI and lease terms, and for final Location selection and approval based upon your review, your business plan and model;~~

~~(ii) you have not relied upon the assistance of the Company in procuring, or in the approval of, an LOI or lease for the Franchised Business, or in its decision to select any proposed site; (iii) each potential site for the Franchised Business is unique and provides different risks and benefits, which may impact the performance of the Franchised Business; and, (iv) as part of analyzing the proposed site, it is your responsibility to meet with the local officials to determine, among other things whether any street, highway, interchange, city, or other changes are planned in the area or access to the proposed site that could negatively affect the performance of the Franchised Business.~~

~~Acknowledged and accepted:~~

~~Corporation or Entity: _____~~

~~By: _____~~

~~Print Name: _____~~

~~Brand Concept: _____~~

Date: _____

EXHIBIT N

TO THE FRANCHISE DISCLOSURE DOCUMENT

**Lease Review and/or Negotiation Agreement and Release
and State Addenda**

LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE

~~You have requested that the real estate department of Kahala Management, L.L.C. ("Company") assist you in the review of the Lease for your Franchised Business ("Location"), which may include participation in the negotiation of the business terms of a lease with the landlord and/or broker/agent of the landlord for the Location ("Lease Assistance"). You have agreed to pay the Company a fee of One Thousand Two Hundred Fifty Dollars (\$1,250) for Lease Assistance. The Company is willing to undertake to assist you in the review and related negotiations.~~

~~Any capitalized terms not specifically defined in this LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE shall have the meaning ascribed to such terms in your NrGize Lifestyle Cafe[™] Franchise Agreement dated _____, 20__ for store number _____.~~

~~Although, Company must review your selection of a Location and the Lease to confirm it meets our minimum site requirements, the provisions, final approval and execution of the Lease remain your sole responsibility. You may require or elect to seek additional information or guidance of others, including, without limitation, independent business and legal advisors of your own choosing, other than what is provided by Company. This would be your sole responsibility. The services provided by the Company's real estate department will include only those certain services as detailed in your Franchise Agreement.~~

~~The undersigned understands and acknowledges that: (i) notwithstanding any provision by Company and/or its subsidiaries, parent, or affiliated companies, agents or employees, including, without limitation, its Area Representatives, Brand Presidents or Vice President of Operations, in the Lease Assistance for the location of the Franchised Business, you are solely responsible for conducting a review of the proposed site, the Letter Of Intent ("LOI") and Lease terms, and for final site selection based upon your review, your individual business plan and model; (ii) you have not relied solely upon the Lease Assistance of Company in reviewing, negotiating, or approving if an LOI or Lease for the Franchised Business, or in your decision to select any proposed site; (iii) each site for the Franchised Business is unique and provides different risks and benefits, which may impact the performance of the Franchised Business; and (iv) as part of your analysis of the proposed site for the operation of the Franchised Business, it is your sole responsibility to conduct such due diligence reviews of the geographic area and the shopping center in which the Franchised Business is to be located as you, in your sole discretion, deem necessary and advisable, including, without limitation, meeting with the local officials to determine, among other things, whether any street, highway, interchange, city, or other changes are planned in the area or access to the proposed site that could negatively affect the performance of the Franchised Business.~~

~~In consideration of the agreement of Company to provide Lease Assistance to you, the undersigned hereby fully releases, discharges, and acquits Kahala Franchising, L.L.C., Company, and its respective predecessors, successors and assigns, parents, subsidiaries and affiliated corporations, their respective officers, directors, agents, employees and representatives, past and present, of any and all of such corporations (collectively "Franchisor Parties"), and/or their Area Representatives, Brand Presidents and/or Vice President of Operations, from and against any and all claims, demands and causes of action (whether now existing or hereafter arising, known or unknown) that he/she/it, or any of his/her/its parent, affiliate, or subsidiary companies, agents, representatives, members, officers, directors, or~~

~~employees, may now or in the future have against Franchisor Parties, and/or their Area Representatives, Brand Presidents and/or Vice President of Operations (or any of them), including, without limitation, claims, demands and causes of action that resulted, result or may result from, arise out of or relate to, in whole or in part, directly or indirectly, the Lease Assistance.~~

~~Acknowledged and accepted:~~

~~By: _____~~

~~Print Name: _____~~

~~Corporation or Entity: _____~~

~~Date: _____~~

~~By: _____~~

~~Print Name: _____~~

~~Date: _____~~

~~By: _____~~

~~Print Name: _____~~

~~Date: _____~~

~~By: _____~~

~~Print Name: _____~~

~~Date:~~ **ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND
RELEASE**

(FOR THE STATE OF CALIFORNIA)

This ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE (FOR THE STATE OF CALIFORNIA) ("Addendum") hereby amends the Lease Review and/or Negotiation Agreement and Release dated _____, 20 ("Lease Review Agreement") from the undersigned to Franchisor Parties. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Lease Review Agreement. The Lease Review Agreement is hereby amended by the addition of the following language, which shall be considered an integral part of the Lease Review Agreement:

1. A general release is incorporated in the Lease Review Agreement. California Corporations Code §31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code §§31000 through 31516).

2. Business and Professions Code §20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code §§20000 through 20043).

3. Except as set forth in this Addendum, the terms and provisions of the Lease Review Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned, by and through its respective representative with full rights, power and authority to enter into and bind the undersigned without further consent or approval of any kind, has duly executed and delivered this Addendum on _____, 20_.

_____, a(n)_____

By: _ [Name, Title]

ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE
(FOR THE STATE OF HAWAII)

This ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE (FOR THE STATE OF HAWAII) ("Addendum") hereby amends the Lease Review and/or Negotiation Agreement and Release dated _____, 20_ ("Lease Review Agreement") from the undersigned to Franchisor Parties. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Lease Review Agreement. The Lease Review Agreement is hereby amended by the addition of the following language, which shall be considered an integral part of the Lease Review Agreement:

1. A general release is incorporated in the Lease Review Agreement. If the Franchisee is required to execute a release of claims, such release shall exclude claims arising under the Hawaii Franchise Investment Law. Any condition, stipulation or provision binding the Franchisee to waive compliance with any provision of Section 482E-6 of the Hawaii Franchise Investment Law shall be void.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Hawaii Franchise Investment Law applicable to the provision are met independent of this Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met.

3. Except as set forth in this Addendum, the terms and provisions of the Lease Review Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned, by and through its respective representative with full rights, power and authority to enter into and bind the undersigned without further consent or approval of any kind, have duly executed and delivered this Addendum on

_____, 20_.

_____, a(n)_____

By: _ [Name, Title]

ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE
(FOR THE STATE OF ILLINOIS)

This ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE (FOR THE STATE OF ILLINOIS) ("Addendum") hereby amends the Lease Review and/or Negotiation Agreement and Release dated_____, 20 ("Lease Review Agreement") from the undersigned to Franchisor Parties. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Lease Review Agreement. The Lease Review Agreement is hereby amended by the addition of the following language, which shall be considered an integral part of the General Release:

1. A general release is incorporated in the Lease Review Agreement. If the Franchisee is required 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 Illinois Franchise Disclosure Act of 1987, 815 ILCS 705/20, or a rule of order under the Act, such release shall exclude claims arising under the Illinois Franchise Disclosure Act, and such acknowledgements shall be void with respect to claims under the Act.

2. Section 41 of the Illinois Franchise Disclosure Act states that "any condition, stipulation, or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of this Act is void."

3. Each provision of this 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 Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met.

4. Except as set forth in this Addendum, the terms and provisions of the Lease Review Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned, by and through its respective representative with full rights, power and authority to enter into and bind the undersigned without further consent or approval of any kind, has duly executed and delivered this Addendum on _____, 20_.

_____, a(n)_____

By: _ [Name, Title]

ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE
(FOR THE STATE OF INDIANA)

This ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE (FOR THE STATE OF INDIANA) ("Addendum") hereby amends the Lease Review and/or Negotiation Agreement and Release dated _____, 20 ("Lease Review Agreement") from the undersigned to Franchisor Parties. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Lease Review Agreement. The Lease Review Agreement is hereby amended by the addition of the following language, which shall be considered an integral part of the Lease Review Agreement:

1. A general release is incorporated in the Lease Review Agreement. If the Franchisee is required 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 Act, or a rule of order under the Act, such release shall exclude claims arising under the Indiana Franchises Act, Ind. Code Ann. §§ 23-2-2.5 and the Indiana Deceptive Franchise Practices Act, Ind. Code Ann. § 23-2-2.7-1, and such acknowledgements shall be void with respect to claims under the Act.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Indiana Deceptive Practices Act and the Indiana Franchises Act, with respect to each such provision, are met independent of this Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met.

3. Except as set forth in this Addendum, the terms and provisions of the Lease Review Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned, by and through its respective representative with full rights, power and authority to enter into and bind the undersigned without further consent or approval of any kind, has duly executed and delivered this Addendum on _____, 20_.

_____, a(n)_____

By: _ [Name, Title]

ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE
(FOR THE STATE OF MARYLAND)

This ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE (FOR THE STATE OF MARYLAND) ("Addendum") hereby amends the Lease Review and/or Negotiation Agreement and Release dated _____, 20 ("Lease Review Agreement") from the undersigned to Franchisor Parties. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Lease Review Agreement. The Lease Review Agreement is hereby amended by the addition of the

following language, which shall be considered an integral part of the Lease Review Agreement:

1. A general release is incorporated in the Lease Review Agreement. The general release required as a condition of renewal shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.

2. Each provision of this 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 Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met.

3. Except as set forth in this Addendum, the terms and provisions of the Lease Review Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned, by and through its respective representative with full rights, power and authority to enter into and bind the undersigned without further consent or approval of any kind, has duly executed and delivered this Addendum on _____, 20_.

_____, a(n)_____

By: _ [Name, Title]

ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE
(FOR THE STATE OF MICHIGAN)

This ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE (FOR THE STATE OF MICHIGAN) ("Addendum") hereby amends the Lease Review and/or Negotiation Agreement and Release dated _____, 20_ ("Lease Review Agreement") from the undersigned to Franchisor Parties. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Lease Review Agreement. The Lease Review Agreement is hereby amended by the addition of the following language, which shall be considered an integral part of the Lease Review Agreement:

1. A general release is incorporated in the Lease Review Agreement. The following provision is void and unenforceable under the Michigan Franchise Investment Law § 445.1527 if contained in any documents relating to a franchise: A requirement that a franchisee assent to a release, assignment, novation, waiver, or estoppel which deprives franchisee of rights and protections provided in the Act. This shall not preclude a franchisee, after entering into a franchise agreement, from settling any and all claims.

2. Except as set forth in this Addendum, the terms and provisions of the Lease Review Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned, by and through its respective representative with full rights, power and authority to enter into and bind the undersigned without further consent or approval of any kind, has duly executed and delivered this Addendum on _____, 20_.

_____, a(n)_____

By: _ [Name, Title]

ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE
(FOR THE STATE OF MINNESOTA)

This ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE (FOR THE STATE OF MINNESOTA) ("Addendum") hereby amends the Lease Review and/or Negotiation Agreement and Release dated _____, 20 ____ ("Lease Review Agreement") from the undersigned to Franchisor Parties. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Lease Review Agreement. The Lease Review Agreement is hereby amended by the addition of the following language, which shall be considered an integral part of the Lease Review Agreement:

1. A general release is incorporated in the Lease Review Agreement. Minnesota Rules 2860.4400.D prohibits a franchisor from requiring a franchisee to assent to a release, assignment, novation, or waiver that would relieve any person from liability imposed by Minnesota Statutes 1973 Supplement, sections 80C.01 to 80C.22; provided, that this part shall not bar the voluntary settlement of disputes.

2. Any condition, stipulation or provision, including any choice of law provision, purporting to bind any person who, at the time of acquiring a franchise is a resident of this state, or, in the case of a partnership or corporation, organized or incorporated under the laws of this state, or purporting to bind a person acquiring any franchise to be operated in this state to waive compliance or which has the effect of waiving compliance with any provision of sections 80C.01 to 80C.22 or any rule or order thereunder is void under the Minnesota Franchise Act, Minn. Stat. § 80C.21.

3. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Minnesota law applicable to the provision are met independent of this Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met.

4. Except as set forth in this Addendum, the terms and provisions of the Lease Review Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned, by and through its respective representative with full rights, power and authority to enter into and bind the undersigned without further consent or approval of any kind, has duly executed and delivered this Addendum on _____, 20__.

_____, a(n)_____

By: _ [Name, Title]

ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE
(FOR THE STATE OF NORTH DAKOTA)

This ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND

RELEASE (FOR THE STATE OF NORTH DAKOTA) ("Addendum") hereby amends the Lease Review and/or Negotiation Agreement and Release dated _____, 20 ("Lease Review Agreement") from the undersigned to Franchisor Parties. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Lease Review Agreement. The Lease Review Agreement is hereby amended by the addition of the following language, which shall be considered an integral part of the Lease Review Agreement:

1. A general release is incorporated in the Lease Review Agreement. Under North Dakota Franchise Investment Law, North Dakota Century Code Annotated Chapter 51-19-16, any condition, stipulation, or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of this chapter or any rule order hereunder is void.

2. **THE SECURITIES COMMISSIONER HAS HELD THE FOLLOWING TO BE UNFAIR, UNJUST OR INEQUITABLE TO NORTH DAKOTA FRANCHISEES (SECTION 51-19-09, N.D.C.C.):**

a. General Release: Franchise Agreements that require the franchisee to sign a general release upon renewal of the franchise agreement.

3. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the North Dakota Franchise Investment Law, with respect to each such provision, are met independent of this Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met.

4. Except as set forth in this Addendum, the terms and provisions of the Lease Review Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned, by and through its respective representative with full rights, power and authority to enter into and bind the undersigned without further consent or approval of any kind, has duly executed and delivered this Addendum on _____, 20 ____.

_____, a(n)_____

By: _ [Name, Title]

ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE
(FOR THE STATE OF NEW YORK)

This ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE (FOR THE STATE OF NEW YORK) ("Addendum") hereby amends the Lease Review and/or Negotiation Agreement and Release dated _____, 20 ("Lease Review Agreement") from the undersigned to Franchisor Parties. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Lease Review Agreement. The Lease Review Agreement is hereby amended by the addition of the following language, which shall be considered an integral part of the Lease Review Agreement:

1. A general release is incorporated in the Lease Review Agreement. Under New York General Business Law, Article 33, Section 687, it is unlawful to require a franchisee to assent to a release, assignment, novation, waiver or estoppel which would relieve a person from any duty or liability imposed by this Article.

2. Each provision of this 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.

3. Except as set forth in this Addendum, the terms and provisions of the Lease Review Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned, by and through its respective representative with full rights, power and authority to enter into and bind the undersigned without further consent or approval of any kind, has duly executed and delivered this Addendum on _____, 20_.

_____, a(n)_____

By: _ [Name, Title]

ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE
(FOR THE STATE OF RHODE ISLAND)

This ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE (FOR THE STATE OF RHODE ISLAND) ("Addendum") hereby amends the Lease Review and/or Negotiation Agreement and Release dated _____, 20 ("Lease Review Agreement") from the undersigned to Franchisor Parties. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Lease Review Agreement. The Lease Review Agreement is hereby amended by the addition of the following language, which shall be considered an integral part of the Lease Review Agreement:

1. A general release is incorporated in the Lease Review Agreement. Under the Franchise Investment Act, R.I. Gen. Law. ch. 395 Sec. 19-28.1-15, a condition, stipulation or provision requiring a franchisee to waive compliance with or relieving a person of a duty of liability imposed by or a right provided by this act or a rule or order under this act is void. An acknowledgement provision, disclaimer or integration clause or a provision having a similar effect in a franchise agreement does not negate or act to remove from judicial review any statement, misrepresentations or action that would violate this act or a rule or order under this act. This section shall not affect the settlement of disputes, claims or civil lawsuits arising or brought under this act.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Rhode Island Franchise Investment Act, with respect to each such provision, are met independent of this Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met.

3. Except as set forth in this Addendum, the terms and provisions of the Lease Review Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned, by and through its respective representative with full rights, power and authority to enter into and bind the undersigned without further consent or approval of any kind, has duly executed and delivered this Addendum on _____, 20_.

_____, a(n)_____

By: _ [Name, Title]

ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE
(FOR THE STATE OF SOUTH DAKOTA)

This ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE (FOR THE STATE OF SOUTH DAKOTA) ("Addendum") hereby amends the Lease Review and/or Negotiation Agreement and Release dated _____, 20 ("Lease Review Agreement") from the undersigned to Franchisor Parties. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Lease Review Agreement. The Lease Review Agreement is hereby amended by the addition of the following language, which shall be considered an integral part of the Lease Review Agreement:

1. A general release is incorporated in the Lease Review Agreement. Under the South Dakota Franchise Investment Law, South Dakota Codified Laws, Title 37, Chapter 37-5B, Sections 37-5B-26, No person may, directly or indirectly, in connection with the offer or sale of a franchise: (8) Disclaim or require a prospective franchisee to waive reliance on any representation made in the disclosure document or in its exhibits or amendments. However, this provision is not intended to prevent a prospective franchisee from voluntarily waiving specific contractual terms and conditions set forth in his or her disclosure document during the course of franchise sale negotiations.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the South Dakota Franchise Investment Law, with respect to each such provision, are met independent of this Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met.

3. Except as set forth in this Addendum, the terms and provisions of the Lease Review Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned, by and through its respective representative with full rights, power and authority to enter into and bind the undersigned without further consent or approval of any kind, has duly executed and delivered this Addendum on _____, 20_.

_____, a(n)_____

By: _ [Name, Title]

ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE
(FOR THE STATE OF VIRGINIA)

This ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE (FOR THE STATE OF VIRGINIA) ("Addendum") hereby amends the Lease Review and/or Negotiation Agreement and Release dated_____, 20 ("Lease Review Agreement") from the undersigned to Franchisor Parties. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Lease Review Agreement. The Lease Review Agreement is hereby amended by the addition of the following language, which shall be considered an integral part of the Lease Review Agreement:

1. A general release is incorporated in the Lease Review Agreement. Under the Virginia Retail Franchising Act, VA. Code Ann. §13.1-571(c), Any condition, stipulation or provision binding any person to waive compliance with any provision of this chapter or of any rule or order thereunder shall be void; provided, however, that nothing contained herein shall bar the right of a franchisor and franchisee to agree to binding arbitration of disputes consistent with the provisions of this chapter.

2. Except as set forth in this Addendum, the terms and provisions of the Lease Review Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned, by and through its respective representative with full rights, power and authority to enter into and bind the undersigned without further consent or approval of any kind, has duly executed and delivered this Addendum on _____, 20_.

_____, a(n)_____

By: _ [Name, Title]

ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE
(FOR THE STATE OF WASHINGTON)

This ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE (FOR THE STATE OF WASHINGTON) ("Addendum") hereby amends the Lease Review and/or Negotiation Agreement and Release dated_____, 20 ("Lease Review and Agreement") from the undersigned to Franchisor Parties. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Lease Review Agreement. The Lease Review Agreement is hereby amended by the addition of the following language, which shall be considered an integral part of the Lease Review Agreement:

1. A general release is incorporated in the Lease Review Agreement. The state of Washington has a statute, RCW 19.100.180, which may supersede the Franchise Agreement in your relationship with the Franchisor, including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the Franchise Agreement in your relationship with the Franchisor, including the areas of termination and renewal of your Franchise.

2. A release or waiver of rights executed by a franchisee shall not include rights under the Washington Franchise Investment Protection Act, except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act or rights or remedies under the Act, such as a right to a jury trial, may not be enforceable.

3. Except as set forth in this Addendum, the terms and provisions of the Lease Review Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned, by and through its respective representative with full rights, power and authority to enter into and bind the undersigned without further consent or approval of any kind, has duly executed and delivered this Addendum on _____, 20_.

FRANCHISEE

_____, a(n)_____

By: _ [Name, Title]

ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE
(FOR THE STATE OF WISCONSIN)

This ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE (FOR THE STATE OF WISCONSIN) ("Addendum") hereby amends the Lease Review and/or Negotiation Agreement and Release dated _____, 20 ("Lease Review Agreement") from the undersigned to Franchisor Parties. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Lease Review Agreement. The Lease Review Agreement is hereby amended by the addition of the following language, which shall be considered an integral part of the Lease Review Agreement:

1. A general release is incorporated in the Lease Review Agreement. Under the Wisconsin Franchise Investment Law, Wis. Stat. Ann. § 553.76, Any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of this chapter or any rule or order under this chapter is void. This section does not affect the settlement of disputes, claims or civil lawsuits arising or brought under this chapter.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Wisconsin law applicable to the provision are met independent of this Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met.

3. Except as set forth in this Addendum, the terms and provisions of the Lease Review Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned, by and through its respective representative with full rights, power and authority to enter into and bind the undersigned without further consent or approval of any kind, have duly executed and delivered this Addendum on _____, 20_.

_____, a(n)_____

By: [Name, Title]

SUBLEASE

This SUBLEASE ("Sublease") is effective as of the date set forth in Exhibit A attached hereto and incorporated herein by reference, executed by [LEASING ENTITY] an Arizona ("Sublessor"), and the sublessee identified in Exhibit A to this Sublease ("Sublessee").

WHEREAS, Sublessor, as tenant, previously entered into, or intends to enter into, that certain lease ("Lease") in the form of Exhibit B attached hereto and incorporated herein by reference, as may be amended from time to time, pursuant to which Sublessor leases certain premises ("Premises") as described in the Lease from the landlord under such Lease ("Landlord");

WHEREAS, Sublessee has entered into that certain Franchise Agreement for NrGize Lifestyle Cafe Store No. ("Franchise Agreement") with Kahala Franchising, L.L.C. ("Franchisor");

WHEREAS, pursuant to the Franchise Agreement, the parties and Franchisor intend that Sublessee will establish and operate a NrGize Lifestyle Cafe restaurant at the location identified in the Franchise Agreement;

WHEREAS, Sublessee may only use and occupy the Premises as a NrGize Lifestyle Cafe restaurant selling NrGize Lifestyle Cafe-authorized products pursuant to the terms of the Franchise Agreement, and for no other purpose. Sublessee may not sell any other items at the Premises unless first authorized in writing by the Sublessor;

WHEREAS, Sublessee has selected the Premises for the location of the NrGize Lifestyle Cafe restaurant to be established and operated by Sublessee;

WHEREAS, in accordance with the Franchise Agreement, Sublessor desires to sublease to Sublessee, and Sublessee desires to sublease from Sublessor, the Premises and Sublessor's rights in the Premises pursuant to the Lease, upon the terms and conditions contained herein;

NOW, THEREFORE, in consideration of the foregoing premises, and the terms, conditions and covenants set forth in this Sublease, the parties hereby agree as follows:

1. Agreement to Sublease. Sublessor hereby demises and sublets to Sublessee the Premises, and Sublessor grants Sublessee all of its respective rights, privileges and appurtenances related to the Premises, and Sublessee takes from Sublessor, the Premises, for the Term (as defined in Section 2.1).

1.1. Assumption. As of the Effective Date (as defined in Exhibit A and attached hereto), Sublessee assumes, and agrees to abide by, all terms and conditions of the Lease with respect to the Premises, and will faithfully perform all obligations required thereunder to be performed by Sublessor during the Term and any obligations to be performed by Sublessor under the Lease prior to, as of and after the Commencement Date of the Lease (as defined in Exhibit A attached hereto) to the extent the same have not been fully performed by Sublessor as of the Effective Date hereof (including without limitation, any initial construction obligations).

1.2. Compliance with Lease. Notwithstanding anything to the contrary contained herein, the terms of this Sublease and Sublessee's use, occupancy, maintenance, repair and restoration of the Premises are subject and subordinate to the terms, covenants, conditions, agreements and requirements of the Lease. Sublessee will not commit or permit to be committed on the Premises any act or omission which will violate any term or condition of the Lease. To enforce the rights of Sublessor hereunder, Sublessor may exercise any and all remedies available to Landlord under the Lease, in addition to any other remedies provided hereunder or available at law or in equity.

2. Term; Renewal Options.

2.1. Term. This Sublease will be effective as of the Effective Date and will continue for the full term of the Lease ("Term"), as the same may be amended, earlier terminated, or renewed or extended from time to time pursuant to Section 2.2 below, minus one day.

2.2. Renewal Options. If the Lease, as may be amended by Sublessor from time to time, contains renewal options, Sublessee may exercise such options in accordance with this Section 2.2, provided that as of the time of the giving of the Renewal Notice, no event of default exists or would exist hereunder or under the Lease but for the passage of time or the giving of notice, or both. **To exercise a renewal option, Sublessee must notify Sublessor in writing in accordance with Section 17 herein of Sublessee's intent to exercise such option ("Renewal Notice") not more than 90 days, or less than 60 days, before the date that Sublessor is required to notify Landlord pursuant to the Lease of its intention to exercise such option. Time is of the essence.** Notwithstanding the foregoing, Sublessee acknowledges and agrees that the decision to exercise any renewal option in connection with the Lease is solely at the discretion of Sublessor.

2.3. Failure to Timely Deliver Renewal Notice. If Sublessee does not deliver the Renewal Notice within the time period set forth above, Sublessee's right to exercise the renewal option pursuant to this Section 2 will automatically become null and void and of no further force or effect. Sublessee's exercise of a renewal option, as evidenced by the Renewal Notice, will be irrevocable in all events. Upon receipt of an effective Renewal Notice, Sublessor will undertake to renew the Lease for the applicable renewal term and Sublessee will indemnify, defend and hold Sublessor and the Indemnified Parties (as defined in Section 11) harmless with respect to the exercise of the renewal term. Notwithstanding the foregoing, Sublessee acknowledges and agrees that the decision to exercise any renewal option in connection with the Lease is solely at the discretion of Sublessor.

3. Rent, Taxes, and Insurance.

3.1. Payment of Rent. The first month's Rent (as such term is hereinafter defined) and the Sublease Security Deposit (as defined in Section 4.1 and set forth on Exhibit A) will be due and payable on the date hereof. Sublessee promises to timely pay to Landlord, without demand, deduction or set-off, regular installments of: (a) all base, minimum or fixed rent payable under the Lease ("Base Rent"), (b) any percentage rent or other rent based upon sales in, at, or from the Premises ("Percentage Rent") and (c) any other payments payable under the Lease for operating expenses, common area expenses, utilities, marketing funds, merchants associations, sprinkler fees and any other costs and expenses, including any annual reconciliation(s) of the same, as applicable (collectively, "Operating Expenses"), together with all sales, rental and privilege taxes due thereon, as required under the Lease. The foregoing costs are collectively referred to as "Rent."

3.2. Payment of Taxes and Insurance. Sublessee promises to timely pay any and all taxes and insurance covering or incurred during the Term of this Sublease and due as required under the Lease or in connection with the Premises, when billed or invoiced from the respective taxing authority or insurance company, whether addressed to Sublessor or its affiliate or Sublessee, without demand, deduction or set-off, including any annual reconciliation(s), as applicable.

3.3. Sales Reports. Not later than the tenth (10th) day after the end of each calendar month in the Term and the fifteenth (15th) day after the end of each calendar year in the Term (including the last year in the Term), or such sooner periods as may be set forth in the Lease, Sublessee will submit to Sublessor (and Landlord, if the Lease requires the delivery of sales reports) an itemized and accurate written statement signed by Sublessee or its duly authorized officer, setting forth in reasonable detail the full amount of Lease Gross Sales made during the preceding calendar month or year, as applicable, and certifying to Sublessor and Landlord that the same is true and correct. If the total amount of Percentage Rent paid by Sublessee for any week, month or calendar year during the Term (including the last calendar year of the Term) shall be less than the actual amount due from Sublessee for such period, Sublessee will pay to Landlord the difference between the amount paid by Sublessee and the actual amount due upon demand, but in no event later than what is required under the Lease. Upon three (3) days' notice to Sublessee, Sublessor or its representatives will have the right to conduct an audit of Sublessee's books and records relating to Lease Gross Sales at the Premises at any time during the Term. If such audit reveals that Sublessee understated Lease Gross Sales, then Sublessee will pay to Sublessor the costs and expenses of the audit, together with Interest (as defined in Section 3.4 below) from the date Percentage Rent should have been paid hereunder and any interest, late fees or other penalties incurred by Sublessor under the Lease as a result of

such underpayment. Sublessee will maintain all books and records relating to sales at the Premises for a minimum of three (3) years. The obligations under this Section 3.3 will survive the expiration or sooner termination of this Sublease.

3.4. Lease Gross Sales. As used herein, the term "Lease Gross Sales" will mean the total gross sales in, on, from or originating within the Premises on which percentage rent, if any, is payable under the terms of the Lease or, if not defined therein, will mean Gross Sales (as defined in the Franchise Agreement).

3.5. Late Charge. Sublessee acknowledges that any late payment by Sublessee to Landlord of any rent or other payment due hereunder may cause may result in the assessment of late charges as allowed under the Lease, if any, and that Sublessee shall be solely liable for the payment of such late charges.

4. Sublease Security Deposit.

4.1. Cash Deposit. Contemporaneously with Sublessee's execution hereof, Sublessee will deposit with Sublessor a sublease security deposit, which shall not be less than one month's base rent, in the amount set forth on Exhibit A ("Sublease Security Deposit"). The Sublease Security Deposit will be held by Sublessor as security for the performance of Sublessee's obligations under this Sublease and Sublessee's Franchise Agreement with Franchisor. The Sublease Security Deposit is not an advance rental deposit or a measure of Sublessor's damages in case of Sublessee's default. Upon each occurrence of an Event of Default hereunder (as defined in Section 15 below), or monies owed to Sublessor, Franchisor or any of its affiliates under the Franchise Agreement, Sublessor, Franchisor or its affiliates may use all or part of the Sublease Security Deposit to pay delinquent payments due under this Sublease and the Franchise Agreement, and the cost of any damage, injury, expense or liability caused by such default, without prejudice to any other remedy provided herein or provided by law. Sublessee will pay Sublessor on demand the amount that will restore the Sublease Security Deposit to its original amount. Sublessor's obligation respecting the Sublease Security Deposit is that of a debtor, not a trustee; no interest will accrue thereon unless otherwise required by law. The Sublease Security Deposit will be the property of Sublessee, but will be refunded to Sublessee when Sublessee's obligations under this Sublease and the Franchise Agreement have been completely fulfilled. Sublessee agrees and acknowledges that the Sublease Security Deposit is separate and distinct from the security deposit held by the Landlord in the amount set forth on Exhibit A ("Lease Security Deposit"). Sublessee further agrees and acknowledges that it will be required to deposit with Sublessor the Sublease Security Deposit and may be required to reimburse Sublessor for the Lease Security Deposit.

4.2. Security Agreement. Sublessee hereby grants Sublessor a security interest, and this Sublease constitutes a security agreement within the meaning of and pursuant to the Uniform Commercial Code of the state in which the Premises is located, in and to all of Sublessee's property situated in, or upon, or used in connection with the Premises (except merchandise sold in the ordinary course of business) (collectively, "Collateral") as security for all of Sublessee's obligations hereunder, including, without limitation, the obligation to pay Rent and other monetary amounts hereunder. Such property thus encumbered includes specifically all trade fixtures and any other fixtures removable by Sublessor, as tenant, pursuant to the Lease, inventory, equipment, signage, small wares, furniture, contract rights, accounts receivable and the proceeds thereof. Sublessee hereby irrevocably authorizes Sublessor to file such financing statements and other Uniform Commercial Code filings as Sublessor deems appropriate in order to perfect such security interest. Sublessee further agrees to execute such other financing statements as reasonably requested by Sublessor to further secure Sublessor's interest under this Section 4.2 as often as Sublessor in its discretion shall require.

5. Utilities. Sublessee will arrange for and pay for, prior to delinquency, the cost of any and all electricity, water, gas, sewer, telephone and other utilities consumed in the Premises commencing on the date Sublessee is permitted to access the Premises and continuing during the Term hereof (collectively, "Utilities"), unless Landlord expressly pays for the same pursuant to the Lease or the cost thereof is paid by Sublessee as Operating Expenses. Such payments will be made directly to the utility provider unless the Lease provides otherwise. Notwithstanding the foregoing, Sublessor may elect to arrange for and/or pay the cost of such Utilities directly to the utility provider. If Sublessor so elects, then Sublessee will pay to Sublessor any and all amounts due for such Utilities upon demand. Any failure to pay the cost of Utilities to any utility provider, as applicable, when due will be deemed a failure to pay Rent hereunder and will entitle Sublessor to exercise its remedies hereunder.

6. Use. Sublessee will use the Premises solely for the operation of a NrGize Lifestyle Cafe restaurant in accordance with the terms and conditions of the Lease, this Sublease and all applicable federal, state and local

laws, and for no other purpose whatsoever.

7. Sublessor's Obligations. Subject to the terms of this Sublease, Sublessor is conveying to Sublessee only those rights to the Premises that it has acquired by virtue of the Lease respectively. Sublessee acknowledges that the Lease sets forth certain Landlord obligations, which, as between Sublessor and Sublessee, Sublessor is not obligated to perform. Sublessee waives and releases Sublessor from any and all claims Sublessee may now or hereafter have against Sublessor with respect to any and all such obligations and/or the contents of the Lease or any provision thereof, all of which have been read and approved by Sublessee. If Landlord fails to perform its obligations under the Lease, Sublessee will promptly send Sublessor written notice specifically describing the default in detail. Upon receipt of such notice, Sublessor will promptly notify Landlord of the alleged default. Sublessor will not be obligated to bring or defend any claim or action against Landlord and, if it declines to do so, Sublessee, at Sublessee's sole expense, will have the right to do so, in which event Sublessee will indemnify, defend and hold harmless the Indemnified Parties (as defined in Section 11 below) against the same.

8. Maintenance, Repair, and Alterations. Without limiting the generality of Section 1.1 herein, Sublessee will maintain the Premises in good condition and repair and will perform all of "Tenant's" (as defined in Exhibit A) maintenance, repair and replacement obligations under the Lease. Sublessee acknowledges that Sublessor will have no repair or maintenance obligations with respect to the Premises or the shopping center/development ("Project") in which the Premises is located. Sublessee will not perform any construction or make any alterations, additions or changes to the Premises without Sublessor's prior written consent and, if required by the Lease, Landlord's written approval. Upon the expiration of the Term or the sooner termination of this Sublease, Sublessee will surrender the Premises in good condition and repair, in as good a condition or better than required at the time of Sublessor's surrender under the Lease.

9. Assignment and Subletting. Without the prior written consent of Sublessor, which consent may be withheld in Sublessor's sole and absolute discretion, (a) Sublessee will not assign, transfer, convey, pledge or mortgage this Sublease or any interest therein, whether by operation of law or otherwise, (b) no interest in Sublessee may be assigned, transferred, conveyed, pledged or mortgaged, whether by operation of law or otherwise, including without limitation, a merger or consolidation of Sublessee with another entity or the dissolution of Sublessee, and (c) Sublessee will not sublet all or any part of the Premises. No assignment of this Sublease or subletting of the Premises consented to will relieve Sublessee of its obligations under this Sublease. Any assignment, transfer, conveyance, pledge, mortgage or subletting in violation of this Section 9 will be voidable at the sole option of Sublessor. Sublessee acknowledges that any assignment or subletting to which Sublessor may consent will be conditioned upon Landlord's consent thereto, if Landlord's consent is required under the Lease. Any assignment of this Lease or sublease of the Premises by Sublessee will be subject to the provisions of Section 6 above.

Risk of Loss. Except to the extent caused by the intentional misconduct of Sublessor and to the fullest extent permitted by law, (a) Sublessee assumes all risk of loss of or damage to Sublessee's property located within the Premises or the Project, including any loss or damage caused by water leakage, fire, windstorm, explosion, theft, vandalism, earthquake, act of God or act of any other tenant or third party; and (b) Sublessee waives any claim, demand and action against Sublessor for injury, death or property damage occurring in or around the Premises or Project during the Term.

10. Indemnification. To the fullest extent permitted by law, Sublessee hereby indemnifies, defends (with counsel acceptable to Sublessor), releases and holds harmless Sublessor, and each of its officers, directors, affiliates, contractors, agents, attorneys and employees (collectively, "Indemnified Parties"), against all claims, demands, damages, losses, causes of action and actions of any kind or nature whatsoever, and all related costs and expenses (including reasonable attorneys' fees) (a) for injury, death, disability, or illness of any person or damage to property, occurring in or around the Premises or Project or arising out of Sublessee's use of the Premises or Project, (b) in connection with or arising from the terms conditions, requirements and provisions of the Lease (or Sublessor's negotiation or documentation thereof) and this Sublease and (c) in connection with or arising from any mechanics' or materialmen's lien or claim filed against the Premises for work performed or materials furnished by or on behalf of Sublessee, except to the extent caused by the intentional misconduct of Sublessor. It is expressly agreed that Sublessee's obligations under this Section 11 will survive the expiration or earlier termination of this Sublease for any reason.

11. Insurance. Sublessee will provide such commercial general liability, property and other insurance

coverages as Sublessor may reasonably request with respect to the operation of Sublessee's business in the Premises, but in no event less than the insurance coverage required to be carried by Tenant pursuant to the Lease (including loss of rent insurance, etc.). The insurance will be with companies reasonably acceptable to Sublessor, written on an occurrence basis, provide primary coverage, and name Sublessor (and Sublessor's area representative, if any) and Landlord as additional insureds or loss payees as their interests may appear, as applicable and as otherwise required of the Tenant under the Lease. The liability policy will contain a contractual liability endorsement. Sublessee will deliver certificates evidencing the insurance required by this Section 12, which provide that the insurance may not be cancelled or materially changed in the scope or amount of coverage unless thirty (30) days advance written notice is given to Sublessor and Landlord.

12. Right to Inspect. Sublessor and its agents, employees or representatives will have the right to inspect the Premises during business hours to determine Sublessee's compliance with the terms of this Sublease and the Lease.

13. Acceptance of Premises; Sublessee's Representations. Upon the date that Landlord delivers possession of the Premises to Sublessor and Sublessor delivers possession of the Premises to Sublessee (which may occur simultaneously), Sublessee agrees to accept the Premises in an "AS IS" condition, without representation or warranty. Sublessee represents and confirms to Sublessor that Sublessee has selected the Premises for the location of the NrGize Lifestyle Cafe restaurant to be established and operated by Sublessee and that: (a) no representative, agent, attorney or employee of Sublessor made any representations, inducements or promises about the Premises, the Lease or the entry into this Sublease; (b) no representative, agent, attorney or employee of Sublessor made any representations, inducements or promises about the characteristics or conditions regarding or pertaining to the Premises or the shopping center/development in which the Premises is situated; (c) Sublessee has independently investigated the potential for the success of its operations in the Premises and has not relied upon any representations, inducements or promises by Sublessor's representatives, agents, attorney or employees, or any area representative; (d) Sublessee has concluded that the Premises has a reasonable opportunity for success as a NrGize Lifestyle Cafe restaurant; (e) Sublessee has inspected the Premises and finds the same in acceptable condition; (f) Sublessor has made no representation or warranty as to the suitability of the Premises for the conduct of Sublessor's business; (g) Sublessee waives any implied warranty that the Premises are suitable for Sublessee's intended purposes; (h) Sublessee accepts full responsibility for the consequences of Sublessee's decision to operate a NrGize Lifestyle Cafe restaurant at the Premises in accordance with the terms of this Sublease, the Lease and the Franchise Agreement; and (i) Sublessee has thoroughly reviewed the Lease and this Sublease and has been advised by its legal counsel regarding the Lease and this Sublease, or Sublessee has made a reasoned and fully informed decision not to be so represented by counsel and understands and acknowledges the significance and consequences of such decision, and Sublessee is fully knowledgeable about and is fully satisfied with the terms and provisions, and assumes all of its obligations as tenant under, the Lease and this Sublease. Sublessee acknowledges that the foregoing representations by Sublessee are a material inducement to Sublessor's execution of this Sublease.

14. Default.

14.1. An "Event of Default" will occur if at any time during the Term: (a) Sublessee defaults in the payment of Rent or other payment due hereunder and the same is not cured within three (3) days after written notice thereof; provided, however, Sublessor will be obligated to give only two (2) such notices in any calendar year, with subsequent payment default to be an Event of Default if such failure to pay continues for a period of three (3) days or more from the date such payment is due (without any notice); (b) Sublessee defaults in any other obligation under this Sublease, including, but not limited to causing or permitting the occurrence of any event which, but for the passage of time or the giving of notice, or both, would constitute a default under the Lease, and the same is not cured within ten (10) days after written notice thereof or such shorter cure period as may be set forth in the Lease; (c) Sublessee defaults in any obligation under the Franchise Agreement or any other agreement between Sublessor (or its affiliates) and Sublessee (or its affiliates), and the same is not cured within ten (10) days after written notice thereof; (d) any proceeding is begun by or against Sublessee to subject the assets of Sublessee to any bankruptcy or insolvency law or for an appointment of a receiver of Sublessee or for any of Sublessee's asset, or (e) Sublessee makes a general assignment of Sublessee's assets for the benefit of its creditors.

14.2. Upon an Event of Default, Sublessor may at any time thereafter at its election: (a) terminate this Sublease; (b) terminate Sublessee's right of possession in the Premises; (c) cure any such default and receive

from Sublessee, as additional rent, all costs incurred in doing so, plus interest at the lesser of fifteen percent (15%) per annum or the highest rate permitted by law; (d) exercise any remedy available to Landlord under the Lease; and/or (e) pursue any other remedies available at law or in equity. All Sublessor remedies provided herein will be cumulative and non-exclusive. Upon the termination of this Sublease or termination of Sublessee's right of possession, it will be lawful for Sublessor, without formal demand or notice of any kind, to re-enter the Premises, by summary dispossession proceedings or otherwise, and to remove Sublessee and all persons and property therefrom. If Sublessor re-enters the Premises following an Event of Default, Sublessor will have the right to keep in place and use, or remove and store, all of the furniture, fixtures, equipment, signage, inventory and other items covered by Sublessor's lien pursuant to Section 4.2 hereof. No action taken by Sublessor pursuant to this Section 15 will relieve Sublessee of its obligations under this Sublease or will be deemed an act terminating this Sublease or declaring the Term hereof ended unless notice is served upon Sublessee by Sublessor expressly setting forth therein that Sublessor elects to terminate this Sublease or declare the Term ended.

14.3. If, following an Event of Default, Sublessor terminates this Sublease, Sublessor may recover from Sublessee the sum of: (a) all Rent and all other amounts accrued hereunder to the date of such termination; (b) the cost of reletting the whole or any part of the Premises, including without limitation brokerage fees and/or leasing commissions incurred by Sublessor, and costs of removing and storing Sublessee's or any other occupant's property, and repairing, altering, remodeling, or otherwise putting the Premises into condition acceptable to a new tenant or tenants and the Landlord; (c) all reasonable expenses incurred by Sublessor in pursuing its remedies, including reasonable attorneys' fees and court costs; and (d) an amount in cash equal to the then present value of the Rent and other amounts payable by Sublessee under this Sublease as would otherwise have been required to be paid by Sublessee to Sublessor during the period following the termination of this Sublease measured from the date of such termination to the expiration date stated in this Sublease. Such present value will be calculated at a discount rate equal to the 90-day U.S. Treasury bill rate at the date of such termination.

14.4. If, following an Event of Default, Sublessor terminates Sublessee's right of possession (but not this Sublease), Sublessor may, but will be under no obligation to, relet the Premises for the account of Sublessee for such rent and upon such terms as shall be satisfactory to Sublessor without thereby releasing Sublessee from any liability hereunder and without demand or notice of any kind to Sublessee. If the Premises are not relet, then Sublessee will pay to Sublessor as damages a sum equal to the amount of the rental reserved in this Sublease for such period or periods, plus the cost of recovering possession of the Premises (including attorneys' fees and costs of suit), the unpaid Rent and other amounts accrued hereunder at the time of repossession, and the costs incurred in any attempt by Sublessor to relet the Premises. If the Premises are relet and a sufficient sum shall not be realized from such reletting after first deducting therefrom, for retention by Sublessor, the unpaid Rent and other amounts accrued hereunder at the time of reletting, the cost of recovering possession (including attorneys' fees and costs of suit), all of the costs and expense of repairs, changes, alterations, and additions, the expense of such reletting (including without limitation brokerage fees and leasing commissions) and the cost of collection of the rent accruing therefrom] to satisfy the rent provided for in this Sublease to be paid, then Sublessee will immediately satisfy and pay any such deficiency. Any such payments due Sublessor will be made upon demand therefor from time to time and Sublessee agrees that Sublessor may file suit to recover any sums falling due from time to time. Notwithstanding any such reletting without termination, Sublessor may at any time thereafter elect in writing to terminate this Sublease for such previous breach.

15. Brokerage. Sublessee represents and warrants that, other than the " Sublessee's Broker" listed on Exhibit A attached hereto, if any, it has dealt with no broker, agent or other person in connection with this transaction and that no broker, agent or other person brought about this transaction. Sublessee will pay to Broker all commissions and other compensation due as a result of this leasing transaction and will indemnify, defend and hold Sublessor harmless from and against any claims by the Broker or any other broker, agent or other person claiming a commission or other form of compensation by virtue of having dealt with Sublessee with regard to this leasing transaction.

16. Notices. All communications or notices required or permitted to be given or served under this Sublease must be in writing and will be deemed to have been duly given or made if (a) delivered in person or by courier (including by Federal Express or other courier); (b) deposited in the United States mail, postage prepaid, for mailing by certified or registered mail, return receipt requested; or (c) faxed with confirmed transmission, followed by a hard copy in the mail on the next business day, and addressed as follows:

If to Sublessor: [LEASING ENTITY]
Attention: Real Estate Department

9311 E. Via de Ventura
Scottsdale, Arizona 85258
Facsimile: (480) 362-4792

with a copy to: [FRANCHISING ENTITY]
Attention: Legal Department
9311 E. Via de Ventura
Scottsdale Arizona 85258
Facsimile: (480) 362-4819

If to Sublessee: At the Premises
Facsimile: See Exhibit A

All communications and notices will be effective upon delivery in person or by courier to the address set forth in this Sublease, upon being deposited in the United States mail in the manner set forth above or upon being faxed in the manner set forth above. Any party may change his, her or its address or fax number by giving notice in writing, stating his, her or its new address, to the other party to this Sublease as provided in the foregoing manner.

17. Personal Property Taxes. Sublessee will comply with all legal requirements for filing a personal property tax return for, and paying all taxes assessed against, all personal property, equipment and fixtures located within the Premises during the Term hereof, such payment to be made by Sublessee directly to the taxing authority on or before the due date thereof.

18. Quiet Enjoyment. So long as Sublessee pays all amounts due hereunder and performs all other covenants and agreements herein set forth, and so long as no Event of Default exists, Sublessee will peaceably and quietly have, hold and enjoy the Premises for the term hereof without hindrance from Sublessor subject to the terms and provisions of this Sublease. As this is a Sublease, Sublessee agrees to take the Premises subject to the terms of the Lease and all matters of record.

19. Governing Law. This Sublease and all questions relating to its validity, interpretation, performance and enforcement will be governed by and construed, interpreted and enforced in accordance with the laws of the State of Arizona, notwithstanding any Arizona or other conflict of laws provisions to the contrary.

20. Attorneys' Fees. If either party should prevail in any litigation or other legal proceeding instituted by or against the other related to this Sublease, the prevailing party, as determined by the court or the like, will receive from the non-prevailing party all costs and reasonable attorneys' fees (payable at standard hourly rates) incurred in such litigation or other legal proceeding, including costs on appeal, as determined by the court or the like. Sublessee will also pay to Sublessor, as additional rent, Sublessor's reasonable attorneys' fees incurred as a result of any breach or default by Sublessee under this Sublease.

21. Successors and Assigns. Subject to Section 9 hereof, which restricts Sublessee's rights to assign this Sublease and its rights hereunder, this Sublease will be binding upon and inure to the benefit of the parties and their respective assigns, legal representatives, executors, heirs and successors. Any attempt by Sublessee to assign this Sublease, or any of his rights hereunder, or to delegate his obligations hereunder, without compliance with the terms of Section 9 will be void. Notwithstanding anything contained in this Sublease to the contrary, Sublessor may assign this Sublease, or any of its rights hereunder, or delegate any of its obligations hereunder without the consent of Sublessee or any other person.

22. Joint and Several Liability. If Sublessee consists of more than one person or entity, the obligations hereunder will be joint and several.

23. Entire Agreement. This Sublease, including the exhibits hereto and the other agreements contained as exhibits to Franchisor's operations manual, contains the entire understanding and agreement of the parties with respect to the subject matter hereof and supersedes, replaces and extinguishes all prior agreements and understandings between the parties with respect to that subject matter. Each of the exhibits and other agreements (whether between the current parties or a former sublessee) is incorporated in this Sublease by this reference and constitute a part of this Sublease. This Sublease supersedes all Subleases and Agreements of Intent to Sublet between the parties (or their respective affiliates) with respect to the Premises.

24. Counterparts. This Sublease may be executed in two or more counterparts, each of which will be considered one and the same agreement and will become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties.

25. Time is of the Essence. Time is of the essence as to the performance of the parties' obligations under this Sublease.

27. Waiver of Right to Jury Trial, Class Action and Certain Damages. IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE, BETWEEN SUBLESSOR AND SUBLESSEE ARISING OUT OF THIS SUBLEASE OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED IN CONNECTION HERewith OR THE TRANSACTIONS RELATED HERETO, SUBLESSEE HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, (A) THE RIGHT TO A JURY TRIAL OR TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE, (B) THE RIGHT TO INITIATE OR PARTICIPATE IN A CLASS ACTION IN ANY FORUM, INCLUDING ARBITRATION, AND (C) THE RIGHT TO SEEK OR COLLECT PUNITIVE, CONSEQUENTIAL AND SPECIAL DAMAGES IN ANY FORUM, INCLUDING ARBITRATION.

28. Personal Guaranty. If Sublessee is an individual and married, the obligations and liabilities of Sublessee under this Sublease shall be personally guaranteed by the Sublessee's spouse, in the form of guaranty attached hereto as Exhibit D and incorporated herein by reference. If the Sublessee is a corporation, limited liability company, or other business entity, the obligations and liabilities of Sublessee shall be personally guaranteed by each of the Sublessee's shareholders, members, or other owners, direct or indirect (and their respective spouses, if married) in the form of a guaranty attached hereto as Exhibit D and incorporated herein by reference. In the event any person who has not previously signed said guaranty becomes Sublessee's spouse or Sublessee's shareholder, member, or other owner, direct or indirect, or a spouse of such owner, at any time after the execution of this Sublease, Sublessee must cause such person(s) to immediately execute and deliver said guaranty of the Sublease to Sublessor.

29. Plurals, Possessives and Captions. Words in the singular number include the plural when the context requires (and vice-versa), and defined terms include the possessive when the context requires (and vice-versa).

[SIGNATURE PAGE FOLLOWS]

Store No._____

SUBLESSEE'S SIGNATURE PAGE

SUBLESSEE:_____, a(n)_____

EXECUTED BY:_____
[Name, Title]

EXECUTED BY:_____
[Name, Title]

STATE OF_____) SS:
COUNTY OF_____)

On _____, 20____, before me, _____, personally appeared _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument. WITNESS my hand and official seal.

(Seal)
Notary Public

My Commission Expires

Store No._____

SUBLESSOR'S SIGNATURE PAGE

SUBLESSOR: [LEASING ENTITY], an Arizona

By: [Name, Title]

STATE OF ARIZONA)) SS: COUNTY OF MARICOPA)

The foregoing Sublease was acknowledged before me this _____ day of _____, 20____, by
_____, the _____ of [LEASING ENTITY], an Arizona
_____, on behalf of said entity.

(Seal)

Notary Public

My Commission Expires

Store No. _____

Exhibit
A to
Subleas
e

<u>Effective Date of Sublease:</u>	_____
<u>Name of Sublessee:</u>	_____, a(n) _____
<u>Lease:</u>	<u>By and between [LEASING ENTITY] ("Tenant") and [LANDLORD]</u> <u>("Landlord")</u>
<u>Premises:</u>	<u>[Address City, State Zip]</u>
<u>Commencement Date of Lease:</u>	<u>_____, 20____</u>
<u>Expiration Date of Lease:</u>	<u>_____, 20____</u>
<u>How many option(s) to extend the Lease are remaining and Option Terms:</u>	<u>_____ () _____ ()-year option(s) remaining [or N/A]</u>
<u>Lease Security Deposit currently held by Landlord:</u>	<u>\$X,XXX.XX - Amount set forth in Lease [verified by] [but not verified] by Landlord [or N/A]</u>
<u>Sublease Security Deposit:</u>	<u>\$X,XXX.XX [or N/A]</u>
<u>Exercise Renewal Option(s) Notice Date to Landlord:</u>	<u>No earlier than _____, 20____, no later than _____, 20____</u>

Exhibit B
to
Subleas
e

LEASE AGREEMENT

Exhibit C to Sublease

Lease Verification Checklist

By initialing below, Sublessee hereby acknowledges reviewing the attached Lease for the Premises, including all amendments and addendums (**Exhibit B**), and accepts to be bound by all the terms contained therein:

Sublessee acknowledges and agrees to be bound by all of the terms of the Lease, including, but not limited to, the following:

INITIALS:

Current monthly rental payment amounts (Purchaser acknowledges are subject to periodic increases as detailed in the Lease), including CAM, NNN, taxes and related fees

Lease term, including any renewal options

Exhibit
D to
Subleas
e

GUARANTY OF SUBLEASE

GUARANTY OF SUBLEASE

In order to induce **Kahala Franchising, L.L.C.** ("Franchisor") to enter into that certain Franchise Agreement dated _____ ("Franchise Agreement") with _____ ("Franchisee"), and to induce [LEASING ENTITY], an affiliate company of Franchisor ("Sublessor") to enter into that certain sublease ("Sublease") dated _____, 20 with Franchisee, as "Sublessee", covering the **NrGize Lifestyle Cafe** store located at: _____, the undersigned ([individually and collectively,] "Guarantor"), hereby personally guarantees the payment and performance of and agrees to pay and perform as a primary obligor all liabilities, obligations and duties (including, but not limited to, payment of rent) imposed upon Franchisee as Sublessee under the terms of the Sublease, as if Guarantor had executed the Sublease as Sublessee thereunder.

Recitals

A. Guarantor is a shareholder, partner, member, or other person or entity interested in effecting the grant of the Sublease.

B. Without this Guaranty of Sublease ("Guaranty"), Sublessor cannot be assured that there are sufficient assets to operate the NrGize Lifestyle Cafe store or to protect Sublessor in the event of a default by Sublessee.

C. Sublessor is willing to enter into the Sublease only if Guarantor personally guarantees faithful performance of all the terms of the Sublease.

D. Guarantor acknowledges Guarantor has received and read the Sublease, and all exhibits thereto, and agrees to be bound to the obligations in this Guaranty with regard to the Sublease.

Agreement

1. In consideration of the above recitals, Guarantor personally guarantees, for the benefit of Sublessor, its parent, subsidiary, affiliates and successors and assigns, the prompt and complete performance of all the covenants and conditions contained in the foregoing Sublease.

2. This Guaranty is effective until all terms of the Sublease have been fully and completely performed by Sublessee. No release of Sublessee or discharge of Sublessee under bankruptcy law, or any other law, shall impair or effect the obligations of Guarantor to Sublessor hereunder.

3. Sublessor is not required to proceed first against the Sublessee, but may proceed first against the Guarantor alone or concurrent with proceeding against Sublessee. The obligations of Guarantor hereunder are absolute and unconditional.

4. Sublessee and Sublessor may from time to time alter or modify the Sublease between themselves, possibly changing or increasing the extent of Guarantor's obligation under this Guaranty. Guarantor consents to any and all modifications or amendments of the Sublease and related documents, without requiring notice to Guarantor or Guarantor's consent.

5. Guarantor agrees specifically to be bound by any confidentiality requirements in the Sublease.

6. Guarantor waives notice of acceptance of this Guaranty and notice of non-performance or non-payment by Sublessee of any of its obligations or liabilities under the Sublease.

7. Guarantor agrees to pay all attorneys' fees, costs and expenses incurred by Sublessor in enforcing this Guaranty, whether or not suit or action is filed, and if suit or action is filed, then through trial and all appeals, and also in any proceedings or matter in Bankruptcy Court; Guarantor assumes all liability for all losses, costs, attorney's

fees, and expenses that Sublessor incurs as a result of a default by Sublessee, including those fees and expenses incurred in a bankruptcy proceeding involving Sublessee.

8. Guarantor hereby agrees that upon notice of default or upon an uncured default of the Sublease or any other agreement between Guarantor (or a legal entity thereof) and Sublessor or its affiliates, and with no prior notice, Guarantor consents to Sublessor's (or its affiliates' or third-party contractors') acquisition and use of non- business consumer credit reports on Guarantor in order to evaluate as necessary the financial condition of Guarantor as principal, member, manager, franchisee, and/or guarantor in connection with the collection of monetary obligations as contemplated by the Sublease, this Guaranty, a promissory note, or any other agreements between Guarantor (or a legal entity thereof), and Sublessor or its affiliates. Guarantor hereby knowingly consents to the use of such credit reports consistent with the Federal Fair Credit Reporting Act as contained in 15 U.S.C. § 1681 et seq.

9. This Guaranty is personal to Guarantor and the obligations and duties imposed herein may not be delegated or assigned; provided, however, that this Guaranty shall be binding upon the successors, assigns and personal representatives of Guarantor. This Guaranty shall inure to the benefit of Sublessor, its affiliates, successors and assigns.

10. [Guarantor, _____ [include name here], represents that he or she is not married as of the date first set forth above.]

11. In the event that any one or more provisions contained herein shall for any reason be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof and this Guaranty shall be construed to bind Guarantor to the maximum extent permitted by law that is subsumed within the terms of such provision as though it were separately articulated herein.

12. This Guaranty shall be interpreted and construed under the laws of the State of Arizona, which laws shall prevail in the event of any conflict of law. Any appropriate state or federal court located in Maricopa County, Arizona has exclusive jurisdiction over any case or controversy arising under or in connection with this Agreement and is the proper forum in which to adjudicate the case or controversy, and the parties hereto irrevocably submit to the jurisdiction of any such court. THE PARTIES AGREE THAT ALL DISPUTES ADMITTED TO THE COURT PURSUANT TO THIS SECTION 12 SHALL BE TRIED TO THE COURT SITTING WITHOUT A JURY, NOTWITHSTANDING ANY STATE OR FEDERAL CONSTITUTIONAL OR STATUTORY RIGHTS OR PROVISIONS.

13. If Guarantor consists of two (2) or more persons, then each person will be jointly and severally liable under the provisions of this Guaranty.

14. Guarantor acknowledges that (i) it is a condition to the granting of the Sublease to Sublessee that Guarantor shall execute and deliver this Guaranty to Sublessor, (ii) that Sublessor has entered into the Sublease in reliance upon the agreement of Guarantor to do so, and (iii) that, as owners of the Sublessee, if applicable, Guarantor has received adequate consideration to support its execution of this Guaranty. This Guaranty does not grant or create in Guarantor any interests, rights or privileges in any franchise or the Franchise Agreement.

GUARANTOR:

[Name], an individual

[Name], an individual

[Name, Title]store# [doc #]

EXHIBIT O-3

TO THE FRANCHISE DISCLOSURE DOCUMENT

Single-Unit Facility License Agreement
(for LA Fitness locations only) and Consent of Spouse

SINGLE-UNIT FACILITY LICENSE AGREEMENT

This Single-Unit Facility License Agreement ("Agreement") is made as of _____, 20 ("Effective Date") by and between Kahala Holdings, LLC, an Arizona limited liability company ("Kahala Holdings") and _____, a(n) _____ ("Operator").

RECITALS

Kahala Holdings and FITNESS INTERNATIONAL, LLC (formerly L.A. Fitness International, LLC), a California limited liability company ("LA Fitness"), entered into a Master Facility License Agreement, as amended (collectively, the "Master License Agreement"), a copy of which is attached as Exhibit D.

LA Fitness operates health and fitness clubs under the name LA Fitness ("Facilities") for club members and their guests (collectively, "Members").

LA Fitness has designated or may designate an area within each Facility (the "Service Area") for providing certain food and beverage products and related services ("Retail Services") to the Members.

Pursuant to the terms of the Master License Agreement, LA Fitness, among other things, granted Kahala Holdings access to the Service Areas at certain Facilities to provide (or license third parties to provide) the Retail Services.

Kahala Franchising, L.L.C. ("Kahala Franchising"), an affiliate of Kahala Holdings, is the franchisor of the *NrGize Lifestyle Cafe*™ brand ("Cafes").

Pursuant to an *NrGize Lifestyle Cafe* Franchise Agreement dated as of _____, 20 ("Franchise Agreement"), Kahala Franchising granted Operator the right to provide Retail Services at a Cafe at the Facility identified in attached Exhibit A ("Identified Facility").

Kahala Holdings and Operator are entering into this Agreement in order to grant Operator access to the Identified Facility to operate the Cafe.

NOW, THEREFORE, in consideration of the recitals set forth above and the mutual covenants contained herein, Kahala Holdings and Operator agree as follows:

1. Grant of Access. Kahala Holdings hereby grants Operator access to the Service Area at the Identified Facility. Operator shall comply with any term, condition or restriction on that access and on the operation of the Cafe in the Identified Facility as specified in this Agreement, in the Master License Agreement, the Franchise Agreement or otherwise in writing by Kahala Holdings (or its affiliates). Operator shall not have access to any portion of the Identified Facility other than the Service Area.

2. Term of Access. The term of this Agreement and the access to the Identified Facility shall commence on the date that the Identified Facility is available for Operator to commence operating the Cafe, as set forth in Exhibit A ("Commencement Date"). Unless terminated pursuant to Section 10, the term shall expire on the earlier of: (a) _____; (b) the termination of the Master License Agreement; (c) the termination of Kahala Holdings' right of access to the Identified Facility under the Master License Agreement; (d) the date that LA Fitness ceases operating a health club at the Identified Facility; or (e) the expiration or termination of the Franchise Agreement (the "Term"). There is no renewal term under this Agreement; however, if the terms of the Franchise Agreement and Master License Agreement (in whole or in part, as that Agreement relates to the Identified Facility) are extended, Kahala Holdings and Operator may extend the Term for a coterminous period.

3. Use of the Services Area in the Identified Facility. Subject to any restrictions in this Agreement, the Master License Agreement, the Franchise Agreement or any other agreement relating to the Identified Facility, Operator shall use the Service Area at the Identified Facility solely for operating a Cafe.

4. Fees.

(a) Initial Fee. Operator has paid Kahala Holdings a non-refundable initial fee, representing the first and last month's minimum portion of the Monthly Service Fee, as defined below ("Initial Fee") in the amount of _____ Dollars (\$_____). The Initial Fee is fully earned by Kahala Holdings when paid and will only be credited against the first and last month's minimum portion of the Monthly Service Fee owed by Operator to Kahala Holdings under this Agreement.

