

FRANCHISE DISCLOSURE DOCUMENT



Mike's Red Tacos Franchise Co, LLC
a Delaware Limited Liability Company
1308 E Colorado Blvd., Suite 2216
Pasadena, California 91106
(562) 201-3020
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www.mikesredtacos.com

Mike's Red Tacos restaurants feature a birria-inspired menu focused on street-inspired tacos and other Mexican food, including burritos, quesadillas, nachos, loaded fries and ramen, in a modern, fast-casual restaurant format ("Mike's Red Tacos Restaurant(s)"). We offer multi-unit franchises ("Area Development Franchise(s)") for the rights to open a minimum of three Mike's Red Tacos Restaurants in a designated area. We primarily offer Area Development Franchises, but we may offer single Mike's Red Tacos Restaurant franchises in certain situations, such as non-traditional restaurants.

The total investment necessary to begin operation of a Mike's Red Tacos Restaurant (including non-traditional Mike's Red Tacos Restaurants) franchised business is between ~~\$619,639,800~~ and ~~\$1,953,988,000~~. This includes ~~\$51,680~~ to ~~\$56,000~~73,500 that must be paid to the franchisor or its affiliate(s). The total investment necessary to begin operation of three Mike's Red Tacos Restaurants under an Area Development franchised business is between ~~\$1,889,949,400~~ and ~~\$5,844,949,000~~. This includes ~~\$185,040~~ to ~~\$198,000~~250,500 that must be paid to the franchisor or its affiliate(s). The total investment necessary to begin operation of 25 Mike's Red Tacos Restaurants under an Area Development franchised business is between ~~\$15,525,16,025,000~~ and ~~\$49,360,50,235,000~~. This includes ~~\$1,322,000~~ and ~~\$2,310,000~~747,500 that must be paid to the franchisor or its affiliate(s).

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 disclosure in different formats, contact Vincent Montanelli at 1308 E Colorado Blvd., Suite 2216, Pasadena, California 91106, (562) 201-3020.

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 an attorney 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 28, 2025, as amended May 16, 2025



If we deploy the new restaurant opening team to your Mike's Red Tacos Restaurant and your Mike's Red Tacos Restaurant experiences any delay in opening, you are also required to reimburse us for all costs, expenses and salaries that our new restaurant opening team incurs during the delay. The New Restaurant Opening Fee is due eight weeks before your scheduled opening for each Mike's Red Tacos Restaurant, is uniformly imposed and non-refundable.

Technology, Operations and Marketing Reimbursement, Setup and Fees

You must pay us technology setup fees ("Setup Fees") upon entering into the lease or purchase agreement for your Mike's Red Tacos Restaurant. These technologies include platforms and programs for operations metrics and digital training. In addition, you must begin paying the monthly technology, operations and marketing fee (currently \$170 to \$500 per week) one month prior to opening your Mike's Red Tacos Restaurant. We estimate you will pay us between \$680 and \$2,000 in technology, operations and marketing fee payments prior to opening your Mike's Red Tacos Restaurant. The Setup Fees range from \$1,000 to \$2,000 for each Mike's Red Tacos Restaurant and are due upon invoice. The Setup Fees and monthly technology, operations, and marketing fees are payable to us. The Setup Fees are uniform and non-refundable. Item 6 has more information on the technology, operations and marketing fee.

Media Fee

You will pay us or our media agency this one-time media purchase fee ("Media Fee") of \$20,000 to \$35,000 as determined by our marketing department depending on the market conditions and local media market of your Mike's Red Tacos Restaurant. The Media Fee may include connected TV media and "Over the Top" (OTT) geo-targeted, streaming video media. Half of the Media Fee (between \$0 and \$17,500) is due to us or our media agency upon invoice, one month before the scheduled opening of your Mike's Red Tacos Restaurant. The remaining half (between \$0 and \$17,500) is due to us or our media agency upon invoice one month after opening your Mike's Red Tacos Restaurant.

Area Development Agreement

Area Developers must pay a development fee ("Development Fee") of \$10,000 multiplied by the number of additional Mike's Red Tacos Restaurants to be developed. The Development Fee is in addition to the Initial Franchise Fee for the first Mike's Red Tacos Restaurant to be developed. Area Developers will be required to pay the Initial Franchise Fees for the additional Mike's Red Tacos Restaurants when you sign each Franchise Agreement. We will credit a portion of the Development Fee against the Initial Franchise Fee (\$10,000 for the second and each subsequent franchise agreement) until the Development Fee is exhausted. Area Developers must open a minimum of three Mike's Red Tacos Restaurants, and we may allow up to 25 Mike's Red Tacos Restaurants.

If you request, and we approve, an extension of a development period under the Development Schedule, the development period will be extended automatically for rolling one-month periods until the Restaurant opens or one year passes ("Extension Date"). The Extension Date will only extend the development period for the single Restaurant requested. You must request an extension in writing no later than 90 days prior to the end of the applicable development period. No extension of any development period shall affect the duration of any other development period or any of your other development obligations. You must prepay a non-refundable development extension fee of \$5,000 for each month that each development period is extended. We will not grant extensions for a development period totaling more than 12 months. Approval of any extension request is at our sole discretion.



The Development Fee is uniformly calculated, payable when the Area Development Agreement is signed and is non-refundable under any circumstances, even if an Area Developer fails to open any Mike’s Red Tacos Restaurants.

During our last fiscal year, which ended January 5, 2025, we did not collect any Development Fees.

