

## FRANCHISE DISCLOSURE DOCUMENT



Kahala Franchising, L.L.C.  
dba *Surf City Squeeze*  
an Arizona limited liability company  
9311 E. Via De Ventura  
Scottsdale, Arizona 85258  
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Website: [www.surfcitysqueeze.com](http://www.surfcitysqueeze.com)  
[www.surfcitysqueeze.com/ownastore/](http://www.surfcitysqueeze.com/ownastore/)  
[www.kahalamgmt.com](http://www.kahalamgmt.com)

Facebook: [www.facebook.com/SurfCitySmoothies](https://www.facebook.com/SurfCitySmoothies)  
X: @SurfCitySqueeze

We offer *Surf City Squeeze*® franchises. As a franchisee, you will operate a restaurant called *Surf City Squeeze*, preparing and serving smoothies, fruit drinks, functional drinks, nutritional supplements, and other beverage and food items.

The total investment necessary to begin operation of a *Surf City Squeeze* franchise ranges from \$89,410 to \$396,500 for a traditional franchise unit located within a shopping mall, strip center, or similar venue; and from \$69,410 to \$340,000 for all other non-traditional franchise units. This includes \$27,500 to \$57,900 for a traditional location and \$12,500 to \$30,400 for a non-traditional location that must be paid to the franchisor or its affiliate.

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

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact Kahala Franchising, L.L.C., Attn: Legal Department, 9311 E. Via De Ventura, Scottsdale, Arizona 85258 and (480) 362-4800.

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

Buying a franchise is a complex investment. The information in this disclosure document can help you make up your mind. More information on franchising, such as "[A Consumer's Guide to Buying a Franchise](#)," which can help you understand how to use this disclosure document, is available from the Federal Trade Commission. You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, D.C. 20580. You can also visit the FTC's home page at [www.ftc.gov](http://www.ftc.gov) for additional information. Call your state agency or visit your public library for other sources of information on franchising.

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

Issuance Date: March 27, 2026

## How to Use This Franchise Disclosure Document

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

| QUESTION                                                                                 | WHERE TO FIND INFORMATION                                                                                                                                                                                                                                 |
|------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <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 U. |
| <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 V 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 <i>Surf City Squeeze</i> 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 <i>Surf City Squeeze</i> franchisee?</b>                       | Item 20 or Exhibit U 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 B.

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

## Special Risks to Consider About *This* Franchise

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

1. **Spousal Liability.** Your spouse must sign a document that makes your spouse liable for all financial obligations under the franchise agreement even though your spouse has no ownership interest in the franchise. This guarantee will place both your and your spouse's marital and personal assets, perhaps including your house, at risk if your franchise fails.

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



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EXHIBITS:

- A State Addenda to Franchise Disclosure Document
- B Directory of State Agencies and Administrators
- C Franchisor's Agent for Service of Process
- D Asset Purchase Agreement (For Sale of a Corporate Store to a Franchisee) with Promissory Note and Security Agreement and Guaranty (if applicable)
- E-1 Franchise Agreement (New)
- E-2 Franchise Agreement (Renewal)
- E-3 Franchise Agreement (Transfer)
- F-1 Guaranty of Franchise Agreement
- F-2 Non-Disclosure and Non-Competition Agreement
  
- G Collateral Assignment and Irrevocable Special Power of Attorney
- H Amendment to Franchise Agreement (for non-traditional locations excluding those co-branded with another affiliated brand)
- I Amendment to Franchise Agreement (for co-branded non-traditional locations)
- J In-Store Training Release and Waiver of Liability Agreement
- K Addendum to the Franchise Agreement for SBA Loans
- L Required Lease Terms (Lease Addendum to Lease Agreement)
- M Lease Guaranty Acknowledgement
- N Lease Review and/or Negotiation Agreement and Release and State Addenda
- O Sublease and Guaranty of Sublease
- P Pre-Authorized Electronic Funds Transfer Form
- Q General Release for Renewal of Franchise Agreement
- R-1 Consent to Transfer and Release Agreement (without Sublease)
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- S State Specific Addenda to Franchise Documents
- T Table of Contents – Confidential Operations Manual
- U List of Franchise Owners
- V Financial Statements
- W Performance Guaranty
- X Addendum for Sale of Company-Affiliated Owned Stores
- X-1 State Effective Dates
- Y Receipts