(b) Reservation Fee. Operator has paid Kahala Holdings _____ Dollars (\$_____) ("Reservation Fee"). If Operator fails to timely pay any amounts due to Kahala Holdings under this Agreement, or commits a default under this Agreement, Kahala Holdings may use, apply or retain all or any portion of the Reservation Fee for the payment of such amount, or for the payment of any other amount that Kahala Holdings is required to pay to any third party due to Operator's default, or to compensate Kahala Holdings for any loss or damage due to Operator's default. If Kahala Holdings uses or applies all or any portion of the Reservation Fee, Operator shall within ten (10) days after written demand from Kahala Holdings, deposit cash with Kahala Holdings in an amount sufficient to restore the Reservation Fee. Operator's failure to do so shall be a material breach of this Agreement. Kahala Holdings shall not be required to keep the Reservation Fee separate from its general accounts. If Operator performs all obligations under this Agreement, thirty (30) days after the expiration or termination of this Agreement, Kahala Holdings shall refund the Reservation Fee to Operator, without payment of interest. The Reservation Fee shall be applied against the cost of any damages at the Cafe at the Identified Facility as a result of negligence, intentional vandalism or theft. If the cost of the repairs to the damages exceeds the amount of the Reservation Fee being held, Operator will not receive a refund and will be responsible for paying the difference. No trust relationship is created between Operator and Kahala Holdings with respect to the Reservation Fee.

(c) Monthly Service Fee. In consideration for the rights granted in Section 1, Operator shall pay Kahala Holdings a non-refundable and continuing monthly service fee ("Monthly Service Fee") in the following amount: the greater of (1) \$1,250 per month; or (2) 6% of the Gross Sales (as defined in Section 5) generated by the Café at the Identified Facility for the prior month. Operator shall pay the applicable Monthly Service Fee on either the third (3rd) calendar day of each month or on the twentieth (20th) day of each month, as solely determined by Kahala Holdings.

(d) Interest and Late Fees. Any payments accepted by Kahala Holdings after the due date shall bear interest at an annual rate that is the lesser of twelve percent (12%) or the maximum interest rate permitted by applicable law. In addition, any payments received five (5) days or more after the due date may be assessed an additional fee equal to ten percent (10%) of the original payment due plus one percent (1%) per day on the overdue amount, but in no event shall Operator be charged an amount that is usurious or in violation of applicable law. Kahala Holdings' acceptance of any interest or late fees shall not constitute a waiver of any default by Operator or prevent Kahala Holdings from exercising any other rights and remedies granted under this Agreement. If a late fee is due under this Agreement for three (3) consecutive late payments, Kahala Holdings may require Operator to pay the Monthly Service Fee in advance on a quarterly basis, as and when designated by Kahala Holdings.

(e) Taxes. In accordance with paragraph 6(f) of the Master License Agreement, Operator shall pay Kahala Holdings any applicable tax levied, including any tax on the Monthly Service Fee (collectively, the "Taxes"). Operator shall pay the applicable Taxes on the third (3rd) calendar day of each month.

(f) Electronic Funds Transfer. Kahala Holdings may require Operator to make any payments required by this Agreement by electronic funds transfer ("EFT") and, in connection with the EFT, Kahala Holdings may designate any terms and conditions to govern payments by EFT. Operator agrees to comply with any terms and conditions designated by Kahala Holdings relating to EFT. To accomplish the EFT, Operator must complete, sign and deliver to Kahala Holdings any required documentation, including the form of Electronic Funds Transfer Authorization attached to this Agreement as Exhibit B.

(g) Enforcement Costs. Operator shall reimburse Kahala Holdings for any fees, costs, expenses or other charges incurred by Kahala Holdings to enforce this Agreement, including attorneys' fees and costs.

(h) Reports and Audit Rights. Simultaneously with the reporting and/or payment of the Monthly Service Fee, Operator shall submit to Kahala Holdings a report identifying the Gross Sales at the Cafe during the prior month; and, if applicable, a statement indicating whether the Monthly Service Fee is based upon Gross Sales or represents the minimum payment. Kahala Holdings shall have the right at all reasonable times, both during and after the Term, to inspect, copy and audit the books and records and such other forms, reports, information and data as Kahala Holdings may designate. Operator shall provide to Kahala Holdings any other data, information or reports as Kahala Holdings may reasonably require. As used in this Agreement, the term "Gross Sales" shall have the same meaning as ascribed to that term in the Franchise Agreement.

5. Maintenance And Repair. Operator, at its sole expense, shall keep in good order, condition and repair the Service Area of the Identified Facility, including all fixtures, furniture and equipment. Operator shall not make, without Kahala Holdings' prior written consent, any alterations, improvements, additions or installations to the Service Area ("Improvements"). If Operator makes any Improvements without the prior written approval of Kahala Holdings, or uses a contractor not expressly approved by Kahala Holdings, Kahala Holdings may require Operator to restore the Service Area, at no expense to Kahala Holdings. Any approved Improvements shall be made and done in good and workmanlike manner and of good and sufficient quality and material and shall be done in such a manner so as to not impact operations at the Identified Facility. The Improvements shall be the property of LA Fitness and remain upon and be surrendered with the Service Area upon the expiration or termination of this Agreement.

6. Insurance.

(a) Required Insurance Coverage. Operator shall, at its expense, obtain and keep in full force and effect during the Term of this Agreement: (1) Comprehensive General Liability Insurance (including products liability insurance) in an amount of not less than one million and 00/100 dollars (\$1,000,000.00) per occurrence, and with an aggregate of not less than two million and 00/100 dollars (\$2,000,000.00), of bodily injury and property damage combined or in a greater amount as reasonably determined by Kahala Holdings; (2) fire insurance with a Standard Form Extended Coverage Endorsement in an amount of at least the full insurance value of the improvements, fixtures, equipment and merchandise in the Service Area; and (3) Workers' Compensation insurance coverage to the full extent required by federal, state and/or local law. In the event Operator does not obtain and keep in force and effect the above-detailed required insurance coverage, Kahala Holdings shall have the option, in its sole and absolute discretion, to obtain such required insurance coverage for Operator and Operator shall reimburse Kahala Holdings one hundred and fifty percent (150%) of the documented cost of such coverage on demand. If the insurance requirements under the Master License Agreement increase during the Term of this Agreement, Operator shall increase its insurance coverage accordingly, at its sole cost and expense, upon thirty (30) days prior written notice from Kahala Holdings.

(b) Insurance Policies. Operator shall deliver to Kahala Holdings copies of the insurance policies required under this Section, or certificates evidencing the existence and amounts of such insurance, prior to commencing operations at the Service Area. Kahala Holdings, LA Fitness, the property manager, the property owner and any other entity or individual designated by Kahala Holdings shall be additional insureds in such policies to the extent each has an insurable interest. All insurance policies shall be issued from insurance companies having not less than Best's Triple A rating and shall be in a form satisfactory to Kahala Holdings. No policy shall be cancelled or subject to reduction of coverage or other modification except after thirty (30) days prior written notice to Kahala Holdings. Operator shall, at least thirty (30) days prior to the expiration of such policies, furnish Kahala Holdings with copies of any renewal policies. Operator's insurance carriers must waive all subrogation rights and any other similar rights of recovery against or contribution from Kahala Holdings.

(c) No Representation of Adequate Coverage. Kahala Holdings makes no representation that the types of insurance coverage and minimum coverages specified in Section 7(a) are adequate to cover Operator's property or obligations under this Agreement. Compliance with the above insurance requirements shall not limit the liability of Operator under this Agreement.

7. Indemnification. Operator shall indemnify and hold harmless (to the full extent permitted by law) LA Fitness and Kahala Holdings and their respective parents, affiliates, subsidiaries, successors, assigns, past and present stockholders, directors, officers, employees, agents, and representatives ("Indemnitees") from and against any and all claims for damage to the person or property of anyone or any entity arising from Operator's use of the Service Area, from the operation of the Cafe at the Identified Facility and from any activity, work or things done, permitted or suffered by Operator in or around the Service Area, the Identified Facility or elsewhere and shall further indemnify and hold harmless the Indemnitees from and against any and all claims, costs and expenses arising from any

breach or default in the performance of any obligation of Operator to be performed under the terms of this Agreement (or any other agreement), or arising from any act or omission of Operator, or any of Operator's agents, representatives, contractors, employees or invitees and from and against all costs, attorneys' fees, expenses and liabilities incurred by the Indemnitees as a result of any such use, operation, activity, work, things done, permitted or suffered, breach, default or negligence, and in dealing therewith, including by not limited to, the defense or pursuit of any claim or any action or proceeding involved therein; and in case any action or proceeding be brought against any Indemnatee by reason of any such matter, Operator upon notice from any Indemnatee shall defend the same at Operator's expense by counsel satisfactory to the Indemnitees and the Indemnitees shall cooperate with Operator in such defense. The Indemnitees shall not be required to first pay any such claim in order to be so indemnified. Operator, as a material part of the consideration to Kahala Holdings, assumes all risk of damage to property of any Indemnatee and any injury to persons in, upon or about the Service Area arising from any cause and Operator hereby waives all claims in respect thereof against any Indemnatee. The right of any Indemnatee to indemnification by Operator under this Section shall be independent of the right of the Indemnitees to any insurance proceeds.

8. Assignment.

(a) By Kahala Holdings. Subject to the Master License Agreement, Kahala Holdings shall have the right to freely assign its rights and responsibilities under this Agreement to any third party without the approval of Operator; provided, however, any notice of the assignment of this Agreement shall be delivered in writing to Operator within five (5) days after being effective.

(b) By Operator. The rights granted by Kahala Holdings to Operator in this Agreement are personal rights and cannot be transferred or assigned (by operation of law or otherwise), directly or indirectly, to any third party without the prior written consent of Kahala Holdings. Any attempted assignment in violation of this Section shall be void. If Kahala Franchising consents to an assignment of the Franchise Agreement, the Operator must assign and transfer this Agreement to the same entity or individual, as well as any and all prepaid fees including, but not limited to, the Initial Fee and Reservation Fee paid by Operator, shall also be assigned and transferred. Notwithstanding any assignment of this Agreement, Operator shall remain fully liable under this Agreement until it is terminated or expires.

9. Default and Termination.

(a) Events of Default. The occurrence of any of the following constitutes a material breach or default ("Default") by Operator under this Agreement:

(i) Operator fails to begin operating a Cafe at the Identified Facility by the deadline in the Franchise Agreement.

(ii) Operator fails to pay any amount owed to Kahala Holdings under this Agreement, and such default continues for five (5) days after written notice to Operator.

(iii) The Cafe is closed for more than ten (10) days (when the Identified Facility is open) in any twelve (12) month period.

(iv) Operator makes a general assignment for the benefit of creditors; files or has filed against it a petition for reorganization or arrangement under any law relating to bankruptcy; the appointment of a trustee or receiver to take possession of substantially all of Operator's assets at the Identified Facility or of Operator's interest in this Agreement; or has filed against it an attachment, execution, or other judicial seizure of substantially all of Operator's assets located at the Identified Facility or of Operator's interest in this Agreement.

(v) Operator fails to obtain and have current insurance coverage as required by Section 7 and to timely provide proper proof thereof to Kahala Holdings, or Operator fails to reimburse Kahala Holdings on demand for any coverage purchased on its behalf by Kahala Holdings pursuant to Section 7(a).

(vi) Operator makes an assignment under Section 9 without the prior written consent of Kahala Holdings.

(vii) Operator fails to perform any other material provision of this Agreement

(including any amendments or modifications), provided that such failure continues for three (3) days after Kahala Holdings provides written notice to Operator of such failure.

(viii) Upon the occurrence of the third (3rd) Default in the previous twelve (12) month period, regardless of whether the Default is the same or different and regardless of whether the prior Defaults have been cured.

(ix) Operator fails to comply with the LA Fitness Club Rules and Regulations attached as Exhibit D to the Master License Agreement.

(x) Operator offers any product or service at the Service Area that is not authorized by LA Fitness under Exhibit A to the Master License Agreement or otherwise.

(xi) Operator violates the "Non-Disclosure" provisions under Section 25 of the Master License Agreement.

(xii) Operator commits any material breach of any other agreement between the Operator and Kahala Holdings, Kahala Franchising, or their parent, subsidiaries or affiliates or LA Fitness, including, but without limitation, the Franchise Agreement or any other agreement relating to the Identified Facility and Operator fails to cure such breach within the applicable cure period, if any.

(b) Termination and Expiration. Upon the occurrence of any Default identified in Section 10(a) and the expiration of any applicable cure period, Kahala Holdings may terminate this Agreement and the rights granted in this Agreement. Kahala Holdings may upon termination or expiration of this Agreement, provide, or identify third parties to provide, Retail Services at the Identified Facility. Termination of this Agreement or any rights under this Agreement shall not prejudice any other remedy to which Kahala Holdings may be entitled either at law, in equity, or under this Agreement. If this Agreement is terminated prior to the expiration of the Term, Kahala Holdings shall be entitled to all damages provided under the Agreement and as otherwise entitled by law.

10. Obligations Upon Termination or Expiration. Upon the expiration or termination of this Agreement, Operator shall: (a) immediately pay all monies due to Kahala Holdings, and its parent, subsidiaries, and affiliates relating to the Identified Facility; and (b) immediately vacate the Service Area in the same condition as received, ordinary wear and tear excepted, clean and free of debris. Any damage or deterioration of the Service Area shall not be deemed ordinary wear and tear if the same could have been prevented by good maintenance practices by Operator. Operator shall repair any damage to the Service Area caused by the installation or removal of any trade fixtures, signage, furnishings or equipment. Operator shall remove its personal belongings, materials, merchandise, goods and products from the Service Area and shall leave the Service Area in a "broom clean" condition. When vacating the Service Area, Operator will leave at the Cafe at the Identified Location all machinery, equipment, furniture, fixtures, improvements, tools, and signs as they will immediately be owned by and become the property of LA Fitness in accordance with the terms of the bill of sale required to be signed by Kahala Holdings and/or Operator upon termination of this Agreement and the Franchise Agreement.

11. Notices. All notices, amendments, waivers, consents, approvals and other communications required or permitted under this Agreement must be in writing. Any such item requiring delivery must be delivered:

(a) in person; (b) by registered, express or certified mail, postage prepaid, return receipt requested; (c) by a reputable, national overnight delivery carrier, provided that a signature upon receipt is required with such delivery; or (d) by a generally recognized courier or messenger service that provides written acknowledgement of receipt by the addressee. Documents are deemed delivered when actually delivered to or delivery is refused at the address for notices. Notices and deliveries must be made to Operator at the address set forth in Exhibit A; and to Kahala Holdings, LLC, Attn: Real Estate Department, 9311 E. Via De Ventura, Scottsdale, AZ 85258. Operator and Kahala Holdings agree to provide a copy of any notice under this Agreement to LA Fitness, Attn: Legal Department, 8105 Irvine Center Drive, Suite 200, Irvine, CA 92618.

12. Remedies. Except as otherwise provided for in this Agreement, no remedy conferred by any of the specific provisions of the Agreement is intended to be exclusive of any other remedy. Each and every remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement, now or hereafter existing at law or in equity or by statute or otherwise. The election of any one or more remedies by either party shall not constitute a waiver of the right to pursue other available remedies.

13. Enforcement Provisions.

(a) Arbitration. Any controversy, dispute or claim between the parties arising out of, in connection with or in relation to this Agreement including but not limited to the negotiation, execution, coverage, scope, performance, non-performance, breach, interpretation, termination, enforceability or validity of this Agreement or any alleged fraud in connection therewith, shall, on the written request of either party served on the other, be submitted to arbitration for resolution. Such arbitration shall be conducted in accordance with the provisions of the Federal Arbitration Act, and with the then existing rules of the American Arbitration Association for commercial arbitration. Each party shall be entitled to conduct reasonable discovery pursuant to the provisions of the Federal Rules of Civil Procedure. Venue for arbitration shall be the county as governed by the Franchise Agreement. The arbitration of all issues, including the determination of any amount of damages suffered by any party hereto by reason of the acts of omission of any party, shall be binding and shall survive the termination of the Agreement. The arbitrator shall be authorized to award the costs and expenses of arbitration to the prevailing party or to otherwise equitably allocate such costs and expenses and to settle the dispute to the mutual satisfaction of the parties. Judgment on the award of the arbitration may be entered in any court of competent jurisdiction. To the extent applicable, the parties waive any right to trial by jury.

(b) Choice of Law. This Agreement, and any dispute arising from the relationship between the parties to this Agreement, shall be governed by the terms as set forth in the Franchise Agreement.

14. Acknowledgements.

(a) Kahala Holdings and Operator acknowledge that this Agreement is not a lease and does not create on behalf of Operator any interest, including a leasehold or other possessory interest, in the Identified Facility, the health club, the property on which the Identified Facility is located, or any portion thereof.

(b) Operator acknowledges that, if the Master License Agreement is terminated or expires, this Agreement shall automatically terminate.

(c) Operator acknowledges that, if LA Fitness ceases operating a health club at the Identified Facility, this Agreement shall automatically terminate.

(d) Operator acknowledges that, if the Franchise Agreement is terminated or expires, this Agreement shall automatically terminate.

15. Miscellaneous.

(a) Any capitalized term that is not defined in this Agreement shall have the meaning given it in the Master License Agreement or the Franchise Agreement, as the context requires.

(b) All rights and obligations set forth in this Agreement shall be subject to any limitations or restrictions set forth in the Master License Agreement. This Agreement shall not affect Kahala Holdings' obligations to LA Fitness under the Master License Agreement. Operator hereby expressly assumes and agrees to perform all of the obligations and covenants required by the Master License Agreement with respect to the Identified Facility. Kahala Holdings will maintain the Master License Agreement during the Term of this Agreement, subject, however, to any termination or expiration of the Master License Agreement without fault of Kahala Holdings. Notwithstanding the foregoing, Operator shall not be required to pay any amounts due to LA Fitness under the Master License Agreement so long as Operator pays all amounts owed to Kahala Holdings under this Agreement.

(c) The terms of this Agreement shall be construed according to their fair meaning and not strictly for or against either party.

(d) The captions are for convenience and reference only, and the words contained therein shall in no way be held to explain, modify, amplify or aid in the interpretation, construction or meaning of the provisions of this Agreement.

(e) This Agreement, any Exhibits attached hereto, including the guarantee by any entity or individual designated by Kahala Holdings (attached hereto as Exhibit C), and any agreements executed in furtherance

of this Agreement constitute the final, complete, and exclusive statement of the terms of the agreement pertaining to the subject matter of this Agreement and supersede all prior and contemporaneous understandings or agreements of the parties. No party has been induced to enter into this Agreement by, nor is any party relying on, any representation or warranty outside those expressly set forth in this Agreement, the attachments thereto, and the guarantee. This Agreement may be amended only by a writing signed by both parties.

(f) If a court or an arbitrator of competent jurisdiction holds any provision of this Agreement to be illegal, unenforceable, or invalid in whole or in part for any reason, the validity and enforceability of the remaining provisions, or portions of them, will not be affected.

(g) This Agreement is binding on the parties and their respective permitted successors and assigns. Nothing in this Agreement (except Section 8) gives any rights or remedies to any person other than the parties and their respective permitted successors and assigns, nor does anything in this Agreement relieve or discharge any obligation or liability of any third person to any party. No provision of this Agreement gives any third person any right of subrogation or action over or against any party to this Agreement.

(h) Operator agrees that it and its employees, agents, representatives, invitees, and guests will not be disruptive to the operation of the Identified Facility, will not speak negatively to Members about the Identified Facility, any personnel at the Identified Facility, Kahala Holdings, Kahala Franchising, or LA Fitness and will work cooperatively with the LA Fitness staff.

(i) The Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and any of the parties hereto may execute the Agreement by signing any such counterpart.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, have duly executed and delivered this Agreement as of the Effective Date.

KAHALA HOLDINGS:

KAHALA HOLDINGS, L.L.C., an Arizona limited liability company

By: _____
Kimberly A. Lane, Sr. VP and Deputy
General Counsel of its sole member

OPERATOR:

_____, a[n]_____

By: _____
Name, Title

By: _____
Name, Title

EXHIBIT A

1. **Address of Identified Facility (Recitals):** _____

2. **Commencement Date (Section 2):** _____

3. **Operator's Notice Address (Section 12):** _____

EXHIBIT B

ELECTRONIC FUNDS TRANSFER AUTHORIZATION

ELECTRONIC FUNDS TRANSFER (EFT) AUTHORIZATION

FRANCHISEE INFORMATION

Franchisee Name	Store No.	Franchisee Phone No.
Franchisee Mailing Address (street, city, state, zip)		
Contact Name, Address and Phone number (if different than above)		
Employer Identification Number (if applicable)	Principal's Name and Social Security Number	

BANK ACCOUNT INFORMATION

Bank Name	Bank Account Number	Bank Routing Number [: :] 9 Characters
Bank Mailing Address (street, city, state, zip)		
Bank Phone Number		

PAYMENT AUTHORIZATION

Franchisee hereby authorizes Kahala Franchising, L.L.C., its affiliates or agents (the "Payee"), to initiate withdrawals from the Bank Account indicated on this form, and hereby authorizes the Bank to honor and charge the Bank Account for electronic funds transfers or drafts drawn on the Bank Account and payable to Payee. The amount of such charge shall be set forth in a notice from the Payee presented to the Bank on the day(s) of the week set forth in your franchise agreement, gift card participation agreement (or similar agreement for the gift card program), and any other agreement you sign that authorizes us or our affiliate to debit your account for the fees, which may be modified by Kahala Franchising, L.L.C. or its affiliates, for the payment of royalty fees, advertising fees, POS support fees, gift card and e-gifting program fees and funds flow, and any other fees, charges and other amounts payable to us or our affiliates for any services we provide or facilitate. The Franchisee agrees to execute such additional documents as may be reasonably requested by the Payee or the Bank to evidence the interest of this EFT Authorization. This authority shall remain in full force and effect until the Payee has received written notification from the Franchisee in such time and manner as to afford the Payee and the Bank to act on such notice. The Franchisee understands that the termination of this authorization does not relieve the Franchisee of its obligations to make payments to the Payee. Payee may assign its rights and obligations under this EFT Authorization to Payee's affiliates or agents. Payee may change its designated affiliates or agents at Payee's discretion.

Signature:	Date:

NOTE: FRANCHISEE MUST ATTACH A VOIDED OR COMPLETED CHECK RELATING TO THE BANK ACCOUNT.

ATTACH VOIDED OR COMPLETED CHECK HERE

EXHIBIT C GUARANTEE

GUARANTEE

IN ORDER TO INDUCE Kahala Holdings, LLC ("Kahala Holdings") to enter into that certain Single-Unit Facility License Agreement ("Agreement") dated _____, 20____, with _____, a(n) _____ ("Operator") covering the *NrGize Lifestyle Cafe™* store located in the LA Fitness Club located at _____, the undersigned ("Guarantor"), hereby personally guarantees the payment and performance of and agrees to pay and perform as a primary obligor all liabilities, obligations and duties (including, but not limited to, payment of the Access Fee) imposed upon Operator under the terms of the Agreement, as if Guarantor had executed the Agreement.

Guarantor hereby waives notice of acceptance of this Guarantee and all other notices in connection herewith or in connection with the liabilities, obligations and duties guaranteed hereby, including notices of default under the Agreement, and waives diligence, presentment and suit on the part of Kahala Holdings in the enforcement of any liability, obligation or duty guaranteed hereby.

Suit may be brought and maintained against Guarantor by Kahala Holdings to enforce any liability, obligation or duty guaranteed hereby without joinder of any other person. The liability of Guarantor shall not be affected by any termination of the Agreement, to the extent that Operator thereafter continues to be liable thereunder.

All sums payable by Guarantor under this Guarantee shall be payable at the principal address of Kahala Holdings, in the City of Scottsdale, Maricopa County, Arizona. Guarantor specifically agrees that any action under this Guarantee may be maintained in Maricopa County, Arizona, and Guarantor specifically submits to the jurisdiction and venue of such courts with respect to any such action.

Guarantor agrees that if Kahala Holdings shall employ legal counsel to present, enforce or defend any or all of Kahala Holdings' rights or remedies hereunder, then, in any such event, Guarantor shall pay any attorneys' fees and expenses incurred by Kahala Holdings.

Guarantor agrees that the Agreement and this Guarantee may be assigned by Kahala Holdings. No such assignment nor any assignment by Operator, with or without the consent of Kahala Holdings, shall operate to extinguish or diminish the liability of Guarantor. This Guarantee shall be binding upon and inure to the benefit of Kahala Holdings and Guarantor and their respective heirs, successors and assigns.

Notwithstanding anything contained herein to the contrary, this Guarantee shall continue to be effective or be reinstated, as the case may be, if at any time, payment, or any part thereof, of any or all of any liability, obligation or duty guaranteed hereunder is rescinded or must otherwise be restored or returned by Kahala Holdings upon the insolvency, bankruptcy, or reorganization of Operator, any other guarantor of the Agreement or otherwise, all as though such payment had not been made. Notwithstanding any modification, discharge or extension of any liability, obligation or duty guaranteed hereunder or any amendment, modification, stay or cure of Kahala Holdings' rights which may occur in any bankruptcy or reorganization case or proceeding concerning Operator, whether permanent or temporary, and whether assented to by Kahala Holdings, Guarantor hereby agrees that Guarantor shall be obligated to pay or perform any liability, obligation or duty guaranteed hereunder in accordance with the terms of this Guarantee in effect on the date hereof.

GUARANTOR:

Name, an individual

Date: _____

EXHIBIT D

COPY OF EXECUTED MASTER FACILITY LICENSE AGREEMENT

MASTER FACILITY LICENSE AGREEMENT

This Master Facility License Agreement ("Agreement") is by and between L.A. FITNESS INTERNATIONAL, LLC, a California limited liability company ("L.A. FITNESS") and KAHALA HOLDINGS, LLC, an Arizona limited liability company ("KAHALA"). The effective date of this Agreement shall be April 1, 2006 ("Effective Date").

RECITALS

A.L.A. FITNESS is engaged in the business of operating health and fitness facilities (hereafter "Facilities" or "Facility") for L.A. FITNESS club members and their authorized guests (collectively, "Members");

B. KAHALA, through itself and its third party Franchisees (as defined below), is engaged in the business of providing food, beverage, and related retail services ; and

C.L.A. FITNESS and KAHALA desire to enter into this Agreement, pursuant to which L.A. FITNESS will provide KAHALA and its FRANCHISEES access to the Service Areas (as defined below) at the Facilities and UBHALA and its approved FRANCHISEES will render the Retail Services (as defined below) at the designated Facilities.

NOW, THEREFORE, in consideration of the recitals set forth above and the mutual covenants contained herein, L.A. FITNESS and KAHALA agree as follows:

1. **Grant.** Upon the terms, provisions and conditions set forth herein, KAHALA (or its affiliates) shall have the exclusive right (and corresponding obligation) to provide, or to identify third parties to be approved by L.A. FITNESS (hereinafter collectively referred to as "FRANCHISEES") to provide, certain Retail Services as described in the attached Exhibit A to Members at the Service Area in the Facilities that: (a) are opened or acquired by L.A. FITNESS during the five year period immediately following the Effective Date of this Agreement (such period to be referred to as the "Exclusive Grant Period") and are 25,000 square feet or greater, provided that L.A. FITNESS determines in its sole and absolute discretion that Retail Services will be provided at such Facilities; (b) are available now and identified on attached Exhibit C; or (c) are now open, but not available, as they become available during the five year period immediately following the Effective Date of this Agreement and are 25,000 square feet or greater (the locations covered by subsections (a), (b), and (c) above shall be collectively referred to as the "Covered Locations"). KAHALA acknowledges that L.A. FITNESS can provide any other services at the Facilities except those Retail Services expressly set forth in Exhibit A. KAHALA further acknowledges that, in order to maintain the rights granted in this Section, KAHALA must provide or identify a FRANCHISEE to provide Retail Services at all of the Facilities identified in Exhibit C and any additional Facilities that are 25,000 square feet or larger designated by L.A. FITNESS during the Term. KAHALA shall forfeit the aforementioned exclusivity if this Agreement is terminated pursuant to Sections 13 and 14 hereof. These rights apply only to Facilities located in the United States of America.

2. **Designation of and Access to Services Areas.** The Services Area in each Facility shall be the area designated by L.A. FITNESS and will be approximately 250 to 500 square feet. UBHALA (and its FRANCHISEES) cannot provide Retail Services outside of the designated Services Area at any Facility without prior written consent from L.A. FITNESS. During the Term, L.A. FITNESS hereby grants KAHALA access to the Service Area at each Facility, for the sole purpose of providing the Retail Services. Subject to KAHALA and its FRANCHISEE's approved Menu Items detailed in Exhibit B hereto, KAHALA shall comply with any term, condition or restriction on its access to and use of the Services Areas as designated by L.A. FITNESS from time to time in writing. KAHALA and its FRANCHISEES shall not have access to any portion of the Facility other than the Services Area at each Facility and the location of any vending services, if applicable.

3. **Covered Locations Term, Commencement Date, Rent Commencement Date.** Each of the Covered Locations conveyed to KAHALA during the Exclusive Grant Period for the operation of a Nrgize outlet in the Service Area shall (i) have a term that expires at the end of the Exclusive Grant Period if operated by KAHALA, or (ii) have an individual license term of ten (10) full years from each Covered Locations' Commencement Date if operated by a FRANCHISEE. Each Covered Locations' Commencement Date and Rent Commencement Date shall

be determined as follows: (a) for the Facilities identified on the attached Exhibit C, the Commencement Date shall be the earlier of: (i) the date listed on Exhibit C for each Facility as the opening date; or (ii) the actual date the applicable Nrgize outlet in the Service Area opens for business to the Members, subject to the applicable Commencement Date under this Section 3(a) being no earlier than the date the applicable Facility opens to use by its Members and, so long as KAHALA or its FRANCHISEE is using best commercial efforts in diligently pursuing the necessary permits, the applicable Commencement Date being automatically extended to the actual date KAHALA or its FRANCHISEE is issued the permit from the applicable governmental agency that allows the subject Nrgize outlet to be opened to the Members; (b) for those Facilities opened or acquired by L.A. FITNESS during the Exclusive Grant Period that are greater than 25,000 square feet, the Commencement Date shall be the earlier of (i) sixty (60) days after the applicable Facility opens to its Members for business; or (ii) the actual date the applicable Nrgize outlet in the Service Area opens for business to the Members, subject to the applicable Commencement Date under this Section 3(b) being automatically extended, so long as KAHALA or its FRANCHISEE is using best commercial efforts in diligently pursuing the necessary permits, to the actual date KAHALA or its FRANCHISEE is issued the permit from the applicable governmental agency that allows the subject Nrgize outlet to be opened to the Members; and (c) for those Facilities currently open that become available during the Exclusive Grant Period that are greater than 25,000 square feet, the Commencement Date shall be the earlier of (i) sixty (60) days after L.A. FITNESS grants KAHALA or its FRANCHISEE exclusive physical access to the Service Area of the Facility; or (ii) the actual date the applicable Nrgize outlet in the Service Area opens for business to the Members, subject to the applicable Commencement Date under this Section 3(c) being automatically extended, so long as KAHALA or its FRANCHISEE is using best commercial efforts in diligently pursuing the necessary permits, to the actual date KAHALA or its FRANCHISEE is issued the permit from the applicable governmental agency that allows the subject Nrgize outlet to be opened to the Members (the exact date determined for a Covered Location from sub item (a), (b), or (c) above shall be referred to as the "Commencement Date" and "Rent Commencement Date"). The effective date ("Effective Date") of this Agreement shall be April 1, 2006, and, only as it applies to a Single Unit Facility License Agreement entered into by a FRANCHISEE during the EXclusive Grant Period, will continue for ten (10) full years from the Commencement Date of the last Covered Location conveyed by L.A. Fitness to IfAHALA during the Exclusive Grant Period ("Term"), unless sooner terminated pursuant to Section 14. hereof There shall be no guaranteed option to extend the Term; however, during the Term, the parties may execute individual agreements for specific Facilities extending the Term.

For each Covered Location conveyed to KAHALA during the Term of this Agreement, IfAHALA and L.A.FITNESS shall each execute a Location Memorandum in the form attached hereto as Exhibit I. The Location Memorandum shall be executed by both parties within thirty (30) days of the Commencement Date. Each Location Memorandum shall provide the following: (i) the L.A. FITNESS Facility number and physical address; (ii) the Commencement Date and Rent Commencement Date of the license to occupy the Service Area; and (iii) the Expiration Date of the license to occupy the Service Area.

4. KAHALA's Status.

(a) KAHALA acknowledges and agrees that, in providing Retail Services under this Agreement, KAHALA and its FRANCHISEES are acting as independent contractors with respect to L.A. FITNESS.

(b) KAHALA will not engage in any behavior which could reasonably create the impression with any person or entity, either directly or indirectly, that KAHALA, including its employees, agents, FRANCHISEES or representatives, are employees, agents, franchisees or representatives of L.A. FITNESS.

L.A. FITNESS and KAHALA agree that the terms of this Agreement do not constitute an employment agreement between L.A. FITNESS and KAHALA, nor between L.A. FITNESS and any one or more FRANCHISEES. It is also understood and agreed that any FRANCHISEE with whom IfAHALA enters a franchise relationship does not enter into a franchise relationship with L.A. FITNESS and has no other relationship with L.A. FITNESS other than that of independent contractor.

(c) KAHALA will provide all of the equipment and supplies needed to provide the Retail Services at the Facilities, including but not limited to its own advertising, computers, credit card machines, telephones, phone service, furnishings, fixtures, equipment, smallwares, employee uniforms, clerical supplies and any other items.

(d) This Agreement is not a lease and does not create on behalf of KAHALA or its FRANCHISEES any interest, including a leasehold or other possessory interest, in any Services Area, any health club, any Facility or any property on which any Facility is located. L.A. FITNESS does not transfer any property rights hereunder to KAHALA or its FRANCHISEES and shall continue to occupy, run and manage the Facilities with its own personnel. KAHALA's sole right hereunder shall be to perform Retail Services in the Services Areas of the Facilities subject to the conditions and limitations set forth herein. KAHALA specifically covenants and agrees for L.A. FITNESS' benefit, and as a material condition to this Agreement, that neither this Agreement or any of KAHALA's or its FRANCHISEES rights in connection herewith shall constitute a lease; KAHALA or its FRANCHISEES shall not bring any action against L.A. FITNESS or interpose any defense against L.A. FITNESS based upon a theory that this Agreement constitutes a lease; and KAHALA expressly waives any substantive or procedural rights that KAHALA may have that are predicated upon the rights of a tenant of real property. Notwithstanding the provisions of the foregoing sentence to the contrary, should this Agreement be deemed by any court, governmental authority, or quasi-governmental authority to constitute a lease, in such event L.A. FITNESS shall have the rights and remedies of a landlord of real property available at applicable law.

(e) KAHALA and its FRANCHISEES shall comply with all applicable state and federal statutes, ordinances, regulations, orders, covenants and restrictions of record and requirements in effect including, but not limited to, those which regulate the providing of Retail Services by KAHALA or its FRANCHISEES. KAHALA and/or its FRANCHISEES shall have and maintain current all requisite business licenses for the Services Area of each Facility in which Retail Services are performed and pay all associated personal property, sales, use and income taxes associated with conducting their business within the Facilities. KAHALA further agrees that it and its representatives, agents, employees, and FRANCHISEES and each of their representatives, agents and employees will abide by all laws while in the Facilities, including but not limited to laws against harassment and discrimination, as well as all state and federal labor laws.

(f) KAHALA represents and agrees that it is responsible for compliance with any and all federal, state, or local laws, rules and regulations governing franchise sales and the franchisor-franchisee relationship and that it will comply with all such requirements with respect to its relationship to its FRANCHISEES. Moreover, it is understood and agreed that KAHALA's indemnity obligations in Section 11 will apply to and cover L.A. FITNESS regarding any claims brought against L.A. FITNESS relating to this Section, including but not limited to, claims brought by any FRANCHISEE, any government agency, any enforcement agency or any tax agency.

(g) During the Term of this Agreement, and during the term of any Single Unit Facility License Agreement with its FRANCHISEE, KAHALA agrees to the following: (i) it may not charge its FRANCHISEES under the applicable Franchise Agreement a Continuing Royalty in excess of six percent (6%) of Gross Sales as currently set forth in the approved form of Franchise Agreement attached hereto as Exhibit G and (ii) it may not charge its Franchises under the Single Use Facility License Agreement a Monthly Services Fee of more than the greater of \$1,250 or six percent (6%) of Gross Sales per month as currently set forth in the approved form of Single Use Facility License Agreement attached hereto as Exhibit F.

(h) During the first twenty-four (24) months of this Agreement and to promote the uniform Nrgize brand across L.A. FITNESS' Facilities, KAHALA agrees to not charge an initial franchise fee to any currently existing and operating juice bar owner operating in a Facility who agrees to convert the applicable juice bar to Nrgize and have the license for such Service Area fall under this terms and conditions of this Agreement. Further, in an additional effort to promote the Nrgize brand, L.A. FITNESS hereby agrees to forward any and all leads it receives from third party interested juice bar owners to Mr. David Shick at the notice address set forth in Section 21 below or via email at dbshick@kahalacorp.com.

5. KAHALA'S Franchisees.

(a) Prior to executing any agreement with any FRANCHISEE, KAHALA must screen the prospective FRANCHISEE to verify that the prospective FRANCHISEE meets any criteria specified by L.A. FITNESS in writing to KAHALA from time to time during the Term of this Agreement. During the Term, KAHALA shall provide to L.A. FITNESS any information relating to the FRANCHISEES and their operations at the Facilities, as reasonably requested by L.A. FITNESS from time to time, including an up-to-date list of each

FRANCHISEE and the Facility at which each FRANCHISEE provides Retail Services and a copy of the each executed agreement with the FRANCHISEE relating to the Facility. 1•or each Facility at which a FRANCHISEE provides the Retail Services, KAHALA and that FRANCHISEE shall execute an NRGIZE Franchise Agreement in the form attached hereto as Exhibit G that has already been approved by L.A. FITNESS and a Single-Unit Facility License Agreement (in the form attached as Exhibit F). If L.A. FITNESS is operating a health club at a Facility and the franchise agreement is terminated, expires or, for any other reason, the FRANCHISEE ceases to do business at a Facility, KAHALA shall take over operation of the Services Area or identify another FRANCHISEE to do so.

(b) All persons who perform or manage Retail Services on behalf of KAHALA will be hired, employed, supervised and maintained by KAHALA or its FRANCHISEES in accordance with all applicable local, state and federal laws including, without limitation, the Fair Labor Standards Act, Federal Civil Rights Act, Title VII, the ADEA, FMLA, OSHA, and any applicable state Employment Security Act. The parties further agree that KAHALA or its FRANCHISEES shall maintain all legally required insurance (e.g. workers' compensation and unemployment) and benefits with regard to their employees, comply with all state and federal wage and hour laws and pay all applicable state, federal and local payroll taxes.

(c) KAHALA understands and agrees that KAHALA or its FRANCHISEES will not be permitted to sta(f Services Areas with independent contractors, including subcontractors, rather than employees of KAHALA or its FRANCHISEES. However, L.A. FITNESS understands and agrees that KAHALA may appropriately contract with FRANCHISEES to provide the Retail Services in the Service Areas of the Facilities, provided the rights are granted in a manner consistent with this Agreement.

(d) If UBHALA contracts with FRANCHISEES to perform the Retail Services in the Services Areas of the Facilities, KAHALA understands and agrees that the FRANCHISEES are fully responsible for supervising their employees and for the manner and means by which they perform the Retail Services. L.A. FITNESS shall not have the authority or responsibility to hire, supervise, schedule, assign, train, warn, discharge, or discipline any of KAHALA'S or its FRANCHISEES' employees. L.A. FITNESS may give KAHALA notice of any concerns which come to L.A. FITNESS' attention regarding performance or non-performance of any FRANCHISEE's employees. In such circumstances, FRANCHISEE or KAHALA will determine the appropriate action, if any, to be taken regarding such matter or employee.

(e) During the Term of this Agreement, and to the fullest extent permitted by law: (1) KAHALA or its FRANCHISEES may not solicit any current or former employees of L.A. FITNESS for hire; and L.A. FITNESS may not solicit any current or former employees of KAHALA or its FRANCHISEES for hire.

6. Fees.

(a) Reservation Fee. In consideration for the rights granted in Section 1, KAHALA shall pay L.A. FITNESS a fee in the amount of \$7,500 for the eleventh (11th) Covered Location and each Covered Location thereafter granted to KAHALA for the operation of an Nrgize outlet in the applicable Service Area during the Exclusive Grant Period. Each \$7,500 Reservation Fee shall be payable to L.A. FITNESS no later than the date

L.A. FITNESS provides KAHALA or its FRANCHISEE exclusive access to the Service Area in the applicable Covered Location. Each Reservation Fee is refundable pursuant to the terms and conditions of Section 6(b)(3) below.

(b) Monthly Services Fee.

(1) KAHALA shall pay to L.A. FITNESS \$2,500, which amount represents the non-refundable first and last month's Flat Fee (as defined below), as an initial deposit ("Initial Deposit") for the eleventh (11th) Covered Location and each Covered Location thereafter granted to KAHALA for the operation of an Nrgize outlet in the applicable Service Area during the Exclusive Grant Period. Each \$2,500 Initial Deposit shall be payable to L.A. FITNESS no later than the date L.A. FITNESS provides KAHALA or its FRANCHISEE exclusive access to the Service Area in the applicable Covered Location .

(2) In consideration for the right to provide Retail Services at the Facilities, for each Covered Location granted to KAHALA for the operation of an Nrgize outlet in the applicable Service Area during the Exclusive Grant Period, KAHALA shall pay L.A. FITNESS a non-refundable and continuing monthly services fee ("Monthly Services Fee") in an amount equal to the greater of: (i) \$1,250 (the "Flat Fee"); or (ii) 6% of Gross Sales for the prior month attributable to the Retail Services (the "Variable Fee"). KAHALA shall pay L.A. FITNESS the Flat Fee for all of the Facilities as one payment on the fifth calendar day of the month (the "Initial Payment"). KAHALA shall not reduce or offset any amount based upon failure by any FRANCHISEE to pay amounts owed to KAHALA. Additionally and if necessary, by the tenth (10th) of each month, KAHALA shall remit to L.A. FITNESS a second payment calculated as the total by which the Variable Fee exceeded the Flat Fee for each applicable Facility (the "Second Payment"). During the Term, notwithstanding the fact that any Services Area is not open and operating, if the Facility is open and operating and the applicable Commencement Date has occurred, KAHALA shall pay to L.A. FITNESS the Flat Fee for the applicable Facilities. Unless modified by L.A. FITNESS, as used in this Agreement, the term "Gross Sales" shall have the same meaning as ascribed to that term in the current form of the NRGIZE Franchise Agreement attached hereto as Exhibit G.

(3) If KAHALA fails to timely pay any Monthly Services Fee or any other amount, fee or charge due to L.A. FITNESS hereunder or commits a default with respect to any provision of this Agreement,

L.A. FITNESS may use, apply or retain all or any portion of the Reservation Fee for the payment of such amount, fee, payment or other charge or to compensate L.A. FITNESS for any loss or damage which L.A. FITNESS may suffer thereby. If L.A. FITNESS uses or applies all or any portion of the Reservation Fee, KAHALA shall, within 10 days after written demand therefore from L.A. FITNESS, deposit cash with L.A. FITNESS in an amount sufficient to restore the Reservation Fee to the full amount required to be deposited by KAHALA. L.A. FITNESS shall not be required to keep the Reservation Fee separate from its general accounts. If KAHALA performs all of KAHALA's obligations hereunder, the Reservation Fee, or so much thereof as has not heretofore been applied by

L.A. FITNESS, shall be returned, without payment of interest or other increment for its use, to KAHALA within 10 business days of the later of (i) the expiration of the Term hereof, or (ii) the date KAHALA has vacated the respective Service Area and is not otherwise in default of this Agreement. No trust relationship is created herein between L.A. FITNESS and KAHALA with respect to the Reservation Fee.

(c) Access Fee. In consideration for the rights granted in Section 2 KAHALA shall also pay L.A. FITNESS a non-refundable access fee in the amount of \$5,000 (the "Access Fee") for the eleventh (11th) Covered Location and each Covered Location thereafter granted to KAHALA for the operation of an Nrgize outlet in the applicable Service Area during the Exclusive Grant Period. Each \$5,000 Access Fee shall be payable to L.A. FITNESS no later than the date L.A. FITNESS provides KAHALA or its FRANCHISEE exclusive access to the Service Area in the applicable Covered Location .

(d) Construction Fee. Except as provided for herein, for the eleventh (11th) Facility and each Facility thereafter at which KAHALA or its FRANCHISEES is required to provide Retail Services, KAHALA shall also pay to L.A. FITNESS a non-refundable construction fee in the amount of \$35,000 to be applied to L.A. FITNESS' cost of the build-out or conversion of the Services Area at the respective Facility ("Construction Fee").

L.A. FITNESS will only provide at its expense the build-out activities or conversion items to the Services Area referenced in the attached Exhibit H in exchange for payment of the Construction Fee. All additional costs and expenses incurred for KAHALA's intended use will be at KAHALA's sole cost and expense. KAHALA acknowledges and agrees that, for new Facilities opened after January 1, 2007 and each January 1 thereafter during the Exclusive Grant Period, the amount of the Construction Fee paid during the prior year will increase by 4%. For existing Facilities made available to KAHALA during the Term, and Retail Services presently are being provided by a third party, there shall be no Construction Fee charged by L.A. FITNESS and KAHALA will be responsible for all costs and expenses incurred in converting the Services Area for KAHALA's use, including the furnishings, equipment and signage.

(e) **Commitment Fee.** Simultaneously with the execution of this Agreement, and in addition to all other amounts due to L.A. FITNESS, KAHALA shall pay L.A. FITNESS a commitment fee ("Commitment Fee") in the amount of \$500,000. The Commitment Fee will be applied to the fees for the first 10 Service Areas opened at the Facilities listed on Exhibit C, as follows:

Initial Deposit Access Fee Reservation Fee	\$2,500 \$5,000 \$7,500
Construction Fee	\$35,000
Total	\$50,000

KAHALA agrees that, except as provided below, the Commitment Fee is fully earned by L.A. FITNESS when paid and is not refundable. In the event this Agreement is terminated prior to L.A. FITNESS conveying ten (10) Facilities to KAHALA for the operation of an Nrgize outlet in the applicable Service Area, KAHALA shall be entitled to a pro rated refund of the Commitment Fee calculated as \$50,000 multiplied by the result of ten (10) less the number of Facilities conveyed to KAHALA prior to termination of this Agreement.

(f) **Taxes.** In addition to the sums above, IMHALA shall pay all federal, state and local sales, use, privilege, excise, franchise and similar taxes (if any) arising from or based upon this Agreement or the Retail Services provided in the Facilities, other than taxes based upon L.A. FITNESS' income. To the extent such taxes are due based on the payments to L.A. FITNESS, those taxes shall be paid by KAHALA concurrently with the other payments due (i.e., with the Monthly Services Fees or other payments due under this Agreement).

(g) **Reports and Audit Rights.** KAHALA shall submit to L.A. FITNESS in writing simultaneously with payment of the Variable Fee: (i) the amount of Gross Sales generated during the prior calendar month at each Facility where Retail Services were provided by KAHALA or its FRANCHISEES; (ii) a statement for each Facility indicating whether the Monthly Services Fee payment is based upon Gross Sales or represents the minimum payment; and (iii) the aggregate amount of Gross Sales generated during the prior calendar month at all Facilities where Retail Services were provided by IMHALA or its FRANCHISEES. L.A. FITNESS or its designee shall have the right at all reasonable times, both during and after the Term on at least ten (10) prior days notice to KAHALA, to inspect, copy and audit the books and records and such other forms, reports, information and data as

L.A. FITNESS may designate, applicable to the Retail Services provided by IMHALA or its FRANCHISEES at each Facility. KAHALA shall provide to L.A. FITNESS any other data, information or reports as L.A. FITNESS may reasonably require. If the audit shows that there is a deficiency in the payment of any percentage of Gross Sales, 150% of the deficiency shall become immediately due and payable as an additional fee. L.A. FITNESS may require FRANCHISEES to give receipts to all customers and to retain detailed records of each sales transaction for auditing purposes.

(h) **Electronic Funds Transfer.** L.A. FITNESS may require KAHALA to make any payments required by this Agreement by electronic funds transfer ("EFT") and, in connection with the EFT, L.A. FITNESS may designate any terms and conditions to govern payments by EFT. KAHALA agrees to comply with any terms and conditions designated by L.A. FITNESS relating to EFT. KAHALA shall complete any documentation required by L.A. FITNESS in connection with this Section.

(i) **Interest and Late Fees.** Any payments accepted by L.A. FITNESS after their applicable due date shall bear interest at an annual rate which is the lesser of 12% or the maximum interest rate permitted by applicable law. In addition, any payments received three (3) days or more after the due date may be assessed an additional fee equal to 10% of the original payment due. The provisions herein for late fees shall not be construed to extend the date for payment of any sums required to be paid by KAHALA hereunder or to relieve IMHALA of its obligation to pay all such sums at the time or times herein stipulated. Neither the demand for, nor collection by, L.A. FITNESS of such late fees shall be construed as a cure of any default on the part of KAHALA. The late fee shall be deemed an additional fee, and the right to require it shall be in addition to all of L.A. FITNESS' other rights and remedies hereunder or at law and shall not be construed as liquidated damages or as limiting L.A. FITNESS' remedies in any manner. It is agreed that said late fee is a fair and reasonable fee under the circumstances, and it shall not be construed as interest on a debt payment. In the event any fee imposed hereunder or under any other

section of this Agreement is either stated to be or construed as interest, then no such interest charge shall be calculated at a rate which is higher than the maximum rate which is allowed under the usury laws of the applicable state, which maximum rate of interest shall be substituted for the rate in excess thereof, if any, computed pursuant to this Agreement.

(j) **Enforcement Costs.** KAHALA shall reimburse L.A. FITNESS for any fees, costs, expenses or other charges incurred by L.A. FITNESS to enforce this Agreement, including attorneys' fees and costs.

7. **Use of Services Areas.** In the Services Area in each Facility, IfAHALA or its FRANCHISEES shall provide to the Members the Retail Services described in Exhibit A, including selling or distributing any Menu Items or other items required by L.A. FITNESS. The Retail Services provided by KAHALA and its FRANCHISEES shall be subject to all restrictions set forth in Exhibit A, as modified by L.A. FITNESS from time to time as provided in Exhibit A. KAHALA and its FRANCHISEES shall have the exclusive right to perform these Retail Services within the Services Areas of the Facilities starting on the Commencement Date for each Facility and continuing through the Term of this Agreement. L.A. FITNESS shall have the right to inspect, at any reasonable time, any Services Area within any Facility to determine whether IfAHALA or its FRANCHISEE are in compliance with this Agreement and any other agreements relating to the Facility. From time to time, L.A. FITNESS may arrange temporary promotions, sometimes involving third parties, to give away items (including food and merchandise) to its Members as part of its own marketing and promotions. Such a temporary promotion shall not exceed 15 consecutive days in length and, at L.A. WITNESS' discretion, if appropriate, will include KAHALA and/or FRANCHISEES.

8. **KAHALA's Rights and Limitations.**

(a) **Build-Out Of Retail Services Areas.** For all new Facilities, L.A. FITNESS will only provide at its expense the build-out to the Services Area referenced in the attached Exhibit H in exchange for payment of the Construction Fee. All additional costs and expenses incurred for KAHALA's intended use will be at KAHALA's sole cost and expense. Additionally, for the Orange, Connecticut and Lake Success, New York Facilities, and for existing Facilities with previously existing Service Areas where no Construction Fee is applicable, KAHALA shall be solely responsible for the renovation and modification of the Service Area. L.A. FITNESS shall have the right to approve any construction plans for any Services Areas. Once L.A. FITNESS has apprived any Services Area to open for business, KAI-IALA can either commence providing Retail Services at that Services Area or permit a FRANCHISEE to provide Retail Services at that Services Area. If a FRANCHISE will provide the Retail Services at any Facility, KAHALA and the FRANCHISEE will enter into a NRGIZE Franchise Agreement in the form attached hereto as Exhibit G that includes certain provisions required by L.A. FITNESS.

(b) **Dress Code.** IMHALA and its employees, agents and representatives and its FRANCHISEES are required to dress in a professional manner while providing the Retail Services in the Facility. KAHALA's employees and any FRANCHISEE's employees shall be required to wear uniforms, the color and style of which are subject to L.A. FITNESS' prior written approval. Such uniforms shall properly identify KAHALA's or its FRANCHISEE's independent nature, and shall in no way indicate or imply that KAHALA or any of its employees, agents, representatives or FRANCHISEES are employees of L.A. FITNESS. IMHALA may make such arrangements with its employees, agents, representatives or FRANCHISEES as it deems appropriate regarding the purchase and maintenance of such standard uniforms. KAHALA or its FRANCHISEE shall require the standard uniform to be worn by all its employees at all times while on duty performing Retail Services within the Facility.

(c) **Cleanliness.** KAHALA and its FRANCHISEES are required to maintain the Services Areas in a spotless, clean, health and sanitary condition at all times. IHALA and its FRANCHISEES shall store garbage, trash and other refuse in rat-proof and insect-proof containers inside the Services Areas, and remove the same frequently and regularly and, if directed by L.A. FITNESS, by such means and methods and at such times and intervals as are designated by L.A. FITNESS, at KAHALA's or its FRANCHISEE's sole cost and expense. KAHALA or its FRANCHISEES being cited or warned by county, state, or city health inspectors for maintaining unsatisfactory working conditions may become grounds for termination of this Agreement.

(d) **Professional Conduct.** KAHALA and its employees, agents, representatives, and FRANCHISEES shall, at all times, maintain the highest possible professional standards of conduct while providing

the Retail Services under this Agreement, including professional language and appearance. KAHALA shall at all times be aware that the Facility is a health and fitness facility seeking to serve its Members with the highest level of service. KAHALA and its employees, agents, representatives and FRANCHISEES shall at all times abide by the L.A. FITNESS Club Rules and Regulations attached as Exhibit D hereto.

(e) **Equipment Use.** EXcept to the extent such individuals are Members, KAHALA and its employees, agents and representatives and its FRANCHISEES are not authorized to use, and agree not to use, nor will they wear KAHALA or FRANCHISEE uniforms while using, the fitness equipment or other services of the Facilities. KAHALA acknowledges and agrees that the equipment and services, are for use by L.A. FITNESS instructors, employees, and Members.

(f) **No Rights to Intellectual Property.** KAHALA shall not be permitted to use any intellectual property of L.A. FITNESS (including any trademarks or service marks) in any manner or on any document, including but not limited to advertisements for the Retail Services, business cards, stationery, forms, contacts, and/or receipts without the prior written consent of the Executive Vice President, CEO, CFO, or Chairman of L.A. FITNESS. Similarly, L.A. FITNESS shall not be permitted to use any of the intellectual property of KAHALA (including any trademarks or service marks) in any manner or on any document without the prior written consent of the Executive Vice President, CEO, CFO or Chairman of KAHALA. Nothing in this Agreement provides either party with any ownership interest in or rights to use any trademarks or service marks owned by the other party.

(g) **Parking Regulations.** IMHALA and FRANCHISEES' employees, agents, representatives and contractors shall abide by the vehicle parking regulations as set forth by L.A. FITNESS relating to the Facility, including payment of parking fees for employees if required under the L.A. FITNESS Premises Lease.

(h) **Signs, Advertising and Storage.** KAHALA or its FRANCHISEES shall not place any sign upon the exterior of the L.A. FITNESS Facility. IMHALA or its FRANCHISEES shall not place any signs, banners or point of purchase materials in, upon or about the Service Area or the facility without the express prior consent of L.A. FITNESS. KAHALA or its FRANCHISEES shall post a sign in a conspicuous location in the Service Area (and include in all other signs and promotional materials used by KAHALA or its FRANCHISEE), which identifies KAHALA or its FRANCHISEE's name and states that the Nrgize outlet is independently owned and operated by IMHALA or its FRANCHISEE and is not in any way affiliated with L.A. FITNESS. IMHALA or its FRANCHISEE shall not store or display any signs or merchandise outside the Service Area.

(i) **Hazardous Materials.** UBHALA or its FRANCHISEE shall not use or introduce in the Service Area or facility any hazardous or toxic materials.

9. **Maintenance, Repairs and Alterations.** KAHALA or its FRANCHISEES, at its sole expense, shall keep in good order, condition and repair the Services Areas and all fixtures, furniture and equipment in the Services Areas. KAHALA and its FRANCHISEES shall not make, without L.A. FITNESS' prior written consent, any alterations, improvements, additions or installations to any Services Area ("Improvements"). If KAHALA makes any Improvements without the prior written approval of L.A. FITNESS, or uses a contractor not expressly approved by L.A. FITNESS, L.A. FITNESS may, at any time during the Term of this Agreement, require that IMHALA remove any part of the same at no expense to L.A. FITNESS. All Improvements shall be made and done in good and workmanlike manner and shall use good and sufficient quality and material. Improvements shall be done in such a manner so as to not impact operations at the Facilities and shall be the property of L.A. FITNESS and remain upon and be surrendered with the Services Areas by KAHALA at the expiration or termination of this Agreement.

10. **Insurance.**

(a) **Required Insurance.** IMHALA, through itself or its FRANCHISEES for sub items 10(a)(3) and 10 (a)(4) below, shall, at their expense, obtain and keep in full force and effect during the Term of this Agreement: (1) Comprehensive General Liability Insurance in an amount of not less than \$1,000,000 per occurrence, and with an aggregate of not less than \$2,000,000, of bodily injury and property damage combined ; (2)



if the products sold by KAHALA are not covered by the General Liability Policy, Product Liability insurance in an amount of not less than \$1,000,000 per occurrence, and with an aggregate of not less than \$2,000,000 for merchandise, goods, products, food and beverages sold in the Services Areas and Facilities by KAHALA or its FRANCHISEES; (3) Workers' Compensation insurance coverage to the full extent required by federal, state and/or local law; and (4) fire insurance with a Standard Form Extended Coverage Endorsement in an amount of at least the full insurance value of the improvements, fixtures, equipment and merchandise in the Services Areas. In addition to the required insurance coverages above, KAHALA, at its expense, shall obtain and keep in full force and effect during the Term of this Agreement an umbrella excess liability insurance policy in the amount of \$5,000,000.

(b) **Insurance Policies.** KAHALA shall deliver to L.A. FITNESS copies of the insurance policies required under this Section 10, or certificates evidencing the existence and amounts of such insurance, prior to KAHALA's (or its FRANCHISEE'S) occupancy of the Services Areas. L.A. FITNESS, the property manager, the property owner and any other entity or individual designated by L.A. FITNESS shall be additional insureds in such policies to the extent each has an insurable interest. All insurance policies herein to be procured by KAHALA shall: (i) be issued by insurance companies authorized to do business in the state where the facility is located, with a policy holder's rating of at least A- and a financial rating of not less than IX in the most recently published "Best Insurance Guide"; (ii) be written as primary policy coverage and non-contributory with respect to any coverage which L.A. FITNESS may carry; and (iii) be, with respect to the aggregate amount of insurance required by Section 10(a)(1) and 10(a)(2) of this Agreement, in addition to the insurance required for each Facility as provided in the individual Single-Unit Facility License Agreement. No such policy shall be cancelled or subject to reduction of coverage or other modification except after 30 days prior written notice to L.A. FITNESS. KAHALA shall, at least 30 days prior to the expiration of such policies, furnish L.A. FITNESS with copies of any renewal policies. IMHALA's insurance carriers shall waive all subrogation rights and any similar rights of recovery against or contribution from L.A. FITNESS.

(c) **No Representation of Adequate Coverage.** L.A. FITNESS makes no representation that the required types of insurance coverage and minimum coverages specified in Section 10 are adequate to cover KAHALA's or its FRANCHISEES' property or obligations under this Agreement. Compliance with the above insurance requirements shall not limit the liability of KAHALA under this Agreement.

11. Indemnification. IMHALA shall indemnify and hold harmless (to the full extent permitted by law) L.A. FITNESS and its parent, affiliates and subsidiaries and their respective successors, assigns, past and present stockholders, directors, officers, employees, agents, and representatives (collectively "Indemnitees") from and against any and all claims for damage to the person or property of anyone or any entity arising from KAHALA's or its FRANCHISEE's use of any Services Area or Facility, from the conduct of KAHALA'S or any FRANCHISEE's business or from any activity, work or things done, permitted or suffered by KAHALA or any FRANCHISEE in or about any Services Area, any Facility or elsewhere and shall further indemnify and hold harmless the Indemnitees from and against any and all claims, costs and expenses arising from any breach or default in the performance of any obligation on KAHALA's or any FRANCHISEE's part to be performed under the terms of this Agreement (or any other Agreement), or arising from any act or omission of KAHALA or any FRANCHISEE, or any of KAHALA's agents, representatives, FRANCHISEES, contractors, employees or invitees and from and against all costs, attorneys' fees, expenses and liabilities incurred by any Indemnatee as a result of any such use, conduct, activity, work, things done, permitted or suffered, breach, default or negligence, and in dealing therewith, including by not limited to, the defense or pursuit of any claim or any action or proceeding involved therein; and in case any action or proceeding be brought against any Indemnatee by reason of any such matter, KAHALA upon such notice from any Indemnatee shall defend the same at KAHALA's (or FRANCHISEE's) expense by counsel satisfactory to L.A. FITNESS and the Indemnitees shall cooperate with KAHALA (or the FRANCHISEE) in such defense. The Indemnitees need not have first paid any such claim in order to be so indemnified. KAHALA, as a material part of the consideration to L.A. FITNESS, hereby assumes all risk of damage to property of L.A. FITNESS or IMHALA or injury to persons in, upon or about the Services Area arising from any cause and KAHALA hereby waives all claims in respect thereof against the Indemnitees. The right of the Indemnitees to indemnification by KAHALA or its FRANCHISEES under this Section shall be independent of the right of L.A. FITNESS to the insurance to be provided pursuant to this Agreement. Notwithstanding any provision of this Section 11 to the contrary, IMHALA and its FRANCHISEES shall have no indemnification obligation to L.A. FITNESS under this Section 11 for accidents or occurrences of any Members or L.A. FITNESS agents,



contractors, or employees occurring in any area in or out of the Service Area (the "General Area") so long as L.A. FITNESS, its agents, contractors, and/or employees regularly clean and maintain the General Area at issue.

