



# FRANCHISE DISCLOSURE DOCUMENT

## CHANTICLEAR FRANCHISE SYSTEM, LLC

A MINNESOTA LIMITED LIABILITY COMPANY

18015 Ulysses Street N.E., Suite 400

Ham Lake, Minnesota 55304

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www.chanticlearpizza.com

The franchise offered is for the operation of a delivery/takeout pizza restaurant.

The initial investment necessary to begin operation of a Chanticlear Pizza® restaurant ranges from ~~\$246,000~~246,500 to ~~\$320,000~~325,500. This includes \$20,000 that must be paid to the franchisor or its affiliates.

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 Chanticlear Franchise Administrator at the address or telephone number above.

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: ~~August 22~~ October 10, 20232024. See page entitled "State Specific Effective Date" for state specific effective date.

## How to Use This Franchise Disclosure Document

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

<b>QUESTION</b>	<b>WHERE TO FIND INFORMATION</b>
<b>How much can I earn?</b>	Item 19 may give you information about outlet sales, costs, profits or losses. You should also try to obtain this information from others, like current and former franchisees. You can find their names and contact information in Item 20 or Exhibit 4.
<b>How much will I need to invest?</b>	Items 5 and 6 list fees you will be paying to the franchisor or at the franchisor's direction. Item 7 lists the initial investment to open. Item 8 describes the suppliers you must use.
<b>Does the franchisor have the financial ability to provide support to my business?</b>	Item 21 or Exhibit 5 includes financial statements. Review these statements carefully.
<b>Is the franchise system stable, growing, or shrinking?</b>	Item 20 summarizes the recent history of the number of company-owned and franchised outlets.
<b>Will my business be the only Chanticlear Pizza business in my area?</b>	Item 12 and the "territory" provisions in the franchise agreement describe whether the franchisor and other franchisees can compete with you.
<b>Does the franchisor have a troubled legal history?</b>	Items 3 and 4 tell you whether the franchisor or its management have been involved in material litigation or bankruptcy proceedings.
<b>What's it like to be a Chanticlear Pizza franchisee?</b>	Item 20 or Exhibit 4 lists current and former franchisees. You can contact them to ask about their experiences.
<b>What else should I know?</b>	These questions are only a few things you should look for. Review all 23 Items and all Exhibits in this disclosure document to better understand this franchise opportunity. See the table of contents.

## **What You Need To Know About Franchising *Generally***

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

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

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

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

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

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

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

### **Some States Require Registration**

Your state may have a franchise law, or other law, that requires franchisors to register before offering or selling franchises in the state. Registration does not mean that the state recommends the franchise or has verified the information in this document. To find out if your state has a registration requirement, or to contact your state, use the agency information in Exhibit 1.

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

### **Special Risk(s) to Consider About *This* Franchise**

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

**Out-of-State Dispute Resolution.** The Franchise Agreement requires you to resolve disputes with the franchisor by litigation only in Minnesota. Out-of-state litigation may force you to accept a less favorable settlement for disputes. It may also cost more to litigate with the franchisor in Minnesota than in your own state.

Certain states may require other risks to be highlighted. Check the “State Specific Addenda” pages for your state to see whether your state requires other risks to be highlighted.

## TABLE OF CONTENTS

<u>ITEM</u>	<u>PAGE</u>
ITEM 1 THE FRANCHISOR AND ANY PARENTS, PREDECESSORS, AND AFFILIATES .....	2
ITEM 2 BUSINESS EXPERIENCE .....	3
ITEM 3 LITIGATION .....	3
ITEM 4 BANKRUPTCY .....	<del>43</del>
ITEM 5 INITIAL FEES .....	<del>43</del>
ITEM 6 OTHER FEES .....	4
ITEM 7 ESTIMATED INITIAL INVESTMENT .....	<del>87</del>
ITEM 8 RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES .....	<del>109</del>
ITEM 9 FRANCHISEE'S OBLIGATIONS .....	<del>110</del>
ITEM 10 FINANCING .....	<del>121</del>
ITEM 11 FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS, AND TRAINING .....	<del>121</del>
ITEM 12 TERRITORY .....	17
ITEM 13 TRADEMARKS .....	<del>19</del> 18
ITEM 14 PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION .....	<del>20</del> 19
ITEM 15 OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS .....	<del>21</del> 20
ITEM 16 RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL .....	<del>21</del> 20
ITEM 17 RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION .....	21
ITEM 18 PUBLIC FIGURES .....	<del>24</del> 23
ITEM 19 FINANCIAL PERFORMANCE REPRESENTATIONS .....	24
ITEM 20 OUTLETS AND FRANCHISEE INFORMATION .....	<del>25</del> 24
ITEM 21 FINANCIAL STATEMENTS .....	<del>27</del> 26
ITEM 22 CONTRACTS .....	27
ITEM 23 RECEIPTS .....	27

### EXHIBITS

<u>Exhibit 1-A</u>	State Addenda to Franchise Disclosure Document
<u>Exhibit 1</u>	State Agencies
<u>Exhibit 2</u>	Franchise Agreement and Attachments, Release
<u>Exhibit 3</u>	Table of Contents of Manuals
<u>Exhibit 4</u>	List of Outlets
<u>Exhibit 5</u>	Financial Statements

## ITEM 1

### **THE FRANCHISOR AND ANY PARENTS, PREDECESSORS, AND AFFILIATES**

For ease of reference, Chanticlear Franchise System, LLC is referred to as “we,” “us,” “our,” “CFS” or “Chanticlear” in this Franchise Disclosure Document. We will refer to the person or entity who buys the franchise as “you” and “your” throughout the Disclosure Document. If you are a corporation, limited liability company, or a partnership, your owners must sign a personal guaranty and the provisions of the Franchise Agreement and any other agreements with us or any affiliate will apply to the owners.

CFS is a Minnesota limited liability company organized on May 1, 2003. Our principal business address is 18015 Ulysses Street N.E., Ham Lake, Minnesota 55304. We sell franchises for the operation of a delivery/takeout pizza restaurant that offers pizza and a limited menu of items that we specify from time to time. We have sold Chanticlear Pizza® franchises intermittently since October 2003. We do not have any parent companies or predecessors required to be disclosed in this Disclosure Document. We have never offered franchises in any other line of business.

We do not have any affiliates required to be disclosed in Item 1, other than ~~DalMar Corporation (“DalMar”) and Pine Agency of Ham Lake Inc. (“Pine”). DalMar and Pine are Minnesota corporations. Each of Pine and DalMar~~Pine may sell certain ~~goods and~~ services to our franchisees. ~~DalMar’s and Pine’s~~ principal business address is the same as ours. ~~Neither company Pine~~ has ~~ever~~never offered franchises in any line of business. ~~DalMar~~Our affiliate, DalMar Corporation (“DalMar”), owned and operated Chanticlear Pizza restaurants from 1995 to 2004. From March 2012 through March 2023 DalMar licensed a third party to sell Chanticlear Pizza products in several grocery stores and other retail outlets. Beginning in December 2013 DalMar began granting licenses for the operation of Chanticlear Pizza Grill sit-down restaurants. As of December 31, ~~2022~~2023, there were 2 Chanticlear Pizza Grills operating in Minnesota. Some of these outlets may be located in your market area. Dalmar’s principal business address is the same as ours.

We offer you the opportunity to operate a delivery/takeout pizza restaurant that offers pizza and other items we may specify from time to time using our name, marks and system. The food service industry in which you will operate is extremely competitive. Your restaurant will compete directly for business with virtually all other restaurants, including other pizza restaurants (both quick service and other), other Italian quick service restaurants and with traditional restaurants of all types. In general, all restaurants, including your restaurant, will also compete with the sellers of food which is intended to be prepared and eaten at home. The food service industry is also sensitive to economic upturns and downturns and to many other factors both within and beyond the control of restaurant operators including capital costs and costs of ingredients and the availability of labor. Your skill and acumen as a restaurant operator and that of your staff are critically important. Many restaurants fail.

In most states, you will need a business permit to operate your business, and you will need to obtain food and beverage licenses from the proper licensing agencies. Your business must also comply with other laws and regulations that apply generally to all small businesses.

There will also be laws in your area specific to the preparation and serving of food, and specific occupational, health and safety standards that you must meet. You should check your state for these and other requirements. You must comply with any and all laws, rules and regulations applicable to your restaurant.

You and your manager, if you have a manager, and if not, another employee of yours, must successfully complete the “servsafe” certification program, or its equivalent, offered by the state regulatory body having jurisdiction over your restaurant, or if that body does not have a servsafe certification program, then by a certification provider we approve. In most states, the certification program is offered by the state’s Department of Health, or its equivalent. Our registered agents authorized to receive service of process are disclosed in Exhibit 1.

## ITEM 2

### BUSINESS EXPERIENCE

President: Dale R. Heille

Dale R. Heille has been our President and Chief Manager since May 2003. Since June 1995, Dale has also been the President and Chief Executive Officer of DalMar. Since March 2008, Dale has also been a Producer at Pine Insurance Agency, an insurance agency located in Ham Lake, Minnesota.

~~Chief Financial Officer: Carla Haugaard~~

~~Carla Haugaard has been our Chief Financial officer since February 2017.~~

~~Chief Operating Officer: Brian Keller~~

~~Brian Keller has been our Chief Operating Officer since October 2002.~~

## ITEM 3

### LITIGATION

In the Matter of Chanticlear Franchise System LLC. On November 10, 2003, the Commissioner of Commerce of the State of Minnesota alleged that we offered and sold unregistered and non-exempt franchises in the State of Minnesota. We consented to the entry of a Consent Cease and Desist Order prohibiting us from offering or selling in the State of Minnesota, Chanticlear Pizza® franchises or any other franchise until registration in compliance with Minnesota law was achieved or qualification for an exemption from registration was met. In connection with this matter, we also paid an \$8,000.00 civil penalty.

Other than this 1 action, no litigation must be disclosed in this Item.

## ITEM 4

### **BANKRUPTCY**

~~Except as disclosed below, no bankruptcies must~~No bankruptcy information is required to be disclosed in this Disclosure DocumentItem.

~~In re: Kevin Christian Haugaard and Carla Jean Haugaard, United States Bankruptcy Court, District of Minnesota, Case No: 19-41462-KHS. The above entitled Chapter 13 bankruptcy action was filed on April 9, 2019 by the debtors, including our Chief Financial officer, Carla Haugaard, arising out of the operation of a family business. Mr. Haugaard has no affiliation with us. The Chapter 13 Plan was confirmed by the Court on August 16, 2019. Ms. Haugaard's principal place of business is with us. Our address is 18015 Ulysses Street N.E., Suite 400, Ham Lake, Minnesota 55304.~~

## ITEM 5

### **INITIAL FEES**

The initial franchise fee for a single restaurant is \$20,000, payable at the time you sign the Franchise Agreement attached as Exhibit 2. The initial franchise fee is not refundable.

## ITEM 6

### **OTHER FEES**

Type of Fee (Note 1)	Amount	Due Date	Remarks
Royalty	4% of Gross Sales (Note 2).	Within 10 days after the end of the previous month.	Gross sales include all receipts from the sale of goods and services from your restaurant, including delivery fees, but excludes sales tax.
Advertising Contribution (Note 3)	Currently 1% of Gross Sales, but we can increase the amount up to 3% of monthly Gross Sales upon 90 days' notice to you.	Within 10 days after the end of the previous month.	
Renewal Fee	\$2,500	Before your Franchise Agreement expires.	
Operating Assistance	Currently \$50 per hour.	Within 10 days after the requested assistance was	You must also pay all expenses incurred by us during the assistance.

Type of Fee (Note 1)	Amount	Due Date	Remarks
		received.	
Audit Expenses	Cost of audit.	Within 5 days of invoice date.	Payable only if you understate your gross sales by 2% or more or we audit your restaurant because our latest inspection revealed 2 or more standards deviations.
Transfer Fee	\$2,500	At the time of the signing of the contract to transfer franchise rights to new owner.	Payable when the Franchise Agreement or a material portion of the assets of your restaurant or any interest in you is transferred.
Costs and Attorney Fees	Will vary depending upon circumstances.	As incurred.	Costs that arise from any action or inaction by you that requires our involvement or action or if you lose a lawsuit to us.
Indemnification	Will vary depending upon circumstances.	As incurred.	You must reimburse us if we are held liable for any claims arising from your business.
Website Fee	Currently \$150 per year or \$15 per month.	Within 10 days of invoice date.	We will provide you with a template so that you can create a web page and include the email addresses of up to 3,000 of your customers per year in our direct email marketing campaign.
Continuing Education	Currently \$25 to \$50 per hour plus expenses.	As incurred.	
Additional Training	Currently \$50 per hour plus expenses.	Prior to training	If you add a manager or replace a manager with a new manager who needs to be trained or we otherwise agree to provide you with additional training.
Insurance Fee	Amount we pay for the insurance	Immediately after notice from us.	If we obtain insurance for you because you fail to obtain or maintain required insurance.

Type of Fee (Note 1)	Amount	Due Date	Remarks
Standards Deviation Fee	\$100 per deficiency plus our expenses if we remedy the deficiency.	Within 10 days of invoice date.	If any inspection of your restaurant discloses any failure by you to comply with our standards, and you fail to remedy this deficiency within 24 hours of our inspection, we may, in addition to our right to terminate your Franchise Agreement, fix the deficiency and charge you for our expenses incurred to fix it and/or charge you a fee of \$100 per deficiency.
Manual Replacement Fee	Currently \$500	Prior to receipt of new manual or missing portion.	If all or any portion of the manual we loan to you is lost or destroyed.
<del>Bookkeeping Assistance</del>	<del>Currently \$40 per hour.</del>	<del>Within 10 days of date of invoice.</del>	<del>If you request bookkeeping assistance from us.</del>
Late Charges	Maximum rate permitted by law or 1 1/2% per month on unpaid balances, whichever is greater.	Immediately after notice from us.	This fee is only due when amounts you owe to us are not paid on time.
Insufficient Funds Fee	\$35 per amount owed.	Immediately after notice from us.	This fee is only due if there is insufficient funds in your account to cover a check you have written us or if we are unable to debit from your account the entire amount you owe us. For example, if we are unable to debit the royalty amount and advertising contribution you owe us, you must pay us an insufficient funds fee of \$70.
Convention Fee	Undetermined.	Within 10 days of invoice date.	If we hold a convention, you must pay the convention registration fee we establish.
Supplier Review	Currently \$50 per	Before we review	If you want us to investigate

Type of Fee (Note 1)	Amount	Due Date	Remarks
Fee	hour.	your proposed supplier.	a supplier for our approval.
Closure Fee	Varies based upon how long you were open before closing (Note 4).	Immediately after notice from us.	If you close your restaurant without our approval.
Reporting Failure	120% of fees incurred in prior reporting period.	Immediately after notice from us.	If you fail to report your gross sales to us in a timely manner.
Deidentification Fee	Expenses we incur to deidentify your restaurant.	Immediately after notice from us.	If we deidentify your restaurant because you fail to do so.

(1) All fees are paid to, imposed by and collected by CFS or an affiliate, and unless otherwise stated, all fees are non-refundable. None of these fees are imposed by a cooperative. In the past we have charged different franchise fees and advertising contributions, we have added fees and in certain situations reduced or waived fees. We currently intend to uniformly impose these fees on our franchisees; but may on a case-by-case basis provide a franchisee with a reduction in a fee.

(2) If your state, or any governmental body in your state, charges a tax on the royalty we receive from you, then you must pay an additional royalty equal to the amount of this tax. This does not apply to any federal or Minnesota income taxes we have to pay.

(3) If you are in default under your Franchise Agreement, you must pay us an advertising contribution of 3% of Gross Sales for the period you are in default. You must also spend an additional 3% of your Gross Sales per month on local advertising for your restaurant. You must provide us with receipts evidencing your monthly expenditures upon our request.

(4) If you close your restaurant without our approval you must pay us an amount determined by multiplying 24 by the average monthly fees paid or due from the restaurant during the calendar year before the closing. If the restaurant has not been open for a full year before closing, you must pay us an amount determined by multiplying 24 by the highest monthly amount you paid to us while the restaurant was open.

For additional information as to your initial investment, see Item 7.

## ITEM 7

### ESTIMATED INITIAL INVESTMENT

#### YOUR ESTIMATED INITIAL INVESTMENT

Type of expenditure (Note 1)	Amount	Method of payment	When due	To Whom Payment is to be Made
Initial Franchise Fee	\$20,000	Lump sum	When signing Franchise Agreement	CFS
Tenant Improvements (Note 2)	\$90,000 to \$120,000	As Incurred	As Agreed	Suppliers
Equipment, Signage, POS Computer System (Note 3)	<del>\$90,000 to \$110,000</del> \$90,500 to \$110,500	As Incurred	As Agreed	Suppliers
Pre-opening Expenses (Note 4)	\$15,000 to <del>\$20,000</del> 25,000	As Incurred	As Agreed	Suppliers
Initial Inventory (Note 5)	\$4,000 to \$6,000	As Incurred	As Agreed	Suppliers
Professional Fees (Note 6)	\$2,000 to \$4,000	As Incurred	As Agreed	Suppliers
Additional Funds – 3 months (Note 7)	\$25,000 to \$40,000	As Incurred	As Agreed	Various parties, including employees
<b>Total Estimated Initial Investment(s) (Note 8)</b>	<del>\$246,000 to \$320,000</del> \$246,500 to \$325,500			

(1) These payments are nonrefundable.

(2) Tenant Improvements. We have not projected any cost for the purchase of any land or building because we do not recommend you purchase a building for your business. Instead we recommend you lease a site having between 800-1,400 sq. ft. Space in existing buildings will usually require remodeling both inside and out and must be brought up to our current standards. These costs will vary, but are typically subsidized by the landlord through a tenant improvement allowance. These allowances will vary depending on a number of variables including lease term, lease rate, vacancy status, and age and condition of the building. Finding a location with a similar prior use can greatly reduce tenant improvement costs. The location must be approved by us before you sign a lease for the location. All construction and/or improvements must also be approved by us before they are made.

(3) Retail Equipment/Signage/POS; Computer System. This section relates to trade equipment, office equipment, signage, a computer, and a point-of-sale system needed to operate your business. These costs are exclusive of equipment used in your HVAC system. (HVAC equipment is included in the tenant improvement category.) Signage costs typically comprise approximately 20% of the total cost in this category, but can vary based on landlord signage requirements.

(4) Pre-opening Expenses. Pre-opening expenses may include travel, lodging, and living expenses during your training. These costs will need to be evaluated closely to ensure that you have funding for your basic needs and those of your dependents. During your training phase it is important to keep your variable expenses to a minimum, so as to put as little stress on your new business as possible. Pre-opening expenses also include security deposits, insurance deposits, utility deposits, business licenses and permits, initial insurance and prepaid expenses. You will also incur advertising expenses in your pre-opening phase for recruiting, as well as for print materials for such items as menus and promotional fliers.

(5) Initial Inventory. These estimates include foodstuffs and other food items, operating and cleaning supplies. This amount will depend upon the initial volume of business of your restaurant.

(6) Professional Fees. The estimates include attorney fees, accounting fees, and other professional services you might retain.

(7) Additional Funds. This is an estimate of your initial start-up expenses. These expenses include payroll costs and other expenses you incur during the first 3 months of operating your business (other than for replacement of initial inventory and payroll costs). These figures are estimates and we cannot guaranty you will not have additional expenses either starting the business or during the first 3 months. Your costs will depend on factors like: how closely you follow our methods and procedures; your management skills, experience and business acumen; local economic conditions, the local market for your products and services; prevailing wage rate; competition; and the sales level you reach during the initial period. This amount also includes \$5,000 to advertise your business during the initial 3 month period. It is not uncommon to start slowly, and without funds for advertising, your sales may lag. In putting together these estimates we relied on the experiences of our franchisees opening similar restaurants.

(8) Total Estimated Initial Investment. You should review these figures carefully with a business advisor before making any decision to purchase the franchise. We do not offer financing directly or indirectly for any part of the initial investment. The availability and terms of financing will depend on factors such as the availability of financing generally, your creditworthiness, collateral you may have and lending policies of financial institutions. The estimate does not include any finance charge, interest or debt service obligation or your living expenses. You will need sufficient capital to pay for your living expenses for at least 12 months.

## ITEM 8

### ~~RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES~~

All leasehold improvements, equipment, insurance, fixtures, supplies, inventory, food stuffs, point-of-sale systems, computers, apparel or other items bearing any of our trademarks, and signs you purchase for use or sale in your restaurant must meet our specifications. Those specifications may include minimum standards for delivery, performance, design, appearance, taste and quality. We will issue these specifications to you before you begin operating. We may include these specifications in a manual that we loan to you, or we may separately issue them. We will notify you if we modify these specifications.

You are not required to purchase any items from us. We may sell to you branded apparel. ~~Our affiliate, DalMar Corporation, is an approved supplier for buildout services and certain equipment needed to operate your restaurant, and also provides bookkeeping services.~~ Our affiliate, ~~Pine Agency of Ham Lake Inc.~~, is an approved supplier of insurance services that our franchisees can purchase. We and our ~~affiliates~~affiliate, Pine, intend to make a profit on any items or services we sell to you.

A list of approved products and approved suppliers for many of the items you will need to purchase is published in various of our manuals, policy and procedures statements or provided to you by other written communication, and this list may be amended by us. If you desire to purchase any items that are not approved by us or from an unapproved supplier, you must first submit a written request to us for approval. We may require submission of sufficient specifications, photographs, drawings and/or other information or samples to determine whether such items or such suppliers meet our specifications and standards. In determining whether to approve a particular item or supplier, we will consider various factors including the quality of the product, pricing, reputation of the proposed supplier, and the experience of the supplier. We do not have written standards for approving suppliers, and therefore do not provide any criteria to you in advance. We do not require you or the supplier to pay us to conduct the investigation. We will advise you within a reasonable time, usually 90-120 days, whether such item or supplier is approved. We can revoke approval of a supplier or a product at any time. We will notify you in writing if we revoke approval of a supplier or a product.

Since most of the items you will purchase to begin operating as a Chanticlear Pizza® franchise must meet our specifications, you can expect that the items purchased in accordance with our specifications represent 90% of the total purchases you will make to begin operations. Once you begin operating, the primary items you will purchase that must meet our specifications are inventory, food stuffs and supplies. We expect these items to represent 85% to 90% of your total annual purchases to operate your restaurant.

We receive rebates from some of our approved suppliers. In some cases these rebates are a flat amount for each item purchased by the franchisee and in others we receive a percentage of the amount franchisees pay for the item. These rebates range from less than \$.01 to \$.08 per pound of product purchased by franchisees to between ~~\$1.00~~.50 and \$3.00 per case purchased to a percentage of the price paid by franchisees for other items which range from 1.0% to 10.0% of the price paid for the item. We retain all rebates we receive but may put some into the CFS Advertising Fund.

In our fiscal year ended December 31, ~~2022~~2023, we received rebate revenues of ~~\$3,769~~90,531 or approximately ~~71~~19.8% of our total revenues of ~~\$530,479~~456,908 from ~~sales~~the purchases by franchisees of goods and services ~~to our franchisees~~-. We put \$17,678 of the rebate revenue into the Advertising Fund. This information is taken from our audited financial statements and our internal financial records.

We attempt to negotiate special pricing arrangements with many of our suppliers for the items you purchase. These arrangements might include special pricing, volume discounts and specific discounts from regular wholesale prices. For example, we have negotiated preferred pricing for some food products, print materials and the POS system. We do not provide any material benefits to you based on your purchase of particular products or services or your use of a particular supplier. There are currently no purchasing or distribution cooperatives.

## 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	Section in Franchise Agreement	Disclosure Document Item
A Site Selection and Acquisition/Lease	Section 10	Items 7 and 11
B Pre-Opening Purchases/Leases	Sections 8 and 10	Item 8
C Site Development and Other Pre-opening Requirements	Sections 2, 4 and 10	Items 6, 7 and 11
D Initial and Ongoing Training	Section 4	Item 11
E Opening	Sections 4 and 6	Items 1 and 11
F Fees	Section 9	Items 5, 6 and 7
G Compliance with Standards and Policies	Sections 5, 6 and 8	Item 11
H Trademarks and Proprietary Information	Sections 3, 19 and 21	Items 13 and 14
I Restrictions on Products/Services Offered	Sections 2 and 6	Items 8, 11 and 16
J Warranty and Customer Service Requirements	Not applicable	Not applicable
K Territorial Development and Sales Quota	Section 2	Item 12
L On-going Product/Service Purchases	Section 8	Item 8
M Maintenance, Appearance and Remodeling Requirements	Section 10	Item 11
N Insurance	Section 16	Items 7 and 8
O Advertising	Section 7	Items 5, 7 and 11
P Indemnification	Section 16	Item 6

Obligation	Section in Franchise Agreement	Disclosure Document Item	
Q	Owner's Participation/ Management/Staffing	Section 4	Items 11 and 15
R	Records/Reports	Section 11	Item 11
S	Inspections/Audits	Section 11	Item 6
T	Transfer	Section 14	Item 17
U	Renewal	Section 2.8	Item 17
V	Post-Termination Obligations	Sections 5.3, 12 and 19	Item 17
W	Non-Competition Covenants	Section 12	Item 17
X	Dispute Resolution	Section 20	Item 17
Y	Other: Guarantee of Franchisee Obligations (Note 1)	Section 15	Item 15

- 1 If you transfer your Franchise Agreement to a corporation, limited liability company or partnership, or we allow you to sign the Franchise Agreement as a corporation, limited liability company or partnership, you, and any other owners, must sign a personal guaranty of all obligations under the Franchise Agreement and under any other agreement with us or any of our affiliates, and agree to be bound personally by all provisions of these agreements. Attached to the Franchise Agreement is a personal guaranty.

## **ITEM 10**

### **FINANCING**

We do not offer any direct or indirect financing to you. We do not guaranty any note, lease, or other obligation you might incur.