**ITEM 6
OTHER FEES**

Type of Fee ⁽¹⁾	Amount	Due Date	Remarks
Continuing Royalty ⁽²⁾	5% of Gross Sales	Due on Wednesday of each week	The “ <u>Continuing Royalty</u> ” is based on “ <u>Gross Sales</u> ” during the previous week. Payments are made via an electronic funds transfer (“ <u>EFT</u> ”).
Creative Fund Contribution ⁽²⁾	Currently 3% of weekly Gross Sales (may be increased to 4% of weekly Gross Sales)	Same as Continuing Royalty	You must contribute 3% of your Gross Sales to our system-wide fund “ <u>Creative Fund</u> ” for our use in developing and building the Mike’s Red Tacos brand (“ <u>Creative Fund Contribution</u> ”). We reserve the right to increase this fee to 4% after approval by a majority vote of all then-current Mike’s Red Tacos franchisees that are eligible to vote. <u>We retain 20% of the Creative Fund Contributions for administering the Creative Fund.</u>
Local Advertising Payment	The difference between the amount you spent on local advertising each year and your required local advertising expenditure (1%)	Payable after receipt of invoice	If you fail to meet your required local advertising requirement on local advertising, you must pay the difference between the amount you spent and the required advertising expenditure, which will be contributed to the Creative Fund. Your local advertising requirement is in addition to your Creative Fund Contribution.
Local and Regional Advertising Cooperatives ⁽³⁾	Established by cooperative members, between 0.5% and 2% of Gross Sales	Established by cooperative members	We currently do not have local or regional cooperatives, but reserve the right to require them to be established in the future. We anticipate that each Mike’s Red Tacos Restaurant that we or our affiliate owns that exists within the cooperative’s area will contribute to the cooperative on the same basis as franchisees. If established, your contributions to a cooperative would be in addition to your Creative Fund Contributions and local advertising requirement. Item 11 contains more information about advertising cooperatives.

Type of Fee ⁽¹⁾	Amount	Due Date	Remarks
Media Fee	\$20,000 to \$35,000	On invoice, five months after opening	You will pay us or our media agency this one-time fee (“Media Fee”). The amount of this fee is determined by our marketing department depending on the market conditions and local media market of your Mike’s Red Taco Restaurant.
Site Review and Evaluation Fee	Actual costs	As incurred	We typically review up to three sites for each Mike’s Red Tacos Restaurant at no charge. We may charge you this fee, in our sole discretion, if you are required to submit more than three sites.
Insurance	Reimbursement of our costs, plus a 20% administration charge	On demand	If you fail to obtain insurance, we may obtain insurance for you and you must reimburse us for the cost of insurance obtained plus 20% of the premium for an administrative cost of obtaining the insurance.
Additional Training or Assistance ⁽⁴⁾	Then-current charge (currently \$500 to \$1,000 per week per person)	Prior to beginning of training	We provide initial training at no charge for up to eight people for the first Mike Red’s Tacos Restaurant and up to four people for your second and third Mike’s Red Tacos Restaurants (if applicable), so long as they all attend the same training session. We may charge you for training additional persons, replacement personnel, newly hired personnel, refresher training courses, advanced training courses, and additional or special assistance or training you need or request. The fee will depend on the training required and experience level of the trainer.

Type of Expenditure	Amount		Method of Payment	When Due	To Whom Paid
	Low	High			
Initial Training ⁽⁸⁾	\$12,000	\$23,000	As incurred	As invoiced	Providers of travel, lodging, and food services
New Restaurant Opening Fee ⁽⁹⁾	\$0	\$15,000	As incurred	Prior to Opening	Us
Pre-Opening Labor Expense	\$15,000	\$40,000	As incurred	As incurred	Employees
Pre-Opening/Grand Opening Advertising ⁽¹⁰⁾	\$10,000	\$12,000	As incurred	As invoiced	Us
Miscellaneous Opening Costs	\$1,000	\$20,000	As incurred	As invoiced	Approved suppliers
Professional Fees	\$1,000	\$15,000	As incurred	As incurred	Your financial and legal advisors
<u>Media Fee⁽¹¹⁾</u>	<u>\$20,000</u>	<u>\$35,000</u>	<u>As incurred</u>	<u>Half one month before opening; half one month after opening</u>	<u>Us or our approved supplier</u>
Additional Funds– 3 Months ⁽⁺¹²⁾	\$16,300	\$48,000	As incurred	As invoiced	Suppliers, Employees and Us
TOTAL ESTIMATED INITIAL INVESTMENT ⁽⁺²¹³⁾	\$649639,800	\$1,953988,000			

Notes:

These estimated initial expenses are our best estimate of the costs you may incur in establishing and operating your Franchise. We do not offer direct or indirect financing for these items. All expenditures paid to us or our affiliates are uniform and non-refundable under any circumstances once paid. All expenses payable to third parties are non-refundable, except as you may arrange for utility deposits and other payments.

1. Initial Franchise Fee. The Initial Franchise Fee for one Franchise is \$40,000. The Initial Franchise Fee is paid upon execution of the Franchise Agreement and is non-refundable. See Item 5 for additional information regarding the Initial Franchise Fee when you sign an Area Development Agreement to develop multiple Mike’s Red Tacos Restaurants.
2. Architect/Engineer. You must retain one of our designated architects to create your preliminary floor plan at your cost (approximately \$900 to \$1,500) or another architect we approve, to prepare



our designated supplier. The high range figures in the chart reflect the purchase of this system from our designated supplier.