L.A. FITNESS agrees to indemnify and hold KAHALA, its FRANCHISEES, and its affiliates (including its parent and subsidiary companies), and its stockholders, directors, officers, attorneys, employees, agents, successors and assignees harmless for, from and against any and all claims, liabilities, causes of action, demands, obligations, costs and expenses, including reasonable attorneys' fees, arising out of or relating to L.A. FITNESS' or its employees and agents' gross negligence or willful misconduct at or around the Facility.

12. Exemption of L.A. FITNESS from Liability. All property kept, stored or maintained in any Facility by KAHALA or its FRANCHISEES shall be so kept, stored or maintained at the sole risk of KAHALA. KAHALA hereby agrees that L.A. FITNESS shall not be liable for injury to KAHALA's or its FRANCHISEE's business or any loss of income therefrom or for loss of or damage to the goods, merchandise, products or other property of KAHALA or its employees, FRANCHISEES, agents, representatives, invitees, customers or contractors, whether such damage or injury is caused by or results from theft, fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether said damage or injury results from conditions arising upon the Services Areas or upon other portions of any Facility, or from other sources or places, or from new construction or the repair, alteration or improvement of any part of any Services Area or any Facility of the equipment, fixtures or appurtenances applicable thereto, and regardless of whether the cause of such damage or injury or the means of repairing the same is inaccessible, L.A. FITNESS shall not be liable for any damages arising from any act or neglect of any Member or any other licensee, occupant or user of any Facility, nor from the failure of L.A. FITNESS to enforce the provisions of any other agreement of any other licensee, occupant or user of any Facility.

13. Default. The occurrence of any of the following constitutes a material breach or default (herein "Default") by KAHALA under this Agreement:

(a) KAHALA fails to pay any amount as required under this Agreement and such failure continues for five (5) business days after KAHALA's receipt of written notice of such non-payment.

(b) KAHALA makes a general assignment for the benefit of creditors; files or has filed against it a petition for reorganization or arrangement under any law relating to bankruptcy; the appointment of a trustee or receiver to take possession of substantially all of KAHALA's assets located at one or more Facilities or of KAHALA's interest in this Agreement; or has filed against it an attachment, execution, or other judicial seizure of substantially all of its assets located at one or more Facilities or of KAHALA's interest in this Agreement.

(c) KAHALA fails to obtain and have current insurance coverage as required in Section 10 and to timely provide proper proof thereof to L.A. FITNESS..

(d) KAHALA makes an assignment under Section 23 without L.A. FITNESS' prior written consent.

(e) KAHALA (or any other person or entity subject to Section 25) violates the "Non- Disclosure" provisions under Section 25.

(f) KAHALA or its FRANCHISEES provide Retail Services that are not authorized by L.A. FITNESS under Exhibit A or otherwise in writing, fail to provide any required Retail Services, or fail to cease offering any Retail Service that was previously authorized by L.A. FITNESS but which is no longer authorized, and such default remains uncured for twenty-four (24) hours after KAHALA's receipt of written notice of such default.

(g) KAHALA or its FRANCHISEES, employees, agents or representatives fail to comply with Sections 6(g), 7, and 8(b) through 8(i) of this Agreement, and the L.A. FITNESS Club Rules and Regulations established by L.A. FITNESS from time to time in its sole discretion (current Club Rules and Regulations are attached as Exhibit D), and such default remains uncured for twenty-four (24) hours after KAHALA's receipt of written notice of such default.

(h)

(i) KAHALA or its FRANCHISEES fails to perform any other material provision of this Agreement (including any amendment or modification), provided that such failure continues for 30 days after L.A. FITNESS provides written notice to KAHALA of such failure. Notwithstanding the foregoing, if a shorter period of time is specifically stipulated in this Agreement (including any amendment or modification) for any specific failure to be remedied, that shorter time period shall be enforced instead of the aforementioned 30-day period.

(j) KAHALA or its FRANCHISEES remains in default of any other agreement with L.A. FITNESS or any agreement relating to the operation of the Services Areas beyond the applicable cure period (if any).

Any Default under Sections 13(a) through Section 13(e) above shall be deemed a "General Default." Any Default under Sections 13(I) through 13(i) above shall be deemed a "Facility Default."

14. Termination.

(a) **Effect of a General Default.** Upon the occurrence of a General Default as set forth under Sections 13(a) through 13(e) above, L.A. FITNESS may terminate this Agreement. Upon the termination of this Agreement, KAHALA's right to provide, and to identify FRANCHISEES to provide Retail Services at the Facilities shall terminate and KAHALA's or its FRANCHISEE's right of access to the Facilities shall terminate. Notwithstanding anything to the contrary in any agreement between KAHALA and its FRANCHISEES, upon the termination of this Agreement, KAHALA and its FRANCHISEES shall, within 3 days after receipt of notice from L.A. FITNESS, vacate all Facilities and remove all personal belongings, materials and products of KAHALA or the FRANCHISEES from all Facilities. KAHALA shall immediately pay all monies due hereunder. L.A. FITNESS shall have the right upon the termination of this Agreement to provide, or identify third parties (including any of the FRANCHISEES) to provide, Retail Services at the Facilities.

(b) **Effect of a Facility Default.** Upon the occurrence of a Facility Default as set forth under Sections 13(I) through 13(i) above, L.A. FITNESS may terminate the rights granted in this Agreement for the applicable Facility only and any other agreements relating to that particular Facility only. Upon termination of the agreements for a specific Facility, KAHALA's (or its FRANCHISEE's) right to provide Retail Services at that Facility shall terminate and KAHALA's right of access to that Facility shall terminate. Within 3 days after receipt of such notice, KAHALA or its FRANCHISEE shall vacate the respective Facility and remove all personal belongings, materials and products of KAHALA or the FRANCHISEE from the respective Facility. KAHALA shall immediately pay all monies due to L.A. FITNESS for the respective Facility. L.A. FITNESS shall have the right upon the termination of the rights for any Facility to provide, or identify third parties (including any of the FRANCHISEES) to provide, Retail Services at the respective Facility. KAHALA's rights under this Agreement with respect any other Facilities shall continue unless and until those rights are terminated or expire. In the alternative, L.A. FITNESS may, in its sole and absolute discretion, compel KAHALA to terminate the Single Unit Facility License Agreement for the specific Facility and terminate FRANCHISEE's right of access to that facility. In the event L.A. FITNESS exercises this option, KAHALA will continue to remain obligated to pay the Flat Fee at the Facility through the term of this Agreement, regardless of whether KAHALA or a new replacement FRANCHISEE continues to operate the applicable specific Facility.

(c) **Termination Generally.** Termination of this Agreement or any rights to provide Retail Services at any Facility shall not prejudice any other remedy to which L.A. FITNESS may be entitled either at law, in equity, or under this Agreement. If this Agreement is terminated prior to the expiration of the Term, L.A. FITNESS shall be entitled to all damages provided under the Agreement and as otherwise entitled by law.

(d) **Condition of Services Areas.** In addition to the other obligations set forth in this Section, when KAHALA vacates any Services Area, that Area shall be in the same condition as received, ordinary wear and tear excepted, clean and free of debris; except, any improvements made to the Services Area, at the option of L.A. FITNESS, shall remain. Any damage or deterioration of any Services Area shall not be deemed ordinary wear and tear if the same could have been prevented by good maintenance practices by KAHALA or its FRANCHISEE. KAHALA shall repair any damage to any Services Area occasioned by the installation or removal of KAHALA's or its FRANCHISEE's trade fixtures, furnishings and equipment. KAHALA shall remove all of

KAHALA's or its FRANCHISEE's personal belongings, materials, merchandise, goods and products from the Services Areas and shall leave the Services Areas in a "broom clean" condition.

15. Remedies. Except as otherwise provided for in this Agreement, no remedy conferred by any of the specific provisions of the Agreement is intended to be exclusive of any other remedy. Each and every remedy shall be cumulative and shall be in addition to every other remedy given hereunder, now or hereafter existing at law or in equity or by statute or otherwise. The election of any one or more remedies by either party shall not constitute a waiver of the right to pursue other available remedies.

16. Cessation of Business. If L.A. FITNESS closes a Facility or ceases operating any Facility for any reason except for a Sale Transaction (as such term is defined below), upon written notice by L.A. FITNESS to IMHALA, this Agreement and the rights granted to KAHALA or its FRANCHISEE shall terminate as to that Facility (the "Closure Date"). As of the Closure Date, no Monthly Services Fees shall be due to L.A. FITNESS for that Facility. In addition, KAHALA shall comply with the applicable obligations set forth in Section 14. Notwithstanding any provision of this Agreement to the contrary and except for a Sale Transaction, if L.A. FITNESS voluntarily ceases operating any Facility covered by this Agreement, KAHALA or the applicable FRANCHISEE shall be reimbursed by L.A. FITNESS for their unamortized actual documented cost of the construction and improvements performed to the Service Area, including the applicable Construction Fee paid to

L.A. FITNESS, amortized over 10 years based on the applicable Commencement Date and Closure Date (the "Reimbursement"). The Reimbursement shall be paid by L.A. FITNESS to KAHALA or the applicable FRANCHISEE within thirty (30) days of the later of the Closure Date or date L.A. FITNESS receives supporting cost documentation. In addition, if L.A. FITNESS closes and replaces a Facility subject to this Agreement, KAHALA or the applicable FRANCHISEE shall have the right of first refusal for any replacement Facility opened within one and a half (1.5) miles of the closed Facility, with such right of first refusal lasting thirty (30) days after IMHALA's receipt of notice from L.A. FITNESS of the replacement Facility location and projected opening date.

L.A. FITNESS and KAHALA hereby acknowledge and agree that the terms and conditions of this Section 16 do not apply to any consolidation or merger of L.A. FITNESS and its affiliated entities into or with a third party entity or the acquisition of substantially all of the assets or stock of L.A. FITNESS or its parent and affiliated entities by a third party entity, the result of which would be a new third party owner of the L.A. FITNESS nationwide chain of health clubs (hereinafter, a "Sale Transaction").

17. Interruptions. There shall be no abatement of license payments and L.A. FITNESS shall not be liable in any respect whatsoever for the inadequacy, stoppage, interruption or discontinuance of any utility or service due to riot, strike, labor dispute, breakdown, accident, repair or other cause beyond L.A. FITNESS' reasonable control or in cooperation with governmental requests for direction.

18. Arbitration. Any controversy, dispute or claim between the parties arising out of, in connection with or in relation to this Agreement including but not limited to the negotiation, execution, coverage, scope, performance, non-performance, breach, interpretation, termination, enforceability or validity of this Agreement or any alleged fraud in connection therewith, shall, on the written request of either party served on the other, be submitted to arbitration for resolution. Such arbitration shall be conducted in accordance with the provisions of the Federal Arbitration Act, and with the then existing rules of the American Arbitration Association for commercial arbitration in Orange County, California. Each party shall be entitled to conduct reasonable discovery pursuant to the provisions of the Code of Civil Procedure of the State of California. Venue for arbitration shall be the County of Orange, State of California. The arbitration of all issues, including the determination of any amount of damages suffered by any party hereto by reason of the acts of omission of any party, shall be binding and shall survive the termination of the Agreement. The arbitrator shall be authorized to award the costs and expenses of arbitration to the prevailing party or to otherwise equitably allocate such costs and expenses and to settle the dispute to the mutual satisfaction of the parties. Judgment on the award of the arbitration may be entered in any court of competent jurisdiction. To the extent applicable, the parties waive any right to trial by jury. Notwithstanding anything to the contrary, L.A. FITNESS shall have the right and option to maintain a summary action for eviction, such as an unlawful detainer action, in a court of competent jurisdiction. Furthermore, anything to the contrary notwithstanding, L.A. FITNESS shall have the right and option to maintain an action for injunctive relief and other equitable relief against KAHALA in a court of competent jurisdiction.

19. Choice of Law. This Agreement, and any dispute arising from the relationship between the parties to this Agreement, shall be governed by California law, including any laws that direct the application of another jurisdiction's laws.

20. Entire Agreement. This Agreement, any Exhibits attached hereto, and any agreements executed in furtherance of this Agreement constitute the final, complete, and exclusive statement of the terms of the agreement pertaining to the subject matter of this Agreement and supersede all prior and contemporaneous understandings or agreements of the parties. No party has been induced to enter into this Agreement by, nor is any party relying on, any representation or warranty outside those expressly set forth in this Agreement, and the attachments thereto. However, both parties understand that if KAHALA arranges to have a FRANCHISEE provide the Retail Services at any Facility, each such FRANCHISEE shall enter an agreement with KAHALA, in the exact form attached hereto as Exhibit F that has been previously approved by L.A. FITNESS, for each applicable Facility, prior to being permitted to provide Retail Services in a Facility. This Agreement may be amended only by a writing signed by both parties.

21. Severability of Agreement. If a court or an arbitrator of competent jurisdiction holds any provision of this Agreement to be illegal, unenforceable, or invalid in whole or in part for any reason, the validity and enforceability of the remaining provisions, or portions of them, will not be affected.

22. Notices. All notices, amendments, waivers, consents, approvals and other communications required or permitted under this Agreement must be in writing. Any such item requiring delivery must be delivered: (a) in person; (b) by registered, express or certified mail, postage prepaid, return receipt request; (c) by a reputable, national overnight delivery carrier, provided that a signature upon receipt is required with such delivery; or (d) by a generally recognized courier or messenger service that provides written acknowledgement of receipt by the addressee. Documents are deemed delivered when actually delivered to or delivery is refused at the address for notices.

Notices and deliveries to IMHALA must be made at the following address: Kahala

Corp.

Attn: Legal Department 7730 East Greenway Road, Suite 104 Scottsdale, AZ 85260

Notices and deliveries to L.A. FITNESS must be made at the following address:

L.A. Fitness International, LLC

Attn: Legal Department

8105 Irvine Center Drive, Suite 200 Irvine, CA 92618

23. Assignment.

(a) By KAHALA. The rights granted by L.A. FITNESS to KAHALA hereunder are personal rights and cannot be transferred or assigned, directly or indirectly, to a third party except with the prior express written approval of L.A. FITNESS, which must be signed by the Executive Vice President, CEO, CFO or Chairman of L.A. FITNESS and which shall be given at L.A. FITNESS' sole and absolute discretion. KAHALA shall not have the right to authorize or permit any person other than IMHALA, its employees and its FRANCHISEES to provide Retail Services at any Facility. Any attempted assignment in violation of this Section 22 shall be void. Notwithstanding anything to the contrary contained in this Section 22, KAHALA may, without

L.A. FITNESS' consent (but upon written notice to L.A. FITNESS), assign this Agreement to any entity controlled by, controlling or under common control with KAHALA or to any entity resulting from the consolidation or merger of KAHALA's parent, Kahala Corp., into or with such other' entity or the acquisition of substantially all of the assets or stock of KAHALA's parent by such entity, provided the assignee shall be fully subject to all terms, covenants and conditions of this Agreement; as used herein, "control" shall mean ownership of at least 51% of the voting interest together with the right and power to direct or cause the direction of the management and policies of a

L.B.

particular entity. A public offering of KAHALA or its parent's shares, recapitalization, reorganization or sale of a controlling interest in KAHALA shall not require L.A. FITNESS' consent or approval.

(b) By L.A. WITNESS. L.A. FITNESS shall have the right to freely assign its rights and responsibilities under the Agreement to third parties without the approval of KAHALA; provided, however, any assignment of this Agreement shall be delivered in writing to KAHALA within 30 days after being effective against KAHALA.

24. **Binding Effect.** Except as set forth in Section 11, this Agreement is binding on and benefits only the parties and their respective permitted successors and assigns. Nothing in this Agreement (except Section 11) gives any rights or remedies to any person other than the parties and their respective permitted successors and assigns, nor does anything in this Agreement relieve or discharge any obligation or liability of any third person to any party. No provision of this Agreement gives any third person any right of subrogation or action over or against any party to this Agreement.

25. **Nondisclosure.** KAHALA recognizes that materials used by L.A. FITNESS in the daily operation of its Facilities, including (but not limited to) forms, procedures memos, manuals, training materials, guest lists and member lists, are considered vital to those operations, and the sharing of such materials with competitors or potential competitors of L.A. FITNESS could have a material detrimental effect on the future profitability of L.A. FITNESS. Accordingly, KAHALA shall not, and shall cause its employees, agents, affiliates, representatives and FRANCHISEES not to, use or disclose any such information without the prior written permission of L.A. FITNESS in each instance. If KAHALA (or any other person subject to this Section) knowingly or negligently uses or shares any such materials with a competitor or potential competitor of L.A. FITNESS, or a member of the general public, or causes or permits any such materials to be shared with such parties, IMHALA has committed a Default of this Agreement and is liable to L.A. FITNESS for all costs, damages and losses of any kind resulting from this breach and L.A. FITNESS may take any actions identified in Section 14(a).

26. **Cooperation.** KAHALA agrees that it and its employees, agents, representatives, invitees, guests and FRANCHISEES will not be disruptive to the operation of the Facilities, will not speak negatively to Members about the Facilities or personnel and will work cooperatively with the L.A. FITNESS staff.

27. **Non-waiver.** Any waiver of any right or remedy requires the consent of the party waiving it. Every amendment, waiver, consent or approval must be in writing and expressly designated as such. No failure by any party to insist on the strict performance of any provision of this Agreement, or to exercise any right or remedy, will be deemed a waiver of such performance, right or remedy, or of any other provision of this Agreement. Any single waiver shall not be deemed a continuing waiver.

28. **Survival.** The representations, warranties and agreements in this Agreement will survive: (a) any investigation made by any party; (b) the execution of this Agreement; and (c) the consummation of the transactions contemplated hereby.

29. **Additional Documents and Acts.** Each party will sign and deliver additional documents and instruments, and perform additional acts that are commercially reasonable and necessary to perform or evidence its obligations in the Agreement.

30. **No Presumption.** If any claim is made by a party relating to any conflict, omission or ambiguity in the provisions of this Agreement, no presumption or burden of proof or persuasion will be implied because this Agreement was prepared by or at the request of any party or its counsel. The parties waive any statute or rule of law to the contrary. The parties represent and acknowledge that each has had the opportunity to have respective legal counsel review and advise on the terms and conditions of this Agreement.

31. **Interpretation.** Unless the context otherwise requires: (a) a term has the meaning assigned to it; (b) "or" is not exclusive; (c) words in the singular include the plural, and words in the plural include the singular; (d) "amended," with reference to a law, statute, rule, regulation, charter or bylaws, is deemed to be followed by "from time to time"; (e) "herein," "hereof" and other similar words refer to this Agreement as a whole and not to

any particular Section, Paragraph, Subsection, paragraph, clause, or other subdivision; (i) all references to "Section," "Paragraph," or "Exhibit," refer to the particular Section, Paragraph in or Exhibit attached to this Agreement; and (g) "including," when following any general provision, sentence, clause, statement, term or matter, will be deemed to be followed by, "but not limited to. ...".

32. **Construction.** This Agreement shall not be construed for or against any party on the basis that such party or its legal representative caused part or all of this Agreement to be drafted.

33. **Specific Performance.** It might be impossible to measure in money the damage to a party if another party breaches this Agreement. If any such breach occurs, the party damaged might not have an adequate remedy at law or in damages. Therefore, each party consents to the issuance of an injunction or other appropriate interim or provisional relief, and the enforcement of other equitable remedies, against it to compel performance of this Agreement.

34. **Headings Exhibits.** The headings in the Agreement are only for convenience and ease of reference and are not to be considered in construction or interpretation. All exhibits, schedules and appendices attached to this Agreement are incorporated herein.

35. **Counterparts.** The Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and any of the parties hereto may execute the Agreement by signing any such counterpart.

IN WITNESS WHEREOF, L.A. FITNESS and KAHALA hereto have executed this Agreement this and year first above written.

FI FITNESS INTERNATIONAL, LLC

By: 

Name/Title: Paul Norris, Executive Vice President
Address: 8105 Irvine Center Drive, Suite 200, Irvine, CA,
92618
Telephone: 949-255-7405

KAHALA HOLDINGS, LLC

By: 

Name/Title: Kevin Blackwell, Chairman & CEO of
its Sole Member Address: 7730 East Greenway
Road, Suite 104, Scottsdale, AZ, 85260 Telephone:
480-443-0200

Exhibit Schedule

Exhibit A — Retail Services Exhibit B — NrGize Lifestyle Cafe Menu Exhibit C — L.A. FI3'NESS Locations & Opening Dates Exhibit D — L.A. FITNESS Club Rules and Regulations Exhibit E — Intentionally Deleted Exhibit F — Single-Unit Facility License Agreement Exhibit G — Form of Approved Nrgize Individual Franchise Agreement Exhibit H — L.A. FITNESS Services Area Build-Out Specifications Exhibit I — Location Memorandum

Exhibit A — Retail Services

Permitted Use — The Services Areas shall be occupied and used by KAHALA or its FRANCHISEES for the retail operation of an nrgize Lifestyle Cafe selling, among other menu items, smoothies, blended fruit and vegetable drinks, power smoothies, chillers, fresh juice, variety of lemonades, and other non-alcoholic beverages such as juices, soft drinks, sports drinks, hot and iced tea, hot and iced coffee, and bottled water as well as proprietary functional powders (in drinks only), breakfast items, fresh fruit, nutritional bars, nutritional supplements (in drinks only), sandwiches, salads and healthy meals listed on the menu attached as Exhibit B to the Master Facility License Agreement as Exhibit B (collectively, “Menu Items”). KAHALA and its FRANCHISEES shall sell only the Menu Items and shall sell any of the Menu Items required to be sold at Service Areas by L.A. FITNESS. KAHALA or its FRANCHISEES shall maintain the highest standards in quality and preparation of such Menu Items. KAHALA or its FRANCHISEES may alter the Menu, sell periodic promotion items, or sell additional Menu Items to be consistent with other nrgize locations and regional preferences, all subject to L.A. FITNESS’ prior written approval. KAHALA or its FRANCHISEES shall be permitted to offer samples of L.A. FITNESS approved KAHALA products on or in front of the Services Areas’ counters. KAHALA shall also have the exclusive right to provide vending services for beverages and snacks in the Facilities, provided there is suitable space in the Facility for the vending machines and subject to L.A. Fitness’ prior approval of the applicable display racks. KAHALA acknowledges that under no circumstances will the vending machines be allowed to have third party “advertising wraps” around them or contain multi-color third party illuminated advertising unless L.A. Fitness has provide its express consent. KAHALA or its FRANCHISEES may also sell, on a non-exclusive basis, the following: (i) “Ieahala” and/or “nrgize-branded” apparel and accessories; and (ii) convenience items, to be defined as chap stick, socks, locks, batteries, swim goggles, swim caps, racquet balls, deodorant, hair bands, weight lifting gloves, head phones, key chains, magazine and workout journals. If KAHALA or its FRANCHISEES offer vending services as described above, UBHALA shall reimburse L.A. FITNESS for all costs it incurs in supplying power to the vending machines, as reasonably determined by L.A. FITNESS.

Any item not listed on Exhibit B may not be sold by KAHALA or its FRANCHISEES at the Facility without L.A. FITNESS’ prior written approval. KAHALA or its FRANCHISEES are strictly prohibited from cooking any food products at the Facility, and from preparing any sandwiches or salads within the Facility (i.e., all sandwiches and salads sold from the Service Area must be brought in fully prepared and pre-packaged). IHALA or its FRANCHISEES may sell, on a non-exclusive basis, vitamins, minerals, functional powders and nutritional supplements in food or drink products only, and not in connection with any false or misleading diet or muscle building claims. KAHALA and its FRANCHISEES shall cease selling any Menu Item and any other item sold at the Facility or cease using any ingredient in any Menu Item if L.A. FITNESS, in its sole and absolute discretion, notifies KAHALA in writing that the item may not be sold or used in the Facilities. KAHALA agrees that the web site evaluation services provided by “consumerlab.com”, or a mutually acceptable replacement designated by the parties, shall govern the acceptability of vitamins, minerals, functional powders, nutritional supplements and other food products L.A. FITNESS approves for sale by KAHALA or its FRANCHISEES at any Facility. IMHALA further agrees that L.A. FITNESS’ approval of any given product shall not relieve KAHALA or its FRANCHISEES of their responsibility to ensure that the product is merchantable, safe for consumption, or fit for a particular purpose, including, without limitation, a health club environment. L.A. FITNESS disclaims all express or implied warranties concerning any goods, materials or food products it approves for sale at the Facilities, including, without limitation, any wananties as to merchantability, fitness for a particular purpose, quality or profitability. Upon request of L.A. FITNESS, IMIdALA shall retain consumerlab.com, or a mutually acceptable replacement designated by the parties, to test products sold by KAHALA or its FRANCHISEES for ingredient representations and appropriateness for consumption in a health club environment.

KAHALA further acknowledges and agrees that some Facility Premise Leases may prohibit the sale of certain items listed on Exhibit B. IMHALA will cease selling such items upon written notice by L.A. FI"fnESS accompanied by the relevant portion of the Premises Lease prohibiting sale of such items.



CONSENT OF SPOUSE

(to be executed if Operator is a married individual)

The undersigned is the spouse of the Operator identified in the Single-Unit Facility License Agreement, dated as of _____, between his or her spouse and Kahala Holdings, L.L.C. (the "Single-Unit Facility License Agreement"), to which this Consent of Spouse is attached.

The undersigned hereby declares that he/she has read the Single-Unit Facility License Agreement, including each of the documents that are exhibits to or referenced in the Single-Unit Facility License Agreement, in its entirety and, being fully convinced of the wisdom and equity of the terms of the Single-Unit Facility License Agreement, including each of the documents that are exhibits to or referenced in the Single-Unit Facility License Agreement, and in consideration of the premises and of the provisions of the Single-Unit Facility License Agreement, the undersigned hereby expresses his or her acceptance of the same and does agree to its provisions.

The undersigned further agrees that in the event of the death of his or her spouse, the provisions of this Single-Unit Facility License Agreement, including each of the documents that are exhibits to or referenced in the Single-Unit Facility License Agreement, will be binding upon him/her.

The undersigned further agrees that he/she will at any time make, execute and deliver such instruments and documents which may be necessary to carry out the provisions of the Single-Unit Facility License Agreement, including each of the documents that are exhibits to or referenced in the Single-Unit Facility License Agreement.

This instrument is not a present transfer or release of any rights which the undersigned may have in any of the community property of his or her marriage.

DATED _____

[Name], Spouse of [Name]

EXHIBIT P

TO THE FRANCHISE DISCLOSURE DOCUMENT

Pre-Authorized Electronic Funds Transfer Form



ELECTRONIC FUNDS TRANSFER (EFT) AUTHORIZATION

FRANCHISEE INFORMATION

Franchisee Name	Store No.	Franchisee Phone No.
Franchisee Mailing Address (street, city, state, zip)		
Contact Name, Address and Phone number (if different than above)		
Employer Identification Number (if applicable)	Principal's Name and Social Security Number	

BANK ACCOUNT INFORMATION

Bank Name	Bank Account Number	Bank Routing Number [: :] 9 Characters
Bank Mailing Address (street, city, state, zip)		
Bank Phone Number		

PAYMENT AUTHORIZATION

PAYMENT AUTHORIZATION

Franchisee hereby authorizes Kahala Franchising, L.L.C., its affiliates or agents ("Payee"), to initiate withdrawals from the Bank Account indicated on this form, and hereby authorizes the Bank to honor and debit the Bank Account for electronic funds transfers or drafts drawn on the Bank Account and payable to Payee. The amount of such charge shall be set forth in a notice from the Payee presented to the Bank on the day(s) of the week set forth in Franchisee's franchise agreement, promissory note and security agreement, gift card participation agreement (or similar agreement for the gift card program), and any other agreement Franchisee signs that authorizes Payee, its affiliate or agent to debit Franchisee's account for the fees, which may be modified by Kahala Franchising, L.L.C., its affiliates or agents, for the payment of royalty fees, advertising fees, POS support fees, gift card and e-gifting program fees and funds flow, and any other fees, charges and other amounts payable to Payee, its affiliates or agents for any services Payee, its affiliates or agents provide or facilitate. Franchisee agrees to execute such additional documents as may be reasonably requested by Payee or the Bank to evidence the interest of this EFT Authorization. This authority shall remain in full force and effect until Payee has received written notification from Franchisee in such time and manner as to afford Payee and the Bank to act on such notice. Franchisee understands that the termination of this authorization does not relieve Franchisee of its obligations to make payments to Payee. Payee may assign its rights and obligations under this EFT Authorization to Payee's affiliates or agents. Payee may change its designated affiliates or agents at Payee's discretion.

Signature:

Date:

Franchisee hereby authorizes Kahala Franchising, L.L.C., its affiliates or agents ("Payee"), to initiate withdrawals from the Bank Account indicated on this form, and hereby authorizes the Bank to honor and debit the Bank Account for electronic funds transfers or drafts drawn on the Bank Account and payable to Payee. The amount of such charge shall be set forth in a notice from the Payee presented to the Bank on the day(s) of the week set forth in Franchisee's franchise agreement, promissory note and security agreement, gift card participation agreement (or similar agreement for the gift card program), and any other agreement Franchisee signs that authorizes Payee, its affiliate or agent to debit Franchisee's account for the fees, which may be modified by Kahala Franchising, L.L.C., its affiliates or agents, for the payment of royalty fees, advertising fees, POS support fees, gift card and e-gifting program fees and funds flow, and any other fees, charges and other amounts payable to Payee, its affiliates or agents for any services Payee, its affiliates or agents provide or facilitate. Franchisee agrees to execute such additional documents as may be reasonably requested by Payee or the Bank to evidence the interest of this EFT Authorization. This authority shall remain in full force and effect until Payee has received written notification from Franchisee in such time and manner as to afford Payee and the Bank to act on such notice. Franchisee understands that the termination of this authorization does not relieve Franchisee of its obligations to make payments to Payee. Payee may assign its rights and obligations under this EFT Authorization to Payee's affiliates or agents. Payee may change its designated affiliates or agents at Payee's discretion.

Signature:

Date:

NOTE: FRANCHISEE MUST ATTACH A VOIDED OR COMPLETED CHECK RELATING TO THE BANK ACCOUNT.

ATTACH VOIDED OR COMPLETED CHECK HERE

ELECTRONIC FUNDS TRANSFER (EFT) AUTHORIZATION

Voided Check Requirements

Starter checks may not be used.

DBA or Legal Name

The DBA name or legal name of the business must be preprinted, included on the check and match the merchant account.

Check Number

Check number must be present on the top right and bottom of the check.

The diagram shows a check with the word "VOID" in the center. Callouts point to the following fields:

- Your Name:** 1234 Oak, Anytown, USA
- Check Number:** 1001 (top right)
- PAY TO THE ORDER OF:** (blank line)
- ACH N/T:** 123456789
- FOR:** (blank line)
- ABA Check Routing Number:** 123456789
- Account Number:** 000123456789
- Check Number:** 1001
- ACH Routing/ Transit Number:** 123456789

Bank Letter Requirements

Bank Letter Requirements

DBA or Legal Name

The DBA name or legal name of the business must be included on the letter and match the merchant account.

Banker Signature

The banker must sign the letter.

Contact Information

The bank officer name and phone number should be included in the letter.

Generic Bank & Trust

Bank Letterhead

The letter must be printed on official bank letterhead.

Routing & Account

Ensure complete ABA (routing #) and DDA (account #) is included.

Regarding: Robby Runko
123 Bank and Trust
New York, NY 10001

To whom it may concern:

The letter is to verify that the business named above had a business checking account with Generic Bank and Trust. The account number is 9999999999 and the ABA number is 99999999. It was opened on 01/01/2017. If you need any additional information or you do not have an account, please contact me at the number below.

Thank you,

Tim Teller

Tim Teller

Senior Banker
Generic Bank and Trust
123 Trust Avenue
New York, NY 10001
555-555-5555

NOTE: FRANCHISEE MUST ATTACH A VOIDED OR COMPLETED CHECK RELATING TO THE BANK ACCOUNT.

ATTACH VOIDED OR COMPLETED CHECK HERE

EXHIBIT Q

TO THE FRANCHISE DISCLOSURE DOCUMENT

General Release for Renewal of Franchise Agreement

GENERAL RELEASE FOR RENEWAL OF FRANCHISE AGREEMENT

("General Release")

_____, a(n) _____ ("Franchisee") and each of its current, past and future predecessors, successors and assigns, and each of its and the foregoing entities' respective parents, subsidiaries, shareholders, members, managers, owners, partners, directors, officers, employees, representatives, agents, successors, assigns, guarantors, insurers, spouses, heirs, executors, trustees and estates, if any, of any and all such entities (collectively with Franchisee, "Franchisee Parties"), hereby irrevocably and unconditionally release, remise and forever discharge Kahala Franchising, L.L.C., an Arizona limited liability company ("Franchisor") and each of its current, past and future predecessors, successors and assigns, and of its and the foregoing entities respective parents, subsidiaries, shareholders, members, managers, owners, partners, directors, officers, employees, representatives, agents, successors, assigns, guarantors, insurers, spouses, heirs, executors, trustees, and estates, if any, of any and all such entities (collectively with Franchisor "Franchisor Parties"), from any and all claims, demands, causes of action suits, debts, duties, accounts, covenants, contracts, agreements, promises, damages, judgments, taxes, liabilities and obligations, both contingent and fixed, known and unknown, now existing or hereafter, of every kind and nature whatsoever, in law or equity, or otherwise, under local state, or federal law including, without limitation the Americans with Disabilities Act ("ADA"), or the law of any other applicable jurisdiction, that any of the Franchisee Parties have against any of the Franchisor Parties, including, without limitation, those arising from, in connection with or relating to: (i) the Franchise Agreement dated _____, 20____ (including any amendments or modifications thereto) for *NrGize Lifestyle Cafe* TM Store No. _____ ("Store"); (ii) the operation, leasing or subleasing of the Store; and (iii) the offering and sale of the franchise for the Store; arising from an act, omission, conduct or activity occurring before and including the date hereof.

It is understood by Franchisee that if the facts or law with respect to the foregoing release hereafter turn out to be different from the facts or law known to be or believed by Franchisee to be true at the time of the date hereof, then Franchisee expressly assumes the risk of the facts or law turning out to be so different, and agrees that the foregoing release shall be in all respects effective and not subject to termination or rescission, in whole or in part, based upon such differences.

[SIGNATURE PAGE FOLLOWS]

Dated: _____

FRANCHISEE

_____, a(n) _____

By: _____

[Name, Title]

Dated: _____

FRANCHISEE

_____, a(n) _____

By: [Name, Title]

STATE OF _____)
) ss.
COUNTY OF _____)

On the day of _____, 20_, before me, the undersigned, a notary public in and for said state, personally appeared_____, personally known to me or who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of _____ that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Notary Public Signature

Print Name: _____

My commission expires: _____

Notary Public Seal

EXHIBIT R-1

TO THE FRANCHISE DISCLOSURE DOCUMENT

Consent to Transfer and Release Agreement without Sublease

CONSENT TO TRANSFER AND RELEASE AGREEMENT

(Store #; City, State)

This CONSENT TO TRANSFER AND RELEASE AGREEMENT ("Agreement") is ~~dated~~, 2015 entered into on ("Effective Date") by and ~~among between~~ _____, a(n) _____ ("Assignor"), and _____, a(n) _____ ("Assignee"), and KAHALA FRANCHISING, L.L.C., an Arizona limited liability company [, as ultimate assignee of _____] ("Franchisor") ~~and KAHALA HOLDINGS, L.L.C., an Arizona limited liability company, an affiliate of Franchisor and a party to the Master Facility License Agreement with Fitness International, LLC (formerly LA Fitness International, LLC) ("Sublessor") (Franchisor and Sublessor collectively known as "Kahala"). All capitalized terms not defined expressly in this Agreement shall have the meaning assigned to such terms in the Franchise Agreement (as defined in Recital A. below).~~ All capitalized terms not defined expressly in this Agreement shall have the meaning assigned to such terms in the Franchise Agreement (as defined in Recital A. below).

Recitals

A. [Franchisor or name of previous franchisor] and Assignor are parties to a Franchise Agreement dated _____, 20 [, as amended;], ~~("[collectively, the]Franchise Agreement"~~) for the *NrGize Lifestyle Cafe* TM ~~located within the LA Fitness health club restaurant~~ located at _____ ("Store Restaurant"). The *NrGize Lifestyle Cafe* franchise ~~located within the LA Fitness health club~~ located at the address listed in the foregoing sentence will hereinafter be referred to as the "Franchised Business". ~~B. Sublessor and Assignor are parties to a Single-Unit Facility License Agreement dated _____, 20 ("Single-Unit Facility License Agreement") for the Franchised Business."~~

~~B.~~ C. Assignor desires to assign the Franchised Business to Assignee, and Assignee desires to accept the assignment. [The assignment of the Franchised Business is supported by the _____, attached to this Agreement as Exhibit 1 and incorporated in this Agreement by reference. ~~D. [USE ONLY IF ASSIGNEE IS NOT SIGNING NEW FA]~~

C. [FOR CHANGE IN OWNERSHIP INTEREST THAT IS NOT A TRANSFER] Assignor hereby agrees that Assignor is the responsible franchisee under the Franchise Agreement from _____, 20 until the date immediately preceding the Effective Date. Assignee hereby agrees that Assignee is the responsible franchisee under the Franchise Agreement as of and after the Effective Date and continuing through the Term of the Franchise Agreement[, as amended by the [First] Amendment to Franchise Agreement].

D. [FOR CHANGE IN OWNERSHIP INTEREST THAT IS NOT A TRANSFER] Assignee acknowledges receipt of a copy of the Franchise Agreement from Assignor.

[OR USE ONLY IF FOR FULL TRANSFER AND ASSIGNEE IS SIGNING ENTERS INTO A NEW FA] Assignee

and Assignor each acknowledges that upon assignment, Assignee must execute Franchisor's current form of franchise agreement, which includes its current royalty fee and advertising contributions that may be greater than the amount of such corresponding fees in Assignor's Franchise Agreement. ~~E. [USE ONLY IF ASSIGNEE IS NOT SIGNING NEW SINGLE-UNIT FACILITY LICENSE AGREEMENT]~~ Assignee acknowledges receipt of a copy of the Single-Unit Facility License Agreement from Assignor, together with all amendments, supplements, riders, exhibits, and revisions, including a copy of the underlying Master Facility License Agreement, and fully understands and acknowledges the obligations under the Single-Unit Facility License Agreement. ~~[OR USE ONLY IF ASSIGNEE IS SIGNING NEW SINGLE-UNIT FACILITY LICENSE AGREEMENT]~~ Assignee and Assignor each acknowledge that upon assignment, Assignee must execute Kahala Holding's current form of single-unit facility license agreement. The Franchise Agreement shall be deemed expired as of and after the effective date of

Assignee's current form of franchise agreement executed concurrently with this Agreement.

E. ~~F.~~ Franchisor agrees to consent to the assignment of the Franchised Business from Assignor to Assignee, subject to the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the mutual promises, covenants, conditions and terms contained in this Agreement, the parties agree as follows:

Agreement

1. The foregoing Recitals are hereby incorporated in and made a part of this Agreement.

store # doc #

2. Pursuant to Section _____ of the Franchise Agreement, Assignor requested Franchisor's prior written consent to assign the Franchised Business [FOR CHANGE IN OWNERSHIP INTEREST THAT IS NOT A TRANSFER: and Franchise Agreement] from Assignor to Assignee. Franchisor hereby consents to the transfer of the Franchised Business [FOR CHANGE IN OWNERSHIP INTEREST THAT IS NOT A TRANSFER: and Franchise Agreement] to Assignee subject to the terms and conditions of this Agreement being fully met by both Assignor and Assignee.

3. 2. Assignor agrees to transfer the Franchised Business [FOR CHANGE IN OWNERSHIP INTEREST THAT IS NOT A TRANSFER: and Franchise Agreement] to Assignee pursuant to the transfer provisions in the Assignor's Franchise Agreement, and Assignee accepts the transfer of the Franchised Business pursuant to the transfer provisions in Assignor's Franchise Agreement, including, but not limited to, the payment of the applicable transfer fees.

3.

4. [USE ONLY IF ASSIGNEE IS NOT SIGNING NEW FA] Assignee hereby agrees to be bound by the terms and conditions set forth in the Franchise Agreement. FOR CHANGE IN OWNERSHIP INTEREST THAT IS NOT A TRANSFER] Assignor and Assignee agree that, pursuant to Section of the Franchise Agreement, Assignee is required to execute Franchisor's then-current form of franchise agreement and all exhibits attached thereto prior to the closing of the transfer of the Franchised Business. Franchisor hereby waives Assignee's obligation to execute Franchisor's then-current form of franchise agreement and all exhibits attached thereto as required by Section of the Franchise Agreement. Assignor hereby acknowledges and agrees that Franchisor's waiver of Assignor's obligations under Section of the Franchise Agreement is not a permanent waiver and that Franchisor, its assigns and their respective affiliates hereby reserve the right to require Assignor, Assignee or their respective affiliates, authorized assignees or principals to sign Franchisor's then-current form of franchise agreement and all exhibits attached thereto in connection with other transfers that may be requested by and between the parties.

5. Subject to Section 13 below, Assignor hereby agrees to continue to be bound by the terms and conditions set forth in the Franchise Agreement until the date immediately preceding the Effective Date.

6. [FOR CHANGE IN OWNERSHIP INTEREST THAT IS NOT A TRANSFER] Assignee hereby agrees to be bound by the terms and conditions set forth in the Franchise Agreement.

[OR USE ONLY IF FOR FULL TRANSFER AND ASSIGNEE IS SIGNING ENTERS INTO A NEW FA] Assignee hereby agrees to execute Franchisor's current form of franchise agreement with Franchisor, and to be bound by the terms and conditions set forth in the current form of franchise agreement.

4.

7. [USE WHEN BUYER IS PAYING THE TRANSFER [FRANCHISE] FEE] Assignor hereby agrees that, pursuant to Sections and of the Franchise Agreement, Assignor owes Franchisor a Transfer [Franchise] Fee in the amount of _____ Thousand Hundred and 00/100 Dollars (\$XX.X00.00). Assignor, Assignee and Franchisor hereby agree that the Transfer [Franchise] Fee will be paid by Assignee to Franchisor, contemporaneous with the execution of this Agreement, on behalf of Assignor. Assignor shall be liable to Franchisor for the Transfer [Franchise] Fee if Assignee fails to pay the Transfer [Franchise] Fee in full.

[OR USE WHEN SELLER IS PAYING THE TRANSFER [FRANCHISE] FEE] Assignor hereby agrees that, pursuant to Sections and of the Franchise Agreement, Assignor is obligated to pay Franchisor, contemporaneous with execution of this Agreement, the Transfer [Franchise] Fee in the amount of _____ Thousand Hundred and 00/100 Dollars (\$XX.X00.00).

8. [USE IF **BUYER** IS PAYING THE [TRANSFER] TRAINING FEE] Assignor hereby agrees that, pursuant to Sections and of the Franchise Agreement, Assignor is obligated to pay Franchisor the [Transfer] Training Fee in the amount of _____ Thousand _____ Hundred and 00/100 Dollars (\$X,X00.00). Assignor, Assignee and Franchisor hereby agree that the [Transfer] Training Fee will be paid by Assignee to Franchisor, contemporaneous with the execution of this Agreement, on behalf of Assignor. Assignor shall remain liable to Franchisor for the [Transfer] Training Fee if Assignee fails to pay the [Transfer] Training Fee in full.

[OR USE IF **SELLER** IS PAYING THE [TRANSFER] TRAINING FEE] Assignor hereby agrees that, pursuant to Sections and of the Franchise Agreement, Assignor is obligated to pay Franchisor, contemporaneous with execution of this Agreement, the [Transfer] Training Fee in the amount of _____ Thousand _____ Hundred and 00/100 Dollars (\$X,X00.00).

5. ~~_____ [Reserve if N/A]~~

~~[USE IF **BUYER** IS PAYING THE TRAINING FEE] Assignor hereby agrees that, pursuant to Sections and of the Franchise Agreement, Assignor is obligated to pay Franchisor the Training Fee in the amount of _____ Thousand _____ Hundred and 00/100 Dollars (\$X,X00.00). Assignor, Assignee and Franchisor hereby agree that the Training Fee will be paid by Assignee to Franchisor, contemporaneous with the execution of this Agreement, on behalf of Assignor. Assignor shall remain liable to Franchisor for the Training Fee if Assignee fails to pay the Training Fee in full.~~

~~[OR USE IF **SELLER** IS PAYING THE TRAINING FEE] Assignor hereby agrees that, pursuant to Sections and of the Franchise Agreement, Assignor is obligated to pay Franchisor, contemporaneous with execution of this Agreement, the Training Fee in the amount of _____ Thousand _____ Hundred and 00/100 Dollars (\$X,X00.00).~~

6.

~~[USE ONLY IF ASSIGNEE IS NOT SIGNING NEW SINGLE UNIT FACILITY LICENSE AGREEMENT] Assignee hereby agrees to be bound by the terms and conditions set forth in the Single Unit Facility License Agreement. [OR _____ USE ONLY IF ASSIGNEE _____ IS _____ SIGNING _____ NEW SINGLE UNIT FACILITY _____ LICENSE AGREEMENT] Assignee hereby agrees to execute Kahala Holding's current form of single unit facility license agreement, and to be bound by the terms and conditions set forth in the current form of single unit facility license agreement.~~

9. ~~7.~~ Assignor agrees to cure any and all monetary defaults due and payable under their phone service agreement, complete and sign a letter of agency, letter of authorization or equivalent form, and provide the form to Assignee at least one week prior to the transfer of the Franchised Business to allow Assignee to retain the telephone number of the Franchised Business.

10. ~~8.~~ Assignee agrees to provide the letter of agency, letter of authorization or equivalent form to their phone service provider in an effort to retain the telephone number of the Franchised Business.

11. ~~9.~~ Assignor agrees to cure any and all defaults and/or debts of any monetary consideration due and payable to Kahala Franchisor (or its affiliates) prior to the execution of this Agreement, including, without limitation, any past due and current royalties and advertising contributions under the Franchise Agreement through the date immediately preceding the Effective Date ~~of this Agreement, and any Monthly Service Fees and/or access related fees through the Effective Date of this Agreement under the Single Unit Facility License Agreement, along with any accruing interest, late fees or other penalties as allowed under the Franchise Agreement and/or applicable law. Notwithstanding the foregoing, in the event Assignor fails to cure any and all defaults and/or fully satisfy any debts as required, Franchisor has the sole and absolute discretion to move~~

forward with the transfer as contemplated by this Agreement but without waiving any amounts due and owing to Franchisor and/or its affiliates and reserves all rights to pursue such defaults and debts and charges against Assignor at a later time.

12. ~~10.~~ Assignor represents and warrants that it has not failed to disclose to ~~KahalaFranchisor~~ any information, which, if known by ~~KahalaFranchisor~~, might provide grounds for ~~KahalaFranchisor~~ to reasonably withhold its consent to this Agreement, and that Assignor has disclosed all of the terms of the transfer to ~~KahalaFranchisor~~.

13. ~~11.~~ Assignor ratifies and reaffirms any and all provisions and/or agreements with ~~KahalaFranchisor~~ intended to survive the assignment and/or termination of the Franchise Agreement and agrees to remain bound by them, including but not limited to any provisions pertaining to confidential information and covenant against competition.

14. ~~12.~~ Assignor agrees that it has no rights in any of the trademarks, trade names, or service marks of Franchisor, except in connection with other *NrGize Lifestyle Cafe* franchises owned by Assignor, if any. Assignor also stipulates that such trademarks, trade names, service marks and the like are the sole property of Franchisor and that Assignor has no rights in them, except as authorized by Franchisor in connection with other *NrGize Lifestyle Cafe* franchises owned by Assignor, if any. Assignor quitclaims to Franchisor any rights in any trademarks, trade names, and service marks of Franchisor, in the event Assignor has any such rights, except those rights acquired through other *NrGize Lifestyle Cafe* franchises authorized by Franchisor and owned by Assignor, if any.

15. ~~13.~~ Assignee acknowledges that ~~KahalaFranchisor~~ has not made any express or implied verbal or written representations or promises whatsoever that:

- a. future assignments will be approved;
- b. Assignee will have financial success operating the Franchised Business;

~~c. Fitness International, LLC will grant an extension of the Master Facility License Agreement where the Franchised Business is located and operates;~~

c. ~~d.~~ the consideration, if any, paid for the Franchised Business represents the true value of the Franchised Business; or

d. ~~e.~~ Assignor is not in default under the terms of the Franchise Agreement ~~and/or the Single Unit Facility License Agreement.~~

16. ~~14.~~ Assignee acknowledges that ~~KahalaFranchisor~~ has made no representations whatsoever concerning the value of the Franchised Business.

17. ~~15.~~ All notices required or permitted under this Agreement shall be in writing and shall be delivered by personal delivery, courier, such as FedEx® or UPS®, or by U.S. Mail, sent certified or registered mail, return receipt requested to the address set forth below, which address may be amended from time to time pursuant to the terms of this Section ~~15-17~~. Notices provided under this Section ~~1517~~ shall be deemed received upon personal delivery or delivery by courier and within five (5) days after deposit in the U.S. Mail. Notices shall be provided to the parties at the address specified below:

If to Assignee: _____ [Name]
_____ [Attn:]
_____ [Address]

[City, State, Zip]
Telephone Number:
Facsimile Number:

If to Assignor: [Name]
[Attn:]
[Address]
[City, State, Zip]
Telephone Number:
Facsimile Number:

If to Franchisor: KAHALA FRANCHISING,
L.L.C. Attn: Legal Department
9311 E Via de Ventura
Scottsdale, Arizona 85258
Telephone Number: (480) 362-4800 Facsimile Number: (480) 362-4819

If to Assignee: [NAME] [Address] [City, State, Zip]
Telephone Number: Facsimile-
Number:

If to Assignor: [NAME] [Address] [City, State, Zip]
Telephone Number: Facsimile-
Number:

If to Franchisor: KAHALA FRANCHISING, L.L.C.
Attn: Legal Department-
9311 E Via de Ventura-
Scottsdale, Arizona 85258
Telephone Number: (480)-
362-4800 Facsimile-
Number: (480) 362-4819

If to Sublessor: KAHALA HOLDINGS, L.L.C.
Attn: Real Estate Department
9311 E Via de Ventura-
Scottsdale, Arizona 85258-
Telephone Number: (480)-
362-4800 Facsimile Number:-
(480) 362-4792

18. 16.KahalaFranchisor hereby consents to the transfer of the Franchised Business to Assignee subject to the terms and conditions of this Agreement being fully met by both Assignor and Assignee.

19. 17.Assignor and Assignee understand the Effective Date is the closing date indicated on the escrow statement/closing statement.

20. 18.IN CONSIDERATION OF KAHALA FRANCHISOR'S AGREEMENTS SET FORTH IN

THIS AGREEMENT, ASSIGNOR REPRESENTS THAT ~~KAHALA~~FRANCHISOR HAS NOT FAILED TO PERFORM, AND IS NOT IN ANY RESPECT IN DEFAULT IN THE PERFORMANCE OF, ANY OF ITS OBLIGATIONS UNDER THE ~~SINGLE-UNIT FACILITY LICENSE AGREEMENT AND/OR THE~~ FRANCHISE AGREEMENT, AND ASSIGNOR, AND EACH OF ITS CURRENT, PAST AND FUTURE PREDECESSORS, SUCCESSORS AND ASSIGNS, AND EACH OF THEIR ITS AND THE FOREGOING ENTITIES RESPECTIVE PARENTS, SUBSIDIARIES, SHAREHOLDERS, MEMBERS, MANAGERS, OWNERS, PARTNERS, DIRECTORS, OFFICERS, EMPLOYEES, REPRESENTATIVES, AGENTS, SUCCESSORS, ASSIGNS, GUARANTORS, INSURERS, SPOUSES, HEIRS, EXECUTORS, TRUSTEES, AND ESTATES, IF ANY, OF ANY AND ALL SUCH ENTITIES (COLLECTIVELY WITH ASSIGNOR, "ASSIGNOR AFFILIATES") HEREBY IRREVOCABLY AND UNCONDITIONALLY RELEASE, REMISE AND FOREVER DISCHARGE ~~KAHALA AND ITS PARENTS, FRANCHISOR~~ AND EACH OF ~~THEIR RESPECTIVE ITS~~ CURRENT, PAST AND FUTURE PREDECESSORS, SUCCESSORS AND ASSIGNS, AND EACH OF THEIR ITS AND THE FOREGOING ENTITIES RESPECTIVE PARENTS, SUBSIDIARIES, SHAREHOLDERS, MEMBERS, MANAGERS, OWNERS, PARTNERS, DIRECTORS, OFFICERS, EMPLOYEES, REPRESENTATIVES, AGENTS, SUCCESSORS, ASSIGNS, GUARANTORS, INSURERS, SPOUSES, HEIRS, EXECUTORS, TRUSTEES, AND ESTATES, IF ANY, OF ANY AND ALL SUCH ENTITIES (COLLECTIVELY WITH FRANCHISOR ~~AND ITS PARENT, "KAHALA, "FRANCHISOR AFFILIATES"~~), FROM ANY AND ALL CLAIMS, DEMANDS, CAUSES OF ACTION, SUITS, DEBTS, DUTIES, ACCOUNTS, COVENANTS, CONTRACTS, AGREEMENTS, PROMISES, DAMAGES, JUDGMENTS, TAXES, LIABILITIES AND OBLIGATIONS, BOTH CONTINGENT AND FIXED, KNOWN AND UNKNOWN, NOW EXISTING OR HEREAFTER, OF EVERY KIND AND NATURE WHATSOEVER, IN LAW OR EQUITY, OR OTHERWISE, UNDER LOCAL STATE, OR FEDERAL LAW OR THE LAW OF ANY OTHER APPLICABLE JURISDICTION, THAT ANY OF THE ASSIGNOR AFFILIATES HAVE AGAINST ANY OF THE ~~KAHALA~~FRANCHISOR AFFILIATES, INCLUDING, WITHOUT LIMITATION, THOSE ARISING FROM, IN CONNECTION WITH OR RELATING TO: (I) THE ~~SINGLE-UNIT FACILITY LICENSE AGREEMENT AND/OR~~ FRANCHISEE AGREEMENT (INCLUDING ANY AMENDMENTS OR MODIFICATIONS THERETO); (II) THE OPERATION, OF THE RESTAURANT, INCLUDING ANY LEASING OR SUBLEASING OF THE STORE RELATED THERETO; AND (III) THE OFFERING AND SALE OF THE ~~FRANCHISE FOR THE STORE~~FRANCHISED BUSINESS; ARISING FROM AN ACT, OMISSION, CONDUCT OR ACTIVITY OCCURRING BEFORE AND INCLUDING THE EFFECTIVE DATE.

IT IS UNDERSTOOD BY ASSIGNOR THAT IF THE FACTS OR LAW WITH RESPECT TO THE FOREGOING RELEASE HEREAFTER TURN OUT TO BE ~~OTHER THAN OR~~ DIFFERENT FROM THE FACTS OR LAW KNOWN TO BE OR BELIEVED BY ASSIGNOR TO BE TRUE AT THE TIME OF THE DATE HEREOF, THEN ASSIGNOR EXPRESSLY ASSUMES THE RISK OF THE FACTS OR LAW TURNING OUT TO BE SO DIFFERENT, AND AGREES THAT THE FOREGOING RELEASE SHALL BE IN ALL RESPECTS EFFECTIVE AND NOT SUBJECT TO TERMINATION OR RESCISSION IN WHOLE OR IN PART BASED UPON SUCH DIFFERENCES ~~IN FACTS OR LAW~~.

21. ~~19.~~ Assignor and Assignee hereby agree to protect, defend and indemnify each of the ~~Kahala Franchisor~~ Affiliates and hold them harmless from and against any and all costs and expenses actually incurred by them or for which they are liable, including, without limitation, attorney's fees, court costs, expert witness fees and costs, losses, liabilities, damages, claims and demands of every kind or nature, and including those incurred pursuant to a settlement entered into in good faith, arising out of or in connection with the Franchised Business, including specifically without limitation any claim or controversy arising out of (i) this Agreement, (ii) the Franchise Agreement, ~~(iii)~~ (iii) any transfer of the Franchised Business by Assignee or Assignor, (iv) acts or omissions of Assignee and/or Assignor which are not in strict compliance with this Agreement, the Franchise Agreement, and/or the Operations Manual in respect of use or display of the Proprietary Marks, or ~~(v)~~ (v) acts or omissions of Assignee and/or Assignor which tend to create an impression that the relationship between the parties hereto is other than one of Franchisor and Franchisee.

~~KahalaFranchisor~~ Affiliates, at their sole discretion, may hire legal counsel to defend any actions brought against any ~~Kahala~~

~~Franchisor~~ Affiliates which arise out of Assignor's obligations under all agreements entered into between Assignor and any of the ~~KahalaFranchisor~~ Affiliates, including, without limitation, this Agreement, and Assignee's obligations herein. Assignor and Assignee hereby agree to pay any and all attorneys' fees, expert costs, and any other fees and costs incurred by ~~KahalaFranchisor~~ Affiliates to said selected counsel upon the request of ~~any KahalaFranchisor~~ Affiliates. Assignor and Assignee will, if requested by any ~~KahalaFranchisor~~ Affiliates, defend any suits at the sole cost and expense of Assignor and Assignee. Assignor and Assignee hereby agree to defend said suits with the use of attorneys requested by ~~any KahalaFranchisor~~ Affiliates. For purposes of this provision, requests shall be made pursuant to the notice provisions set forth above in Section ~~1517~~ 1821 above. Notwithstanding the other provisions of this Section ~~1821~~ to the contrary, if any, [and subject to ~~Section[s]~~ 4Sections and ~~/or 5~~ above,] Assignor shall not be responsible for any of the acts or omissions of Assignee after the Effective Date ~~of this Agreement~~.

22. ~~20.~~ Assignor agrees for itself and its successors and assigns that it will not disparage, denigrate, defame or comment in any manner upon ~~Kahala or Kahala'sFranchisor~~ Affiliates, or any of their business dealings, financial condition, pending litigation and arbitrations, officers, directors, employees, agents, representatives or attorneys, either publicly or privately, by any means whatsoever (including electronic means), and will, if asked to comment on ~~Kahala or Kahala'sFranchisor~~ Affiliates, refuse to and refrain from doing so (collectively, "Non Disparagement Provision"). In the event such a communication is made to anyone, including, but not limited to, third party legal counsel adverse to ~~Kahala or Kahala'sFranchisor~~ Affiliates in any fashion, former employees of ~~Kahala or Kahala'sFranchisor~~ Affiliates, former shareholders of ~~Kahala or Kahala'sFranchisor~~ Affiliates, current or former vendors, franchisees, licensees, or area representatives of ~~Kahala or Kahala'sFranchisor~~ Affiliates' quick service restaurant brands, media government agencies, public interest groups, and publishing companies, it will be considered a material breach of the terms of this Agreement and ~~Kahala or Kahala'sFranchisor~~ Affiliates shall be entitled to bring a legal action for appropriate equitable relief as well as damages. In addition to any other rights or remedies available at law, in equity, or by statute, Assignor consents to the specific enforcement of this Non Disparagement Provision through an injunction or restraining order issued by an appropriate court, without the requirement of posting a bond. Notwithstanding the above, nothing in this provision shall prevent or prohibit Assignor from testifying in any legal proceeding, including a deposition, hearing or trial, from cooperating in good faith in any governmental investigation or action, or from making any report required by law.

23. ~~21.~~ Each individual executing this Agreement on behalf of a partnership, limited liability company or corporation represents and warrants that he or she is duly authorized to execute and deliver this Agreement on behalf of the partnership, limited liability company, or corporation, and agrees to deliver evidence of his or her authority to ~~KahalaFranchisor~~ upon request by ~~KahalaFranchisor~~.

~~22. The provisions of this Agreement are severable, and if any one or more provisions may be determined to be unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable. If the provision found to be unenforceable was material to this Agreement, the parties agree to promptly negotiate the terms of a substitute provision to replace the severed provision consistent with the then-current law and the parties' original intent.~~

~~23. This Agreement shall be construed under and according to the laws of the State of Arizona, without regard to conflict of laws principles.~~

~~24. ANY AND ALL COURT PROCEEDINGS ARISING FROM THIS AGREEMENT SHALL BE BROUGHT IN, AND ONLY IN, A COURT OF COMPETENT JURISDICTION LOCATED IN MARICOPA COUNTY, ARIZONA. THE PARTIES CONSENT TO THE EXERCISE OF SUBJECT MATTER AND PERSONAL JURISDICTION BY SUCH COURTS AND HEREBY WAIVE ANY~~

OBJECTIONS OR DEFENSE THERETO. The provisions of this Agreement are severable, and if any one or more provisions may be determined to be unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable. If the provision found to be unenforceable was material to this Agreement, the parties agree to promptly negotiate the terms of a substitute provision to replace the severed provision consistent with the then-current law and the parties' original intent.

25. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument shall be construed under and according to the laws of the State of Arizona, without regard to conflict of laws principles.

26. No amendment, addendum, modification, supplement or waiver of this Agreement or any of its provisions shall be binding on the parties unless made in writing and duly executed by an authorized representative of Kahala and Assignor and Assignee. A failure of any party to enforce at any time any of the provisions of this Agreement or to require at any time performance by another party or any provision of this Agreement, shall in no way be construed as a continuing waiver of those provisions or of any other rights under this Agreement. ANY AND ALL COURT PROCEEDINGS ARISING FROM THIS AGREEMENT SHALL BE BROUGHT IN, AND ONLY IN, A COURT OF COMPETENT JURISDICTION LOCATED IN MARICOPA COUNTY, ARIZONA. THE PARTIES CONSENT TO THE EXERCISE OF SUBJECT MATTER AND PERSONAL JURISDICTION BY SUCH COURTS AND HEREBY WAIVE ANY OBJECTIONS OR DEFENSE THERETO.

27. [Subject to Section(s) [4and/or5] above,] [Tt]his Agreement shall not be construed in any way as modifying, waiving, or affecting any of the terms, covenants, conditions, or agreements contained in the Franchise Agreement and Single-Unit Facility License Agreement executed by Assignor, or the current form of franchise agreement or single-unit facility license agreement to be executed by Assignee. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

28. This Agreement shall inure to the benefit of and shall be binding upon each of the parties hereto and their respective successors and assigns. No amendment, addendum, modification, supplement or waiver of this Agreement or any of its provisions shall be binding on the parties unless made in writing and duly executed by an authorized representative of Franchisor and Assignor and Assignee. A failure of any party to enforce at any time any of the provisions of this Agreement or to require at any time performance by another party or any provision of this Agreement, shall in no way be construed as a continuing waiver of those provisions or of any other rights under this Agreement.

29. [Subject to Sections and above,] [T/t]his Agreement shall not be construed in any way as modifying, waiving, or affecting any of the terms, covenants, conditions, or agreements contained in the Franchise Agreement executed by Assignor, or the current form of franchise agreement to be executed by Assignee.