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

The franchisor is Kahala Franchising, L.L.C. To simplify the language in this “Disclosure Document,” Kahala Franchising, L.L.C. may be referred to as “Kahala Franchising,” “we,” “us,” “our” and “Franchisor.” “You” and “your” mean the person(s), partnership, corporation, limited liability company, or other entity that buys the *Surf City Squeeze*® unit franchise. If “you” are a business entity, “you” includes the shareholders, members or owners of the business to the extent each guaranties or otherwise agrees to perform or be bound by the obligations of the business entity. Any email addresses and website URLs referenced in this Disclosure Document, including its exhibits, are current as of the effective date of this Disclosure Document. We may update these email addresses and/or website URLs from time to time.

### The Franchisor, Parents and Predecessors

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

Our parent company is Kahala Brands, Inc., formerly known as Kahala Brands, Ltd. (“Kahala Brands”). Kahala Brands was formerly known as Kahala Corp. but changed its name to Kahala Brands in December 2014.

On July 26, 2016, Kahala Brands merged with a wholly-owned subsidiary of MTY Food Group, Inc. (“MTY”) having an address at 8150 Transcanada Highway, Suite 200, Saint Laurent, Québec H4S 1MF. Kahala Brands’ parent company became MTY Franchising USA, Inc. (“MTY USA”), originally known as The Extreme Pita Franchising USA, Inc., and having an address of 9311 E Via De Ventura, Scottsdale, AZ 85258. MTY USA’s parent corporation is MTY Franchising Inc. (“MTY Canada”), a Canadian corporation and a wholly owned subsidiary of MTY, formerly known as MTY Tiki Ming Enterprises Inc., and having an address at 8150 Route Transcanadienne, Suite 200, Ville Saint-Laurent, Quebec, H4S 1M5, Canada.

In addition to the concepts franchised by Kahala Franchising or its current or former US-based affiliates, MTY or one or more of its Canadian-based subsidiaries franchises over (55) different restaurant concepts and has over 2,400 units under the following trademarks in Canada primarily, and other international countries: Allo Mon Coco, Baton Rouge Steakhouse & Bar, Ben & Florentine, Big Smoke Burger, BO[W]LD, Café Depot, Casa Grecque, Country Style, Cultures, Dagwoods, Extreme Pita, Giorgio, Jugo Juice, Kim Chi, Koryo, Koya, Kuto Comptoir A Tartares, La Crémère, La Duperie (and Cakes & Shakes by La Dip), Madisons, Manchu Wok, Toujours Mikes, Mr. Souvlaki, Mr. Sub, Mucho Burrito, Muffin Plus, Papa Murphy’s, Pizza Delight, Poke by Sushi Shop, Scores, South St. Burger, Spice Bros, Steak & Frites St. Paul Sukiyaki, Sushman, Sushi Shop, Thai Express, Thaizone, The Works, Tiki Ming, Timothy’s World Coffee, The COOP Wicked Chicken, Tosto, Turtle Jack’s, Tutti Frutti, Valentine, Van Houtte, Vanellis, Vie & Nam, Villa Madina, Spice Brothers, Steak Frites, Wasabi, Wetzel’s Pretzels and YUZU trademarks. MTY also sub-franchises two (2) other different restaurant concepts: TCBY and TacoTime. MTY is a publicly-traded company headquartered in Montreal, Québec, Canada.

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

The name and principal business address of any predecessors for *Surf City Squeeze* brand during the 10-year period immediately before the close of Kahala Franchising’s most recent fiscal year is: Malibu Smoothie Franchise Corp., 7730 E. Greenway Road, Suite 203, Scottsdale, Arizona