7. Insurance Deposits. This estimate is for the deposit for your insurance policies.
8. Initial Training. These figures include your costs of travel and expenses during your initial training program. Before you open your first Mike's Red Tacos Restaurant, your Operating Principal and your Director of Operations must also attend the opening of a new Mike's Red Tacos Restaurant. The high estimate includes up to \$3,000 of travel and expenses if you need to travel outside your general region to attend.
9. New Restaurant Opening Fee. The low estimate for the New Restaurant Opening Fee in the chart reflects that there is no New Restaurant Opening Fee for the first Mike's Red Tacos Restaurant. The New Restaurant Opening Fee varies based on the number of Mike's Red Tacos Restaurants you have opened and whether you have an NRO Leader, CRM, CT, and CFTR. This high estimate assumes that you are opening your second or third Mike's Red Tacos Restaurants in which case the New Restaurant Opening Fee is \$15,000. This table assumes you will not experience delays. If we deploy our team to your Mike's Red Tacos Restaurant and your Mike's Red Tacos Restaurant experiences any delay in opening, you are also required to reimburse us for all costs, expenses and salaries that our new restaurant opening team incurs during the delay. In the Area Development Agreement table below, we include high estimate that you have to pay us the New Restaurant Opening Fee for your fourth or higher Mike's Red Tacos Restaurant, which is equal to \$40,000 (which is separate from and in addition to your Initial Franchise Fee). If you have a CRM, CT and NRO Leader who conducts training at a CFTR you operate, then you will not be required to pay the New Restaurant Opening Fee for your fourth Mike's Red Tacos Restaurant or additional Restaurants. We may waive the New Restaurant Opening Fee for a franchisee or area developer who has a CFTR at the second or third Mike's Red Tacos Restaurant and we do not need to provide New Restaurant Opening assistance.
10. Pre-opening/Grand Opening Advertising. You will pay us for your pre-opening/grand opening advertising within 30 days after opening. We will conduct your pre-opening/grand opening advertising just before and during your first week of operation. This is in addition to the tacos given away, which is included in the cost of your grand opening kit, at the grand opening of the Mike's Red Tacos Restaurant. This estimate does not include any costs associated with products for free menu item give aways.

~~11.~~ Media Fee. See Item 5 for more information on the Media Fee.

12. Additional Funds. This estimate is based on your staff salaries and miscellaneous startup costs and operating expenses through the first three months of operation. This estimate also includes any utility and lease deposits that may be required for the first three months, sixteen weeks of TOM Fees (currently \$170 to \$500 per week) and the one-time setup fee (currently ranging between \$1,000 and \$2,000). The estimate also includes three months' payment of the Guest Response and Recovery Management Fee (currently \$200 per month), three months' payment of the Mystery Shopper Fee (currently \$165 per month) and three months' payment of the Food Safety Assessment Fee (currently \$100 per month). The estimate of additional funds does not include an owner's salary or draw. The disclosure laws require us to include this estimate of all costs and expenses to operate your franchise during the "initial phase" of your Mike's Red Tacos Restaurant, which is defined as three months or a longer period if "reasonable for the industry." We are not aware of any established longer "reasonable period," so our disclosures cover a three-

month period. Our estimates are based on our experience, the experience of our affiliates, and our current requirements for Mike's Red Tacos Restaurants. The factors underlying our estimates may vary depending on several variables, depending upon the location of your Mike's Red Tacos Franchise, and current relevant market conditions. You must provide security deposits for utilities and rent (and possibly for other items). ~~Franchisees will be required to pay us or our media agency a one time fee of between \$20,000 to \$35,000 approximately five months after opening. That fee is not included in the table above.~~

4213. This is an estimate of your initial startup expenses for one Franchise. This estimate also includes Non-Traditional Restaurants.

YOUR ESTIMATED INITIAL INVESTMENT

Area Development Franchise

Type of Expenditure	Amount		Method of Payment	When Due	To Whom Paid
	Low	High			
Development Fee ⁽¹⁾	\$20 <u>60</u> ,000	\$240 <u>280</u> ,000	Lump Sum	When you sign your Area Development Agreement	Us
Initial Investment for the first Mike's Red Tacos Restaurant ⁽²⁾	\$619 <u>639</u> ,800	\$1,9 <u>389</u> 73,000	Per Table Above	Per Table Above	Per Table Above
TOTAL ESTIMATED INITIAL INVESTMENT FOR THREE MIKE'S RED TACOS BUSINESSES ⁽³⁾	\$1,889 <u>949</u> ,400	\$5,844 <u>949</u> ,000			
TOTAL ESTIMATED INITIAL INVESTMENT FOR TWENTY FIVE MIKE'S RED TACOS BUSINESSES ⁽³⁾⁽⁴⁾	\$15,525 <u>16,025</u> ,000	\$49,360 <u>50,235</u> ,000			

Notes:

These estimated initial expenses are our best estimate of the costs you may incur in establishing and operating your Mike's Red Tacos Restaurant. We do not offer direct or indirect financing for these items. All expenditures paid to us or our affiliates are uniform and non-refundable under any circumstances once paid. All expenses payable to third parties are non-refundable, except as you may arrange for utility deposits and other payments.

1. Development Fee. If you sign an Area Development Agreement to develop a mutually agreed number of Mike's Red Tacos Restaurants, you will pay an Initial Franchise Fee for your first



any problems in the operations that become evident as a result of any visit. If provided at your request, you must reimburse our expenses and pay our then-current training charges.

3. Maintain and administer a Creative Fund. We may dissolve the Creative Fund upon written notice (Franchise Agreement, Section 8.3; Non-Traditional Location Addendum, Section 14).

4. Hold periodic national or regional conferences to discuss business and operational issues affecting Mike's Red Tacos franchisees.

5. Establish minimum and maximum resale prices for use with multi-area marketing programs and special price promotions, as allowed by law.