30. This Agreement shall inure to the benefit of and shall be binding upon each of the parties hereto and their respective successors and assigns.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, each party hereto has executed this Agreement by and through its duly authorized representative with full rights, power and authority to enter into and bind his or her respective party, without further consent or approval of any kind, as of the Effective Date of this Agreement.

ASSIGNOR:

ASSIGNEE:

~~IN WITNESS WHEREOF, each party hereto has executed this Agreement by and through its duly authorized representative with full rights, power and authority to enter into and bind his or her respective party, without further consent or approval of any kind, as of the Effective Date of this Agreement.~~

By: [Name, Title]

By: [Name, Title]

By: [Name, Title]

By: [Name, Title]

FRANCHISOR:

KAHALA FRANCHISING, L.L.C., an Arizona limited liability company

By: [Name, Title]

ASSIGNOR:

_____, a(n)

By: _____
[Name, Title]

ASSIGNEE:

_____, a(n)

By: _____
[Name, Title]

FRANCHISOR:

KAHALA FRANCHISING, L.L.C., an Arizona limited liability company

By: _____
[Name, Title]

SUBLESSOR:

KAHALA HOLDINGS, L.L.C., an Arizona limited liability company

By: _____
[Name, Title]

EXHIBIT R-2

TO THE FRANCHISE DISCLOSURE DOCUMENT

Consent to Transfer and Release Agreement with Sublease

CONSENT TO TRANSFER AND RELEASE AGREEMENT

(Store #: City, State)

This CONSENT TO TRANSFER AND RELEASE AGREEMENT ("Agreement") is entered into on _____ ("Effective Date") by and between _____, a(n) _____ ("Assignor"), and _____, a(n) _____ ("Assignee"), and KAHALA FRANCHISING, L.L.C., an Arizona limited liability company[, as ultimate assignee of _____] ("Franchisor") and _____, a(n) _____ ("Sublessor") (Franchisor and Sublessor may collectively be referred to in this Agreement as "Company"). All capitalized terms not defined expressly in this Agreement shall have the meaning assigned to such terms in the Franchise Agreement (as defined in Recital A. below) or the Sublease (as defined in Recital B. below).

Recitals

A. [Franchisor or name of previous franchisor] and Assignor are parties to a Franchise Agreement dated _____, 20 [., as amended], ([collectively the]"Franchise Agreement") for the *NrGize Lifestyle Cafe* restaurant located at _____ ("Restaurant"). The *NrGize Lifestyle Cafe* franchise located at the address listed in the foregoing sentence will hereinafter be referred to as the "Franchised Business."

B. Sublessor and Assignor are parties to a Sublease Agreement dated _____, 20 _____ ("Sublease") for the Franchised Business.

C. Assignor desires to assign the Franchised Business to Assignee, and Assignee desires to accept the assignment. [The assignment of the Franchised Business is supported by the _____, attached to this Agreement as Exhibit 1 and incorporated in this Agreement by reference.]

D. [FOR CHANGE IN OWNERSHIP INTEREST THAT IS NOT A TRANSFER] Assignee acknowledges receipt of a copy of the Franchise Agreement from Assignor.

[OR FOR FULL TRANSFER AND ASSIGNEE ENTERS INTO A NEW FA] Assignee acknowledges that upon assignment, Assignee must execute Franchisor's current form of franchise agreement, which includes its current royalty fee and advertising contributions that may be greater than the amount of such corresponding fees in Assignor's Franchise Agreement. The Franchise Agreement shall be deemed expired as of and after the effective date of Assignee's current form of franchise agreement executed concurrently with this Agreement.

E. [FOR CHANGE IN OWNERSHIP INTEREST THAT IS NOT A TRANSFER] Assignor hereby agrees that Assignor is the responsible franchisee under the Franchise Agreement from _____, 20 _____ until the date immediately preceding the Effective Date. Assignee hereby agrees that Assignee is the responsible franchisee under the Franchise Agreement as of and after the Effective Date and continuing through the Term of the Franchise Agreement[, as amended by the [First] Amendment to Franchise Agreement].

F. [FOR CHANGE IN OWNERSHIP INTEREST THAT IS NOT A TRANSFER] Assignee acknowledges receipt of a copy of the Sublease from Assignor, together with all amendments, supplements, riders, exhibits, and revisions, including a copy of the underlying Master Lease, and fully understands and acknowledges the obligations under the Sublease.

[OR FOR FULL TRANSFER AND ASSIGNEE ENTERS INTO A NEW SUBLEASE] Assignee acknowledges that upon assignment, Assignee must execute Sublessor's current form of

sublease. The Sublease shall be deemed expired as of and after the effective date of Assignee's current form of sublease executed concurrently with this Agreement.

G. [FOR CHANGE IN OWNERSHIP INTEREST THAT IS NOT A TRANSFER] Assignor hereby agrees that Assignor is the responsible sublessee under the Sublease from _____, 20 until the date immediately preceding the Effective Date. Assignee hereby agrees that Assignee is the responsible sublessee under the Sublease as of and after the Effective Date and continuing through the Term of the Sublease[, as amended by the [First] Amendment to Franchise Sublease].

H. Franchisor agrees to consent to the assignment of the Franchised Business from Assignor to Assignee, subject to the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the mutual promises, covenants, conditions and terms contained in this Agreement, the parties agree as follows:

Agreement

1. The foregoing Recitals are hereby incorporated in and made a part of this Agreement.

2. Pursuant to Section _____ of the Franchise Agreement, Assignor requested Franchisor's prior written consent to assign the Franchised Business [FOR CHANGE IN OWNERSHIP INTEREST THAT IS NOT A TRANSFER: and Franchise Agreement] from Assignor to Assignee. Franchisor hereby consents to the transfer of the Franchised Business [FOR CHANGE IN OWNERSHIP INTEREST THAT IS NOT A TRANSFER: and Franchise Agreement] to Assignee subject to the terms and conditions of this Agreement being fully met by both Assignor and Assignee.

3. [FOR CHANGE IN OWNERSHIP INTEREST THAT IS NOT A TRANSFER] Pursuant to Section of the Sublease, Assignor has requested Sublessor's prior written consent to assign the Sublease from Assignor to Assignee. Sublessor hereby consents to the transfer of the Sublease to Assignee, subject to the terms and conditions of this Agreement being fully met by both Assignor and Assignee.

4. Assignor agrees to transfer the Franchised Business [FOR CHANGE IN OWNERSHIP INTEREST THAT IS NOT A TRANSFER: and Franchise Agreement and Sublease] to Assignee pursuant to the transfer provisions in Assignor's Franchise Agreement, and Assignee accepts the transfer of the Franchised Business [FOR CHANGE IN OWNERSHIP INTEREST THAT IS NOT A TRANSFER: and Franchise Agreement and Sublease], pursuant to the transfer provisions in Assignor's Franchise Agreement, including, but not limited to, the payment of the applicable transfer fees.

5. [FOR CHANGE IN OWNERSHIP INTEREST THAT IS NOT A TRANSFER] Assignor and Assignee agree that, pursuant to Section of the Franchise Agreement, Assignee is required to execute Franchisor's then-current form of franchise agreement and all exhibits attached thereto prior to the closing of the transfer of the Franchised Business. Franchisor hereby waives Assignee's obligation to execute Franchisor's then-current form of franchise agreement and all exhibits attached thereto as required by Section of the Franchise Agreement. Assignor hereby acknowledges and agrees that Franchisor's waiver of Assignor's obligations under Section of the Franchise Agreement is not a permanent waiver and that Franchisor, its assigns and their respective affiliates hereby reserve the right to require Assignor, Assignee or their respective affiliates, authorized assignees or principals to sign Franchisor's then-current form of franchise agreement and all exhibits attached thereto in connection with other transfers that may be requested by and between the parties.

6. Subject to Section 18 below, Assignor hereby agrees to continue to be bound by the terms and conditions set forth in the Franchise Agreement until the date immediately preceding the Effective Date.

7. [FOR CHANGE IN OWNERSHIP INTEREST THAT IS NOT A TRANSFER] Assignee hereby agrees to be bound by the terms and conditions set forth in the Franchise Agreement.

[OR FOR FULL TRANSFER AND ASSIGNEE ENTERS INTO A NEW FA] Assignee hereby agrees to execute Franchisor's current form of franchise agreement with Franchisor, and to be bound by the terms and conditions set forth in the current form of franchise agreement.

8. [USE WHEN **BUYER** IS PAYING THE TRANSFER [FRANCHISE] FEE] Assignor hereby agrees that, pursuant to Sections and of the Franchise Agreement, Assignor owes Franchisor a Transfer [Franchise] Fee in the amount of _____ Thousand Hundred and 00/100 Dollars (\$XX,X00.00). Assignor, Assignee and Franchisor hereby agree that the Transfer [Franchise] Fee will be paid by Assignee to Franchisor, contemporaneous with the execution of this Agreement, on behalf of Assignor. Assignor shall be liable to Franchisor for the Transfer [Franchise] Fee if Assignee fails to pay the Transfer [Franchise] Fee in full.

[OR USE WHEN **SELLER** IS PAYING THE TRANSFER [FRANCHISE] FEE] Assignor hereby agrees that, pursuant to Sections and of the Franchise Agreement, Assignor is obligated to pay Franchisor, contemporaneous with execution of this Agreement, the Transfer [Franchise] Fee in the amount of _____ Thousand Hundred and 00/100 Dollars (\$XX,X00.00).

9. [USE IF **BUYER** IS PAYING THE [TRANSFER] TRAINING FEE] Assignor hereby agrees that, pursuant to Sections and of the Franchise Agreement, Assignor is obligated to pay Franchisor the [Transfer] Training Fee in the amount of _____ Thousand Hundred and 00/100 Dollars (\$X,X00.00). Assignor, Assignee and Franchisor hereby agree that the [Transfer] Training Fee will be paid by Assignee to Franchisor, contemporaneous with the execution of this Agreement, on behalf of Assignor. Assignor shall remain liable to Franchisor for the [Transfer] Training Fee if Assignee fails to pay the [Transfer] Training Fee in full.

[OR USE IF **SELLER** IS PAYING THE [TRANSFER] TRAINING FEE] Assignor hereby agrees that, pursuant to Sections and of the Franchise Agreement, Assignor is obligated to pay Franchisor, contemporaneous with execution of this Agreement, the [Transfer] Training Fee in the amount of _____ Thousand Hundred and 00/100 Dollars (\$X,X00.00).

10. Assignor agrees to the assignment of Assignor's interest in and to the lease security deposit, if any, currently held by the Landlord to the Assignee.

11. Subject to Section 18 below, Assignor hereby agrees to continue to be bound by the terms and conditions set forth in the Sublease through the date immediately preceding the Effective Date.

12. [IF ASSIGNEE IS NOT SIGNING A NEW SUBLEASE] Assignee hereby agrees to be bound by the terms and conditions set forth in the Sublease.

[OR IF ASSIGNEE IS SIGNING A NEW SUBLEASE] Assignee hereby agrees to execute Sublessor's current form of sublease, and to be bound by the terms and conditions set forth in the current form of sublease.

13. Assignor agrees to cure any and all monetary defaults due and payable under their phone service agreement, complete and sign a letter of agency, letter of authorization or equivalent form, and provide the form to Assignee at least one week prior to the transfer of the Franchised

Business to allow Assignee to retain the telephone number of the Franchised Business.

14. Assignee agrees to provide the letter of agency, letter of authorization or equivalent form to their phone service provider in an effort to retain the telephone number of the Franchised Business.

15. Assignor agrees to cure any and all defaults and/or debts of any monetary consideration due and payable to Franchisor (or its affiliates) prior to the execution of this Agreement, including, without limitation, any past due and current royalties and advertising contributions under the Franchise Agreement through the date immediately preceding the Effective Date and any rental and other occupancy charges under the Sublease through the date immediately preceding the Effective Date, along with any accruing interest, late fees or other penalties as allowed under the Franchise Agreement, Sublease and/or applicable law. Notwithstanding the foregoing, in the event Assignor fails to cure any and all defaults, fully satisfy any debts and/or pay any charges as required, Franchisor has the sole and absolute discretion to move forward with the transfer as contemplated by this Agreement but without waiving any amounts due and owing to Franchisor and/or its affiliates and reserves all rights to pursue such defaults, debts and charges against Assignor at a later time.

16. Assignor and Assignee hereby understand and agree that there may be additional charges and/or credits under the Lease and/or Sublease for rent including, without limitation, common area and maintenance charges/reconciliations, insurance, and/or taxes, related to the Franchised Business. Assignor and Assignee further hereby agree that Assignee shall be entitled to receive the credits and/or pay the actual charges incurred to the Landlord or Sublessor, as directed by Sublessor, within ten (10) days from receipt of Sublessor's notice of such charges and/or credits to Assignee. Assignor and Assignee hereby represent and warrant to Sublessor that Assignor and Assignee have taken such actions as necessary to account for such charges and/or credits in the purchase price for the Franchised Business.

17. Assignor represents and warrants that it has not failed to disclose to Company any information, which, if known by Company, might provide grounds for Company to reasonably withhold its consent to this Agreement, and that Assignor has disclosed all of the terms of the transfer to Company.

18. Assignor ratifies and reaffirms any and all provisions and/or agreements with Company intended to survive the assignment and/or termination of the Franchise Agreement and Sublease and agrees to remain bound by them, including but not limited to any provisions pertaining to confidential information and covenant against competition.

19. Assignor agrees that it has no rights in any of the trademarks, trade names, or service marks of Franchisor, except in connection with other *NrGize Lifestyle Cafe* franchises owned by Assignor, if any. Assignor also stipulates that such trademarks, trade names, service marks and the like are the sole property of Franchisor and that Assignor has no rights in them, except as authorized by Franchisor in connection with other *NrGize Lifestyle Cafe* franchises owned by Assignor, if any. Assignor quitclaims to Franchisor any rights in any trademarks, trade names, and service marks of Franchisor, in the event Assignor has any such rights, except those rights acquired through other *NrGize Lifestyle Cafe* franchises authorized by Franchisor and owned by Assignor, if any.

20. Assignee acknowledges that Company has not made any express or implied verbal or written representations or promises whatsoever that:

a. future assignments will be approved;

b. Assignee will have financial success operating the Franchised Business;

c. the landlord will grant an extension of the Master Lease where the Franchised Business is located and operates;

d. the consideration, if any, paid for the Franchised Business represents the true value of the Franchised Business; or

e. Assignor is not in default under the terms of the Franchise Agreement and/or the Sublease.

21. Assignee acknowledges that Company has made no representations whatsoever concerning the value of the Franchised Business.

22. All notices required or permitted under this Agreement shall be in writing and shall be delivered by personal delivery, courier, such as FedEx® or UPS®, or by U.S. Mail, sent certified or registered mail, return receipt requested to the address set forth below, which address may be amended from time to time pursuant to the terms of this Section 22. Notices provided under this Section 22 shall be deemed received upon personal delivery or delivery by courier and within five (5) days after deposit in the U.S. Mail. Notices shall be provided to the parties at the address specified below:

If to Assignee: [Name]
[Attn:]
[Address]
[City, State, Zip]
Telephone Number:
Facsimile Number:

If to Assignor: [Name]
[Attn:]
[Address]
[City, State, Zip]
Telephone Number:
Facsimile Number:

If to Franchisor: KAHALA FRANCHISING, L.L.C.
Attn: Legal Department
9311 E Via de Ventura
Scottsdale, Arizona 85258
Telephone Number: (480) 362-4800 Facsimile Number: (480) 362-4819

If to Sublessor: [NAME OF SUBLESSOR]
Attn: Real Estate Department
9311 E Via de Ventura
Scottsdale, Arizona 85258
Telephone Number: (480) 362-4800 Facsimile Number: (480) 362-4792

23. Franchisor hereby consents to the transfer of the Franchised Business to Assignee subject to the terms and conditions of this Agreement being fully met by both Assignor and Assignee.

24. Assignor and Assignee understand the Effective Date is the closing date indicated on

the escrow statement/closing statement.

25. IN CONSIDERATION OF COMPANY'S AGREEMENTS SET FORTH IN THIS AGREEMENT, ASSIGNOR REPRESENTS THAT COMPANY HAS NOT FAILED TO PERFORM, AND IS NOT IN ANY RESPECT IN DEFAULT IN THE PERFORMANCE OF, ANY OF ITS OBLIGATIONS UNDER THE SUBLEASE AND/OR THE FRANCHISE AGREEMENT, AND ASSIGNOR AND EACH OF ITS CURRENT, PAST AND FUTURE PREDECESSORS, SUCCESSORS AND ASSIGNS, AND EACH OF ITS AND THE FOREGOING ENTITIES RESPECTIVE PARENTS, SUBSIDIARIES, SHAREHOLDERS, MEMBERS, MANAGERS, OWNERS, PARTNERS, DIRECTORS, OFFICERS, EMPLOYEES, REPRESENTATIVES, AGENTS, SUCCESSORS, ASSIGNS, GUARANTORS, INSURERS, SPOUSES, HEIRS, EXECUTORS, TRUSTEES, AND ESTATES, IF ANY, OF ANY AND ALL SUCH ENTITIES (COLLECTIVELY WITH ASSIGNOR, "ASSIGNOR AFFILIATES") HEREBY IRREVOCABLY AND UNCONDITIONALLY RELEASE, REMISE AND FOREVER DISCHARGE COMPANY AND EACH ITS CURRENT, PAST AND FUTURE PREDECESSORS, SUCCESSORS AND ASSIGNS, AND EACH OF ITS AND THE FOREGOING ENTITIES RESPECTIVE PARENTS, SUBSIDIARIES, SHAREHOLDERS, MEMBERS, MANAGERS, OWNERS, PARTNERS, DIRECTORS, OFFICERS, EMPLOYEES, REPRESENTATIVES, AGENTS, SUCCESSORS, ASSIGNS, GUARANTORS, INSURERS, SPOUSES, HEIRS, EXECUTORS, TRUSTEES, AND ESTATES, IF ANY, OF ANY AND ALL SUCH ENTITIES (COLLECTIVELY WITH COMPANY "FRANCHISOR AFFILIATES"), FROM ANY AND ALL CLAIMS, DEMANDS, CAUSES OF ACTION, SUITS, DEBTS, DUTIES, ACCOUNTS, COVENANTS, CONTRACTS, AGREEMENTS, PROMISES, DAMAGES, JUDGMENTS, TAXES, LIABILITIES AND OBLIGATIONS, BOTH CONTINGENT AND FIXED, KNOWN AND UNKNOWN, NOW EXISTING OR HEREAFTER, OF EVERY KIND AND NATURE WHATSOEVER, IN LAW OR EQUITY, OR OTHERWISE, UNDER LOCAL STATE, OR FEDERAL LAW OR THE LAW OF ANY OTHER APPLICABLE JURISDICTION, THAT ANY OF THE ASSIGNOR AFFILIATES HAVE AGAINST ANY OF THE FRANCHISOR AFFILIATES, INCLUDING, WITHOUT LIMITATION, THOSE ARISING FROM, IN CONNECTION WITH OR RELATING TO: (I) THE SUBLEASE AND/OR FRANCHISEE AGREEMENT (INCLUDING ANY AMENDMENTS OR MODIFICATIONS THERETO); (II) THE OPERATION OF THE RESTAURANT, INCLUDING ANY LEASING OR SUBLEASING RELATED THERETO; AND (III) THE OFFERING

AND SALE OF THE FRANCHISED BUSINESS; ARISING FROM AN ACT, OMISSION, CONDUCT OR ACTIVITY OCCURRING BEFORE AND INCLUDING THE EFFECTIVE DATE.

IT IS UNDERSTOOD BY ASSIGNOR THAT IF THE FACTS OR LAW WITH RESPECT TO THE FOREGOING RELEASE HEREAFTER TURN OUT TO BE DIFFERENT FROM THE FACTS OR LAW KNOWN TO BE OR BELIEVED BY ASSIGNOR TO BE TRUE AT THE TIME OF THE DATE HEREOF, THEN ASSIGNOR EXPRESSLY ASSUMES THE RISK OF THE FACTS OR LAW TURNING OUT TO BE SO DIFFERENT, AND AGREES THAT THE FOREGOING RELEASE SHALL BE IN ALL RESPECTS EFFECTIVE AND NOT SUBJECT TO TERMINATION OR RESCISSION IN WHOLE OR IN PART BASED UPON SUCH DIFFERENCES.

26. Assignor and Assignee hereby agree to protect, defend and indemnify each of the Franchisor Affiliates and hold them harmless from and against any and all costs and expenses actually incurred by them or for which they are liable, including, without limitation, attorney's fees, court costs, expert witness fees and costs, losses, liabilities, damages, claims and demands of every kind or nature, and including those incurred pursuant to a settlement entered into in good faith, arising out of or in connection with the Franchised Business, including specifically without limitation any claim or controversy arising out of (i) this Agreement, (ii) the Franchise Agreement, (iii) Sublease and/or Master Lease, (iv) any transfer of the Franchised Business by Assignee or Assignor, (v) acts or omissions of Assignee and/or Assignor which are not in strict compliance with this Agreement, the Franchise Agreement, Sublease and/or the Operations Manual in respect of use or display of the Proprietary Marks, or (vi) acts or omissions of Assignee and/or Assignor which tend

to create an impression that the relationship between the parties hereto is other than one of Franchisor and Franchisee. Franchisor Affiliates, at their sole discretion, may hire legal counsel to defend any actions brought against any Franchisor Affiliates which arise out of Assignor's obligations under all agreements entered into between Assignor and any of the Franchisor Affiliates, including, without limitation, this Agreement, and Assignee's obligations herein. Assignor and Assignee hereby agree to pay any and all attorneys' fees, expert costs, and any other fees and costs incurred by any Franchisor Affiliates to said selected counsel upon the request of any Franchisor Affiliates. Assignor and Assignee will, if requested by any Franchisor Affiliates, defend any suits at the sole cost and expense of Assignor and Assignee. Assignor and Assignee hereby agree to defend said suits with the use of attorneys requested by any Franchisor Affiliates. For purposes of this provision, requests shall be made pursuant to the notice provisions set forth in Section 22 above. Notwithstanding the other provisions of this Section 26 to the contrary, if any, [and subject to Sections and above,] Assignor shall not be responsible for any of the acts or omissions of Assignee after the Effective Date.

27. Assignor agrees for itself and its successors and assigns that it will not disparage, denigrate, defame or comment in any manner upon Franchisor Affiliates, or any of their business dealings, financial condition, pending litigation and arbitrations, officers, directors, employees, agents, representatives or attorneys, either publicly or privately, by any means whatsoever (including electronic means), and will, if asked to comment on Franchisor Affiliates, refuse to and refrain from doing so (collectively, "Non Disparagement Provision"). In the event such a communication is made to anyone, including, but not limited to, third party legal counsel adverse to Franchisor Affiliates in any fashion, former employees of Franchisor Affiliates, former shareholders of Franchisor Affiliates, current or former vendors, franchisees, licensees, or area representatives of Franchisor Affiliates' quick service restaurant brands, media government agencies, public interest groups, and publishing companies, it will be considered a material breach of the terms of this Agreement and Franchisor Affiliates shall be entitled to bring a legal action for appropriate equitable relief as well as damages. In addition to any other rights or remedies available at law, in equity, or by statute, Assignor consents to the specific enforcement of this Non Disparagement Provision through an injunction or restraining order issued by an appropriate court, without the requirement of posting a bond. Notwithstanding the above, nothing in this provision shall prevent or prohibit

Assignor from testifying in any legal proceeding, including a deposition, hearing or trial, from cooperating in good faith in any governmental investigation or action, or from making any report required by law.

28. Each individual executing this Agreement on behalf of a partnership, limited liability company or corporation represents and warrants that he or she is duly authorized to execute and deliver this Agreement on behalf of the partnership, limited liability company, or corporation, and agrees to deliver evidence of his or her authority to Company upon request by Company.

29. The provisions of this Agreement are severable, and if any one or more provisions may be determined to be unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable. If the provision found to be unenforceable was material to this Agreement, the parties agree to promptly negotiate the terms of a substitute provision to replace the severed provision consistent with the then-current law and the parties' original intent.

30. This Agreement shall be construed under and according to the laws of the State of Arizona, without regard to conflict of laws principles.

31. ANY AND ALL COURT PROCEEDINGS ARISING FROM THIS AGREEMENT SHALL BE BROUGHT IN, AND ONLY IN, A COURT OF COMPETENT JURISDICTION LOCATED IN MARICOPA COUNTY, ARIZONA. THE PARTIES CONSENT TO THE EXERCISE OF SUBJECT MATTER AND PERSONAL JURISDICTION BY SUCH COURTS AND HEREBY WAIVE ANY OBJECTIONS OR DEFENSE THERETO.

32. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

33. No amendment, addendum, modification, supplement or waiver of this Agreement or any of its provisions shall be binding on the parties unless made in writing and duly executed by an authorized representative of Company and Assignor and Assignee. A failure of any party to enforce at any time any of the provisions of this Agreement or to require at any time performance by another party or any provision of this Agreement, shall in no way be construed as a continuing waiver of those provisions or of any other rights under this Agreement.

34. [Subject to Sections and above,] [T/t]his Agreement shall not be construed in any way as modifying, waiving, or affecting any of the terms, covenants, conditions, or agreements contained in the Franchise Agreement and Sublease executed by Assignor, or the current form of franchise agreement or sublease to be executed by Assignee.

35. This Agreement shall inure to the benefit of and shall be binding upon each of the parties hereto and their respective successors and assigns.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, each party hereto has executed this Agreement by and through its duly authorized representative with full rights, power and authority to enter into and bind his or her respective party, without further consent or approval of any kind, as of the Effective Date of this Agreement.

ASSIGNOR:

ASSIGNEE:

By: [Name, Title]

By: [Name, Title]

By: [Name, Title]

By: [Name, Title]

FRANCHISOR:

KAHALA FRANCHISING, L.L.C., an Arizona
limited liability company

By: [Name, Title]

SUBLESSOR:

By: [Name, Title]

EXHIBIT S
TO THE FRANCHISE DISCLOSURE DOCUMENT

State Addenda to Franchise Documents

ADDENDUM TO FRANCHISE DOCUMENTS

(FOR THE STATE OF CALIFORNIA)

This ADDENDUM TO FRANCHISE DOCUMENTS (FOR THE STATE OF CALIFORNIA) ("Addendum") dated _____, ~~20~~ ("Addendum Effective Date") to the [Franchise Agreement[, as amended], [Consent to Transfer and Release Agreement,] [General Release,] [Promissory Note and Security Agreement] [Sublease] [each] dated _____, ~~20~~, and including any and all exhibits attached thereto (individually and collectively, "Franchise Documents") between _____ ("Franchisee") and KAHALA FRANCHISING, L.L.C., an Arizona limited liability company ("Franchisor") [and LEASING ENTITY, a[n] _____ "Sublessor"] hereby amends the Franchise Documents by the addition of the following language, which shall be considered an integral part of the Agreement. To the extent this Addendum contains terms and conditions that differ from those contained in the Franchise Documents, this Addendum shall control. The parties agree that a concept or principle covered in this Addendum shall apply and be incorporated into all other provisions of the Franchise Documents in which the concept or principle is also applicable, notwithstanding the absence of any specific cross-reference thereto. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Franchise Documents.

1. CALIFORNIA LAW MODIFICATIONS

- A. 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 Disclosure Document.
- B. 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.).
- C. The Franchise Agreement contains a covenant not to compete which extends beyond the termination of the franchise. This provision may not be enforceable under California Law.
- D. The Franchise Documents require application of the laws of the State of Arizona. This provision may not be enforceable under California Law.
- E. Section 31125 of the California Corporations Code requires us to give you a Disclosure Document, in a form containing the information that the Commissioner may by rule or order require, before a solicitation of a proposed material modification of an existing franchise.
- F. California Corporations Code §31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code §§31000 through 31516). Business and Professions Code §20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code §§20000 through 20043).
- G. The Franchise Agreement requires binding arbitration. The arbitration will occur at the American Arbitration Association office in Maricopa County, Arizona, or, if our headquarters are no longer located in Maricopa County, Arizona, then the arbitration shall take place in the county in which our headquarters are located at the time the arbitration is commenced, with all of the costs of the arbitration, including the fees of

the arbitrator and the reasonable attorney's fees of the prevailing party to be paid by the party that did not prevail. Prospective franchisees are encouraged to consult private legal counsel to determine the applicability of California and federal laws (such as Business and Professions Code Section 20040.5, 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.

- H. California Business and Professions Code Sections 20000 through 20043 provide rights to the franchisee concerning transfer, termination or non-renewal of a franchise. If the Franchise Agreement contains a provision that is inconsistent with the law, the law will control.
- I. If the franchisee resides in the State of California or the franchised business is located within the State of California, the venue for any dispute may be within the State of California. Business and Professions Code Section 20040.5 voids restricting a venue to a forum outside California with respect to any claim arising under or relating to a franchise involving a franchise business operating in California.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the California law applicable to the provision are met independent of this Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met. Except as set forth in this Addendum, the terms and provisions of the Franchise Documents shall remain in full force and effect.

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, have duly executed and delivered this Addendum as of the Addendum Effective Date.

FRANCHISOR:

KAHALA FRANCHISING, L.L.C., an Arizona
limited liability company

FRANCHISEE:

By: [Name, Title]

By: [Name, Title]

[SUBLESSOR:

By: [Name, Title]

FRANCHISOR:

KAHALA FRANCHISING, L.L.C., an Arizona
limited liability company

By: [Name, Title]

[SUBLESSOR:

_____,

By: [Name, Title]

FRANCHISEE:

_____,

By: [Name, Title]

By: [Name, Title]

By: [Name, Title]

(FOR THE STATE OF HAWAII)

- a. The Hawaii Franchise Investment Law provides rights to you concerning non-renewal, termination and transfer of the Franchise Agreement. If the Franchise Agreement contains a provision that is inconsistent with the Law, the Law will control. Among those rights, the law may require that upon termination or non-renewal Franchisor purchase for fair market value Franchisee's inventory, supplies, equipment and furnishings purchased from Franchisor or a supplier designated by Franchisor; provided that personalized materials which have no value to Franchisor need not be compensated for. If the non-renewal or termination is for the purpose of converting the Franchisee's business to one owned and operated by Franchisor, Franchisor may, additionally, be obligated to compensate the Franchisee for loss of goodwill. Franchisor may deduct all amounts due from Franchisee and any costs related to the transportation or disposition of items purchased against any payment for those items. If the parties cannot agree on fair market value, fair market value shall be determined in the manner set forth in the Franchise Agreement. If the Franchise Agreement does not provide for determination of fair market value of assets for purchase by Franchisor, such amount will be determined by an independent appraiser approved by both parties, and the costs of the appraisal shall be shared equally by the parties.
- b. If the Franchisee is required in the Franchise Documents to execute a release of claims, such release shall exclude claims arising under the Hawaii Franchise Investment Law. Any condition, stipulation or provision binding the Franchisee to waive compliance with any provision of Section 482E-6 of the Hawaii Franchise Investment Law shall be void.

The requirement of a franchisee to purchase or lease goods or services of the franchisor or from designated sources may not be enforceable under Hawaii Franchise Investment law unless it is reasonably necessary for a lawful purpose, and does not substantially affect competition.

- c. The Hawaii Franchise Investment Law prohibits the Franchisor from establishing a similar business or granting a franchise for the establishment of a similar business to that of the Franchisee's within the Franchisee's exclusive territory. To the extent the Franchise Documents contain a provision that is inconsistent with the Act, the Act will control.

2. Section 482E-3(a) of the Hawaii Franchise Investment Law requires us to give you a copy of the Franchise Disclosure Document at least 7 calendar days prior to signing the Agreement.

3. The Franchise Documents permits us to terminate the Agreement upon your bankruptcy. This provision may not be enforceable under Federal Bankruptcy Law. (11 U.S.C. §101, et seq.).

4. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Hawaii Franchise Investment Law applicable to the provision are met independent of this Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met. Except as set forth in this Addendum, the terms and provisions of the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, have duly executed and delivered this Addendum as of the Addendum Effective Date.

FRANCHISOR: **FRANCHISEE:**

KAHALA FRANCHISING, L.L.C., an Arizona
limited liability company

By: [Name, Title]

By: [Name, Title]

[SUBLESSOR:

By: [Name, Title]

By: [Name, Title]

FRANCHISOR:

KAHALA FRANCHISING, L.L.C., an Arizona
limited liability company

By: [Name, Title]

[SUBLESSOR:

_____,

By: [Name, Title]

FRANCHISEE:

_____,

By: [Name, Title]

By: [Name, Title]

(FOR THE STATE OF ILLINOIS)

ILLINOIS LAW MODIFICATIONS

- store # doc#

- e. Section 41 of the Illinois Franchise Disclosure Act states that “any condition, stipulation, or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of this Act is void.”

store # doc#

2. Each provision of this 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 Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met. Except as set forth in this Addendum, the terms and provisions of the Franchise Documents shall remain in full force and effect.

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, have duly executed and delivered this Addendum as of the Addendum Effective Date.

FRANCHISOR: **FRANCHISEE:**

KAHALA FRANCHISING, L.L.C., an Arizona
limited liability company

By: [Name, Title]

By: [Name, Title]

[SUBLESSOR:

By: [Name, Title]

FRANCHISOR:

FRANCHISEE:

KAHALA FRANCHISING, L.L.C., an Arizona
limited liability company

By: [Name, Title]

By: [Name, Title]

[SUBLESSOR:

By: [Name, Title]

By: [Name, Title]

By: [Name, Title]

store # doc#

2 of 2

ADDENDUM TO FRANCHISE DOCUMENTS

(FOR THE STATE OF INDIANA)

This ADDENDUM TO FRANCHISE DOCUMENTS (FOR THE STATE OF INDIANA) ("Addendum") dated _____, ~~20~~ ("Addendum Effective Date") to the [Franchise Agreement[, as amended], [Consent to Transfer and Release Agreement,] [General Release,] [Promissory Note and Security Agreement] [Sublease] [each] dated _____, ~~20~~, and including any and all exhibits attached thereto (individually and collectively, "Franchise Documents") between _____ ("Franchisee") and KAHALA FRANCHISING, L.L.C., an Arizona limited liability company ("Franchisor") [and LEASING ENTITY, a[n] _____ "Sublessor"] hereby amends the Franchise Documents by the addition of the following language, which shall be considered an integral part of the Agreement. To the extent this Addendum contains terms and conditions that differ from those contained in the Franchise Documents, this Addendum shall control. The parties agree that a concept or principle covered in this Addendum shall apply and be incorporated into all other provisions of the Franchise Documents in which the concept or principle is also applicable, notwithstanding the absence of any specific cross-reference thereto. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Franchise Documents.

INDIANA LAW MODIFICATIONS

1. The Indiana Securities Commissioner requires that certain provisions contained in franchise documents be amended to be consistent with Indiana law, including the Indiana Franchises Act, Ind. Code Ann. §§ 1-51 (1994) and the Indiana Deceptive Franchise Practices Act, Ind. Code Ann. § 23-27 (1985). To the extent that the Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

- a. The Indiana Deceptive Franchise Practices Act provides rights to Franchisee concerning non-renewal and termination of the Franchise Agreement. To the extent the Franchise Agreement contains a provision that is inconsistent with the Act, the Act will control.
- b. If the Franchisee is required in the Franchise Documents 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 Act, or a rule of order under the Act, such release shall exclude claims arising under the Indiana Deceptive Franchise Practices Act and the Indiana Franchises Act, and such acknowledgements shall be void with respect to claims under the Act.
- c. If the Franchise Agreement contains covenants not to compete upon expiration or termination of the Franchise Agreement that are inconsistent with the Indiana Deceptive Franchise Practices Act, the requirements of the Act will control.
- d. The Indiana Deceptive Franchise Practices Act provides that substantial modification of the Agreement by Franchisor requires written consent of the Franchisee. If the Agreement contains provisions that are inconsistent with this requirement, the Act will control.

If the Franchise Documents requires litigation/arbitration to be conducted in a forum other than the State of Indiana, the requirement may be unenforceable as a limitation on litigation under the Indiana Deceptive Franchise Practices Act §§ 23-2.2.7(10).

- e. If the Franchise Documents requires that it be governed by a state's law, other than the State of Indiana, to the extent that such law conflicts with the Indiana Deceptive Franchise Practices Act and the Indiana Franchises Act, the Acts will control.
- f. The Indiana Deceptive Franchise Practices Act provides rights to Franchisee concerning the waiver of claims or rights. To the extent the Franchise Documents contains a provision that is inconsistent with the Act, the Act will control.
- g. The Indiana Deceptive Franchise Practices Act provides rights to Franchisee concerning the time period to bring an action against the Franchisor. To the extent the Agreement contains a provision that is inconsistent with the Act, the Act will control.
- h. The Indiana Deceptive Franchise Practices Act prohibits the Franchisor from operating a substantially identical business to that of the Franchisee's within the Franchisee's territory, regardless of trade name. To the extent the Agreement contains a provision that is inconsistent with the Act, the Act will control.
- i. The Indiana Deceptive Franchise Practice Act excludes any indemnification for liability caused by the Franchisee's proper reliance on or use of procedures or materials provided by the Franchisor. To the extent the Agreement contains a provision that is inconsistent with the Act, the Act will control.
- j. If the Franchise Agreement requires goods, supplies, inventories, or services to be purchased exclusively from the franchisor or sources designated by the franchisor where such goods, supplies, inventories or services of comparable quality are available from sources other than those designated by the franchisor, to the extent that such law conflicts with the Indiana Deceptive Franchise Practices Act and the Indiana Franchises Act, the Acts will control. Providing a list of approved suppliers to comply with specifications and standards prescribed by Franchisor does not constitute designation of a source under the Indiana Deceptive Franchise Practices Act.

2. Indiana Code § 23-2-2.5-9(2) requires us to give you a copy of the Franchise Disclosure Document at the earlier of: (i) 10 days prior to signing the Agreement; or (ii) 10 days prior to our receipt of any consideration.

3. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Indiana Deceptive Practices Act and the Indiana Franchises Act, with respect to each such provision, are met independent of this Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met. Except as set forth in this Addendum, the terms and provisions of the Franchise Documents shall remain in full force and effect.

IN WITNESS WHEREOF, each party hereto, by and through its respective representative

with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, has duly executed and delivered this Addendum as of the Addendum Effective Date.

FRANCHISOR:

FRANCHISEE:

KAHALA FRANCHISING, L.L.C., an Arizona
limited liability company

FRANCHISOR:

FRANCHISEE:

KAHALA FRANCHISING, L.L.C., an Arizona
limited liability company

By: [Name, Title]

By: [Name, Title]

[SUBLESSOR:

By: [Name, Title]

By: [Name, Title]

By: [Name, Title]

By: [Name, Title]

[SUBLESSOR:

By: [Name, Title]

By: [Name, Title]

(FOR THE STATE OF MARYLAND)

MARYLAND LAW MODIFICATIONS

- [store #] [doc#]

- e. 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

[store #] [doc#] release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

2. Each provision of this 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 Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met. Except as set forth in this Addendum, the terms and provisions of the Franchise Documents shall remain in full force and effect.

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, have duly executed and delivered this Addendum as of the Addendum Effective Date.

FRANCHISOR:

FRANCHISEE:

KAHALA FRANCHISING, L.L.C., an Arizona
limited liability company

By: [Name, Title]

By: [Name, Title]

[SUBLESSOR:

By: [Name, Title]

FRANCHISOR:

FRANCHISEE:

KAHALA FRANCHISING, L.L.C., an Arizona
limited liability company

By: [Name, Title]

By: [Name, Title]

[SUBLESSOR:

By: [Name, Title]

By: [Name, Title]

By: [Name, Title]

[store #] [doc#]

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ADDENDUM TO FRANCHISE DOCUMENTS

(FOR THE STATE OF MICHIGAN)

Section 445.1508(1) of the Michigan Franchise Investment Law requires franchisor to give you a copy of the Franchise Disclosure Document earlier of: (i) 10 business days prior to signing the Franchise Agreement; or (ii) 10 business days prior to franchisor's receipt of any consideration.

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

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

reasonable qualifications or standards.

(ii) The fact that the proposed transferee is a competitor of the franchisor or subfranchisor.

(iii) The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.

(iv) The failure of the franchisee or proposed transferee to pay any sums owing to the franchisor or to cure any default in the franchise agreement existing at the time of the proposed transfer.

(h) A provision that requires the franchisee to resell to the franchisor items that are not uniquely identified with the franchisor. This subdivision does not prohibit a provision that grants to a franchisor a right of first refusal to purchase the assets of a franchise on the same terms and conditions as a bona fide third party willing and able to purchase those assets, nor does this subdivision prohibit a provision that grants the franchisor the right to acquire the assets of a franchise for the market or appraised value of such assets if the franchisee has breached the lawful provisions of the franchise agreement and has failed to cure the breach in the manner provided in subdivision (c).

(i) A provision which permits the franchisor to directly or indirectly convey, assign, or otherwise transfer its obligations to fulfill contractual obligations to the franchisee unless provision has been made for providing the required contractual services.

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

Any questions regarding this Notice shall be directed to :

STATE OF MICHIGAN
DEPARTMENT OF THE ATTORNEY GENERAL
ATTENTION: FRANCHISE SECTION
P.O. BOX 30213 LANSING, MICHIGAN 48909
(517) 373-7117

ADDENDUM TO FRANCHISE DOCUMENTS (FOR THE STATE OF MINNESOTA)

This ADDENDUM TO FRANCHISE DOCUMENTS (FOR THE STATE OF MINNESOTA) (“Addendum”) dated _____, ~~20~~ (“Addendum Effective Date”) to the [Franchise Agreement[, as amended], [Consent to Transfer and Release Agreement,] [General Release,] [Promissory Note and Security Agreement] [Sublease] [each] dated _____, ~~20~~, and including any and all exhibits attached thereto (individually and collectively, “Franchise Documents”) between _____,

and company (“Franchisee”) KAHALA FRANCHISING, L.L.C., an Arizona limited liability

(“Franchisor”) [and LEASING ENTITY, a[n] _____ “Sublessor”] hereby amends the Franchise Documents by the addition of the following language, which shall be considered an integral part of the Agreement. To the extent this Addendum contains terms and conditions that differ from those contained in the Franchise Documents, this Addendum shall control. The parties agree that a concept or principle covered in this Addendum shall apply and be incorporated into all other provisions of the Franchise Documents in which the concept or principle is also applicable, notwithstanding the absence of any specific cross-reference thereto. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Franchise Documents.

MINNESOTA LAW MODIFICATIONS

1. The Commissioner of Commerce for the State of Minnesota requires that certain provisions contained in franchise documents be amended to be consistent with Minnesota Franchise Act, Minn. Stat. Section 80.01 et seq., and of the Rules and Regulations promulgated under the Act (collectively “Franchise Act”). To the extent that the Franchise Documents and Disclosure Document contain provisions that are inconsistent with the following, such provisions are hereby amended:

- a. Minnesota Statutes, Section 80C.21 and Minnesota Rules 2860.4400(J) prohibit the franchisor from requiring litigation to be conducted outside Minnesota, requiring waiver of a jury trial, or requiring the franchisee to consent to liquidated damages, termination penalties or judgment notes. In addition, nothing in the Franchise Disclosure Document or agreement(s) can abrogate or reduce (1) any of the franchisee's rights as provided for in Minnesota Statutes, Chapter 80C or (2) franchisee's rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction. Any condition, stipulation or provision, including any choice of law provision, purporting to bind any person who, at the time of acquiring a franchise is a resident of this state, or, in the case of a partnership or corporation, organized or incorporated under the laws of this state, or purporting to bind a person acquiring any franchise to be operated in this state to waive compliance or which has the effect of waiving compliance with any provision of sections 80C.01 to 80C.22 or any rule or order thereunder is void under the Minnesota Franchise Act, Minn. Stat. § 80C.21.
- b. With respect to franchises governed by Minnesota law, the franchisor will comply with Minnesota Statutes, Section 80C.14, Subd. 3-5, which require (except in certain specified cases) (1) 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 and ~~(2)~~ (2) that consent to the transfer of the franchise will not be unreasonably withheld.

- c. Minnesota considers it unfair to not protect the franchisee's right to use the trademarks. Refer to Minnesota Statutes, Section 80C.12, Subd. 1(g). The

~~store # doc#~~ franchisor will protect the franchisee's rights to use the trademarks, service marks, trade names, logotypes or other commercial symbols or indemnify the franchisee from any loss, costs or expenses arising out of any claim, suit or demand regarding the use of the name.

- d. Minnesota Rules 2860.4400(D) prohibits a franchisor from requiring a franchisee to assent to a general release, assignment, novation, or waiver that would relieve any person from liability imposed by Minnesota Statutes 1973 Supplement, sections 80C.01 to 80C.22; provided, that this part shall not bar the voluntary settlement of disputes.
- e. The franchisee cannot consent to the franchisor obtaining injunctive relief. The franchisor may seek injunctive relief. See Minn. Rules 2860.4400J. Also, a court will determine if a bond is required.
- f. The Limitations of Claims section must comply with Minnesota Statutes, Section 80C.17, Subd. 5.
- g. Minnesota limits a service charge not to exceed \$30 for any dishonored check by the payee or holder of the check. See Minn. Rules 604.113.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Minnesota law applicable to the provision are met independent of this Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met. Except as set forth in this Addendum, the terms and provisions of the Franchise Documents shall remain in full force and effect.

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, have duly executed and delivered this Addendum as of the Addendum Effective Date.

FRANCHISOR: **FRANCHISEE:**

KAHALA FRANCHISING, L.L.C., an Arizona
limited liability company

FRANCHISOR:

KAHALA FRANCHISING, L.L.C., an Arizona-
limited liability company

By: [Name, Title]

[SUBLESSOR:

_____,

By: [Name, Title]

FRANCHISEE:

By: [Name, Title]

By: [Name, Title]

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By: [Name, Title]

By: [Name, Title]

[SUBLESSOR:

By: [Name, Title]

By: _____

[Name, Title]

ADDENDUM TO FRANCHISE DOCUMENTS

(FOR THE STATE OF NORTH DAKOTA)

This ADDENDUM TO FRANCHISE DOCUMENTS (FOR THE STATE OF NORTH DAKOTA) ("Addendum") dated _____, ~~20__~~20__ ("Addendum Effective Date") to the [Franchise Agreement[, as amended], [Consent to Transfer and Release Agreement,] [General Release,] [Promissory Note and Security Agreement] [Sublease] [each] dated _____, ~~20__~~20__, and including any and all exhibits attached thereto (individually and collectively, "Franchise Documents") between _____ ("Franchisee") and KAHALA FRANCHISING, L.L.C., an Arizona limited liability company ("Franchisor") [and LEASING ENTITY, a[n] _____ ("Sublessor") hereby amends the Franchise Documents by the addition of the following language, which shall be considered an integral part of the Agreement. To the extent this Addendum contains terms and conditions that differ from those contained in the Franchise Documents, this Addendum shall control. The parties agree that a concept or principle covered in this Addendum shall apply and be incorporated into all other provisions of the Franchise Documents in which the concept or principle is also applicable, notwithstanding the absence of any specific cross-reference thereto. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Franchise Documents.

NORTH DAKOTA LAW MODIFICATIONS

1. The North Dakota Securities Commissioner requires that certain provisions contained in franchise documents be amended to be consistent with North Dakota Law, including the North Dakota Franchise Investment Law, North Dakota Century Code Annotated Chapter 51-19, Sections 51-19-01 through 51-19-17 (1993). To the extent that the Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

- a. If the Franchisee is required in the Franchise Documents 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 Law, or a rule or order under the Law, such release shall exclude claims arising under the North Dakota Franchise Investment Law, and such acknowledgements shall be void with respect to claims under the Law.
- b. Covenants not to compete during the term and upon termination or expiration of the Franchise Agreement are enforceable only under certain conditions according to North Dakota Law. If the Agreement contains a covenant not to compete which is inconsistent with North Dakota Law, the covenant may be unenforceable.
- c. If the Franchise Documents require litigation to be conducted in a forum other than the State of North Dakota, the requirement is void with respect to claims under the North Dakota Franchise Investment Law.
- d. If the Franchise Documents require that it be governed by a state's law, other than the State of North Dakota, to the extent that such law conflicts with the North Dakota Franchise Investment Law, the North Dakota Franchise Investment Law will control.

- e. If the Franchise Documents require mediation or arbitration to be conducted in a forum other than the State of North Dakota, the requirement may be

~~store—#—doc#~~ unenforceable under the North Dakota Franchise Investment Law. Arbitration involving a franchise purchased in the State of North Dakota must be held either in a location mutually agreed upon prior to the arbitration or if the parties cannot agree on a location, the location will be determined by the arbitrator.

- f. If the Franchise Agreement requires payment of a termination penalty, the requirement may be unenforceable under the North Dakota Franchise Investment Law.

- g. Section 51-19-08 of the North Dakota Franchise Investment Law requires Franchisor to give you a copy of the Franchise Disclosure Document at the earlier of: (i) seven days prior to signing the Franchise Agreement; or (ii) seven days prior to Franchisor's receipt of any consideration.

2. **THE SECURITIES COMMISSIONER HAS HELD THE FOLLOWING TO BE UNFAIR, UNJUST OR INEQUITABLE TO NORTH DAKOTA FRANCHISEES (NDCC SECTION 51-19-09):**

- A. Restrictive Covenants: Franchise disclosure documents which disclose the existence of covenants restricting competition contrary to NDCC Section 9-08-06, without further disclosing that such covenants will be subject to the statute.
- B. Situs of Arbitration Proceedings: Franchise agreements providing that the parties must agree to the arbitration of disputes at a location that is remote from the site of the franchisee's business.
- C. Restrictions on Forum: Requiring North Dakota franchisees to consent to the jurisdiction of courts outside of North Dakota.
- D. Liquidated Damages and Termination Penalties: Requiring North Dakota franchisees to consent to liquidated damages or termination penalties.
- E. Applicable Laws: Franchise agreements which specify that they are to be governed by the laws of a state other than North Dakota.
- F. Waiver of Trial by Jury: Requiring North Dakota Franchises to consent to the waiver of a trial by jury.
- G. Waiver of Exemplary & Punitive Damages: Requiring North Dakota Franchisees to consent to a waiver of exemplary and punitive damage.
- H. General Release: Franchise Agreements that require the franchisee to sign a general release upon renewal of the franchise agreement.
- I. Limitation of Claims: Franchise Agreements that require the franchisee to consent to a limitation of claims. The statute of limitations under North Dakota law applies.
- J. Enforcement of Agreement: Franchise Agreements that require the franchisee to

pay all costs and expenses incurred by the franchisor in enforcing the agreement. The prevailing party in any enforcement action is entitled to recover all costs and expenses including attorney's fees.

3. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the North Dakota Franchise Investment Law, with respect to each such provision, are met independent of this Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met. Except as set forth in this Addendum, the terms and provisions of the Franchise Documents shall remain in full force and effect.

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, have duly executed and delivered this Addendum as of the Addendum Effective Date.

FRANCHISOR:

FRANCHISEE:

KAHALA FRANCHISING, L.L.C., an Arizona
limited liability company

FRANCHISOR:

FRANCHISEE:

KAHALA FRANCHISING, L.L.C., an Arizona
limited liability company

By: [Name, Title]

By: [Name, Title]

[SUBLESSOR:

By: [Name, Title]

By: [Name, Title]]

By: [Name, Title]

By: [Name, Title]

[SUBLESSOR:

By: [Name, Title]

By: [Name, Title]]

(FOR THE STATE OF NEW YORK)

NEW YORK LAW MODIFICATIONS

- a. If the Franchisee is required in the Franchise Documents 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 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, Section 680 through 695 and the regulations promulgated thereunder, and such acknowledgements 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. If the Franchise Documents requires that it be governed by a state's law, other than the State of New York, the choice of law provision shall not be considered to waive any rights conferred upon the Franchisee under the New York General Business Law, Article 33, Sections 680 through 695.
- c. If the Franchisee is required in the Franchise Documents to waive compliance with General Business Law or rule under the Law, such condition, stipulation or provision shall be void.

- ~~3. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the New York law applicable to the provision are met independent~~

3. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the New York law applicable to the provision are met independent of this Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met. Except as set forth above, the terms and provisions of the Franchise Documents shall remain in full force and effect.

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, have duly executed and delivered this Addendum as of the Addendum Effective Date.

FRANCHISOR:

FRANCHISEE:

KAHALA FRANCHISING, L.L.C., an Arizona
limited liability company

FRANCHISOR:

FRANCHISEE:

KAHALA FRANCHISING, L.L.C., an Arizona
limited liability company

By: [Name, Title]

By: [Name, Title]

By: [Name, Title]

By: [Name, Title]

By: [Name, Title]

By: [Name, Title]

[SUBLESSOR:

By: [Name, Title]

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(FOR THE STATE OF RHODE ISLAND)

RHODE ISLAND LAW MODIFICATIONS

- a. If the Franchise Documents restricts jurisdiction or venue to a forum other than the State of Rhode Island, the requirement is void under Rhode Island Franchise Investment Act Sec. 19-28.1-14.
- b. If the Franchise Documents requires that it be governed by a state's law, other than the State of Rhode Island, to the extent that such law conflicts with Rhode Island Franchise Investment Act it is void under Sec. 19-28.1- 14.
- c. If the Franchisee is required in the Franchise Documents 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 Act, or a rule or order under the Act, such release shall exclude claims arising under the Rhode Island Franchise Investment Act, and such acknowledgements shall be void with respect to claims under the Act.

3. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Rhode Island Franchise Investment Act applicable to the provision are met independent of this Addendum. ~~This Addendum shall have no force or effect if~~

provision are met independent of this Addendum. This Addendum shall have no force or effect if
such jurisdictional requirements are not met. Except as set forth in this Addendum, the terms and provisions of the Franchise Documents shall remain in full force and effect.

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, have duly executed and delivered this Addendum as of the Addendum Effective Date.

FRANCHISOR:

KAHALA FRANCHISING, L.L.C., an Arizona
limited liability company

By: [Name, Title]

FRANCHISEE:

By: [Name, Title]

By: [Name, Title]

FRANCHISOR:

KAHALA FRANCHISING, L.L.C., an Arizona
limited liability company

By: [Name, Title]

FRANCHISEE:

By: [Name, Title]

By: [Name, Title]

[SUBLESSOR:

_____, a[n]

By: _____]
[Name, Title]

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(FOR THE STATE OF SOUTH DAKOTA)

This ADDENDUM TO FRANCHISE DOCUMENTS (FOR THE STATE OF SOUTH DAKOTA) (“Addendum”) dated 20__ (“Addendum Effective Date”) to the [Franchise Agreement[, as amended], [Consent to Transfer and Release Agreement,] [General Release,] [Promissory Note and Security Agreement] [Sublease] [each] dated 20__, and including any and all exhibits attached thereto (individually and collectively, “Franchise Documents”) between _____ (“Franchisee”) and KAHALA FRANCHISING, L.L.C., an Arizona limited liability company (“Franchisor”) [and LEASING ENTITY, a[n] _____ (“Sublessor”)] hereby amends the Franchise Documents by the addition of the following language, which shall be considered an integral part of the Agreement. To the extent this Addendum contains terms and conditions that differ from those contained in the Franchise Documents, this Addendum shall control. The parties agree that a concept or principle covered in this Addendum shall apply and be incorporated into all other provisions of the Franchise Documents in which the concept or principle is also applicable, notwithstanding the absence of any specific cross-reference thereto. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Franchise Documents.

SOUTH DAKOTA LAW MODIFICATIONS

1. The Director of the South Dakota Division of Securities requires that certain provisions contained in franchise documents be amended to be consistent with South Dakota law, including the South Dakota Franchise Investment Law, South Dakota Codified Laws, Title 37, Chapter 37-5B, Sections 37-5B-1 through 37-5B-53 (2008). To the extent that the Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

- a. If the Franchisee is required in the Franchise Documents 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 Law, or a rule or order under the Law, such release shall exclude claims arising under the South Dakota Franchise Investment Law, and such acknowledgements shall be void with respect to claims under the Law.
- b. Covenants not to compete upon termination or expiration of the Franchise Agreement are generally unenforceable in the state of South Dakota, except in certain limited instances as provided by law. If the Agreement contains a covenant not to compete which is inconsistent with South Dakota Law, the covenant may be unenforceable.
- c. Regardless of the terms of the Franchise Agreement concerning termination, if Franchisee fails to meet performance and quality standards or fails to make any royalty payments under the Franchise Agreement, Franchisee will be afforded thirty (30) days' written notice with an opportunity to cure the default before termination.
- d. If the Franchise Documents require payment of liquidated damages that are inconsistent with South Dakota law, the liquidated damage clause may be void under SDCL 53-9-5.

If the Franchise Documents require litigation to be conducted in a forum other than the State of South Dakota, the requirement is void with respect to any cause of action otherwise enforceable under South Dakota Law.

- e. If the Franchise Documents require that it be governed by a state's law, other than the State of South Dakota, matters regarding franchise registration, employment, covenants not to compete, and other matters of local concern will be governed by the laws of the State of South Dakota; but as to contractual and all other matters, the Agreement and all provisions of this Addendum will be and remain subject to the application, construction, enforcement, interpretation under the governing law set forth in the Agreement.
- f. If the Franchise Documents require that disputed between Franchisor and Franchisee be mediated/arbitrated at a location that is outside the State of South Dakota, the mediation/arbitration will be conducted at a location mutually agreed upon by the parties. If the parties cannot agree on location for the mediation/arbitration, the location shall be determined by the mediator/arbitrator selected.
- g. Any condition, stipulation or provision in the Franchise Documents requiring Franchisee to waive compliance of a provision under the South Dakota Franchise Investment Law may be void.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the South Dakota Franchise Investment Law, with respect to each such provision, are met independent of this Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met. Except as set forth in this Addendum, the terms and provisions of the Franchise Documents shall remain in full force and effect.

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, have duly executed and delivered this Addendum as of the Addendum Effective Date.

FRANCHISOR:

KAHALA FRANCHISING, L.L.C., an Arizona
limited liability company

By: [Name, Title]

FRANCHISEE:

By: [Name, Title]

By: [Name, Title]

FRANCHISOR:

KAHALA FRANCHISING, L.L.C., an Arizona

FRANCHISEE:

limited liability company

store # doc#

2 of

2

By: [Name, Title]

By: [Name, Title]

By: [Name, Title]

[SUBLESSOR:

_____, a[n]

By: _____]
[Name, Title]

By: [Name, Title]

FRANCHISOR:

KAHALA FRANCHISING, L.L.C., an Arizona
limited liability company

By: [Name, Title]

FRANCHISEE:

By: [Name, Title]

By: [Name, Title]

By: [Name, Title]

store # doc#

[SUBLESSOR:

_____, a[n]

By: _____]
[Name, Title]

ADDENDUM TO THE FRANCHISE DOCUMENTS

(REQUIRED BY THE STATE OF WASHINGTON)

The state of Washington has a statute, RCW 19.100.180, which may supersede the Franchise Documents in your relationship with the Franchisor, including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the Franchise Documents in your relationship with the Franchisor, including the areas of termination and renewal of your Franchise.

1. If any provisions governing termination or non-renewal disclosed herein are inconsistent with Washington law, then Washington law shall apply. The applicable law reads as follows:

Section 19.100.180. Without limiting the other provisions of this chapter, the following specific rights and prohibitions shall govern the relation between the franchisor or subfranchisor and the franchisees:

(2) For the purpose of this chapter and without limiting its general application, it shall be an unfair or deceptive act or practice or an unfair method of competition and therefore unlawful and violation of this chapter for any person to:

(a) Restrict or inhibit the right of the franchisees to join an association of franchisees.

(b) Require a franchisee to purchase or lease goods or services of the franchisor or from approved sources of supply unless and to the extent that the franchisor satisfies the burden of proving that such restrictive purchasing agreements are reasonably necessary for a lawful purpose justified on business grounds, and do not substantially affect competition: PROVIDED, That this provision shall not apply to the initial inventory of the franchise. In determining whether a requirement to purchase or lease goods or services constitutes an unfair or deceptive act or practice or an unfair method of competition the courts shall be guided by the decisions of the courts of the United States interpreting and applying the anti-trust laws of the United States.

(c) Discriminate between franchisees in the charges offered or made for royalties, goods, services, equipment, rentals, advertising services, or in any other business dealing, unless and to the extent that the franchisor satisfies the burden of proving that any classification of or discrimination between franchisees is: (i) Reasonable, (ii) based on franchises granted at materially different times and such discrimination is reasonably related to such difference in time, or is based on other proper and justifiable distinctions considering the purposes of this chapter, and (iii) is not arbitrary. However, nothing in (c) of this subsection precludes negotiation of the terms and conditions of a franchise at the initiative of the franchisees.

(d) Sell, rent, or offer to sell to a franchisee any product or service for more than a fair and reasonable price.

(e) Obtain money, goods, services, anything of value, or any other benefit from any other person with whom the franchisee does business on account of such business unless such benefit is disclosed to the franchisee.

(f) If the franchise provides that the franchisee has an exclusive territory, which exclusive territory shall be specified in the franchise agreement, for the franchisor or subfranchisor to compete with the franchisee in an exclusive territory or to grant competitive franchises in the exclusive territory area previously granted to another franchisee.

(g) Require franchisee to assent to a release, assignment, novation, or waiver which would relieve any person from liability imposed by this chapter, except as otherwise permitted by RCW 19.100.220.

Impose on a franchisee by contract, rule, or regulation, whether written or oral, any standard of conduct unless the person so doing can sustain the burden of proving such to be reasonable and necessary.

(h) Refuse to renew a Franchise Agreement without fairly compensating the franchisee for the fair market value, at the time of expiration of the Franchise Agreement, or the franchisee's inventory, supplies, equipment, and furnishings purchased from the franchisor and good will, exclusive of personalized materials which have no value to the franchisor, and inventory, supplies, equipment and furnishings not reasonably required in the conduct of the franchised business: PROVIDED, that compensation need not be made to a franchisee for good will if: (i) the franchisee has been given one year's notice of nonrenewal; and (ii) the franchisor agrees in writing not to enforce any covenant which restrains the franchisee from competing with the franchisor: PROVIDED FURTHER, that a franchisor may offset against amounts owed to a franchisee under this subsection any amounts owed by such franchisee to franchisor.