85260. Predecessor, Malibu Smoothie Franchise Corp., did not conduct the type of business the franchisee will operate. Predecessor, Malibu Smoothie Franchise Corp., offered franchises providing the type of business the franchisee will operate from 1998 until 2004. Malibu Smoothie Franchise Corp. had no predecessors and did not offer franchises in any other line of business. The name and principal business address of another predecessor for *Surf City Squeeze* during the 10-year period immediately before the close of Kahala Franchising's most recent fiscal year is: Surf City Squeeze Franchise Corp., 7730 E. Greenway Road, Suite 203, Scottsdale, Arizona 85260. Predecessor, Surf City Squeeze Franchise Corp., did not conduct the type of business the franchisee will operate, but its parent company, Surf City Squeeze, Inc., did conduct the type of business the franchisee will operate from 1989 until 2004. Predecessor, Surf City Squeeze Franchise Corp. offered franchises providing the type of business the franchisee will operate from 1994 until 2004. Surf City Squeeze Franchise Corp. had no predecessors and did not offer franchises in any other line of business. An affiliate of Kahala Franchising, Kahala Holdings, L.L.C., an Arizona limited liability company ("Kahala Holdings"), did conduct the type of business the franchisee will operate by operating corporate *Surf City Squeeze* restaurants since 2004, and another affiliate, Kahala Restaurants, L.L.C., an Arizona limited liability company ("Kahala Restaurants"), has been conducting the type of business the franchisee will operate by operating any corporate *Surf City Squeeze* restaurants since January 2010. Kahala Franchise Corp. offered franchises providing the type of business the franchisee will operate from 2004 until March 2010.

As of November 30, 2025, there were 62 *Surf City Squeeze* franchises (59 franchises within the United States and 3 international locations) plus 2 company-owned outlet. We have been offering *Surf City Squeeze* franchises from 1994 until 2004 under the name of either Malibu Smoothie Franchise Corp. or Surf City Squeeze Franchise Corp., from 2004 until March 2010 under the name of Kahala Franchise Corp., and since August 2010 under the name of Kahala Franchising. Kahala Franchising does not operate businesses of the type being franchised, but rather, Kahala Holdings and Kahala Restaurants, affiliates of Kahala Franchising, operate many of our corporate-owned restaurants, including businesses of the type being franchised. Any corporate-owned *Surf City Squeeze* restaurants may compete with franchised restaurants in its vicinity. In addition, the licensed restaurants may compete with franchised restaurants in their vicinity.

#### Other Franchises Offered by Kahala Franchising or its affiliate

KAHALA FRANCHISING IS ONLY OFFERING A *SURF CITY SQUEEZE* UNIT FRANCHISE UNDER THIS DISCLOSURE DOCUMENT. EACH OF THE FRANCHISES DETAILED BELOW ARE OFFERED BY KAHALA FRANCHISING OR A U.S. AFFILIATE UNDER SEPARATE DISCLOSURE DOCUMENTS FOR EACH BRAND.

We have the following U.S.-based affiliates through common ownership by MTY Food Group, that also offer franchises in the United States and internationally: (1) MTY USA, a Tennessee corporation having an address of 9311 E. Via De Ventura, Scottsdale, Arizona 85258; (2) MTY Canada, a Canada corporation having an address at 8210, route Transcanadienne, Suite 200, Saint-Laurent, Québec, H4S 1M5, Canada; (3) Kahala Franchising, LLC ("Kahala Franchising"), an Arizona limited liability company with its principal address at 9311 E. Via De Ventura, Scottsdale, Arizona 85258; (4) BF Acquisition Holdings, LLC ("BFAH"), a Delaware limited liability company with a principal address at 9311 E. Via De Ventura, Scottsdale, Arizona 85258; (5) La Salsa Franchise, LLC, a Delaware limited liability company with a principal address at 9311 E. Via De Ventura, Scottsdale, Arizona 85258; (6) Imvescor Restaurant Group Inc. ("IRG") a Canada corporation having an address at 8210, route Transcanadienne, Suite 200, Saint-Laurent, Québec, H4S 1M5, Canada; (7) Papa Murphy's International, LLC (Papa Murphy's), a Delaware limited liability company having an address at 8000 NE Parkway Drive, Suite 350, Vancouver, Washington 98662; (8) VI BrandCo, LLC ("Village Inn"), a Delaware limited liability company having a principal address at 12701 Whitewater Drive, Suite 100, Minnetonka, Minnesota 55343-4164, (9) BQ Concepts, LLC, an Arizona limited liability

company having a principal address at 12701 Whitewater Drive, Suite 100, Minnetonka, Minnesota 55343-4164; (10) Wetzel's Pretzels, LLC, a California limited liability company with a principal business office at 35 Hugus Alley, Suite 300, Pasadena, CA 91103; and (11) Famous Dave's of America, Inc., a Minnesota corporation having a principal address at 12701 Whitewater Drive, Suite 100, Minnetonka, Minnesota 55343-4164. These affiliates franchise over 50 different concepts.