Advertising (Franchise Agreement, Section 8; Non-Traditional Location Addendum, Section 14)

Creative Fund

We have established a Creative Fund for marketing, developing and promoting the System, the Marks and Franchises. We require you to pay a Creative Fund Contribution, currently 3% of your weekly Gross Sales, to our Creative Fund (see Item 6). We reserve the right to increase or otherwise modify the Creative Fund Contribution to 4% after approval by a majority vote of all then-current Mike's Red Tacos franchisees that are eligible to vote. We, or our affiliates, will direct all creative programs and control the creative concepts, materials and media used, media placement and allocation. We have complete discretion on how the Creative Fund will be utilized. We may use the Creative Fund for local, regional or national marketing, advertising, sales promotion and promotional materials, new product development and testing, public and consumer relations, website development and search engine optimization, the development of technology for the System, secret shopper programs, and any other purpose to promote the Mike's Red Tacos brand. Non-Traditional Location Mike's Red Tacos Restaurants may not be eligible to participate in some of the Creative Fund programs. We are not obligated to spend any amount on advertising in the geographical area where you are or will be located. We do not guarantee that advertising expenditures from the Creative Fund will benefit you or any other franchisee directly, on a pro rata basis, or at all. We assume no fiduciary duty to you or other direct or indirect liability or obligation to collect amounts due to the Creative Fund or to maintain, direct or administer the Creative Fund.

The Creative Fund may be used for all costs of administering, directing, preparing, placing and paying for national, regional or local advertising to promote and enhance the image, identity or patronage of Mike's Red Tacos Restaurants owned by us and by franchisees. ~~We may reimburse ourselves for our indirect costs and overhead incurred in connection with the operation of our creative department(s), if any. We may also reimburse ourselves for our costs related to the administration of the fund up to 20% of required contributions.~~ We will retain 20% of the Creative Fund Contributions for administering the Creative Fund. We will not use the Creative Fund Contributions for advertising that is principally a solicitation for the sale of Franchises, but we reserve the right to include a notation in any advertisement indicating "Franchises Available" or similar phrasing or include information regarding acquiring a Franchise on or as a part of materials and items produced by or for the Creative Fund. The Creative Fund ~~will~~ may be kept in a separate bank account, commercial account or savings account or in our general operating account. The Creative Fund is not audited. We will provide an annual accounting when available for the Creative Fund that shows how the Creative Fund proceeds have been spent for the previous year upon written request.

We reserve the right to contribute or loan additional funds to the Creative Fund on any terms we deem reasonable. Although we do not intend to do so, we may dissolve the Creative Fund at any point.

If we decide to dissolve the Creative Fund, we will either spend or distribute pro rata any remaining funds before dissolution.

Each franchisee will be required to contribute to the Creative Fund, but certain franchisees may contribute on a different basis depending on when they signed their Franchise Agreement or where their Mike's Red Tacos Restaurant is located (such as Non-Traditional Venues). Company-owned outlets will contribute to the Creative Fund on the same basis as franchisees.

During our last fiscal year, which ended January 5, 2025, we did not collect or spend any Creative Fund Contributions.

Local Advertising

In addition to the Creative Fund Contributions, you must spend 1% of your annual Gross Sales on local advertising each year ("Local Advertising Requirement"). If you fail to spend the Local Advertising Requirement, you will be required to pay the difference to the Creative Fund. We may require reports on expenditures for local advertising or audit your records. You agree, at your sole cost and expense, to issue and offer such rebates, giveaways, and other promotions according to advertising programs established by us, and further agree to honor the rebates, giveaways, and other promotions issued by other Mike's Red Tacos franchisees under any such program, so long as such compliance does not contravene any applicable law, rule, or regulation. You will not create or issue any gift cards/certificates, and will only sell gift cards/certificates that have been issued or sponsored by us and that are accepted at all Mike's Red Tacos Restaurants, and you will not issue coupons or discounts of any type except as approved by us.

We will conduct your pre-opening/grand opening advertising just before and during the first week of operations of your Mike's Red Tacos Restaurant. You will pay us between \$10,000 and \$12,000 for this advertising, which will be due within 30 days of your grand opening. The pre-opening/grand opening advertising is in addition to the tacos given away at the grand opening of the Mike's Red Tacos Restaurant.

You will pay us or our media agency a one-time Media Fee of ~~\$20,000 to \$35,000 as determined by our marketing department depending on the market conditions and local media market of your Mike's Red Taco Restaurant described in Item 5~~ which ~~will~~may include connected TV media and "Over the Top" (OTT) geo-targeted, streaming video media. ~~This fee~~Half of the Media Fee is due to us or our media agency on invoice, ~~five months~~one month before the scheduled opening of your Mike's Red Tacos Restaurant. ~~The remaining half is due to us or our media agency on invoice one month~~ after opening your Mike's Red Tacos Restaurant. The Media Fee will count towards your Local Advertising Requirement.

Cooperatives

You may be required to participate in any local or regional advertising cooperative for Mike's Red Tacos Restaurants that is established. The area of each local and regional advertising cooperative will be defined by us, based on our assessment of the area. Franchisees in each cooperative will contribute an amount to the cooperative of up to 2% of monthly Gross Sales for each Mike's Red Tacos Restaurant that the franchisee owns that exists within the cooperative's area. This contribution will count towards the franchisee's Local Advertising Requirement. Each Mike's Red Tacos Restaurant that we or our affiliate owns that exists within the cooperative's area will contribute to the cooperative on the same basis as franchisees. Members of the cooperative will be responsible for administering the cooperative, including determining the amount of contributions from each member. We may require that each cooperative operate with governing documents. Each cooperative must prepare annual unaudited



Franchise terminated, cancelled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under our franchise agreement or area development agreement during the one-year period ending January 5, 2025 or who has not communicated with us within ten weeks of the Issuance Date of this Franchise Disclosure Document, is listed in Exhibit G. During the last three fiscal years, we have not had any franchisees sign confidentiality provisions that would restrict their ability to speak openly about their experience with the Mike’s Red Tacos franchise System. If you buy a Franchise, your contact information may be disclosed to other buyers when you leave the Franchise System.