(i) Terminate a franchise prior to the expiration of its term except for good cause. Good cause shall include, without limitation, the failure of the franchisee to comply with lawful material provisions of the franchise or other agreement between the franchisor and the franchisee and to cure such default after being given written notice thereof and a reasonable opportunity, which in no event need be more than thirty days, to cure such default, or if such default cannot reasonably be cured within thirty days, the failure of the franchisee to initiate within thirty days substantial and continuing action to cure such default: PROVIDED, that after three willful and material breaches of the same term of the Franchise Agreement occurring within a twelve month period, for which the franchisee has been given notice and an opportunity to cure as provided in this subsection, the franchisor may terminate the Franchise Agreement upon any subsequent month period without providing notice or opportunity cure: PROVIDED FURTHER, that a franchisor may terminate a Franchise Agreement without prior notice or opportunity to cure a default if the franchisee: (i) is adjudicated bankrupt or insolvent; (ii) makes an assignment for the benefit of creditors or similar disposition of the assets of the franchised business; (iii) voluntarily abandons the franchised business; or (iv) is convicted of or pleads guilty or no contest to a charge of violating any law relating to the franchised business. Upon termination for good cause the franchisor shall purchase from the franchisee at a fair market value at the time of termination, the franchisee's inventory and supplies, exclusive of: (i) personalized materials which have no value to the franchisor; (ii) inventory and supplies not reasonably required in the conduct of the franchised business; and (iii) if the franchisee is to retain control of the premises of the franchised business, any inventory and supplies not purchased from the franchisor or on his express requirement: PROVIDED, that a franchisor may offset against amounts owed to a franchisee under this subsection any amounts owed by such franchisee to the franchisor."

2. In any arbitration involving a franchise purchased in Washington, the arbitration site shall be either in the State of Washington or in a place mutually agreed upon at the time of the arbitration, or as determined by the arbitrator.

3. In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW shall prevail.

4. A release or waiver of rights executed by a franchisee shall not include rights under the Washington Franchise Investment Protection Act, except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act or rights or remedies under the Act, such as a right to a jury trial, may not be enforceable.

5. Transfer fees are collectable to the extent that they reflect the Franchisor's reasonable estimated or actual costs in effecting a transfer.

Each provision of this Addendum to Franchise Documents shall be effective only to the extent that the jurisdictional requirements of the Washington law applicable to the provision are met independent of this Addendum. This Addendum to Franchise Documents shall have no force or effect if such jurisdictional requirements are not met. Except as set forth in this Addendum to Franchise Documents, the terms and provisions of the Franchise Documents shall remain in full force and effect.

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, have duly executed and delivered this Addendum to the Franchise Documents on _____, 20__.

FRANCHISOR:

FRANCHISEE:

KAHALA FRANCHISING, L.L.C., an Arizona
limited liability company

FRANCHISOR:

KAHALA FRANCHISING, L.L.C., an Arizona
limited liability company

By: [Name, Title]

FRANCHISEE:

By: [Name, Title]

By: [Name, Title]

By: [Name, Title]

By: [Name, Title]

By: [Name, Title]

[SUBLESSOR:

_____, a[n]

By: _____]
[Name, Title]

(FOR THE STATE OF WISCONSIN)

WISCONSIN LAW MODIFICATIONS

- ~~2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Wisconsin law applicable to the provision are met independent~~

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Wisconsin law applicable to the provision are met independent of this Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met. Except as set forth in this Addendum, the terms and provisions of the Franchise Documents shall remain in full force and effect.

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, have duly executed and delivered this Addendum as of the Addendum Effective Date.

FRANCHISOR:

KAHALA FRANCHISING, L.L.C., an Arizona-
limited liability company

By: [Name, Title]

FRANCHISEE:

By: [Name, Title]

By: [Name, Title]

FRANCHISOR:

KAHALA FRANCHISING, L.L.C., an Arizona
limited liability company

By: [Name, Title]

FRANCHISEE:

By: [Name, Title]

By: [Name, Title]

[SUBLESSOR:

_____, a[n]

By: _____]
[Name, Title]

store # doc#

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EXHIBIT T
TO THE FRANCHISE DISCLOSURE DOCUMENT

Table of Contents – Confidential Operations Manual

~~(Operations Manual consists of both the Operations Manual and Ops Toolkit. Each document listed in the Ops Toolkit Index is one page)~~



Operations Manual

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Ops-Toolkit-Index

The documents listed below comprise the NrGize Ops Toolkit, a system of resources that provide a framework for basic day-to-day operations. The Ops Toolkit documents are designed to cover details to ensure store operations that comply with approved procedures and food safety standards. Ops Toolkit resources are maintained “real time”—that is, updates and revisions are made as they occur. The Ops Toolkit is just one of many categories of resources available for you to download from KTEC Online (<http://ktec.kahalamgmt.com>, password *nrgizome*).

Table of Contents

CONFIDENTIAL

v.021319

document category	document file code ²	document name	version date	notes
Procedure Cards (PC)	NRG-PC01	How to Wash Your Hands	050110	
	NRG-PC02	How to Wash & Sanitize Dishes	052410	
	NRG-PC03	How to Prep & Make Smoothie Mix	050110	
	NRG-PC04	How to Prep Fresh Fruit	052410	
	NRG-PC05	How to Thaw & Prep Fruit	020711	
	NRG-PC07	How to Make Juice & Chillers	020711	
	NRG-PC08	How to Make Smoothies	010213	Updated Large to Regular
	NRG-PC09	How to Meal Replacement Smoothies	020711	
	NRG-PC10	How to Make Wheat Grass & Matcha Green Tea	020711	
	NRG-PC11	How to Prep & Serve Breakfast	110511	
	NRG-PC12	How to Sample Smoothies	060810	
	NRG-PC13	How to Make Custom Protein Shakes	110511	
	NRG-PC14	How to Make Pre-Workout Drinks	110511	
	NRG-PC15	How to Make Ice Chillers	010713	
Recipe Cards (RC)	NRG-RC01	Fruit Smoothie	010213	Updated Large to Regular
	NRG-RC02	Mega Smoothies	010213	Updated Large to Regular
	NRG-RC03	Meal Replacement Shakes	010213	
	NRG-RC04	Beneficial Blends	010213	Updated Large to Regular
	NRG-RC05	Freshly Squeezed Juice	052410	
	NRG-RC06	Ice Crush Chillers	110511	
	NRG-RC07	Agave Ice Chillers	100812	
	NRG-RC08	B12 Blasts <i>optional program</i>	021913	
Stock Charts (SC)	NRG-SC01	Complete Stock Chart	050113	Add M-W & Th-Sun par levels, updated product list
Checklists (CL)	NRG-CL01	Manager Walk	050113	Updated 5pm to 4pm
	NRG-CL02	Store Opener	043013	
	NRG-CL03	Mid-Day	050113	
	NRG-CL04	Shift Walk Thru	050113	
	NRG-CL05	Store Closer	050113	
	NRG-CL06	Weekly Cleaning	050113	
	NRG-CL07	Waste Chart	050113	
Reference (REF)	NRG-REF01	Product Shelf Life & Storage	050113	
	NRG-REF02	Product Knowledge Sheets—General Menu	050113	Updated Ice Chillers categories
	NRG-REF03	Product Knowledge Sheets—NrGizers	110511	Updated regulating bowel movements to regulating digestive system
	NRG-REF04	Product Knowledge Sheets—Beneficial Blends	110511	Updated camatine to camitine
	NRG-REF05	Ingredients—Beneficial Blends	020711	
	NRG-REF06	Ingredients—Smoothie Mix	020711	
	NRG-REF07	Product Nutritionals	010213	Added Agave Ice Chillers
	NRG-REF08	Allergen Chart	010912	
MISC		Retail Guide	060113	Updated with all new items
		Best Practices Guide	080212	Updated 27 grams of protein to 35 grams of protein

*FILE NAMES: Ops Toolkit documents follow standard naming conventions that include the **version date** and a **brief description**. File names also typically contain a "document file code" that contains the brand code (NRG, indicating NrGize), a letter code indicating type of resource (e.g., PC = Procedure Card), and a 2-digit number used simply for file management. 2



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OpsToolkit-Index-v.060113

EXHIBIT U
TO THE FRANCHISE DISCLOSURE DOCUMENT

List of Franchise Owners

NRGIZE

FRANCHISE LIST AS OF NOVEMBER ~~30,2017~~30,2018

The name of the franchisee, store address and store telephone number of the stores are listed below

Company Name	Franchisee Name	Store Address	City	State	Zip Code	Telephone Number
Anlia, LLC	Fabio Rocha	2077 East Camelback Road, Inside LA Fitness	Phoenix	AZ	85016	(602) 956-0422
A&S Nutrition, LLC	Sheldon Palmer	1900 N. Scottsdale Road, Inside LA Fitness	Scottsdale	AZ	85257	(480) 947-4055
Chaipat Jaengsrivong	Chaipat Jaengsrivong	920 S. Fremont Ave., Inside LA Fitness	Alhambra	CA	91803	(626) 497-3863
Jiho Yang	Jiho Yang	201 South El Camino Real Suite A, Inside LA Fitness	Encinitas	CA	92024	(760) 634-8011
Scott Kang and Janny Kang	Scott Kang and Janny Kang	16289 Sierra Lakes Parkway, Inside LA Fitness	Fontana	CA	92335	(909) 357-4964
Idrees Muhammad Ahmed Moinuddin and Rashid Ismail	Idrees Muhammad Ahmed Moinuddin and Rashid Ismail	Irvine East, 6400 Irvine Blvd., Inside LA Fitness	Irvine	CA	92620	(626) 497-3863
James Lee	James Lee	2880 Michelle Drive, Inside LA Fitness	Irvine	CA	92606	(714) 368-3370
Hilal Mourtban	Hilal Mourtban	1275 E. Foothill Blvd., Inside 24 Hour Fitness	La Verne	CA	91750	(909) 720-5865
Duk-Joo An	Duk-Joo An	3400 Cahuenga Blvd West, Inside LA Fitness	Los Angeles	CA	90068	(323) 876-5966
Piyajit Jaengsrivong	Piyajit Jaengsrivong	355 N Rosemead, Inside LA Fitness	Pasadena	CA	91107	(626) 232-4812
Chaipat Jaengsrivong	Chaipat Jaengsrivong	8909 Washington Blvd, Inside LA Fitness	Pico Rivera	CA	90660	(626) 497-3863
Sharon and Robert Gal	Sharon and Robert Gal	28211 Newhall Ranch Road, Inside LA Fitness	Valencia	CA	91355	(562) 453-6624
SS & Banana Corporation	Sangyuen Lee	52 6th Street, Inside LA Fitness	Stamford	CT	06905	(203) 353-0304
Sodexo	Ray Torres	University of New Haven, 300 Boston Post Road	West Haven	CT	06516	(203) 932-7185
Smoothie Cafe Boynton LLC	Annika Barbosa	2290 N. Congress Avenue, Inside LA Fitness	Boynton Beach	FL	33426	(734) 637-0308
	Diego Perez	1041 S University Dr, Inside LA Fitness	Broward	FL	33324	
	Cara Schuk	1000 East Hillsboro Blvd., Inside LA Fitness	Deerfield	FL	33441	(954) 418-7977

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FRANCHISE LIST AS OF NOVEMBER ~~30,2017~~30,2018

The Body Café II, Inc.	The name of Michael Coraggio	6t3h0eWfreasntc4h9itsheeS,t rseteot,relnasiddderes LA Fitness	s and store Hialeah	telephone number of t FL 33012	he stores are listed 961 (954) 536-0768
Orbar Hollywood Café, LLC	Dany Bar	5591 Sheridan Street, Inside LA Fitness	Hollywood	FL 33021	(954) 964-2011
	Rob and Jackie Calnins	17631 N. Dale Mabry Hwy, Inside LA Fitness	Lutz	FL 33548	(813) 960-2004
Pro Team Nutrition LLC	Ana Lopera	16339 SW 88th Street, Inside LA Fitness	Miami	FL 33196	(305) 386-8676
Raquetball and Tennis Cafe	Yolas R. Correa	8555 SW 124th Avenue, Inside LA Fitness	Miami	FL 33183	(305) 274-1006
The Body Café II, Inc.	Michael Coraggio	9291 West Flagler St, Inside LA Fintess	Miami	FL 33174	(305) 554-1166
The Body Café II, Inc.	Michael Coraggio	Miami West, 14100 SW 8th Street	Miami	FL 33184	(305) 551-9633
The Body Café II, Inc.	Michael Coraggio	10055 NW 41st Street, Inside LA Fitness	Miami	FL 33178	(786) 325-0110
The Body Café II, Inc.	Michael Coraggio	Mary Brickell Village, 900 South Miami Avenue, Suite 236, Inside LA Fitness	Miami	FL 33130	(786) 325-0110
South Smoothie s Inc.	Lorena Hernandez	3301 Coral Way	Miami	FL 33145	(954) 397-6885
Energize Your Body Inc.	Anna Coraggio	1580 NE Miami Gardens Drive, Inside LA Fitness	Miami Beach	FL 33179	(786) 274-8712
Nutrition Pros "LLC"	Diego and Lidia Perez	18445 Pembroke Pines Blvd., Inside LA Fitness	Pembroke Pines	FL 33029	(954) 816-4424
Body Cafe I, Inc.	Michael Coraggio	1000 North Federal Highway, Inside LA Fitness	Pompano Beach	FL 33062	
Raquetball and Tennis Cafe, Inc.	Yolas R. Correa	10180 Forest Hill Boulevard, Inside LA Fitness	Wellington	FL 33414	(631) 987-9517
Bing & Associates LLC	Melissa Bing	3755 Carmia Drive SW, Suite 700, Inside LA Fitness	Atlanta	GA 30331	(404) 349-7575
Grainge Hill Enterprise	John Hill	3232 Peachtree Rd NW Ste A, Inside LA Fitness	Atlanta	GA 30305	(404) 581-5954

Inc.						
JBF Holdings, LLC	Priscilla Jenkins	75 5th St NW, Ste E, Inside LA Fitness Esporta	Atlanta	GA	30308	(404) 440-5180
JBF Holdings, LLC	Priscilla Jenkins	~~261 19th Street, Ste. 1140, 1618 Highway 138,~~ Inside LA Fitness	~~Atlanta~~ ~~Conyers~~	GA	~~3036330013~~	(404) 440-5180
~~JBF Holdings, LLC~~	Priscilla Jenkins	~~1618 Highway 138, 95 Foster Drive,~~ Inside LA Fitness	~~Conyers~~ ~~McDonough~~	GA	~~3001330253~~	(404) ~~440840-51801962~~

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FRANCHISE LIST AS OF NOVEMBER 30, 2017 30, 2018

	~~The name of the franchisee~~ Priscilla Jenkins	~~the franchisee's address~~ 75 5th St NW, Ste E, Inside LA Fitness	~~the franchisee's telephone number~~ 30308	~~the franchisee's state~~ GA	~~the franchisee's zip code~~ 30253	~~the franchisee's telephone number~~ (404) 440-1962
Jones Realty Managme nt LLC	Erica Jones, Greg Jones, and Karen Lynch	30273 Plymouth Road, Inside LA Fitness	Livonia	MI	48150	(734) 525-7056
Sodexo USA, Inc.	Ray Torres	Bethel University, 3900 Bethel Drive	St. Paul	MN	55112	(651) 638-6251
Rivera-Var gas	Georgina Rivera-Vargas	2100 Route 38, Inside LA Fitness	Cherry Hill	NJ	08002	(856) 503-9631
	Svetlana Kozlova	852 Route 3, Inside LA Fitness	Clifton	NJ	07012	(973) 470-8444
~~DJ's House of Protein- LLC~~	~~Giuseppe Fidirio and Irene Yacoub~~	~~341 State Route 18, Inside LA Fitness~~	~~East Brunswick~~	~~NJ~~	~~08816~~	~~(908) 616-9627~~
The Nutrition Store LLC	Jerry Katzenstein	107 Route 23, Suite 1	Franklin	NJ	07416	(973) 202-0786
Capital P Manag ement, LLC	Anthony Pantoni	536 Milltown Road, Inside LA Fitness	North Brunswick	NJ	08902	(732) 937-9076
Abs-olutel y Delicious Café & Lounge, LLC	John Piraino	495 Harmon Meadow Blvd, Inside LA Fitness	Secaucus	NJ	07094	(917) 747-8290
Jerseys Best Juice Inc.	Orazio Visone	200 New World Way, Inside LA Fitness	South Plainfield	NJ	07080	(908) 561-9958
The Nutrition Store LLC	Jerry Katzenstein	270 Sparta Ave	Sparta	NJ	07871	(973) 726-3484

Koseb Corp.	HunShil Oh	1070 Hamburg Turnpike, Inside LA Fitness	Wayne	NJ	07470	(973) 628-5223
Juiced Up Two, Inc.	Brad Turk and Ivan Guzman	1776 Eastchester Rd, Inside LA Fitness	Bronx	NY	10461	
Garden Juice Corp.	Angela Theotokas	711 Stewart Ave, Inside LA Fitness	Garden City	NY	11530	(718) 267-2800
	Kelli-Jean Neary	1867 W Ridge Road, Inside LA Fitness	Greece	NY	14626	(817) 995-2600
	Kelli-Jean Neary	100 Marketplace Dr, Inside LA Fitness	Henrietta	NY	14623	
Lake Grove Juicebar, Inc.	Elizabeth Delano	110 New Moriches Road, Inside LA Fitness	Lake Grove	NY	11755	(631) 738-1500
Vikitos Cafe, Inc.	Victor Perez	455 Park Avenue, Inside LA Fitness	~~Lindenhurst~~ Lindenhurst	NY	11757	(631) 226-6900
Lake Success Juicebar Inc.	Elizabeth Delano	1111 Marcus Avenue, Suite S100, Inside LA Fitness	New Hyde Park	NY	11042	(516) 327-2426
Radiance Foods, Inc.	Kevin MacKewice	5 Gateway Blvd, Inside LA Fitness	Patchogue	NY	11772	(631) 776-7696
Port Juice Corp.	Vasileios Panousopoulos	1064 NYS Route 112, Inside LA Fitness	Port Jefferson	NY	11776	(718) 267-2800
	<u>Kelli-Jean Neary</u>	<u>1600 East Ridge Road, Inside LA Fitness</u>	<u>Rochester</u>	<u>NY</u>	<u>14621</u>	<u>(585) 544-2888</u>

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FRANCHISE LIST AS OF NOVEMBER 30, 2017 30, 2018

	~~the name of~~ Kelli-Jean Neary	~~1600 East Ridge Road, Inside LA Fitness~~ Rochester	~~5 and store~~ Rochester	~~telephone number of the stores are listed b~~ NY	~~14621~~ 14621	~~(585) 544-2888~~ (585) 544-2888
Healthy Trend, LLC	~~The name of~~ Vasileios Panousopoulos	~~122 East Main St, Inside LA Fitness~~ 122 East Main St, Inside LA Fitness	~~s and store~~ Smithtown	~~telephone number of t~~ NY	~~11787~~ 11787	~~he stores are listed bel~~ (718) 267-2800
H Teracota Corp.	Hey Rim Jung and Young Min Kim	145 Service Road, Inside LA Fitness	Staten Island	NY	10314	(718) 370-2380
(719) Juiced Up Inc.	Brad Turk and Ivan Guzman	77 Cole Street, Building D, Space 1290, Inside LA Fitness	Yonkers	NY	11375	(914) 476-2429
~~Ay-Ray-Enterpris e, LLC~~	~~Mohammed Ali~~	~~21970 NW Imbrie Drive, Inside LA Fitness~~	~~Hillsboro~~	~~OR~~	~~97124~~	~~(503) 844-9700~~

NrGize Bridgeville, Inc.	Daniel Colaizzi	1155 Washington Pike, Inside LA Fitness	Bridgeville	PA	15017	(412) 914-0241
White-Griffith Enterprises	Marci White and Brian Griffith	3000 Lincoln Place, Route 30 & S. Greengate RD, Inside LA Fitness	~~Greensburg~~ <u>Greensburg</u>	PA	15601	(724) 392-4493
New "Juice"Tom, LLC	David Newton	4100 William Penn Highway, Suite 43, Inside LA Fitness	Monroeville	PA	15146	(724) 445-1934
Rivera-Vargas	Georgina Rivera-Vargas	701 Cathedral Road, Inside LA Fitness	~~Philadelphia~~ <u>Philadelphia</u>	PA	19128	(856) 503-9631
Capital Juice North Inc.	Daniel Colaizzi	8700 Duncan Avenue, Inside LA Fitness	Pittsburgh	PA	15237	
Smoothieicious Inc.	David Newton	6425 Penn Ave, Inside LA Fitness	Pittsburgh	PA	15206	(412) 445-1934
Baublitz Ventures LLC	Barbara Baublitz	351 Loucks Road, Inside LA Fitness	York	PA	17404	(717) 848-3710
Dishman Enterprises LLC	Brian Dishman	141 West Road to Six Flags, Inside LA Fitness	Arlington	TX	76010	(817) 275-9853
	Kyoung S. Kim and Jae K. Kim	Texins Activity Center, 13900 N Central Express Way	Dallas	TX	75243	(972) 809-8080
Bonnieview Cafe Inc.	Manal Farah and Imad Farah	114 E. Highway 67, Inside LA Fitness	~~Duncanville~~ <u>Duncanville</u>	TX	75137	(972) 283-6833
CM&S Service Company, LLC	Cristian Merlat	3838 Richmond Avenue, Inside LA Fitness Signature Club	Houston	TX	77027	(281) 797-1412
Dishman Enterprises LLC	Brian Dishman	5550 North MacArthur, Inside LA Fitness	Irving	TX	75038	(972) 753-4808
<u>Vi Dai CJRT LLC</u>	<u>Judith Turner</u>	<u>3550 South Clark Street, Inside LA Fitness</u>	<u>Arlington</u>	<u>VA</u>	<u>22202</u>	<u>(703) 418-7250</u>
<u>Elite Retail Group Inc.</u>	<u>Ritesh Patel, Zeel Desai</u>	<u>1983 H Street, Bldg W313</u>	<u>Norfolk</u>	<u>VA</u>	<u>23511</u>	<u>(757) 226-6958</u>
<u>Elite Retail Group, Inc.</u>	<u>Ritesh Patel</u>	<u>Chippenham Hospital, 7101 Jahnke Road</u>	<u>Richmond</u>	<u>VA</u>	<u>23225</u>	<u>(804) 267-3323</u>

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FRANCHISE LIST AS OF NOVEMBER 30, 2017

Vi Dai CJRT LLC	Judith Turner	315 H Street, Arlington, VA	22202	(703) 418-7250
Elite Retail Group Inc.	Ritesh Patel, Zeel Desai	1983 H Street, Bldg W313	Norfolk	VA 23511 (757) 226-6958
Elite Retail Group, Inc.	Ritesh Patel	Chippenham Hospital, 7101 Jahnke Road	Richmond	VA 23225 (804) 267-3323
Elite Retail Group Inc.	Ritesh Patel, Zeel Desai	1611 Midway Rd	Virginia Beach	VA 23549 (757) 578-5967
JYY, LLC	Joseph and Yun Kyong Yun	19800 Hwy 99, Inside LA Fitness	Lynwood	WA 98036
Quach, LLC	Trang Quack	15024 Main Street, Inside LA Fitness	Mill Creek	WA 98012 (425) 337-1025
JYY, LLC	Joseph and Yun Kyong Yun	13244 N. Aurora Ave, Inside LA Fitness	Seattle	WA 98133 (206) 714-8907
JYY, LLC	Joseph and Yun Kyong Yun	1416 NW 46th Street, Inside LA Fitness	Seattle	WA 98107 (206) 706-0400

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Nrgize Franchisees who have signed Franchise Agreements but whose stores were in the site selection process or construction had not yet begun and the stores were not open as of November 30. ~~2017~~2018

[illegible]

EXHIBIT V
TO THE FRANCHISE DISCLOSURE DOCUMENT
Financial Statements

Consolidated financial statements of MTY Franchising USA, Inc.

~~November 30, 2017~~

For the year ended November **30, 2018**

Independent ~~Auditor's Report~~ auditor's report	1—2
Consolidated statement of operations and comprehensive income ~~(loss)~~	2 3
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February 8, 2019

Independent Auditor's Report

To the ~~Board of Directors and~~
~~Stockholder~~Management of
MTY ~~Franchising USA,~~
Pranciis' U Inc.

Deloitte LLP
La Tour Deloitte 1190 Avenue des
Canadiens de Montréal Suite 500
Montréal QC H3B 0M7
Canada

Tel: 514-393-7115
Fax: 514-390-4116 www.deloitte.ca

We have audited the accompanying consolidated financial statements of ~~MTY~~MTY Franchising USA, Inc. ~~(the "Company") and its subsidiaries,~~ which comprise the consolidated balance ~~sheets~~sheets as at ~~of~~
November ~~30, 2017, 30, 2018,~~ and the related consolidated statements of operations and comprehensive
income ~~(loss), changes, change~~ in stockholder's equity and cash flows for the year then ended, ~~and the~~
~~related notes to the consolidated financial statements.~~

Management's Responsibility for the Consolidated ~~Financial~~financial Statements

Management is ~~responsi-ble~~responsible for the preparation and fair presentation of ~~these the~~
consolidated ~~financial~~financial statements in accordance with accounting principles ~~general~~generally
accepted in the United States of America; this includes the design, ~~imp-lementation, and mainten-ance of~~
~~internal~~implementation, and maintenance of internal control ~~relev-ant~~relevant to the ~~pre-pa-~~
~~ration~~preparation and fair presentation of ~~consolidated financial~~consolidated financi;l statements that
are free from material misstatement, whether due to fraud or error.

Auditor~~Auditors'~~s Responsibility

Our responsibility is to ~~exp-ress~~express an opinion on ~~these consolid-ated financial~~the consolidated
financial statements based on our ~~aud-it~~audit. We conducted our ~~aud-it~~audit in accordance with auditing
standards generally accepted in the United States of America. Those standards require that we plan and
perform the audit to obtain reasonable assurance about whether the consolidated ~~financial~~financial
statements are free ~~from~~from material ~~misstatement~~misstatement.

An audit involves performing procedures to obtain audit evidence ~~a-bout~~about the amounts and
disclosures in the consolidated financial statements. The procedures selected depend on ~~the auditor's judg-~~
~~ment~~our judgment, including the assessment of the risks of material misstatement ~~o-f~~of the consolidated
financial statements, whether due to fraud or error. In ~~making~~making those risk assessments, ~~the auditor~~
~~considers~~we consider internal control relevant to the Company's ~~preparation's~~preparation and ~~fair~~fair

presentation of the consolidated financial statements 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 the Company's internal ~~controls~~control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the ~~overall~~overall presentation of the consolidated financial statements. We believe that the audit ~~evidence~~evidence we have obtained is ~~sufficient~~sufficient and ~~appropriate~~appropriate to provide a basis for our audit opinion.

at PricewaterhouseCoopers LLP / s.r.l. / s.e.n.c.r.l.
200 René-lesque Boulevard West, Suite 200, Montréal, Québec, Canada H1Q 1Y2
Tel: +1 514 391 8100, P: +1 514 391 8100

"PwC" refers to PricewaterhouseCoopers LLP / s.r.l. / s.e.n.c.r.l., an Ontario limited liability partnership.



Opinion

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MTY Franchising USAHSA, Inc. and its subsidiaries as at of November 30, 2017, 30, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte LLP

Other Matter

February 21, 2018 The consolidated financial statements of MTY Franchising USA, Inc. and its subsidiaries as of November 30, 2017 and for the year then ended were audited by other auditors whose report, dated February 21, 2018, expressed an unmodified opinion on those statements.

~~Consolidated statement of operations and comprehensive income (loss)~~ Statement of Operations and Comprehensive Income

Year For th year ended ~~Novem ber~~November 30, 2017

		<u>2017</u>	<u>2016</u>	
		<u>2018</u>		
Revenue				
Cost and expenses				
		<u>-103,351,774</u>	<u>38,191,929</u>	
	Notes	November 30, 2018	November 30, 2017	
Revenue	18	107,121,584	103,351,774	
Cost and expenses	20			28,620,362
Operating expenses	19	88,978,164	72,530,001	
Amortization — property, plant and equipment	87	311,615	820,774	502,591
Amortization - intangible assets	45	11,351,370	10,853,392	3,524,603
Impairment charge of property, plant and equipment	7	413,175		
Impairment charge of intangible assets			783,371	
Interest charged by parent company	21B	=	3,255	43,721
Interest charged by ultimate parent company	23	21,450		
Interest charged by companies under common control	23	11,191,600	11,191,600	3,697,987
Accreted interest expense on interest-bearing holdbacks		1,215,220		
			1,434,003	528,769
Management fees charged by parent company	9	(783,371)	23	
		1,245,148	1,235,393	
		89,139,790	90,851,789	
Other income (-charges) Gain (-Loss) on disposal of property, plant and equipment	23	147,679	404,116	
		—	117,699	
		147,679	521,815	
Interest revenue from parent company				
		8,129,473	5,021,800	

Income before income taxes

Income tax expense (recovery)	21		
<u>Current</u>		<u>3,277,815</u>	<u>193,441</u>
<u>Deferred</u>		<u>(28,546,037)</u>	<u>790,882</u>
		<u>(25,288,422)</u>	<u>984,323</u>
Net income and comprehensive Income		<u>33,3B7,895</u>	<u>4,037,477</u>

The accompanying notes are an integral pan of these consolidated financial statements.

~~(261,556)~~ ~~(18,242)~~

	5,021,800	502,006
	Income tax expense (recovery)	

1

For the year ended November 30, 2018

23

1

~~Deferred~~

(1,454,759)

628.672

790.885
984.325

	4,037,477	(126,666)	Comt7ioEI
	OIT110EI	Retained	stockholder's
stock issued	stock value	earnings	equity

<u>Balance as at November 30, 2016</u>	<u>5,001</u>	<u>89,153,737</u>	<u>681,271</u>	<u>89,835,008</u>
<u>Net income and comprehensive income</u>	<u>—</u>	<u>—</u>	<u>4,037,477</u>	<u>4,037,477</u>
<u>Balance as at November 30, 2017</u>	<u>5,001</u>	<u>89,153,737</u>	<u>4,718,748</u>	<u>93,872,485</u>
<u>Net income and comprehensive income</u>	<u>—</u>	<u>—</u>	<u>33,397,865</u>	<u>33,397,895</u>
<u>Balance as at November 30, 2018</u>	<u>5,001</u>	<u>89,153,737</u>	<u>38,116,643</u>	<u>127,270,380</u>

The accompanying notes are an integral part of ~~the~~these consolidated financial statements.

MTY Franchising USA, Inc.

Consolidated statement of changes in stockholder's equity
Year ended November 30, 2017

	Common stock issued	Common stock value	Additional paid-in capital	Retained earnings	Total stockholder's equity
Balance as at November 30, 2015	-1,000	4,001	89,153,736	-99	89,153,736
Share Issuance (note 18)			897,938		897,938
Acquisition of net assets of Mucho Burrito Franchising USA, Inc. (note 4)					
Net loss					
Balance as at November 30, 2016	5,001	89,153,737			89,153,737
Net Income					
Balance as at November 30, 2017	5,001	89,153,737			89,153,737

The accompanying notes are an integral part of the consolidated financial statements.

MTY Franchising USA, Inc.

Consolidated balance sheet As at November 30, 2017

Balance Sheet As of November 30, 2018

	Notes	November 30, 2018	November 30, 2017
Assets			
Current assets			
Cash		9,968,000	38,056,627
			37,835,612

<u>Restricted cash</u>		<u>361,015</u>	<u>221,015</u>
Accounts receivable	<u>s4</u>	<u>10,502,511</u>	<u>10,317,297</u>
Inventories		<u>408,893</u>	<u>258,913</u>
Loans receivable	<u>5</u>	<u>1,272,650</u>	<u>2,001,472</u>
Prepaid expenses and deposits			<u>24</u>
			<u>77</u>
			<u>29</u>
			<u>17</u>
			<u>25</u>
			<u>77</u>
			<u>79</u>
			<u>65</u>
			<u>11</u>

Current assets

Advances to parent company
Prepaid expenses and deposits

227,316 86,209
54,074,326 40,021,588

Loans receivable Property, plant and equipment Intangible assets

2,284,355
e
s 309,514,014
3,334,102
2,893,750
321,075,777
Goodwill
ic 119,497,863
117,9

52,987

432,159,440 445,256,616
486,233,166 485,278,204

Liabilities Current liabilities
Accounts payable
Accrued liabilities
Gift card liability
Promotional funds payable
Deferred revenue and deposits
Income taxes payable
Advance from parent company
Advances from companies under common control

			4,284,626	3,212,700
			26,888,295	53,847,009
4,807,133				
11	57,391,369	5	966,084	2,284,355
	4,041,713	7	1,192,678	863,209
iz	10,730,565	8	316,607,501	309,514,014
→	12,708,759	1	157,726,565	119,497,863
			471,497,028	432,159,441
Accrued liabilities	J5		503,305,323	486,006,450
Gift card liability	10			57,391,369
Promotional funds payable	3 and 13		1,296,249	4,041,713
Deferred revenue and deposits	11	10	9,288,881	10,730,565
Income taxes payable	21		14,670,288	12,708,759
Advances from ultimate parent	6 and 23		8,158,001	—
Advance from parent company	12 and 23		1,303,699	1,068,933
Advances from companies under common control	12 and 23		243,791,660	283,801
Current portion of long-term debt	14		1,719,377	2,701,380
			56,312,249	53,300,647
Long-term loans from company under common control	13		196,850,000	199,850,000
Long-term debt	14		62,358,785	75,842,891
Deferred revenue and deposits	11		4,442,226	1,509,579
Deferred income taxes	21		83,838,692	83,838,692
			262,053,691	
			290,187,395	
			370,114,503	392,133,965
Stockholder's equity				
Common stock	16		89,153,737	89,153,737
Retained earnings			38,116,643	4,718,748
			127,270,300	93,872,485
			503,305,323	486,006,450
Accounts payable				
Current portion of long-term debt				
-15	2,701,380		4,832,883	
	102,173,886		100,111,097	

Long-term loans from company under common control	i	199,850,000	199,850,000
Long-term debt	s	4,989,224	500,511
Deferred revenue and deposits	2	1,509,579	2,480,640
Deferred income taxes	2i	83,838,692	84,500,948

	~~392,361,281~~	~~395,443,196~~
Stockholder's equity		
Common stock	~~89,153,737~~	~~89,153,737~~
Retained earnings	~~4,718,748~~	~~681,271~~
		~~89,835,008~~
	~~•55,200,255~~	~~485,278,204~~

The accompanying notes are an integral part of ~~the~~these consolidated financial statements.

Approved by the Board

_____ ~~7~~ Director

~~MTY~~ MTY Franchising USA, Inc.
Consolidated ~~statement~~ Statement of
~~cash flows~~ Cash Flows
~~For the year~~ ended November 30, ~~2017~~ 2018

	<u>November 30,</u> <u>2018</u>	<u>November 30,</u> <u>2017</u>	<u>2016</u>
Operating activities			
Net income ~~(loss)~~	<u>33,397,895</u>	<u>4,037,477</u>	
Items not affecting cash			
Amortization — ~~pro~~ <u>property</u> , plant and equipment	<u>311,815</u>	<u>020,774</u>	
Amortization — intangible assets	<u>11,351,370</u>	<u>10,8M,392</u>	
Interest on ~~a d~~ <u>advance</u> from (to) parent company	<u>21,450</u>	<u>(114,444)</u>	
Interest on advance from companies under common control			<u>11,191,600</u>

3,69

<u>Accreted interest expense on interest-bearing holdbacks</u>	<u>1,215,220</u>	<u>1,434,003</u>
<u>Gain on disposal of property, plant and equipment</u>	<u>(147,670)</u>	<u>(404,116)</u>
<u>Impairment charge of property, plant and equipment</u>	<u>413,175</u>	
<u>Impairment charge of intangible assets</u>	<u>4,414,048</u>	<u>783,371</u>
<u>Deferred income tax (recovery) expense</u>	<u>(28,548,037)</u>	<u>790,882</u>
	<u>M,622,657</u>	<u>29,392,939</u>
<u>Interest paid</u>	<u>(11,191,600)</u>	<u>(11,191,600)</u>
<u>Changes in non-cash working capital items</u>		
<u>Accounts receivable</u>	<u>56,786</u>	<u>2,346,590</u>
<u>Inventories</u>	<u>102,053</u>	<u>179,475</u>
<u>Prepaid expenses and deposits</u>	<u>(968,042)</u>	<u>1,763,250</u>
<u>Loans receivable</u>	<u>2,043,193</u>	<u>1,263,506</u>
<u>Income taxes</u>	<u>1,961,757</u>	<u>(778,952)</u>
<u>Accounts payable</u>	<u>(810,041)</u>	<u>(2,118,365)</u>

Operating activities

10,853,392
(114,444)

Accreted interest expense on interest-bearing liabilities
Promotional funds payable
Gift card liability
holdbacks
Deferred revenue and deposits
Net cash from operating activities

Investing activities

Net cash outflow on acquisitions
(Gain) loss on disposal of
plant and equipment
Additions to
intangible assets
Proceeds on

disposal of property, plant and equipment
Net cash from investing activities

(1,900,577) 3,072,871
1,434,003

{404,116}

183,311

-

528,769
412,934 (1,340,083)
3,175,780 1,079,120
(2,528,428) 1,173,267
23,979,472 24,842,018

15,242
(M,J68,112) (224,808)
(832,444) (187,500)
(fi68,344) (75,000)
515,958 1,801,384
(54,480,942) 1,314,076

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Net cash from
financing activities

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Cash, end of year

Non-cash transactions

—	19,818,500	8,500,000	(40,010)	207,949	27,874,375
(6,255,592)					
(				18,790,184	3,047,216
31,263,500)				29,266,443	899,018
(8,055,592)				—	15,320,209
				38,056,627	19,266,443
Repayment of advance from parent company				—	(1,600,000)
Repayment of long-term debt				(5,557,M9)	(6,255,592)
Net cash from financing activities				2,774,658	(7,365,910)
Net (decrease) increase in cash and restricted cash				(27,726,812)	18,790,184
Cash and restricted cash, beginning of year				38,056,627	19,266,443
Cash and restricted cash, end of year				10,326,815	38,056,627
Supplemental cash flow information				22	

MTY Franchising USA, Inc.

~~Notes~~ to the ~~consolidated financial~~ consolidated financial statements
~~November 30, 2017~~ For the year ended November 30, 2018

1. Nature of operations

~~CITY~~MTY Franchising USA, Inc. (the "~~Company~~" or "~~MTY USA~~") was incorporated on March 14, 2001. The Company develops and franchises restaurants under a multitude of different banners in the United States of America.

2. Significant accounting policies

Basis of presentation

The accounting policies of the Company are in accordance with accounting principles generally accepted in the United States of America. The Company uses the United States dollar as its functional and reporting currency. ~~On July 26, 2016, the Company acquired all of the equity ownership of Kahala Brands Ltd. having 2,879 locations under a multitude of banners operating in the United States of America, whose financial results are reported with those of the company from the date of acquisition onward. MTY USA is a wholly owned subsidiary of MTY Food Group Inc.~~

~~On October 5, 2016, the Company acquired all of the equity ownership of BF Acquisition Holdings, LLC, having 185 locations under two banners operating in the United States of America, whose financial results are reported with those of the company from the date of acquisition onward.~~

~~On November 30, 2016, the Company acquired the net assets of BSB Franchising USA Inc., having 4 locations in the United States of America, whose financial results are reported with those of the Company from the date of acquisition onward.~~

~~On November 30, 2016, the Company acquired the net assets of Mucho Burrito Franchising USA Inc, having 1 location in the United States of America, whose financial results are reported with those of the Company from the date of acquisition onward.~~

Presented below are those policies considered particularly significant:

Basis of consolidation

Our consolidated financial statements reflect the ~~financial position and operating results of the Company, including wholly owned subsidiaries and investees that we control. Investments in entities that we do not control, but have the ability to exercise significant influence over operating and financial policies, are accounted for Under the equity method. Investments in entities in which we do not have the ability to exercise significant influence are accounted for under the cost method. Intercompany transactions and balances have been eliminated.~~

~~The principal subsidiaries of the Company are as follows: BF Acquisition Holdings, LLC Kahala Brands Ltd. financial position and operating results of the Company, including wholly-owned subsidiaries and investees that we control.~~

~~100% 100%~~

~~Revenues and expenses of subsidiaries are included in the consolidated statement of operations and comprehensive income from the effective date of acquisition. The subsidiaries are consolidated from the acquisition date until the date on which the Company ceases to control them.~~

~~All intercompany transactions, balances, revenues and expenses are eliminated in full upon consolidation.~~

~~MTY Franchising USA, Inc.~~

~~Notes to the consolidated financial statements~~

2. Significant accounting policies (continued)

Business combinations between entities under common control

The Company accounts for acquired businesses using the acquisition method of accounting in accordance with FASB ASC 805, Business Combinations. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination between entities under common control are to be initially recognized by the receiving entity at the transfer date. The acquired net assets shall initially be transferred at their carrying amounts in the accounts of the transferring entity. Any excess of the purchase price over the carrying amounts in the accounts of the transferring entity is recognized as an equity transaction within the statement of changes in stockholder's equity.

The financial statements of the receiving entity shall report results of operations for the period in which the transfer occurs as though the transfer of net assets or exchange of equity interests had occurred at the beginning of the period. Results of operations for that period will thus comprise those of the previously separate entities combined from the beginning of the period to the date the transfer is completed and those of the combined operations from that date to the end of the period.

Business combinations

The Company accounts for acquired businesses using the acquisition method of accounting in accordance with FASB ASC 805, Business Combinations. The consideration transferred for the acquisition is the fair values of the assets transferred, the liabilities incurred and the equity interest issued. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill.

Goodwill

Goodwill represents the excess of cost over the net tangible assets and identifiable intangible assets of acquired businesses. Goodwill is carried at cost less accumulated impairment losses, if any.

Functional currency

The functional currency of the Company and its subsidiaries is the US dollars. The Company translates monetary assets and liabilities that are denominated in currencies other than the US dollar at the exchange rates prevailing at the end of the reporting period; non-monetary assets denominated in foreign currencies are translated using the exchange rate prevailing at the transaction date; all revenue and expense items denominated in foreign currencies are translated at the exchange rate prevailing at the transaction date. All foreign exchange gains and losses are reported in profit or loss.

MTY Franchising USA, Inc.

Notes to the consolidated financial statements

November 30, 2017

3. Significant accounting policies (continued)

Revenue recognition

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, price is fixed or determinable and collectability is reasonably assured.

(a) Revenue from franchise locations

The Company recognizes revenue in accordance with the accounting guidance of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 952-605, Franchisors, Revenue Recognition.

~~Royalties are based either on a percentage of gross sales as reported by the franchisees or on a fixed monthly fee. They are recognized on an accrual basis in accordance with the substance of the relevant agreement, provided collectability is reasonably assured and price is fixed or determinable.~~

~~Initial franchise fees are recognized when substantially all of the initial services as required by the franchise agreement have been performed. This usually occurs when the location commences operations.~~

~~Revenue from the sale of franchise locations is recognized at the time the franchisee assumes control of the franchise location.~~

~~Master license fees are recognized when the Company has performed substantially all material initial obligations under the agreement, which usually occurs when the agreement is signed, which is recorded in franchise fees, transfer fees and master license fees.~~

~~Renewal and transfer fees are recognized when substantially all applicable services required by the Company under the franchise agreement have been performed. This generally occurs when the agreement is signed. This revenue is recorded in franchise fees, transfer fees and master license fees.~~

~~Revenue from equipment sale is recognized when the risk and rewards of ownership and title pass to buyer, generally upon the shipment of the equipment. This revenue is recorded in other revenue.~~

~~The Company earns rent revenue on certain leases it holds; the Company's policy is described below.~~

~~The Company receives considerations from certain suppliers called program allowances. Program allowances are recognized as revenues as they are earned.~~

~~(b) Revenue from corporate-owned locations~~

~~Revenue from corporate-owned locations is recorded when goods are delivered to customers.~~

~~Leasing~~

~~Leases are classified as capital leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.~~

~~MTY Franchising USA, Inc.~~

~~Notes to the consolidated financial statements~~

~~November 20, 2017~~

~~2. Significant accounting policies (continued)~~

~~Leasing (continued)~~

~~The Company as lessor~~

~~Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.~~

~~The Company as lessee~~

~~Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.~~

~~In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.~~

Income taxes

The Company accounts for income taxes pursuant to ASC 740, Income Taxes ("ASC 740"). Deferred tax assets and liabilities are recorded for differences between the financial statement and tax basis of the assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is recorded for the amount of income tax payable or refundable for the period increased or decreased by the change in deferred tax assets and liabilities during the period.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

Allowance for Doubtful Accounts

Allowance for doubtful accounts is calculated based on historical experience, customer credit risk and application of the specific identification method.

Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated balance sheet at their historical costs less accumulated depreciation (buildings) and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset, including any costs directly attributable to bringing the asset to a working condition for its intended use.

Equipment, leasehold improvements, rolling stock and computer hardware are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized so as to write off the cost or valuation of assets (other than land) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each year, with the effect of any changes in estimate accounted for on a prospective basis.

MTY Franchising USA, Inc.

Notes to the consolidated financial statements

November 30, 2017

2. Significant accounting policies (continued)

Property, plant and equipment

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Depreciation is based on the following terms:

Equipment	Straight line	Leasehold improvements	Straight line	Rolling stock	Straight line

-3 to 10 years Term of the lease 5 to 7 years

3 to 7 years

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses, if applicable. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful lives and amortization methods are reviewed at the end of each year, with the effect of any

changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses, if applicable.

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets having a finite life acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, if applicable, on the same basis as intangible assets that are acquired separately. Intangible assets having an indefinite life are not amortized and are therefore carried at cost less accumulated impairment losses, if applicable.

Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

The Company currently carries the following intangible assets in its books:

Franchise rights

The franchise rights acquired through business combinations are recognized at the fair value of the estimated future cash inflows related to the acquisition of franchises. The franchise rights are generally amortized on a straight-line basis over the term of the agreements which typically range between 10 to 20 years.

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MTB Franchising USA, Inc.

Notes to the consolidated financial statements

November 30, 2017

2. Significant accounting policies (continued)

Trademarks

Trademarks acquired through business combinations are recognized at their fair value at the time of the acquisition and are not amortized. Trademarks are determined to have an indefinite useful life based on their strong brand recognition and their ability to generate revenue through changing economic conditions with no foreseeable time limit.

Impairment of long-lived assets other than goodwill

The Company continually reviews whether events or circumstances subsequent to the acquisition of any long-lived assets, including intangible assets with finite useful lives, have occurred that indicate the remaining estimated useful lives of those assets may warrant revision or that the remaining balance of those assets may not be recoverable. If events and circumstances indicate that the long-lived assets should be reviewed for possible impairment, the Company uses projections to assess whether future cash flows on an undiscounted basis related to the assets exceeds the recorded carrying amount of those assets to determine if an asset is impaired. Should an impairment be identified, a loss would be recorded to the extent that the carrying value of the impaired assets exceeds their fair values as determined by valuation techniques appropriate in the circumstances that could include the use of similar cash flow projections on a discounted basis.

Impairment of goodwill

Goodwill is tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis (August 31 for the Company) and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. Fair value is determined using a discounted cash flow methodology with a risk adjusted weighted average cost of capital.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand and short-term investments, if any, with maturities upon acquisition of generally three months or less or that are redeemable at any time at full value and for which the risk of a change in value is not significant. As at November 30, 2017 cash and cash equivalents included \$221,015 in restricted cash (2016 - \$221,015), required as part of guarantees on certain lease commitments.

Inventories

Inventories are measured at the lower of cost and market value. Costs of inventories are determined on a first-in-first-out basis and include acquisition costs, conversion costs and other costs incurred to bring inventories to their present location and condition. The cost of finished goods includes a pro-rata share of production overhead based on normal production capacity.

Market value represents the current replacement cost, provided that the cost does not exceed the net realizable value or is not less than the net realizable value reduced by a normal profit margin.

Contingencies

Litigation, disputes and closed stores

Contingencies for the expected cost of litigation, disputes and the cost of settling leases for closed stores are recognized when it becomes probable the Company will be required to settle the obligation, at management's best estimate of the expenditure required to settle the Company's obligation.

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MTY Franchising USA, Inc.

Notes to the consolidated financial statements

November 30, 2017

2. Significant accounting policies (continued)

Contingencies (continued)

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognized and the amount initially recognized less cumulative amortization recognized, if any.

Financial instruments

The Company's financial instruments consist of cash, accounts receivable, loans receivable, deposits, advances to ultimate parent, accounts payable, accrued liabilities, promotional funds payable, advances from parent company, advances from companies under common control, long-term loans from company under common control and long-term debt. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value for cash, accounts receivable, loans receivable, deposits, advances to ultimate parent, accounts payable, accrued liabilities, promotional funds payable, advance from parent company and advances from companies under common control

approximates their carrying values due to their immediate or short-term maturities, unless otherwise noted. Long-term loans from company under common control and long-term debt are measured at amortized cost using the effective interest method.

Gift card and loyalty program liabilities

Gift card liability represents liabilities related to unused balances on reloadable payment cards. Loyalty program liabilities represent the dollar value of the loyalty points earned and unused by customers.

The Company's various franchised and corporate owned locations, in addition to third party companies, set gift cards to be redeemed at the Company's corporate and franchised locations for food and beverages only. Proceeds from the sale of gift cards are included in gift card liability until redeemed by the gift cardholder as a method of payment for food and beverage purchases.

Effective September 1, 2017, the Company refined its method to determine breakage income recognized for Cold Stone Creamery gift cards that were not acquired as part of the business acquisition. Previously, the Company would recognize breakage revenue in its consolidated statements of income based on historical redemption patterns, when it was established that these gift cards had a remote likelihood of being redeemed.

Under the refined method, the Company recognizes breakage on the Cold Stone Creamery gift cards in its consolidated statements of income based on historical load and redemption patterns. The redemption rate was established following an analysis performed over 10 years of the redemption patterns as well as expected future trends. The expected breakage is then recognized into income on a pro-rata basis as gift cards are redeemed.

The Company has determined that this accounting change represents a change in accounting estimate effected by a change in accounting principle. The refinement resulted in a cumulative adjustment to increase previously recorded breakage income in 2016 by \$236,184. This adjustment has been recorded in the consolidated statements of income for the year ended November 30, 2017. This change was accounted for prospectively as a change in accounting estimate.

For all other gift card programs, the Company estimates based on historical redemption patterns, the portion of gift cards that have a remote likelihood of being redeemed and recognizes the amount in its consolidated statements of income, except for those gift cards liabilities assumed upon a business acquisition.

MTY Franchising USA, Inc.

Notes to the consolidated financial statements

November 30, 2017

2. Significant accounting policies (continued)

Gift card and loyalty program liabilities (continued)

Due to the inherent nature of gift cards, it is not possible for the Company to determine what portion of the gift card liability related to gift cards will be redeemed in the next 12 months and, therefore, the entire unredeemed gift card liability is considered to be a current liability.

Promotional funds

Pursuant to the franchise agreements, franchisees must pay a fee to the promotional fund. These amounts are collected by the Company in its capacity as agent and must be used for promotional and advertising purposes, since the amounts are set aside to promote the respective banners for the franchisees' benefit. The fees collected by the Company for the promotional fund are not recorded in the Company's statement of operations and comprehensive income, but as operations in the accounts payable to the promotional fund. The payable is presented net of any amounts spent from the promotional fund.

Cash held pursuant to the promotional funds received are classified as unrestricted cash as there are no legal restrictions on the use of these funds; however, the Company intends to use these funds solely to support the promotional funds rather than to fund its ongoing operations. Promotion funds are currently in a net liability position amounting to \$4,041,713 (2016 net liability of 53,300,647).

Subsequent events

Subsequent events were evaluated through the date that the consolidated financial statements were issued, which was February 21, 2018.

Adoption of New Standards

ASU 2015-17—Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes (“ASU 2015-17”)

During 2015, the Company adopted ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes (“ASU 2015-17”) on a prospective basis; therefore, all deferred tax assets and liabilities have been classified as noncurrent in the accompanying Consolidated Balance Sheet.

ASU 2015-16—Simplifying the Accounting for the Measurement Period Adjustments in Business Combinations (“ASU 2015-16”)

Effective December 1, 2016, the Company adopted ASU 2015-16 on a prospective basis. The new standard requires that an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The adoption of the pronouncement did not have a material impact on the Company’s consolidated financial statements.

ASU 2015-03—Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”)

Effective December 1, 2016, the Company adopted ASU 2015-03. The adoption of this standard did not have a material impact on the Company’s consolidated financial statements. The new standard requires debt issuance costs related to a recognized debt liability to be presented in the Consolidated Statements of Financial Position as a direct deduction from the carrying amount of that debt liability, as consistent with the presentation of debt discounts or premiums. ASU 2015-15 was adopted in conjunction with the above standard and did not have a material impact on the Company’s consolidated financial statements. ASU 2015-15 clarifies the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements, whereby an entity may defer debt issuance costs as an asset and subsequently amortize them over the term of the line-of-credit.

MTY Franchising USA, Inc.

Notes to the consolidated financial statements

November 20, 2017

2. Significant accounting policies (continued)

Recently Issued Accounting Pronouncements

ASU 2017-01—Clarifying the definition of a business (“ASU 2017-01”)

The FASB issued ASU 2017-01—*Clarifying the definition of a business*, the amendment clarifies the definition of a business with objective guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of businesses. The ASU will be effective for the Company for the fiscal years beginning after December 1, 2019. The Company is in the process of evaluating the impact of the standard on its financial statements.

ASU 2017-04—Intangibles—Goodwill and other—topic 350 simplifying the test for goodwill impairment (“ASU 2017-04”)

In January 2017, the FASB issued guidance that simplifies the measurement of goodwill impairment. Under this new guidance, an impairment charge, if triggered, is calculated as the difference between a reporting unit’s carrying value and fair value, but it is limited to the carrying value of goodwill. The ASU will be effective for the Company for the fiscal years beginning after December 1, 2021. Early adoption is permitted. The Company is in the process of evaluating the impact of the standard on its financial statements.

ASU 2016-16—Income taxes (topic 740) Intra-entity transfer of assets other than inventory (“ASU 2016-06”)

In October 2016, the FASB issued guidance on the accounting for income tax effects of intercompany sales or transfers of assets other than inventory. The guidance requires entities to recognize the

income tax impact of an intra-entity sale or transfer of an asset other than inventory when the sale or transfer occurs, rather than when the asset has been sold to an outside party. ASU will be effective for the Company for the fiscal years beginning after December 1, 2020. Early adoption is permitted. The Company is in the process of evaluating the impact of the standard on its financial statements.

ASU 2016-15—Statement of Cash Flows—Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”)

In August 2016, the FASB issued ASU 2016-15 “*Statement of Cash Flows—Classification of Certain Cash Receipts and Cash Payments*” to address diversity in practice on certain specific cash flow issues. The ASU will be effective for the Company for the fiscal years beginning after December 1, 2018. Early adoption is permitted. The Company is in the process of evaluating the impact of the standard on its financial statements.

ASU 2016-04—Liabilities—Extinguishment of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products (“ASU 2016-04”)

In March 2016, the FASB issued ASU 2016-04, *Liabilities—Extinguishment of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products*. ASU 2016-04 aligns recognition of the financial liabilities related to prepaid stored-value products (for example, gift cards) with Topic 606, *Revenues from Contracts with Customers*, for non-financial liabilities. In general, these liabilities may be extinguished proportionately in earnings as redemptions occur, or when redemption is remote if issuers are not entitled to the unredeemed stored value. ASU 2016-04 is effective for fiscal years, and interim periods within those years, beginning after December 1, 2018, and early adoption is permitted. The Company is in the process of evaluating the impact of the standard on its financial statements.

MTY Franchising USA, Inc.

Notes to the consolidated financial statements

November 30, 2017

2. Significant accounting policies (continued) Recently

Issued Accounting Pronouncements (continued) ASU

2016-02—Leases (“ASU 2016-02”)

In February 2016, the FASB issued ASU 2016-02, *Leases*. The new standard establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement.

The new standard is effective for fiscal years beginning after December 1, 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is in the process of evaluating the impact of the standard on its financial statements.

ASU 2016-01—Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”)

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which among other changes in accounting and disclosure requirements, replaces the cost method of accounting for non-marketable equity securities with a model for recognizing impairments and observable price changes, and also eliminates the available-for-sale classification for marketable equity securities. Under the new guidance, other than when the consolidation or equity method of accounting is utilized, changes in the fair value of equity securities are to be recognized in earnings.

The amendments in this Update are effective for fiscal years beginning after December 15, 2017. For all other entities including not-for-profit entities and employee benefit plans within the scope of Topics 960 through 965 on plan accounting, the amendments in this Update are effective for fiscal years beginning after December 1, 2019, and interim periods within fiscal years beginning after December 1, 2020. The Company is in the process of evaluating the impact of the standard on its consolidated financial statements.

ASU 2015-14, Revenue From Contracts With Customers (topic 606), Deferral of the Effective Date (“ASU 2015-14”)

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in applying such process, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP.

As a result of the issuance of ASU 2015-14, ASU 2014-09 is effective for annual periods beginning after December 15, 2019, and interim periods within annual reporting periods beginning after December 1, 2020, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact of its pending adoption of ASU 2014-09 on its consolidated financial statements and has not yet determined the method by which they will adopt the standard.

MTY Franchising USA, Inc.

Notes to the consolidated financial statements

November 30, 2017

3. Related party transactions

The Company has transactions in the normal course of business with its parent company and companies under common control. These transactions were in the normal course of business and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

4. Business acquisitions

(a) 2016 acquisition

On November 30, 2016, the Company acquired the net assets of BSO Franchising USA, Inc., a company under common control, for a total consideration of \$112,044 included in accrued liabilities as at November 30, 2017.

Consideration paid:

Purchase price	199,292
Net obligations assumed	(87,248)
Net payable on acquisition	112,044

The purchase price allocation is as follows:

Net assets acquired:

Franchise rights	17,300
Goodwill	181,992
	199,292
Current liabilities Promotional funds payable	11,029
Deferred revenue	76,219
	87,248
Net purchase price	112,044

~~Total expenses incurred related to acquisition costs amounted to \$nil.~~

~~(b) 2016 acquisition~~

~~On November 30, 2016, the Company acquired the franchise rights of fluchio Burrito Franchising USA, Inc, a company under common control, for a total consideration of \$90,000, included in accrued liabilities as at November 30, 2017. The transaction was accounted for as an equity transaction.~~

~~MTY Franchising USA, Inc.~~

~~Notes to the consolidated financial statements~~

~~November 30, 2017~~

~~4. Business acquisitions (continued)~~

~~(c) 2016 acquisition~~

~~On October 5, 2016, the Company acquired the units of BF Acquisition Holdings, LLC, for a total consideration of \$27,000,000. The purpose of the transaction was to further solidify the Company's presence in the United States.~~

~~Consideration paid: Purchase price~~

~~Working capital adjustment Net cash outflow **~~

~~!* Includes \$2,700,000 in holdbacks paid to escrow. The purchase price allocation is as follows:~~

~~Net assets acquired: Current assets~~

~~Cash~~

~~Accounts receivable Promotional funds receivable~~

~~Inventories~~

~~Loans receivable~~

~~Prepaid expenses and deposits~~

~~Property, plant and equipment Franchise rights~~

~~Trademarks~~

~~Goodwill !*~~

~~Current liabilities Accounts payable Accrued liabilities~~

~~Unredeemed gift card liability Deferred revenue~~

~~Long-term debt Net purchase price~~

~~** Goodwill is deductible for tax purposes~~

~~Total expenses incurred related to acquisition costs amounted to \$nil.~~

26,952,852

47,148

27,000,000

1,089,313
964,271
291,162
131,481
1,289,595
<u>360,791</u>
4,126,613
1,762,000
2,400,630
16,462,529
<u>6,327,693</u>
31,079,465
1,092,668
405,921
1,871,431
<u>683,326</u>
4,053,346
<u>26,119</u>
<u>27,000,000</u>

MTY Franchising USA, Inc.
Notes to the consolidated financial statements
November 30, 2017

4. Business acquisitions (continued)

(d) 2016 acquisition (continued)

On July 26, 2016, the Company acquired the shares of Kahala Brands Ltd. for a total consideration of \$259,174,785, including \$1,818,500 cash paid by MTY Franchising USA, Inc.

The purpose of the transaction was to solidify its presence in the United States as this is expected to become one of the growth platforms.

In May 2017, the total purchase consideration was adjusted to \$258,599,985; in order to reflect measurement period adjustments. A net decrease in consideration of \$574,800 due to the receipt of final working capital adjustments and an amendment to the repayment terms of the holdback payable.

The holdback payable amendment was signed in April 2017 and affected only a portion of the holdback; originally \$25,000,000 of the holdback was to be repaid in equal installments over a three-year period commencing July 2017. This holdback will now be repaid over four installments amounting to \$6,150,000 repayable in both July 2017 and 2018 and \$6,200,000 in July 2019 and \$6,500,000 in August of 2020. The first installment has been paid in July 2017. The adjustment below reflects the change in the discounted amount for the changed repayment terms. The discount rate remains unchanged.

The resulting measurement period adjustments in total purchase consideration are highlighted below:

	Measurement period adjustments recorded in	Final
Consideration	fiscal 2017	Consideration

Consideration paid:

Total cash consideration Less: Indebtedness

Less: Working capital adjustment

Less: Holdbacks Total cash disbursed

		240,000,000		240,000,000		
		(26,365,758)		(26,365,758)		
	(22,864,130)	224,808	(22,639,322)			
	190,770,112	224,808	190,994,920			
	(30,000,000)		(30,000,000)	160,770,112	224,808	160,994,920

Sources of financing

Paid by PITY Franchising USA

Funds provided by ultimate parent company

	1,818,500	2,061,791				
	224,808	2,043,308				
		2,061,791				
	Funds provided through advances		156,889,821		156,889,821	
	160,770,112					
	-224,808	160,994,920				

Total merger consideration paid Cash

Loan payable to company under

	1,818,500					
	224,808	2,043,308				
	common control		181,850,000			
	Shares issued to parent company		80,653,736			
		181,850,000				
		80,653,736				
	Less: discount on holdbacks		(3,328,951)	(799,608)	(4,228,559)	
	Total cash, liabilities and equity consideration	260,993,285	(574,800)	260,418,485	Less:	
	Cash received from parent company		(1,818,500)			
		(1,818,500)				
	Total merger consideration	259,174,785	(574,800)	258,599,985		

Notes to the consolidated financial statements

November 30, 2017

4. Business acquisitions (continued)

(d) 2016 acquisition (continued)

The final purchase price allocation is as follows:

	Measurement		period Purchase	adjustments	Price recorded in	

Allocation fiscale 2017 Allocation

	2019	2018
Cash	14,230,896	8,987,334
Accounts receivable	286,379	1,419,096
Inventory		
Loans receivable		

~~Loans receivable~~

174,103,832
 --- 2,303,384
 --- 1,718,304
 --- 129,758,834
 --- 174,103,832

Current liabilities Accounts payable Accrued liabilities
Promotional funds payable Notes payable
Income tax liability
Unredeemed gift card liability

~~8,318,520~~

~~1,424,095~~ ~~26,365,758~~
~~2,848,010~~ ~~51,882,069~~

1,115,845	9,434,365
—	241,000
2,081,149	3,505,244
—	26,365,758
—	2,848,010
—	51,882,069

99,600,109

~~-3,196,994~~ ~~135,786~~

Deferred revenue

~~-2,171,247~~

~~2,171,247~~

Deferred income taxes

Net purchase price

~~-85,868,869 (1,452,797) 84,416,072~~

~~-187,640,225 1,744,197 189,384,422~~

~~-259,174,785 (574,800) 258,599,985~~

*" Goodwill is partially deductible for tax purposes

The cumulative impact of measurement period adjustments recorded in the consolidated Statement of Operations and Comprehensive Income:

Accreted interest expense on interest-bearing holdbacks

~~34,443~~

Total expenses incurred related to acquisition costs amounted to approximately \$775,858.