## **ITEM 11**

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

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

Before you open your Chanticlear Pizza® restaurant, we will:

(1) Consult with you to assist you in selecting a site for your restaurant if you do not have a location at the time you sign the Franchise Agreement. The site is your responsibility to select. We will assist you with reviewing the demographic information you receive from your real estate broker. (*Franchise Agreement, Sections 2.1 and 10.2*)

(2) Determine whether to approve a proposed site for your restaurant, and if we approve the site provide a territory surrounding the site of your restaurant where we will not place another Chanticlear Pizza® restaurant, and designate a delivery area where we will not provide delivery services or allow others to provide delivery services so long as you are providing adequate delivery services. (*Franchise Agreement - Sections 2.1, 2.2 and 2.7*)

(3) Determine whether to approve the lease for your restaurant. We do not provide a substantive review of the lease, we simply review the lease to confirm that the provisions we require are included in the lease. (*Franchise Agreement, Section 10.4*)

(4) Provide you specifications for equipment, signs, furnishings, and fixtures. (*Franchise Agreement, Sections 6 and 8.1*) We do not provide these items directly but will provide you with the names of approved suppliers and products (*Franchise Agreement, Section 8.1*). We do not deliver or install these items.

(5) Make available to you our initial training at no charge to you. (*Franchise Agreement, Section 4*)

(6) Loan to you during the term of the Franchise Agreement one copy of various confidential manuals including the Store Operations Manual and the Product Manual for the operation of a Chanticlear Pizza® restaurant. The total number of pages in the Store Operations Manual is 141 and in the Product Manual is 101. The table of contents of the Store Operations Manual and the Product Manual as of the issuance date of this Disclosure Document are attached to this Disclosure Document as Exhibit 3. (*Franchise Agreement, Section 5.1*).

(7) Approve or disapprove samples of all advertising and promotional materials submitted by you. (*Franchise Agreement, Section 7.3*)

During your operation of your business, we will:

(1) Provide to you and your personnel, Chanticlear Pizza® continuing education meetings at locations we designate. (*Franchise Agreement, Section 4.3*)

(2) Maintain and administer the CFS Advertising Fund. (*Franchise Agreement, Section 7.1*)

(3) Provide our initial training to your replacement manager, if your original manager who completed the training leaves your employ, or provide it to additional managers. (*Franchise Agreement, Section 4.2*)

(4) Upon your request, and assuming we are available and you pay our fees, provide you with additional assistance in the operation of your restaurant. (*Franchise Agreement, Section 4.5*)

(5) Provide you with a template for a web page and conduct an annual email marketing campaign. (*Franchise Agreement, Sections 7.5 and 9.6*)

#### Site Selection and Opening of Your Restaurant:

Although we may assist you in reviewing demographic information you put together on the area your restaurant will be located in, it is your obligation to select a site for your restaurant. We do not negotiate the purchase or lease of a site, and we do not own premises and lease them to you. Our obligation is only to decide whether to approve the site. In deciding whether to approve a particular site, we will consider population density, traffic patterns, neighborhood, and

physical characteristics of the premises such as size, layout and visibility. If we do not approve a site for your restaurant or you do not sign a lease or sublease for your restaurant within 90 days from the date of your Franchise Agreement, either of us can terminate the Franchise Agreement.

If you will occupy premises for a Chanticlear Pizza® restaurant under a lease or sublease, you must submit the proposed lease or sublease, as applicable, to us for approval before it is signed. We may require that the lease or sublease: (i) be collaterally assigned to us by a collateral assignment agreement we approve in order to secure performance of your liabilities and obligations to us, or (ii) contain the following terms and conditions:

- (a) The lessor must agree that without its consent, the lease/sublease and your right, title and interest under the lease/sublease may be assigned by you to CFS or its designee; and
- (b) The lessor must provide written notice to CFS (at the same time it gives such notice to you) of any default by you under the lease/sublease and CFS or its designee must have, after the expiration of the period during which you may cure such default, an additional fifteen (15) days to cure, at its sole option, any such default and, upon the curing of such default, the right to enter upon the premises and assume your rights under the lease/sublease as if the lease/sublease had been assigned by you to CFS or its designee.

A typical length of time between the signing of the Franchise Agreement and the opening of your restaurant should generally be between 120 and 180 days. This time can be affected by the time it takes to select a site and negotiate a lease, obtain financing, and obtain building permits and zoning variances, and by construction delays, or delays in the installation of equipment, fixtures, and signs. You must open your restaurant for business to the general public within 30 days of substantial completion of construction of the restaurant.

#### Advertising:

You must contribute 1% of your Gross Sales to the CFS Advertising Fund. Chanticlear Pizza® restaurants owned by us or our affiliates and all other franchisees also contribute to the Fund. We may increase this amount to up to 3% of your Gross Sales upon 90 days' notice to you. If you are in default under your Franchise Agreement, you must pay an advertising contribution of 3% of your Gross Sales for the time period that you are in default. The purpose of the Fund is to develop advertising and promotional material for all Chanticlear Pizza® franchises and to determine and implement other methods of advertising the Chanticlear Pizza® brand. This is our only obligation to conduct advertising. We will direct all programs, and have sole discretion over the creative concepts, materials, endorsements and media used in the programs, and the placement or allocation of the programs. We determine the composition of all geographic territories and market areas for the implementation and development of the programs.

We account for the Fund separately from other CFS funds and we do not use any of the monies held in the Fund to defray any of our general operating expenses, except for the salaries, administrative and management costs, travel expenses and overhead we may incur in activities related to the administration of the Fund and its programs, including conducting market research,

sponsorships, preparing advertising, promotion and marketing materials and collecting and accounting for contributions to the Fund. The media in which advertisements may be disseminated include the internet, direct mail, print ads, radio, billboards, television and digital media. Other than any Internet advertising, advertising is conducted on a local basis. We also use the Fund to create menus. We use third party vendors to create advertising and also create it in-house. We may spend, on behalf of the Fund, in any fiscal year an amount greater or less than the aggregate contribution of all Chanticlear Pizza® restaurants in that year, and the Fund may borrow from CFS or others to cover deficits, invest any surplus for future use or rebate all or a portion as we determine back to franchisees in the amount we determine. All interest earned on monies contributed to the Fund will be used to pay advertising costs before other assets of the Fund are expended. Fund contributions are not used primarily to help us sell franchises. CFS will prepare an annual unaudited statement of monies collected and costs incurred by the Fund and furnish it to you upon written request. If less than all funds are spent in the fiscal year in which they accrue, the money will remain in the Fund to be spent in the next year. During our last fiscal year ended December 31, 2023, 55.62.4% of the expenditures of the Fund were used for radio and digital brand advertising, ~~32.28%~~ for the production of print material, 4.9.6% for sponsorships, ~~7% for Fund management expenses and 2% for administrative expenses.~~

Neither CFS nor the Fund undertake any obligation to ensure that expenditures by the Fund in or affecting any geographic area are proportionate or equivalent to contributions to the Fund by restaurants operating in such geographic area or that you or your business will benefit directly or in proportion to your contribution to the Fund. Neither CFS nor the Fund will be liable to you with respect to the maintenance, direction, or administration of the Fund, including without limitation, with respect to contributions, expenditures, investments or borrowings, except for acts constituting willful misconduct. The funds collected by the Fund, and any earnings thereon, are not and shall not be an asset of CFS or any franchisee.

You are not currently required to participate in a local or regional advertising cooperative.

All marketing and promotion by you must be conducted in a professional and dignified manner and must conform to our standards and requirements. You must submit to us, for prior approval, samples of all advertising or promotional plans and materials that you desire to use and that have not been prepared or previously approved by us. We will try to respond in 30 days. You may not use any marketing or promotional materials that we have not approved or for which we have revoked our approval. You must also spend monthly at least 3% of your Gross Sales on local advertising in the market area of your restaurant.

Computer Hardware and Software; Cash Register/POS System:

You must purchase, lease or already own a computer for use in your business. The computer must have Internet access. We do not specify any particular brand of computer hardware. The cost to purchase a computer with Internet access is approximately \$1,500. The software we recommend is the most current version of Microsoft Office, Microsoft Word and Excel. The cost for this software is approximately ~~\$600~~1,000. You can purchase other compatible software that performs substantially the same functions as the software we recommend, but we may not be as familiar with this software. If we or an affiliate develop software for use in your business, you must purchase that software from us or our affiliate.

You will use your computer principally to communicate with us. We do not currently have independent access to the information and data contained in your computer, but we do have the right to access the information.

You must also purchase a point-of-sale system for use in your business. We currently have approved two different point-of-sale systems. The cost to purchase these systems is approximately \$15,000 to ~~\$20,000~~25,000 depending upon the system you purchase. You can purchase either system from any source. You will use the point-of-sale system you choose for many functions, including to record sales, track coupons, record delivery times and capture customer data. We will have independent access to the data you collect in your system. There are no limits on our right to access this information.

Neither we nor any affiliate, or to our knowledge, third party, has any obligation to provide ongoing maintenance, repairs, upgrades or updates for your computer hardware, software, or point-of-sale system. You must update or upgrade your computer hardware, software and systems as we specify. There are no contractual limits on the frequency and costs of these updates or upgrades. The cost to update, repair, or upgrade hardware and software and to maintain systems and for support contracts will vary. However, we estimate that the cost will be approximately ~~\$1,500~~2,500 annually. We do not require you to purchase hardware or software maintenance or support programs.

#### Training:

As the owner of the franchise, you must attend and satisfactorily complete our Initial Training and, if you have a proposed manager, your proposed manager must also attend and satisfactorily complete this training. The training is on-the-job training at a Chanticlear Pizza® location of our choosing. Depending upon your experience level in the restaurant industry, we may require you to train up to 60 days for 3 to 5-hour shifts per day.

If you are an existing Chanticlear Pizza® owner purchasing an additional location, you would not have to complete this training. However, your proposed manager would have to complete this training. We may also decrease the amount of training we provide or alter the topics depending upon your experience in the restaurant industry. In our fiscal year ended December 31, ~~2022~~2023, none of our new franchisees completed this training as each new franchisee had experience in our system either as an owner or manager of an existing Chanticlear Pizza® location. You are not paid by us, our affiliate or any franchisee for any services you may perform during this training. The amount of time on each topic will vary depending again upon your experience level.

If you or your manager, or any new manager, do not successfully complete initial training before assuming any management position, we may terminate your Franchise Agreement and retain the initial franchise fee and any other amounts you paid us. The initial training program will begin approximately 60 to 120 days before the projected opening date of your restaurant. We do not have a regular schedule of the initial training program but rather, offer the training on an as-needed basis. Our corporate officer in charge of the training is Dale Heille. The ~~instructors~~instructor that ~~provide~~provides this training ~~are~~is Dale Heille ~~and Brian Keller~~ who ~~are~~is at times assisted by other Chanticlear Pizza® managers. Mr. Heille ~~and Mr. Keller~~

respectively ~~have~~has 30 ~~and 20~~-years of experience with our company and 35 ~~and 20~~-years of experience in the pizza industry. Their experience with the different subjects comes from the time they have worked for us or an affiliate or at a Chanticlear Pizza restaurant. We do not charge you for attending this training, but you are responsible for the compensation of any of your employees who attend the training, and for all travel and living expenses incurred by you or your employees while attending the training. We use various manuals and handbooks, including our Store Operations Manual and Product Manual, as the instructional materials for the initial training. This training along with the training discussed below are for the purpose of protecting the goodwill related to the Chanticlear Pizza® System and the trademarks and not to control the day-to-day operation of your restaurant.

The following table will give you additional information about our initial training as of the date of this Disclosure Document:

**TRAINING PROGRAM**

Subject	Hours of Classroom Training	Hours of On-the-Job Training	Location (Note 1)
Dough Prep and Ready for Revenue	0	0-80	At restaurant of an affiliate or another franchisee
Customer Service	0	0-30	At restaurant of an affiliate or another franchisee
Delivery Area/ Dispatching	0	0-20	At restaurant of an affiliate or another franchisee
Scheduling	0	0-10	At restaurant of an affiliate or another franchisee
Administration	0	0-20	At restaurant of an affiliate or another franchisee
Marketing	0	0-10	At restaurant of an affiliate or another franchisee
Ordering Inventory	0	0-10	At restaurant of an affiliate or another franchisee

We may offer other training and refresher courses to you throughout the year, including quarterly meetings. Unless we specify otherwise, these programs are optional. We may have an annual convention. You must attend the convention if we decide to have it, but attendance at the training programs is optional, unless we specify otherwise. We will charge a fee for the convention and may charge a fee for the training programs.

**ITEM 12**

**TERRITORY**

You must operate your Chanticlear Pizza® restaurant from the specific location identified on an addendum to the Franchise Agreement. You may not conduct business from any other site. You may not relocate your Chanticlear Pizza® restaurant from this location without our prior written consent. If you do not already have a site for your restaurant when you sign your Franchise Agreement, we will list a general “search area” in the addendum to your Franchise

Agreement. You do not acquire any exclusive rights in this search area. It is only the area in which you will look for a site for your restaurant. We may grant other people a franchise for this area as well. Once you identify a site for your restaurant, and we approve that site, we will then attach an addendum to your Franchise Agreement that lists this site. We will also designate an area around that site that will be considered your “Designated Territory” and we will designate a “Delivery Area.”

Your Designated Territory will generally be an area of approximately 1-mile surrounding your restaurant. We measure this distance by roads an automobile would travel from one location to another at the time we approve the site for your restaurant. We will describe the boundaries of your Designated Territory in the addendum to your Franchise Agreement. Your Delivery Area will include an area that is generally within 8 minutes driving distance from your restaurant. To determine this area we look at a map of the area where your restaurant is located and determine an appropriate Delivery Area for your restaurant. We then describe the boundaries of your Delivery Area in the addendum to your Franchise Agreement. We can modify your Delivery Area on 30 days’ notice to you. Certain locations, such as mall and downtown locations, will have a smaller Designated Territory than that described above and will be determined on a site-specific basis.

As long as you are not in default under any agreement with us or any affiliate, we will not, and we will not grant anyone else a franchise to, operate a Chanticlear Pizza® restaurant selling pizza and pasta by delivery or take-out from a location within your Designated Territory. Additionally, we will not provide delivery services, nor will we grant a franchise to operate a Chanticlear Pizza® restaurant offering delivery services, in your Delivery Area. These are the only restrictions on us relating to your Designated Territory and Delivery Area. Neither we nor our affiliates have established other franchises or company-owned businesses selling or leasing similar products or services under a trade name or trademark different from the Chanticlear Pizza® marks, however, we reserve the right to do so. We and our affiliates can advertise, market and sell, and give others the right to advertise, market and sell, Chanticlear Pizza® branded and trademarked products from and through retail and wholesale outlets and via sit-down restaurants, in all cases located in your Designated Territory or Delivery Area or in any other area we choose. This includes frozen pizzas, advertising items such as t-shirts and other paraphernalia and cooked pizzas and pasta being sold at sit-down restaurants. We and our affiliates can use other channels of distribution, such as the Internet, catalog sales, telemarketing, or other direct marketing, to make sales under the Chanticlear Pizza® marks or other marks to customers within your Designated Territory and Delivery Area and in any other area we choose. We have no obligation to pay you any compensation for soliciting or accepting any orders from inside your Designated Territory or Delivery Area.

We do not prevent any of our franchisees from advertising their businesses; or soliciting or accepting orders for customers outside their Designated Territory or Delivery Area. However, you may not make deliveries to customers located in the Delivery Area of another franchisee or company-owned restaurant and you may not market your business on the Internet except in connection with a web site that we approve. We may allow you to make deliveries to customers outside your Delivery Area, if those deliveries are not to locations in the Delivery Area of another franchisee or company-owned restaurant and those deliveries are made to locations

located within a 10-minute drive time of your restaurant. We will terminate this right if we grant a franchise or establish a company-owned restaurant that has a Delivery Area that includes any of these locations.

You do not, and cannot, establish any permanent rights outside of your Delivery Area. You do not have an option, right of first refusal or similar right to acquire additional franchises within your Designated Territory or Delivery Area or within contiguous territories or areas. You must obtain our consent before relocating your restaurant. If you would like to relocate your restaurant, you must provide us with justification for relocation. We generally will not grant a request to relocate your restaurant unless your restaurant is substantially destroyed by fire or other causes. Even in that case, we will not consent to a relocation to a site that is in the designated territory or delivery area of another franchisee or a company-owned location or that does not meet our then-current standards for site approval. If we consent to a relocation, you must open the replacement restaurant within 30 days after closure of the existing restaurant.

Your Designated Territory will not be altered even if there is a population increase or decrease. There are no minimum quotas required and continuation of your rights in your territory does not depend on achieving a certain sales volume, market penetration or other contingency.

### ITEM 13

#### TRADEMARKS

Under the Franchise Agreement, we grant you the nonexclusive right to operate a delivery/take out restaurant selling pizzas and other items we specify from one location in your Designated Territory under the trade names, trademarks and service marks we license to you. The following principal marks are registered on the principal register of the United States Patent and Trademark Office (“USPTO”) by our affiliate as discussed below:

TRADEMARK	REGISTRATION NUMBER	DATE OF REGISTRATION
CHANTICLEAR PIZZA	3715057	November 24, 2009
	2706728	April 15, 2003

**Pursuant**

**Pursuant** to a License Agreement with DalMar Corporation dated August 1, 2003, we can use, and license others to use, these marks and any other trade name, trademarks, service marks and logos used in the operation of Chanticlear Pizza® restaurants. The term of the License Agreement was 10 years, and has been automatically renewing each year since the end of the initial term. The License Agreement can be terminated only if we fail to pay the license fee required by the License Agreement. You must use the marks and any other intellectual property of ours only for the operation of your Chanticlear Pizza restaurant and in the manner authorized by us.

There are no currently effective material determinations of the USPTO, the Trademark Trial and Appeal Board, or the trademark administrator of any state or any court, or any pending infringement, opposition or cancellation proceedings involving these marks or any pending material litigation regarding our use or rights in the marks. There are no other agreements currently in effect that significantly limit our rights to use or license others to use the marks in any manner material to the franchise. We do not know of any superior prior rights or infringing uses that could materially affect your use of these marks. All affidavits required to preserve and renew these marks have been filed.

You must notify us immediately in writing of any apparent infringement of or challenge to your use of any mark we grant you the right to use, or claim by any person of any rights in any mark or any similar trade name, trademark or service mark of which you become aware. We have the sole discretion to take such action as we deem appropriate and the right to exclusively control any litigation, USPTO proceeding or other administrative proceeding. We are not obligated by the Franchise Agreement or other agreement to participate in your defense or to indemnify you if you are a party to any administrative or judicial proceeding involving the marks.

We can adopt new marks at any time, or change our marks. If we adopt new marks, or change our existing marks, you must use the new or modified marks, and discontinue the use of any marks we decide to change or discontinue.

#### **ITEM 14**

#### **PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION**

There are no patents or pending patent applications that are material to the purchase of a franchise. We claim copyright protection of our manuals, and related materials, advertisement and promotional materials, and menus and recipes, although such materials may not have been registered with the United States Copyright Office. These materials are considered proprietary and confidential and are considered our property and may be used by you only as provided in the Franchise Agreement. We can register any of our copyrighted materials at any time.

There currently are no effective determinations of the Copyright Office or any court regarding any of the copyrighted materials. There are no agreements in effect that significantly limit our right to use or license the copyrighted materials. There are no infringing uses actually known to us that could materially affect your use of the materials. We are not required by any agreement to protect or defend any patent, trademark, or copyright.

We possess certain confidential information including the methods, techniques, formats, specifications, procedures, information, systems and knowledge of and experience in the operation and franchising of Chanticlear Pizza® restaurants. We will disclose certain of the confidential information to you during the training programs, seminars and conventions, pursuant to the manuals and in guidance furnished to you during the term of the Franchise Agreement. The Franchise Agreement provides that you will not acquire any interest in this confidential information other than the right to utilize it in the development and operation of your Chanticlear Pizza® restaurant during the term of the Franchise Agreement, and that the use

or duplication of the confidential information in any other business would constitute unfair competition.

#### ITEM 15

##### **OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS**

Your Chanticlear Pizza® restaurant must be under your direct, day-to-day, full time supervision (or if you are a corporation, limited liability company or partnership, then a managing shareholder, member or partner of the corporation, limited liability company or partnership, approved by us) or under the direct, day-to-day, full-time supervision of a manager who has successfully completed our initial training program. Unless we otherwise agree, as the owner you must work a minimum of 25 hours per week in the restaurant unless you have a manager approved by us managing the restaurant.

If you are a corporation, limited liability company, or partnership, each owner must personally guarantee your obligations under the Franchise Agreement and any other agreement with us or any of our affiliates, and also agree to be personally bound by, and personally liable for the breach of, every provision of these agreements. The Personal Guaranty is attached to the Franchise Agreement.

#### ITEM 16

##### **RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL**

You must offer for sale only products and services specified by us. You may not offer for sale any products or services not approved by us and you may not use your business premises for any purpose other than the operation of a Chanticlear Pizza® restaurant selling products approved by us for take-out and delivery. You are not limited in the customers you may serve except that you may not deliver products outside of your Delivery Area unless approved by us.

#### 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 exhibits attached to this Disclosure Document.**

Provision		Section in franchise or other agreement	Summary
A	Length of the Franchise Term	Section 1.20	10 Years.
B	Renewal or Extension of the Term	Section 2.8	One 10-year renewal if you meet certain

Provision		Section in franchise or other agreement	Summary
			requirements.
C	Requirements for You to Renew or Extend	Section 2.8	Written notice at least 180 days before end of term, remodel, full compliance, sign then current form of Franchise Agreement (which may contain materially different terms and conditions than your original Franchise Agreement), secure approved location, sign release as allowed by applicable law, renovate, if applicable, pay \$5,000 renewal fee.
D	Termination by You	Section 18.4	If we breach and fail to cure the breach within 30 days after notice from you of the breach.
E	Termination by Us Without Cause	Section 21.4	If any provision of the Franchise Agreement relating to payment of fees to us or to the protection of our Marks or trade secrets is declared unenforceable.
F	Termination by Us With Cause	Section 18.1	We can terminate if you breach a provision of the Franchise Agreement.
G	“Cause” Defined; curable defaults	Section 18.2	10 days for failure to pay amounts owed; 30 days for all other defaults.
H	“Cause” Defined; non-curable defaults	Section 18.1	Includes abandonment of business; surrender of control; misrepresentation or omission in application or reports; felony conviction; unauthorized assignment; loss of possession of business; closure for more than 5 days or loss of right to occupy location; unauthorized use of confidential information; failure to allow inspection; failure to pay debts, insolvency, assignment for benefit of creditors; repeated violations; endangerment.
I	Your Obligations on Termination/Nonrenewal	Sections 12 and 19	Obligations include complete deidentification, maintenance and non-use of confidential information (also see R. below).
J	Assignment of Contract By Us	Section 14.1	No restriction on our right to assign.
K	“Transfer” by You – Defined	Section 1.21	Includes transfer of any interest in the Agreement, the restaurant, its assets, or you.
L	Our Approval of Transfer by You	Sections 14.2 and 14.3	We must approve all transfers by you.
M	Conditions for Our Approval of Transfer	Section 14.4	Full compliance; transferee qualifies; all amounts due are paid in full; completion of training; transfer fee paid; transferee signs all new agreements with us, including a new

Provision		Section in franchise or other agreement	Summary
			franchise agreement with materially different terms than your original Franchise Agreement; you execute and deliver other required documents including a release.
N	Our Right of First Refusal to Acquire Your Business	Section 14.6	We can match any offer.
O	Our Option to Purchase Your Business	Section 19.4	Upon termination or expiration of the Franchise Agreement, we can purchase all items bearing the CFS marks and all spice blends and other proprietary items.
P	Your Death or Disability	Section 14.5	Franchise must be assigned to buyer approved by us within 6 months of death or disability.
Q	Non-Competition Covenants During Term of the Franchise	Section 12.2	No involvement in restaurant business that sells pizza, pasta or other food items similar to food items you sell under the Franchise Agreement or a business that licenses or franchises the operation of businesses that sell pizza, pasta or other food items similar to any Approved Products. May not lease or otherwise permit use of any premises you control to be used for operating a business engaged in production or sale of any pizza or pasta item or other food item similar to those sold under the Franchise Agreement.
R	Non-Competition Covenants After the Franchise is Terminated or Expires	Section 12.3	For a period of 18 months after termination, expiration or assignment of Franchise Agreement, may not be involved with any business engaged in the production or sale of any pizza or pasta item or other food item similar to those sold at your Chanticlear Pizza® restaurant that is located within a 25-mile radius of your Chanticlear Pizza® restaurant, which shall include the former Restaurant premises), anywhere within the county where your Chanticlear restaurant is located or anywhere within 10 miles of a Chanticlear Pizza® restaurant operated by us, an affiliate or franchisee, nor may you be involved with any business granting licenses or franchises for businesses that are producing or selling any pizza or pasta item or other food item similar to any of the Approved Products, that are located, or are to be located, within any of the areas described above.
S	Modification of the	Section 21.9	No modifications generally, unless written

Provision		Section in franchise or other agreement	Summary
	Agreement		and signed by you and us, but manuals subject to change.
T	Integration/Merger Clause	Section 21.9	Only terms of Franchise Agreement are binding.
U	Dispute Resolution By Arbitration or Mediation	None	Not applicable.
V	Choice of Forum	Section 20.1	Litigation in Hennepin County, Minnesota (Subject to state law).
W	Choice of Law	Section 20.1	Minnesota law applies. (Unless prohibited by laws of state where business is located).

### **ITEM 18**

#### **PUBLIC FIGURES**

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

### **ITEM 19**

#### **FINANCIAL PERFORMANCE REPRESENTATIONS**

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

We do not make any representations about a franchisee's future financial performance or the past financial performance of company-owned or franchised outlets. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor's management by contacting Dale Heille, 18015 Ulysses Street N.E., Ham Lake, Minnesota 55304, (763) 862-2230, the Federal Trade Commission, and the appropriate state regulatory agencies.