As of the Issuance Date of this Franchise Disclosure Document, there are no franchise organizations sponsored or endorsed by us, and no independent franchisee organizations have asked to be included in this Franchise Disclosure Document. We do not have any trademark specific franchisee organizations.

ITEM 21 FINANCIAL STATEMENTS

Exhibit B contains the financial statements required to be included with this Franchise Disclosure Document: audited opening balance sheet as of January 5, 2025. The franchisor has not been in business for three years or more and cannot include all the financial statements required by the FTC Rule for its last three fiscal years. Our fiscal year end is January 5, 2025.

ITEM 22 CONTRACTS

The following exhibits contain proposed agreements regarding the Franchise and Area Developer Franchise:

Exhibit C	Franchise Agreement
Exhibit D	Area Development Agreement
Exhibit F	Franchise Disclosure Questionnaire
Exhibit H	State Addenda and Agreement Riders
Exhibit I	Contracts for use with the Mike’s Red Tacos Franchise

ITEM 23 RECEIPTS

The last pages of this Franchise Disclosure Document, Exhibit K, are a detachable document, in duplicate. Please detach, sign, date and return one copy of the Receipt to us, acknowledging that you received this Franchise Disclosure Document. Please keep the second copy for your records.

EXHIBIT C
FRANCHISE AGREEMENT

SECTION 4 PAYMENTS

4.1 Initial Franchise Fee. Unless Franchisee is signing this Agreement pursuant to an Area Development Agreement, in which case the payment schedule would be determined by the provisions of such Area Development Agreement, upon execution hereof, Franchisee shall pay to Franchisor the Initial Franchise Fee set forth in Attachment A. The Initial Franchise Fee is non-refundable, in whole or in part, under any circumstances.

4.2 Continuing Royalty. Franchisee shall pay to Franchisor each Week during the Term, as provided in Section 4.8, a continuing royalty (the “**Continuing Royalty**”) equal to 5% of Franchisee’s Gross Sales during the preceding Week. The Continuing Royalty is an ongoing payment that allows Franchisee to use the Marks and the other intellectual property of the System and that pays for Franchisor’s ongoing support and assistance.

4.3 Creative Fund Contribution. Franchisee shall pay to Franchisor each Week during the Term, as provided in Section 4.8, a creative fund contribution equal to 3% of Franchisee’s Gross Sales during the preceding Week (“**Creative Fund Contribution**”). Franchisor retains 20% of the Creative Fund Contributions for administering the Creative Fund. Franchisor reserves the right to increase this fee to up to 4% of Franchisee’s Gross Sales after approval by a majority vote of all then-current Mike’s Red Tacos franchisees that are eligible to vote. Voting shall be on a per-franchisee basis, and only those franchisees or developers that are in good standing will be eligible to vote. Franchisor will also vote based on the number of Restaurants operated by Franchisor and/or its Affiliates. Franchisor shall contribute the Creative Fund Contribution to the Creative Fund to be administered in the manner provided in Section 8.3 of this Agreement (the “**Creative Fund**”).

4.4 Technology, Operations and Marketing Fee. In addition to any amounts that the Franchisee may be required to pay to third-party providers, suppliers or vendors related to the security, computer and technology system to be operated in the Franchised Restaurant, Franchisee must pay Franchisor the then-current technology, operations and marketing fee (“**TOM Fee**”) (currently \$170 to \$500 per outlet, per Week, depending on the number of terminals Franchisee requires, plus a one-time setup fee (the “**Setup Fee**”), currently between \$1,000 and \$2,000) for marketing and operational expenses relating to the Franchised Restaurant and costs incurred by the Franchisor for technology management and certain technologies used in the operation of the Franchised Restaurant. Franchisee shall pay Franchisor the Setup Fee the first Wednesday after entering into the Lease or purchase agreement for the site of the Restaurant. Thereafter, Franchisee shall pay Franchisor the TOM Fee weekly on the day of the week prescribed by Franchisor beginning one month prior to opening the Restaurant. The TOM Fee is intended to be a “pass through” of costs incurred by Franchisor in providing technology, marketing, and operations services to Franchisee. As a result, the TOM Fee shall only consist of amounts that: (i) Franchisor is charged by vendors, suppliers and affiliates without mark-up by Franchisor; or (ii) Franchisor reasonably incurs in creating, developing, implementing, administering and maintaining technology, marketing, and operations services to franchisees generally or that are specifically requested by Franchisee. Franchisor reserves the right to: (i) change or add approved suppliers of these services at any time, in Franchisor’s sole discretion; (ii) enter into a master license agreement with any software or technology supplier and sublicense the software or technology to Franchisee, in which case Franchisor may charge Franchisee for all amounts that Franchisor must pay to the licensor based on Franchisee’s use of the software or technology; and (iii) create proprietary software or technology that must be used by Mike’s Red Tacos franchisees, in which case Franchisor may require that Franchisee enter into a license agreement with Franchisor and pay Franchisor reasonable initial and ongoing licensing, support and maintenance fees; and (iv) modify or increase the monthly TOM Fee to account for changes, additions and modifications to required hardware and software and for licensing and