The following summarizes these other quick service restaurant brands as of November 30, 2025, including the type of restaurant business, number of franchised units in operation as of November 30, 2025, and the date MTY USA, Kahala Franchising, or other affiliates and its current or former affiliates offered franchises in those brands:

| Brand Name              | Type of Restaurant Business                                                                                                 | Number of Units as of November 30, 2025                                                                                                                                                                                                                                                                             | Dates unit franchises began being offered by us or our affiliate                                                                                                        |
|-------------------------|-----------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Blimpie                 | Restaurants serving submarine sandwiches and salads                                                                         | 87 franchised units (84 in the United States and 3 internationally) (plus 4 company-owned units in the United States)                                                                                                                                                                                               | From 2006 until 2010 by Kahala Franchise Corp. and since August 2010 under Kahala Franchising                                                                           |
| Chicken Strips and Dips | Ghost kitchen concept serving primarily chicken tenders.                                                                    | 1 franchised unit                                                                                                                                                                                                                                                                                                   | March 2022, Kahala Franchising.                                                                                                                                         |
| Cold Stone Creamery     | Restaurants serving super-premium freshly made ice cream, cakes, pies, smoothies, shakes, and other frozen dessert products | 1,501 franchised units (1052 in the United States and 449 internationally)(plus 2 company-owned units).<br><br>103 Cold Stone Creamery franchises also sell Rocky Mountain Chocolate Factory® products and 1 Cold Stone Creamery franchise also sells Tim Hortons® products.<br><br>Additionally, 8 licensed units. | From May 2007 until March 2008 by Cold Stone Creamery, Inc., from March 2008 until March 2010 by Kahala Franchise Corp., and since August 2010 under Kahala Franchising |
| Frullati Cafe & Bakery  | Restaurants serving sandwiches, salads, smoothies and baked goods                                                           | 10 franchised units                                                                                                                                                                                                                                                                                                 | From 1999 until 2004 by Frullati Franchise Systems, Inc., from 2004 until March 2010 by Kahala Franchise Corp., and since August 2010 under Kahala Franchising          |

| Brand Name                  | Type of Restaurant Business                                                                                                   | Number of Units as of November 30, 2025                                                                                                             | Dates unit franchises began being offered by us or our affiliate                                            |
|-----------------------------|-------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|
| Great Steak                 | Restaurants serving Philadelphia cheesesteak sandwiches, chicken sandwiches and French fries                                  | 32 franchised units (23 in the United States and 9 internationally)                                                                                 | From 2004 until March 2010 by Kahala Franchise Corp. and since August 2010 under Kahala Franchising         |
| Johnnie's New York Pizzeria | Restaurants serving New York style pizza, calzones, salads, and related Italian cuisine menu items                            | 2 franchised units                                                                                                                                  | From 2006 until March 2010 by Kahala Franchise Corp. and since August 2010 under Kahala Franchising         |
| Kahala Coffee Traders       | Restaurants serving coffee and espresso, tea, baked goods, parfaits, sandwiches and merchandise                               | 6 franchised units.<br>And 1 licensed unit.                                                                                                         | November 2011 under Kahala Franchising                                                                      |
| Maui Wowi                   | Store fronts or portable units serving fruit smoothies, coffee and espresso, and other beverage and food items                | 83 franchised units (75 in the United States and 8 internationally)                                                                                 | Since November 2015 under Kahala Franchising                                                                |
| NrGize Lifestyle Cafe       | Cafes serving smoothies, fruit drinks and nutritional supplements                                                             | 57 franchised units                                                                                                                                 | From 2006 until March 2010 by Kahala Franchise Corp. and since August 2010 under Kahala Franchising         |
| Pinkberry                   | Restaurants serving frozen yogurt, yogurt drinks, smoothies and frozen desserts                                               | 62 franchised units.<br>And 30 licensed units.                                                                                                      | From July 2008 until April 2016 under Pinkberry Ventures, Inc. and since June 2016 under Kahala Franchising |
| Planet Smoothie             | Restaurants serving smoothies, smoothie bowls, juices, nutritional supplements, baked goods, parfaits, sandwiches, and salads | 167 franchised units (160 in the United States and 7 internationally)<br><br>Additionally, as of fiscal year end there were 2 Tasti D-Lite outlets. | Since June 2016 under Kahala Franchising                                                                    |