**ITEM 20**

**OUTLETS AND FRANCHISEE INFORMATION**

Table No. 1

<b>Systemwide Outlet Summary<sup>1</sup> for Years <del>2020</del>2021 to <del>2022</del>2023</b>				
<b>Outlet Type</b>	<b>Year</b>	<b>Outlets at the Start of the Year</b>	<b>Outlets at the End of the Year</b>	<b>Net Change</b>
Franchised	<del>2020</del>	<del>13</del>	<del>11</del>	<del>-2</del>
	2021	11	11	0
	2022	11	11	0
	2023	11	10	-1
Company Owned	<del>2020</del>	<del>1</del>	<del>1</del>	<del>0</del>
	2021	1	1	0
	2022	1	1	0
	2023	1	1	0
<b>Total Outlets</b>	<del>2020</del>	<del>14</del>	<del>12</del>	<del>-2</del>
	2021	12	12	0
	2022	12	12	0
	2023	12	11	-1

1. All numbers are as of December 31.

Table No. 2

<b>Transfers of Outlets from Franchisee to New Owners (Other than the Company) for Years <del>2020</del>2021 to <del>2022</del>2023<sup>1</sup></b>		
<b>State</b>	<b>Year</b>	<b>Number of Transfers</b>
Minnesota	<del>2020</del>	<del>1</del>
	2021	0
	2022	2
	2023	0
<b>Totals</b>	<del>2020</del>	<del>1</del>
	2021	0
	2022	2
	2023	0

1. All numbers are as of December 31.
2. Does not include transfers where beneficial ownership of less than 50% of the franchise did not change, circumstances where an individual transfers the franchise to an entity the individual owns or transfer to heirs.

Table No. 3

Status of Franchised Outlets for Years <del>2020</del> 2021 to <del>2022</del> <sup>1</sup> 2023 <sup>1</sup>								
State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by the Company (or an affiliate)	Ceased Operations- Other Reason	Outlets at End of the Year
Minnesota	<del>2020</del>	<del>13</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>2</del>	<del>11</del>
	2021	11	0	0	0	0	0	11
	2022	11	0	0	0	0	0	11
	<u>2023</u>	<u>11</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>10</u>
<b>Totals</b>	<del>2020</del>	<del>13</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>2</del>	<del>11</del>
	2021	11	0	0	0	0	0	11
	2022	11	0	0	0	0	0	11
	<u>2023</u>	<u>11</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>10</u>

1. All numbers are as of December 31.

Table No. 4

Status of Company-Owned Outlets for the Years <del>2020</del> 2021 to <del>2022</del> <sup>1</sup> 2023 <sup>1</sup>							
State	Year	Outlets at Start of the Year	Outlets Opened During Year	Outlets Reacquired from Franchisee	Outlets Closed During Year	Outlets Sold to Franchisee	Outlets at Year End
Minnesota	<del>2020</del>	<del>1</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>1</del>
	2021	1	0	0	0	0	1
	2022	1	0	0	0	0	1
	<u>2023</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>
<b>Totals</b>	<del>2020</del>	<del>1</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>0</del>	<del>1</del>
	2021	1	0	0	0	0	1
	2022	1	0	0	0	0	1
	<u>2023</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>

1. All numbers are as of December 31.

Table No. 5

Projected Openings as of December 31, <del>2022</del> 2023			
State	Franchise Agreements Signed at End of Last Fiscal Year But Outlet Not Opened	Projected New Franchised Outlets in the New Fiscal Year (Note 1)	Projected New Company-owned (or Affiliate-owned) Outlets in the New Fiscal Year
Minnesota	0	0-1	0
<b>Totals</b>	0	0-1	0

1. We would like to open 1 franchise in Minnesota during this year. However, since we have not signed any franchise agreements, we cannot say that one will open this year, or that we will not open more than we have projected. We continue to look for franchisees and we will open additional franchises in this year if and when we find qualified franchisees.

A list of the names of all franchisees as of December 31, ~~2022~~2023 and their addresses and telephone numbers, and a list of company-owned restaurants, is attached as Exhibit 4 to this Disclosure Document.

Except as set forth below, we had no franchisee who transferred its franchise during the fiscal year ended December 31, ~~2022~~2023 or had its franchise terminated, canceled, not renewed, or otherwise voluntarily or involuntarily stopped doing business under the Franchise Agreement during the fiscal year ended December 31, ~~2022~~2023, or has not communicated with us within 10 weeks of the date of this Disclosure Document:

<u>Name</u>	<u>City and State</u>	<u>Telephone</u>
<u>Chanticlear Pizza New Hope LLC</u> <u>(Seth Mihelich)</u>	<u>New Hope, MN</u>	<u>763-593-1313</u>
<del>Zellner Enterprises/Eric Zellner</del>	<del>Blaine, MN</del>	<del>763-754-0800</del>
<del>JKM, Inc./Jake Mihelich</del>	<del>Elk River, MN</del>	<del>763-274-2225</del>

If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system. In some instances, current and former franchisees sign provisions restricting their ability to speak openly about their experience with us. 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.

## **ITEM 21**

### **FINANCIAL STATEMENTS**

CFS's audited financial statements as of December 31, ~~2020~~2023, December 31, ~~2021~~2022, and December 31, ~~2022~~2021 are attached to this Disclosure Document at Exhibit 5. We have also included at Exhibit 5, our unaudited financial statement as of ~~July~~August 31, ~~2023~~2024. THE FINANCIAL STATEMENTS AS OF ~~JULY~~AUGUST 31, ~~2023~~2024 ARE PREPARED WITHOUT AN AUDIT. PROSPECTIVE FRANCHISEES SHOULD BE ADVISED THAT NO CERTIFIED PUBLIC ACCOUNTANT HAS AUDITED THESE FIGURES OR EXPRESSED HIS/HER OPINION WITH REGARD TO THE CONTENTS AND FORM.

## **ITEM 22**

### **CONTRACTS**

Attached to this Disclosure Document as Exhibit 2 is a copy of the Chanticlear Pizza® Franchise Agreement and a Personal Guaranty to be signed by shareholders, members or partners of a corporation, limited liability company or partnership franchisee.

## **ITEM 23**

### **RECEIPTS**

The last two pages of this Disclosure Document are detachable documents acknowledging receipt of this Disclosure Document. Please sign and date both receipts and return one to us.

EXHIBIT 1-A

State Addenda To Franchise Disclosure Document

STATE SPECIFIC ADDENDUM  
AS  
REQUIRED BY  
THE MINNESOTA FRANCHISE LAW

Notwithstanding anything to the contrary set forth in the Chanticlear Franchise System, LLC Franchise Disclosure Document, the following provisions shall supersede any inconsistent provisions and apply to all Chanticlear Pizza® franchises offered and sold in the state of Minnesota:

The Minnesota Addendum is only applicable if you are a resident of Minnesota or if your business will be located in Minnesota.

1. The page entitled **Special Risk(s) to Consider About *This* Franchise**, is amended as follows:

**Special Risk(s) to Consider About *This* Franchise**

**Registration Not Approval.** These franchises have been registered under the Minnesota Franchise Act. Registration does not constitute approval, recommendation or endorsement by the Commissioner of Commerce of Minnesota or a finding by the Commissioner that the information provided herein is true, complete and not misleading.

2. Minn. Stat. Section 80C.21 and Minn. Rule Part 2860.4400J prohibit us from requiring litigation to be conducted outside Minnesota, requiring waiver of a jury trial, or requiring you to consent to liquidated damages, termination penalties or judgment notes. In addition, nothing in the Disclosure Document can abrogate or reduce any of your rights as provided for in Minnesota Statutes, Chapter 80C, or your rights to any procedure, forum or remedies provided for by the laws of the jurisdiction.

3. We will comply with Minn. Stat. Section 80C.14, subs. 3, 4 and 5, which require, except in certain specified cases, that a franchisee be given 90 days notice of termination (with 60 days to cure) and 180 days notice for non-renewal of the Franchise Agreement.

4. Item 13 is revised to include the following language:

“To the extent required by the Minnesota Franchise Act, we will protect your rights to use our marks, trade names, logo types or other commercial symbols related to our marks or indemnify you from any loss, costs or expenses arising out of any claim, suit or demand regarding the use of our marks, provided you are using our marks in accordance with the Franchise Agreement.”

5. Item 17(c) and 17(m) are revised to provide that we cannot require you to sign a release of claims under the Minnesota Franchise Act as a condition to renewal or assignment.

6. We are prohibited from requiring you to assent to a release, assignment, novation or waiver that would relieve any person from liability imposed by Minnesota Statutes, Sections 80C.01 to 80C.22, provided that the foregoing shall not bar the voluntary settlement of disputes.

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

8. Each provision of this Addendum shall be effective only to the extent that, with respect to such provision, the jurisdictional requirements of Minnesota Statutes, Chapter 80C are met independently without reference to this Addendum.

## EXHIBIT 1

### State Agencies

#### **California**

California Commissioner of Financial  
Protection and Innovation  
Department of Financial Protection and  
Innovation  
2101 Arena Boulevard  
Sacramento, CA 95834  
(866) 275-2677 (toll free)  
Ask.DFPI@dfpi.ca.gov (email)

#### **Connecticut**

The Banking Commissioner  
The Department of Banking, Securities and  
Business Investment Division  
260 Constitution Plaza  
Hartford, CT 06103-1800  
(860) 240-8299

#### **Florida**

Department of Agriculture and  
Consumer Services  
Division of Consumer Services  
407 South Calhoun Street  
Tallahassee, FL 32399-0800  
(904) 922-2770

#### **Hawaii**

Hawaii Commissioner of Securities  
Department of Commerce and Consumer Affairs  
Business Registration Division  
King Kalakaua Building  
335 Merchant Street, Rm. ~~203~~205  
Honolulu, Hawaii 96813  
(808) 586-2722

#### **Illinois**

Office of Attorney General  
Franchise Division  
500 South Second Street  
Springfield, IL 62706  
(217) 782-4465

#### **Indiana**

Indiana Secretary of State  
Securities Division  
302 West Washington Street  
Room E-111  
Indianapolis, IN 46204  
(317) 232-6681

(for service of process)  
Indiana Secretary of State  
201 State House  
200 West Washington Street  
Indianapolis, Indiana 46204  
(317) 232-6531

#### **Maryland**

Maryland Securities Commissioner  
Office of Attorney General  
Maryland Division of Securities  
200 St. Paul Place  
Baltimore, MD 21202-2020  
(410) 576-6360

#### **Michigan**

Michigan Dept. of Attorney General  
Consumer Protection Division  
Antitrust and Franchise Unit  
G. Mennen Williams Building, 1st Floor  
525 W. Ottawa St.  
Lansing, MI 48909  
(517) 373-7117

#### **Minnesota**

Minnesota Commissioner of Commerce  
Minnesota Department of Commerce  
85 7th Place East, Suite 280  
St. Paul, MN 55101-2198  
(651) 539-1638

#### **Nebraska**

Department of Banking and Finance  
1526 K Street, Suite 300  
P.O. Box 95006  
Lincoln, NE 68508  
(402) 471-3445

#### **New York**

~~Office of the New York State Attorney General~~  
~~NYS Department of Law~~  
Investor Protection Bureau  
~~Franchise Section~~  
28 Liberty Street, 21st Floor  
New York, NY 10005  
(212) ~~416-8236~~416-8222

(for service of process)  
New York Secretary of State  
~~New York Department of State~~  
One Commerce Plaza,  
99 Washington Avenue, 6<sup>th</sup> Floor  
Albany, New York 12231-0001  
(518) 473-2492

#### **North Dakota**

North Dakota Securities Commissioner  
North Dakota Securities Department  
600 East Boulevard Avenue  
State Capital - Fourteenth Floor, Dept. 414  
Bismarck, ND 58505-0510  
(701) ~~328-2910~~328-4712

**Oregon**

Department of Consumer and Business Services  
Division of Finance and Corporate Securities  
State of Oregon  
350 Winter St. NE, Rm. 410  
Salem, OR 97301-3881  
(503) 378-4140

**Rhode Island**

Director  
Rhode Island Department of Business  
Regulation  
Securities Division  
1511 Pontiac Avenue - Building ~~69-268-2~~  
Cranston, RI 02920  
(401) 462-9527

**South Dakota**

Director of South Dakota Division of Insurance  
– Securities Regulation  
South Dakota Department of Labor  
& Regulation  
Division of Insurance  
124 S Euclid, Suite 104  
Pierre, SD 57501  
(605) 773-3563

**Texas**

Secretary of State  
Statutory Document Section  
P.O. Box 13563  
Austin, TX 78711  
(512) 475-1769

**Utah**

Department of Commerce  
Division of Consumer Protection  
160 East 300 South  
P.O. Box 45804  
Salt Lake City, Utah 84145-0804  
(801) 530-6601

**Virginia**

Clerk of the State Corporation  
Commission  
State Corporation Commission  
Division of Securities and  
Retail Franchising  
1300 E. Main Street, 9th Floor  
Richmond, VA 23219  
(804) ~~371-9672~~[371-9051](tel:371-9051)

**Washington**

Department of Financial Institutions  
Securities Division  
PO Box ~~903341200~~  
Olympia, WA ~~98507~~[98504](tel:98504)  
(360) 902-8760

(service of process)  
Department of Financial Institutions  
Securities Division  
150 Israel Road SW  
Tumwater, WA 98501  
(360) 902-8700

**Wisconsin**

Administrator, Division of Securities  
Department of Financial Institutions Division of  
Securities  
4822 Madison Yards Way, North Tower  
Madison, WI 53705  
(608) 266-2139

EXHIBIT 2

Franchise Agreement and Attachments

**CHANTICLEAR FRANCHISE SYSTEM, LLC**

**FRANCHISE AGREEMENT**

**CHANTICLEAR FRANCHISE SYSTEM, LLC**  
**FRANCHISE AGREEMENT**

**TABLE OF CONTENTS**

<u>Item</u>		<u>Page</u>
APPENDICES:		
1.	DEFINITIONS.....	2
1.1	Advertising Fund.....	2
1.2	Affiliates.....	2
1.3	Agreement.....	2
1.4	Approved Products.....	2
1.5	CFS.....	2
1.6	CFS Marks.....	2
1.7	Co-op.....	2
1.8	Direct or Indirect.....	2
1.9	Franchisee.....	2
1.10	Good Standing.....	2
1.11	Gross Sales.....	2
1.12	Interest.....	3
1.13	Lease.....	3
1.14	Location.....	3
1.15	Manual.....	3
1.16	Person.....	3
1.17	Related Persons.....	3
1.18	System Restaurant.....	3
1.19	System Restaurant Concepts.....	3
1.20	Term.....	3
1.21	Transfer.....	3
2.	SEARCH AREA/GRANT OF FRANCHISE/RENEWAL.....	4
2.1	Search Area.....	4
2.2	Grant of Franchise.....	4
2.3	No Subfranchise Right.....	4
2.4	Delivery Area Modification.....	4
2.5	Relocation Rights.....	4
2.6	Limitations on the Franchise.....	5
2.7	Designated Territory.....	5
2.8	Renewal.....	5
3.	DESIGNATION AND USE OF MARKS.....	6
3.1	Designation of CFS Marks.....	6
3.2	Use of CFS Marks.....	6
3.3	Ownership of CFS Marks.....	6
3.4	Protection of CFS Marks.....	7
4.	TRAINING AND ASSISTANCE.....	7
4.1	Initial Training.....	7

4.2	New/Replacement Managers.....	7
4.3	Quarterly Meetings.....	8
4.4	Additional Training.....	8
4.5	Additional Assistance; Convention.....	8
4.6	Programs.....	8
5.	MANUAL.....	8
5.1	Loan of Manual.....	8
5.2	Ownership of Manual.....	8
5.3	Confidentiality.....	9
5.4	Protection of Trade Secrets.....	9
5.5	Updates.....	9
6.	STANDARDS; DUTIES OF FRANCHISEE.....	9
6.1	Interpretation of Standards.....	9
6.2	Promulgation of Standards.....	9
6.3	Limitation on Promulgation of Standards.....	9
6.4	Inspections.....	10
6.5	Compliance with Laws.....	10
6.6	Identification.....	10
6.7	Uniforms.....	10
6.8	Coin-Operated Machines.....	10
6.9	Assumed Name Certificate.....	11
6.10	Approved Products.....	11
6.11	Prices.....	11
6.12	Commencement of Operation.....	11
6.13	Participation.....	11
6.14	Photos, Videos and Electronic Records.....	12
7.	ADVERTISING.....	12
7.1	Advertising Fund.....	12
7.2	Local Advertising.....	12
7.3	Approval of Advertising.....	13
7.4	Co-operative Advertising.....	13
7.5	Web Page.....	13
8.	PURCHASE OF EQUIPMENT, SUPPLIES AND OTHER PRODUCTS.....	13
8.1	Use of Approved Supplies and Approved Suppliers.....	13
8.2	Trade Secret Items.....	14
9.	FEES AND PAYMENT SCHEDULE.....	14
9.1	Initial Franchise Fee.....	14
9.2	Monthly Fees.....	14
9.3	Interest/NSF.....	14
9.4	Transfer Fees.....	15
9.5	Offset Rights.....	15
9.6	Website Fee.....	15
9.7	Taxes.....	15
10.	BUSINESS PREMISES.....	15
10.1	Restrictions on Use.....	15
10.2	Site Selection.....	15

10.3	Construction of System Restaurant.....	15
10.4	Right to De-Identify; Required Lease Provisions.....	15
10.5	Repair and Maintenance.....	16
10.6	Proof of Compliance.....	16
10.7	System Restaurant Closure.....	16
11.	BOOKS AND RECORDS; REPORTS; AUDITS.....	17
11.1	Maintenance of Books and Records.....	17
11.2	Reports.....	17
11.3	Audit.....	17
12.	COVENANTS AGAINST COMPETITION.....	18
12.1	Acknowledgments.....	18
12.2	In-Term Covenants.....	18
12.3	Post-Term Covenants.....	18
12.4	Perpetual Covenant.....	19
12.5	Stock Ownership.....	19
13.	EMPLOYMENT RELATIONS.....	19
13.1	Franchisee's Employees.....	19
14.	TRANSFERS.....	19
14.1	Transfers by CFS.....	19
14.2	Transfers by Franchisee.....	19
14.3	Transfer of Assets.....	20
14.4	Consent to Transfers.....	20
14.5	Death or Incapacity.....	21
14.6	Right of First Refusal.....	21
15.	NON-INDIVIDUAL FRANCHISEES.....	21
15.1	List of Individual Owners.....	21
15.2	Personal Guaranties.....	22
15.3	Organizational Documents.....	22
15.4	Transfer Restrictions.....	22
15.5	No Publicly Traded Ownership Interests.....	22
15.6	Changes in Ownership or Organization.....	22
16.	INSURANCE AND INDEMNIFICATION.....	23
16.1	Property Insurance.....	23
16.2	Liability Insurance.....	23
16.3	Proof of Insurance.....	23
16.4	Indemnification and Waiver.....	23
17.	REQUESTS FOR WAIVERS AND CONSENTS.....	24
17.1	Requests.....	24
17.2	Effect of Waivers and Consents.....	24
17.3	No Implied Waivers.....	24
18.	DEFAULT AND TERMINATION.....	24
18.1	Defaults Without Cure Right.....	24
18.2	Defaults Subject to Cure Rights.....	25
18.3	Non-Termination Rights.....	25
18.4	Franchisee Termination Rights.....	25
18.5	Third Party Notification.....	26

19.	DE-IDENTIFICATION/SPICES/TELEPHONE	26
19.1	Use of CFS Marks and Systems	26
19.2	Cessation of Rights	26
19.3	Effect on Other Duties	26
19.4	Trademarked Items; Spice Blends	26
19.5	Telephone Numbers; Domain Names	26
20.	DISPUTE RESOLUTION	26
20.1	Jurisdiction and Governing Law	26
20.2	Remedies Cumulative	27
20.3	Injunctive Relief	27
20.4	Attorneys' Fees	27
21.	MISCELLANEOUS	27
21.1	Relation of Parties	27
21.2	Counterparts	28
21.3	Third-Party Beneficiaries	28
21.4	Severability	28
21.5	Notices	28
21.6	Time of Essence	29
21.7	Rules of Construction	29
21.8	Disclosure to CFS	29
21.9	Merger	30
21.10	Joint and Several	30
21.11	Amendments	30
21.12	Waiver of Punitive Damages; Limitation of Liability	30
21.13	WAIVER OF JURY TRIAL	30
21.14	Waiver of Class Action Rights	31

Appendix A:	Rider
Appendix B:	Lease Provisions
Appendix C:	Certificate of Ownership
Appendix D:	Personal Guaranty
Appendix E:	Certificate of Corporate Resolution

**CHANTICLEAR FRANCHISE SYSTEM, LLC**

**FRANCHISE AGREEMENT**

**DATE:** \_\_\_\_\_, 20\_\_\_\_

**PARTIES:** “CFS” - Chanticlear Franchise System, LLC  
18015 Ulysses Street N.E.  
Suite 400  
Ham Lake, MN 55304

“Franchisee” - \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**RECITALS**

CFS has the right to use and license certain trade names, trademarks, logos, service marks and other property in connection with the operation of restaurants and has developed expertise (including confidential information) and a distinctive and comprehensive system for the establishment and operation of a restaurant offering a menu featuring pizza and other related products under the trademark Chanticlear Pizza® and stylized logo.

Franchisee desires to obtain a franchise to operate a Chanticlear Pizza® restaurant at the site specified in this Agreement. CFS is willing to grant the rights set forth in this Agreement to Franchisee, subject to Franchisee’s strict compliance with the terms of this Agreement.

**FRANCHISEE’S ACKNOWLEDGEMENT OF BUSINESS RISK  
AND  
ABSENCE OF GUARANTEE**

Franchisee (and each partner, member or shareholder if Franchisee is a partnership, limited liability company or corporation) hereby represents that he or she has conducted an independent investigation of CFS’s business and System Restaurant Concepts (as hereinafter defined) and recognizes that the business venture contemplated by this Agreement involves business risks and that its success will depend upon Franchisee’s abilities as an independent businessperson. CFS expressly disclaims the making of, and Franchisee acknowledges that it has not received any warranty or guarantee, express or implied, as to the potential sales, volume, profits or success of the business contemplated by this Agreement.

**AGREEMENT**

**NOW, THEREFORE**, in consideration of the mutual promises and agreements set forth in this Agreement, CFS and Franchisee agree as follows:

## 1. DEFINITIONS

In this Agreement, the following terms have the following meanings:

1.1 Advertising Fund. The “Advertising Fund” is the fund into which Franchisee makes payments for national, regional or local advertising in accordance with Section 7.1.

1.2 Affiliates. A Person’s “Affiliates” are all Persons that directly or indirectly control, are controlled by, or are under common control with, the Person.

1.3 Agreement. “Agreement” means this Franchise Agreement (including all Appendices), as amended from time-to-time.

1.4 Approved Products. “Approved Products” are the food, items, beverages, promotional items, and other products approved by CFS (in the Manual or another written document) for sale in, or other disposition to the public from, the System Restaurant.

1.5 CFS. “CFS” means Chanticlear Franchise System, LLC, a Minnesota limited liability company, and its successors and assigns.

1.6 CFS Marks. “CFS Marks” means only those trademarks, trade names, service marks, trade dress (including product package designs), symbols, slogans, emblems, logos, insignia, designs, external and internal building designs and other architectural features, and any combination of the foregoing that CFS licenses to Franchisee for use in connection with the System Restaurant. CFS may, from time to time, change, modify or replace the CFS Marks and may designate other CFS Marks pursuant to Section 3.1 of this Agreement.

1.7 Co-op. “Co-op” means any cooperative advertising association established in accordance with Section 7.4.

1.8 Direct or Indirect. “Direct or Indirect”, when used in describing ownership or other interests in an entity or an agreement, means that intervening levels of ownership are disregarded.

1.9 Franchisee. “Franchisee”, when capitalized, means the Person(s) identified as “Franchisee” on the first page of this Agreement, or any approved successor.

1.10 Good Standing. Franchisee is in “Good Standing” under this Agreement at all times except when Franchisee is in default under this Agreement (regardless of whether CFS has given Franchisee notice pursuant to Section 18.2).

1.11 Gross Sales. “Gross Sales” means the total of all amounts received (including the fair value of an exchange and all payments by check, credit, or charge account, regardless of whether the checks, credits, or charge accounts are ultimately paid) for the sale or use of any products, goods, or services that are sold at or from the System Restaurant, including delivery fees. Gross Sales excludes only price discounts and allowances, receipts from coin-operated machines located on the premises of the System Restaurant pursuant to Section 6.8, and taxes imposed directly on sales or services by governmental authorities, and then only if the amount of the tax is added to or absorbed in the selling price and is actually paid to the appropriate governmental authority.

1.12 Interest. “Interest”, when used in the context of an interest in Franchisee or in this Agreement, means any direct or indirect beneficial or legal ownership interest in Franchisee or in this Agreement.

1.13 Lease. “Lease” means any written or oral contract allowing one Person to possess or use the property of another Person, and includes subleases and contracts for deed.

1.14 Location. “Location” means the specific site, listed in Appendix A, at which Franchisee is authorized by this Agreement to operate the System Restaurant.

1.15 Manual. “Manual” shall mean one or more manuals for use in operating the System Restaurant which CFS may add to or modify from time to time, including the Store Operations Manual and the Product Manual.

1.16 Person. “Person” means both natural persons and legal entities (including corporations, partnerships, limited liability companies, and trusts).

1.17 Related Persons. Franchisee’s “Related Persons” consist of all Persons having an Interest in Franchisee; all of Franchisee’s Affiliates; the officers, directors, partners, trustees, and beneficiaries of Franchisee and of any Person having an Interest in Franchisee; and the spouses and minor children of any of the foregoing individuals.

1.18 System Restaurant. “System Restaurant” is the restaurant operated by Franchisee under the CFS Marks from which Franchisee sells Approved Products for carryout and delivery, all for off-premises consumption.