written consent of Franchisor to use and/or display any advertising materials, including, without limitation, all print and electronic advertising, social media postings or listings, website postings or listings, newspaper and magazine advertisements, direct mailers and mail coupons, not provided by Franchisor. Franchisee shall submit all such materials to Franchisor for approval and Franchisor shall grant or deny such approval within 15 days of receiving the materials. If Franchisor has not approved such materials within 15 days, the materials shall be deemed disapproved. If the Franchisee uses any marketing, advertising or promotional materials or campaigns that the Franchisor has not approved, the Franchisee will pay the Franchisor an “**Unauthorized Advertising Fee**” of \$500 per occurrence which shall be contributed to the Creative Fund in the Franchisor’s sole discretion. Any advertising materials or concepts created by Franchisee and approved by Franchisor shall be deemed the sole and exclusive property of Franchisor. Franchisor may, in its discretion, require Franchisee to cease using any advertising materials which it has previously approved and upon receiving notification from Franchisor, Franchisee shall cease using such materials. All of Franchisee’s advertising, promotion and marketing materials shall be completely clear, factual and not misleading and conform to the highest ethical standards and to Franchisor’s standards and policies. Franchisee shall not in any medium: (a) use abusive, slanderous or otherwise offensive language; (b) endorse or encourage default of any franchisee’s franchise agreement, or other agreement with Franchisor or its Affiliates; or (c) take any action or make any statement which would disparage Franchisor or its Affiliates, or impair, damage or harm the name, reputation, or goodwill of the Marks, System and/or the Mike’s Red Tacos brand.

8.2 Local Advertising and Promotion.

8.2.1 In addition to the Creative Fund Contributions, Franchisee must spend 1% of annual Gross Sales on local advertising each year (“**Local Advertising Requirement**”). If Franchisee fails to spend the Local Advertising Requirement, Franchisee will be required to pay the difference to the Creative Fund. Franchisee agrees, at its sole cost and expense, to issue and offer such rebates, giveaways, and other promotions in accordance with advertising programs established by Franchisor, and further agrees to honor the rebates, giveaways, and other promotions issued by other Mike’s Red Tacos franchisees under any such program, so long as such compliance does not contravene any applicable law, rule, or regulation. Franchisee will not create or issue any gift cards/certificates, and will only sell gift cards/certificates that have been issued or sponsored by Franchisor and which are accepted at all Mike’s Red Tacos Restaurants, and Franchisee will not issue coupons or discounts of any type except as approved by Franchisor.

8.3 Creative Fund.

8.3.1 In accordance with Section 4.2 of this Agreement, Franchisee’s Creative Fund Contribution shall be applied to the Creative Fund, except for 20% of the Creative Fund Contribution which is retained by Franchisor for administering the Creative Fund. Franchisor will use the Creative Fund for national, regional, or local advertising, public relations or promotional campaigns or programs designed to promote and enhance the image, identity or patronage of franchised, and Franchisor-owned (including Affiliate-owned) Restaurants. Such expenditures may include, but are not limited to: (a) creative development, production and placement of print advertisements, commercials, musical jingles, decals, radio spots, audio advertising, point of purchase materials, direct mail pieces, literature, outdoor advertising, door hangers, electronic media advertisements, and other advertising and promotional material; (b) creative development, preparation, production and placement of video, audio and written materials and electronic media, (c) to purchase artwork and other components for advertising; (d) media placement and buying, including all associated expenses and fees; (e) administering regional and multi-regional marketing and advertising programs; (f) market research, marketing studies and customer satisfaction surveys, including the use of secret shoppers; (g) development and production of, and, to the extent applicable, acquisition of, premium items, giveaways, promotions, contests, public relations

events, and charitable or nonprofit events; (h) creative development of signage, posters, and individual decor items including wall graphics; (i) recognition and awards events and programs; (j) system recognition events, including periodic national and regional conventions and meetings; (k) website, extranet and/or Intranet development, implementation and maintenance; (l) development, implementation and maintenance of a website that permits electronic commerce, reservation system and/or related strategies; (m) retention and payment of advertising and promotional agencies and other outside advisors, including retainer and management fees; (n) public relations and community involvement activities and programs; (o) expenditures for activities conducted for the benefit of co-branding, or other arrangements where “Mike’s Red Tacos” brand products and/or services are offered in conjunction with other marks or through alternative channels of distribution; (p) development, amendment and revisions to the standards, policies and procedures set forth in the Mike’s Red Tacos Operations Manual; (q) stadium promotion marketing fees; (r) ~~payment to Franchisor or its Affiliates, for indirect costs and overhead incurred in connection with the operation of its creative department(s), if any;~~ (s) ~~payment to Franchisor or its Affiliates for costs related to the administration of the Creative Fund not to exceed 20% of required contributions;~~ (t) ~~payments for corporate and store-level hosted access from data hosted solutions providers;~~ (u) ~~gift card blanks;~~ and (v) ~~retention and payment of social media agencies.~~

8.3.2 Franchisor may employ individuals, consultants or advertising or other agencies, including consultants or agencies owned by, operated by or affiliated with Franchisor, to provide services for the Creative Fund. The Creative Fund may be used to defray direct expenses of Franchisor employees related to the operation of the Creative Fund, to pay for attorneys’ fees and other costs related to the defense of claims against the Creative Fund or against Franchisor relating to the Creative Fund, and to pay costs with respect to collecting amounts due to the Creative Fund.

8.3.3 Franchisor shall determine, in its discretion, the cost, media, content, format, style, timing, allocation and all other matters relating to such advertising, public relations and promotional campaigns. Franchisee acknowledges that not all franchisees may be required to contribute, or contribute the same percentage of Gross Sales, to the Creative Fund and by way of illustration and not limitation, Franchisor may waive or impose lower contribution requirements with respect to Restaurants operating at Non-Traditional Venues, or outside the United States. Nothing herein shall be construed to require Franchisor to allocate or expend Creative Fund contributions or allocations so as to benefit any particular franchisee, Franchisee or group of franchisees or franchisees on a pro rata or proportional basis or otherwise. Except as directed in writing by Franchisor, Franchisee must participate in all advertising, marketing, promotions, research and public relations programs instituted by the Creative Fund. Franchisor may make copies of advertising materials available to Franchisee with or without additional reasonable charge, as determined by Franchisor. Any additional advertising shall be at the sole cost and expense of Franchisee. The Creative Fund shall, as available, provide to Franchisee marketing, advertising and promotional formats and sample materials at the Creative Fund’s direct cost of producing such items, plus shipping and handling.