| Brand Name                   | Type of Restaurant Business                                                        | Number of Units as of November 30, 2025                                                                                                                          | Dates unit franchises began being offered by us or our affiliate                                                                                                                                    |
|------------------------------|------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Ranch One                    | Restaurants specializing in grilled and crispy breaded chicken sandwiches          | 2 franchised units                                                                                                                                               | From 2001 until 2004 by Ranch *1 Group, Inc., from 2004 until March 2010 by Kahala Franchise Corp., and since August 2010 under Kahala Franchising                                                  |
| Samurai Sam's Teriyaki Grill | Restaurants serving Japanese rice bowls and noodle bowls                           | 10 franchised units                                                                                                                                              | From 2003 until 2004 by SP Franchising, Inc., from 2004 until March 2010 by Kahala Franchise Corp., and since August 2010 under Kahala Franchising                                                  |
| Surf City Squeeze            | Juice bars serving smoothies, fruit drinks and nutritional supplements             | 62 franchised units (59 in the United States and 3 internationally) (plus 2 company-owned units)                                                                 | From 1994 until 2004 by Malibu Smoothie Franchise Corp. and Surf City Squeeze Franchise Corp., from 2004 until March 2010 by Kahala Franchise Corp., and since August 2010 under Kahala Franchising |
| TacoTime                     | Restaurants serving Mexican food including burritos, tacos, quesadillas and nachos | 212 franchised units (87 franchised in the United States and 125 internationally) (plus 2 company-owned units)<br><br>Additionally, there are 78 licensed units. | From 2003 until 2004 by Taco Time International, Inc., from 2004 until March 2010 by Kahala Franchise Corp., and since August 2010 under Kahala Franchising                                         |

| Brand Name                        | Type of Restaurant Business                                                                   | Number of Units as of November 30, 2025                                                  | Dates unit franchises began being offered by us or our affiliate                               |
|-----------------------------------|-----------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|
| Extreme Pita                      | Restaurants serving wrap-style hot and cold pita and wrap sandwiches                          | 1 franchised unit                                                                        | From March 2001 to July 2014: The Extreme Pita Franchising USA, Inc.; since July 2014: MTY USA |
| Grabbagreen                       | Restaurants serving healthy food, juice, smoothies and related products                       | 3 franchised units                                                                       | Since February 2018 under MTY USA                                                              |
| Ginger Sushi Boutique + Poke Shop | Restaurant serving a variety of sushi menu items and drinks                                   | 0 franchised units                                                                       | From September 2015 under MTY USA                                                              |
| Mucho Burrito                     | Restaurants offering burritos, quesadillas, tacos, nachos, and other assorted food and drinks | 0 franchised units                                                                       | From January 2010 under Mucho Burrito Franchising USA, Inc.; from March 2019 under MTY USA     |
| Thai Express                      | Restaurant serving "Thai-style" foods and drinks                                              | 7 franchised units (4 in the United States and 3 internationally) (plus 1 company-owned) | From February 2015 under MTY USA                                                               |
| La Duperie                        | Restaurant serving retail sale of an ice cream product and various dips and toppings          | 2 franchised units                                                                       | From April 2019 under MTY USA                                                                  |
| Ben & Florentine                  | Restaurant serving a superior breakfast & lunch experience                                    | 0 franchised units                                                                       | From December 2018 under MTY USA                                                               |



| Brand Name           | Type of Restaurant Business                                                                                      | Number of Units as of November 30, 2025                                                                      | Dates unit franchises began being offered by us or our affiliate                    |
|----------------------|------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|
| Baja Fresh           | Restaurant offering a limited menu featuring fresh high quality Mexican-style food products                      | 70 franchised units (67 in the United States and 3 internationally) (plus 1 company-owned unit)              | October 2016 until July 2017 under Triune, LLC and since then under BFAH            |
| La Salsa             | Restaurant offering a limited menu featuring fresh high quality Mexican-style food products                      | 4 franchised units                                                                                           | October 2016 under La Salsa Franchise, LLC                                          |
| The Counter          | Full service restaurant featuring build-your-own burgers, signature burgers, side dishes, sandwiches, and salads | 7 franchised units (6 in the United States and 1 internationally) (plus 2 company-owned units)               | December 2017 under CB Franchise Systems, LLC. Then from March 2019 under MTY USA   |
| Built Custom Burgers | Fast casual restaurant featuring build-your-own burgers, signature burgers, side dishes, sandwiches, and salads  | 6 franchised units (2 in the United States and 4 internationally)                                            | December 2017 under Built Franchise Systems, LLC. Then from March 2019 under MTYUSA |
| sweetFrog            | Restaurant offering frozen yogurt using a self-serve delivery format                                             | 213 franchised units (203 in the United States which include 7 licensed franchisees plus 10 internationally) | September 2018 under MTY USA                                                        |
| Manchu WOK           | Quick service restaurant serving fast and fresh Chinese cuisine                                                  | 15 franchised units                                                                                          | March 2015: MTY USA                                                                 |
| Papa Murphy's        | Retail food outlet serving primarily take and bake pizza                                                         | 1,000 franchised units (965 in the United States and 35 internationally) plus 49 company-owned units         | From May 2019 Papa Murphy's International LLC                                       |