1.19 System Restaurant Concepts. The phrase “System Restaurant Concepts” means the business plans and methods developed by CFS and its Affiliates to be used in connection with the design, construction, and operation of a restaurant offering delivery and take-out services for Approved Products. The “System Restaurant Concepts” shall include standards, specifications, methods, procedures, recipes, techniques, accounting systems, management systems, websites, proprietary software, if any, identification schemes and information, all of which may be changed, improved and further developed from time to time by CFS. However, “System Restaurant Concepts” shall exclude any employee policies or procedures that CFS may make available to Franchisee for its optional use during the Term.

1.20 Term. “Term” means the period during which the rights granted by this Agreement are in effect, which starts on the date of this Agreement, and (unless terminated early pursuant to Section 18) ends on the day before the 10<sup>th</sup> anniversary date of this Agreement, with a right to renew for one 10-year period in accordance with Section 2.8.

1.21 Transfer. “Transfer” includes every absolute or conditional method of directly or indirectly transferring a legal or equitable, record or beneficial Interest in Franchisee or any person having an Interest in Franchisee or in this Agreement, whether voluntary, involuntary, or by operation of law, and includes a change in beneficiaries or trustees of a trust.

## 2. SEARCH AREA/GRANT OF FRANCHISE/RENEWAL

2.1 Search Area. Franchisee shall have the right to operate a System Restaurant at one location only. The System Restaurant will be located at a site selected by Franchisee, and approved by CFS. If, as of the date of this Agreement, Franchisee has not selected a site for the System Restaurant, Franchisee shall have the right to locate its System Restaurant in the area set forth on Appendix A and designated as the "Search Area". Franchisee's rights in the Search Area are nonexclusive and Franchisee acknowledges that CFS may grant others the right to locate sites within the Search Area, and that Franchisee acquires no exclusivity or priority rights in the Search Area. Following CFS's approval of the site, CFS shall complete the Rider to this Agreement attached as Appendix A, indicating the Location for the System Restaurant, the Designated Territory, and the Delivery Area, and Franchisee and CFS shall execute the Rider. If Franchisee fails to locate a site for its System Restaurant within 90 days of the date of this Agreement, CFS fails to approve the site selected by Franchisee within such time period, or Franchisee does not sign a lease for its System Restaurant within such time period, either CFS or Franchisee may terminate this Agreement.

2.2 Grant of Franchise. CFS grants to Franchisee, during the Term, the non-exclusive franchise to operate the System Restaurant at the Location, using the CFS Marks; to promote and sell Approved Products and related services from the System Restaurant at the Location; and to deliver Approved Products from the System Restaurant at the Location throughout the Delivery Area (subject to Section 2.4). Franchisee may not operate any System Restaurant except at the Location, and may not, without CFS' consent, deliver products produced at the System Restaurant or using the CFS Marks except within the Delivery Area. Franchisee covenants that it will use its best efforts to promote sales of Approved Products from its System Restaurant throughout the Delivery Area. Franchisee shall not make deliveries to customers located in the Delivery Area of another franchisee or company-owned restaurant. Upon CFS's consent, Franchisee may make deliveries to customers outside of its Delivery Area if those deliveries are not to locations in the Delivery Area of another franchisee or company-owned restaurant and those deliveries are made to locations located within 10 minutes' drive time of the System Restaurant, as determined by CFS, in its sole and absolute discretion. Franchisee acknowledges that CFS may terminate this right at any time and will terminate this right if it grants a franchise or establishes a company-owned restaurant that has a delivery area that includes any of these locations.

2.3 No Subfranchise Right. The franchise granted by this Agreement is personal to Franchisee. Franchisee may not subfranchise to any other Person all or any part of the franchise granted by this Agreement.

2.4 Delivery Area Modification. Franchisee's Delivery Area may be reduced by CFS from time to time in its sole and absolute discretion, upon 30 days' written notice to Franchisee.

2.5 Relocation Rights. Franchisee must obtain CFS's consent prior to relocating its System Restaurant. Franchisee must supply CFS with justification for the relocation (such as expiration of an existing lease or changed demographics) and any other information CFS requests. If CFS consents to such relocation, Franchisee must open the replacement restaurant for business within 30 days after closure of the existing restaurant. This Agreement will govern

Franchisee's operations at any such replacement restaurant and such restaurant shall be referred to herein as the "System Restaurant."

2.6 Limitations on the Franchise. Franchisee may not conduct any business using any portion of the System Restaurant Concepts licensed by this Agreement at any site except the Location.

2.7 Designated Territory. During the Term and provided that Franchisee is not in default under this Agreement or any other agreement between CFS and Franchisee or an Affiliate of CFS, CFS will not grant to anyone else a franchise to operate, and will not itself operate, a restaurant selling pizza and pasta by delivery or take-out under the CFS Marks at the Location or which is physically located within the area surrounding the Location as described on Appendix A and designated as the "Designated Territory." Furthermore, during the Term, provided that Franchisee is not in default under this Agreement or any other agreement between CFS and Franchisee or an Affiliate of CFS, CFS will not provide delivery service, and will not grant any other licensee or franchisee operating a Chanticlear Pizza® restaurant the right to provide delivery service, for pizza and pasta using the CFS Marks to any point within the Delivery Area.

Except as set forth in this Section 2.7, Franchisee has no rights to exclude development of concepts owned, franchised or licensed by CFS or its Affiliates. CFS and its Affiliates may develop and operate, or may franchise and license others to operate, any business concept at any place, including immediately adjacent to the Location(s), and may use the CFS Marks or any other trademarks owned or developed by CFS or its Affiliates in connection with those concepts, even if such concepts sell products that are the same as, or similar to, Approved Products. To that end, CFS and its Affiliates have the right to use other channels of distribution, such as the Internet, catalog sales, telemarketing, or other direct marketing, to make sales to customers within the Designated Territory and/or the Delivery Area of any products and services using the CFS Marks or any other trademarks. Further, CFS reserves the right under the CFS Marks and any other marks to advertise, market or sell, and grant others the right to advertise, market or sell, products from or through retail or wholesale outlets located in the Designated Territory or Delivery Area and to customers located in the Designated Territory or Delivery Area. Such products may include, but are not limited to, frozen pizzas and advertising items such as t-shirts or other paraphernalia.

2.8 Renewal. Franchisee may, at its option, renew this Franchise for one additional period of 10 years, if CFS is still offering franchises upon expiration of this Agreement, and further subject to the following conditions, all of which must be met prior to renewal:

A. Franchisee shall give CFS written notice of its election to renew not less than 180 days prior to the end of the Term;

B. Franchisee must not be in default under any provision of this Agreement, any amendment hereof or successor hereto, or any other agreement between CFS and Franchisee, or an Affiliate of CFS, and Franchisee shall have complied with all the terms and conditions of all such agreements during the terms thereof;

C. Franchisee shall complete to CFS's satisfaction such maintenance and renovation to the System Restaurant as CFS may reasonably require in writing;

D. Franchisee shall have satisfied all monetary obligations owed by Franchisee to CFS or an Affiliate of CFS, and shall have timely met these obligations throughout the Term;

E. Franchisee shall execute, before the renewal term, CFS's then current form of franchise agreement, which agreement shall supersede this Agreement in all respects, and the terms of which may differ from the terms of this Agreement. Franchisee shall pay to CFS a renewal fee of \$5,000.00;

F. Franchisee shall comply with CFS's then current qualification and training requirements; and

G. Franchisee shall execute a general release, in a form prescribed by CFS, releasing any and all claims against CFS and its Affiliates, and their respective officers, directors, agents and employees.

### **3. DESIGNATION AND USE OF MARKS**

3.1 Designation of CFS Marks. CFS may, from time-to-time, designate new CFS Marks as applicable for use by Franchisee. In addition, CFS may, from time-to-time, modify or delete existing CFS Marks. CFS will give Franchisee written notice of the addition, modification, or deletion of any CFS Marks. Franchisee will begin use of any new CFS Marks and cease use of any deleted CFS Marks within the times stated in any notice by CFS. CFS now owns and may in the future own marks that are not CFS Marks. Franchisee will have no right to use any mark owned or controlled by CFS except the CFS Marks.

3.2 Use of CFS Marks. The franchise granted to Franchisee to use the CFS Marks is applicable only to the System Restaurant located at the Location, except that Franchisee may use the CFS Marks in connection with advertisements for the System Restaurant and may deliver Approved Products produced at the System Restaurant throughout the Delivery Area. Franchisee will use the CFS Marks strictly according to the terms and conditions of this Agreement.

Franchisee may not offer or sell any food, beverage, or other product (whether or not an Approved Product) at or from the System Restaurant under or in connection with any trademark, service mark, trade name, or trade dress (including product package design) other than the CFS Marks, without CFS's prior written consent in each case. Franchisee will cause all point of purchase materials and all other paper goods, all exterior/interior signage, and all promotional and advertising materials to bear the CFS Marks as required by CFS.

3.3 Ownership of CFS Marks. Nothing contained in this Agreement vests in Franchisee any interest in any of the CFS Marks, other than the limited license granted by this Agreement. All goodwill now or in the future associated with and/or identified by one or more of the CFS Marks, including any goodwill arising out of Franchisee's use of the CFS Marks, belongs directly and exclusively to CFS or its Affiliates.

Franchisee may not interfere in any manner with, and will not attempt to attach, contest, or prohibit: (a) any use of the CFS Marks by CFS or by any other franchisee or licensee of CFS that is not directly contrary to the terms of this Agreement, or (b) CFS's ownership or rights to

the use of the CFS Marks. The provisions of this Section 3.3 will survive the termination or expiration of this Agreement.

3.4 Protection of CFS Marks. Franchisee will immediately notify CFS, in writing, if (a) a third party claims that the CFS Marks infringe trademarks owned by the third party, or otherwise challenges Franchisee's use of the CFS Marks, or (b) Franchisee knows or suspects that a third party is infringing the CFS Marks. Franchisee will provide CFS with any information available to Franchisee about the matter.

CFS will use reasonable efforts to protect the CFS Marks, including (in its sole and absolute discretion) instituting, prosecuting, and/or settling judicial or administrative actions or proceedings. Whenever requested to do so by CFS, Franchisee will cooperate fully in those actions or proceedings. Franchisee may not, however, take any action with respect to any challenges against Franchisee's use of the CFS Marks, or any known or suspected infringements of the CFS Marks by other parties, without CFS's prior written approval (which CFS may grant or withhold in its sole and absolute discretion).

Franchisee will exercise the utmost care in its use of the CFS Marks to ensure that the CFS Marks (and the goodwill associated with them) are not jeopardized in any manner. Franchisee may not use the CFS Marks in any manner or in connection with any statement or material that is (in CFS's reasonable judgment) in bad taste or inconsistent with CFS's public image, or that could tend to involve CFS in a matter of political or public controversy, or tend to bring disparagement, ridicule, or scorn upon CFS, the CFS Marks, or the goodwill associated with the CFS Marks.

#### **4. TRAINING AND ASSISTANCE**

4.1 Initial Training. Prior to the opening of the System Restaurant, Franchisee and Franchisee's proposed manager of the System Restaurant shall, at a Chanticlear Pizza® restaurant of CFS's choice, undertake initial on the job training (the "Initial Training") for up to 60 days depending upon Franchisee's experience level and that of Franchisee's manager. CFS may, in its sole and absolute discretion, waive the Initial Training or decrease the number of hours of Initial Training or modify the topics, depending upon the experience level of Franchisee and its manager. The Initial Training will be provided without charge, but travel and living expenses, if any, incurred by Franchisee and its manager in connection with the Initial Training shall be the responsibility of Franchisee. Franchisee and its manager must attend and satisfactorily complete the Initial Training unless otherwise waived by CFS. Neither Franchisee nor its manager shall be considered employees of CFS or the restaurant at which the Initial Training occurs and neither party shall be entitled to any compensation or benefits for services performed during the Initial Training.

4.2 New/Replacement Managers. If Franchisee adds a manager or replaces a manager, Franchisee's new manager must be approved by CFS and must attend and satisfactorily complete the Initial Training. Such manager(s) must begin the Initial Training within 90 days after assuming any management position. If the manager does not successfully complete the Initial Training, the individual must immediately stop acting as a manager of the System Restaurant. Franchisee shall pay to CFS the fees set by CFS for such additional training prior to

attendance at such training. No individual may manage the System Restaurant, unless and until such individual has successfully completed the Initial Training.

4.3 Quarterly Meetings. CFS may from time to time provide quarterly meetings for all franchisees located in a specific geographic area. These quarterly meetings may focus on any number of topics including, but not limited to, new Approved Product presentations. Franchisee may attend these meetings without charge by CFS.

4.4 Additional Training. From time to time, CFS may offer additional, ongoing training programs, which Franchisee may attend, unless Franchisee's attendance is required by CFS in its sole and absolute discretion. Such programs may, in CFS's sole and absolute discretion, be provided at CFS's office, at a location outside CFS's office, or via the internet. Franchisee shall pay CFS the fees set by CFS for such additional training, plus reimbursement of CFS's travel, lodging and incidental expenses associated with the training, within 10 days of the invoice date.

4.5 Additional Assistance; Convention. If Franchisee requires additional assistance from CFS, Franchisee may request such assistance in writing to CFS, outlining the specific assistance sought. If CFS has personnel available to provide such assistance, it shall do so according to CFS's relevant hourly or daily rate as may be set by CFS from time to time. Franchisee shall also be responsible for all travel, lodging and incidental expenses associated with such assistance. The fees for such assistance shall be paid within 10 days of the date of the invoice for such support. If CFS holds any annual, regional or local conventions, Franchisee must attend such conventions and pay all fees charged by CFS related thereto, within 10 days of the date of an invoice therefor.

4.6 Programs. From time to time, CFS may institute certain programs, which participation by Franchisee may be either optional or required, as determined by CFS on a case-by-case basis. CFS may, in its sole and absolute discretion, modify any of the terms of any of these programs, add additional programs or discontinue any of the programs. CFS may also establish charges for any or all of these programs. CFS will notify Franchisee of the charges for the programs and Franchisee shall have the right to determine whether to participate in any such "optional" programs.

## 5. MANUAL

5.1 Loan of Manual. CFS will loan to Franchisee, at no charge, one complete set of the Manual. If all or any portion of the Manual is lost or destroyed, Franchisee shall pay CFS a Manual Replacement Fee of \$500, prior to its receipt of a new Manual or the missing or destroyed portion thereof.

5.2 Ownership of Manual. All copies of the Manual will remain the exclusive property of CFS. Franchisee may not copy, and will prevent all Persons, including Franchisee's employees and Related Persons, from copying any portion of the Manual. Franchisee will return to CFS, at the end of the Term, all copies of the Manual in the possession of Franchisee, Franchisee's employees or its Related Persons.

5.3 Confidentiality. The entire contents of the Manual constitute CFS's confidential trade secrets. Franchisee may not, and will use its best efforts to ensure that no other Persons disclose or use (except as authorized by this Agreement) any of the contents of the Manual, whether during or after the Term. Franchisee further acknowledges that all of the information it has now or obtains in the future concerning the System Restaurant Concepts and methods of promotion franchised hereunder is derived from CFS pursuant to this Agreement, and that such information will be treated in confidence. Franchisee agrees never to, directly or indirectly, engage in or abet the misappropriation (as the term "misappropriation" is defined in the Minnesota Uniform Trade Secrets Act), or the disclosure, divulgence, or distribution of all or any part of the System Restaurant Concepts and methods of promoting franchises hereunder.

5.4 Protection of Trade Secrets. The information contained in the Manual is a trade secret. Disclosure of any of the information contained in the Manual would cause irreparable harm to CFS. CFS is entitled to obtain injunctive relief against Franchisee, without posting bond or other security, to protect the contents of the Manual from disclosure and improper use. Franchisee waives all defenses it might otherwise have to equitable relief for this purpose.

5.5 Updates. CFS may, from time-to-time, update or modify the Manual. Franchisee will follow any instructions from CFS concerning those updates, corrections and modifications, including instructions to remove and replace certain pages contained in the Manual, and instructions to destroy or to return to CFS the old (or removed) pages or volumes. If there is ever a disagreement about the proper contents of the Manual, the master copy of the Manual kept by CFS at its home office is conclusively the controlling version.

## **6. STANDARDS; DUTIES OF FRANCHISEE**

6.1 Interpretation of Standards. CFS has sole and absolute discretion to interpret the standards set forth in the Manual or elsewhere.

6.2 Promulgation of Standards. In the Manual, CFS has promulgated standards of operation for Chanticlear Pizza® restaurants. CFS has also promulgated standards of usage for the CFS Marks, and other standards intended to ensure the consistency of the System Restaurant Concepts. CFS may, from time-to-time, add to, delete, or change standards. Franchisee will comply with any change in the standards within the timeframe set by CFS. At all times throughout the Term, Franchisee will comply with all required standards of CFS. Franchisee acknowledges that the Manual and System Restaurant Concepts are designed to protect the CFS Marks and the CFS system and not to control the day to day operation of the System Restaurant.

6.3 Limitation on Promulgation of Standards. CFS will not impose on Franchisee, more often than once every 5 years, any new or modified standard that requires structural changes, remodeling, or renovation to the System Restaurant with a cost estimated by CFS to exceed \$10,000. The foregoing shall exclude any update or remodeling required as a condition to renewal of the franchise.

6.4 Inspections. CFS's authorized representatives may enter upon the premises of the System Restaurant at any time during its normal business hours, and at any other reasonable time, for the purpose of determining whether the business is being conducted in accordance with CFS's standards, the Manual and the terms of this Agreement.

If any inspection indicates any deficiency, Franchisee will correct or repair the deficiency within 24 hours after Franchisee receives a written report of the deficiency from CFS. If: (a) the deficiency is one that Franchisee has a right to cure under Section 18.2; and (b) the deficiency cannot be cured within 24 hours, Franchisee will not be in default if Franchisee begins the necessary corrections or repairs within the 24-hour period, and diligently pursues the work to completion. If the deficiency is one that imminently threatens the consuming public, CFS may (instead of terminating this Agreement as allowed by Section 18.1(H) require Franchisee to cease operating the System Restaurant until the deficiency is corrected. In addition to CFS's right to terminate this Agreement if Franchisee does not cure any deficiency within the permitted time, CFS may: (i) make, or hire to make, the corrections or repairs and Franchisee will reimburse CFS, upon demand, for all of CFS's repair expenses; and/or (ii) charge Franchisee a \$100 fee per deficiency. Such fee shall be paid to CFS within 10 days of the invoice date for the fee.

6.5 Compliance with Laws. Franchisee will comply with all applicable laws and regulations governing the operation of the System Restaurant.

6.6 Identification. Franchisee will maintain CFS's approved signage, identifying the System Restaurant as a Chanticlear Pizza® restaurant, and giving any other information that CFS requires. In addition, Franchisee will prominently post a CFS-approved sign inside the System Restaurant, stating Franchisee's name and stating that the System Restaurant is independently owned and operated by Franchisee under a franchise from CFS. Franchisee will also post a notice at its System Restaurant notifying all of its employees that they are employees of Franchisee not CFS. The content and location of the notice shall be approved by CFS.

6.7 Uniforms. Franchisee will require all employees, while working in the System Restaurant, to: (a) wear uniforms of the color, design, and other specifications that CFS designates from time-to-time, and (b) present a neat and clean appearance.

6.8 Coin-Operated Machines. Franchisee may not permit any vending, game, audio, video, other coin- or currency-operated machines, or any other service, product, or entertainment machine of any kind (whether or not similar to those listed), to be installed or maintained on the premises of the System Restaurant without CFS's prior written approval. Unless otherwise provided in any Manual, CFS consents to the installation in the System Restaurant of up to the following numbers of coin-operated machines:

- 2 newspaper vending machines;
- 1 soda pop vending machine;
- 1 candy vending machine; and
- 1 juke box.

The receipts from all coin-operated machines located on the premises of the System Restaurant are not considered part of Gross Sales.

6.9 Assumed Name Certificate. Franchisee will promptly file and publish, in the state and county in which the System Restaurant is located, a certificate of doing business under an assumed or fictitious name. Franchisee will indicate in the certificate that it is doing business as Chanticlear Pizza® under a franchise from CFS. Franchisee will furnish a certified copy of the certificate to CFS promptly after its filing.

6.10 Approved Products. Franchisee may not manufacture, advertise for sale, sell, or give away from the System Restaurant any product, except Approved Products.

A. Standard and Optional Items. Franchisee will offer for sale in its System Restaurant all Approved Products that CFS designates as “standard” for the System Restaurant, unless CFS agrees otherwise in writing. In addition, Franchisee may offer from the System Restaurant Approved Products designated by CFS as “optional.”

B. Menu Modification. Any time CFS notifies Franchisee that an item will become a “standard” Approved Product, or that an item will no longer be an Approved Product (either “standard” or “optional”), CFS will include a deadline by which Franchisee must offer the new “standard” Approved Product for sale, if any, or must cease selling the item that is no longer an Approved Product. Franchisee must comply with such directive by such deadline.

C. No Unprepared Products. Unless approved by CFS in writing, Franchisee may not sell or distribute any food product or ingredient except as a complete and fully prepared food product ready for immediate consumption.

D. POS; Computer System. Franchisee shall own a business computer and a point-of-sale system and such software, modifications, upgrades, additions, and peripherals with such specifications and capabilities, and such connectivity to the Internet for remote access to CFS’s computer system, as CFS may specify from time to time. Franchisee shall also maintain and provide CFS with an email address at which Franchisee can receive CFS emails. CFS may, at any time, access Franchisee’s computer system and point-of-sale system and retrieve, analyze, download and use all software, data and files stored or used thereon.

6.11 Prices. Franchisee will establish, in its sole discretion, prices for all Approved Products sold by Franchisee.

6.12 Commencement of Operation. Franchisee shall commence operation of the System Restaurant within 30 days after substantial completion of construction of the System Restaurant, but not before: (i) Franchisee has satisfied all conditions set forth in this Agreement required to be satisfied by Franchisee prior to opening the System Restaurant, including, but not limited to, the successful completion by Franchisee and its manager, or in lieu of its manager another employee, of the “Servsafe” certification program, or the equivalent food safety certification course, offered by the state regulatory body having jurisdiction over the System Restaurant, or a certification provider approved by CFS, if the body does not offer the certification program; and (ii) Franchisee has given CFS at least 10 days written notice of opening and CFS has confirmed that the System Restaurant is ready to open.

6.13 Participation. If Franchisee does not employ a manager of the System Restaurant, Franchisee if an individual, or the holder of a controlling Interest in Franchisee if Franchisee is a corporation, limited liability company or partnership, must work a minimum of 25-hours per week in the System Restaurant. The System Restaurant shall at all times be under the direct on premises supervision of Franchisee or its manager.

6.14 Photos, Videos and Electronic Records. ~~6.15~~ CFS shall have the right to take photographs, videos and electronic records of the System Restaurant and associated

vehicles, signage, and premises and to use such photographs, videos and electronic records in any advertising or promotional material, in any form or medium now existing or later developed. CFS may use the foregoing without providing notice to Franchisee or receiving Franchisee's consent, and CFS shall not be obligated to make attribution or to compensate Franchisee for use of the foregoing. Upon the request of CFS, Franchisee shall cooperate with CFS in taking and arranging for such photographs, videos and electronic records and for obtaining the necessary consents of or assignments from individuals depicted in or involved in such photographs, videos and electronic records. Franchisee irrevocably assigns to CFS all of its right, title, and interest, if any, in and to all such photographs, videos and electronic records, together with all related intellectual property rights.

## **7. ADVERTISING**

7.1 Advertising Fund. On or before the 10th day of the month, Franchisee shall pay to CFS (for the Advertising Fund) an amount equal to 1% of Franchisee's Gross Sales for the immediately prior month. Notwithstanding the foregoing, if Franchisee is in default under this Agreement, Franchisee must pay an advertising contribution of 3% of its Gross Sales for such period as Franchisee is in default. Upon 90 days written notice to Franchisee, CFS may at any time increase the amount of the advertising contribution to a percentage not to exceed 3% of Franchisee's Gross Sales per month.

CFS will use the Advertising Fund funds to develop and administer advertising, promotional, and marketing programs designed to promote and enhance the collective success of all Chanticlear Pizza® restaurants, except that CFS, in its sole and absolute discretion, may rebate some or all of the Advertising Fund to Franchisee and other franchisees for use in local marketing and CFS may use monies in the Advertising Fund to reimburse it for the costs of administering the Advertising Fund, including accounting expenses, costs of salaries and fringe benefits paid to CFS employees engaged in creating advertising materials or administration of the Advertising Fund, and overhead allocated to advertising activities. CFS need not expend payments to the Advertising Fund in the same year that they are received, and need not show that Franchisee received any benefit from Franchisee's payments to the Advertising Fund. CFS's decisions regarding expenditure of the Advertising Fund will be final and binding. CFS may, in its sole and absolute discretion, seek input from Franchisee or other franchisees regarding expenditure of the Advertising Fund. Any advertising council created in connection with the Fund may be changed, modified or dissolved by CFS, at any time, in its sole and absolute discretion.

7.2 Local Advertising. In addition to the payments required by Section 7.1, Franchisee will spend each month at least 3% of Franchisee's prior month's Gross Sales on local advertising in the general market area of the System Restaurant. Such local advertising shall be confined to print media, and shall be subject to CFS's prior written consent. Periodic advertising reports and paid receipts shall be furnished from Franchisee to CFS at the times and in the manner designated by CFS.

7.3 Approval of Advertising. All advertising copy and other materials used by Franchisee will be in strict conformity with the standards, formats, and specimens contained in the Manual or otherwise established by CFS. Franchisee may not use any design, advertisement,

sign, or form of publicity, unless first submitted to CFS and approved by CFS in writing (except with respect to prices), and not later disapproved. Any request by Franchisee for CFS's approval will be sent through the mail (return receipt requested) addressed to CFS (marked, "Attention: Ad Review"), and CFS will endeavor to respond within 30 days. Whenever Franchisee elects to use, in the manner and time frame intended by CFS, advertising supplied by CFS or a promotional item specifically approved by CFS, Franchisee may use that advertising or promotional item without further approval.