MTY Franchising USA, Inc.

Notes to the consolidated financial statements

November 30, 2017

5. Accounts receivable

The following table provides details on trade accounts receivable not past due, past due and the related allowance for doubtful accounts:

	2017	2016
Total accounts receivable	12,646,414	14,166,401
Less : Allowance for doubtful accounts		1,265,035
Total accounts receivable, net	10,317,297	12,901,366
	2017	2016
Of which:		
Not past due	6,889,406	10,640,151
Past due for more than one day but for no more than 30 days	871,393	279,895
Past due for more than 31 days but for no more than 60 days	696,995	485,180
Past due for more than 61 days	1,859,503	1,496,140
Total accounts receivable, net	10,317,297	12,901,366
	2017	2016
Allowance for doubtful accounts, beginning of year	1,265,035	16,936
Additions	954,596	179,641
Additions through acquisition		1,424,871

	Reversals	228,593	(275,113)
Write-off			
	Allowance for doubtful accounts, end of year		
	<u>(119,107)</u>	<u>(81,300)</u>	
	<u>2,329,117</u>	<u>1,265,035</u>	

The Company has recognized an allowance for doubtful accounts based on past experience, outlet-specific situation, counterparty's current financial situation and age of the receivables.

Trade receivables disclosed above include amounts that are past due at the end of the reporting period and for which the Company has not recognized an allowance for doubtful accounts because there was no significant change in the credit quality of the counterparty and the amounts are therefore considered recoverable. The Company does not hold any collateral or other credit enhancements over these balances nor does it have the legal right of offset against any amounts owed by the Company to the counterparty.

The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

MTY Franchising USA, Inc.

Notes to the consolidated financial statements

November 30, 2017

6. Loans receivable

Loans receivable generally result from the sales of franchises and of various advances to certain franchisees and consist of the following:

	2017	2016
Loans receivable bearing interest between 0% and 9% per annum, receivable in monthly instalments of \$209,704 in aggregate, including principal and interest, ending in 2026	4,285,827	5,687,333
Current portion		
<u>(2,001,472)</u>	<u>(2,353,231)</u>	
<u>2,184,355</u>	<u>3,334,102</u>	

The total allowance for uncollectable amounts on loans receivable amount to \$904,999 as at November 30, 2017 (2016 - \$666,212).

The capital repayments in subsequent years will be:

2018	2,001,472
2019	488,186
2020	483,960
2021	264,654
2022	233,711
Thereafter	<u>813,844</u>
	<u>4,285,827</u>

7. Advances to ultimate parent company

The advances to ultimate parent company is non-interest bearing and due on demand with no specified repayment terms.

8. Property, plant and equipment

Rolling computer Cost Equipment	Leasehold	Stock	Hardware	Total
Balance at November 30, 2015	119,836	101,407	235,000	456,243
Additions through business combinations	221,243	1,349	54,500	277,092
Dispositions	(116,381)			(116,381)
Balance at November 30, 2016	224,698	102,756	289,500	616,954
Additions	155,552	2,503,200	796,583	3,455,335
Dispositions	(1,142,822)	(860,355)	(19,883)	(2,123,060)
Balance at November 30, 2017	237,428	2,503,200	863,198	5,603,826

MTY Franchising USA, Inc.

Notes to the consolidated financial statements

November 30, 2017

8. Property, plant and equipment (continued)

Accumulated amortization	Equipment	Leasehold	Rolling Stock	Computer Hardware	Total
Balance at November 30, 2015	25,736	24,628	—	—	50,364
Amortization Expense	364,771	117,929	5,816	14,075	502,591
Dispositions	(11,612)	—	(1,667)	—	(13,279)
Balance at November 30, 2016	378,895	142,557	4,149	14,075	539,676
Amortization Expense	643,620	125,344	—	17,711	826,785
Dispositions	(388,325)	(260,105)	—	(7,361)	(655,791)
Balance at November 30, 2017	634,190	107,796	20,267	24,425	786,678

9

Carrying Amounts	Equipment	Leasehold	Rolling Stock	Computer Hardware	Total
November 30, 2016	1,972,130	755,433	62,532	103,655	2,893,750
November 30, 2017	1,703,675	29,811	51,434	68,289	1,853,209

Intangible assets

Franchise

COST

— rights — Trademark
 Total

Balance at November 30, 2015 Additions through business

-529,763

-1,459,361

-1,989,124

combinations

Balance at November 30, 2016 Additions

Impairment

Balance at November 30, 2017

Accumulated amortization

	— 132,176,764 — 190,566,361 — 322,743,125 —
	132,706,527 192,025,722 324,732,249
75,000	— 75,000
(210,204)	(573,167) (783,371)
	132,503,823 191,452,555 324,023,878

Franchise

— rights — Trademark — Total

Balance at November 30, 2015

-131,869

-131,869

Amortization for the period — 3,524,603 — 3,524,603

Balance at November 30, 2016

-3,656,472 — 3,656,472

Amortization expense Balance at November 30, 2017

— 10,853,392 — 10,853,392

— 14,509,864 — 14,509,864

MTY Franchising USA, Inc.

Notes to the consolidated financial statements

November 30, 2017

9. Intangible assets (continued)

Carrying amounts

November 30, 2016

November 30, 2017

Franchise

rights

Trademark

Total

129,050,055 192,025,722 321,075,777

118,061,459 191,452,555 309,514,014

For the year ended November 30, 2017, the Company recorded impairment charges of \$783,371 related to three of its reporting units following a decline in the performance of the related brand. The total impairment amounted to \$210,204 and \$573,167 for the franchise rights and trademark respectively. Impairment charges were based on the amount by which the carrying values of the assets exceeded fair value, determined using expected discounted future cash flows for trademarks and multi-period excess earnings for franchise rights.

†0.

Goodwill

The changes in the carrying amount of goodwill are as follows:

2017

2016

Balance, beginning of year

Additional amounts recognized from

117,952,987

253,267

business acquisitions (note 4) Balance, end of year



Gift card liability

Gift card Liability, beginning of year Activations during the period Redemptions during the period Gift card Liability acquired (note 4) Deferred program fees and other Gift card Breakage recorded Gift card Liability, end of year

1,544,876 117,699,720

119,497,863 117,952,987

	<u>2017</u>	<u>2016</u>
	56,312,249	
	30,225,167	11,027,955
	(23,921,232)	(6,504,267)
53,753,500	(461,278)	(725,050)
	<u>(1,763,537)</u>	<u>(1,239,889)</u>
	<u>57,391,369</u>	<u>56,312,249</u>

Page 2a

MTY Franchising USA, Inc.

Notes to the consolidated financial statements

November 30, 2017

13. Deferred revenue and deposits

	<u>2017</u>	<u>2016</u>
Franchise fee deposits		
Unearned rent		
-5,075,252		
<u>2,020,033</u>		
-2,903,152		
2,554,588		
Supplier contributions and other allowances		
Current portion		
	<u>4,544,239</u>	<u>5,609,137</u>
11,066,877		
	<u>(10,730,565)</u>	<u>(8,586,237)</u>
	<u>1,509,579</u>	<u>2,480,640</u>

13. Advances from parent company and companies under common control

The advances from parent company and companies under common control are non-interest bearing

and due on demand with no specified repayment terms.

14. Long-term loans from company under common control

	2017	2016
Interest bearing loan on acquisition of Kahala Brands Ltd. bearing interest at 5.6%, repayable by July 2023!*		
Interest bearing loan on acquisition of Br Acquisition Holdings LLC, bearing interest at 5.6%, repayable by October 2023*!*		
Balance, end of year		
-	181,850,000	181,850,000
	18,000,000	18,000,000
	199,850,000	199,850,000

*! The loans are subject to a maximum debt to EBITDA ratio of 5.50 to 1 starting on December 1, 2016 and a minimum EBITDA interest coverage ratio of 2.00 to 1 to be calculated in conjunction with interest payments based on the last four rolling quarters.

The company is currently in breach of its debt covenants on its long terms loans. The company has obtained a waiver from its creditors that waiver valid until February 28, 2019.

15. Long-term debt

Non-interest bearing debt payable during 2017		
Non-interest bearing holdbacks acquired on acquisition of Kahala Brands Ltd. repayable between July 2018 and August 2020		
-	2017	2016
	127,266	
	7,690,504	13,206,128
	7,690,504	13,333,394
	(2,701,380)	(4,832,883)
	4,989,124	8,500,511
	£1TY Franchising USA, Inc.	

Notes to the consolidated financial statements

November 30, 2017

16. Contingencies

The contingencies for litigation and disputes represent management's best estimate of the outcome of litigations and disputes that are on-going at the date of the statement of financial position. This contingency is made of multiple items; the timing of the settlement of this contingency is unknown given its nature, as the Company does not control the litigation timelines.

The payables related to closed stores mainly represent amounts that are expected to be

disbursed to exit leases of underperforming or closed stores. The negotiations with the various stakeholders are typically short in duration and are expected to be settled within a few months following the recognition of the contingencies. The provisions for litigations, disputes and closed stores are recorded in accrued liabilities.

	2017	2016
Provision for litigation and disputes and closed stores,		
beginning balance	1,024,500	—
Reversals	(303,103)	(283,000)
Acquired through our business acquisitions	91,871	1,016,000
Amounts used	(421,691)	(40,037)
Additions		
Provision for litigation and disputes and closed stores, ending balance		
	<u>1,427,769</u>	<u>331,537</u>
	<u>1,819,346</u>	<u>1,024,500</u>

÷ (1)

Common Stock

	2017		2016	
Shares	issued	Total	issued	Total
Balance, beginning of year				
Share issuance related to Kahala Brands Inc. acquisition				
Share issuance related to BF Acquisition Holdings				
	5,000	89,153,737		
	1,000			
	4,000	80,653,736		
LLC acquisition				
Balance, end of year				
	1	8,500,000		
	5,001	89,153,737	5,001	89,153,737

On July 25, 2016, the Company issued 1,700 common shares to its parent company in exchange for its parent company assuming debt of \$8,920,112 related to the acquisition of Kahala Brands Inc. Further to this, an additional 2,300 shares were issued as part of the same transaction in exchange for its parent company assuming an additional \$71,733,624 in debt.

On October 4, 2016, MTY Franchising USA, Inc. issued 1 common share to its parent company in exchange for \$8,500,000. This issuance was done as part of the financing plan for the acquisition of BF Acquisition Holdings LLC.

h'ITY Franchising USA, Inc.

File to the consolidated financial statements

18. Financial instruments

In the normal course of business, the Company uses various financial instruments which by their nature involve risk, including market risk and the credit risk of non-performance by counterparties. These financial instruments are subject to normal credit standards, financial controls, risk management as well as monitoring procedures.

Fair value of recognized financial instruments

Following is a table which sets out the fair values of recognized financial instruments using the valuation methods and assumptions described below:

	2017	2016		
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash	38,056,627	38,056,627	19,266,443	19,266,443
Loans receivable	4,285,827		5,687,333	5,687,333
Deposits			1,040,108	1,040,108
Advances to ultimate parent	227,316	227,316	86,209	86,209
Financial liabilities				
Accrued liabilities		5,140,046	5,140,046	5,140,046
Promotional funds payable	4,041,713	4,041,713	3,300,647	3,300,647
Advances from parent company	1,296,249	1,296,249	2,587,853	2,587,853
Advances from companies under common control	283,801	283,801	75,852	75,852
Long term loans from company under common control	199,850,000	199,850,000	199,850,000	199,850,000
Long term debt	7,690,504	7,690,504	13,333,394	13,333,394

Determination of fair value

The following methods and assumptions were used to estimate the fair values of each class of financial instruments:

Cash, loans receivable, deposit, accrued liabilities, promotional funds payable, advances from companies under common control, Advances to ultimate parent, advances from parent company—The carrying amounts approximate fair values due to the short maturity of these financial instruments.

Long term loans from company under common control—The fair value is approximately equal to the carrying amount as they were obtained at market rates during the current year.

Long term debt—The fair value of long term debt is determined using the present value of future cash flows under current financing agreements based on the Company's current estimated borrowing rate for a similar debt.

MTY Franchising USA, Inc.

Notes to the consolidated financial statements

November 30, 2017

18. Financial instruments (continued)

Risk management policies

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at November 30, 2017.

Credit risk

The Company's credit risk is primarily attributable to its trade receivables, loans receivable and deposits. For accounts receivable and loans receivable, the amounts disclosed on the balance sheet are net of allowances for bad debts, estimated by the Company's management based on past experience and counterparty specific circumstances. The Company believes that the credit risk of accounts receivable is limited for the following reasons:

- The Company's broad client base is spread mostly across the USA, which limits the concentration of credit risk.
- The Company accounts for a specific bad debt provisions when management considers that the expected recovery is less than the actual account receivable.

The credit risk on cash is limited because the Company invests its excess liquidity in high quality financial instruments and with credit worthy counterparties.

The credit risk on deposits is also limited as these are mostly with well established and credit worthy companies.

foreign exchange risk

Foreign exchange risk is the Company's exposure to decreases or increases in financial instrument values caused by fluctuations in exchange rates. The Company's exposure to foreign exchange risk mainly comes from sales denominated in foreign currencies. The Company uses the U.S. dollar as functional currency. Since almost all transactions are conducted in U.S. currency, the Company's risk to fluctuations in foreign exchange rates are deemed to have minimal risk.

Interest rate risk

Interest rate risk is the Company's exposure to increases and decreases in financial instrument values caused by the fluctuation in interest rates. The Company has limited exposure to interest rate risk as its long term loans from company under common control and parent company as well as its long term debt have fixed interest rates.

Liquidity risk

Liquidity risk refers to the possibility of the Company not being able to meet its financial obligations when they become due. The Company has contractual and fiscal obligations as well as financial liabilities and is therefore exposed to liquidity risk. Such risk can result, for example, from a market disruption or a lack of liquidity. Given that the majority of financial obligations are with related parties, liquidity risk is deemed to have a minimal risk.

MTY Franchising USA, Inc.

Notes to the consolidated financial statements

November 30, 2017

18. Financial instruments (continued)

Liquidity risk (continued)

The following are the contractual maturities of financial liabilities as at November 30, 2017:

	Carrying amount	Contractual cash flows
0 to 12 months	60.12	12 to 24 months

1.0e7 1.22 1.0e7

0,214,717 0,612,717 0,616,717

~~Advance from parent~~

~~Advances from company under common control~~

~~1.296.249~~ ~~1.296.249~~ ~~1.296.249~~

~~Long-term debt~~

~~-7,ss0,so4 s,sss,B10~~~~under common control**~~

~~!! When future interest cash flows are variable, they are calculated using the interest rates prevailing at the end of the reporting period.~~

~~Other revenue~~~~103,351,774~~ ~~38,191,929~~~~Notes to the consolidated financial statements~~

Operational purposes

	2017		
	Franchising	Corporate	Total
Cost of goods sold	6,319,736	3,253,047	9,572,783
Wages and benefits	19,622,626	7,651,697	27,274,323
Advertising, marketing and promotion	1,651,245	530,477	2,181,722
Rent	2,869,291	5,592,365	8,461,656
Professional & consulting fees and commission	11,451,024		11,451,024
Office Travel, meals & entertainment and utilities	6,060,360		6,060,360
Gift card program, costs ¹	5,226,107 ¹	—	5,226,107
Other	1,316,784	985,241	2,302,025
	54,517,174	18,012,827	72,530,001

	2016		
	Franchising	Corporate	Total

Cost of goods sold [!]	5,340,236	941,371	6,281,607
Wages and benefits	7,640,626	4,118,605	11,759,231
Advertising, marketing and promotion	925,998	196,636	1,122,634
Rent	989,348	1,843,795	2,833,143
Professional & consulting fees and commission	4,196,351	—	4,196,351
Office Travel, meals & entertainment and utilities	1,011,227	—	1,011,227
Gift card program, costs ^{!*}	1,386,059	—	1,386,059
Other	85,487	394,623	480,110
	21,125,332	7,495,030	28,620,362

^{!*} Comparative period amounts were restated to present gift card program costs separately.

Operating expenses are split into two types of operations; Franchise operations and Corporate-store operations. Operating segments were established based on the differences in the types of products or services offered by each division.

MTY Franchising USA, Inc.

Notes to the consolidated financial statements

November 30, 2017

Operating expenses (continued)

The products and services offered by each segment are as follows:

Franchising operations

The franchising business mainly generates revenues from royalties, supplier contributions, franchise fees and rent.

Corporate store operations

Corporate stores generate revenues from the direct sale of prepared food to customers.

21. Income taxes

The Company accounts for income taxes in accordance with ASC 740, Income Taxes ("ASC 740"). ASC 740 prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates. The effects of future changes in tax laws or rates are not anticipated.

Under ASC 740 income taxes are recognized for the following: a) amount of tax payable for the current year and b) deferred tax liabilities and assets for future tax consequences of events that have been recognized differently in the financial statements than for tax purposes.

Income tax expense (benefit) 2017 2016

Current tax expense (benefit)	193,441	2,083,431
Deferred tax expense (benefit)	790,882	(1,454,759)
Total tax expense (benefit)	984,323	628,672

The provision for income taxes recorded in the consolidated financial statements differs from the amount, which would be obtained by applying the statutory federal income tax rate of 34% (34% in 2016), to the income for the period as follows:

2017 2016

Earnings for the period before income taxes	5,021,800	502,006
Income tax expense at federal statutory rate	1,707,422	170,682
State and local income taxes net of federal tax benefit	204,385	68,758
Non-deductible/non-taxable items	456,855	406,239
True up of prior year tax provision	(136,598)	15,384
Change in state tax rate	(1,247,731)	1,859

Other

Income tax expense

(34,250)

628,672

684,323

MTY Franchising USA, Inc.

Notes to the consolidated financial statements November 30, 2017

21. Income taxes (continued)

Components of the net deferred tax asset or liability:

-

2017 2016

Allowance for doubtful accounts	1,567,480	1,064,132
Deferred revenue	1,504,191	1,912,653
Gift cards	14,536,942	17,223,485

Property, plants and equipment	622,162	448,611
Accrued expenses	3,626,772	2,809,537
Long-term debt		
Total deferred tax assets		
Intangible assets		
Total deferred tax liabilities		
Net deferred tax asset (liability)		
	<u>21,459</u>	<u>22,542</u>
	21,879,066	23,480,960
	<u>(105,717,998)</u>	<u>(107,981,908)</u>
	<u>(105,717,698)</u>	<u>(107,981,908)</u>
	<u>(83,838,692)</u>	<u>(84,500,948)</u>

22. Supplemental cash flow information

During the year, the Company paid \$126,975 (\$658,212 in 2016) in income taxes.

23. Subsequent events

Acquisition the Counter and Built

On December 1, 2017, the Company completed its acquisition of all of the limited liability company interests in CB Franchise Systems, LLC ("The Counter"), Built Franchise Systems, LLC ("Built") for a total consideration of \$24,600,000 of which \$22,300,000 was settled in cash and the remainder retained as a holdback on the transaction.

US tax reform

On December 22, 2017, the United States proceeded to a tax reform through the enactment of the "Tax Cuts and Jobs Act" (hereafter the "Act"). One of the significant changes included in the Act is the reduction of the federal corporate tax rate from 35% to 21% effective January 1, 2018. For the financial year ending November 30, 2018, the applicable federal corporate tax rate will correspond to a blended rate of 22.19% based on the number of days in the taxation year before and after the effective date.

Based on temporary differences as of November 30, 2017, the Company preliminarily estimates that it will record a deferred tax benefit estimated at USD 29.1 million in its financial year ended November 30, 2018, by reducing its deferred tax liability.

The Company made a preliminary analysis of the new Base Erosion Anti-avoidance Tax (hereafter the "BEAT") and changes to interest deduction limitation rules included in the Act and that will impact financial years November 30, 2019, and after. Based on available information as of financial statement date, the Company expects to meet the de minimis exception and not be subject to BEAT rules. Based on a preliminary analysis, the new interest deduction limitation rule might have an impact in future years. However, any amount disallowed based on the new interest deduction rule could be carried over indefinitely and used against future taxable profit. Therefore, the Company do not expect this measure to have any permanent impact.

ENTITY Franchising USA, Inc.

Notes to the consolidated financial statements

November 30, 2017

23. Subsequent events (continued)

US tax reform (continued)

The new rules provided by the Act are complex and further guidance will be provided by the United States authorities in upcoming months. Accordingly, the information presented herein is subject to adjustments when new regulation will be available.

~~Announced agreement to acquire Grabbagreen @~~

~~On February 19, 2018, the Company announced that they had signed an agreement to acquire the assets of the Grabbagreen @ franchise system for an estimated consideration of \$2,750,000~~

~~Amended and restated consolidated financial statements of MTY Franchising USA, Inc.~~

~~For the years ended November 30, 2016 and November 30, 2015~~

~~Independent Auditor's Report~~	~~1 — 2~~
~~Amended and restated consolidated statement of operations and comprehensive (loss)- income~~	~~3~~
~~Amended and restated consolidated statement of changes in stockholder's~~	



equity

Amended and restated consolidated balance sheet

Amended and restated consolidated statement of cash flows

-5-6

-7-8

Notes to the amended and restated consolidated financial statements Denis 9

Deloitte

Independent Auditor's Report

To the Board of Directors and Stockholder of CITY Franchising USA, Inc.

Deloitte LLP
La Tour Deloitte 1190 Avenue des
Canadiens de Montréal
Suite 500
Montréal QC H3B 0M7
Canada

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We have audited the accompanying amended and restated consolidated financial statements of CITY Franchising USA, Inc. (the "Company"), which comprise the amended and restated consolidated balance sheet as at November 30, 2016, and the amended and restated consolidated statements of operations and comprehensive (loss) income, amended and restated changes in stockholder's equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Amended and Restated Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these amended and restated consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of amended and restated consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these amended and restated consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the amended and restated consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the amended and restated consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the amended and restated consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the amended and restated consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the amended and restated consolidated financial statements.

Hein-Gerold-toit-to-Toxche-Totem-atsu-Lim-ited

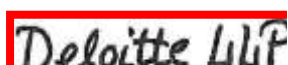
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the amended and restated consolidated financial statements referred to above present fairly, in all material respects, the financial position of t1TY Franchising USA, Inc. as at November 30, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 23 to the amended and restated consolidated financial statements, the accompanying 2016 amended and restated consolidated financial statements have been restated to correct an error. Our opinion is not modified with respect to this matter.



March 15, 2017 (November 28, 2017 as to the effects of the restatement discussed in Note 23)

¹CPA auditor, CA, public accountancy permit No. A-z 10972

MTY Franchising USA, Inc.

Amended and restated Consolidated Statement of Operations and Comprehensive (Loss) Income

Years ended November 30 2016 and November 30 2015

Notes

November 30, — November 30,
2016 — 2015

As restated (Note 23)

Revenue

Corporate store revenues	11,246,007	2,523,888

Royalties	16,868,146	1,973,017
Franchise fees, transfer fees and master license fees	1,006,468	32,000
Program allowances	6,003,229	258,470

Other revenue

		Cost and expenses	
		<u>3,068,080</u>	<u>83,253</u>
		<u>38,191,929</u>	<u>4,870,628</u>
Operating expenses	20	28,620,362	3,391,711
Amortization — property, plant and equipment	a	502,591	50,364
Amortization — intangible assets		3,524,603	55,778
Interest charged by parent company	a	43,721	87,031
Interest charged by companies under common control	3	3,697,987	
Interest on long-term debt		528,769	
Management fees charged by parent company	6	756,648	273,580
		<u>37,674,681</u>	<u>3,858,464</u>
Other income (charges)			
Loss on disposal of property, plant and equipment		(15,242)	
		<u>(15,242)</u>	
Income before income taxes		<u>502,006</u>	<u>1,012,164</u>
Income tax expense (recovery)	21		
Current		2,083,431	265,560
Deferred		(1,454,759)	116,874
		<u>628,672</u>	<u>382,434</u>
Net (loss) income and comprehensive (loss) income		<u>(126,666)</u>	<u>629,730</u>

The accompanying notes are an integral part of these amended and restated consolidated financial statements.

MTY Franchising USA, Inc.

Amended and restated Consolidated Statement of Changes in Stockholders' Equity

Years ended November 30, 2016 and November 30, 2015

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)
Balance as at November 30, 2014	1,000	99	268,108	268,208
Net income				

Balance as at November 30, 2015 Share Issuance (note 18) Acquisition of net assets of Mucho Burrito Franchising USA, Inc. (note 4)
Net loss

				629,730	629,730			
1,000	1	99	4,001	89,153,736	—	—	89,153,736	

				(99)	(89,901)	(90,000)		
					(126,666)	(126,666)		

Balance as at November 30, 2016

~~-5,001 89,153,737~~

~~681,271 89,835,008~~

The accompanying notes are an integral part of these amended and restated consolidated financial statements.

MTY Franchising USA, Inc.

Amended and restated Consolidated Balance Sheet

Years ended November 30, 2016 and 2015

	Notes	November 30, 2016	November 30, 2015
		As restated (Note 23)	
Assets			
Current assets			
Cash		19,266,443	899,018
Accounts receivable	5	12,901,366	296,857
Inventories		438,388	14,468
Loans receivable	10	2,353,231	
Prepaid expenses and deposits		4,975,951	17,786
Advances to ultimate parent company	14 and 15	86,209	
		40,021,588	1,228,129
Loans receivable	5	3,334,102	
Property, plant and equipment	5	2,893,750	170,879
Intangible assets		321,075,777	1,857,255
Goodwill	6	117,952,987	253,267
		445,256,616	2,281,401
		485,278,204	3,509,530
Liabilities			
Current liabilities			
Accounts payable		5,787,960	127,993
Accrued liabilities		5,140,046	225,066
Gift card liability	11	56,312,249	
Promotional funds payable	12	3,300,647	81,621
Deferred revenue and deposits	13	8,586,237	122,042

Income taxes payable	21	13,487,370	265,392
Advance from parent company	3 and 14	2,587,853	1,635,277
Advances from companies under common control	3 and 14	75,852	67,363
Current portion of long-term debt			
-1G		4,832,883	
		100,111,097	2,524,754

Long-term loans from company under common control	5	199,850,000	
Long-term debt	10	8,500,511	
Deferred revenue and deposits	6	2,480,640	
Deferred income taxes	24	84,500,948	86,838
		395,443,196	2,611,592

MTY Franchising USA, Inc.

Amended and restated Consolidated Balance Sheet

Years ended November 30, 2016 and 2015

Notes

November 30, 2016
November 30, 2015

The principal subsidiaries of the Company are as follows:

Principal subsidiaries	Percentage of equity interest
BF Acquisition Holdings, LLC	Stockholder's equity
Kahala Brands Ltd.	Common stock
	Additional paid-in capital
	Retained earnings
	-As restated (Note 23)
	89,153,737
	1
	99
	681,271
	897,838
	89,835,008
	897,938
	485,278,204
	3,509,530
	100
	100

The accompanying notes are an integral part of these amended and restated consolidated financial statements.

Approved by the Board

Director

Revenues and expenses of subsidiaries are included in the consolidated statement of operations and comprehensive income from the effective date of acquisition. The subsidiaries are consolidated from the acquisition date until the date on which the Company ceases to control them.

All intercompany transactions, balances, revenues and expenses are eliminated in full upon consolidation.

MTY Franchising USA, Inc.

~~As amended and restated Consolidated Statement of Cash Flows~~
~~Years ended November 30, 2016 and 2015~~

Notes to the consolidated financial statements

For the years ended November 30, 2018 and November 30, 2017

2. Significant accounting policies (continued)

Business combinations

The Company accounts for acquired businesses using the acquisition method of accounting in accordance with FASB ASC 805, Business Combinations. The consideration transferred for the acquisition is the fair values of the assets transferred, the liabilities incurred and the equity interest issued. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date.

Goodwill is measured as the excess of the purchase price over the estimated fair values of the net assets acquired. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Goodwill reflects how the acquisition will impact the Company's ability to generate future profits in excess of existing profits. The consideration paid mostly relates to combined synergies, related mainly to revenue growth. These benefits are not recognized separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Company obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.



	Note-s	November 30, 2016	November 30, 2015
		As restated (Note 23)	
Operating activities			
Net (loss) income		(126,666)	629,730
Items not affecting cash			
Amortization — property, plant and equipment		502,591	50,364

Amortization — intangible assets	3,524,603	55,778
Interest on advance from parent company	43,721	87,031
Interest on advance from companies under common control	3,697,987	
Interest on long-term debt	528,769	
Loss on disposal of property, plant and equipment	15,242	
Deferred income taxes	(1,454,759)	116,874
	6,731,488	939,777
Interest paid	(3,697,987)	
Changes in non-cash working capital items		
Accounts receivable	(2,654,016)	(176,813)
Inventories	(6,060)	20,448
Prepaid expenses and deposits	(1,780,458)	67,895
Loans receivable	(675,258)	
Income taxes	1,380,279	252,304
Accounts payable	(3,751,221)	(25,144)
Accrued liabilities	4,066,015	97,820
Promotional funds payable	2,075,064	(30,042)
Gift card liability	2,558,749	
Deferred revenue and deposits	(506,614)	(50,479)
Net cash from operating activities	3,739,981	1,095,766
Investing activities		
Net cash outflow on acquisitions	(2,518,500)	
Additions to property, plant and equipment	(54,500)	(21,243)
Issuance of advances to parent company	3,271	
Issuance of advances to companies under common control	8,489	115,673
Proceeds on disposal of property, plant and equipment	294,100	
Net cash from investing activities	(28,567,140)	94,430

MTY Franchising USA, Inc.

Interim Consolidated Cash Flow Statement of Cash Flows

Periods ended February 29, 2016 and 2015

Goodwill represents the excess of cost over the net tangible assets and identifiable intangible assets of acquired businesses. Goodwill is carried at cost reduced by previous impairment losses, if any.

MTY Franchising USA, Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2018 and November 30, 2017

3. Significant accounting policies (continued)

Financing activities

-

Functional currency

The functional currency Of the Company and its subsidiaries is the US dollar. The Company translates monetary assets and liabilities that are denominated in currencies other than the US dollar at the exchange rates prevailing at the end of the reporting period; non-monetary assets denominated in foreign currencies are translated using the exchange rate prevailing at the transaction date; all revenue and expense items denominated in foreign currencies are translated at the exchange rate prevailing at the transaction date. All foreign exchange gains and losses are reported in profit or loss.

Notes

~~November 30,~~ November 30,

2016 2015

Revenue recognition

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, price is fixed or determinable and collectability is reasonably assured.

As restated (Note 23)

i) Revenue from franchise locations

The Company recognizes revenue in accordance with the accounting guidance of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 952-605, Franchisors, Revenue Recognition.

Royalties are based either on a percentage of gross sales as reported by the franchisees or on a fixed monthly fee. They are recognized on an accrual basis in accordance with the substance of the relevant agreement, provided collectability is reasonably assured and price is fixed or determinable.

Initial franchise fees are recognized when substantially all of the initial services as required by the franchise agreement have been performed. This usually occurs when the location commences operations.

Master licence fees are recognized when the Company has performed substantially all material initial obligations under the agreement, which usually occurs when the agreement is signed, which is recorded in franchise fees, transfer fees and master licence fees.

Renewal and transfer fees are recognized when substantially all applicable services required by the Company under the franchise agreement have been performed. This generally occurs when the agreement is signed. This revenue is recorded in franchise fees, transfer fees and master licence fees.

Revenue from equipment sale and retail sales are recognized when the risk and rewards of ownership and title pass to buyer, generally upon the shipment of the equipment or goods. This revenue is recorded in other revenue.

Depending on the gift card program, the Company recognizes breakage based on the historical load and redemption patterns of the gift cards. The Company also charges various program fees to its franchisees as gift cards are redeemed. Notably, this does not apply to gift card liabilities assumed upon a business acquisition, which are accounted for at fair value.

The Company earns rent revenue on certain leases it holds; the Company's policy is

described below.

The Company receives considerations from certain suppliers called program allowances.
Program allowances are recognized as revenues as they are earned.

MTY Franchising USA, Inc.

Issuance of long-term debt	30,000,000	—
Issuance of advance from parent company	819,375	—
Issuance of advances from company under common control	19,818,500	—
Issuance of shares to parent company	8,500,000	—
(Repayment) of long-term debt	(31,263,500)	—
(Repayment) of advances from parent company	—	(609,746)
Net cash from financing activities	27,874,375	(609,746)
Net increase in cash	3,047,216	580,450
Cash, beginning of year	899,018	313,268
Cash acquired	15,320,209	5,300
Cash, end of year	19,266,443	899,018
Non-cash transactions		

4 & 9

~~The accompanying notes are an integral part of these amended and restated consolidated financial statements.~~

Notes to the consolidated financial statements

For the years ended November 30, 2018 and November 30, 2017

2. Significant accounting policies (continued)

Revenue recognition (continued)

ii) Revenue from corporate-owned locations

Revenue from corporate-owned locations is recorded when goods are delivered to customers.

Leasing

Leases are classified as capital leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

The Company as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

income taxes

The Company accounts for income taxes pursuant to ASC 740, Income Taxes ('ASC 740'). Deferred tax assets and liabilities are recorded for differences between the financial statement and tax basis of the assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates. Valuation allowances are established when necessary to

reduce deferred tax assets to the amount expected to be realized. Income tax expense is recorded for the amount of income tax payable or refundable for the period increased or decreased by the change in deferred tax assets and liabilities during the period.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

Allowance for doubtful accounts

Allowance for doubtful accounts is calculated based on historical experience, customer credit risk and application of the specific identification method.

MTY Franchising USA, Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2018 and November 30, 2017

Notes to the amended and restated consolidated financial statements

1. Nature of operations

MTY Franchising USA, Inc. (the "Company" or "MTY USA") was incorporated on March 14, 2001. The Company develops and franchises restaurants under a multitude of different banners in the United States of America.

On September 23, 2013, MTY Tiki Ming Entreprises Inc. ("MTY") acquired 100% of the 100 authorized shares of the Company. MTY USA's ultimate parent being MTY Food Group Inc.

2. Significant accounting policies

Basis of presentation

The accounting policies of the Company are in accordance with accounting principles generally accepted in the United States of America. The Company uses the United States dollar as its functional and reporting currency.

On December 28, 2014, MTY purchased the assets of Manchu Wok, whose financial results are reported with those of the Company.

On July 26, 2016, the Company acquired all of the equity ownership of Kahala Brands Ltd. having 2,879 locations under a multitude of banners operating in the United States of America, whose financial results are reported with those of the company from the date of acquisition onward.

On October 5, 2016, the Company acquired all of the equity ownership of BF Acquisition Holdings, LLC, having 185 locations under two banners operating in the United States of America, whose financial results are reported with those of the company from the date of acquisition onward.

On November 30, 2016, the Company acquired the net assets of BSB Franchising USA Inc, having 4 locations in the United States of America, whose financial results are reported with those of the Company from the date of acquisition onward.

On November 30, 2016, the Company acquired the net assets of Mucho Burrito Franchising USA Inc, having 1 location in the United States of America, whose financial results are reported with those of the Company from the date of acquisition onward.

Presented below are those policies considered particularly significant:

Basis of consolidation

The amended and restated consolidated financial statements include the accounts of the Company and entities controlled directly or indirectly by the Company (its subsidiaries). Control is achieved where the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The principal subsidiaries of the Company are as follows:

2. Significant accounting policies (continued)

Property, plant and equipment

Cost includes expenditures that are directly attributable to the acquisition of the asset, including any costs directly attributable to bringing the asset to a working condition for its intended use.

Equipment, leasehold improvements, rolling stock and computer hardware are stated at cost less accumulated amortization and accumulated impairment losses.

Amortization is recognized so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and amortization methods are reviewed at the end of each year, with the effect of any

changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Amortization is based on the following terms:

Principal	subsidaries	Equipment	3 to 10 years
		Straight-line	Term of the lease
Leasehold improvements		Straight-line	5 to 7 years
Rolling stock		Straight-line	3 to 7 years

~~BF Acquisition Holdings, LLC Kahala Brands Ltd.~~

~~Percentage of equity interest~~

~~100~~

~~100~~

~~Computer hardware~~
~~Straight-line~~
~~e~~

~~MTY Franchising USA, Inc.~~

~~Notes to the financial statements~~

~~For the years ended November 30 2016 and November 30 20a~~

~~2. Significant accounting policies (continued)~~

~~Basis of consolidation (continued)~~

~~Revenues and expenses of subsidiaries are included in the amended and restated consolidated statement of operations and comprehensive income from the effective date of acquisition. The subsidiaries are consolidated from the acquisition date until the date on which the Company ceases to control them.~~

~~All intercompany transactions, balances, revenues and expenses are eliminated in full upon consolidation.~~

~~Business combinations between entities under common control~~

~~The Company accounts for acquired businesses using the acquisition method of accounting in accordance with FASB ASC 805, Business Combinations. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination between entities under common control are to be initially recognized by the receiving entity at the transfer date. The acquired net assets shall initially be transferred at their carrying amounts in the accounts of the transferring entity. Any excess of the purchase price over the carrying amounts in the accounts of the transferring entity is recognized as an equity transaction within the statement of changes in stockholder's equity.~~

~~The financial statements of the receiving entity shall report results of operations for the period in which the transfer occurs as though the transfer of net assets or exchange of equity interests had occurred at the beginning of the period. Results of operations for that period will thus comprise those of the previously separate entities combined from the beginning of the period to the date the transfer is completed and those of the combined operations from that date to the end of the period.~~

~~Business combinations~~

~~The Company accounts for acquired businesses using the acquisition method of accounting in~~

~~accordance with FASB ASC 805, Business Combinations. The consideration transferred for the acquisition is the fair values of the assets transferred, the liabilities incurred and the equity interest issued. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill.~~

~~Goodwill~~

~~Goodwill represents the excess of cost over the net tangible assets and liabilities of a business acquired. Goodwill is carried at cost less accumulated impairment losses, if any.~~

~~Functional currency~~

~~The functional currency of the Company and its subsidiaries is the US dollars. The Company translates monetary assets and liabilities that are denominated in currencies other than the US dollar at the exchange rates prevailing at the end of the reporting period; non-monetary assets denominated in foreign currencies are translated using the exchange rate prevailing at the transaction date; all revenue and expense items denominated in foreign currencies are translated at the exchange rate prevailing at the transaction date. All foreign exchange gains and losses are reported in profit or loss.~~

MTY Franchising USA, Inc.

~~to the American Endorsed and Registered Consultant of the International Franchise Association~~

~~for the years ended on June 30, 2016 and November 30, 2015~~

2. Significant accounting policies (continued)

Revenue recognition

~~Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, price is fixed or determinable and collectability is reasonably assured.~~

i) Revenue from franchise locations

~~The Company recognizes revenue in accordance with the accounting guidance of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 952-605, Franchisors, Revenue Recognition.~~

~~Royalties are based either on a percentage of gross sales as reported by the franchisees or on a fixed monthly fee. They are recognized on an accrual basis in accordance with the substance of the relevant agreement, provided collectability is reasonably assured and price is fixed or determinable.~~

~~Initial franchise fees are recognized when substantially all of the initial services as required by the franchise agreement have been performed. This usually occurs when the location commences operations.~~

~~Revenue from the sale of franchise locations is recognized at the time the franchisee assumes control of the franchise location.~~

i) Revenue from franchise locations

~~Master license fees are recognized when the Company has performed substantially all material initial obligations under the agreement, which usually occurs when the agreement is signed, which is recorded in franchise fees, transfer fees and master license fees~~

~~Renewal and transfer fees are recognized when substantially all applicable services required by the Company under the franchise agreement have been performed. This generally occurs when the agreement is signed. This revenue is recorded in franchise fees, transfer fees and master license fees.~~

~~Revenue from equipment sale is recognized when the risk and rewards of ownership and title pass to buyer, generally upon the shipment of the equipment. This revenue is recorded in other revenue.~~

~~Based on historical redemption patterns, the Company estimates the portion of gift cards that have a remote likelihood of being redeemed and recognizes the amount in its amended and restated consolidated statements of income as breakage. The Company also charges various program fees to its franchisees as gift cards are redeemed.~~

~~The Company earns rent revenue on certain leases it holds; the Company's policy is described below.~~

~~The Company receives considerations from certain suppliers called program allowances. Program allowances are recognized as revenues as they are earned.~~

~~ii) Revenue from corporate-owned locations~~

~~Revenue from corporate-owned locations is recorded when goods are delivered to customers.~~

~~Leasing~~

~~Leases are classified as capital leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.~~

~~MTY Franchising USA, Inc.~~

~~Notes to the unaudited condensed consolidated financial statements
for the years ended November 30, 2016 and December 30, 2015~~

~~2. Significant accounting policies (continued)~~

~~Leasing (continued)~~

~~The Company as lessor~~

~~Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.~~

~~The Company as lessee~~

~~Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.~~

~~In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.~~

~~Income taxes~~

~~The Company accounts for income taxes pursuant to ASC 740, Income Taxes ("ASC 740"). Deferred tax assets and liabilities are recorded for differences between the financial statement and tax basis of the assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is recorded for the amount of income tax payable or refundable for the period increased or decreased by the change in deferred tax assets and liabilities during the period.~~

~~The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.~~

~~Property, plant and equipment~~

~~Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the amended and restated consolidated statement of financial position at their~~

~~historical costs less accumulated depreciation (buildings) and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset, including any costs directly attributable to bringing the asset to a working condition for its intended use.~~

~~Equipment, leasehold improvements, rolling stock and computer hardware are stated at cost less accumulated depreciation and accumulated impairment losses.~~

~~Depreciation is recognized so as to write off the cost or valuation of assets (other than land) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each year, with the effect of any changes in estimate accounted for on a prospective basis.~~

~~An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.~~

MTY Franchising USA, Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2016 and 2015

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses, if applicable. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful lives and amortization methods are reviewed at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses, if applicable.

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets having a finite life acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, if applicable, on the same basis as intangible assets that are acquired separately. Intangible assets having an indefinite life are not amortized and are therefore carried at cost reduced by previous impairment losses, if applicable.

MTY Franchising USA, Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2018 and November 30, 2017

2. Significant accounting policies (continued) Property, plant and equipment (continued)

Depreciation is based on the following terms: Significant accounting policies (continued)

Equipment	Straight-line	Leasehold improvements	Straight-line	Rolling
stock	Straight-line			
Computer hardware	Straight-line			

3 to 10 years Term of the lease 5 to 7 years 3 to 7 years

Intangible assets (continued)

Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

The Company currently carries the following intangible assets in its books:

Franchise rights

The franchise rights acquired through business combinations are recognized at the fair value of the estimated future cash inflows related to the acquisition of franchises. The franchise rights are generally amortized on a straight-line basis over the term of the agreements, which typically range between 10 to 20 years.

Trademarks

Trademarks acquired through business combinations are recognized at their fair value at the time of the acquisition and are not amortized. Trademarks are determined to have an indefinite useful life based on their brand recognition and their ability to generate revenue through changing economic conditions with no foreseeable time limit.

Impairment of long-lived assets other than Goodwill

The Company continually reviews whether events or circumstances subsequent to the acquisition of any long-lived assets, including intangible assets with finite useful lives, have occurred that indicate the remaining estimated useful lives of those assets may warrant revision or that the remaining balance of those assets may not be recoverable. If events and circumstances indicate that the long-lived assets should be reviewed for possible impairment, the Company uses projections to assess whether future cash flows on an undiscounted basis related to the assets exceeds the recorded carrying amount of those assets to determine if an asset is impaired. Should an impairment be identified, a loss would be recorded to the extent that the carrying value of the impaired assets exceeds their fair values as determined by valuation techniques appropriate in the circumstances that could include the use of similar cash flow projections on a discounted basis. The reporting units of indefinite intangible assets are individual brands.

Impairment of goodwill

Goodwill is tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis (August 31 for the Company) and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. Fair value is determined using a discounted

cash flow methodology with a risk adjusted weighted average cost of capital. Goodwill is allocated to the franchising business unit segment for impairment testing.

Cash and restricted cash

Cash and restricted cash includes cash on hand and short-term investments, if any, with maturities upon acquisition of generally three months or less or that are redeemable at any time at full value and for which the risk of a change in value is not significant. As at November 30, 2018, cash and restricted cash included \$361,015 in restricted cash (2017 — \$221,015), required as part of guarantees on certain lease commitments.

MTY Franchising USA, Inc.

Intangible assets

~~Intangible assets acquired separately~~

~~Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses, if applicable. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful lives and amortization methods are reviewed at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses, if applicable.~~

~~Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date.~~

~~Subsequent to initial recognition, intangible assets having a finite life acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, if applicable, on the same basis as intangible assets that are acquired separately. Intangible assets having an indefinite life are not amortized and are therefore carried at cost less accumulated impairment losses, if applicable.~~

~~Derecognition of intangible assets~~

~~An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.~~

~~The Company currently carries the following intangible assets in its books:~~

Notes to the consolidated financial statements

For the years ended November 30, 2018 and November 30, 2017

2. Significant accounting policies (continued)

Inventories

Inventories are measured at the lower of cost and market value. Costs of inventories are determined on a first-in-first-out basis and include acquisition costs and other costs incurred to bring inventories to their present location and condition.

Market value represents the current replacement cost, provided that the cost does not exceed the net realizable value or is not less than the net realizable value reduced by a normal profit margin.

Contingencies

Litigation, disputes and closed stores

Contingencies for the expected cost of litigation, disputes and the cost of settling leases for closed stores are recognized when it becomes probable the Company will be required to settle the obligation, at management's best estimate of the expenditure required to settle the Company's obligation.

Franchise rights

~~The franchise rights acquired through business combinations are recognized at the fair value of the estimated future cash inflows related to the acquisition of franchises. The franchise rights are generally amortized on a straight-line basis over the term of the agreements which typically range between 10 to 20 years.~~

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are

measured at the higher of the amount that would be recognized and the amount initially recognized less cumulative amortization recognized, if any.

Trademarks

~~Trademarks acquired through business combinations are recognized at their fair value at the time of the acquisition and are not amortized. Trademarks are determined to have an indefinite useful life based on their strong brand recognition and their ability to generate revenue through changing economic conditions with no foreseeable time limit.~~

Financial instruments

The Company's financial instruments consist of cash, restricted cash, accounts receivable, loans receivable, advances to ultimate parent, accounts payable, accrued liabilities, promotional funds payable, advances from parent company, advances from companies under common control, long-term loans from company under common control and long-term debt. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value for cash, accounts receivable, loans receivable, deposits, advances to ultimate parent, accounts payable, accrued liabilities, promotional funds payable, advance from parent company and advances from companies under common control approximates their carrying values due to their immediate or short-term maturities, unless otherwise noted. Long-term loans from company under common control and long-term debt are measured at amortized cost using the effective interest method.

Notes to the consolidated financial statements

For the years ended November 30, 2018 and November 30, 2017

2. Significant accounting policies (continued)

Gift card and loyalty program liabilities

Gift card liability represents liabilities related to unused balances on reloadable payment cards. Loyalty program liabilities represent the dollar value of the loyalty points earned and unused by customers.

The Company's various franchised and corporate owned locations, in addition to third party companies, sell gift cards to be redeemed at the Company's corporate and franchised locations for food and beverages only. Proceeds from the sale of gift cards are included in gift card liability until redeemed by the gift cardholder as a method of payment for good and beverage purchases.

The Company recognizes breakage on gift card programs in its consolidated statement of income based on historical load and redemption patterns. The redemption rate was established following an analysis performed over 7 to 10 years of the redemption patterns as well as expected future trends. The expected breakage is then recognized in income on a pro rata basis as gift cards are redeemed.

Due to the inherent nature of gift cards, it is not possible for the Company to determine what portion of the gift card liability related to gift cards will be redeemed in the next 12 months and, therefore, the entire unredeemed gift card liability is considered to be a current liability.

Promotional funds

Pursuant to the franchise agreements, franchisees must pay a fee to the promotional fund. These amounts are collected by the Company in its capacity as agent and must be used for promotional and advertising purposes, since the amounts are set aside to promote the respective banners for the franchisees' benefit. The fees collected by the Company for the promotional fund are not recorded in the Company's statement of operations and comprehensive income, but as operations in the accounts payable to the promotional fund. The payable is presented net of any amounts spent from the promotional fund.

Cash held pursuant to the promotional funds received are classified as unrestricted cash as there are no legal restrictions on the use of these funds; however, the Company intends to use these funds solely to support the promotional funds rather than to fund its ongoing operations. Promotion funds are currently in a net liability position amounting to \$4,454,647 (2017 net liability of \$4,041,713).

Subsequent events

Subsequent events were evaluated through the date that the consolidated financial statements were issued, which was February 8, 2019.

incoming new standard affecting the Company but not yet adopted

ASU 2017-01 - Clarifying the Definition of a Business ("ASU 2017-01")

The FASB issued ASU 2017-01 - Clarifying the Definition of a Business. The amendment clarifies the definition of a business with objective guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of businesses. The ASU will be effective for the Company for the fiscal year beginning after December 1, 2019. The Company is in the process of evaluating the impact of the standard on its consolidated financial statements.

Notes to the consolidated financial statements

For the years ended November 30, 2018 and November 30, 2017

2. ~~Significant accounting policies (continued)~~Significant accounting policies (continued)

~~Impairment of long lived assets other than goodwill~~

~~The Company continually reviews whether events or circumstances subsequent to the acquisition of any long-lived assets, including intangible assets with finite useful lives, have occurred that indicate the remaining estimated useful lives of those assets may warrant revision or that the remaining balance of those assets may not be recoverable. If events and circumstances indicate that the long-lived assets should be reviewed for possible impairment, the Company uses projections to assess whether future cash flows on an undiscounted basis related to the assets exceeds the recorded carrying amount of those assets to determine if an asset is impaired. Should an impairment be identified, a loss would be recorded to the extent that the carrying value of the impaired assets exceeds their fair values as determined by valuation techniques appropriate in the circumstances that could include the use of similar cash flow projections on a discounted basis.~~

~~Impairment of goodwill~~

~~Goodwill is tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis (August 31 for the Company) and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. Fair value is determined using a discounted cash flow methodology with a risk adjusted weighted average cost of capital.~~

~~Cash and cash equivalents~~

~~Cash and cash equivalents item includes cash on hand and short-term investments, if any, with maturities upon acquisition of generally three months or less or that are redeemable at any time at full value and for which the risk of a change in value is not significant. As at November 30, 2016, cash and cash equivalents included \$221,015 in restricted cash (2015 - \$nil).~~

~~Inventories~~

~~Inventories are measured at the lower of cost and market value. Costs of inventories are determined on a first-in-first-out basis and include acquisition costs, conversion costs and other costs incurred to bring inventories to their present location and condition. The cost of finished goods includes a pro rata share of production overhead based on normal production capacity.~~

~~In the normal course of business, the Company enters into contracts for the construction and sale of franchise locations. The related work-in-progress inventory includes all direct costs relating to the construction of these locations, and is recorded at the lower of cost and market value.~~

~~Market value represents the current replacement cost, provided that the cost does not exceed the net realizable value or is not less than the net realizable value reduced by a normal profit margin.~~

~~Contingencies~~

~~Litigation, disputes and closed stores~~

~~Contingencies for the expected cost of litigation, disputes and the cost of settling leases for closed stores are recognized when it becomes probable the Company will be required to settle the obligation, at management's best estimate of the expenditure required to settle the Company's obligation.~~

Incoming new standards effecting he Company but not yet adopted (continued)

ASU 2017-fbl-Intangibles--Goodwill and (Other Topic 350) Simplifying the Test for Goodwill Impairment ("ASU 2017-04")

In January 2017, the FASB issued guidance that simplifies the measurement of goodwill impairment. Under this new guidance, an impairment charge, if triggered, is calculated as the difference between a reporting unit's carrying value and fair value, but it is limited to the carrying value of goodwill. The ASU will be effective for the Company for the fiscal years beginning after December 1, 2021. Early adoption is permitted. The Company is in the process of evaluating the impact of the standard on its consolidated financial statements.

ASU 2016-16--Income taxes (topic 740) Intra-Entity Transfer as of Assets other than Inventory ("ASU 2016-06")

In October 2016, the FASB issued guidance on the accounting for income tax effects of intercompany sales or transfers of assets other than inventory. The guidance requires entities to recognize the income tax impact of an intra-entity sale or transfer of an asset other than inventory when the sale or transfer occurs, rather than when the asset has been sold to an outside party. The ASU will be effective for the Company for the fiscal years beginning after December 1, 2019. Early adoption is permitted. The Company is in the process of evaluating the impact of the standard on its consolidated financial statements.

ASU 2016-15--Statement of Cash Flows--Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15")

In August 2016, the FASB issued ASU 2016-15 to address diversity in practice on certain specific cash flow issues. The ASU will be effective for the Company for the fiscal years beginning after December 1, 2018. Early adoption is permitted. The Company does not believe that this standard will have a significant impact on its consolidated financial statements.

ASU 2016-04--Liabilities-Extinguishment of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products ("ASU 2016-04")

In March 2016, the FASB issued ASU 2016-04, Liabilities - Extinguishment of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products. ASU 2016-04 aligns recognition of the financial liabilities related to prepaid stored-value products (for example, gift cards) with Topic 606, Revenues from Contracts with Customers, for non-financial liabilities. In general, these liabilities may be extinguished proportionately in earnings as redemptions occur, or when redemption is remote if issuers are not entitled to the unredeemed stored value. ASU 2016-04 is effective for fiscal years, and interim periods within those years, beginning after December 1, 2019, and early adoption is permitted. The Company is in the process of evaluating the impact of the standard on its consolidated financial statements and does not anticipate a material impact.

2. ~~Significant accounting policies (continued)~~

~~Contingencies (continued)~~

~~Contingent liabilities acquired in a business combination~~

~~Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognized and the amount initially recognized less cumulative amortization recognized, if any.~~

~~Financial instruments~~

~~The Company's financial instruments consist of cash, accounts receivable, loans receivable, deposits, advances to ultimate parent, accounts payable, accrued liabilities, promotional funds payable, advances from parent company, advances from companies under common control, long-term loans from company under common control and long-term debt. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value for cash, accounts receivable, loans receivable, deposits, advance to ultimate parent, accounts payable, accrued liabilities, promotional funds payable, advance from parent company and advances from companies under common control approximates their carrying values due to their immediate or short-term maturities, unless otherwise noted. Long-term loans from company under common control and long-term debt are measured at amortized cost using the effective interest method.~~

~~Gift card and loyalty program liabilities~~

~~Gift card liability represents liabilities related to unused balances on reloadable payment cards. Loyalty program liabilities represent the dollar value of the loyalty points earned and unused by customers.~~

~~The Company's various franchised and corporate owned locations, in addition to third party companies, sell gift cards to be redeemed at the Company's corporate and franchised locations for food and beverages only. Proceeds from the sale of gift cards are included in gift card liability until redeemed by the gift cardholder as a method of payment for good and beverage purchases.~~

~~Based on historical redemption patterns, the Company estimates the portion of gift cards that have a remote likelihood of being redeemed and recognizes the amount in its amended and restated consolidated statements of income, except for those gift cards liabilities assumed upon a business acquisition.~~

~~Due to the inherent nature of gift cards, it is not possible for the Company to determine what portion of the gift card liability related to gift cards will be redeemed in the next 12 months and, therefore, the entire unredeemed gift card liability is considered to be a current liability.~~

~~Promotional funds~~

~~Pursuant to the franchise agreements, franchisees must pay a fee to the promotional fund. These amounts are collected by the Company in its capacity as agent and must be used for promotional and advertising purposes, since the amounts are set aside to promote the respective banners for the franchisees' benefit. The fees collected by the Company for the promotional fund are not recorded in the Company's statement of operations and comprehensive income, but as operations in the accounts payable to the promotional fund. The payable is presented net of any amounts spent from the promotional fund.~~

~~2. Significant accounting policies (continued)~~

~~Promotional funds (continued)~~

~~Cash held pursuant to the promotional funds received are classified as unrestricted cash as there are no legal restrictions on the use of these funds; however, the Company intends to use these funds solely to support the promotional funds rather than to fund its ongoing operations.~~

~~Subsequent events~~

~~Subsequent events were evaluated through the date that the amended and restated consolidated financial statements were issued, which was March 15, 2017.~~

~~Estimates and Assumptions~~

~~The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the amended and restated consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.~~

~~Recently Issued Accounting Pronouncements~~

~~ASU 2016-15 — Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15")~~

~~In August 2016, the FASB issued ASU 2016-15 "Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments" to address diversity in practice on certain specific cash flow issues. The ASU will be effective for the Company for the fiscal years beginning after December 15, 2017. Early adoption is permitted. The Company is in the process of evaluating the impact of the standard on its financial statements.~~

~~ASU 2016-04 — Liabilities — Extinguishment of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products ("ASU 2016-04")~~

~~In March 2016, the FASB issued ASU 2016-04, Liabilities — Extinguishment of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products. ASU 2016-04 aligns recognition of the financial liabilities related to prepaid stored-value products (for example, gift cards) with Topic 606, Revenues from Contracts with Customers, for non-financial liabilities. In general, these liabilities may be extinguished proportionately in earnings as redemptions occur, or when redemption is remote if issuers are not entitled to the unredeemed stored value. ASU 2016-04 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and early adoption is permitted.~~

~~ASU 2016-02 — Leases ("ASU 2016-02")~~

~~In February 2016, the FASB issued ASU 2016-02, Leases. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement.~~

MTY Franchising USA, Inc.

Notes to the amended and restated consolidated financial statements

For the years ended November 30, 2016 and November 30, 2015

Notes to the consolidated financial statements

2. Significant accounting policies (continued)

~~Recently Issued Accounting Pronouncements~~

~~Incoming new standards affecting the Company but not yet adopted~~ (continued)

ASU 2016-02--Leases ("ASU 2016-02")

~~In February 2016, the FASB issued ASU 2016-02. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the consolidated statement of income.~~

The new standard is effective for fiscal years beginning after December ~~15, 2018~~1, 2020. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements, with certain practical expedients available. The Company is in the process of evaluating the impact of the standard on its consolidated financial statements.

~~ASU 2016-01---~~Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01")

~~In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities," which among other changes in accounting and disclosure requirements, replaces the cost method of accounting for non-marketable equity securities with a model for recognizing impairments and observable price changes, and also eliminates the available-for-sale classification for marketable equity securities. Under the new guidance, other than when the consolidation or equity method of accounting is utilized, changes in the fair value of equity securities are to be recognized in earnings.~~

The amendments in this Update ASU are effective for fiscal years beginning after December 15, 2017. For all other entities including not-for-profit entities and employee benefit plans within the scope of Topics ~~960~~960 through 965 on plan accounting, the amendments in this Update ASU are effective for ~~fiscal~~calendar years beginning after December ~~15, 2018, and interim periods within fiscal years beginning after December 15, 2019.~~

~~ASU 2015-17---Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes ("ASU 2015-17")~~

~~In November 2015, the FASB issued ASU 2015-17, which require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position.~~

~~The amendments apply to all entities that present a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments.~~

~~The amendments are effective for the Company's amended and restated consolidated financial statements issued for annual periods beginning after December 15, 2017, and interim periods within~~

~~annual periods beginning after December 15, 2018. The Company is currently evaluating the impact of its pending adoption of ASU 2015-17 on its amended and restated consolidated financial statements.1, 2019. The Company is in the process of evaluating the impact of the standard on its consolidated financial statements.~~

ASU 2015-14—Revenue from Contracts with Customers (Topic 606), Deferral of the Effective Date (“ASU 2015-14”)

~~In May 2014, the FASB issued ASU No. 2015-14, which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2015-14 is to recognize revenue when promised goods or services are transferred to customer in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. The ASU defines a five-step process to achieve this core principle, and in applying such process, more judgment and estimates may be required within the revenue recognition prooess than are required under existing U.S. GAAP.~~

MTY Franchising USA, Inc.

Notes to the amended and restated consolidated financial statements

For the years ended November 30, 2016 and November 30, 2015

Notes to the consolidated financial statements

For the years ended November 30, 2018 and November 30, 2017

2. Significant accounting policies (continued)

Recently Issued Accounting Pronouncements (continued)

~~ASU 2015-14, Revenue From Contracts With Customers (Topic 606), Deferral of the Effective Date ("ASU 2015-14")~~

~~In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in applying such process, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP.~~

Recently Issued Accounting Pronouncements (continued)

~~As a result of the issuance of ASU 2015-14, ASU 2014-09 is effective for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016.~~

~~The Company is currently evaluating the impact of its pending adoption of ASU 2014-09 on its amended and restated consolidated financial statements and has not yet determined the method by which they will adopt the standard in 2018.~~

~~ASU 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15")~~

~~The FASB has issued ASU 2014-15 which is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. This ASU provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the amended and restated consolidated financial statement footnotes.~~

~~The amendments are effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. The Company is currently evaluating the impact of its pending adoption on its financial statements.~~

3. Related party transactions

~~The Company has transactions in the normal course of business with its parent company and companies under common control. These transactions were in the normal course of business and~~

~~measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.~~

Incoming new standards affecting the Company but not yet adopted (continued)

As a result of the issuance of the ASU is effective for annual periods beginning after December 1, 2019, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting the ASU recognized at the date of adoption (which includes additional footnote disclosures). Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact of its pending adoption of the ASU on its consolidated financial statements.

MTY Franchising USA, Inc.

Notes to the amended and restated consolidated financial statements
for the year3 ended IJoveirbei 30 2016 anci IJGvemlaer 30 2015

Notes to the consolidated financial statements

For the years ended November 30, 2018 and November 30, 2017

4-

3. Business acquisitions

l) 2016 acquisition Acquisition of Counter Custom Burgers and Built Custom Burgers

On November 30, 2016, the Company acquired the net assets of BSB Franchising USA, Inc, a company under common control, for a total consideration of \$112,044 included in accrued liabilities as at November 30, 2016.

2016

On December 1, 2017, the Company completed the acquisition of all the limited liability company interests in CB Franchise Systems, LLC and Built Franchise Systems, LLC. The total consideration for the transaction was \$23,545,068. The purpose of the transaction was to diversify the Company's range of offering as well as to complement existing MTY U.S. brands.