8.3.4 Franchisor (or its Affiliates) may collect rebates and allowances and credits from Suppliers based on purchases or sales by franchisees, including Franchisee, and Franchisor (and/or its Affiliates). If Franchisor receives rebates or other financial consideration from these suppliers based upon Franchisee’s purchases or any other franchisee’s purchases, Franchisor has no obligations to pass those amounts on to Franchisee or other franchisee, or to use them for their benefit.

8.3.5 Franchisor may either (i) hold the Creative Fund contributions Franchisor receives from franchisees in a separate account administratively segregated on Franchisor’s books and records, or (ii) transfer the Creative Fund Contributions to a separate Entity to whom Franchisor has assigned or delegated the responsibility to operate and maintain the Creative Fund. Nothing herein shall be deemed to create a trust fund, and Franchisor may commingle Creative Fund Contributions with its

Franchisee to periodically select from Franchisor's designated alternative design elements for an interior page (or portion thereof) dedicated to the Franchised Restaurant. Such designated alternative design elements may change from time to time. Franchisor will implement any such designated design elements or changes promptly, subject to Franchisor's business needs and scheduling availability. Franchisor may disable or terminate such website(s), in whole or in part, without Franchisor having any liability to Franchisee.

8.5.3 Franchisee acknowledges and agrees that Franchisor (or its Affiliate) is the owner of, and will retain all right, title and interest in and to (i) the www.mikesredtacos.com domain name and URL; all existing and future domain names, URLs, future addresses and subaddresses using the Marks in any manner; (ii) means all computer programs and computer code (e.g., HTML, XML DHTML, Java) used for or on the Franchisor's web site(s), excluding any software owned by third parties; (iii) all text, images, sounds, files, video, designs, animations, layout, color schemes, trade dress, concepts, methods, techniques, processes and data used in connection with, displayed on, or collected from or through Franchisor's web site(s); and (v) all intellectual property rights in or to any of the foregoing.

8.6 Local Advertising Cooperative. Franchisee may be required to participate in any local or regional advertising cooperative for Mike's Red Tacos Restaurants that are established. The area of each local and regional advertising cooperative will be defined by Franchisor, based on Franchisor's assessment of the area. Franchisees in each cooperative will contribute an amount to the cooperative of up to 2% of monthly Gross Sales for each Restaurant that the franchisee owns that exists within the cooperative's area. Each Restaurant that Franchisor owns that exists within the cooperative's area will contribute to the cooperative on the same basis as franchisees. Members of the cooperative will be responsible for administering the cooperative, including determining the amount of contributions from each member. Franchisor may require that each cooperative operate with governing documents and prepare annual unaudited financial statements. Franchisor reserves the right to form, change, dissolve or merge any advertising cooperative formed in the future. If Franchisor elects to form such cooperatives, or if such cooperatives already exist near Franchisee's Territory, Franchisee will be required to participate in compliance with the provisions of the Operations Manual, which Franchisor may periodically modify at Franchisor's discretion. Any contributions that Franchisee is required to make to any such cooperative may be applied towards the Local Advertising Requirement.

8.7 Advertising Council. Franchisor reserves the right to form an advisory council ("Council") to advise Franchisor and provide input on virtually all advertising materials and promotions. Members of the Council will consist of both franchisees and corporate representatives. Members of the Council will be selected by way of a voting method specified in the Council's bylaws. The Council will be governed by bylaws. The Council will provide input regarding the Brand Fund and promote communications between Franchisor and all Franchisees. The Council will serve in an advisory capacity only. Franchisor will have the power to form, change, or dissolve the Council, in Franchisor's sole discretion.

8.8 Grand Opening Advertising. Franchisor or its designee will conduct certain pre-opening and grand opening advertising for Franchisee's Restaurant. Franchisee agrees to purchase a grand opening kit from Franchisor or its designee and to pay Franchisor or its designee for all pre-opening and grand opening advertising that Franchisor or its designee conducts immediately upon invoice.

8.9 Media Fee. Franchisee will pay a one-time "Media Fee" between \$20,000 and \$35,000, which may include connected TV media and "Over the Top" (OTT) media, geo-targeted, streaming video media, or other advertising efforts- to Franchisor or the designated media agency. The amount of this fee is determined by Franchisor's marketing department, in its sole discretion, depending on the local media market and market conditions of the Franchisee's Restaurant. ~~This fee~~ Half of the Media Fee is due to

Franchisor or its media agency upon invoice approximately one month before the scheduled opening of the Franchisee's Restaurant, and the remaining half is due upon invoice one month after the opening of the Franchisee's Restaurant.

SECTION 9 DISTRIBUTION AND PURCHASE OF EQUIPMENT, SUPPLIES, AND OTHER PRODUCTS

9.1 Mike's Red Tacos Brand Products. At all times throughout the Term, Franchisee shall purchase and maintain in inventory such types and quantities of Authorized Products as are needed to meet reasonably anticipated consumer demand. Franchisee shall purchase Authorized Products solely and exclusively from Franchisor or its designees.

9.2 Proprietary Products. Franchisor may, from time to time throughout the Term, require that Franchisee purchase, use, offer and/or promote, and maintain in stock at the Franchised Restaurant: (i) in such quantities as are needed to meet reasonably anticipated consumer demand, certain proprietary products, sauces, dressings, condiments, beverages, food products and other ingredients and raw materials, which are grown and produced or manufactured in accordance with Franchisor's Trade Secrets, proprietary recipes, specifications and/or formulas or which Franchisor designates as "proprietary," and (ii) certain packaging, Information Systems, other products, supplies, services and equipment designated by Franchisor as "proprietary" ("**Proprietary Products**"). Franchisee shall purchase Proprietary Products only from Franchisor or its Affiliates (if they sell the same), or Franchisor's designees. Franchisor shall not be obligated to reveal such Trade Secrets, recipes, specifications and/or formulas of such Proprietary Products to Franchisee, non-designated suppliers, or any other third parties.