Upon written notice from CFS, Franchisee will immediately discontinue use of any advertising materials for which approval has been revoked. If Franchisee does not discontinue and remove the unapproved materials within 5 days after notice, CFS or its authorized agents may, at any time, enter upon the premises of the System Restaurant or elsewhere and remove and destroy the materials without paying for them and without being liable for trespass or other tort.

7.4 Co-operative Advertising. CFS may, from time-to-time, establish, modify or dissolve co-operative advertising associations for various groups of Chanticlear Pizza® restaurants. CFS may establish or modify Co-ops based upon marketing areas, type(s) of restaurants, or any other criteria chosen by CFS in its sole and absolute discretion. If CFS elects to establish Co-ops, it may, from time-to-time, direct Franchisee to join one or more Co-ops and to contribute some or all of Franchisee's local advertising money (otherwise required to be expended by Franchisee pursuant to Section 7.2) to one or more of the Co-ops. The monthly contributions to a Co-op (if any) required by this Section 7.4 will be made on or before the 20th day of each month in the Co-op, based on Franchisee's prior month's Gross Sales. CFS reserves the right to establish bylaws, voting rules, membership agreements, standard advertising agency agreements, and other standards concerning the operation of Co-ops, advertising agencies retained by Co-ops, and advertising programs conducted by Co-ops.

7.5 Web Page. CFS will provide Franchisee with a template that Franchisee may use to create a web page to advertise its System Restaurant on the Internet. Any web page or other Internet presence of Franchisee and any content related thereto must be approved by CFS before it may be posted on the Internet. Franchisee is not permitted to modify the content of, change the domain name of, or make any other modifications to any web page or other Internet presence or content related thereto, which has been previously approved by CFS. Franchisee will comply with all directives from CFS with respect to materials posted on the Internet, links to and from any web page, the use of the CFS Marks on such web page, and the security for the web page

## **8. PURCHASE OF EQUIPMENT, SUPPLIES AND OTHER PRODUCTS**

8.1 Use of Approved Supplies and Approved Suppliers. CFS may, from time-to-time, publish one or more listings of approved equipment, supplies, and suppliers, which listings may be specific as to manufacturer, brand name, item/model/catalog number, preparation or manufacturing facility, or other factors considered relevant by CFS. CFS may add to or delete from the listings at any time. Franchisee will only purchase and use approved equipment and supplies in connection with Franchisee's operations under this Agreement, and will obtain all equipment and supplies only from or through approved suppliers. If Franchisee desires to purchase any equipment or supplies that are not then approved, or to purchase any items from or through a supplier that is not then approved, Franchisee will submit to CFS a written request for

approval. CFS may inspect the facilities of the manufacturer, producer, or supplier, and may require Franchisee (or the manufacturer, producer, or supplier) to submit samples, specifications, and other information concerning any equipment or supplies for which approval is sought. CFS is not required to inspect or test any proposed manufacturer, producer, or supplier until CFS is satisfied that all costs associated with inspection and testing of the proposed manufacturer, producer, or supplier and of samples of their products (including salaries of CFS employees, travel costs, and laboratory charges) will be borne by Franchisee (or the manufacturer, producer, or supplier). CFS may re-inspect the facilities and products of any approved manufacturer, producer, or supplier from time-to-time, and may revoke its approval upon failure to continue to meet any of CFS's criteria as then in effect.

8.2 Trade Secret Items. CFS's spice blends are highly confidential secret recipes and are trade secrets of CFS. Accordingly, Franchisee may use only CFS's secret spice blends in the preparation of Approved Products and will buy from CFS, or a source designated by CFS, which may be CFS or an Affiliate, Franchisee's full requirements of CFS's spice blends as well as any other trade secret or patented items that CFS develops in the future.

## **9. FEES AND PAYMENT SCHEDULE**

9.1 Initial Franchise Fee. In consideration for the grant of the franchise hereunder, Franchisee will pay CFS an initial franchisee fee of \$20,000. The initial franchise fee will be fully earned when due, and will not be refundable, in whole or in part, under any circumstances. The initial franchise fee is due and payable upon execution of this Agreement.

9.2 Monthly Fees. Franchisee will pay CFS monthly a royalty fee equal to 4.0% of Franchisee's Gross Sales for the immediately preceding month. Franchisee will pay all monthly royalty fees on or before the 10th day of the month for the immediately preceding month.

9.3 Interest/NSF. If CFS has not received any payment contemplated by this Agreement by its due date, such amounts shall bear interest at the maximum rate permitted by law, or at 1.5% per month, whichever rate is higher. CFS may apply any payments received from Franchisee to the oldest amounts due from Franchisee, regardless of any contrary designation by Franchisee. Unless otherwise specified by CFS, Franchisee must pay all amounts owed to CFS and its Affiliates through the Automated Clearinghouse (ACH) system, as further described in the Manual. If a check issued by Franchisee to CFS is returned to CFS for insufficient funds, or CFS is unable for any reason to debit the entire amount owed CFS by Franchisee, Franchisee shall remit the remaining amount owing immediately upon notice by CFS, plus a late payment charge thereon, plus an insufficient funds fee of \$35 for each amount owed.

If Franchisee has not reported its Gross Sales to CFS for any month, then CFS shall be authorized to debit Franchisee's account in an amount equal to 120% of the fees transferred from Franchisee's account for the last reporting period for which a report of Gross Sales was provided to CFS. Franchisee agrees that CFS may, at its option, base the amount of such debit on information retrieved from Franchisee's computer or point-of-sale system.

9.4 Transfer Fees. Franchisee will pay CFS, on or before the effective date of any Transfer, and as a condition to CFS's approval, a transfer fee of \$2,500.

9.5 Offset Rights. CFS may offset any sums owing by CFS against moneys owed by Franchisee or its Related Persons.

9.6 Website Fee. Franchisee shall pay CFS its then current monthly Website Fee. The Website Fee shall be due with 10 days of the invoice date. In exchange for payment of the Website Fee CFS shall provide Franchisee with a web page template as referenced in Section 7.5 above and shall include up to 3,000 email addresses of Franchisee's customers per year in Franchisor's direct email marketing campaign. Franchisee shall be solely responsible for obtaining all customer consents to the receipt of marketing materials from Franchisor via the email campaign or otherwise.

9.7 Taxes. In addition to the other payments provided for in this Agreement, Franchisee will pay CFS, or its Affiliate, all sales taxes, personal property taxes, excise taxes, value added taxes and similar taxes imposed upon or required to be collected or paid by CFS, or its Affiliates, on account of services or goods furnished to Franchisee through sale, lease or otherwise, or on account of collection by CFS of the fees, royalties, or other amounts called for by this Agreement. Franchisee shall pay such taxes upon demand and in the manner designated by CFS or its Affiliates. The foregoing shall not apply to any federal or state of Minnesota income taxes required to be paid by CFS.

## **10. BUSINESS PREMISES**

10.1 Restrictions on Use. Unless Franchisee receives CFS's prior written consent, Franchisee will conduct from the premises of the System Restaurant (including any adjacent sidewalks and parking areas) only business activities licensed by this Agreement.

10.2 Site Selection. Franchisee is solely responsible for selecting sites at which to develop the System Restaurant, subject to CFS's prior written approval. CFS will not be liable to Franchisee if the Location chosen by Franchisee fails to be profitable or otherwise fails to meet Franchisee's expectations.

10.3 Construction of System Restaurant. Franchisee will obtain all necessary governmental permits and licenses before constructing, modifying, or remodeling the System Restaurant. Franchisee will complete any construction or other work on the System Restaurant within a reasonable time after Franchisee begins work on the System Restaurant.

10.4 Right to De-Identify; Required Lease Provisions. If the premises at which the System Restaurant is operated are leased, the Lease must be submitted to CFS for approval before it is signed, and the Lease will contain an express right of de-identification, in the following form:

Upon termination or non-renewal of this Lease, Lessee/Tenant shall de-identify the leased premises. If Lessee/Tenant fails to do so, Chanticlear Franchise System, LLC, ("CFS") is given the express right to de-identify. De-identification consists of removal of all signs; modification or remodeling of all identifying architectural features; repainting as necessary to no longer use the color scheme used by CFS; and any other steps

necessary (in the sole and absolute discretion of CFS) to effectively distinguish the formerly leased premises from CFS's proprietary building design(s). All de-identification will be done without cost to Lessor/Landlord.

In addition, the Lease for the premises at which the System Restaurant is operated will contain the following provisions:

A. The Lease will allow for collateral assignment to CFS by a collateral assignment agreement in form and substance reasonably acceptable to CFS in order to secure Franchisee's liabilities and obligations to CFS; or

B. The Lease will contain the following:

i The lessor must agree that without its consent, the Lease and Franchisee's right, title and interest under the Lease may be assigned by Franchisee to CFS or its designee.

ii The lessor must provide written notice to CFS (at the same time it gives such notice to Franchisee) of any default by Franchisee under the Lease and CFS or its designee must have, after the expiration of the period during which Franchisee may cure such default, an additional fifteen (15) days to cure, at its sole option, any such default and, upon the curing of such default, the right to enter upon the leased premises and assume Franchisee's rights under the Lease as if the Lease had been assigned by Franchisee to CFS or its designee.

10.5 Repair and Maintenance. Franchisee will repair and repaint the interior and exterior of the System Restaurant as requested by CFS. Franchisee will, at all times, maintain the interior and exterior of the System Restaurant as well as the surrounding premises in a clean and orderly condition. If Franchisee leases the location on which the System Restaurant is located, Franchisee will require the Lease to contain an express right to undertake this repair and maintenance.

10.6 Proof of Compliance. Before opening the System Restaurant, Franchisee will provide to CFS either a copy of a deed showing that title to the real estate on which the System Restaurant will be located is held by Franchisee, or a letter from the landlord of the premises in the form of Appendix B.

10.7 System Restaurant Closure. Franchisee may not cease to operate the System Restaurant without CFS's prior written consent. Franchisee acknowledges that the damages to CFS from unauthorized closure of the System Restaurant are difficult to calculate. Therefore, if Franchisee violates this Section 10.7, Franchisee will pay as a closure fee, and not as a penalty, an amount equal to 24 times the average monthly fees paid or due with respect to the closed System Restaurant during the calendar year before the closing. If the System Restaurant was not open for business for a full calendar year, the liquidated damages will be 24 times an amount equal to the highest monthly royalty amount and advertising contribution owed by Franchisee to CFS during the period the System Restaurant was open.

**11. BOOKS AND RECORDS, REPORTS, AUDITS**  
11.1 Maintenance of Books and Records. Franchisee will keep on the premises of the System Restaurant or at Franchisee's principal place of business, and will preserve for at least 5 years after the date of their preparation (regardless of any intervening expiration or termination of this Agreement), true and accurate records, ledgers, accounts, books, and data in the form that CFS requires. Franchisee's records will accurately reflect all details relating to the business done at the System Restaurant.

11.2 Reports. With its payment of the monthly fees (in accordance with Section 7.1 and 9.2), Franchisee will submit to CFS, in writing, a monthly statement of Gross Sales. Within 45 days after the close of each fiscal quarter, Franchisee will submit to CFS, in writing, a quarterly profit and loss statement and such other financial information requested by CFS for the System Restaurant.

In addition to the reports described above, Franchisee will, within 90 days after the end of Franchisee's fiscal year, provide CFS with a complete annual profit and loss statement and a consolidated balance sheet prepared in accordance with generally accepted accounting principles, consistently applied. If requested by CFS, the annual profit and loss statement and balance sheet will be reviewed by an independent certified public accountant in accordance with the Statements on Standards for Accounting and Review Services, and will contain a signed opinion by the accountant to that effect. CFS reserves the right to require any further information about Franchisee's business under this Agreement that CFS from time to time reasonably prescribes.

11.3 Audit. In addition to CFS's rights under Section 6.4, CFS and its agents or representatives may examine and audit all of Franchisee's records, accounts, and books, but excluding records of the employees of the System Restaurant, at all reasonable times. Franchisee will cooperate with any examination or audit by gathering such records, accounts, and books for easy access, and by providing other assistance CFS reasonably requests. If any inspection or audit discloses that any financial statement delivered to CFS by Franchisee is in error, Franchisee will immediately pay to CFS any deficiency found owing; plus a finance charge of 1.5% per month or at the maximum rate permitted by law, whichever is greater, accruing from the date payment was first due. If the deficiency is 2% or more of the amount due, then in addition, Franchisee will reimburse CFS for the cost and expense of the inspection or audit within 5 days of the invoice date for same from CFS.

## **12. COVENANTS AGAINST COMPETITION**

12.1 Acknowledgments. Franchisee acknowledges:

A. Uniqueness. The food products, methods of doing business, and other elements composing the System Restaurant Concepts (including the information set forth in the Manual) are distinctive, and have been developed by CFS and its Affiliates at great effort, time, and expense.

B. Secret Information. Franchisee has regular and continuing access to valuable and confidential trade secrets regarding the System Restaurant Concepts, and to CFS's knowledge, know-how, and expertise concerning the operation of a retail food business. It would

be an unfair method of competition for Franchisee to use or duplicate any of CFS's trade secrets, knowledge, know-how, or expertise for any use other than operations pursuant to this Agreement.

12.2 In-Term Covenants. During the Term, Franchisee and its Related Persons may not (without the prior written consent of CFS), directly or indirectly, individually or as a partner, joint venturer, shareholder, officer, creditor, director, employee, trustee, or agent of an organization, own, operate, finance, or provide consulting services to any business (other than a System Restaurant operated pursuant to this Agreement or any other Franchise Agreement between Franchisee or its Related Persons and CFS) operating one or more restaurants (including the delivery and carryout aspects of restaurants) that sell pizza, pasta or other food items similar to any Approved Products or that license or franchise the operation of businesses that sell pizza, pasta or other food items similar to any Approved Products.

During the Term, Franchisee and its Related Persons may not (without the prior written consent of CFS) lease, sublease, or otherwise permit the use of, any portion of any premises owned, leased, or controlled by any of them for purposes of operating a business (other than the System Restaurant operated pursuant to this Agreement) engaged in whole or substantial part (more than 10% of its sales), in the production or sale (at wholesale or retail) of any pizza, or pasta item, or other food item similar to Approved Products.

12.3 Post-Term Covenants. For a period beginning on the date of termination, expiration or assignment of this Agreement and ending on the date specified below, neither Franchisee nor its Related Persons may engage, or assist others to engage, directly or indirectly, individually or as a partner, joint venturer, shareholder, officer, creditor, director, employee, or agent, in a business or other venture: (i) that produces or sells (at wholesale or retail) any pizza or pasta item or other food item similar to any of the Approved Products and which is located: (a) within a 25-mile radius of the Location; (b) anywhere within the county within which the Location is situated; or (c) anywhere within 10 miles of a location at which CFS or any subsidiary, Affiliate or franchisee of CFS operates a Chanticlear Pizza® restaurant on the date of termination, expiration or assignment of this Agreement; or (ii) a business or other venture that grants licenses or franchises for businesses that are producing or selling any pizza or pasta item or other food item similar to any of the Approved Products, that are located, or are to be located, within any of the area covered in the foregoing clauses (i) (a)-(c).

As to each of the covenants, and any Person bound by the covenants, contained in this Section 12.3, the covenant will expire on the date the Person has been in full compliance with the covenant for 18 consecutive months. Each of the covenants set forth in the foregoing paragraphs are independent of the others, and the unenforceability of one will not affect the others. The foregoing covenant shall apply to the "Franchisee" and its Related Persons regardless of whether they have transferred this Agreement.

12.4 Perpetual Covenant. In addition to the covenants of confidentiality contained in Section 5.3, Franchisee and its Related Persons may never (whether during or after the Term) take any actions that may or do impair CFS's ownership of or goodwill in the CFS Marks and/or in the System Restaurant Concepts.

12.5 Stock Ownership. The limitations on being a direct or indirect owner or shareholder of a business, as contained in this Section 12, do not apply to ownership of 2% or less of the issued and outstanding stock in any corporation traded on a national stock exchange.

### **13. EMPLOYMENT RELATIONS**

13.1 Franchisee's Employees. Franchisee will be solely responsible for all of Franchisee's employment practices, including determining who to hire, how to compensate those individuals, how much to compensate those individuals, the terms of their employment and working conditions, the supervision of the individuals, the setting of work schedules, the maintenance of employment records, when and how to discipline those individuals, and when and how to terminate the employment of those individuals. These individuals are not CFS's agents or employees and CFS is not a joint employer of these individuals. Franchisee is solely responsible for performing all administrative functions of its System Restaurant, including payroll, and providing workers' compensation insurance. Franchisee acknowledges that CFS does not provide facilities, equipment or house or transport the Franchisee's employees or provide tools or materials required for the Franchisee's employees to perform services for the Franchisee. Franchisee will protect, defend, and indemnify CFS, its Affiliates, officers, directors and employees, from any and all proceedings, claims, and causes of action instituted by Franchisee's employees, or by others, that arise from Franchisee's employment practices. Franchisee shall provide to CFS, upon its request, a written acknowledgment signed by each of Franchisee's employees, attesting to the fact that such individual is an employee of Franchisee not CFS.

### **14. TRANSFERS**

14.1 Transfers by CFS. CFS may Transfer its rights and obligations under this Agreement without the consent of, or notice to, Franchisee. This Agreement will inure to the benefit of and be binding upon the successors and assigns of CFS.

14.2 Transfers by Franchisee. Except as otherwise permitted by this Section 14 and Section 15, neither Franchisee nor any Person with a direct or indirect interest in Franchisee may, without CFS's prior written consent, directly or indirectly Transfer any Interest in this Agreement or any Interest in Franchisee. Any purported Transfer without CFS's prior written consent will have no effect, except to cause a default under this Agreement.

14.3 Transfer of Assets. Franchisee may not, without CFS's prior written consent, Transfer or offer to Transfer any assets that bear any of the CFS Marks, except: (a) to CFS or a subsidiary or franchisee of CFS, or (b) to an established salvage dealer, who destroys or disables the assets transferred under Franchisee's direct supervision. In addition, Franchisee may not, without CFS's prior written consent, offer to Transfer by public or private auction, or advertise publicly for Transfer, any of the furnishings, interior and exterior decor items, supplies, inventory, fixtures, equipment, smallwares, or other personal property used in connection with the System Restaurant.

14.4 Consent to Transfers. CFS may withhold its consent to any proposed Transfer unless, in addition to the other requirements of this Section 14 and the requirements of Section

15, the following conditions are met, to CFS's sole satisfaction, before the effective date of the proposed Transfer:

A. No Default. Franchisee is not in default under this Agreement or any other agreement with CFS nor any Affiliate of CFS, and Franchisee and its Related Persons have satisfied all monetary and other obligations to CFS and its Affiliates.

B. Release. Franchisee and the transferor have each executed a general release, in a form prescribed by CFS, of all claims against CFS, its Affiliates, and their respective officers, directors, and employees.

C. Transfer Standards. The proposed transferee has demonstrated to CFS's satisfaction that the proposed transferee is, in all respects, acceptable to CFS (including, if the proposed transferee is already a franchisee of CFS, that it is in Good Standing under its franchise agreements with CFS), in its sole and absolute discretion, and that the proposed transferee meets all of CFS's then current requirements for new franchisees (or for holders of an interest in a franchisee, as the case may be) including possession of good moral character and reputation, work experience, aptitude, financial background and condition, credit rating, absence of conflicting interests, and ability to comply fully with the terms of this Agreement.

D. New Franchise Agreement. The proposed transferee shall execute a new franchise agreement with CFS, on the terms then offered by CFS to new franchisees, and any other agreements then in use by CFS, and if the transferee is a corporation, limited liability company or partnership, all the shareholders, members or partners of the transferee shall enter into a written agreement, in a form satisfactory to CFS, jointly and severally guaranteeing the full payment and performance of the transferee's obligations to CFS and agreeing to be personally bound by all covenants and restrictions imposed upon the transferee under the terms of that franchise agreement and any other agreements between the transferee, CFS and any Affiliate of CFS.

E. ~~E.~~ Training. If not previously trained, and unless otherwise waived by CFS, the proposed transferee and its manager(s) of the System Restaurant, shall have satisfactorily completed the training CFS then required under Section 4.1.

F. ~~F.~~ Transfer Fee. The transfer fee required by Section 9.4 has been paid.

G. ~~G.~~ Acknowledgment. If Franchisee or any owner of an Interest in Franchisee is transferring all of its Interest in this Agreement or in Franchisee, the proposed transferor has signed an acknowledgment that the covenants contained in Section 12 will continue to apply to the proposed transferor after the Transfer.

14.5 Death or Incapacity. Upon the death or permanent incapacity of Franchisee or any individual with an Interest in Franchisee, the executor, administrator, or personal representative of the affected individual will Transfer all of the individual's Interest to a third party, approved by CFS, within 6 months of the death or incapacity. All Transfers pursuant to this Section 14.5, including Transfers by devise or inheritance, will be subject to the same conditions as any other Transfer (including the conditions set forth in Sections 14.4 and 14.6). Nevertheless, in the case of a Transfer by devise or inheritance, if the heirs or devisees of the deceased are unable to meet

the conditions in Section 14.4, the personal representative of the deceased will have a reasonable time (not more than 12 months after the date of death) to dispose of the decedent's Interest in this Agreement or in Franchisee, subject to all applicable terms and conditions for Transfers contained in this Agreement. In the case of permanent incapacity of an individual owner of an Interest in Franchisee or in this Agreement, the incapacitated individual may, with CFS's written consent, retain a non-controlling ownership Interest in Franchisee.

14.6 Right of First Refusal. If Franchisee or any owner of an Interest in Franchisee receives and desires to accept any bona fide offer to, directly or indirectly, Transfer all or any part of his, her, or its Interest in this Agreement or in Franchisee, and the intended Transfer is not a gift to a spouse or a direct descendant, and if the Transfer of such Interest would either: (1) result in a change in control of the Franchisee, or (2) constitute a Transfer of any Interest by a Person holding a 10% or greater Interest in Franchisee, Franchisee or the proposed transferor will submit to CFS an executed copy of the agreement for Transfer (which will be conditioned on this right of first refusal). CFS may, within 30 days after receipt of a signed copy of the agreement and all necessary supporting documentation (including financial statements), send written notice to the transferor that CFS (or a Person designated by CFS) intends to purchase the Interest which is proposed to be Transferred on the same terms and conditions (or, at CFS's election, the reasonable cash equivalent, not including the value of any tax benefits, of any non-cash consideration) offered by the third party. Any material change in the terms of an agreement before closing will constitute a new agreement, subject to the same right of first refusal by CFS (or its designee) as in the case of the initial agreement. CFS's failure to exercise its right of first refusal will not constitute a waiver of any other provision of this Agreement, including any of the requirements of this Section 14 with respect to approval of the proposed transferee.

## **15. NON-INDIVIDUAL FRANCHISEES**

If Franchisee, any owner of an Interest in Franchisee, or any successor thereof, is not an individual, then each of the following provisions will also apply:

15.1 List of Individual Owners. Upon execution of this Agreement, upon each Transfer of an Interest in Franchisee, and at any other time upon CFS's request, Franchisee will furnish CFS a list of all Persons having an Interest in Franchisee, an indication of the voting rights and percentage Interest of each of those Persons, and a list of all officers, directors and similar officials of Franchisee, in the form of Appendix C. CFS may require the same information regarding all Persons having an Interest in Franchisee.

15.2 Personal Guaranties. Upon the execution of this Agreement, upon each Transfer of an Interest in Franchisee, and at any other time upon CFS's request, all holders of an Interest in Franchisee will execute a written agreement in the form of Appendix D, personally guaranteeing, jointly and severally with all other holders of an Interest in Franchisee, the full payment and performance of Franchisee's obligations to CFS and to CFS's Affiliates and undertaking to be bound by all the terms of this Agreement, including the restrictions on Transfers and the covenants of confidentiality and against competition. None of these guaranties or agreements will be released by a Transfer of an Interest in Franchisee. Guaranties and undertakings may be released only by a written release signed by CFS.

15.3 Organizational Documents. All of Franchisee's organizational documents (including partnership agreements, articles of incorporation, articles of organization, bylaws, shareholders agreements and member agreements) will recite that the issuance and Transfer of any Interest in Franchisee is restricted by the terms of this Agreement, and that the sole purpose for which Franchisee is formed (and the sole activity in which Franchisee is or will be engaged) is the conduct of a retail food business pursuant to one or more franchise agreements with CFS. Franchisee will submit to CFS, upon the execution of this Agreement, a resolution of Franchisee (or its governing body) substantially in the form of Appendix E, appropriately modified as required for Franchisee's type of business entity.

15.4 Transfer Restrictions. Franchisee will maintain stop transfer instructions against the Transfer on its records of any securities or other ownership Interests, and will not issue securities or other evidences of ownership without the following legend printed legibly and conspicuously on the face of the security or other evidence of ownership:

The transfer of this certificate and the interests it represents are subject to the terms and conditions of one or more Franchise Agreements with Chanticlear Franchise System, LLC, and to the restrictive provisions of the organizational documents of the issuer. Please refer to those documents for the terms of the restrictions.

15.5 No Publicly Traded Ownership Interests. Franchisee and its Related Persons may not offer, solicit, engage in, or effect any transaction, whether financial or otherwise, that could foreseeably result, directly or indirectly, in "public trading" or "public ownership" (as those terms are commonly understood for purposes of federal and state securities laws) of any securities or other interests in: (a) Franchisee, (b) any parent company of Franchisee, (c) this Agreement, or (d) the System Restaurant operated by Franchisee or any assets used by Franchisee in connection with the System Restaurant.

15.6 Changes in Ownership or Organization. Franchisee and its Related Persons will not reorganize or otherwise change the ownership or organizational structure of Franchisee or its Related Persons in any manner that is inconsistent with the provisions of this Agreement.