2018

Consideration paid:

Purchase price

199,292 22,098

,710

Net obligations assumed Repayment of external debt

990,420

Working capital

118,436

Net payable Discount on acquisition non-interest-bearing holdback

112,044 (262,498)

Net purchase price

28,545,068

Holdback

(1,284,660)

Less cash acquired

(27,000)

Net consideration paid/cash outflow

22,233,369

The purchase price allocation is as follows:

Net assets acquired:

\$

Current assets

2016

Cash

27,000

Accounts receivable

335,000

Inventory

56,000

Prepaid expenses and deposits

497,000

Property, plant and equipment

17,300 7,200,0

Franchise rights

00

Trademarks

13,200,000

Goodwill

181,992 3,265

.167

24,648,167

199,292

Current liabilities

~~Promotional funds~~ <u>Account payable</u>	11,029	355,000
<u>Accrued liabilities</u>		366,000
<u>Unredeemed gift card liability</u>		
Deferred ~~revenue~~ <u>revenues</u>		82,000
<u>Deferred income tax</u>	-	
	<u>76,219</u>	1,103,069
	87,248	
Net ~~purchase~~ <u>purchase</u> price	112,044	23,545,068
<u>! *! Goodwill is deductible for tax purposes</u>		

~~*! Goodwill reflects how the acquisition will impact the Company's ability to generate future profits in excess of existing profits. The consideration paid mostly relates to combined synergies, related mainly to revenue growth. These benefits are not recognized separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets.~~ Total expenses incurred related to acquisition costs amounted to \$nil.60,492.

~~II) 2016 acquisition~~

~~On November 30, 2016, the Company acquired the franchise rights of Mucho Burrito Franchising USA, Inc, a company under common control, for a total consideration of \$90,000, included in accrued liabilities as at November 30, 2016. The transaction was accounted for as an equity transaction.~~

~~For the years ended November 30, 2016 and November 30, 2017~~

3. ~~4.~~ Business acquisitions (continued)

~~III) 2016 acquisition~~

II) Acquisition of Grabbagreen

On ~~October 5, 2016, March 15, 2018,~~ the Company acquired the units of BF Acquisition Holdings, LLC, for ~~a~~completed its acquisition of the assets of Grabbagreen franchise system. The total consideration of \$27,000,000, which ~~remains subject to post-closing working capital adjustments for the transaction was \$2,633,316.~~ The purpose of the transaction was to further solidify the Company's presence in the United States.

~~2016~~

~~Consideration paid: Purchase price~~

Working capital adjustment Net cash outflow ⁽¹⁾ includes \$2,700,000 in holdbacks paid to escrow to diversify the Company's range of offering as well as to complement existing MTY USA brands.

2018

Consideration paid:

Purchase price

2,075,000

Net obligations assumed

(22,979)

Discount on non-interest-bearing holdback

(18,705)

Net purchase price

2,633,316

Holdback

(248,795)

Net consideration paid/cash outflow

2,384,521

The preliminary purchase price allocation is as

follows: Net assets acquired: Current assets

~~Cash~~

~~Accounts receivable Promotional~~

~~funds receivable Inventories~~

~~Loans receivable~~

Prepaid expenses and deposits

~~Property, plant and equipment~~

~~Franchise rights~~

~~Trademarks Goodwill~~

興

~~Current liabilities~~~~Accounts payable~~

~~Accrued liabilities~~

~~Unredeemed gift card liability~~

~~Deferred revenue~~

urchase price

* Goodwill is deductible for tax purposes

26,952,852

47,148

2018

27,000,000

2016

1,089,313

964,271

291,162

131,481

1,289,595

360,791

4,126,613

1,762,000 2,400,630

16,462,529

6,327,693

31,079,465

1,092,668

405,921

1,871,431

683,326

4,053,346

26,119

27,000,000

12,883

MTY Franchising USA, Inc.

Property, plant and equipment

11,595

Franchise rights

291,508

Trademarks

1,499,053

Goodwill

854,139

2,669,178

Current liabilities

Accrued liabilities

540

Unredeemed gift card liability

Net purchase price

2,633,316

Note 10 to the consolidated financial statements

For the years ended November 30, 2016 and November 30, 2015

4. Business acquisitions (continued)

2016 acquisition (continued) Goodwill reflects how the acquisition will impact the Company's ability to generate future profits in excess of existing profits. The consideration paid mostly relates to combined synergies, related mainly to revenue growth. These benefits are not recognized separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets. Goodwill is deductible for tax purposes

Total expenses incurred related to acquisition costs amounted to \$nil.

The purchase price allocation is still preliminary as post-closing adjustments have not been finalized.

~~IV) 2016 acquisition~~

~~On July 26, 2016, the Company acquired the shares of Kahala Brands Ltd. for a total consideration of \$259,174,785, including \$1,818,500 cash paid by MTY Franchising USA, Inc., which remains subject to post-closing working capital adjustments. The purpose of the transaction was to solidify its presence in the United States as this is expected to become one of the growth platforms.~~

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2016

~~Consideration paid:~~

~~Total cash consideration~~	~~240,000,000~~
~~Less: Indebtedness~~	~~(26,365,758)~~
~~Less: Working capital adjustment~~	~~(22,864,130)~~
	~~190,770,112~~
~~Less: Holdbacks~~	~~(30,000,000)~~
~~Total cash disbursed at closing~~	~~160,770,112~~

~~Sources of financing~~

~~Paid by MTY Franchising USA~~	~~1,818,500~~
~~Funds provided by ultimate parent company~~	~~2,061,791~~
~~Funds provided through advances~~	~~156,889,821~~
	~~160,770,112~~

~~Total merger consideration paid~~

~~Cash~~	~~1,818,500~~
~~Loan payable to company under common control~~	~~181,850,000~~
~~Shares issued to parent company~~	~~80,653,736~~
~~Less: discount on holdbacks~~	~~(3,328,951)~~
~~Total cash, liabilities and equity consideration~~	~~260,993,285~~
~~Less: Cash received from parent company~~	~~(1,818,500)~~
~~Total merger consideration~~	~~259,174,785~~

MTY Franchising USA, Inc.

Notes to the consolidated financial statements the consolidated financial statements

For the year's ended November 30, 2016 and November 30, 2015

4. Business acquisitions (continued)

IV) 2016 acquisition (continued)

The preliminary purchase price allocation is as follows:

	2016
Net assets acquired:	\$
Current assets	
Cash	14,230,896
Accounts receivable	8,987,334
Inventory	286,379
Loans receivable	1,419,096
Prepaid expenses and deposits	2,816,916
	27,740,621
Loans receivable	2,303,384
Property, plant and equipment	1,718,304
Franchise rights	129,758,834
Trademarks	174,103,832
Goodwill ^{1,2}	111,190,035
	446,815,010
Current liabilities	
Accounts payable	8,318,520
Accrued liabilities	241,000
Promotional funds payable	1,424,095
Notes payable	26,365,758
Income tax payable	2,848,010
Unredeemed gift card liability	51,882,069
Deferred revenue	8,520,657
	99,600,109
Deferred revenue	2,171,247
Deferred income taxes	85,868,869
	187,640,225
Net purchase price	259,174,785

^{1,2} Goodwill is partially deductible for tax purposes. Goodwill reflects how the acquisition will impact the Company's ability to generate future profits in excess of existing profits. The consideration paid mostly relates to combined synergies, related mainly to revenue growth. These benefits are not recognized separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets.

Total expenses incurred related to acquisition costs amounted to approximately \$775,858.

The purchase price allocation is still preliminary as post-closing adjustments have not been finalized. Adjustments are expected to be made that can impact the preliminary purchase price materially.

MTY Franchising USA, Inc. Notes to the consolidated financial statements the years ended November 30, 2018 and November 30, 2017

4.

3. Business acquisitions (continued)

~~V) 2015 acquisition~~

III) Acquisition of SweetFrog

On ~~December 18, 2014~~, September 26, 2018, the Company ~~acquired~~ completed its acquisition of the assets of ~~Manchu Wok USA~~ for a SweetFrog Premium Frozen Yogurt ("SweetFrog"). The total consideration ~~of \$2,191,280~~. The purpose for the transaction was \$32,063,828. The ~~purpose~~ of the transaction was to ~~further~~ diversify the Company's range of offering as well as to complement existing MTY USA brands.

2015

Given the size of the transaction, the Company has not yet completed its fair value assessment of the intangible assets and goodwill acquired. Consequently, part of the fair value adjustments, mainly relating to franchise rights and trademark, related to this acquisition are included in goodwill in the preliminary fair value assessment of the assets acquired.

2018

Consideration paid:

Purchase price

35,000,000

fz,s(3,725)

Net obligations assumed

(322,447)

Discount on non-interest-bearing holdback

Net purchase price

The preliminary purchase price allocation is as follows:

~~Advance payable to parent company~~

Holdback

32,063,828

Net consideration paid/cash outflow The preliminary purchase price allocation is as follows: Net assets acquired:

(3,177,553)

28,886,275

Current assets

Inventory

N

Prepaid expenses

e

t

a

s

s

e

t

s

a

e

q

u

i

f

e

d: Current assets	23,000
Cash	<u>218,833</u>
Inventories	
Prepaid expense and deposits	
	201B

Property, plant and equipment
Franchise rights
Trademark
Goodwill ***

195.83

Current liabilities-
 Accounts payable
 Promotional fund liability-
 Deferred revenues

<u>Goodwill !*!</u>	<u>34,100,396</u>
	<u>34,328,229</u>
<u>Current liabilities</u>	
<u>Accounts payable and accrued liabilities</u>	<u>112,501</u>
<u>Unredeemed gift card liability</u>	<u>2,129,400</u>
<u>Deferred revenue</u>	
	<u>2,264,401</u>

Net purchase price

12(!!) Goodwill is deductible for tax purposes

-	2,191,280	
		<u>(159,924)</u> 2,031,356
		<u>(2,031,356)</u>

2015

5,300
33,589
<u>85,681</u>
124,570
200,000
239,763
1,459,361
<u>253,267</u>
2,152,391

	134,302
	53,672
	57,631
	245,605
	2,031,356

~~Goodwill reflects how the acquisition will impact the Company's ability to generate future profits in excess of existing profits. The consideration paid mostly relates to combined synergies, related mainly to revenue growth. These benefits are not recognized separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets. Total expenses incurred related to acquisition costs amounted to nil.~~

The purchase price allocation is still preliminary as post-closing adjustments have not been finalized.

MTY Franchising USA, Inc.

~~Notes to the consolidated financial statements~~ Notes to the consolidated financial statements

~~For the years ended November 30, 2016 and November 30, 2017~~ For the years ended November 30, 2018 and November 30, 2017

4. Accounts receivable

The following table provides details on trade accounts receivable not past due, past due and the related allowance for doubtful accounts:

	2016	2015
Total accounts receivable	14,166,401	12,601,550
Less: Allowance for doubtful accounts	1,265,035	16,936
Total accounts receivable, net	12,901,365	12,646,414

Total accounts receivable	12,601,550	12,646,414
Less: Allowance for doubtful accounts	(2,009,030)	(2,329,111)
Total accounts receivable, net	10,592,511	10,317,297
	2018	2017
Of which:		
Not past due	8,804,355	6,889,406
Past due for more than one day but for no more than 50 days	221,380	871,393
Past due for more than 31 days but for no more than 60 days	295,979	696,995
Past due for more than 61 days	1,270,817	1,859,503
Total accounts receivable, net	10,592,511	10,317,297

~~-296,857~~

	2016	2015
Of which:		
Not past due	10,640,151	227,856
Past due for more than one day but for no more than 30 days	279,895	17,331
Past due for more than 31 days but for no more than 60 days	485,180	
Past due for more than 61 days		
Total accounts receivable, net		
~~1,496,140~~	~~51,670~~	
~~12,901,366~~	~~296,857~~	

Notes to the consolidated financial statements

For the years ended November 30, 2018 and November 30, 2017

4. <u>Accounts receivable (continued)</u>	2016	2015
	<u>2018</u>	<u>2017</u>
Allowance for doubtful accounts, beginning of year	16,936	9,483
Additions	179,641	14,906
<u>Additions through acquisition</u>	1,424,871	143,685
<u>Reversals</u>	(275,113)	(585,058)
<u>Write-off</u>	(81,300)	(7,453)
Allowance for doubtful accounts, end of year	2,006,036	2,329,117
Write-off		
Allowance for doubtful accounts, end of year		
-1,265,035		
-16,936		

The Company has recognized an allowance for ~~doubtful~~doubtful accounts based on past experience, outlet- specific situation, counterparty's current financial situation and age of the receivables.

Trade receivables disclosed above include amounts that are past due at the end of the reporting period and for which the Company has not recognized an allowance for doubtful accounts because there was no significant change in the credit quality of the counterparty and the amounts are therefore considered recoverable. The Company does not hold any collateral or other credit enhancements over these balances nor does it have the legal right of offset against any amounts owed by the Company to the counterparty.

The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

~~MTY Franchising USA, Inc.~~

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5. ~~6.~~ Loans receivable

Loans receivable generally result from the sales of franchises and of various advances to certain franchisees and consist of the following:

	~~2016~~	~~2015~~	2018	2017
Loans receivable bearing interest between ~~0% / >~~ and 9% / > per annum, receivable in monthly instalments of \$ ~~244,922~~ <u>190,526</u> in aggregate, including principal and interest, ending in 2026			<u>2,242,034</u>	<u>4,285,827</u>
			<u>(1,272,650)</u>	<u>(2,001,472)</u>
Current portion			<u>960,984</u>	<u>2,284,355</u>

There is currently an allowance for doubtful accounts offset against the loans receivable balance of \$2,094,923 (2017 — \$904,999).

MTY Franchising USA, Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2018 and November 30, 2017

5. Loans receivable (continued)

The capital repayments in subsequent years will be:

-

5,687,333

5,687,333

(2,353,231) 3,334,102

2017	2,353,231
2018	930,921
2019	618,296
2020	523,085
2021	337,112
2022	146,440
2023	57,416
Thereafter	924,688
	5,687,333
	2,242,634

6. Advances to/from ultimate parent company

The advances to/from ultimate parent company is non-interest bearing and due on demand with no specified repayment terms.

MTY Franchising USA, Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2016, 2018 and November 30, 2015

8. Equipment	Leasehold	Rolling stock	Computer Hardware	Total
19,836	1,407	—	—	21,243
100,000	100,000	—	—	200,000
119,836	101,407	—	—	221,243
29,610	—	23,541	1,349	54,500
2,503,200	796,583	64,140	116,381	3,480,304

9. Property, plant and equipment

Cost

Equipment	Leasehold improvements	Rolling stock	Computer hardware	Total

Cost

Balance at November 30, 2016	2,351,025	897,900	66,081	117,730	3,433,426
Additions	159,662	—	5,000	22,438	187,500
Dispositions	(1,142,822)	(860,383)	—	(16,853)	(2,023,058)
Balance at November 30, 2017	1,387,865	37,607	71,681	120,715	1,597,888

Additions through business combinations

Balance at November 30, 2015

Additions	769,093	40,574	—	14,445	824,112
Additions through business combinations	490,383	—	—	10,000	508,595
Dispositions	(450,548)	—	—	—	(450,548)
Balance at November 30, 2016	1,413,475	—	—	—	1,413,475

Balance at November 30, 2018

Accumulated amortization

Balance at November 30, 2016 Amortization expense Dispositions

Balance at November 30,	1,771,830	78,181	71,681	145,180	2,088,852
2017 Amortization					
expense Dispositions					
Balance at November 30,					
2018					

Carrying amounts

<u>(301,621)</u>	<u>—</u>	<u>(21,000)</u>	<u>—</u>	<u>(322,621)</u>
<u>2,351,025</u>	<u>897,990</u>	<u>66,681</u>	<u>117,730</u>	<u>3,433,426</u>

Equipment	<u>Leasehold</u> <u>improvements</u>	<u>Rolling</u> <u>Stock</u> Total	Computer Stock	Hardware

<u>378,865</u>	<u>142,557</u>	<u>4,149</u>	<u>14,075</u>	<u>539,676</u>
<u>643,620</u>	<u>125,344</u>	<u>16,008</u>	<u>35,712</u>	<u>820,774</u>
<u>(358,325)</u>	<u>(280,105)</u>	<u>—</u>	<u>(7,361)</u>	<u>(625,791)</u>
<u>864,190</u>	<u>7,796</u>	<u>20,247</u>	<u>42,426</u>	<u>734,659</u>
<u>257,771</u>	<u>5,721</u>	<u>10,356</u>	<u>37,767</u>	<u>311,815</u>
<u>(172,400)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(172,400)</u>
<u>749,561</u>	<u>13,518</u>	<u>30,603</u>	<u>80,162</u>	<u>873,874</u>

Equipment	<u>Leasehold</u> <u>improvements</u>	<u>Rolling</u> <u>stock</u>	Computer hardware	Total

Balance at November 30, 2014					
Amortization for the period	25,736	24,628	—	—	50,364
Balance at November 30, 2015	25,736	24,628	—	—	50,364
Amortization Expense	364,771	117,929	5,816	14,075	502,591
Dispositions	(11,612)	—	(1,667)	—	(13,279)
Balance at November 30, 2016	378,895	142,557	4,149	14,075	539,676

Equipment	<u>Leasehold</u> <u>improvements</u>	<u>Rolling</u> <u>Stock</u>	Computer Hardware	Total

Carrying Amounts

November 30, 2015	94,100	76,779	—	—	170,879
November 30, 2016	1,972,130	755,433	62,532	103,655	2,893,750
November 30, 2017	703,675	26,811	51,434	78,286	863,206
November 30, 2018	1,022,270	64,663	41,078	04,968	1,192,978

MTY Franchising USA, Inc.

~~Notes to the amended and restated consolidated financial statements~~

~~For the years ended November 30, 2016 and November 30, 2015~~

~~9. Intangible assets~~

~~COST~~	~~Franchise rights~~	~~Trademark~~	~~Total~~
~~Balance at November 30, 2014~~	~~290,000~~	~~—~~	~~290,000~~
~~Additions through business combinations~~	~~239,763~~	~~1,459,361~~	~~1,699,124~~
~~Balance at November 30, 2015~~	~~529,763~~	~~1,459,361~~	~~1,989,124~~
~~Additions through business combinations (note 4)~~	~~132,176,764~~	~~190,566,361~~	~~322,743,125~~
~~Balance at November 30, 2016~~	~~132,706,527~~	~~192,025,722~~	~~324,732,249~~

Notes to the consolidated financial statements

For the years ended November 30, 2018 and November 30, 2017

7. Property, plant and equipment (continued)

For the year ended November 30, 2018, as the result of a decline in its financial performance, the Company carried out a review of the recoverable amounts of property, plant and equipment related to certain corporate stores. The review led to the recognition of a non-cash impairment loss of \$413,175 composed of leasehold improvements and equipment. The Company proceeded to an undiscounted cash flow calculation that resulted in fair values being lower than carrying values. Therefore, the impairment charges were based on the amount by which the carrying values of the assets exceeded their fair values, and were determined using expected discounted future cash flows for trademarks and multi-period excess income for franchise rights.

8. Intangible assets

<u>COST</u>	<u>Franchise rights</u>	<u>Trademarks</u>	<u>Total</u>
<u>Balance at November 30,</u>	<u>132,700,527</u>	<u>102,025,722</u>	<u>324,732,249</u>
<u>2016 Additions Impairment</u>	<u>75,000</u>	<u>—</u>	<u>75,000</u>
<u>Balance at November 30,</u>	<u>(210,204)</u>	<u>(573,187)</u>	<u>(783,371)</u>
<u>2017</u>	<u>132,571,323</u>	<u>191,452,555</u>	<u>324,023,878</u>
<u>Additions</u>	<u>668,344</u>	<u>—</u>	<u>668,344</u>
<u>Acquisitions through business combinations</u>	<u>7,401,508</u>	<u>14,899,053</u>	<u>22,160,561</u>
<u>Impairment</u>	<u>(945,60)</u>	<u>(3,468,556)</u>	<u>(4,414,06)</u>
<u>Balance at November 30, 2018</u>	<u>139,785,886</u>	<u>202,683,040</u>	<u>342,488,735</u>

<u>Accumulated amortization</u>	<u>Franchise rights Total</u>	<u>Trademarks</u>	<u>Total</u>
<u>Balance at November 30,</u>	<u>76,091</u>	<u>—</u>	<u>76,091</u>
<u>2014 Balance at November</u>	<u>2,956,47</u>	<u>—</u>	<u>2,956,47</u>
<u>30, 2016</u>	<u>2</u>	<u>472</u>	<u>472</u>
<u>Amortization for the</u>	<u>period</u>	<u>55,778</u>	<u>55,778</u>

Balance at November 30, 2015	10,853,392	—	10,853,392
~~131,869~~			
~~—~~			
~~131,869~~ Amortization expense			
~~3,524,603~~			
~~3,524,603~~			
Balance at November 30, 2016	3,656,472	—	
2017	<u>14,509,864</u>	<u>14,509,864</u>	
		<u>3,656,472</u>	
Amortization expense	11,351,370	—	11,351,370
Balance at November 30, 2018	25,861,234	—	25,861,234

Franchise rights

Carrying amounts

~~Trademark~~
- Trademarks Total

November 30, 2017
November 30, 2018

118,061,458	161,452,555	309,514,014
113,924,452	202,083,049	316,007,501

November 30, 2015	397,894	1,459,361	1,857,255
November 30, 2016	129,050,055	192,025,722	321,075,777

10. Goodwill

The changes in the carrying amount of goodwill are as follows:

	2016	2015
Balance, beginning of year	253,267	

Additional amounts recognized from

business acquisitions (Note 4) Balance, end of year For the year ended November 30, 2016, the Company recorded impairment charges of \$4,414,048 related to four of its reporting units following a decline in the performance of the related brands. The total impairment amounted to \$945,480 and \$3,468,559 for the franchise rights and trademarks, respectively. Impairment charges were based on the amount by which the carrying values of the assets exceeded their fair values, and were determined using expected discounted future cash flows for trademarks and multi-period excess income for franchise rights.

117,699,720	253,267
117,952,987	253,267

MTY Franchising USA, Inc.

Notes to the amended-a fact-I-estimated consolidated financial statements

For the years ended November 30, 2016 and November 30, 2015

11. Gift card liability During the year, the gift card liability increased by \$53,753,500 as a result of the Kahala Brands Ltd. and BF Acquisition Holdings, LLC acquisitions.

12. Promotional funds payable

	2016	2015
Promotional funds payable, beginning of year	81,621	57,991
Promotional funds received	8,683,193	218,035
Promotional funds acquired (note 4)	1,143,962	53,672
Promotional funds spent	(6,608,129)	(248,077)
Promotional funds payable, end of year	3,300,647	81,621

13. Deferred revenue and deposits

	2016	2015
Franchise fee deposits	2,903,152	73,500
Unearned rent	2,554,588	
Supplier contributions and other allowances	5,609,137	48,542

11,066,877 122,04230, 2018 and November 30, 2017

9. Goodwill

The changes in the carrying amount of goodwill are as follows:

	2018	2017
Balance, beginning of year	119,497,863	117,952,987
Additional amounts recognized from business acquisitions (note 3)	38,228,702	1,544,876
Balance, end of year	157,728,565	119,497,863

10. Gift card liability

	2018	2017
Gift card liability, beginning of year	57,301,569	56,312,249
Activations during the year	32,572,440	30,225,167

<u>Redemptions during the year</u>	<u>(23,162,597)</u>	<u>(23,621,232)</u>
<u>Gift card liability acquired (note 3)</u>	<u>2,384,868</u>	<u>—</u>
<u>Deferred program fees and other</u>	<u>(1,388,001)</u>	<u>(461,278)</u>
<u>Gift card breakage recorded</u>	<u>(4,849,208)</u>	<u>(4,763,537)</u>
<u>Gift card liability, end of year</u>	<u>82,960,871</u>	<u>57,391,369</u>

12.

11. Deferred revenue and deposits

	<u>2018</u>	<u>2017</u>
<u>Franchise fee deposits</u>	<u>4,211,121</u>	<u>5,075,252</u>
<u>Unearned rent</u>	<u>2,547,440</u>	<u>2,620,653</u>
<u>Supplier contributions and other allowances</u>	<u>5,052,952</u>	<u>4,544,239</u>
	<u>9,816,213</u>	<u>12,240,144</u>
<u>Less: Current portion</u>	<u>(8,586,237)</u>	<u>(122,042)</u>
	<u>1,230,000</u>	<u>10,118,102</u>
	<u>2,480,640</u>	<u>530,121</u>
	<u>1,509,579</u>	

MTY Franchising USA, Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2018 and November 30, 2017

12. ~~14.~~ Advances from parent company and companies under common control

~~A portion of \$1,800,000 of the advance~~The advances from parent company ~~bears annual interest fee of 6%. The full amount is due on demand, with no specific repayment terms. No interest was paid in 2016 but rather capitalized to the advance.~~The advances from ~~and~~ companies under common control are non-interest bearing and due on demand with no specified repayment terms.

~~MTY Franchising USA, Inc.~~

~~Notes to the consolidated and restated consolidated financial statements~~

~~For the years ended November 30, 2018 and November 30, 2017~~

13. ~~15.~~ Long-term loans from company under common control

	<u>2018</u>	<u>2017</u>
Interest-bearing loan on acquisition of Kahala Brands Ltd. bearing interest at 5.6%, repayable by July 2023 ⁽¹⁾	181,850,000	<u>181,850,000</u>
Interest-bearing loan on acquisition of BF Acquisition Holdings LLC, bearing interest at 5.6%, repayable by October 2023 ⁽¹⁾	<u>18,000,000</u>	<u>18,000,000</u>
Balance, end of year	<u>196,850,000</u>	<u>199,850,000</u>

⁽¹⁾ The loans are subject to a maximum debt to EBITDA ratio of 5.50 to 1 starting on December 1, 2016 and a minimum EBITDA interest coverage ratio of 2.00 to 1 to be calculated in conjunction with interest payments ~~based on the last 12 months.~~ based on the last four rolling quarters.

16. Long-term debt

	<u>2016</u>
Non-interest-bearing debt payable during 2017.	127,266
Non-interest-bearing holdbacks acquired on acquisition of Kahala Brands Ltd. repayable between July 2017 and July 2019.	<u>13,206,128</u>
	<u>13,333,394</u>
Current portion	<u>(4,832,883)</u>
	<u>8,500,611</u>

The Company is currently in breach of its debt covenants on its long-term loans. The Company has obtained a waiver from a company under common control that is valid until February 29, 2020.

MTY Franchising USA, Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2018 and November 30, 2017

14. Long-term debt

	<u>2018</u>	<u>2017</u>
<u>Non-interest-bearing holdbacks acquired on acquisition of Kahala Brands Ltd. repayable between July 2018 and August 2020</u>		<u>7,690,504</u>
<u>Non-interest-bearing holdbacks acquired on acquisition of The Counter repayable on December 2020</u>	<u>1,381,587</u>	
<u>Non-interest-bearing holdbacks acquired on acquisition of Grabbagreen repayable on March 2020</u>	<u>254,880</u>	<u>—</u>
<u>Non-interest-bearing holdbacks acquired on acquisition of SweetFrog repayable between March 2020 and September 2021</u>		
	<u>8,056,103</u>	<u>7,690,504</u>
<u>Less: Current portion</u>	<u>(1,719,377)</u>	<u>(2,701,380)</u>
	<u>6,330,816</u>	<u>4,989,124</u>

15. 17. Contingencies

The contingencies for litigation and disputes represent management's best estimate of the outcome of litigations and disputes that are on-going at the date of the ~~statement of financial position~~consolidated balance sheet. This contingency is made of multiple items; the timing of the settlement of this contingency is unknown given its nature, as the Company does not control the litigation timelines.

The ~~payables~~provision related to closed stores mainly represent ~~amounts~~amounts that are expected to be ~~disbursed~~disbursed to exit leases of underperforming or closed stores. The negotiations with the various stakeholders are typically short in duration and are expected to be settled within a few months following the recognition of the contingencies.~~Included. The provisions for litigations, disputes and closed stores are recorded~~ in accrued liabilities ~~is an amount of \$885,000.~~

	<u>November 30, 2018</u>	<u>November 30, 2017</u>
<u>Provision for litigation and disputes and closed stores,</u>		
<u>beginning balance</u>	<u>1,810,066</u>	<u>1,024,500</u>
<u>Reversals</u>	<u>(1,234,381)</u>	<u>(303,103)</u>
<u>Acquired through our business acquisitions</u>	<u>—</u>	<u>91,871</u>
<u>Amounts used</u>	<u>(1,006,410)</u>	<u>(421,691)</u>
<u>Additions</u>	<u>1,632,515</u>	<u>1,427,769</u>
<u>Provision for litigation and dispute contingencies-</u>		
<u>(2015) disputes and closed stores, ending balance</u>		
~~— \$nil) and \$139,500 for dark store contingencies (2015 — \$nil). Of this amount, \$1,016,000 was acquired through our business acquisitions, \$283,000 (2015 — \$nil) was unused~~	~~and reversed into income, \$40,037 was used for settlements and \$331,537 was added.~~	
	~~The Company is also~~	

~~contingently liable to make certain payments related to reacquired area developer franchise rights. The payments are reported on a net basis against royalty revenue received.~~

1,211,070 1,819,346

MTY Franchising USA, Inc.

~~Note E to the amended and restated consolidated financial statements for the years ended November 30, 2016 and November 30, 2015~~

17. Contingencies (continued)

(a) Under the first agreement, the Company is committed to pay \$500,000, with payment terms as follows, contingent on future events:

iii) 15% of new initial franchise fee, net of commissions, for any new Extreme Pita franchise that opens in the terminated territory

(iv) 15% of the royalties received from each franchise operating a restaurant in the terminated territory

(v) 60% of each new initial area developer fee, net of commissions, from the sale of any area or territory the state that the rights were terminated. Payment is to continue until the amount is paid in full. During the year, \$673 (\$3,704 in 2015) was paid. As at November 30, 2016, \$473,292 (\$473,965 in 2015), remains contingently payable. There is no end date by which the amount has to be paid in full, however, the uncertainty around the timing and amount of cash outflows results in the liability, as well as the associated intangible asset reacquired, unreliably measurable. Accordingly, no contingency has been recorded in the consolidated financial statements related to this contingent liability.

(b) Under the second agreement, payments are due as follows, contingent on future events:

i. 25% of new initial franchise fee, net of commissions, for any new Extreme Pita franchise that opens in the terminated territory

(ii) 20% of the royalties received from each franchisee operating a restaurant in the terminated territory

(iii) 30% of each new initial area developer fee, net of commissions, from the sale of any area or territory the state that the rights were terminated

This agreement was terminated on May 10, 2016, however, during the year, \$7,798 (\$15,929 in 2015), has been accrued as payable, but remains unpaid.

For the years ended November 30, 2018 and November 30, 2017

18. Common Stock

	2018				2017			
	Shares 2016 issued				Shares 2015 issued		\$	
Balance, beginning of year								
Share issuance related to Kahala Brands Inc. acquisition								
Share issuance related to BF Acquisition Holdings LLC acquisition								
	1,000	1	1,000	1	4,000	80,653,736	—	—
	1 8,500,000							
Balance, beginning of year								
Balance, end of year								
	-5,001 89,153,737							
	-1,000 1							

On July 25, 2016, the Company issued 1,700 common shares to its parent company in exchange for its parent company assuming

debt of \$8,920,112 related to the acquisition of Kahala Brands Inc. Further to this, an additional 2,300 shares were issued as part of the same transaction in exchange for its parent company assuming an additional \$71,733,624 in debt.

MTY Franchising USA, Inc.

Notes to the consolidated financial statements
for the years ended November 30, 2016 and November 30, 2015

	5,001 80,153,737	5,001 89,1M,737
	5,001 89,153,737	5,001 89,153,737

18. Common Stock (continued)

On October 4, 2016, MTY Franchising USA, Inc. issued 1 common share to its parent company in exchange for \$8,500,000. This issuance was done as part of the financing plan for the acquisition of BF Acquisition Holdings LLC.

17. Financial instruments

In the normal course of business, the Company uses various financial instruments which by their nature involve risk, including market risk and the credit risk of non-performance by counterparties. These financial instruments are subject to normal credit standards, financial controls, risk management as well as monitoring procedures.

Fair value of recognized financial instruments

The Company has determined that the fair value of its financial assets and financial liabilities with short-term maturities approximates their carrying value. These financial instruments consist of cash, restricted cash, accounts receivable, accrued liabilities, promotional funds payable, and advances from parent company, advances from ultimate parent and advances from companies under common control.

Following is a table which sets out the fair values of recognized financial instruments using the valuation methods and assumptions described below. The table shows the fair value and the carrying value of other financial instruments as at November 30, 2018 and November 30, 2017. Since estimates are used to determine fair value, they must not be interpreted as being realizable in the event of a settlement of the instruments.

	2018	2017
Carrying amount	Fair value	Carrying amount
		17
		Fair

amount value amount value

Financial assets
Loans receivable

~~restated (Note 23)~~
~~(Note 23)~~

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Cash	19,266,643	19,266,443	899,018	899,018
Accounts receivable	12,901,366	12,901,366	296,857	296,857
Loans receivable	5,687,333	5,687,333		
Deposits	1,040,108	1,040,108	1,420	1,420
Advances to ultimate parent	86,209	86,209		

Financial liabilities

Long-term loans from company
 under common control
Long-term debt

2,242,634 2,242,834 4,285,827 4,285,827

	<u>100,850,000</u>	<u>219,886,037</u>	<u>199,650,000</u>	<u>228,861,445</u>
	8,059,103	0,545,950	7,690,504	9,856,310
Accounts payable	5,787,960	5,787,960	127,993	127,993
Accrued liabilities	5,140,046	5,140,046	225,066	225,066
Promotional funds payable	3,300,647	3,300,647	81,621	81,621
Advances from parent company	2,587,853	2,587,853	1,635,277	1,635,277
Advances from companies under common control	75,852	75,852	67,363	67,363
Long-term loans from company under common control	199,850,000	199,850,000		
Long-term debt	13,333,394	13,333,394		

MTY Franchising USA, Inc.

~~Notes to the amended consolidated financial statements dated in a nr. iai s taten ie wis~~ Notes to the consolidated financial statements

~~For the years ended November 30, 2016 and November 30, 2015~~ For the years ended November 30, 2018 and November 30, 2017

17. ~~19.~~ Financial instruments (continued)

Determination of fair ~~value~~'e/oe

The following methods and assumptions were used to estimate the fair values ~~of~~ each class of financial instruments:

Cash, accounts receivable, loans ~~receivable~~receiv'sb/e, deposits, accounts payable, ~~accrued~~accrued liabilities, ~~promotional funds payable and advances to parent company,~~ advances from ~~companies~~Co Ranies under common control, ~~advances from ultimate parent,~~ advances from parent company - The carrying amounts approximate fair values due to the short maturity of these financial instruments.

~~Advances to ultimate parent, advances from parent company and long~~Long-term loans ~~from~~from company under common control - The fair value is approximately equal to the carrying amount as they were obtained at market rates during the current year— The fair value of long-term loans from company under common control is determined using the present value of future cash flows under Current financing agreements based on the Company's current estimated borrowing rate for a similar debt.

Long-term debt - The fair value of long-term debt is determined using the present value of future cash flows under current financing agreements based on the Company's current estimated borrowing rate for a similar debt.

Risk management policies

The Company, through its financial assets and financial liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at November 30, ~~2016-2018~~.

~~Credit risk~~Credit risk

The Company's credit risk is primarily attributable to its trade receivables, loans receivable and deposits. For accounts receivable and loans receivable, the amounts disclosed on the consolidated balance sheet are net of allowances for bad debts, estimated by the Company's management based on past experience and counterparty specific circumstances. The Company believes that the credit risk of accounts receivable is limited for the following reasons:

The Company's broad client base is spread mostly across the USAUnited States, which limits the concentration of credit risk.

—The Company accounts for a specific bad debt ~~provisions~~provision when ~~management~~management considers that the expected recovery is less than the actual account receivable.

The credit risk on cash is limited because the Company invests its excess liquidity in high quality financial instruments and with credit-worthy counterparties.

The credit risk on deposits is also limited as these are mostly with well established and credit-worthy companies.

~~Foreign~~Foreign exchange risk

Foreign exchange risk is the Company's exposure to decreases or increases in financial instrument values caused by fluctuations in exchange rates. The Company's exposure to foreign exchange risk mainly comes from sales denominated in foreign currencies. The Company uses the U.S. dollar as functional currency. Since almost all transactions are conducted in U.S. currency, the Company's risk to fluctuations in foreign exchange rates are deemed to have

minimal risk.

MTY Franchising USA, Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2018 and November 30, 2017

17. Financial instruments (continued)

Interest rate risk

Interest rate risk is the Company's exposure to increases and decreases in financial instrument values caused by the fluctuation in interest rates. The Company has limited exposure to interest rate risk as its long-term loans from company under common control and advance from parent company as well as its long-term debt have fixed interest rates.

MTY Franchising USA, Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2016 and November 30, 2015

19. Financial instruments (continued)

Liquidity risk

Liquidity risk refers to the possibility of the Company not being able to meet its financial obligations when they become due. The Company has contractual and fiscal obligations as well as financial liabilities and is therefore exposed to liquidity risk. Such risk can result, for example, from a market disruption or a lack of liquidity. Given that the majority of financial obligations are with related parties, liquidity risk is deemed to have a minimal risk.

The following are the contractual maturities of financial liabilities as at November 30, 2016:

	Carrying amount	Contractual cash flows	0 to 6 months	6 to 12 months	12 to 24 months	thereafter
Accounts payable	5,787,960	5,787,960	5,787,960			—
Accrued liabilities	5,140,046	5,140,046	5,140,046	—	—	—
Promotional funds payable	3,300,647	3,300,647	3,300,647			—
	<u>4,442,221</u>	<u>4,442,226</u>	<u>4,442,226</u>	—	—	—
Advance from parent company	2,581,853	2,581,853	2,581,853	—	—	—
Advances from company under common control	75,852,681	75,852,681	75,852,682	—	—	—
	<u>380</u>	<u>380</u>	<u>1,380</u>			
Long-term loans from company under common control	1,303,659	1,303,599	1,303,699		==	==
	<u>243,791</u>	<u>243,791</u>	<u>243,791</u>	==	==	
	<u>199,850,000</u>	<u>199,850,000</u>	—	==	—	<u>199,850,000</u>
		<u>19,806,037</u>				<u>19,886,037</u>
Long-term debt	13,333,394	16,133,575	105,592	5,338,771	5,342,105	5,347,107

The following are the contractual maturities of financial liabilities as at November 30, 2018:

!❗ When future interest cash flows are variable, they are calculated using the interest rates prevailing at the end of the reporting period.

MTY Franchising USA, Inc.

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Notes to the consolidated financial statements

For the years ended 14e venber November 30, 20162018 and November 30 20 S

30, 2017

18. Revenues

Revenues are broken down as follows:

20. Operating expenses

Operating expenses are broken down as follows:

	Franchising	Corporate	2016 Total
	As restated- (Note 23)		As restated (Note 23)
Cost of goods sold	6,276,295	941,371	7,217,666
Wages and benefits	7,640,626	4,118,605	11,759,231
Advertising, marketing and promotion	925,998	196,636	1,122,634
Rent	989,348	1,843,795	2,833,143
Professional & consulting fees	4,196,351	—	4,196,351
Travel, meals and entertainment	1,011,227	—	1,011,227

		Other	2018	2017
	85,487	394,623	480,110	Total
	21,125,332	7,495,030	28,620,362	
		Total		

	Franchising	Corporate	2015 Total
Cost of goods sold	11,791	797,376	809,167
Wages and benefits	626,352	616,331	1,242,683
Advertising, marketing and promotion	21,267	25,350	46,617
Rent	52,416	578,720	631,136
Professional & consulting fees	171,141	—	171,141
Travel, meals and entertainment	232,405	—	232,405
Corporate store revenues		20,064,600	21,129,138
Royalties		51,717,557	48,850,240
Franchise fees, transfer fees and master licence fees		5,833,465	4,408,458
Program allowances		18,714,928	15,034,286
Breakage income		4,849,208	4,763,537
Resale material and retail sales		5,640,830	6,557,706
Other revenue			

19. Operating expenses

Operating expenses are broken down as follows:

<u>139,063</u>	<u>119,499</u>
<u>258,562</u>	
<u>1,254,435</u>	<u>2,137,276</u>
	<u>3,391,711</u>
<u>,886</u>	<u>2,608,409</u>
<u>107,121,584</u>	<u>103,351,774</u>

2018

Franchising	Corporate	Total

<u>Cost of goods sold</u>	<u>2,717,461</u>	<u>6,223,577</u>	<u>8,441,038</u>
<u>Wages and benefits</u>	<u>20,413,548</u>	<u>7,557,547</u>	<u>27,971,095</u>
<u>Advertising, marketing and promotion</u>	<u>1,146,022</u>	<u>556,916</u>	
<u>Rent</u>	<u>2,067,805</u>	<u>4,723,161</u>	<u>6,790,966</u>
<u>Professional and consulting fees and commission</u>	<u>5,089,809</u>	<u>6,362</u>	<u>5,606,171</u>
<u>Office, travel, meals and entertainment, and utilities</u>	<u>5,323,954</u>	<u>2,203,319</u>	<u>7,527,273</u>
<u>Gift card program, costs*</u>	<u>5,913,068</u>	<u>—</u>	<u>5,913,068</u>
<u>Other</u>	<u>3,201,964</u>	<u>1,228,821</u>	<u>4,430,785</u>
	<u>46,473,431</u>	<u>22,502,733</u>	<u>68,976,164</u>

1. Comparative period amounts were reclassified to correspond with 2018 figures.

MTY Franchising USA, Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2018 and November 30, 2017

19. Operating expenses (continued)

	<u>Franchising</u>	<u>Corporate</u>	<u>2017</u> <u>Total</u>
<u>Cost of goods sold¹</u>	<u>3,571,094</u>	<u>6,487,653</u>	<u>10,058,747</u>
<u>Wages and benefits</u>	<u>19,622,626</u>	<u>7,651,697</u>	<u>27,274,323</u>
<u>Advertising, marketing and promotions</u>	<u>1,199,168</u>	<u>530,477</u>	<u>1,729,645</u>
<u>Rent</u>	<u>2,869,291</u>	<u>5,592,365</u>	<u>8,461,656</u>
<u>Professional and consulting fees and commission¹</u>	<u>7,450,355</u>	<u>10,051</u>	<u>7,460,406</u>
<u>Office, travel, meals and entertainment, and utilities¹</u>	<u>5,165,769</u>	<u>1,837,234</u>	<u>7,003,003</u>
<u>Gift card program costs^o</u>	<u>6,312,111</u>	<u>-</u>	<u>6,312,111</u>
<u>Other</u>	<u>2,501,061</u>	<u>1,729,049</u>	<u>4,230,110</u>
	<u>48,691,475</u>	<u>23,828,526</u>	<u>72,530,001</u>

2. Comparative period amounts were reclassified to correspond with 2018 figures.

Operating expenses are split into two types of operations; ~~Franchise~~, franchise operations and ~~Corporate~~corporate store operations. Operating segments were established based on the differences in the types of products or services offered by each division.

The products and services offered by each segment are as follows:

Franchising operations

The franchising business mainly generates revenues from royalties, supplier contributions, franchise fees and rent.

Corporate store operations

Corporate stores generate revenues from the direct sale of prepared food to customers.

MTY Franchising USA, Inc.

Notes to the consolidated financial statements

For the years ended November 30, 2018 and November 30, 2017

20. Operating lease arrangements

Operating leases as lessee relate to lease of premises in relation to the Company's operations. Leases typically have terms ranging between 5 and 10 years at inception. The Company does not have options to purchase the premises on any of its operating leases.

"For the years ended November 30, 2016 and November 30, 2015

The Company has entered into various long-term leases and has sub-leased substantially all of the premises based on the same terms and conditions as the original lease to unrelated franchisees. The minimum rentals, exclusive of occupancy and escalation charges, and additional rent paid on a percentage of sales basis, payable under the leases are as follows:

	<u>Lease</u>	<u>Sub-leases</u>	<u>Net</u>
	<u>commitments</u>		<u>commitment</u>
<u>2019</u>	<u>35,955,104</u>	<u>33,425,815</u>	<u>2,529,489</u>
<u>2020</u>	<u>32,736,438</u>	<u>30,441,202</u>	<u>2,295,236</u>
<u>2021</u>	<u>30,037,071</u>	<u>27,818,950</u>	<u>2,218,121</u>
<u>2022</u>	<u>25,689,873</u>	<u>23,669,797</u>	<u>2,020,076</u>
<u>2023</u>	<u>21,459,525</u>	<u>20,119,459</u>	<u>1,340,066</u>
<u>Thereafter</u>	<u>67,690,609</u>	<u>64,380,597</u>	<u>3,310,012</u>
	<u>213,568,620</u>	<u>199,855,820</u>	<u>13,713,000</u>

Payments recognized as a net expense during the year ended November 30, 2018 amount to \$6,790,796 (2017 — \$8,461,656).

Operating leases as lessor relate to the properties leased or owned by the Company, with lease terms ranging between 5 to 10 years. Some have options to extend the duration of the agreements, for periods ranging between 1 and 15 years. None of the agreements contain clauses that would enable the lessee or sub-lessee to acquire the property.

The Company has recognized a liability of \$444,200 (2017 — \$647,000) for the leases of premises in which it no longer has operations but retains the obligations contained in the lease agreement (note 15).

MTY Franchising USA, Inc.Notes to the consolidated financial statementsFor the years ended November 30, 2018 and November 30, 2017**21. Income taxes**

The Company accounts for income taxes in accordance with ASC 740, Income Taxes ("ASC 740"). ASC 740 prescribes the use of the liability method whereby deferred tax asset and liability account balances are ~~determined~~~~detennined~~ based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax ~~rates~~~~stes~~. The effects of future changes in tax laws or rates are not anticipated~~7~~.

Under ASC ~~740~~~~740~~, income taxes are recognized for the following: a) amount of tax payable for the current year and b) deferred tax liabilities and assets for future tax consequences of events that have been recognized ~~differently~~~~differengy~~ in the consolidated financial statements than for tax purposes.

On December 22, 2017, the United States enacted the "U.S. Tax Cuts and Job Act" of 2017, commonly referred to as the U.S. tax reform, which resulted in the U.S statutory federal income tax rate being reduced to 21.00% from the previous rate of 35.00%», effective January 1, 2018.

Consequently, for its fiscal year ending on November 30, 2018, the Company's statutory federal income tax rate is 22.19%. The Company recorded a net tax benefit of \$28.3M during the year, which is primarily derived from the re-measurement of the Company's deferred income tax balances.

	<u>2018</u>	<u>2017</u>
Income tax expense (benefit)	<u>\$</u>	<u>\$</u>
	<u>2016</u>	<u>2015</u>
Income ~~Current~~ tax ~~expense~~ (benefit) ~~expense~~	<u>3,27</u>	<u>7,61</u>
	<u>5</u>	<u>5</u>
	<u>As restated-</u>	<u>As restated-</u>
	<u>(Note 23)</u>	<u>(Note 23)</u>
Current ~~Deferred~~ tax ~~expense~~ (benefit) ~~expense~~	<u>2,083,431</u>	<u>265,56</u>
	<u>0</u>	<u>790,88</u>
	<u>2</u>	<u>2</u>
Total tax (benefit) expense	<u>984,323</u>	<u>984,323</u>

Deferred tax expense (benefit)	<u>128,548,037</u>
Total tax expense (benefit)	<u>125,288,422</u>
~~(1,454,759)~~	~~116,874~~
~~628,672,382,434~~	

The provision for income taxes recorded in the consolidated financial statements differs from the amount, which would be obtained by applying the statutory federal income tax rate of ~~38%~~~~(37% in 2015)~~22.19% (2017 — 34.00%), to the income for the period~~year~~ as follows:

	<u>2016</u>	<u>2015</u>
	<u>As restated-</u>	<u>As restated-</u>
	<u>(Note 23)</u>	<u>(Note 23)</u>
Earnings for the period before income taxes	<u>502,006</u>	<u>1,012,164</u>
Income tax recovery at combined federal statutory rate	<u>170,682</u>	<u>345,700</u>

State and local income taxes net of federal tax benefit	68,758	29,283
Non-deductible/non-taxable items	406,239	4,250
True-up of prior year tax provision	15,384	(11,228)
Change in state tax rate	1,859	14,430

Other

(34,250) (1) 2018 **2017**

Income before income taxes	628,672	8,129,575
Income tax expense at federal statutory rate	5,021,800	
	-382,434	
	1,803,028	1,707,412
State and local income taxes, net of federal tax benefit	395,571	204,385
Non-deductible/non-taxable items	315,587	456,855
True-up of prior year tax provision	516,536	(136,598)
Change related to the U.S. tax reform	(28,300,060)	(1,247,731)
Income tax (recovery) expense	(25,268,122)	984,323

MTY Franchising USA, Inc.
Notes to the consolidated financial statements
For the years ended November 30, 2018 and November 30, 2017

MTY Franchising USA, Inc.

~~Notes to the consolidated financial statements~~

~~For the years ended November 30, 2016 and November 30, 2015~~

~~21. Income taxes (continued)~~

21. Income taxes (continued)

Components of the net deferred tax asset or liability:

	2016	2015
	As restated (Note 23)	=
		<u>2</u>
		<u>018</u>
		<u>2</u>
		<u>017</u>
	1,064,132	6,246
Allowance for doubtful accounts		830,
		148
~~Non-deductible interest~~		30,401
Deferred revenue	1,912,653	1,77
		196
		0,90
		7
Gift cards	17,223,485	10,774,
		937
Property, ~~plants~~ plant and equipment	448,611	552,
		353
Accrued ~~expenses~~ liabilities	2,809,537	2,058,
		225
Long-term debt	22,542	
Total deferred tax assets	23,480,960	38,418
		15,183,5
		70
~~Property, plants and equipment~~ Intangible assets	—	(63,020
		<u>70,43B,</u>
		<u>001)</u>
		<u>(105,717</u>
		<u>,698)</u>
<u>Long-term debt</u>		
<u>Total deferred tax liabilities</u>	(70,517,324)	(105,717,698)
<u>Net deferred tax liabilities</u>	(55,333,754)	(83,838,692)

22. Supplemental cash flow information

~~Intangible assets~~

~~Total deferred tax liabilities~~

Net deferred tax asset (liability)

179,323 -

~~-(107,981,908) (62,236) (107,981,908) /125,256)~~

~~-(84,500,948) (86,838)~~

~~22. Supplemental cash flow information~~

During the year, the Company paid \$~~658,212 (\$13,256 in 2015~~579,580 (2017 — \$126,975) in income taxes.

23. ~~Correction of an error~~Related party transactions

The Company has transactions in the normal course of business with its parent company and companies under common control. These transactions were in the normal course of business and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Consolidated financial statements of MTY Franchising USA, Inc.

November 30, 2017

<u>Independent Auditor's Report</u>	<u>1</u>
<u>Consolidated statement of operations and comprehensive income (loss)</u>	<u>2</u>
<u>Consolidated statement of changes in stockholder's equity</u>	<u>3</u>
<u>Consolidated balance sheet</u>	<u>4</u>
<u>Consolidated statement of cash flows</u>	<u>5—6</u>
<u>Notes to the consolidated financial statements</u>	<u>9-33</u>

Independent Auditor's Report

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Consolidated statement of operations and comprehensive income (loss)

Year ended November 30, 2017

	NoEes	2016	
Revenue	ig	503,351,724	38,191,929
Cost and expenses			
Operating expenses	zo	72,530,005	28,620,362
Amortization — property, plant and equipment	s	a20,774	502,591
Amortization - intangible assets	9	10,853,3e2	3,524,603
Interest charged by parent company	3	3,2d5	43,721
Interest charged by companies under common control	3	11,191,600	3,697,987
Accreted interest expense on-interest-bearing holdback		1,484,003	528,769
Managemnt fees charged by parent company	3	1,235,BS3	7B6,648
		98,068,4k8	376T4,681
Gain (u>ss) on disposal of property, plant and equipment			(15,242)
Interest revenue from parent company			
Impairment char9e of Intangible ossets			
		(15,242)	
Income before income taxes		502,006	
Income tax expenses / recovery	21		
Current		193,441	2,0B3,431
Deferred		790,882	(1,454,759)
		628,672	9B4,323
Net income (loss) and comprehensive income (loss)		(126,666)	

The accompanying notes are an integral part of the consolidated financial statements.

MUY Franchising USA, Inc.**Consolidated statement of changes in stockholder's equity**

Year ended November 30, 2017

	Common stock issued	Common stock at cost	Additional paid-in capital	Retained earnings	Total stockholder's equity
Balance as at November 30, 2015	1,000	89,153,736	99	897,838	897,938
Share issuance (note 18)	4,001	89,153,736		—	89,153,736
Acquisition of net assets of Mucho Burrito Franchising USA, Inc. (note 4)			(99)	(89,906)	(90,000)
Net loss			—	(26,666)	(26,666)
Balance as at November 30, 2016	5,001	89,153,737	—	685,271	89,848,009
Net income	5,001	89,153,737	—	4,037,477	93,872,485
Balance as at November 30, 2017					

The accompanying notes are an integral part of the consolidated financial statements.

t#TY franchising USA, Inc.
Consolidated balance sheet
 As at November 30, 2017

	Notes	2017	2016
Current assets			
Cash		3B,056,827	19,266,443
Accounts receivable	s	10,517,297	12,901,366
Loans receivable	6	2a001,458,915	2,353,381,388
Prepaid expenses and deposits		3,212,701	4,975,951
Inventories			
Advances to parent company	3 and 7	227,315	86,209
		54,045,2a	40,021,588
Loans receivable	6	D,k84,155	3,334,10Z
Property, plant and equipment	8	863,208	2,893,750
Intangible assets	s	309,514,014	321,075,777
Goodwill	t0	119,497,868	117,952,987
		432,AS9,440	445,256,616
		486,2B3,766	485,27B,204
Liabilities			
Current liabilities			
Accounts payable		4,807,2s9	5,787,960
Accrued liabilities		8,21Z,927	5,140,046
Deferred revenue and deposits	iz	10,790,565	B,586,237
Income taxes payable	3	12,70s,7S9	13,487,370
Advance from parent company	3 and J.1	1y29@yfl49	2,587,853
Advances from companies under common control	z and 1z	283,Ba1	75,852
GIR card liability	i j	57,391,3d9	55,312,249
Promotional funds payable		4,D41, '12	3,300,647
Long-term liabilities			
Current portion of long-term debt	is	Z,Z01 3BD	4,B32,883
		10z,iT3,Ca6	i00,1i1,097
Long-term loans from company under common control	t<	199,850,000	199,850,000
Long-term debt	is	4,989,121	B,500,511
Deferred revenue and deposits	t2	£,509,579	2,480,640
Deferred Income taxes	2t	8S,838,6S3	84,500,948
		302,361,2B1	395,443,195
Stockholder's equity			
Common stock	iz	89,153,737	89,153,737
Retained earnings		4,718,748	6,271
		09,871,485"	89,835,008
		48d,233,?'d6	485,278,204

The accompanying notes are an integral part of the consolidated financial statements.

Approved by the Board

CITY Franchising U9A, Inc.
ConcoTidated statement of cash flows
Year ended November 30, 2D17

	NOIES	2017	2016
Operating activities			
Net Inooome (loss)		4,037,477	(126,656)
Items not affecting cash			
Amortization - property, plant and equipment		N20, TTd	502,591
Amortization - intangible assets		10,85S, 191	3,524,603
Interest on advance Fom (to) parent company		11,891,600	3,697,987
Interest on advance from companies under common control			
Accreted Interest expense on-interest-bearing holdbacks		1,434,003	528,769
(Gain) loss on dlsposal of property, plant and equipment		(404,116)	15,242
Impairment charge of intangible assets		790,gg2	(1,454,759)
Income tax expense			
Interest paid		(1E,191,5D0)	(3,697,987)
Changes In non-casfi working capll:at items			
Accounts receivable		2,a46,gB0	(2,654,016)
Inventories		179,4?5	(6,060)
Prepaid expenses and deposits		E,763,250	(1,780,458)
Loans receivable		1,2s»,506	(675,25B)
Income taxes		f77s,e52j	,380,279
Accounts payable		(2,118,3s5)	(3,751,221j
Accrued liabilities		3,072,8?1	4,066,015
Promotional funds payable			
GiR cafd liability		1,079,120	2,558,749
Deferred revenue and deposits		1,1?3,267	(506,614]
Net cash from operating activities		24,842,018	3,739,981
Net cash outflow on acquisitions		(Zk4,80S)	(28,818,S00)
Additions to property, plant and equipment		(***,500)	(54,S0&)
Additions to Intangible assets		(15,000)	=
Issuance of advances to parent company		481,733	3,271
Issuance of advances to companies under common control		207,949	8,489
Proceeds on disposal of property, plant and equipment		1,B0E,984	294,100
Net cash from investing activities		2,003,7B8	(2B,567,140)

bfTY Franchising UGA, Inc.
CD£I6oIldated statement of cash flows (continued)
Year ended November 30, 2017

	NoCes	2016
Finaneing activltMea		
Issuance of long-term debt	—	30,000,000
(Repayment) Issuance of advance from parent company	(1,500,000)	819,375
Issuance of advances from company under common control	—	19,818,500
Issuance of shares to parent company	—	8,500,000
(Repayment) of long-term debt	{«,25s,s92)	(31,263,500)
Net cash from financing activities	{8,055,59Z)	Z7,874,375
Net Increase in cash Cash, beginning of year	15,790,184	3,047,216
Cash acquired	19,286,449	899,018
Cash, end of year		15,320,209
		S8,056,627' 19,266,443

4and
23

The accompanying notes are an integraf part of the consolidated financial statements.



Nature of operation

NTB' Franchising USA, Inc. (the "Company" or "NTB USA") was Incorporated on March 14, 2001. The Company develops and franchises restaurants under a multitude of different banners in the United States of America.



Significant accounting policies

Basis of presentation

The accounting policies of the Company are in accordance with accounting principles generally accepted in the United States of America. The Company uses the United States dollar as its functional and reporting currency.

On July 26, 2016, the Company acquired all of the equity ownership of Kahafa Brands Ltd., having 2,879 locations under a multitude of banners operating in the United States of America, whose financial results are reported with those of the Company from the date of acquisition

On October 5, 2016, the Company acquired all of the equity ownership of BF Acquisition Holdings, LLC, having 185 locations under two banners operating in the United States of America, whose financial results are reported with those of the company from the date of acquisition onward.

On November 30, 2016, the Company acquired the net assets of eSB Franchising USA Inc., having 4 locations in the United States of America, whose financial results are reported with those of the Company from the date of acquisition onward.

On November 30, 2016, the Company acquired the net assets of Ttuchos Burrito Franchising USA Inc., having 1 location in the United States of America, whose financial results are reported with those of the Company from the date of acquisition onward.

Presented below are those policies considered particularly significant:

Basis of consolidation

Our consolidated financial statements reflect the financial position and operating results of the Company, including wholly-owned subsidiaries and investments that we control. Investments in entities that we do not control, but have the ability to exercise significant influence over operating and financial policies, are accounted for under the equity method. Investments in entities in which we do not have the ability to exercise significant influence are accounted for under the cost method. Intercompany transactions and balances have been eliminated.

The principal subsidiaries of the Company are as follows:

BF Acquisition Holdings, LLC
Kahafa Brands Ltd.

100% 100%

Revenues and expenses of subsidiaries are included in the consolidated statement of operations and comprehensive income from the effective date of acquisition. The subsidiaries are consolidated from the acquisition date until the date on which the Company ceases to control them.

All intercompany transactions, balances, revenues and expenses are eliminated in full upon consolidation.

aa. Significant accounting policies (continued)

Business combinations between entities under common control

The Company accounts for acquired businesses using the acquisition method of accounting in accordance with FASB ASC 805, Business Combinations. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination between entities under common control are to be initially recognized by the receiving entity at the transfer date. The acquired net assets shall initially be transferred at their carrying amounts in the accounts of the transferring entity. Any excess of the purchase price over the carrying amounts in the accounts of the transferring entity is recognized as an equity transaction within the statement of changes in stockholder's equity.

The financial statements of the receiving entity shall report results of operations for the period in which the transfer occurs as though the transfer of net assets or exchange of equity interests had occurred at the beginning of the period. Results of operations for that period will thus comprise those of the previously separate entities combined from the beginning of the period to the date the transfer is completed and those of the combined operations from that date to the end of the period.

Business combinations

The Company accounts for acquired businesses using the acquisition method of accounting in accordance with FASB ASC 805, Business Combinations. The consideration transferred for the acquisition is the fair value of the assets transferred, the liabilities incurred and the equity interest issued. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill.

Goodwill

Goodwill represents the excess of cost over the net tangible assets and identifiable intangible assets of acquired businesses. Goodwill is carried at cost less accumulated impairment losses, if any.

Functional currency

the functional currency of the Company and its subsidiaries is the US dollars. The Company translates monetary assets and liabilities that are denominated in currencies other than the US dollar at the exchange rates prevailing at the end of the reporting period; non-monetary assets denominated in foreign currencies are translated using the exchange rate prevailing at the transaction date; all revenue and expense items denominated in foreign currencies are translated at the exchange rate prevailing at the transaction date. All foreign exchange gains and losses are reported in profit or loss.

MTY Franchising USA, Inc.

Notes to the consolidated financial statements

November 30, 2017

2. Significant accounting policies {continued}

Revenue recognition

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, price is fixed or determinable and collectability is reasonably assured.

(a) Revenue from franchise locations

The Company recognizes revenue in accordance with the accounting guidance of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 952-605, Franchisors, Revenue Recognition.

Royalties are based either on a percentage of gross sales as reported by the franchisees or on a fixed monthly fee. They are recognized on an accrual basis in accordance with the substance of the relevant agreement, provided collectability is reasonably assured and price is fixed or determinable.

Initial franchise fees are recognized when substantially all of the initial services as required by the franchise agreement have been performed. This usually occurs when the location commences operations.

Revenue from the sale of franchise locations is recognized at the time the franchisee assumes control of the franchise location.

Master license fees are recognized when the Company has performed substantially all material initial obligations under the agreement, which usually occurs when the agreement is signed, which is recorded in franchise fees, transfer fees and master license fees.

Renewal and transfer fees are recognized when substantially all applicable services required by the Company under the franchise agreement have been performed. This generally occurs when the agreement is signed. This revenue is recorded in franchise fees, transfer fees and master license fees.

Revenue from equipment sale is recognized when the risk and rewards of ownership and title pass to buyer, generally upon the shipment of the equipment. This revenue is recorded in other revenue.