9.3 Non-Proprietary Products. Franchisor may designate certain food products, condiments, merchandise, beverages, raw materials, fixtures, furnishings, equipment, uniforms, supplies, paper goods, services, menus, packaging, forms, Information Systems, and other products, supplies, services and equipment, other than Proprietary Products, which Franchisee may or must use and/or offer and sell at the Franchised Restaurant ("**Non-Proprietary Products**"). Franchisee may use, offer or sell only such Non-Proprietary Products that Franchisor has expressly authorized, and that are purchased or obtained from Franchisor or a producer, manufacturer, distributor, supplier or service provider ("**Supplier**") designated or approved by Franchisor pursuant to Section 9.3.2 of this Agreement.

9.3.1 Franchisee may purchase authorized Non-Proprietary Products from: (i) Franchisor or its Affiliates (if they sell the same); (ii) Suppliers designated or approved in writing by Franchisor; or (iii) Suppliers selected by Franchisee and approved in writing by Franchisor prior to Franchisee making such purchase(s); *provided, however*, that if this is one of the first three Restaurants developed by Franchisee or its Affiliates, Franchisee must purchase certain Non-Proprietary Products that Franchisor designates only from Franchisor or Suppliers it designates, including new equipment for all items that impact food production and the guest experience, and large equipment and small wares. Each such Supplier designated by Franchisor must comply with Franchisor's usual and customary requirements regarding insurance, indemnification, and non-disclosure, and shall have demonstrated to the reasonable satisfaction of Franchisor: (a) its ability to supply a Non-Proprietary Product meeting the specifications of Franchisor, which may include specifications as to brand name, model, contents, manner of preparation, ingredients, quality, freshness and compliance with governmental standards and regulations; (b) its reliability with respect to delivery and the consistent quality of its products or services; and (c) its ability to meet such other requirements as determined by Franchisor to be in the best interest of the system.

9.3.2 If Franchisee should desire to procure authorized Non-Proprietary Products from a Supplier other than Franchisor or one previously approved or designated by Franchisor (and not

State Effective Dates

The following states have franchise laws that require that the Franchise Disclosure Document be registered or filed with the state, or be exempt from registration: California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington, and Wisconsin.

This document is effective and may be used in the following states, where the document is filed, registered or exempt from registration, as of the Effective Date stated below:

State	Effective Date
California	April 25, 2025 <u>Pending</u>
Illinois	Pending
Indiana	April 8, 2025
Maryland	Pending
Michigan	April 11, 2025
Minnesota	Pending
New York	Pending
Virginia	Pending
Washington	Pending
Wisconsin	April 8 <u>May 16, 2025</u>

Other states may require registration, filing, or exemption of a franchise under other laws, such as those that regulate the offer and sale of business opportunities or seller-assisted marketing plans.

RECEIPT
(Retain This Copy)

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 Mike’s Red Tacos Franchise Co, LLC offers you a franchise, it must provide this disclosure document to you 14 calendar days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale.

Under Iowa law, if applicable, Mike’s Red Tacos Franchise Co, LLC must provide this disclosure document to you at your first personal meeting to discuss the franchise. Michigan requires Mike’s Red Tacos Franchise Co, LLC to give you this disclosure document at least ten business days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first. New York requires you to receive this disclosure document at the earlier of the first personal meeting or ten business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship.

If Mike’s Red Tacos Franchise Co, LLC does not deliver this disclosure document on time or if it contains a false or misleading statement or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, DC 20580, and the appropriate state agency identified on Exhibit A.

The name, principal business address, and telephone number of each franchise seller offering the franchise is:
Mike Touma, Mike’s Red Tacos Franchise Co, LLC, 1308 E Colorado Blvd., Suite 2216, Pasadena, California 91106; 619-318-6708
Andrew Feghali, Mike’s Red Tacos Franchise Co, LLC, 1308 E Colorado Blvd., Suite 2216, Pasadena, California 91106; 619-780-1213
Vincent Montanelli, Mike’s Red Tacos Franchise Co, LLC, 1308 E Colorado Blvd., Suite 2216, Pasadena, California 91106; 562-201-3020

Issuance Date: March 28, 2025, as amended May 16, 2025

I received a disclosure document issued March 28, 2025, as amended May 16, 2025 which included the following exhibits:

- Exhibit A List of State Administrators and Agents for Service of Process
- Exhibit B Financial Statements
- Exhibit C Franchise Agreement
- Exhibit D Area Development Agreement
- Exhibit E Operations Manual Table of Contents
- Exhibit F Franchise Disclosure Questionnaire
- Exhibit G List of Current and Former Franchisees/Area Developers
- Exhibit H State Addenda and Agreement Riders
- Exhibit I Contracts for use with the Mike’s Red Tacos Franchise
- Exhibit J State Effective Dates
- Exhibit K Receipt

Date Signature Printed Name

Date Signature Printed Name Rev. 012417

PLEASE RETAIN THIS COPY FOR YOUR RECORDS.



**RECEIPT
(Our Copy)**

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Date	Signature	Printed Name
Date	Signature	Printed Name Rev. 012417

Please sign this copy of the receipt, date your signature, and return it to Mike’s Red Tacos Franchise Co, LLC, 1308 E Colorado Blvd., Suite 2216, Pasadena, California 91106.