## **16. INSURANCE AND INDEMNIFICATION**

16.1 Property Insurance. Franchisee will obtain and maintain throughout the Term, at its own expense, property insurance on an all-risk basis, from financially responsible insurance companies, insuring Franchisee's System Restaurant and its contents (whether the System Restaurant is completed or under construction) for the full replacement value of the System Restaurant. In the event of damage covered by insurance, the proceeds of the insurance will be used to restore the System Restaurant to its original condition within 120 days, unless restoration is prohibited by the appropriate lease or applicable law, or CFS has otherwise consented in writing.

16.2 Liability Insurance. Franchisee will obtain and maintain throughout the Term, at its own expense, with a financially responsible insurance company, comprehensive general liability insurance (including products liability and completed operations coverage), and

comprehensive commercial automobile liability insurance (including coverage for all owned, non-owned, leased, or hired vehicles), in amounts at least equal to \$2,000,000 combined single limit for death, personal injury, and property damage, as well as workers' compensation insurance. All liability insurance maintained by Franchisee will designate CFS and its Affiliates as additional insureds, as their interests may appear, and will insure against CFS's and its Affiliate's vicarious liability for actual and (unless prohibited by applicable law) punitive damages assessed against Franchisee.

16.3 Proof of Insurance. Franchisee will file with CFS certificates of insurance showing all coverages required by this Section 16, and will promptly pay all premiums on the policies as and when those premiums become due. In addition, all policies will contain a provision requiring 30 days prior written notice to CFS, by certified or registered mail, of any proposed cancellation or modification of the policies. If Franchisee fails to obtain or maintain the insurance required by this Section 16, CFS may, in addition to any other rights it may have, procure insurance for Franchisee without notice, and Franchisee will pay the premiums for, and CFS's cost of acquiring, that insurance immediately upon demand for those amounts.

16.4 Indemnification and Waiver. In addition to its other indemnification obligations hereunder, Franchisee will indemnify CFS, its Affiliates, and their respective employees, officers, and directors against all loss, damage, or liability (including attorneys' fees and costs) incurred by any of them arising directly or indirectly from or in connection with Franchisee's operations. The insufficiency of the insurance required to be maintained by Franchisee under the terms of this Section 16 will not be a defense to liability under this Section 16.4.

Franchisee waives all claims it may have against CFS, its Affiliates, and their respective officers, directors, and employees (including claims arising from training, establishment of procedures, and food and other products distributed but not manufactured by CFS or its Affiliates), except for claims arising from those parties' intentional misconduct or gross negligence.

## **17. REQUESTS FOR WAIVERS AND CONSENTS**

17.1 Requests. Whenever Franchisee desires CFS's waiver of any obligation in this Agreement, and whenever this Agreement requires Franchisee to obtain CFS's prior written consent, Franchisee will address its written request for the waiver or consent to CFS's President (unless CFS specifies another individual or department in writing). The request will specify the provision of this Agreement for which a waiver or consent is sought, and will set forth the basis for the request. Any waivers or consents by CFS shall only be enforceable if in writing.

17.2 Effect of Waivers and Consents. All requests for waivers and consents will be considered on a case-by-case basis, and nothing requires CFS to grant any waiver or consent. CFS may condition the grant of a waiver or consent as CFS considers appropriate, in its sole and absolute discretion.

17.3 No Implied Waivers. Except as provided in Section 17.1, no other action or inaction by CFS will constitute a waiver, or impair any right, power, or option reserved to CFS by this Agreement. No waivers can be inferred from CFS's failure to respond to a situation with respect to which Franchisee has not requested a waiver in accordance with Section 17.1.

## 18. DEFAULT AND TERMINATION

18.1 Defaults Without Cure Right. Franchisee will be in default and, in addition to all other remedies CFS has at law or in equity, including money damages, injunctive relief, and attorney's fees, CFS may, upon written notice to Franchisee, terminate this Agreement without affording Franchisee any opportunity to cure the default upon the occurrence of any of the following events or conditions:

A. ~~\_\_\_\_\_A.~~ Financial Performance. The total of Franchisee's debts are greater than the fair value of Franchisee's assets, Franchisee is generally not paying its debts as those debts become due, Franchisee admits in writing its inability to pay its debts, Franchisee makes a general assignment for the benefit of its creditors, Franchisee ceases doing business as a going concern, Franchisee files a petition commencing a voluntary case under any chapter of the Bankruptcy Code (11 U.S.C. §101, et seq.), as amended, Franchisee is dissolved or liquidated or Franchisee has filed against it a case under any chapter of the Bankruptcy Code, which case is not dismissed within ninety (90) days of filing.

B. ~~-B.~~ Improper Transfer. Franchisee makes a Transfer not authorized by this Agreement.

C. ~~-C.~~ Failure to Allow Inspection. Franchisee does not allow CFS or its employees or agents access to the System Restaurant or to any of Franchisee's records, or Franchisee otherwise impairs rights of inspection or audit under this Agreement.

D. ~~-D.~~ Criminal Conviction. Franchisee (or any of its Related Persons actively involved in the operation, supervision, or management of any System Restaurant) is convicted of a felony or other crime involving moral turpitude.

E. ~~-E.~~ Disclosure of Secrets. Franchisee or any of its Related Persons discloses, permits the disclosure of, or uses, the contents of the Manual or any other trade secrets or confidential or proprietary information provided to Franchisee by CFS, contrary to the provisions of this Agreement or otherwise to the detriment of CFS.

F. ~~-F.~~ Falsification of Records. Franchisee maintains false books or records or submits any false report to CFS.

G. ~~-G.~~ Habitual Defaults. Franchisee defaults under Section 18.2 on 3 or more occasions in any 12-month period, or on 5 or more occasions in any 36-month period, even if Franchisee would otherwise be given an opportunity under Section 18.2 to cure the particular default involved.

H. ~~-H.~~ Endangerment. Franchisee conducts the business licensed by this Agreement in such a way as to constitute an imminent danger to the public health.

I. ~~-I.~~ Material Misrepresentation. Franchisee (or any Person having an Interest in Franchisee) made a material misrepresentation about any material fact in a franchise application given to CFS.

J. ~~J.~~ Unauthorized Closure or Loss of Occupancy Right. The System Restaurant is closed for business for more than 5 consecutive days, for reasons other than a casualty loss, without CFS's prior written consent, or Franchisee permanently loses its right to occupy the Location.

18.2 Defaults Subject to Cure Rights. Franchisee will be in default and, in addition to all other remedies CFS has at law or in equity, including damages, injunctive relief, and attorney's fees, CFS may, subject to the notice and cure provisions described below, terminate this Agreement if: (a) Franchisee does not promptly pay when due any moneys owing to CFS or its Affiliates, or (b) Franchisee breaches any term, covenant, duty, or condition of this Agreement not listed in Section 18.1.

CFS will not terminate this Agreement for any default under this Section 18.2 until CFS first gives Franchisee written notice of, and an opportunity to cure, the default. Except as provided below, CFS will give Franchisee 30 days after the effective date of notice to cure any such default. If Franchisee's default involves a failure to timely pay amounts owing CFS or its Affiliates, CFS will only be required to give Franchisee 10 days to cure Franchisee's current default.

18.3 Non-Termination Rights. In addition to its other rights hereunder, if Franchisee defaults under Section 18.1, or does not timely cure a default under Section 18.2, CFS may, in its sole and absolute discretion, and in lieu of terminating this Agreement, refuse to allow Franchisee to relocate the System Restaurant. CFS will give Franchisee written notice if CFS elects this option. Any action taken by CFS in accordance with this Section will be in addition to any other right or remedy CFS may have.

18.4 Franchisee Termination Rights. Franchisee may terminate this Agreement effective ten (10) days after delivery to CFS of written notice of termination, if Franchisee is in compliance with this Agreement and CFS breaches this Agreement and fails to cure the breach within thirty (30) days after written notice of the breach is delivered to CFS by Franchisee.

18.5 Third Party Notification. In the event of a default by Franchisee hereunder, CFS shall have the right to communicate directly with Franchisee's creditors, including its lenders and landlord, regarding the default, Franchisee, the System Restaurant and its operations.

## **19. DE-IDENTIFICATION/SPICES/TELEPHONE**

19.1 Use of CFS Marks and Systems. Upon expiration, termination or assignment of this Agreement, Franchisee will immediately discontinue use of the CFS Marks and of the System Restaurant Concepts. In addition, Franchisee will immediately discontinue use of CFS's color scheme (by repainting, if necessary) and will immediately remove all identifying architectural superstructure, if any (as set forth in the plans and specifications) and other distinguishing structures, decor items, furniture, and equipment from the System Restaurant and other facilities as CFS may direct, in order to effectively distinguish the System Restaurant and other facilities from CFS's proprietary design(s) and trade dress. If Franchisee does not make all required changes within 7 days after written notice, then CFS, in addition to any other remedy it has, may enter upon the premises of the System Restaurant, and make or cause to be made all

necessary changes at the expense of Franchisee (without being liable for trespass or any other tort), which expense Franchisee will pay upon demand.

19.2 Cessation of Rights. All obligations of CFS to Franchisee under this Agreement, and all rights of Franchisee under this Agreement, will immediately terminate upon termination, expiration or assignment of this Agreement.

19.3 Effect on Other Duties. In no event will a termination, expiration or assignment of this Agreement affect the obligations of Franchisee and its Related Persons to pay their accrued monetary obligations to CFS and to comply with their various post-term obligations, including the covenants in Section 12.

19.4 Trademarked Items; Spice Blends. CFS may, by written notice within 30 days after expiration or termination of this Agreement, purchase from Franchisee all items bearing any of the CFS Marks and all spice blends and other proprietary items. If CFS exercises this option, the purchase price for the items will be the lowest of the fair market value of the items, Franchisee's purchase price for the items, or Franchisee's book value for the items.

19.5 Telephone Numbers; Domain Names. CFS may, upon written notice within 30 days after expiration or termination of this Agreement, take an assignment of all telephone numbers (and associated listings) and any domain names, user names, account names, websites, web pages, social media or social media networking sites, for the System Restaurant and centralized order-taking facilities (if any).

## **20. DISPUTE RESOLUTION**

20.1 Jurisdiction and Governing Law. This Agreement takes effect upon its acceptance and execution by CFS. This Agreement is governed by, and shall be construed in accordance with, the internal laws of the State of Minnesota (without giving effect to Minnesota choice of law rules). The parties agree, however, that if the Franchisee is not a resident of Minnesota or if the Franchisee is a corporation, partnership or limited liability company and the Franchisee is not organized or incorporated under the laws of Minnesota, and in either case, the System Restaurant is not located in Minnesota, then they hereby waive the provisions of the Minnesota Franchises Act and the regulations promulgated thereunder. If the Minnesota Franchises Act does not apply to the franchise relationship created hereby, but there is a statute in the state in which the System Restaurant is situated that specifically governs relationships between franchisees and franchisors, then that particular law shall apply in lieu of the Minnesota Franchises Act. The parties each agree that if litigation is commenced under this Agreement, such litigation shall be exclusively venued in the District Court of Minnesota, County of Hennepin, or the United States District Court, District of Minnesota, and the parties waive any objections they may have to either the jurisdiction or the venue in such court, and hereby consent to personal jurisdiction and venue in such courts. The only exception to the foregoing shall be: (1) if the courts of Minnesota would have no jurisdiction over a named party in the litigation, and such party's involvement in the litigation is integral to the underlying claims and not principally for the purpose of circumventing the intent of the parties to name Minnesota as the exclusive venue for any actions, then the action may be venued in any court having jurisdiction over all the parties and a significant nexus to the parties, and (2) to the extent that either party believes it is

necessary to seek injunctive relief against the other, the party seeking relief may initiate that action in the county in which the other party has its principal office (which in the case of an action against Franchisee, shall be the county in which Franchisee is domiciled, or any county in which the System Restaurant is located).

20.2 Remedies Cumulative. All remedies provided in this Agreement are cumulative and non-exclusive. CFS may simultaneously seek relief specifically provided for by this Agreement and relief not so provided, and may also seek two or more forms of relief otherwise inconsistent, and that could not be granted simultaneously. A request by CFS for interim damages for a particular violation will not constitute an admission that the continuation of the violation would not cause irreparable harm to CFS.

20.3 Injunctive Relief. Each party shall have the right to seek injunctive relief to: (i) enforce its right to terminate this Agreement pursuant to Section 18, and (ii) prevent or remedy a breach of this Agreement if such breach could materially impair the goodwill associated with the party's business, including, but not limited to, the enforcement of obligations upon termination, expiration or assignment of this Agreement, and the enforcement of the non-competition and confidentiality provisions of this Agreement. The parties may seek the entry of temporary restraining orders, and temporary and permanent injunctions enforcing the aforementioned provisions.

20.4 Attorneys' Fees. If CFS and Franchisee become involved in litigation, the losing party will reimburse the prevailing party's attorneys' fees and all expenses.

## **21. MISCELLANEOUS**

21.1 Relation of Parties. During the Term, and any renewals or extensions hereof, Franchisee shall hold itself out to the public as an independent contractor operating its business pursuant to a franchise from CFS. Franchisee agrees to take such affirmative action as may be necessary, including, without limitation, exhibiting multiple public notices of that fact, the content and display of which CFS shall have the right to specify. For example, such notices shall be provided on letterhead, business cards, bank account names, bank checks and signs at the place of business.

It is understood and agreed by the parties hereto that this Agreement does not establish a fiduciary relationship between them, and that nothing in this Agreement is intended to constitute either party an agent, legal representative, subsidiary, joint venture, partner, employee or servant of the other for any purpose whatsoever.

It is understood and agreed that nothing in this Agreement authorizes Franchisee, and Franchisee shall have no authority, to make any contract, agreement, warranty, or representation on behalf of CFS, or to incur any debt or other obligation in CFS's name; and that CFS shall in no event assume liability for, or be deemed liable hereunder or thereunder as a result of any such action; nor shall CFS be liable by reason of any act or omission of Franchisee in its conduct of its business or for any claim or judgment arising therefrom against Franchisee or CFS.

21.2 Counterparts. This Agreement may be executed in any number of counterparts, each of which, when executed and delivered, will be deemed an original, but all counterparts together will constitute one and the same instrument.

21.3 Third-Party Beneficiaries. The Affiliates of CFS, and the employees, officers, and directors of CFS and its Affiliates are intended third party beneficiaries of Section 16.4 of this Agreement. Nothing else in this Agreement is intended to confer any rights or remedies upon any Person or legal entity not a party to this Agreement.

21.4 Severability. The portions of this Agreement relating to the payment of fees to CFS, and the portions relating to the protection and preservation of the CFS Marks, the System Restaurant Concepts, and CFS's trade secrets are critical to this Agreement. If any portion of them is declared unenforceable for any reason, CFS will have the option to terminate this Agreement immediately, upon written notice to Franchisee. All other terms and conditions of this Agreement, and every portion of those other terms and conditions, will be considered severable. If, for any reason, any portion of this Agreement (other than the non-severable portions, as defined in the first sentence of this Section 21.4) is determined to be invalid or contrary to or in conflict with any applicable present or future law, rule, or regulation, in a final, unappealable ruling issued by any court, agency, or tribunal with valid jurisdiction in a proceeding to which CFS is a party, that ruling will not impair the operation of, or have any other effect upon, any other portion of this Agreement, each of which will remain binding upon the parties and continue to be given full force and effect. Any invalid portion will be deemed removed from this Agreement as of the date upon which the ruling becomes final (if Franchisee is a party to such proceeding) or upon Franchisee's receipt of notice of non-enforcement from CFS, and will further be deemed replaced by the closest enforceable provision.

21.5 Notices. All written notices permitted or required to be delivered by the provisions of this Agreement shall be deemed so delivered: (i) when delivered by hand, (ii) three (3) days after placed in the United States mail by registered or certified mail, return receipt requested, postage prepaid, or (iii) one (1) business day after placed in the hands of an overnight courier for next day delivery, and in the case of delivery under clauses (ii) or (iii), addressed to the party to be notified at its most current principal business address of which the notifying party has been notified.

21.6 Time of Essence. Time is of the essence of this Agreement and of each provision of this Agreement.

21.7 Rules of Construction. The following rules shall be used in construing this Agreement:

A. Auxiliary Verbs. The auxiliary verb "will" is used in a mandatory fashion. Any time this Agreement provides that a party will do something, the statement is obligatory, and is intended to apply throughout the life of this Agreement. By contrast, the auxiliary verb "may" is permissive when stated affirmatively ("a party may do something" means that the party is permitted, but not required; to take the action), and by extension, prohibitive when stated negatively (that is, the statement that "a party may not do something" is a denial of permission, and therefore means not only that the action is not required, but also that it is not permitted).

B. Includes. The word “includes” (in all its tenses and variations) is always used in the non-exclusive sense. As a result, the words “including” or “includes” can always be read as if followed by the phrase, “but [is] not limited to” or the phrase, “without limitation”.

C. Locations, Boundaries and Measurements. The site of the Location and the boundaries of the Delivery Area and the Designated Territory are based on the physical location of the references used to describe the Location or the boundaries on the date of this Agreement. If a street address is used to describe the Location, the renumbering of the addresses will not serve to move the Location. If a specified boundary of the Delivery Area or the Designated Territory is described as a street, the center line of the street is intended; if the boundary is described as a political dividing line (such as a city limit), the line utilized by the appropriate political jurisdiction is intended. The area and physical location of the Location, the Delivery Area or the Designated Territory will not be altered by a subsequent movement of the references originally used to describe the Location, the Delivery Area or the Designated Territory. Furthermore, it is only those points to the “inside” of the boundary that form a part of the Delivery Area or Designated Territory (for example, if a Delivery Area is bounded on the north by Second Street, only the area south of the center line of Second Street is within the Delivery Area).

For all calculations based upon a distance (for example, a limitation on opening a System Restaurant within 25 miles of another Chanticlear Pizza® restaurant), the measurement will be made in a straight line between the nearest points. If any portion of an object is within the prescribed distance from a point, the entire object is considered to be within that distance.

21.8 Disclosure to CFS. If Franchisee, during the Term, conceives or develops any improvements or additions to the System Restaurant Concepts, new trade names, trade or service marks or other commercial symbols related to the System Restaurant, or any advertising, promotion or marketing ideas related to the System Restaurant (“Improvements”), Franchisee shall immediately and fully disclose the Improvements to CFS without disclosure of the Improvements to others and shall obtain the written approval of CFS prior to the use of such Improvements. Any such Improvement approved by CFS may be used by CFS and all other Chanticlear Pizza® franchisees without any obligation to Franchisee for royalties or similar fees. Franchisee shall assign to CFS, and hereby does assign to CFS, without charge, all rights to such Improvements, together with the goodwill associated with the Improvements, including the right to grant sublicenses to any such Improvements. CFS, in its sole and absolute discretion, may make application for and own copyrights, trade names, trademarks and service marks relating to any such Improvements. CFS also may consider such Improvements as the trade secrets of CFS. CFS shall authorize Franchisee to utilize any Improvement authorized generally for use by other Chanticlear Pizza® franchisees.

21.9 Merger. This Agreement, including the introduction, recitals, and exhibits hereto contains the entire agreement of the parties with respect to the subject matter discussed in this Agreement.

All prior discussions or negotiations (written or oral), including those included in CFS’s Franchise Disclosure Document, are merged into this Agreement, and no representations, inducements, promises, or agreements not embodied in this Agreement will survive the

execution of this Agreement, provided, however, nothing in this Agreement is intended to disclaim any representation CFS made to Franchisee in the Franchise Disclosure Document. Franchisee acknowledges that it has entered into this Agreement after making an independent investigation of CFS's operations and no representations have been made to induce the Franchisee to accept the franchise granted hereunder and to execute this Agreement other than those contained in this Agreement and the Franchise Disclosure Document. Franchisee acknowledges having received at least fourteen (14) calendar days prior to execution of this Agreement or payment of any consideration to CFS or any affiliate of CFS.

21.10 Joint and Several. If there is more than one signatory as "Franchisee", all of Franchisee's obligations hereunder and under any other agreement with CFS or its Affiliates shall be joint and several in each and every respect and fully enforceable against each signatory.

21.11 Amendments. No modification of this Agreement shall be valid unless in writing and signed by CFS and Franchisee, except that CFS may unilaterally modify the Manuals and Franchisee's Delivery Area and any notice sent to Franchisee modifying such Delivery Area shall amend the definition of Delivery Area set forth in Appendix A hereto.

21.12 Waiver of Punitive Damages; Limitation of Liability. CFS and Franchisee hereby waive, to the fullest extent permitted by law, any right to, or claim for, any punitive or exemplary damages against the other and any Affiliates, owners, employees or agents of the other and agree that in the event of a dispute between or among any of them, each shall be limited to the recovery of any actual damages sustained by it and any equitable relief to which it might be entitled; PROVIDED, HOWEVER, IN NO EVENT SHALL CFS'S LIABILITY TO FRANCHISEE OR A THIRD PARTY, REGARDLESS OF THE CAUSE OF LIABILITY, EXCEED THE AMOUNTS RECEIVED BY CFS FROM FRANCHISEE UNDER THIS AGREEMENT.

21.13 WAIVER OF JURY TRIAL. EACH OF THE PARTIES WAIVES ITS RIGHT TO A JURY TRIAL WITH RESPECT TO THE ENFORCEMENT OR INTERPRETATION OF THIS AGREEMENT, AND ALLEGATIONS OF STATE OR FEDERAL STATUTORY VIOLATIONS, FRAUD, MISREPRESENTATION, OR OTHER CAUSES OF ACTION, IN CONNECTION WITH ANY LEGAL ACTION.

21.14 Waiver of Class Action Rights. Franchisee waives its right to bring, join or participate in, and is barred from bringing, joining or participating in, any class action suit. The parties agree that any proceeding shall be conducted on an individual, not a class-wide, basis and that any proceeding between CFS and Franchisee may not be consolidated with another proceeding between CFS and any other entity or person. Franchisee further agrees that the foregoing shall not limit the ability of Franchisee to obtain a remedy for any particular claim that it may assert against CFS.

**FRANCHISEE:**

\_\_\_\_\_  
\_\_\_\_\_

**CFS:**  
CHANTICLEAR FRANCHISE  
SYSTEM, LLC

By \_\_\_\_\_  
Its \_\_\_\_\_

STATE SPECIFIC ADDENDUM TO FRANCHISE AGREEMENT  
AS  
REQUIRED BY  
THE MINNESOTA FRANCHISE LAW

Notwithstanding anything to the contrary set forth in the Chanticlear Franchise System, LLC Franchise Agreement, the following provisions shall supersede any inconsistent provisions and apply to all Chanticlear Pizza® franchises offered and sold in the state of Minnesota:

The Minnesota Addendum is only applicable if the Franchisee is a resident of Minnesota or if the Franchisee's Franchised Center will be located in Minnesota.

1. Minn. Stat. Section 80C.21 and Minn. Rule 2860.4400J prohibit CFS from requiring litigation to be conducted outside Minnesota. In addition, nothing in this Agreement can abrogate or reduce any of Franchisee's rights as provided for in Minnesota Statutes, Chapter 80C or Franchisee's rights to any procedure, forum or remedies provided for by the laws of the jurisdiction.

2. CFS will comply with Minn. Stat. Section 80C.14, subds. 3, 4 and 5, which require, except in certain specified cases, that Franchisee be given 90 days notice of termination (with 60 days to cure) and 180 days notice for nonrenewal of this Agreement.

3. Section 3 of this Agreement is revised to include the following:

"To the extent required by the Minnesota Franchise Act, CFS will protect Franchisee's rights to use the CFS Marks, or indemnify Franchisee from any loss, costs or expenses arising out of any claim, suit or demand regarding Franchisee's use of the CFS Marks, provided Franchisee is using the CFS Marks in accordance with this Agreement."

4. CFS shall not require Franchisee to assent to a release, assignment, novation or waiver that would relieve any person from liability imposed by Minnesota Statutes, Sections 80C.01 to 80C.22, provided that the foregoing shall not bar the voluntary settlement of disputes.

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

*[Signature page to follow]*

IN WITNESS WHEREOF, the undersigned have executed this Addendum as of the date first set forth below.

**FRANCHISEE:**

\_\_\_\_\_  
\_\_\_\_\_

Date: \_\_\_\_\_

**CFS:**

CHANTICLEAR FRANCHISE SYSTEM,  
LLC

By: \_\_\_\_\_  
Its: \_\_\_\_\_

Date: \_\_\_\_\_

## **APPENDIX A**

**RIDER TO CHANTICLEAR PIZZA® FRANCHISE AGREEMENT**

This Rider is a part of the Franchise Agreement dated the \_\_\_ day of \_\_\_\_\_, 20\_\_\_, by and between Chanticlear Franchise System, LLC and \_\_\_\_\_ (“Franchisee”).

1. The non-exclusive Search Area (as defined below) within which the Franchisee shall have the right to locate its System Restaurant is:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ (the “Search Area”)

2. The address of the System Restaurant is:

\_\_\_\_\_  
\_\_\_\_\_

3. The Designated Territory (as defined below) of the System Restaurant is:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ (the “Designated Territory”)

4. The Delivery Area (as defined below) of the System Restaurant is:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ (the “Delivery Area”)

IN WITNESS WHEREOF, the parties have executed this Rider as of the latest date indicated below.