The Company earns rent revenue on certain leases it holds; the Company's policy is described below.

The Company receives considerations from certain suppliers called program allowances. Program allowances are recognized as revenues as they are earned.

(b) Revenue from corporate-owned locations

Revenue from corporate-owned locations is recorded when goods are delivered to customers.

Leasing

Leases are classified as capital leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

MTY Franchising USA, Inc.

Notes to the consolidated financial statements

November 30, 2017

2. Significant accounting policies (continued)

The Company as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

The Company as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Income taxes

The Company accounts for income taxes pursuant to ASC 740, Income Taxes ("ASC 740"). Deferred tax assets and liabilities are recorded for differences between the financial statement and tax basis of the assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is recorded for the amount of income tax payable or refundable for the period increased or decreased by the change in deferred tax assets and liabilities during the period.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

Allowance for Doubtful Accounts

Allowance for doubtful accounts is calculated based on historical experience, customer credit risk and application of the specific identification method.

Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated balance sheet at their historical costs less accumulated depreciation (buildings) and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset, including any costs directly attributable to bringing the asset to a working condition for its intended use.

Equipment, leasehold improvements, rolling stock and computer hardware are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized so as to write off the cost or valuation of assets (other than land) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each year, with the effect of any changes in estimate accounted for on a prospective basis.

MTY Franchising USA, Inc.

Notes to the consolidated financial statements

November 30, 2017

2. Significant accounting policies (continued)

Property, plant and equipment

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Depreciation is based on the following terms:

<u>Equipment</u>	<u>Straight-line</u>	<u>3 to 10 years</u>
<u>Leasehold improvements</u>	<u>Straight-line</u>	<u>Term of the lease</u>
<u>Rolling stock</u>	<u>Straight-line</u>	<u>5 to 7 years</u>
<u>Computer hardware</u>	<u>Straight-line</u>	<u>3 to 7 years</u>

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses, if applicable. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful lives and amortization methods are reviewed at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses, if applicable.

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets having a finite life acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, if applicable, on the same basis as intangible assets that are acquired separately. Intangible assets having an indefinite life are not amortized and are therefore carried at cost less accumulated impairment losses, if applicable.

Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

The Company currently carries the following intangible assets in its books:

Franchise rights

The franchise rights acquired through business combinations are recognized at the fair value of the estimated future cash inflows related to the acquisition of franchises. The franchise rights are generally amortized on a straight-line basis over the term of the agreements which typically range between 10 to 20 years.

INTY Franchising USA, Inc.

Notes to the consolidated financial statements

November 30, 2017

Significant accounting policies (continued)

Trademarks

Trademark acquired through business combinations are recognized at their fair value at the time of the acquisition and are not amortized. Trademarks are determined to have an indefinite useful life based on their strong brand recognition and their ability to generate revenue through changing economic conditions with no foreseeable time limit.

Impairment of long-lived assets other than goodwill

The Company continually reviews whether events or circumstances subsequent to the acquisition of any long-lived assets, including intangible assets with finite useful lives, have occurred that indicate the remaining estimated useful lives of these assets may warrant revision or that the remaining balance of these assets may not be recoverable. If events and circumstances indicate that the long-lived assets should be reviewed for possible impairment, the Company uses projections to assess whether future cash flows on an undiscounted basis related to the assets exceeds the recorded carrying amount of those assets to determine if an asset is impaired. Should an impairment be identified, a loss would be recorded to the extent that the carrying value

of the impaired assets exceeds their fair values as determined by valuation techniques appropriate in the circumstances that could include the use of similar cash flow projections on a discounted basis.

Impairment of goodwill

Goodwill is tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis (August 31 for the Company) and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. Fair value is determined using a discounted cash flow methodology with a risk adjusted weighted average cost of capital.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand and short-term investments, if any, with maturities upon acquisition of generally three months or less or that are redeemable at any time at full value and for which the risk of a change in value is not significant. As at November 30, 2017 cash and cash equivalents included \$221,015 in restricted cash (2016 - \$221,015), required as part of guarantees on certain lease commitments.

inventories

Inventories are measured at the lower of cost and market value. Costs of inventories are determined on a first-in-first-out basis and include acquisition costs, conversion costs and other costs incurred to bring inventory to their present location and condition. The cost of finished goods includes a pro rata share of production overhead based on normal production capacity.

Market value represents the current replacement cost, provided that the cost does not exceed the net realizable value or is not less than the net realizable value reduced by a normal profit margin.

Contingencies

Litigation, disputes and closed stores

Contingencies for the expected cost of litigation, disputes and the cost of settling leases for closed stores are recognized when it becomes probable the Company will be required to settle the obligation, at management's best estimate of the expenditure required to settle the Company's obligation.

z. Significant accounting policies (continued)

Contingencies (continued)

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognized and the amount initially recognized less cumulative amortization recognized, if any.

Financial instruments

The Company's financial instruments consist of cash, accounts receivable, loans receivable, deposits, advances to ultimate parent, accounts payable, accrued liabilities, promotional funds payable, advances from parent company, advances from companies under common control, long-term loans from company under common control and long-term debt. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value for cash, accounts receivable, loans receivable, deposits, advances to ultimate parent, accounts payable, accrued liabilities, promotional funds payable, advance from parent company and advances from companies under common control approximates their carrying values due to their immediate or short-term maturities, unless otherwise noted. Long-term loans from company under common control and long-term debt are measured at amortized cost using the effective interest method.

Gift card and loyalty program liabilities

Gift card liability represents liabilities related to unused balances on reloadable payment cards. Loyalty program liabilities represent the dollar value of the loyalty points earned and unused by customers.

The Company's various franchised and corporate owned locations, in addition to third party companies, sell gift cards to be redeemed at the Company's corporate and franchised locations for food and beverages only. Proceeds from the sale of gift cards are included in gift card liability until redeemed by the gift cardholder as a method of payment for food and beverage purchases.

Effective September 1, 2017, the Company refined its method to determine breakage income recognized for Cold Stone Creamery gift cards that were not acquired as part of the business acquisition. Previously, the Company would recognize breakage revenue in its consolidated statements of income based on historical redemption patterns, when it was established that these gift cards had a remote likelihood of being redeemed.

Under the refined method, the Company recognizes breakage on the Cold Stone Creamery gift cards in its consolidated statements of income based on historical load and redemption patterns. The redemption rate was established following an analysis performed over 10 years of the redemption patterns as well as expected future trends. The expected breakage is then recognized into income on a pro rata basis as gift cards are redeemed.

The Company has determined that this accounting change represents a change in accounting estimate effected by a change in accounting principle. The refinement resulted in a cumulative adjustment to increase previously recorded breakage income in 2016 by \$236,184. This adjustment has been recorded in the consolidated statements of income for the year ended November 30, 2017. This change was accounted for prospectively as a change in accounting estimate

The Company incorrectly determined that the carrying value of the assumed gift card liability approximated its fair value based on historical redemption patterns and continued to recognize breakage revenue when it was estimated that the likelihood of gift cards being redeemed was remote. The assumed gift card liability should have been recorded at fair value which would have incorporated estimated future breakage and accordingly no breakage revenue should have been recorded on the assumed gift cards after the acquisition unless there were changes in expected redemption patterns. Although the carrying value of the gift card liability recorded in the purchase price allocation was not materially different than its fair value and does not require to be restated, breakage revenue recorded for those gift cards and the related expenses subsequent to the acquisition require restatement. For all other gift card programs, the Company estimates based on historical redemption patterns, the portion of gift cards that have a remote likelihood of being

redeemed and recognizes the amount in its consolidated statements of income, except for those gift cards liabilities assumed upon a business acquisition.

f4TY Franchising USA, 3nc.

Notes to the consolidated financial statements

November 30, 20J7

Significant accounting policies (continued)

Gift card and loyalty program liabilities (continued)

Due to the inherent nature of gift cards, it is not possible for the Company to determine what portion of the gift card liability related to gift cards will be redeemed in the next 12 months and, therefore, the entire unredeemed gift card liability is considered to be a current liability.

Promotional fund

Pursuant to the franchise agreement's, franchisees must pay a fee to the promotional fund. These amounts are collected by the Company in its capacity as agent and must be used for promotional and advertising purposes, since the amounts are set aside to promote the respective banners for the franchisees' benefit. The fees collected by the Company for the promotional fund are not recorded in the Company's statement of operations and comprehensive income, but as operations in the accounts payable to the promotional fund. The payable is presented net of any amounts spent from the promotional fund.

Cash held pursuant to the promotional funds received are classified as unrestricted cash as there are no legal restrictions on the use of these funds; however, the Company intends to use these funds solely to support the promotional funds rather than to fund its ongoing operations. Promotional funds are currently in a net liability position amounting to \$4,041,713 (2016 net liability of \$3,300,647).

Subsequent events

Subsequent events were evaluated through the date that the consolidated financial statements were issued, which was February 21, 2018.

Adoption of New Standards

ASU 2015-27 - Income Taxes (Topic 740). Balance Sheet Classification of Deferred Taxes ("ASU 2015-27")

During 2015, the Company adopted ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes ("ASU 2015-17") on a prospective basis; therefore, all deferred tax assets and liabilities have been classified as noncurrent in the accompanying Consolidated Balance Sheet.

ASU 2015-16 Simplifying the Accounting for Measurement-Period Adjustments in Business Combinations ("ASU 2015-16")

Effective December 1, 2016, the Company adopted ASU 2015-16 on a prospective basis. The new standard requires that an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The adoption of the pronouncement did not have a material impact on the Company's consolidated financial statements.

ASU 2015-03 Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03")

Effective December 1, 2016, the Company adopted ASU 2015-03. The adoption of this standard did not have a material impact on the Company's consolidated financial statements. The new standard requires debt issuance costs related to a recognized debt liability to be presented in the Consolidated Statements of Financial Position as a direct deduction from the carrying amount of that debt liability, as consistent with the presentation of debt discounts or premiums. ASU 2015-15 was adopted in conjunction with the above standard and did not have a material impact on the Company's consolidated financial statements. ASU 2015-15 clarifies the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements, whereby an entity may defer debt issuance costs as an asset and subsequently amortize them over the term of the line-of-credit.

Significant accounting policies {continued}

Recently Issued Accounting Pronouncements

ASU 2017-01- Clarifying the definition of a business ("ASU 2017-01")

The FASB issued ASU 2017-01- *Clarifying the definition of a business*; the amendment clarifies the definition of a business with objective guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of businesses. The ASU will be elective for the Company for the fiscal years beginning after December 1, 2019. The Company is in the process of evaluating the impact of the standard on its financial statements.

ASU 2017-04- Intangibles - Goodwill and other topic 350 simplifying the test for goodwill impairment ("ASU 2017-04")

In January 2017, the FASB issued guidance that simplifies the measurement of goodwill impairment. Under this new guidance, an impairment charge, if triggered, is calculated as the difference between a reporting unit's carrying value and fair value, but it is limited to the carrying value of goodwill. The ASU will be elective for the Company for the fiscal years beginning after December 1, 2021. Early adoption is permitted. The Company is in the process of evaluating the impact of the standard on its financial statements.

ASU 2016-16- Income taxes (topic 740) Intra entity transfer of an asset other than

In October 2016, the FASB issued guidance on the accounting for income tax effects of intercompany sales or transfers of assets other than inventory. The guidance requires entities to recognize the income tax impact of an intra-entity sale or transfer of an asset other than inventory when the sale or transfer occurs, rather than when the asset has been sold to an outside party. ASU will be effective for the Company for the fiscal years beginning after December 1, 2020. Early adoption is permitted. The Company is in the process of evaluating the impact of the standard on its financial statements.

ASU 2016-15 - Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15")

In August 2016, the FASB issued ASU 2016-15 "Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments" to address diversity in practice on certain specific cash flow issues. The ASU will be effective for the Company for the fiscal years beginning after December 1, 2018. Early adoption is permitted. The Company is in the process of evaluating the impact of the standard on its financial statements.

ASU 2016-04 - Liabilities - Extinguishment of Liabilities (Subtopic 405-20) Recognition of Breakage for Certain Prepaid Stored-Value Products. ("ASU 2016-04")

In March 2016, the FASB issued ASU 2016-04, *Liabilities - Extinguishment of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products*. ASU 2016-04 aligns recognition of the financial liabilities related to prepaid stored-value products (for example, gift cards) with Topic 606, *Revenues from Contracts with Customers*, for non-financial liabilities. In general, these liabilities may be extinguished proportionately in earnings as redemptions occur, or when redemption is remote if issuers are not entitled to the unredeemed stored value. ASU 2016-04 is effective for fiscal years, and interim periods within those years, beginning after December 1, 2018, and early adoption is permitted. The Company is in the process of evaluating the impact of the standard on its financial statements.

CITY Franchising USA, Inc.

Notes to the consolidated financial statements

November 30, 2017

Significant accounting policies (continued)

Recently issued Accounting Pronouncements (continued)

ASU 2016-02 - Leases ("ASU 2016-02")

In February 2016, the FASB issued ASU 2016-02, Leases. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement.

The new standard is effective for fiscal years beginning after December 15, 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is in the process of evaluating the impact of the standard on its financial statements.

ASU 2016-01 - Recognition and Measurement of Financial Assets and Financial

In January 2016, the FASB issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which among other changes in accounting and disclosure requirements, replaces the cost method of accounting for non-marketable equity securities with a model for recognizing impairments and observable price changes, and also eliminates the available-for-sale classification for marketable equity securities. Under the new guidance, other than when the consolidation or equity method of accounting is utilized, changes in the fair value of equity securities are to be recognized in earnings.

The amendments in this Update are effective for fiscal years beginning after December 15, 2017. For all other entities including not-for-profit entities and employee benefit plans within the scope of Topics 960 through 965 on plan accounting, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. The Company is in the process of evaluating the impact of the standard on its consolidated financial statements.

ASU 2015-14, Revenue From Contracts With Customers (Topic 606), Deferral of the Effective Date ("ASU 2015-14")

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in applying such process, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP.

As a result of the issuance of ASU 2015-14, ASU 2014-09 is effective for annual periods beginning after December 15, 2019, and interim periods within annual reporting periods beginning after December 15, 2020, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact of its pending adoption of ASU 2014-09 on its consolidated financial statements and has not yet determined the method by which it will adopt the standard.

MTY Franchising USA, Inc.
Notes to the consolidated financial statements
November 30, 2017

3. Related party transactions

The Company has transactions in the normal course of business with its parent company and companies under common control. These transactions were in the normal course of business and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

4. Business acquisitions

(a) 2016 acquisition

On November 30, 2016, the Company acquired the net assets of BSB Franchising USA, Inc, a company under common control, for a total consideration of \$112,044 included in accrued liabilities as at November 30, 2017.

Consideration paid:

<u>Purchase price Net</u>	<u>199,292</u>
<u>obligations assumed Net</u>	<u>(87,248)</u>
<u>payable on acquisition</u>	<u>112,044</u>

The purchase price allocation is as

follows: Net assets acquired:

<u>Franchise rights</u>	<u>17,300</u>
<u>Goodwill</u>	<u>181,992</u>
<u>Current liabilities</u>	
<u>Promotional funds payable</u>	<u>11,029</u>
<u>Deferred revenue</u>	<u>76,511</u>
	<u>87,248</u>
<u>Net purchase price</u>	<u>112,044</u>

Total expenses incurred related to acquisition costs amounted to \$nil.

(b) 2016 acquisition

On November 30, 2016, the Company acquired the franchise rights of Mucho Burrito Franchising USA, Inc, a company under common control, for a total consideration of \$90,000, included in accrued liabilities as at November 30, 2017. The transaction was accounted for as an equity transaction.

~~MTY Franchising USA, Inc.~~

~~Notes to the audited and restated consolidated financial statements~~

~~For the years ended November 30 2016 and November 30 2015~~

f8TY Franchising USA, znc.**Notes to the consolidated financial statements****November 30, 2017****4. ~~23.~~Correction of an error **Business acquisitions (continued)******(c) 2016 acquisition**

The Company has determined that a restatement is required to its revenues and expenses recorded and the tax effect related to these adjustments. The impact of the restatement is follows: On October 5, 2016, the Company acquired the units of BE Acquisition Holdings, LLC, for a total consideration of \$27,000,000. The purpose of the transaction was to further solidify the Company's presence in the United States.

<u>Purchase price</u>	<u>26,952,852</u>
<u>Working capital adjustment</u>	<u>47,148</u>
<u>Net cash outflow *</u>	<u>27,000,000</u>

!* Includes \$2,700,000 in holdbacks paid to escrow.

The purchase price allocation is as follows:

Net assets acquired:

<u>Cash</u>	<u>1,089,313</u>
<u>Accounts receivable</u>	<u>964,271</u>
<u>Promotional funds receivable</u>	<u>291,162</u>
<u>Inventories</u>	<u>131,481</u>
<u>Loans receivable</u>	<u>1,289,595</u>
	<u>4,126,613</u>

Consideration paid:**Current assets****Prepaid expenses and deposits****1,661,794**

<u>Property, plant and equipment</u>	<u>1,762,000</u>
<u>Franchise rights Trademarks</u>	<u>2,400,630</u>
<u>Goodwill !*</u>	<u>16,462,529</u>
<u>Accounts payable</u>	<u>1,092,668</u>
<u>Accrued liabilities</u>	<u>405,921</u>
<u>Unredeemed gift card liability</u>	<u>1,871,431</u>

6,327,693
31,079,465

Current liabilities

<u>Deferred revenue</u>	<u>6B3,326</u>
	<u>4,053,346</u>
<u>Long-term debt</u>	<u>26,119</u>
<u>Net purchase price</u>	<u>27,0D0,000</u>
<u>!*! Goodwill is deductible for tax purposes</u>	
<u>Total expenses incurred related to acquisition costs amounted to</u>	
<u>\$nil.</u>	

f4YY franchising UGA, znc.**Notes to the consolidated financial statements****November 30, 2017****4. Business acquisitions (continued)****(d) 2016 acquisition (continued)**

On July 26, 2016, the Company acquired the shares of Kahala Brands Ltd. for a total consideration of \$259,174,785, including \$1,818,500 cash paid by MTY Franchising USA, Inc.

The purpose of the transaction was to solidify ID presence in the United States as this is expected to become one of the growth platforms.

In July 2017, the total purchase consideration was adjusted to \$258,599,985; in order to reflect measurement period adjustments. A net decrease in consideration of \$574,800 due to the receipt of final working capital adjustments and an amendment to the repayment terms of the holdback payable.

The holdback payable amendment was signed in April 2017 and affected only a portion of the holdback; originally \$25,000,000 of the holdback was to be repaid in equal installments over a three-year period commencing July 2017. This holdback will now be repaid over four installments amounting to \$6,150,000 repayable in both July 2017 and 2018 and \$6,200,000 in July 2019 and \$6,500,000 in August of 2020. The first installment has been paid in July 2017. The adjustment below reflects the change in the discounted amount for the changed repayment terms. The discount rate remains unchanged.

The resulting measurement period adjustments in total purchase consideration are highlighted below:

	Measurement period adjustment recorded in	Final Consideration
Consideration	fiscal 2017	
Consideration paid:		
Total cash consideration	240,000,000	240,000,000
Less: Indebtedness	(26,365,758)	(26,365,758)
Less: working capital adjustment	(22,864,130)	(22,639,322)
	190,770,112	190,994,920 (3a,000,000)
Less: Holdbacks	—	(30,000,000)
Total cash disbursed	160,994,920	160,770,112 224,808
Sources of financing Paid by MTY Franchising USA	1,818,500	224,000 2,043,308
Funds provided by ultimate parent company	2,061,791	-
2,061,791 Funds provided through advances	156,889,821	— 156,889,821
	160,770,112	224,808 160,994,920
Total merger consideration paid		
Cash	1,818,500	224,808 2,043,308
Loan payable to company under common control	181,850,000	— 281,850,000
Shares issued to parent company	80,653,736	- 80,653,736
Less: discount on holdbacks	(3,328,951)	(799,608) (4,128,559)
Total cash, liabilities and equity consideration	260,993,285	(574,800) 260,418,485
Less: Cash received from parent company	(1,818,500)	- (1,018,500)
Total merger consideration	259,174,785	(574,800) 258,599,985

NTY Franchising USA, Inc.
Noter to the consolidated financial statements
November 30, 2017

4. Business acquisitions (continued)

(d) 2016 acquisition (continued)

The final purchase price allocation is as follows:

	Purchase Price Allocation	Measurement period adjustment recorded in fiscal 2017	Final Purchase Price Allocation
Net assets acquired:			
Current assets			
Cash	14,230,896	—	14,230,896
Accounts receivable	8,987,335	(237,479)	8,749,855
Inventory	286,379	—	286,379
Loans receivable	1,419,096	(135,000)	1,284,096
Prepaid expenses and deposits	2,816,916	—	2,816,916
	27,740,621	(375,479)	27,365,142
Loans receivable	2,303,384	—	2,303,384
Property, plant and equipment	1,710,304	—	1,710,304
			Franchise rights 129,75883
			Trademarks 17410383
			— 1,718,304
Goodwill	111,190,035	1,544,876	112,734,911
	446,815,010	1,169,397	447,984,407
Current liabilities			
Accounts payable	8,318,520	1,115,845	9,434,365
Accrued liabilities	241,000	—	241,000
Promotional funds payable	1,424,095	2,081,149	3,505,244
Notes payable	26,365,750	—	26,365,750
Income tax liability	2,048,010	—	2,048,010
Unredeemed gift card liability	51,882,069	—	51,882,069
Deferred revenue	6,520,657	—	6,520,657
	95,600,109	3,196,994	98,797,103
Deferred revenue	2,171,247	—	2,171,247
Deferred income taxes	85,868,869	(1,452,797)	84,416,072
	187,640,225	1,740,197	189,380,422
Net purchase price	250,175,785	(575,000)	249,600,785

Goodwill is partially deductible for tax purposes

The cumulative impact of measurement period adjustments recorded in the consolidated Statement of Operations and Comprehensive Income:

Accreted interest expense on interest-bearing holdbacks

34,441

Total expenses incurred related to acquisition costs amounted to approximately \$775,858.

I TY Franchising USA, Inc.Notes to the consolidated financial statementsNovember 30, 2017S. Accounts receivable

The following table provides details on trade accounts receivable not past due, past due and the related allowance for doubtful account:

<u>Total accounts receivable</u>	<u>12,646,414</u>	<u>14,166,401</u>
<u>Less : Allowance for doubtful accounts</u>	<u>2,329,117</u>	<u>1,265,035</u>
<u>Total accounts receivable, net</u>	<u>10,317,297</u>	<u>12,901,366</u>

	<u>2017</u>	<u>2016</u>
<u>Of which:</u>		
<u>Not past due</u>	<u>6,685,406</u>	<u>10,640,151</u>
<u>Past due for more than one day but for no more than 30 days</u>	<u>1,871,903</u>	<u>1,770,891</u>
<u>Past due for more than 31 days but for no more than 60 days</u>	<u>696,995</u>	<u>485,180</u>
<u>Past due for more than 61 days Total</u>	<u>1,859,503</u>	<u>1,496,140</u>
<u>Accounts receivable, net</u>	<u>10,317,297</u>	<u>12,901,366</u>

<u>Allowance for doubtful accounts, beginning of year</u>	<u>1,865,055</u>	<u>16,936</u>
<u>Additions</u>	<u>954,586</u>	<u>179,641</u>
<u>Additions through acquisition</u>	<u>=</u>	<u>1,424,871</u>
<u>Reversals</u>	<u>228,553</u>	<u>(275,113)</u>
<u>Write-off</u>	<u>(19,127)</u>	<u>(81,300)</u>
<u>Allowance for doubtful accounts, end of year</u>	<u>2,581,961</u>	<u>1,265,035</u>

The Company has recognized an allowance for doubtful accounts based on past experience, outlet-specific situation, counterparty's current financial situation and age of the receivables.

Trade receivables disclosed above include amounts that are past due at the end of the reporting period and for which the Company has not recognized an allowance for doubtful accounts because there was no significant change in the credit quality of the counterparty and the amounts are therefore considered recoverable. The Company does not hold any collateral or other credit enhancements over these balances nor does it have the legal right of offset against any amounts owed by the Company to the counterparty.

The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

f4TY Franchising USA, ync.
Notea to the consolidated financial statements
November 3D, 2017

6. Loans receivable

Loans receivable generally result from the sales of franchises and of various advances to certain franchisees and consist of the following:

	<u>2D17</u>	<u>2016</u>
<u>Loans receivable bearing interest between 09b and 99b per annum, receivable in monthly Instalments of \$209,704 in aggregate, Including principal and interest, ending In 2026</u>	<u>4,285,827</u>	<u>5,687,333</u>
<u>Current portion</u>	<u>(00E,4?2)</u>	<u>(2,353,231)</u>
		<u>2,204,355</u>
		<u>3,334,102</u>

The total allowance for uncollectable amounts on loans receivable amount to \$90•t,999 as at November 30, 2017 (2016- \$666,212).

The capital repayments in subsequent years will be:

<u>2018</u>	<u>2,001,472</u>	
<u>2019</u>	<u>488,186</u>	<u>813,844</u>
<u>2020</u>	<u>483,960</u>	<u>4,285,827</u>
<u>2021</u>	<u>264,654</u>	
<u>2022</u>	<u>233,711</u>	

Thereafter

7. Advanced ID Ultimate perenC company

The advances to ultimate parent company Is non-Interest bearing and due on demand wkh no specifled repayment terms.

8. Progeny, planC and equipment

9.

<u>Cost</u>	<u>Equipment</u>	<u>Leasehold</u>	<u>Roll 8g Stock</u>	<u>Computer Hardware</u>	<u>Total</u>
<u>Balance at November 30, 1015</u>	<u>119,836</u>	<u>101,407</u>	<u>—</u>	<u>-</u>	<u>221,243</u>
<u>Addiclons</u>	<u>zs,s1o</u>		<u>23,541</u>	<u>1,349</u>	<u>54,500</u>
<u>Additions through business combinations</u>				<u>\$16,3g1</u>	
	<u>2,503,200</u>	<u>796,5B3</u>	<u>64,140</u>		<u>3,480,304</u>
<u>Disposklons</u>	<u>(301,621)</u>	<u>—</u>	<u>(21,000)</u>	<u>—</u>	<u>(322,621)</u>
<u>Balance at November 3tJ, 2016</u>	<u>2,551,025</u>	<u>8S7,990</u>	<u>a6,6Bc</u>	<u>18!r 30</u>	<u>3,435,426</u>
<u>Addltions</u>	<u>1g9,662</u>	<u>-</u>	<u>r</u>	<u>•</u>	<u>1B7,fi00</u>
<u>Dispositions</u>	<u>\1,14z,szzj</u>	<u>(sso,zasJ</u>	<u>-</u>	<u>(•••*7 (e,ozs,osa j</u>	
<u>Balance at November 30, 2017</u>	<u>1,367,865</u>	<u>97,607</u>	<u>71,aB1</u>	<u>t/E•</u>	<u>1,fi97,86B</u>

4TY Franchising USA, Inc.
Notes to the consolidated financial statements
November 30, 2017

8. Property, plant and equipment

(continued)

			Rolling	Computer	
Accumulated amortization	Equipment	Leasehold	Stock	Hardware	Total
Balance at November 30, 2015	35,726	24,628	—	—	50,364
Amortization Expense	364,771	117,929	5,816	14,075	502,591
Dispositions	(11,612)	-	(1,667)	—	(13,279)
Balance at November 30, 2016	378,895	142,557	4,149	•	539,676
Amortization Expense	443,620	128,842	•	95,012	667,474
Dispositions	(956,925)	(260,005)	-	(7,551)	(1,224,481)
Balance at November 30, 2017	664,190	7,796	20,247	•	739,676

Carrying Amounts	Equipment	Leasehold	Rolling	Computer	Total
			Stock	Hardware	

Consolidated Statement of income

November 30, 2016	1,972,130	755,433	62,532	103,655	2,893,750
November 30, 2017	2,045,555	755,433	62,532	103,655	3,007,175

9. Intangible assets

Year ended—
November 30, 2016

Cost	Franchise rights	Trademark	Total

Revenue

	As restated	As previously reported	Restatement
Balance at November 30, 2015	1,459,361	1,459,361	—
Additions through business combinations	132,176,764	190,566,362	322,743,125
Balance at November 30, 2016	134,043,144	192,025,723	344,134,498
Additions	75,000	-	75,000
Corporate store revenues	11,246,007	11,246,007	—
Royalties	16,868,145	16,868,145	—
Franchise fees, transfer fees and master license fees	1,006,468	1,006,468	—
Program allowances	6,003,229	6,003,229	—

Operating expenses	28,620,3	Interest charged by companies under common control	3,697,987	3,697,987
Amortization—property, plant and equipment	502,5	Interest on long-term debt	528,769	528,769
Amortization—intangible assets	3,524,6	Management fees charged by parent company	756,648	756,648
Interest charged by parent company	43,7		37,674,681	37,838,444
Other revenue Expenses				
Net income	3,068,080	6,925,990	(3,857,910)	

131,869

Amortization for the period

Balance at November 30, 2016

Amortization expense

3,524,603

— 3,524,603

3,656,472

- 3,656,472

(i) To adjust breakage revenue recorded following the acquisition of Kahala Brands Ltd.

(ii) To adjust expenses related to gift cards recorded following the acquisition of Kahala Brands Ltd.

(iii) To tax effect the adjustments made to net income before taxes.

10,853,392

- 10,853,392

MTY Franchising USA, Inc.

Notes to the amended and restated consolidated financial statements

For the years ended November 30, 2016 and November 30, 2017

23. Correction of an error (continued) Consolidated

Balance Sheet

As at November 30, 2016

14,509,346

Balance at November 30, 2017

MTY Franchising USA, Inc.

Notes to the consolidated financial statements

November 30, 2017

Page 7

As previously reported — Restatement

As restated

Franchise rights

Trademark

Total

s. Intangible assets (continued)

Carrying amounts

129,050,055

192,025,722

321,075,777

118,061,459

191,462,566

509,514,014

November 30, 2016 November 30, 2017

For the year ended November 30, 2017, the Company recorded impairment charges of \$783,371 related to three of its reporting units following a decline in the performance of the related brand. The total impairment amounted to \$210,204 and \$573,167 for the franchise rights and trademark respectively. Impairment charges were based on the amount by which the carrying values of the assets exceeded fair value, determined using expected discounted future cash flows for trademarks and multi-period excess earnings for Franchise rights.

10. Goodwill

The changes in the carrying amount of goodwill are as follows:

2017

2016

Assets Current assets Balance,
beginning of year
Cash
Accounts-
receivable-
Inventories Loans-
receivable
Prepaid expenses and deposits-
Advances to ultimate parent company

117,952,987	253,267
1,544,879	117,699,720
219,487,863	117,952,987

Loans receivable
Property, plant and
equipment Intangible assets
Goodwill
Additional amounts recognized
from business acquisitions (note
4)
Balance, end of year

56,312,249	—
30,225,167	11,027,955
(23,921,232)	(6,504,267)
—	53,753,500
2,451,278	(725,050)
(1,769,557)	(1,239,889)
57,591,369	56,312,249

11. Gift card liability

Liabilities
Current-
liabilities

Accounts payable Accrued liabilities-
Gift card liability Gift card Liability,
beginning of year Activations
during the period Redemptions
during the period Gift card Liability
acquired (note 4) Deferred
program fees and other Gift card
Breakage recorded Gift card
Liability, end of year

MTY Franchising UGA, Inc.
NDtQs to the consolidated financial statements
November 30, 2017

referred revenue and deposits

	2017	2016
Franchise fee deposits	9,075,252	2,903,152
Unearned rent	2,620,653	2,554,588
Supplier contributions and other allowances	4,844,239	5,609,137
	12,2d0,144	11,066,877
	(10,250,565)	(8,586,)
Current portion	1,509,579	2,480,640

Advances from parent company and companies under common control

The advances from parent company and companies under common control are non-interest bearing and due on demand with no specified repayment terms.

14. Long-term loans from Company under common control

	2017	2016
Interest bearing loan on acquisition of Kahala Brands Ltd. bearing interest at 5.696, repayable by July 2023!*	181,850,000	181,850,000
Interest bearing loan on acquisition of BF Acquisition Holdings LLC, bearing interest at 5.696, repayable by October 2023!*	£8,000,000	18,000,000
Balance, end of year	109,850,000	199,850,000

!* The loans are subject to a maximum debt to EBITDA ratio of 5.50 to 1 starting on December 1, 2016 and a minimum EBITDA interest coverage ratio of 2.00 to 1 to be calculated in conjunction with interest payments based on the last four rolling quarters.

The company is currently in breach of its debt covenants on its long terms loans. The company has obtained a waiver from its creditors that waiver valid until February 28, 2019.

15. Long-term debt

Non-Interest-bearing debt payable during 2017	-	127,266
Non-Interest-bearing holdbacks acquired on acquisition of Kahala Brands Ltd, repayable between July 2018 and August 2020	7,690,600	13,206,128
	(2,701,580)	(4,832,883)
	4,989,124	8,500,511

25. Contingencies

The contingencies for litigation and disputes represent management's best estimate of the outcome of litigations and disputes that are on-going at the date of the statement of financial position. This contingency is made of multiple items; the timing of the settlement of this contingency is unknown given its nature, as the Company does not control the litigation timelines.

The payables related to closed stores mainly represent amounts that are expected to be disbursed to exit leases of underperforming or closed stores. The negotiations with the various stakeholders are typically short in duration and are expected to be settled within a few months following the recognition of the contingencies. The provisions for litigations, disputes and closed stores are recorded in accrued liabilities.

Provision for litigation and disputes and closed stores,

beginning balance	1,024,500	
Reversals	(»03,105)	(283,000)
Accrued through our business acquisitions	91,871	1,016,000
Amounts used	(421,691)	(40,037)
Additions	1,422,759	331,537
Provision for litigation and disputes and closed stores, ending balance	1,819,346	1,024,500

17. Common Stock

	2017	2016
Shares Issued	Total	Total
Balance, beginning of year	1,000	1
Share issuance related to Kahala Brands Inc. acquisition	4,000	80,653,736
Share issuance related to BF Acquisition Holdings LLC acquisition	1	8,500,000
Balance, end of year	5,001	89,153,737

On July 25, 2016, the Company issued 1,700 common shares to its parent company in exchange for its parent company assuming debt of 58,920,112 related to the acquisition of Kahala Brands Inc. Further to this, an additional 2,300 shares were issued as part of the same transaction in exchange for its parent company assuming an additional \$71,733,624 in debt.

On October 4, 2016, MTY Franchising USA, Inc. issued 1 common share to its parent company in exchange for \$8,500,000. This issuance was done as part of the financing plan for the acquisition of BF Acquisition Holdings LLC.

IB. Financial instruments

In the normal course of business, the Company uses various financial instruments which by their nature involve risk, including market risk and the credit risk of non-performance by counterparties. These financial instruments are subject to normal credit standards, financial controls, risk management as well as monitoring procedures.

-fair value of recognized financial instruments

Following is a table which sets out the fair values of recognized financial instruments using the valuation methods and assumptions described below:

	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Financial assets				
Cash	3B,056,627	3B,056,627	19,266,443	19,266,443
Loans receivable	4,289,527	4,285,827	5,687,333	5,687,333
Deposits			1,040,108	1,040,108
Advances to ultimate parent		227,516	86,209	86,209
Financial liabilities				
Accrued liabilities	8,142,927	8,140,917	5,140,046	5,150,046
Promotional Funds payable	1,041,713	1,040,713	3,300,647	3,300,647
Advances from parent company	1,296,249	1,296,249	2,587,053	2,587,053
Advances from companies under common control	283,801	283,801	75,852	75,852
Long-term loans from company under common control	199,850,000	199,850,000	199,850,000	199,850,000
Long-term debt	7,390,504	7,390,504	13,333,394	13,333,394

Determination of fair value

The following methods and assumptions were used to estimate the fair values of each class of financial instruments:

Cash, loans receivable, deposit, accrued liabilities, promotional funds payable, advances from companies under common control, Advances to ultimate parent, advances from parent company - The carrying amounts approximate fair values due to the short maturity of these financial instruments.

Long-term loans from company under common control - The fair value is approximately equal to the carrying amount as they were obtained at market rates during the current year.

Long-term debt — The fair value of long-term debt is determined using the present value of future cash flows under current financing agreement based on the Company's current estimated borrowing rate for a similar debt.

Financial Instruments (continued)

Risk management policies

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at November 30, 2017.

Credit risk

The Company's credit risk is primarily attributable to its trade receivables, loans receivable and deposits. For accounts receivable and loans receivable, the amounts disclosed on the balance sheet are net of allowances for bad debts, estimated by the Company's management based on past experience and counterparty specific circumstances. The Company believes that the credit risk of accounts receivable is limited for the following reasons:

- The Company's broad client base is spread mostly across the HSA, which limits the concentration of credit risk.
- The Company accounts for a specific bad debt provision when management considers that the expected recovery is less than the actual account receivable.

The credit risk on cash is limited because the Company invests its excess liquidity in high quality financial instruments and with credit-worthy counterparties.

The credit risk on deposits is also limited as these are mostly with well established and credit-worthy companies.

Foreign exchange risk

Foreign exchange risk is the Company's exposure to decreases or increases in financial instrument values caused by fluctuations in exchange rates. The Company's exposure to foreign exchange risk mainly comes from sales denominated in foreign currencies. The Company uses the U.S. dollar as functional currency. Since almost all transactions are conducted in U.S. currency, the Company's risk to fluctuations in foreign exchange rates are deemed to have minimal risk.

Interest rate risk

Interest rate risk is the Company's exposure to increases and decreases in financial instrument values caused by the fluctuation in interest rates. The Company has limited exposure to interest rate risk as its long-term loans from company under common control and parent company as well as its long-term debt have fixed interest rates.

Liquidity risk

Liquidity risk refers to the possibility of the Company not being able to meet its financial obligations when they become due. The Company has contractual and fiscal obligations as well as financial liabilities and is therefore exposed to liquidity risk. Such risk can result, for example, from a market disruption or a lack of liquidity. Given that the majority of financial obligations are with related parties, liquidity risk is deemed to have a minimal risk.

f4TY Franchising Usa, Inc.
Notes to the consolidated financial statements
November 30, 2017

IB. Financial instruments (continued)

Liquidity risk (continued)

The following are the contractual maturities of financial liabilities as at November 30, 2017:

	Carrying amount	Contractual cash flows	0 to 6 months	6 to 12 months	12 to 24 months	24 months thereafter
Accounts payable	4,807,111	4,807,111	4,807,111	—	—	—
Accrued liabilities	8,515,817	8,515,817	8,515,817	—	—	—
Promotional funds payable	4,041,718	4,041,718	4,041,718	—	—	—
Deferred revenue and deposits	—	—	—	—	—	—
Income taxes payable	—	—	—	—	—	—
Advance from parent company	1,296,249	1,296,249	1,296,249	—	—	—
Advances from company under common control	—	—	—	—	—	—
Long-term loans from company	—	—	—	—	—	—
Advances from companies under common control	—	—	—	—	—	—
Long-term debt	—	—	—	—	—	—
Interest on long-term loans from company under common control	3,215,719	3,241,863	3,398,728	—	—	—
	n/a	63,439,508	5,580,469	5,611,131	11,191,600	41,056,308
	217	701	727	491	24,222,282	8,826,850
					14,473,468	744,385,826

!*: When future interest cash flows are variable, they are calculated using the Interest rates prevailing at the end of the reporting period.

19. Revenues

Corporate store revenues	21,229,138	11,246,007
Royalties	48,850,240	16,868,145
Franchise fees, transfer fees and master license fees	4,108,458	1,006,461
program allowances	15,034,286	8,003,229
Breakage income	4,769,537	910,374
Resale material	6,557,206	1,369,120

Revenues are broken down as follows:

2,608,409	788,586
103,351,774	38,191,929

Other revenue

9gTY Franchising UGA, Znc.
Notes to the consolidated financial statements
November 30, 2017

20. Operating expenses

Operating expenses are broken down as follows:

	<u>Franchising</u>	<u>Corporate</u>	<u>Total</u>
<u>Cost of goods sold</u>	6,518,735	3,255,942	9,774,677
<u>Wages and benefits</u>	19,627,626	3,651,697	23,279,323
<u>Advertising, marketing and promotion</u>	1,651,746	550,472	2,202,218
<u>Rent</u>	2,559,291	5,592,365	8,151,656
<u>Professional & consulting fees and commission</u>	11,451,024	11,451,024	22,902,048
<u>Office Travel, meals & entertainment and utilities</u>	6,060,360	—	6,060,360
<u>Gift card program, costs*</u>	5,226,107	—	5,226,107
<u>Other</u>	1,316,781	985,241	2,302,022

	<u>2016</u>
<u>Franchising</u>	<u>Corporate</u>
<u>Total</u>	

<u>Other</u>	85487	394,623	480,110
<u>Cost of goods sold *</u>	5,340,230	941,371	6,281,601
<u>Wages and benefits</u>	7,640,626	4,118,605	11,759,231
<u>Advertising, marketing and promotion</u>	925,998	196,636	1,122,634
<u>Rent</u>	989,348	1,843,795	2,833,143
<u>Professional & consulting fees and commission</u>	4,196,351	—	4,196,351
<u>Office Travel, meals & entertainment and utilities</u>	1,011,227	—	1,011,227
<u>Gift card program, costs !*</u>	1,385,089	—	1,385,089
	21,125,332	7,495,030	28,620,362

!* Comparative period amounts were restated to present gift card program costs separately.

Operating expenses are split into two types of operations: Franchising operations and Corporate store operations. Operating segments were established based on the differences in the types of products or services offered by each division.

CITY Franchising USA, znc.
Notes to the consolidated financial statements
November 30, 2017

20. Operating expense» {continued}

The products and services offered by each segment are as follows:

Franchising operations

The franchising business mainly generates revenues from royalties, supplier contributions, franchise fees and rent.

Corporate store operations

Corporate stores generate revenues from the direct sale of prepared food to customers.

The Company accounts for Income taxes in accordance with ASC 740, Income Taxes ("ASC 740"). ASC 740 prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates. The effects of future changes in tax laws or rates are not anticipated.

Under ASC 740 income taxes are recognized for the following: a) amount of tax payable for the current year and b) deferred tax liabilities and assets for future tax consequences of events that have been recognized differently in the financial statements than for tax purposes.

<u>Income tax expense (benefit)</u>	<u>2017</u>	<u>2016</u>

<u>Current portion of long-term debt tax expense (benefit)</u>	<u>196,441</u>	<u>2,083,431</u>
<u>Deferred tax expense (benefit)</u>	<u>790,882</u>	<u>(1,454,759)</u>
<u>Total tax expense (benefit)</u>	<u>984,323</u>	<u>628,672</u>

Long-term loans from company under common control
The provision for Income taxes recorded in the consolidated financial statements differs from the amount, which would be obtained by applying the statutory federal Income tax rate of 34.99 (34.96 in 2016), to the income for the period as follows:

<u>2017</u>	<u>2016</u>

<u>True up of prior year tax provision</u>	<u>(136,598)</u>	<u>15,384</u>
<u>Change in state tax rate</u>	<u>(1,497,731)</u>	<u>1,032</u>
<u>Income tax expense</u>		

<u>Long-term debt</u>	
<u>Earnings for the period before Income taxes</u>	
<u>Income tax expense at federal statutory rate</u>	
<u>State and local income taxes net of federal tax benefit</u>	
<u>Non-deductible/non-taxable items</u>	
<u>-</u>	<u>(34,250)</u>
<u>984,525</u>	<u>628,672</u>

Components of the net deferred tax asset or liability:

~~MTY Franchising USA, Inc.~~

During the year, the Company paid \$126,975 (\$658,212 in 2016) In Income taxes.

Acrtu/s/rioo the Counter and 6ui/r

~~Notes to the consolidated financial statements~~
On December 1, 2017, the Company completed its acquisition of all of the limited liability company interests in CB Franchise Systems, LLC ("The Counter"), Built Franchise Systems, LLC ("Built") for a total consideration of \$24,600,000 of which \$22,300,000 was

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to the years ended November 30, 2016 and November 30, 2015

On December 22, 2017, the United States proceeded to a tax reform through the enactment of the "Tax Cuts and Jobs Act" (hereafter the "Act"). One of the significant changes included in the Act is the reduction of the federal corporate tax rate from 35% to 21% effective January 1, 2018. For the financial year ending November 30, 2018, the applicable federal corporate tax rate will correspond to a blended rate of 27.19% based on the number of days in the taxation year before and after the effective date.

23. Correction of an error (continued)

-	As at November 30, 2016	
-As previously reported	Restatement	
	Stockholder's equity Common stock value	
-	89,153,737	
-	89,153,737	
	Retained earnings	
(i), (ii), (iii)	681,271	2,927,288 (2,246,017)
	89,835,008	92,081,025 (2,246,017)
	485,278,204	485,278,204

- (i) To adjust breakage revenue recorded following the acquisition of Kahala Brands Ltd.
- (ii) To adjust expenses related to gift cards recorded following the acquisition of Kahala Brands Ltd.
- (iii) To tax effect the adjustments made to net income before taxes.

MTY Franchising USA, Inc.

Notes to the financial statements
For the years ended November 30, 2016 and November 30, 2015

Based on temporary differences as of November 30, 2017, the Company preliminarily estimates that it will record a deferred tax benefit estimated at USD 29.1 million in its financial year ended November 30, 2018, by reducing its deferred tax liability.

23. Correction of an error (continued) Consolidated statement of Cash flow The Company made a preliminary analysis of the new Base Erosion Anti-avoidance Tax (hereafter the "BEAT") and changes to interest deduction limitation rules included in the Act and that will impact financial years November 30, 2019, and after. Based on available information as of financial statement date, the Company expects to meet the de minimis exception and not be subject to BEAT rules. Based on a preliminary analysis, the new interest deduction limitation might have an impact in future years. However, any amount disallowed based on the new interest deduction rule could be carried over indefinitely and used against future taxable profit. Therefore, the Company does not expect this measure to have any permanent impact.

Year ended November 30, 2016

As previously reported
As restated Restatement

Operating activities

Net income	(126,666)	2,119,351	(2,246,017)
Items not affecting cash			
Amortization—property, plant and equipment	502,691	502,591	—
Amortization—intangible assets	3,524,603	3,524,603	—
Interest on advance from parent company	43,721	43,721	—
Interest on advance from companies under common control	3,697,987	3,697,987	—
Interest on long-term debt	528,769	528,769	—
Loss on disposal of property, plant and equipment	15,242	15,242	—

~~Deferred income taxes~~
~~4TY Fmnhlsing USA, Inc.~~
~~(1,454,759) (6,670) (1,448,089)~~
~~6,731,488 10,425,594 (3,694,106)~~
Notes to the consolidated financial statements
November 30, 2017

13. subsequent events (continued)

US tax reform (continued)

The new rules provided by the Act are complex and further guidance will be provided by the United States authorities in upcoming months. Accordingly, the information presented herein is subject to adjustments when new regulation will be available.

Announced agreement to acquire Grabbagmen iii

On February 19, 2018, the Company announced that they had signed an agreement to acquire the assets of the Grebbagreen @ franchise system for an estimated consideration of \$2,750,000.



Interest paid	(3,697,987)	(3,697,987)	—
Changes in non-cash working capital items			
Accounts receivable	(2,654,016)	(2,654,016)	—
Inventories	(6,060)	(6,060)	—
Prepaid expenses and deposits	(1,780,458)	(1,780,458)	—
Loans receivable	(675,258)	(675,258)	—
Income taxes	1,380,279	1,380,279	—
Accounts payable	(3,751,221)	(3,751,221)	—
Accrued liabilities	4,066,015	4,066,015	—
Promotional funds payable	2,075,064	2,075,064	—
Gift card liability	~~(2,558,749)~~	(1,135,357)	3,694,106

Deferred revenue and deposits Net cash from operating activities

~~(506,614)~~ (506,614) 3,739,981 3,739,981

~~(i)~~ To adjust breakage revenue recorded following the acquisition of Kahala Brands Ltd.

~~(ii)~~ To adjust expenses related to gift cards recorded following the acquisition of Kahala Brands Ltd.

~~(iii)~~ To tax effect the adjustments made to net income before taxes. **EXHIBIT W**

TO THE FRANCHISE DISCLOSURE DOCUMENT

Performance Guaranty

GUARANTEE OF PERFORMANCE

For value received, ~~IVITY~~MTY Franchising USA, Inc., a Delaware corporation (~~"Guarantor"~~), located at 9311 E. Via De Ventura, Scottsdale, Arizona 85258, absolutely and unconditionally guarantees to assume the duties and obligations of Kahala Franchising, L.L.C., an Arizona limited liability company, located at 9311 E. Via De Ventura, Scottsdale, Arizona 85258 (~~"Franchisor"~~), under its franchise registration in each state ~~where~~where the franchise is registered, and under its ~~Franchise~~Franchise Agreement identified in its ~~2018~~2019 Franchise Disclosure Document, as it may be amended, and as that Franchise Agreement may be entered into with franchisees and amended, modified or extended from time to time. This guarantee continues until all such obligations of the Franchisor under its franchise registrations and the Franchise Agreement are satisfied or until the liability of Franchisor to its franchisees under the Franchise Agreement has been completely discharged, whichever first occurs. The Guarantor is not discharged from liability if a claim by a franchisee against the ~~Franchisor~~Franchisor remains outstanding. Notice of acceptance is waived. The Guarantor does not waive receipt of notice of default on the part of the Franchisor. This guarantee is binding on the Guarantor and its successors and assigns.

The Guarantor signs this guarantee at Scottsdale, Arizona on 10/11/18, 2018.
Guarantor
signs
2019.

Guarantor:

~~IVITY Franchising~~MTY Franchising USA, Inc., a Delaware corporation

By: Eric Lefebvre, Director
Eric Lefebvre, Director

By: Kirk A. and Lane, Sr. VP and
DeputyDeputy General Counsel ~~of~~
~~its ultimate member~~

EXHIBIT X

TO THE FRANCHISE DISCLOSURE DOCUMENT

Addendum for Sale of Company-Affiliated Owned Stores

Addendum for Sale of Company-Affiliated Owned Stores #1

Below is information covering the last five fiscal years on a previously-owned franchised outlet now under the control of an affiliate of Franchisor.

Address of Outlet for Sale: _____

Previous Franchise Owner 1:

Name: _____

City, State: _____

Telephone Number: _____

Time period outlet was controlled by previous franchise owner: _____

Reason for change in ownership: _____

Previous Franchise Owner 2 (if applicable):

Name: _____

City, State: _____

Telephone Number: _____

Time period outlet was controlled by previous franchise owner: _____

Reason for change in ownership: _____

Previous Franchise Owner 3 (if applicable):

Name: _____

City, State: _____

Telephone Number: _____

Time period outlet was controlled by previous franchise owner: _____

Reason for change in ownership: _____

Note: The telephone number of the previous franchise owner(s) listed above is the current business telephone number, or if unknown, the last home telephone number Franchisor had for the previous franchise owner.

The time period(s) when affiliate of Franchisor retained control of the outlet: _____

Date: _____
(Do not leave blank)

Signature of Prospective Franchisee

Addendum for Sale of Company-Affiliated Owned Stores #2

Below is information covering the last five fiscal years on a previously-owned franchised outlet now under the control of an affiliate of Franchisor.

Address of Outlet for Sale: _____

Previous Franchise Owner 1:

Name: _____

City, State: _____

Telephone Number: _____

Time period outlet was controlled by previous franchise owner: _____

Reason for change in ownership: _____

Previous Franchise Owner 2 (if applicable):

Name: _____

City, State: _____

Telephone Number: _____

Time period outlet was controlled by previous franchise owner: _____

Reason for change in ownership: _____

Previous Franchise Owner 3 (if applicable):

Name: _____

City, State: _____

Telephone Number: _____

Time period outlet was controlled by previous franchise owner: _____

Reason for change in ownership: _____

Note: The telephone number of the previous franchise owner(s) listed above is the current business telephone number, or if unknown, the last home telephone number Franchisor had for the previous franchise owner.

The time period(s) when affiliate of Franchisor retained control of the outlet: _____

Date: _____

(Do not leave blank)

Signature of Prospective Franchisee

EXHIBIT Y
TO THE FRANCHISE DISCLOSURE DOCUMENT

Receipts

RECEIPT #1

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 Kahala Franchising, L.L.C. 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.

[New York requires that we give you this disclosure document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship.]

[Michigan requires that we give you this disclosure document at least 10 business days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first.]

If Kahala Franchising, L.L.C. 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, DC 20580 and the state agency listed on Exhibit B.

The franchisor is Kahala Franchising, L.L.C., located at 9311 E. Via De Ventura, Scottsdale, Arizona 85258. Its telephone number is ~~(480)~~ (480) 362-4800. The franchise seller for this offering is _____, (____) _____.
_____.

Issuance date: ~~March~~ April 1, ~~2018~~ 2019.

Kahala Franchising, L.L.C. authorizes the respective state agencies identified on Exhibit C to receive service of process for it in the particular state.

I received a NrGize Lifestyle Cafe™ Disclosure Document dated ~~March~~ April 1, ~~2018~~ 2019, that included the following Exhibits:

~~A.~~	~~State Addenda to Franchise Disclosure Document~~	~~I.~~	~~Amendment to Franchise Agreement (for co-branded non-traditional locations)~~
~~B.~~	~~Directory of State Agencies and Administrators~~	~~J.~~	~~Amendment to Franchise Agreement (for franchises in Georgia)~~
~~C.~~	~~Franchisor's Agent for Service of Process~~	~~K.~~	~~Addendum to the Franchise Agreement and Single-Unit Facility License Agreement for SBA Loans~~
		~~L.~~	~~Intentionally Omitted~~
~~D-A~~	~~Asset Purchase Agreement (For Sale of a Corporate Store or store located within an LA Fitness health club State Addenda to a Franchisee) with Promissory Note and Security Agreement and Guaranty (if applicable) Franchise Disclosure Document~~	~~M.~~	~~Lease Guaranty Acknowledgment~~ <u>Acknowledgement</u>
~~B~~	~~Directory of State Agencies and Administrators~~	~~N.~~	~~Lease Review and/or Negotiation Agreement and Release and State Addenda~~
~~C~~	~~Franchisor's Agent for Service of Process~~	~~O-1~~	~~Single-Unit Facility License Agreement~~ <u>Sublease and Guaranty of Sublease (Franchisee pays rent directly to Landlord)</u>
~~D~~	~~Asset Purchase Agreement (For Sale of a Corporate Store to a Franchisee) with Promissory Note Security Agreement and Guaranty (if applicable)~~	~~P-O-2~~	~~Pre-Authorized Electronic Funds Transfer Form~~ <u>Sublease and Guaranty of Sublease (Kahala collects rent from Franchisee and pays to Landlord)</u>
~~E-1-1~~	~~Franchise Agreement (New) and Franchisee Questionnaire~~	~~Q-O-3~~	~~General Release for Renewal of Franchise~~ <u>Single-Unit Facility License Agreement (for LA Fitness locations only) and Consent of Spouse</u>
~~E-2-2~~	~~Franchise Agreement (Renewal) and Franchisee Questionnaire~~	~~R-P~~	~~Consent to Pre-Authorized Electronic Funds Transfer and Release Agreement~~ <u>Form</u>
~~E-3-3~~	~~Franchise Agreement (Transfer) and Franchisee Questionnaire~~	~~S-Q~~	~~State Addenda to General Release for Renewal of Franchise Documents~~ <u>Agreement</u>
~~F-1~~	~~Guaranty of Franchise Agreement~~	~~T-R-1~~	~~Table of Contents – Confidential Operations Manual~~ <u>Consent to Transfer and Release Agreement (without Sublease)</u>
~~F-2~~	~~Non-Disclosure and Non-Competition Agreement~~	~~R-2~~	~~Consent to Transfer and Release Agreement (with Sublease)~~
~~G.~~	~~Collateral Assignment and Irrevocable Special Power of Attorney~~	~~U-S~~	~~List of State Specific Addenda to Franchise Owners Documents~~
~~H.~~	~~Amendment to Franchise Agreement (for non-traditional locations – excluding those co-branded with another Kahala Franchising, L.L.C.-affiliated brand)~~	~~V-T~~	~~Financial Statements~~ <u>Table of Contents – Confidential Operations Manual</u>

H- ~~1~~ <u>1</u>	Amendment to Franchise Agreement (for stores to be located within current LA Fitness Health Clubs: newly-constructed only)	~~W~~ - <u>U</u>	~~Performance Guaranty~~ List of Franchise Owners
H-2	Amendment to Franchise Agreement (for stores to be located within future LA Fitness Health Clubs: newly-constructed stores only)	~~X~~ - <u>V</u>	~~Addendum for Sale of Company-Affiliated Owned Stores~~ Financial Statements
H-3	Amendment to Franchise Agreement (for stores to be located within LA Fitness ~~Health~~ Health Clubs: conversions only)	~~Y~~ - <u>W</u>	~~Receipts~~ Performance Guaranty
H- ~~4~~ <u>4</u>	Bill of Sale (applicable only for stores located within LA Fitness health clubs)	~~X~~	~~Addendum for Sale of Company-Affiliated Owned Stores~~
<u>I</u>	~~Amendment to Franchise Agreement (for co-branded non-traditional locations)~~	<u>Y</u>	~~Receipts~~
<u>J</u>	~~Intentionally Omitted~~		
<u>K</u>	~~Addendum to Franchise Agreement and Single-Unit Facility License Agreement for SBA Loans for SBA Loans~~		
<u>L</u>	~~Required Lease Terms (Lease Addendum to Lease Agreement)~~		

RECEIPT #2

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 Kahala Franchising, L.L.C. 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.

[New York requires that we give you this disclosure document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship.]

[Michigan requires that we give you this disclosure document at least 10 business days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first.]

If Kahala Franchising, L.L.C. 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, DC 20580 and the state agency listed on Exhibit B.

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Issuance date: ~~March~~April 1, ~~2018~~2019.

Kahala Franchising, L.L.C. authorizes the respective state agencies identified on Exhibit C to receive service of process for it in the particular state.

I received a NrGize Lifestyle Cafe[™] Disclosure Document dated ~~March~~April 1, ~~2018~~2019, that included the following Exhibits:

~~A.~~	~~State Addenda to Franchise Disclosure Document~~	~~I.~~	~~Amendment to Franchise Agreement (for co-branded non-traditional locations)~~
~~B.~~	~~Directory of State Agencies and Administrators~~	~~J.~~	~~Amendment to Franchise Agreement (for franchises in Georgia)~~
~~C.~~	~~Franchisor's Agent for Service of Process~~	~~K.~~	~~Addendum to the Franchise Agreement and Single-Unit Facility License Agreement for SBA Loans~~
		~~L.~~	~~Intentionally Omitted~~
~~D.~~ <u>A</u>	~~Asset Purchase Agreement (For Sale of a Corporate Store or store located within an LA Fitness health club~~ State Addenda to a Franchisee) with Promissory Note and Security Agreement and Guaranty (if applicable) ~~Franchise Disclosure Document~~	~~M.~~	~~Lease Guaranty~~ Acknowledgment <u>Acknowledgement</u>
<u>B</u>	<u>Directory of State Agencies and Administrators</u>	~~N.~~	~~Lease Review and/or Negotiation Agreement and Release and State Addenda~~
<u>C</u>	<u>Franchisor's Agent for Service of Process</u>	~~O.~~ <u>1</u>	~~Single-Unit Facility License Agreement~~ Sublease and Guaranty of Sublease (Franchisee pays rent directly to Landlord)
<u>D</u>	<u>Asset Purchase Agreement (For Sale of a Corporate Store to a Franchisee) with Promissory Note Security Agreement and Guaranty (if applicable)</u>	~~P.~~ <u>O-2</u>	~~Pre-Authorized Electronic Funds Transfer Form~~ Sublease and Guaranty of Sublease (Kahala collects rent from Franchisee and pays to Landlord)
~~E-1~~ <u>1</u>	<u>Franchise Agreement (New) and Franchisee Questionnaire</u>	~~Q.~~ <u>O-3</u>	~~General Release for Renewal of Franchise~~ Single-Unit Facility License Agreement (for LA Fitness locations)

			<u>only) and Consent of Spouse</u>
~~E-2.2~~	Franchise Agreement (Renewal) and Franchisee Questionnaire	~~R.P~~	~~Consent to~~ <u>Pre-Authorized Electronic Funds Transfer and Release Agreement</u> <u>Form</u>
~~E-3.3~~	Franchise Agreement (Transfer) and Franchisee Questionnaire	~~S.Q~~	~~State Addenda to~~ <u>General Release for Renewal of Franchise Documents</u> <u>Agreement</u>
~~F-1~~	Guaranty of Franchise Agreement	~~T.R-1~~	~~Table of Contents—Confidential Operations- Manuals~~ <u>Consent to Transfer and Release Agreement (without Sublease)</u>
~~F-2~~	<u>Non-Disclosure and Non-Competition Agreement</u>	~~R-2~~	<u>Consent to Transfer and Release Agreement (with Sublease)</u>
~~G-~~	Collateral Assignment and Irrevocable Special Power of Attorney	~~U.S~~	~~List of~~ <u>State Specific Addenda to Franchise Owners</u> <u>Documents</u>
~~H-~~	Amendment to Franchise Agreement (for non-traditional locations —excluding those co-branded with another ~~Kahala Franchising, L.L.C.~~ affiliated brand)	~~V.T~~	~~Financial Statements~~ <u>Table of Contents – Confidential Operations Manual</u>
~~H-1.1~~	Amendment to Franchise Agreement (for stores to be located within current LA Fitness Health Clubs: newly-constructed only)	~~W.U~~	~~Performance Guaranty~~ <u>List of Franchise Owners</u>
H-2	Amendment to Franchise Agreement (for stores to be located within future LA Fitness Health Clubs: newly-constructed stores only)	~~X.V~~	~~Addendum for Sale of Company-Affiliated Owned- Stores~~ <u>Financial Statements</u>
H-3	Amendment to Franchise Agreement (for stores to be located within LA Fitness ~~Heal~~ <u>Health</u> Clubs: conversions only)	~~Y.W~~	~~Receipts~~ <u>Performance Guaranty</u>
~~H-4.4~~	Bill of Sale (applicable only for stores located within LA Fitness health clubs)	~~X~~	<u>Addendum for Sale of Company-Affiliated Owned Stores</u>
~~I~~	<u>Amendment to Franchise Agreement (for co-branded non-traditional locations)</u>	~~Y~~	<u>Receipts</u>
~~J~~	<u>Intentionally Omitted</u>		
~~K~~	<u>Addendum to Franchise Agreement and Single-Unit Facility License Agreement for SBA Loans for SBA Loans</u>		
~~L~~	<u>Required Lease Terms (Lease Addendum to Lease Agreement)</u>		