| Brand Name            | Type of Restaurant Business                                                                       | Number of Units as of November 30, 2025                                                            | Dates unit franchises began being offered by us or our affiliate                                                  |
|-----------------------|---------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|
| Famous Dave's         | Restaurants specializing in authentic, down-home, genuine smoked barbecue                         | 80 franchised units (70 in the United States and 10 internationally) plus 30 company-owned units   | From March 1994 under Famous Dave's of America, Inc.                                                              |
| Village Inn           | Restaurant specializing in pancakes, omelets, skilletts, eggs, and other popular breakfast items. | 84 franchised units plus 25 company-owned units                                                    | From August 2020 under VI BrandCo, LLC                                                                            |
| Barrio Queen          | Restaurants specializing in authentic Southern Mexican                                            | 8 company-owned units                                                                              | From March 2023 under BQ Concepts, LLC                                                                            |
| Champps Kitchen + Bar | sports theme restaurants that provide the public with high-quality food and beverage              | 1 franchised unit plus 1 company-owned unit                                                        | From September 1999 to October 2008 under Champps Entertainment, Inc. and From August 2023 under BQ Concepts, LLC |
| Sauce Pizza / Wine    | Restaurants serving wood-fired pizzas, a variety of pasta dishes, and salads                      | 13 company-owned units                                                                             | March 2024                                                                                                        |
| Wetzel's Pretzels     | Restaurant specializing in hand-rolled fresh-baked soft pretzels                                  | 455 franchised units (423 in the United States and 32 internationally) plus 35 company-owned units | From April 1996 under Wetzel's Pretzels, LLC                                                                      |

We or our affiliates had previously also franchised the right to purchase a defined geographic area to become an area representee in; however, as of the issuance date of this Disclosure Document, we or our affiliates are not offering area representative agreements under a separate Area Representative Franchise Disclosure Document for any brands but may do so for additional brands in the future under a separate disclosure document.

#### Affiliates that Provide Products or Services to Franchisees

Kahala Management, L.L.C. ("Kahala Management"), an affiliate of Kahala Franchising, is an Arizona limited liability company that provides administrative, legal, accounting, sales, technology phone support, real estate and marketing support services to Kahala Franchising. In December of 2019, KGC, LLC, a Colorado limited liability company ("KGC") originally created to administer gift card programs, merged into Kahala Management. Kahala Holdings and Kahala Restaurants are affiliates of Kahala Franchising that own and operate company-owned outlets detailed above. Kahala Franchising, along with Kahala Holdings and Kahala Restaurants, owns and operates the Cold Stone Creamery company-owned outlets. Kahala Advertising, LLC, an Arizona limited liability company ("Kahala Advertising"), is an affiliate of Kahala Franchising that began administering the national advertising funds for each of the brands and the regional cooperatives in 2008. Neptune Equipment Services, LLC, an Arizona limited liability company ("Neptune Equipment"), is an affiliate of Kahala Franchising that is an approved retailer of equipment that sells, distributes, and coordinates logistics of equipment, menu boards, interior and exterior signage, and smallwares to Kahala Franchising franchisees and licensees.