**FRANCHISEE:**

\_\_\_\_\_  
\_\_\_\_\_

Dated: \_\_\_\_\_

**CFS:**

CHANTICLEAR FRANCHISE  
SYSTEM, LLC

By: \_\_\_\_\_  
Its: \_\_\_\_\_

Dated: \_\_\_\_\_

**APPENDIX B**

Chanticlear Franchise System, LLC

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SUBJECT: LEASE AGREEMENT  
DATED: \_\_\_\_\_  
PREMISES LOCATION: \_\_\_\_\_  
LEASE COMMENCEMENT DATE: \_\_\_\_\_

TO CHANTICLEAR FRANCHISE SYSTEM, LLC

The purpose of this letter is to confirm that the Lease described above, between \_\_\_\_\_, as Lessor, and your franchisee, \_\_\_\_\_, as Lessee contains the following provision:

Upon expiration or termination of this Lease, Lessee/Tenant may de-identify the leased premises. If Lessee/Tenant fails to do so, Chanticlear Franchise System, LLC, may de-identify. De-identification consists of removal of all signs, modifications or remodeling of all identifying architectural features (by removing the cupola from the roof, replacing any trapezoidal windows with rectangular windows, and similar actions), repainting as necessary to no longer use the same color scheme used by Chanticlear Franchise System, LLC, and any other steps necessary (in the sole and absolute discretion of Chanticlear Franchise System, LLC) to effectively distinguish the formerly leased premises from Chanticlear Franchise System, LLC's proprietary building design(s). All de-identification will be done without cost to Lessor/Landlord.

Lessor agrees that Lessee/Tenant may assign its right, title and interest under this Lease to Chanticlear Franchise System, LLC without Lessor's consent.

Lessor agrees to provide written notice to Chanticlear Franchise System, LLC (at the same time it gives notice to Lessee/Tenant) of any default by Lessee/Tenant under this Lease. Chanticlear Franchise System, LLC shall have fifteen (15) days after the expiration of Lessee's/Tenant's cure period within which to cure any Lessee/Tenant default and, Chanticlear Franchise System, LLC shall, upon the curing of any such default(s) have the right to enter upon the leased premises and assume Lessee's/Tenant's rights under this Lease as if this Lease had been assigned by Lessee/Tenant to Chanticlear Franchise System, LLC.

As Lessor under the Lease Agreement, the undersigned agrees not to modify the provisions set forth above without the prior written consent of Chanticlear Franchise System, LLC.

At any time upon 10 days written notice to Lessor, Chanticlear Franchise System, LLC, may receive a copy of the Lease Agreement together with any amendments thereto.

\_\_\_\_\_  
"LESSOR"

Lessor's Contact Information:

Address: \_\_\_\_\_

Phone: \_\_\_\_\_

## APPENDIX C

**CERTIFICATE OF OWNERSHIP**

The undersigned, who is the authorized representative of Franchisee, hereby certifies to Chanticlear Franchise System, LLC, that the following information is true and the individuals who own (directly or indirectly) any interest in Franchisee and their respective ownership, interests, are as follows:

Percentage of Ownership Interest in	Franchisee
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

Dated as of the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

“Franchisee”  
\_\_\_\_\_  
By: \_\_\_\_\_

**APPENDIX D**

## **PERSONAL GUARANTY**

IN CONSIDERATION of the execution by CHANTICLEAR FRANCHISE SYSTEM, LLC (“CFS”) of the Franchise Agreement to which this Guaranty is attached (the “Franchise Agreement”) and for other good and valuable consideration, receipt of which is hereby acknowledged, the undersigned hereby jointly and severally guarantee to CFS and to CFS’s successors and assigns the payment of all fees required to be paid to CFS or its affiliates by the party named as Franchisee in the Franchise Agreement (“Franchisee”), whether such fees are provided for in the Franchise Agreement or under any other agreement between Franchisee and CFS or an affiliate of CFS, and the performance by Franchisee of all its obligations under all such agreements, and under all manuals and operating procedures of the Chanticlear business system. The undersigned further specifically agree to remain individually bound by all covenants, obligations and commitments of Franchisee contained in the Franchise Agreement to the same extent as if each of the undersigned had individually been named as Franchisee in the Franchise Agreement and had individually executed the Franchise Agreement as Franchisee.

The undersigned understand and agree that any modification of the Franchise Agreement, including any addendum or addenda thereto, or waiver by CFS of the performance by Franchisee of its obligations thereunder, or the giving by CFS of any extension of time for the performance of any of the obligations of Franchisee thereunder, or any other forbearance on the part of CFS or any failure by CFS to enforce any of its rights under the Franchise Agreement, including any addendum or addenda thereto, shall not in any way release the undersigned from liability hereunder or terminate, affect or diminish the validity of this Guaranty, except to the same extent, but only to such extent, that the liability or obligation of Franchisee is so released, terminated, or affected or diminished. Notice to the undersigned of any such modification, waiver, extension or forbearance under the terms thereof being hereby waived. The undersigned further understand and agree that no bankruptcy or reorganization of Franchisee shall release or otherwise affect the obligations of the undersigned to pay all fees provided for in all agreements between Franchisee and CFS or its affiliates, or otherwise owing to CFS or its affiliates, and to perform all the provisions of such agreements, as well as all manuals and operating procedures of the Chanticlear business system, nor does the same release the undersigned from being individually bound to perform all covenants, obligations, and commitments of Franchisee contained in the Franchise Agreement to the same extent as if each of the undersigned had individually executed the Franchise Agreement as Franchisee.

This Guaranty shall be enforceable upon ten (10) days’ written notice by CFS to any of the undersigned of any default by Franchisee of any of its covenants under the terms of the Franchise Agreement and addendum or addenda thereto.

The undersigned hereby waive any and all notice of default on the part of Franchisee; waive exhausting of recourse against Franchisee; and consent to any assignment of the Franchise Agreement, in whole or in part, that CFS or its assignees may make.

This Guaranty shall be a continuing Guaranty and may not be revoked without the prior written consent of CFS. This Guaranty shall apply to all agreements referenced in this Guaranty, to the renewal of all such agreements, and to any successor agreements thereto.

Dated: \_\_\_\_\_

Dated: \_\_\_\_\_

Dated: \_\_\_\_\_

## **APPENDIX E**



**GENERAL RELEASE**  
(To be used on renewal or transfer)

In consideration of the agreement of CHANTICLEAR FRANCHISE SYSTEM, LLC (“CFS”) to allow \_\_\_\_\_ (“Franchisee”) to [renew] or [transfer] its Franchise Agreement dated \_\_\_\_\_ between Franchisee and CFS (“Agreement”), Franchisee hereby releases and forever discharges CFS, its members, directors, officers, employees and agents, in their corporate and individual capacities, and their respective heirs, personal representatives, successors and assigns, from any and all claims Franchisee may have against such parties, from the beginning of time to the date hereof, whether in law or in equity, including, but not limited to, any claims arising out of the offer or sale of any franchise to Franchisee, and any matters arising under the Agreement.

NOTWITHSTANDING THE FOREGOING, THIS RELEASE DOES NOT RELEASE ANY CLAIMS THE UNDERSIGNED MAY HAVE THAT MAY NOT BE RELEASED PURSUANT TO THE FRANCHISE LAWS WHERE THE UNDERSIGNED IS A RESIDENT OR WHERE THE STORE IS LOCATED, TO THE EXTENT REQUIRED BY APPLICABLE LAW.

\_\_\_\_\_

DATE: \_\_\_\_\_

EXHIBIT 3

Table of Contents of Manuals

# Chanticlear Pizza Operations Manual      Table of Contents

Introduction.....	1
The Chanticlear Pizza Story.....	2
Product.....	4
Dough Production.....	5
Prep.....	18
Making Pizza.....	29
Oven Management.....	48
Making Sides.....	50
Specification Charts.....	61
Approved Products.....	72
Recipes.....	84
People.....	98
Employee Orientation.....	99
Basic Supervisor Training.....	113
Customer Service Training.....	125
Pizza Pro Training.....	139
Delivery Pro Training.....	153
Pro Checklists.....	165
Pro Tests.....	169
Place.....	173
Restaurant Design / Layout.....	174
Exterior / Signage.....	179
Restaurant Décor / Lobby.....	180
Equipment / Preventative Maintenance.....	182
Production Area.....	201
Storage Area / Restrooms.....	211
Safety and Security.....	214
Job Guides.....	224
Procedures.....	263
Administrative Checklists.....	264
Restaurant Checklists.....	275
Location Audit.....	289
Inventory.....	295

# CFS Franchise Handbook

## Table of Contents

<b>Administration &amp; Finance</b> .....	<b>page 1</b>
1. Planner	
2. Phone numbers	
3. Establishing your company	
4. Financial reporting requirements	
5. P&L statement	
<b>Site Planning &amp; Build-out</b> .....	<b>page 25</b>
1. Your location	
2. Negotiating a lease	
3. Build Out and Construction	
4. Request for estimate form	
<b>Equipment</b> .....	<b>page 38</b>
1. Equipment	
2. Smallwares	
3. Other supplies	
<b>Manager /Owner Training</b> .....	<b>page 62</b>
1. Manager Certification Program – MCP	
2. Owner / Manager Training (OTJ)	
<b>Staffing</b> .....	<b>page 75</b>
1. Staffing your Chanticlear Pizza	
2. Hiring	
3. Employee Orientation and Training	
<b>Marketing</b> .....	<b>page 91</b>
1. Marketing your Chanticlear Pizza	
2. Your marketing plan	
3. Marketing order forms	
<b>Store Set-up &amp; Opening</b> .....	<b>page 106</b>
1. Store set up	
2. Opening inventory	
3. Pre-open checklist	
4. The First 30 days	
5. Operations Manual	
<b>Appendix</b> .....	<b>page 119</b>

EXHIBIT 4

List of Outlets as of December 31, ~~2022~~2023

<b>Franchisee</b>	<b>Street Address</b>	<b>City</b>	<b>State</b>	<b>ZIP</b>	<b>Telephone Number</b>
Chanticlear Pizza of Albertville, LLC (Tavis Schuyt)	5262 Kyler Ave.	Albertville	MN	55301	(763) 497-5550
CJ Mueller, Inc. (Corey Mueller)	1573 154th Ave. N, Suite 109	Andover	MN	55304	(763) 434-6554
Bossman Inc. (Nick Swanson)	440 Bunker Lake Blvd. NW, Suite 101	Anoka	MN	55303	(763) 421-4242
Chanticlear Pizza Blaine LLC (Justine Tschida)	914 125th Lane NE	Blaine	MN	55434	(763) 754-0800
Husom Inc. (Jeff Husom)	11456 Marketplace Drive	Champlin	MN	55316	(763) 427-6300
S & O LLC (Shane Thompson)	19246 Evans Street NW	Elk River	MN	55330	(763) 274-2225
<del>SI LLC (Mohammed Linu)</del>	<del>1262 E. Moore Lake Dr.</del>	<del>Fridley</del>	<del>MN</del>	<del>55432</del>	<del>(763) 571-9595</del>
Chanti Forest Lake, LLC (Seth Mihelich)	4869 208 <sup>th</sup> Street North Suite F	Forest Lake	MN	55025	(651) 464-7078
<del>SI LLC (Mohammed Linu)</del>	<del>1262 E. Moore Lake Dr.</del>	<del>Fridley</del>	<del>MN</del>	<del>55432</del>	<del>(763) 571-9595</del>
SMM Inc. (Seth Mihelich)	18015 Ulysses Street NE, Suite 300	Ham Lake	MN	55304	(763) 434-3333
DPM Inc. (Dan Mills)	404 Whiskey Road NW	Isanti	MN	55040	(763) 444-3535
<del>Chanticlear Pizza New Hope LLC (Seth Mihelich)</del>	<del>9428A 36th Ave.</del>	<del>New Hope</del>	<del>MN</del>	<del>55427</del>	<del>(763) 593-1313</del>

<b>Company-Owned</b>	<b>Street Address</b>	<b>City</b>	<b>State</b>	<b>ZIP</b>	<b>Telephone Number</b>
Chanticlear Corporation of Oak Grove, LLC	19201 Lake George Blvd., Suite F	Oak Grove	MN	55303	763-432-9180

EXHIBIT 5

Financial Statements



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10/15/24

Accrual Basis

# Chanticlear Franchise System, LLC

## Balance Sheet

As of August 31, 2024

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	<u>Aug 31, 24</u>
<b>ASSETS</b>	
<b>Current Assets</b>	
Checking/Savings	45,970.63
Accounts Receivable	56,246.45
Other Current Assets	8,874.87
<b>Total Current Assets</b>	<u>111,091.95</u>
<b>Fixed Assets</b>	53,559.94
<b>Other Assets</b>	0.00
<b>TOTAL ASSETS</b>	<u><u><b>164,651.89</b></u></u>
<b>LIABILITIES &amp; EQUITY</b>	
Liabilities	236,826.97
Equity	-72,175.08
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<u><u><b>164,651.89</b></u></u>

11:31 AM

10/15/24

Accrual Basis

# Chanticlear Franchise System, LLC

## Profit & Loss

January through August 2024

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	<u>Jan - Aug 24</u>
Ordinary Income/Expense	
Income	324,840.94
Cost of Goods Sold	<u>1,042.41</u>
Gross Profit	323,798.53
Expense	<u>146,406.86</u>
Net Ordinary Income	177,391.67
Other Income/Expense	
Other Expense	<u>126,232.14</u>
Net Other Income	<u>-126,232.14</u>
Net Income	<u><u>51,159.53</u></u>

**Chanticlear Franchise System, LLC**

**Report on Audit**

**December 31, 2023**



## INDEPENDENT AUDITOR'S REPORT

To the Management  
Chanticlear Franchise System, LLC

### Opinion

We have audited the accompanying financial statements of **Chanticlear Franchise System, LLC** (a limited liability company), which comprise the balance sheets as of **December 31, 2023** and 2022, and the related statements of income, member's equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Chanticlear Franchise System, LLC** as of **December 31, 2023** and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of **Chanticlear Franchise System, LLC** and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about **Chanticlear Franchise System, LLC's** ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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Members of: American Institute of Certified Public Accountants, Minnesota Society of CPAs and CPA USA Association

## Auditor's Responsibilities for the Audit of the Financial Statements

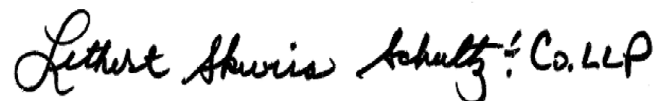
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of **Chanticlear Franchise System, LLC's** internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about **Chanticlear Franchise System, LLC's** ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

**October 10, 2024**



**LETHERT, SKWIRA, SCHULTZ & CO. LLP**

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**Chanticlear Franchise System, LLC**

<b><u>INDEX</u></b>	<b><u>PAGE NO.</u></b>
Balance Sheets.....	1
Statements of Income.....	2
Statements of Member's Equity.....	3
Statements of Cash Flows.....	4
Notes to Financial Statements.....	5 - 11

**Chanticlear Franchise System, LLC**  
 Balance Sheets  
 December 31, 2023 and 2022

<b><u>ASSETS</u></b>	<b>2023</b>	<b>2022</b>
<b><u>Current Assets</u></b>		
Cash - operating	\$ 12,817	\$ 26,087
Cash - ad fund	77,385	44,814
<b>Total Cash</b>	<b>90,202</b>	<b>70,901</b>
Accounts receivable	43,824	49,516
Inventory	7,567	11,521
<b>Total Current Assets</b>	<b>141,593</b>	<b>131,938</b>
<b><u>Property and Equipment</u></b>		
Leasehold improvements	49,867	49,867
Office equipment	7,234	7,234
Company vehicles	19,480	19,480
<b>Total</b>	<b>76,581</b>	<b>76,581</b>
Less: Accumulated depreciation	40,788	36,005
<b>Net Property and Equipment</b>	<b>35,793</b>	<b>40,576</b>
<b><u>Other Assets</u></b>		
Deposits	300	300
<b>TOTAL ASSETS</b>	<b>\$ 177,686</b>	<b>\$ 172,814</b>
<b><u>LIABILITIES AND MEMBER'S EQUITY</u></b>		
<b><u>Current Liabilities</u></b>		
Current maturities of long-term debt	\$ 1,206	\$ 5,188
Accounts payable	18,364	27,495
Contract liability - ad fund	92,511	69,023
Accrued payroll and withholdings	9,301	10,439
Due to related parties (Note 5)	12,692	12,692
Gift certificates liability	39,715	33,836
<b>Total Current Liabilities</b>	<b>173,789</b>	<b>158,673</b>
<b><u>Long-Term Debt (Note 3)</u></b>	<b>-</b>	<b>1,201</b>
<b><u>Member's Equity</u></b>	<b>3,897</b>	<b>12,940</b>
<b>TOTAL LIABILITIES AND MEMBER'S EQUITY</b>	<b>\$ 177,686</b>	<b>\$ 172,814</b>

The accompanying notes are an integral part of this financial statement.

**Chanticlear Franchise System, LLC**  
 Statements of Income  
 Years ended **December 31, 2023** and 2022

<u>Revenue</u>	<u>2023</u>	<u>2022</u>
Royalties	\$ 195,409	\$ 211,745
Franchise fees (Note 4)	-	2,500
Ad revenue	149,635	151,767
Merchandise sales	-	3,334
Rebates	90,531	119,305
Miscellaneous	21,333	20,338
<b>Total Revenue</b>	<b>456,908</b>	<b>508,989</b>
<b>Operating Expenses</b>	<b>417,739</b>	<b>444,651</b>
<b>Net Operating Income</b>	<b>39,169</b>	<b>64,338</b>
<u>Other Income</u>		
Interest	2	5
Rental income	21,600	21,600
<b>Total Other Income</b>	<b>21,602</b>	<b>21,605</b>
<b>Net Income</b>	<b>\$ 60,771</b>	<b>\$ 85,943</b>

The accompanying notes are an integral part of this financial statement.

**Chanticlear Franchise System, LLC**  
 Statements of Member's Equity  
 Years Ended **December 31, 2023** and 2022

	<u>2023</u>	<u>2022</u>
Member's Equity, Beginning of Year	\$ 12,940	\$ 56,675
Net income	60,771	85,943
Distributions	<u>(69,814)</u>	<u>(129,678)</u>
Member's Equity, End of Year	<u>\$ 3,897</u>	<u>\$ 12,940</u>

The accompanying notes are an integral part of this financial statement.

**Chanticlear Franchise System, LLC**  
 Statements of Cash Flows  
 Years Ended  
 Years Ended **December 31, 2023** and 2022

<b><u>Cash Flows From Operating Activities</u></b>	<b><u>2023</u></b>	<b><u>2022</u></b>
Net income	\$ <b>60,771</b>	\$ 85,943
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation	<b>4,783</b>	5,701
<b>Increase (decrease) in cash flows from:</b>		
Accounts receivable	<b>5,692</b>	(18,606)
Inventory	<b>3,954</b>	(1,828)
Deposits	-	(300)
Accounts payable	<b>(9,131)</b>	27,144
Contract liability - ad fund	<b>23,488</b>	31,377
Accrued payroll and withholdings	<b>(1,138)</b>	3,838
Other current liabilities	<b>5,879</b>	21,677
<b>Net Cash Provided by Operating Activities</b>	<b>94,298</b>	154,946
<b><u>Cash Flows Used by Investing Activities</u></b>		
Purchase of property and equipment	-	(6,914)
<b><u>Cash Flows From Financing Activities</u></b>		
Payments of long-term debt	<b>(5,183)</b>	(7,820)
Member's distributions	<b>(69,814)</b>	(129,678)
<b>Net Cash Used by Financing Activities</b>	<b>(74,997)</b>	(137,498)
<b>Net Increase in Cash</b>	<b>19,301</b>	10,534
<b>Cash, Beginning of Year</b>	<b>70,901</b>	60,367
<b>Cash, End of Year</b>	<b>\$ 90,202</b>	\$ 70,901

**Supplemental Disclosures of Cash Flows Information**

During the years ended **December 31, 2023** and 2022, the Company made interest payments of **\$754** and \$2,023, respectively.

The accompanying notes are an integral part of this financial statement.

**Chanticlear Franchise System, LLC**  
Notes to Financial Statements  
**December 31, 2023 and 2022**

**NOTE 1    NATURE OF BUSINESS**

**Chanticlear Franchise Systems, LLC** (the "Company") offers franchises under the trademark "Chanticlear Pizza" for the operation of pizza restaurants. Under the Company's franchise agreement, a franchisee receives the right to use the Company's system of operation and certain of its trademarks for a period of ten years in return for an initial franchise fee and defined monthly royalty payments. The Company operates out of one location in Ham Lake, Minnesota and the Company's franchisees are located in the Twin Cities metropolitan area in Minnesota.

**NOTE 2    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND USE OF ACCOUNTING ESTIMATES**

**Accounting Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

The Company maintains its cash in a bank deposit which, at times, does not exceed FDIC insured limits. The Company has not experienced any losses on these accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

**Accounts Receivable**

Accounts receivable consist of amounts due from franchisees for monthly royalties, franchise transfer fees, incentive fees, and materials sold to franchisees by the Company. Royalties are due monthly for sales generated in the previous month. Accounts that are outstanding longer than the contractual payment terms are considered past due. Management charges interest on past due royalty fees at a rate of 1.5% per month.

The Company considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If management determines amounts to be uncollectible based on the best estimates of management, they will be charged to operations when that determination is made. For years ended **December 31, 2023** and 2022, bad debt expense was **\$0** and **\$0**.

**Chanticlear Franchise System, LLC**  
Notes to Financial Statements  
**December 31, 2023 and 2022**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
AND USE OF ACCOUNTING ESTIMATES (CONTINUED)**

**Leases**

In 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02 Leases (Topic 842). The Company is a lessee in one operating lease for their headquarters. The Company determines if an arrangement is a lease, or contains a lease, at inception of a contract and when the terms of an existing contract are changed. The Company recognizes a lease liability and a right of use (ROU) asset at the commencement date of the lease. The lease liability is initially and subsequently recognized based on the present value of its future lease payments. The office space lease calls for the Company to pay its proportionate share of operating expenses of which management accounts for as a separate non-lease component. The discount rate is the implicit rate if it is readily determinable or otherwise the Company uses its incremental borrowing rate. The ROU asset is subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized. Lease cost for lease payments is recognized on a straight-line basis over the lease term. The Company's only lease is a month-to-month lease, and therefore no ROU asset or related liability has been recognized. See Note 8 for additional details on the lease.

**Inventories**

Inventory is stated at the lower of cost or net realizable value, with cost being determined by the first-in, first-out method.

**Property and Equipment**

Property and equipment are stated at cost. Depreciation is provided on the straight-line method over the following estimated useful lives:

Office equipment	5-7 Years
Company vehicles	7 Years

Leasehold improvements are amortized over the shorter of the useful life or lease term.

Depreciation expense for the years ended **December 31, 2023** and 2022 was **\$4,783** and \$5,701, respectively.

Maintenance and repairs of property and equipment are charged to operations, and major repairs are capitalized. Upon retirement, sale, or other disposition of property and equipment, the costs and accumulated depreciation are eliminated from the accounts, and any resulting gain or loss is included in operations.

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the excess of the asset's carrying amount over the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

**Chanticlear Franchise System, LLC**  
Notes to Financial Statements  
**December 31, 2023 and 2022**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
AND USE OF ACCOUNTING ESTIMATES (CONTINUED)**

**Revenue Recognition**

The Company generates substantially all revenue from three main sources: initial franchise fees when a new restaurant opens; monthly royalty fees from existing restaurants; and, monthly ad fund fees paid to the Company to promote the restaurants. The initial franchise fees are collected upon the signing of the agreement, but are recognized evenly over the term of the initial franchise agreement as it is payment for the initial use of the license and continual training provided by the Company. The monthly royalty fees are payment for continued use of the license and are based on a percentage of the monthly sales of the franchisee. These are recognized at a point in time as those sales from individual restaurants are incurred. The ad fund fees are payments to the Company to advertise and promote sales to the restaurants. These predominantly contain a single delivery element of incurring the advertising expense and the revenue is deferred as a contract liability until the point in time when the funds are expended and this performance obligation is met.

Various economic factors affect revenues and cash flows. Franchise fees are collected up front, but only occur when new restaurants open or when the franchise agreement is renewed; therefore, they are not a consistent revenue source. Royalty and ad fund fees are collected on monthly basis and are calculated based on the monthly sales of the individual restaurants. Because pizza restaurants are common, the market is highly competitive and franchisee sales, and therefore royalty fees and ad fund fees, are subject to much fluctuation.

The following table shows the disaggregation of revenue based on timing:

	<u>2023</u>	<u>2022</u>
<b><i>Products and services transferred over time:</i></b>		
Franchise fees	\$ -	\$ 2,500
<b><i>Products transferred at a point in time:</i></b>		
Royalties	<b>195,409</b>	211,745
Ad revenue	<b>149,635</b>	151,767
Merchandise sales	-	3,334
Rebates	<b>90,531</b>	119,305
Miscellaneous	<b>21,333</b>	20,338
<b><i>Total products transferred at a point in time</i></b>	<b>456,908</b>	506,489
<b>Total Revenue</b>	<b><u>\$ 456,908</u></b>	<b><u>\$ 508,989</u></b>

**Chanticlear Franchise System, LLC**  
Notes to Financial Statements  
**December 31, 2023 and 2022**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
AND USE OF ACCOUNTING ESTIMATES (CONTINUED)**

**Revenue Recognition (Continued)**

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables (contract assets), as well customer advances (contract liabilities), and unredeemed gift certificates (contract liabilities) on the Company's balance sheets. Contract liabilities related to unredeemed gift certificates are described in Note 7.

Amounts related to franchise fees are billed and due upon signature of the agreement. Ad fund fees and monthly royalty fees are billed monthly based on the prior month restaurant sales. For ad fund fees and franchise fees, billing occurs in advance to revenue recognition, resulting in contract liabilities. These deposits are liquidated when revenue is recognized.

The ending contract balances were as follows:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Receivables	\$ <u>43,824</u>	\$ <u>49,516</u>	\$ <u>30,910</u>
Contract Assets	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Contract Liabilities	\$ <u>92,511</u>	\$ <u>69,023</u>	\$ <u>37,646</u>

As the performance obligations relate to contracts with a duration of one year or less, the Company elected the optional exemption in ASC 606-10-5014(a). Therefore, the Company is not required to disclose the transaction price for the remaining performance obligations at the end of the reporting periods or when the Company expects to recognize the revenue.

As the period of time between completion of the performance obligations and time of payment is typically one year or less, the Company elected the practical expedient under ASC 606-10-32-18 and did not adjust for the effects of a significant financing component.

**Advertising**

Advertising costs are expensed as incurred. Advertising expense totaled **\$137,921** and \$124,648 for the years ended **December 31, 2023** and 2022, respectively.

**Income Taxes**

The Company is not a taxpaying entity for federal income tax purposes, and thus no income tax expense has been recorded in the statements. Members are taxed individually on their shares of the Company's earnings. The Company's net income or loss is allocated among the members in accordance with the regulations of the Company.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in operating expenses. The amount of interest and penalties currently recognized in the Liability for Unrecognized Tax Benefits totaled **\$0** for both years ended **December 31, 2023** and 2022.

**Chanticlear Franchise System, LLC**  
Notes to Financial Statements  
**December 31, 2023 and 2022**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND USE OF ACCOUNTING ESTIMATES (CONTINUED)**

**Income Taxes (Continued)**

The Company has identified no exposures concerning the liability for Unrecognized Tax Benefits. The current tax years open are 2020 through 2023. During the upcoming 12 months, the Company expects no material changes to occur related to Accounting for Uncertainty in Income Taxes.

**Financial Instruments**

The carrying value of the Company's short-term financial instruments, including receivables and payables arising in the ordinary course of business, approximates fair value due to the short maturity of these instruments. The carrying value of these instruments approximates fair value based on discounting the projected cash flows using market rates available for similar maturities. None of the financial instruments are held for trading purposes.

**NOTE 3 LONG-TERM DEBT**

Long-term debt consists of the following:

	<u>2023</u>	<u>2022</u>
Note payable to bank bearing interest at 4.95% with monthly installments of \$449, matures October, 2024. Secured by vehicle.	\$ 1,206	\$ 6,389
Less: Current maturities	<u>1,206</u>	<u>5,188</u>
<b>Total Long-Term Debt</b>	<b><u>\$ -</u></b>	<b><u>\$ 1,201</u></b>

The aggregate annual maturities of long-term debt at **December 31, 2023**, are as follows:

<u>Year Ended December 31,</u>	<u>Amount</u>
2024	\$ 1,206

**NOTE 4 FRANCHISING**

The Company generates revenues from franchising through individual franchise sales. In general, the Company's franchise agreements provide for the payment of a franchise fee for each opened restaurant in the amount of \$15,000. The franchise agreements also generally require the franchisees to pay the Company a royalty of 3.5% of sales and advertising contributions of 1.0% of sales.

**NOTE 5 RELATED PARTY TRANSACTIONS**

The Company is related to various other entities through common control and ownership.

**Chanticlear Franchise System, LLC**  
Notes to Financial Statements  
**December 31, 2023 and 2022**

**NOTE 5 RELATED PARTY TRANSACTIONS (CONTINUED)**

The Company has advances from a sister company in the amount of **\$12,692** and \$12,692 at **December 31, 2023** and 2022, respectively. These advances bear no interest and have no terms of repayment.

**NOTE 6 EMPLOYEE BENEFIT PLAN**

The Company provides a defined contribution profit sharing plan for all employees meeting certain eligibility requirements. The amount of the annual contribution is at the discretion of the Company/Board of Directors and is allocated to participants based on eligible compensation.

Contributions to the plan for the years ended **December 31, 2023** and 2022 were **\$4,502** and \$4,258, respectively.

**NOTE 7 UNREDEEMED GIFT CERTIFICATES**

A customer's purchase of gift certificates provides for a nonrefundable prepayment to the Company, which gives the customer a right to receive goods in the future and obligates the Company to stand ready to transfer those goods under the terms of the contract. Under 606 these are also considered contract liabilities. In some cases, customers may not exercise all of their contractual rights under the contract. Those customers' unexercised rights ("breakage") are accounted as revenue when the likelihood of the customer exercising its remaining rights becomes remote, generally when terms of the gift certificate expire.

Contract liabilities are classified as current based on the expectation that the associated revenue will be recognized in one year or less. The following table provides information about significant changes in the contract liabilities for the year ended December 31:

	<u>2023</u>	<u>2022</u>
Unredeemed gift certificate liability, BOY	\$ <b>33,836</b>	\$ 12,159
Net increase (decrease) in unredeemed gift certificate liability	<u><b>5,879</b></u>	<u>21,677</u>
Unredeemed gift certificate liability, EOY	<u><b>\$ 39,715</b></u>	<u>\$ 33,836</u>

**NOTE 8 OPERATING LEASES**

The Company is obligated under an operating lease for office space. This lease is considered month-to-month and is with their sister company, Heille Properties, LLC. They receive sublease income of \$1,800 from Pine Insurance, Inc., a sister company, for use of a portion of the office space. The lease calls for monthly payment of \$3,687, plus CAM. Lease expense charged to operations under this lease for the years ended **December 31, 2023** and 2022 was **\$58,989** and \$57,668, respectively.

**Chanticlear Franchise System, LLC**  
Notes to Financial Statements  
**December 31, 2023** and 2022

**NOTE 9** **SUBSEQUENT EVENTS**

The Company has evaluated subsequent events through **October 10, 2024**, the date the financial statements were available to be issued.

**Chanticlear Franchise System, LLC**

**Report on Audit**

**December 31, 2022**



**LETHERT, SKWIRA, SCHULTZ & Co. LLP**  
*CERTIFIED PUBLIC ACCOUNTANTS ♦ BUSINESS CONSULTANTS*

*Helping Business Conduct Business Since 1918*

## **INDEPENDENT AUDITOR'S REPORT**

**To the Management**  
**Chanticlear Franchise System, LLC**

### **Opinion**

We have audited the accompanying financial statements of **Chanticlear Franchise System, LLC** (a limited liability company), which comprise the balance sheets as of **December 31, 2022** and 2021, and the related statements of income, member's equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Chanticlear Franchise System, LLC** as of **December 31, 2022** and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of **Chanticlear Franchise System, LLC** and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about **Chanticlear Franchise System, LLC's** ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## Auditor's Responsibilities for the Audit of the Financial Statements

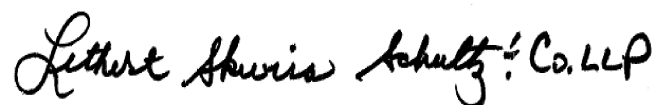
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of **Chanticlear Franchise System, LLC's** internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about **Chanticlear Franchise System, LLC's** ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

**August 10, 2023**



**LETHERT, SKWIRA, SCHULTZ & CO. LLP**

170 EAST SEVENTH PLACE ♦ SUITE 100 ♦ ST. PAUL, MINNESOTA 55101 ♦ phone (651) 224.5721 ♦ fax (651) 227.7767

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**Chanticlear Franchise System, LLC**

<b><u>INDEX</u></b>	<b><u>PAGE NO.</u></b>
Balance Sheets.....	1
Statements of Income.....	2
Statements of Member's Equity.....	3
Statements of Cash Flows.....	4
Notes to Financial Statements.....	5 - 10

**Chanticlear Franchise System, LLC**  
Balance Sheets  
December 31, 2022 and 2021

<b><u>ASSETS</u></b>	<b><u>2022</u></b>	<b><u>2021</u></b>
<b><u>Current Assets</u></b>		
Cash - operating	\$ 26,087	\$ 22,836
Cash - ad fund	<u>44,814</u>	<u>37,531</u>
<b>Total Cash</b>	<b>70,901</b>	<b>60,367</b>
Accounts receivable	49,516	30,910
Inventory	<u>11,521</u>	<u>9,693</u>
<b>Total Current Assets</b>	<b>131,938</b>	<b>100,970</b>
 <b><u>Property and Equipment</u></b>		
Leasehold improvements	49,867	42,953
Office equipment	7,234	7,234
Company vehicles	<u>19,480</u>	<u>19,480</u>
<b>Total</b>	<b>76,581</b>	<b>69,667</b>
Less: Accumulated depreciation	<u>36,005</u>	<u>30,304</u>
<b>Net Property and Equipment</b>	<b>40,576</b>	<b>39,363</b>
 <b><u>Other Assets</u></b>		
Deposits	<u>300</u>	<u>-</u>
 <b>TOTAL ASSETS</b>	<b>\$ <u>172,814</u></b>	<b>\$ <u>140,333</u></b>
 <b><u>LIABILITIES AND MEMBER'S EQUITY</u></b>		
<b><u>Current Liabilities</u></b>		
Current maturities of long-term debt	\$ 5,188	\$ 4,800
Accounts payable	27,495	351
Contract liability - ad fund	69,023	37,646
Accrued payroll and withholdings	10,439	6,601
Due to related parties (Note 5)	12,692	12,692
Gift certificates liability	<u>33,836</u>	<u>12,159</u>
<b>Total Current Liabilities</b>	<b>158,673</b>	<b>74,249</b>
 <b><u>Long-Term Debt (Note 3)</u></b>	<b>1,201</b>	<b>9,409</b>
 <b><u>Member's Equity</u></b>	<u>12,940</u>	<u>56,675</u>
 <b>TOTAL LIABILITIES AND MEMBER'S EQUITY</b>	<b>\$ <u>172,814</u></b>	<b>\$ <u>140,333</u></b>

The accompanying notes are an integral part of this financial statement.

**Chanticlear Franchise System, LLC**  
 Statements of Income  
 Years ended **December 31, 2022** and 2021

<u>Revenue</u>	<u>2022</u>	<u>2021</u>
Royalties	\$ 211,745	\$ 221,781
Franchise fees (Note 4)	2,500	-
Ad revenue	151,767	199,780
Merchandise sales	3,334	6,089
Sponsorship revenue	-	3,500
Rebates	119,305	94,831
Miscellaneous	20,338	21,194
<b>Total Revenue</b>	<b>508,989</b>	<b>547,175</b>
<b>Operating Expenses</b>	<b>444,651</b>	<b>519,313</b>
<b>Net Operating Income</b>	<b>64,338</b>	<b>27,862</b>
<u>Other Income</u>		
Interest	5	17
Rental income	21,600	21,600
<b>Total Other Income</b>	<b>21,605</b>	<b>21,617</b>
<b>Net Income</b>	<b>\$ 85,943</b>	<b>\$ 49,479</b>

The accompanying notes are an integral part of this financial statement.

**Chanticlear Franchise System, LLC**  
Statements of Member's Equity  
Years Ended **December 31, 2022** and 2021

	<u>2022</u>	<u>2021</u>
Member's Equity, Beginning of Year	\$ 56,675	\$ 81,245
Net income	85,943	49,479
Distributions	<u>(129,678)</u>	<u>(74,049)</u>
Member's Equity, End of Year	<u>\$ 12,940</u>	<u>\$ 56,675</u>

The accompanying notes are an integral part of this financial statement.

**Chanticlear Franchise System, LLC**  
 Statements of Cash Flows  
 Years Ended  
 Years Ended **December 31, 2022** and 2021

<b><u>Cash Flows From Operating Activities</u></b>	<b>2022</b>	<b>2021</b>
Net income	\$ <b>85,943</b>	\$ 49,479
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation	<b>5,701</b>	7,283
<b>Increase (decrease) in cash flows from:</b>		
Accounts receivable	<b>(18,606)</b>	2,956
Inventory	<b>(1,828)</b>	(799)
Deposits	<b>(300)</b>	-
Accounts payable	<b>27,144</b>	196
Contract liability - ad fund	<b>31,377</b>	(8,925)
Accrued payroll and withholdings	<b>3,838</b>	230
Other current liabilities	<b>21,677</b>	12,159
<b>Net Cash Provided by Operating Activities</b>	<b>154,946</b>	62,579
<b><u>Cash Flows Used by Investing Activities</u></b>		
Purchase of property and equipment	<b>(6,914)</b>	-
<b><u>Cash Flows From Financing Activities</u></b>		
Payments of long-term debt	<b>(7,820)</b>	(32,678)
Member's distributions	<b>(129,678)</b>	(74,049)
<b>Net Cash Used by Financing Activities</b>	<b>(137,498)</b>	(106,727)
<b>Net Increase (Decrease) in Cash</b>	<b>10,534</b>	(44,148)
<b>Cash, Beginning of Year</b>	<b>60,367</b>	104,515
<b>Cash, End of Year</b>	<b>\$ 70,901</b>	\$ 60,367

**Supplemental Disclosures of Cash Flows Information**

During the years ended **December 31, 2022** and 2021, the Company made interest payments of **\$2,023** and \$1,480, respectively.

The accompanying notes are an integral part of this financial statement.

## **NOTE 1    NATURE OF BUSINESS**

**Chanticlear Franchise Systems, LLC** (the "Company") offers franchises under the trademark "Chanticlear Pizza" for the operation of pizza restaurants. Under the Company's franchise agreement, a franchisee receives the right to use the Company's system of operation and certain of its trademarks for a period of ten years in return for an initial franchise fee and defined monthly royalty payments. The Company operates out of one location in Ham Lake, Minnesota and the Company's franchisees are located in the Twin Cities metropolitan area in Minnesota.

## **NOTE 2    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND USE OF ACCOUNTING ESTIMATES**

### **Accounting Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

The Company maintains its cash in a bank deposit which, at times, does not exceed FDIC insured limits. The Company has not experienced any losses on these accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

### **Accounts Receivable**

Accounts receivable consist of amounts due from franchisees for monthly royalties, franchise transfer fees, incentive fees, and materials sold to franchisees by the Company. Royalties are due monthly for sales generated in the previous month. Accounts that are outstanding longer than the contractual payment terms are considered past due. Management charges interest on past due royalty fees at a rate of 1.5% per month.

The Company considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If management determines amounts to be uncollectible based on the best estimates of management, they will be charged to operations when that determination is made. For the years ended **December 31, 2022** and 2021, bad debt expense was **\$0** and \$1,500, respectively.

## **NOTE 2    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND USE OF ACCOUNTING ESTIMATES (CONTINUED)**

### **Leases**

In 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02 Leases (Topic 842). The Company adopted this standard as of January 1, 2022 using the effective date approach resulting in no change to income or retained earnings. The Company is a lessee in one operating lease for their headquarters. The Company determines if an arrangement is a lease, or contains a lease, at inception of a contract and when the terms of an existing contract are changed. The Company recognizes a lease liability and a right of use (ROU) asset at the commencement date of the lease. The lease liability is initially and subsequently recognized based on the present value of its future lease payments. The office space lease calls for the Company to pay its proportionate share of operating expenses of which management accounts for as a separate non-lease component. The discount rate is the implicit rate if it is readily determinable or otherwise the Company uses its incremental borrowing rate. The ROU asset is subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized. Lease cost for lease payments is recognized on a straight-line basis over the lease term. The Company's only lease is a month-to-month lease, and therefore no ROU asset or related liability has been recognized. See Note 8 for additional details on the lease.

### **Inventories**

Inventory is stated at the lower of cost or net realizable value, with cost being determined by the first-in, first-out method.

### **Property and Equipment**

Property and equipment are stated at cost. Depreciation is provided on the straight-line method over the following estimated useful lives:

Office equipment	5-7 Years
Company vehicles	7 Years

Leasehold improvements are amortized over the shorter of the useful life or lease term.

Depreciation expense for the years ended **December 31, 2022** and 2021 was **\$5,701** and \$7,283, respectively.

Maintenance and repairs of property and equipment are charged to operations, and major repairs are capitalized. Upon retirement, sale, or other disposition of property and equipment, the costs and accumulated depreciation are eliminated from the accounts, and any resulting gain or loss is included in operations.

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the excess of the asset's carrying amount over the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND  
USE OF ACCOUNTING ESTIMATES (CONTINUED)**

**Revenue Recognition**

The Company generates substantially all revenue from three main sources: initial franchise fees when a new restaurant opens; monthly royalty fees from existing restaurants; and, monthly ad fund fees paid to the Company to promote the restaurants. The initial franchise fees are collected upon the signing of the agreement, but are recognized evenly over the term of the initial franchise agreement as it is payment for the initial use of the license and continual training provided by the Company. The monthly royalty fees are payment for continued use of the license and are based on a percentage of the monthly sales of the franchisee. These are recognized at a point in time as those sales from individual restaurants are incurred. The ad fund fees are payments to the Company to advertise and promote sales to the restaurants. These predominantly contain a single delivery element of incurring the advertising expense and the revenue is deferred as a contract liability until the point in time when the funds are expended and this performance obligation is met.

Various economic factors affect revenues and cash flows. Franchise fees are collected up front, but only occur when new restaurants open or when the franchise agreement is renewed; therefore, they are not a consistent revenue source. Royalty and ad fund fees are collected on monthly basis and are calculated based on the monthly sales of the individual restaurants. Because pizza restaurants are common, the market is highly competitive and franchisee sales, and therefore royalty fees and ad fund fees, are subject to much fluctuation.

The following table shows the disaggregation of revenue based on timing:

	<u>2022</u>	<u>2021</u>
<b><i>Products and services transferred over time:</i></b>		
Franchise fees	\$ 2,500	\$ -
<b><i>Products transferred at a point in time:</i></b>		
Royalties	211,745	221,781
Ad revenue	151,767	199,780
Merchandise sales	3,334	6,089
Rebates	119,305	94,831
Miscellaneous	20,338	24,694
<b><i>Total products transferred at a point in time</i></b>	<b><u>506,489</u></b>	<b><u>547,175</u></b>
<b>Total Revenue</b>	<b><u>\$ 508,989</u></b>	<b><u>\$ 547,175</u></b>

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables (contract assets), as well customer advances (contract liabilities), and unredeemed gift certificates (contract liabilities) on the Company's balance sheets. Contract liabilities related to unredeemed gift certificates are described in Note 7.

Amounts related to franchise fees are billed and due upon signature of the agreement. Ad fund fees and monthly royalty fees are billed monthly based on the prior month restaurant sales. For ad fund fees and franchise fees, billing occurs in advance to revenue recognition, resulting in contract liabilities. These deposits are liquidated when revenue is recognized.

The ending contract balances were as follows:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Receivables	\$ <u>49,516</u>	\$ <u>30,910</u>	\$ <u>33,866</u>
Contract Assets	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Contract Liabilities	\$ <u>69,023</u>	\$ <u>37,646</u>	\$ <u>46,571</u>

## **NOTE 2    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND USE OF ACCOUNTING ESTIMATES (CONTINUED)**

### **Revenue Recognition (Continued)**

As the performance obligations relate to contracts with a duration of one year or less, the Company elected the optional exemption in ASC 606-10-5014(a). Therefore, the Company is not required to disclose the transaction price for the remaining performance obligations at the end of the reporting periods or when the Company expects to recognize the revenue.

As the period of time between completion of the performance obligations and time of payment is typically one year or less, the Company elected the practical expedient under ASC 606-10-32-18 and did not adjust for the effects of a significant financing component.

### **Advertising**

Advertising costs are expensed as incurred. Advertising expense totaled **\$124,648** and \$205,690 for the years ended **December 31, 2022** and 2021, respectively.

### **Income Taxes**

The Company is not a taxpaying entity for federal income tax purposes, and thus no income tax expense has been recorded in the statements. Members are taxed individually on their shares of the Company's earnings. The Company's net income or loss is allocated among the members in accordance with the regulations of the Company.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in operating expenses. The amount of interest and penalties currently recognized in the Liability for Unrecognized Tax Benefits totaled **\$0** for both years ended **December 31, 2022** and 2021.

The Company has identified no exposures concerning the liability for Unrecognized Tax Benefits. The current tax years open are 2019 through 2022. During the upcoming 12 months, the Company expects no material changes to occur related to Accounting for Uncertainty in Income Taxes.

### **Financial Instruments**

The carrying value of the Company's short-term financial instruments, including receivables and payables arising in the ordinary course of business, approximates fair value due to the short maturity of these instruments. The carrying value of these instruments approximates fair value based on discounting the projected cash flows using market rates available for similar maturities. None of the financial instruments are held for trading purposes.

## **NOTE 3    LONG-TERM DEBT**

Long-term debt consists of the following:

	<u>2022</u>	<u>2021</u>
Note payable to bank bearing interest at 4.95% with monthly installments of \$449, matures October, 2024. Secured by vehicle.	\$ <b>6,389</b>	\$ 14,209
Less: Current maturities	<u>5,188</u>	<u>4,800</u>
<b>Total Long-Term Debt</b>	<b>\$ <u>1,201</u></b>	<b>\$ <u>9,409</u></b>

### NOTE 3 LONG-TERM DEBT (CONTINUED)

The aggregate annual maturities of long-term debt at **December 31, 2022**, are as follows:

<u>Year Ended December 31,</u>	<u>Amount</u>
2023	\$ 5,188
2024	1,201
	<u>\$ 6,389</u>

### NOTE 4 FRANCHISING

The Company generates revenues from franchising through individual franchise sales. In general, the Company's franchise agreements provide for the payment of a franchise fee for each opened restaurant in the amount of \$15,000. The franchise agreements also generally require the franchisees to pay the Company a royalty of 3.5% of sales and advertising contributions of 1.0% of sales.

### NOTE 5 RELATED PARTY TRANSACTIONS

The Company is related to various other entities through common control and ownership.

The Company has advances from a sister company in the amount of **\$12,692** and \$12,692 at **December 31, 2022** and 2021, respectively. These advances bear no interest and have no terms of repayment.

### NOTE 6 EMPLOYEE BENEFIT PLAN

The Company provides a defined contribution profit sharing plan for all employees meeting certain eligibility requirements. The amount of the annual contribution is at the discretion of the Company/Board of Directors and is allocated to participants based on eligible compensation.

Contributions to the plan for the years ended **December 31, 2022** and 2021 were **\$4,258** and \$4,148, respectively.

### NOTE 7 UNREDEEMED GIFT CERTIFICATES

A customer's purchase of gift certificates provides for a nonrefundable prepayment to the Company, which gives the customer a right to receive goods in the future and obligates the Company to stand ready to transfer those goods under the terms of the contract. Under 606 these are also considered contract liabilities. In some cases, customers may not exercise all of their contractual rights under the contract. Those customers' unexercised rights ("breakage") are accounted as revenue when the likelihood of the customer exercising its remaining rights becomes remote, generally when terms of the gift certificate expire.

Contract liabilities are classified as current based on the expectation that the associated revenue will be recognized in one year or less. The following table provides information about significant changes in the contract liabilities for the year ended December 31:

	<u>2022</u>	<u>2021</u>
Unredeemed gift certificate liability, BOY	\$ 12,159	\$ -
Net increase (decrease) in unredeemed gift certificate liability	21,677	12,159
Unredeemed gift certificate liability, EOY	<u>\$ 33,836</u>	<u>\$ 12,159</u>

**NOTE 8 OPERATING LEASES**

The Company is obligated under an operating lease for office space. This lease is considered month-to-month and is with their sister company, Heille Properties, LLC. They receive sublease income of \$1,800 from Pine Insurance, Inc., a sister company, for use of a portion of the office space. The lease calls for monthly payment of \$3,687, plus CAM. Lease expense charged to operations under this lease for the years ended **December 31, 2022** and 2021 was **\$57,668** and \$57,008, respectively.

**NOTE 9 RISKS AND UNCERTAINTIES**

The Company continues to evaluate the risk of COVID-19 and its impact on the Company's revenues. The virus presents certain risks and uncertainties on the Company's future operations, but the specific impact is not readily determinable as of the date of the financial statements.

**NOTE 10 SUBSEQUENT EVENTS**

The Company has evaluated subsequent events through **August 10, 2023**, the date the financial statements were available to be issued.

## **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:

<b>State</b>	<b>Effective Date</b>
Minnesota	[Pending]

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

**ITEM 23  
RECEIPT**

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 Chanticlear Franchise System, LLC offers you a franchise, it must provide this Disclosure Document to you fourteen calendar days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale (or sooner if required by applicable state law).

If Chanticlear Franchise System, 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 and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and the state agency referred to in Exhibit 1.

The name, principal business address, and telephone number of the franchise seller offering this franchise is Dale Heille, 18015 Ulysses Street N.E., Suite 400, Ham Lake, Minnesota 55304 (763) 862-2230.

Issuance Date: ~~August 22~~October 10, 2023~~2024~~

Our registered agents authorized to receive service of process are disclosed in Exhibit 1.

I have received a Franchise Disclosure Document with an issuance date of ~~August 22~~October 10, 2023~~2024~~. See page entitled "State Specific Effective Date" for state specific effective date. This Franchise Disclosure Document included the following Exhibits:

- 1-A) State Addendum to Franchise Disclosure Document
- 1) State Agencies
- 2) Franchise Agreement and Attachments, Release
- 3) Table of Contents of Manuals
- 4) List of Outlets
- 5) Financial Statements

Please indicate the date on which you received this Disclosure Document, then sign and print your name below, indicate the date you sign this receipt, and promptly return one completed copy of the Receipt to Chanticlear Franchise Administrator, at Chanticlear Franchise System, LLC, 18015 Ulysses Street N.E., Suite 400, Ham Lake, Minnesota, Facsimile: (763) 862-7977. The second copy of the Receipt is for your records.

Date Disclosure Document Received:

\_\_\_\_\_

\_\_\_\_\_  
Prospective Franchisee's Signature

Date Receipt Signed:

\_\_\_\_\_

\_\_\_\_\_  
Print Name

Address: \_\_\_\_\_

\_\_\_\_\_

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- 1) State Agencies
- 2) Franchise Agreement and Attachments, Release
- 3) Table of Contents of Manuals
- 4) List of Outlets
- 5) Financial Statements

Please indicate the date on which you received this Disclosure Document, then sign and print your name below, indicate the date you sign this receipt, and promptly return one completed copy of the Receipt to Chanticlear Franchise Administrator, at Chanticlear Franchise System, LLC, 18015 Ulysses Street N.E., Suite 400, Ham Lake, Minnesota, Facsimile: (763) 862-7977. The second copy of the Receipt is for your records.

Date Disclosure Document Received:

\_\_\_\_\_

\_\_\_\_\_  
Prospective Franchisee's Signature

Date Receipt Signed:

\_\_\_\_\_

\_\_\_\_\_  
Print Name

Address: \_\_\_\_\_