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

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

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

#### Other Agreements

Kahala Franchising previously offered franchises for a take and bake pizza concept called "Pizza Fresh Take●N●Bake." It began franchising Pizza Fresh Take●N●Bake in November 2011 and ceased offering Pizza Fresh Take●N●Bake franchises in December 2014. During that time period, there were no Pizza Fresh Take●N●Bake franchises sold. Two corporately owned Pizza Fresh Take●N●Bake restaurants were opened in 2011 but both closed in 2014 and there are no Pizza Fresh Take●N●Bake restaurants currently in operation. Kahala Franchise Corp. previously offered franchises for a kiosk-style ice cream dessert concept called "Wafflō." It began franchising Wafflō in 2005 and ceased offering Wafflō franchises in December 2007. During that time period, there were 21 Wafflō franchises sold. No Wafflō restaurants are currently open, nor have been open during the ten year period prior to the issuance date of this FDD. Additionally, Kahala Franchise Corp. previously offered franchises for a premium soft serve frozen dessert product called "Tango." It began offering Tango franchises in May 2007 and ceased selling Tango franchises in November 2007. During that time, there were no Tango franchises sold, and there are no Tango franchise locations currently in operation. Tasti D-Lite LLC is an affiliate of Kahala Franchising that previously franchised the Tasti D-Lite frozen dessert brand. Kahala Franchising is now offering Tasti D-Lite products as a menu offering in Planet Smoothie restaurants. As of November 30, 2025, there were 2 Tasti D-Lite franchises in the United States.

Taco Time International, Inc. (“TTI”) was a predecessor franchisor of the TacoTime brand. TTI’s rights and obligations under a Master Franchise Agreement it entered into on March 13, 1978 (“MFA”) were assigned to Kahala Franchising. Under the MFA, MTY Canada operates as the master franchisor of the TacoTime brand for the entire country of Canada. As of the date of this Disclosure Document, the MFA is still in effect.

TTI also entered into a Western Washington Area Franchise Agreement with Accord, Inc. (“Accord”) dated April 30, 1979, as amended (“Western Washington Agreement”) under which TTI assigned its rights to franchise TacoTime in several counties and cities in the state of Washington to Accord (“Accord Territory”). The Western Washington Agreement was ultimately assigned from TTI to Kahala Franchising. Accord is not an affiliate of Kahala Franchising. As of November 30, 2025, there were 78 TacoTime licensed restaurants in operation in the Accord Territory. As of the date of this Disclosure Document, the Western Washington Agreement is still in effect. TTI did not enter into any other territory agreements that are currently in effect. We are not offering TacoTime franchises under this Disclosure Document.

Blimpie International, Inc. (“BI”) was a predecessor franchisor of the Blimpie brand. BI entered into a trademark distribution agreement with Blimpie of California, Inc. dated July 18, 1984, as amended (“TDA”) under which Blimpie of California, Inc. operates as a subfranchisor for the Blimpie brand in a portion of Southern California. The TDA was ultimately assigned from BI to Kahala Franchising. Blimpie of California, Inc. is not an affiliate of Kahala Franchising. As of November 30, 2025, there were 0 Blimpie franchises in operation in Blimpie of California, Inc.’s territory. As of the date of this Disclosure Document, the TDA is no longer in effect. BI did not enter into any other trademark distribution agreements that are currently in effect. We are not offering any Blimpie franchises under this Disclosure Document.

On August 8, 2022, MTY Franchising USA, Inc. and its wholly owned subsidiary Grill Merger Sub, Inc. (“Merger Sub”) entered into an agreement with BBQ Holdings, Inc. (“BBQ”), a Minnesota corporation, providing for the acquisition of BBQ by MTY Franchising USA, Inc., consisting of a tender offer (the “Offer”) for all of the outstanding shares of BBQ common stock, followed by a subsequent merger of Merger Sub with and into BBQ (the “BBQ Merger”), with BBQ surviving the BBQ Merger as a wholly-owned subsidiary of MTY Franchising USA, Inc. This transaction included the rights to franchise and/or operate the Barrio Queen, Famous Dave’s, Village Inn, Bakers Square, Granite City Food and Brewery, Real Urban BBQ, Craft Republic Bar & Grill, Champps Kitchen + Bar, Fox & Hound, and Tahoe Joe’s Famous Steakhouse brands. BBQ, through its subsidiary, VI BrandCo, LLC a Delaware limited liability company, offers Village Inn restaurants. As of November 30, 2025, there were 109 Village Inn restaurants (including franchised and company-owned) in the United States. BBQ, through its subsidiary, Famous Dave’s of America, Inc., a Minnesota corporation, offers Famous Dave’s restaurants. As of November 30, 2025, there were 100 Famous Dave’s restaurants (including franchised and company-owned) in the United States, and 10 franchised restaurants internationally. With the merger closing that took place on September 27, 2022, MTY Franchising USA, Inc. is the parent company of both VI BrandCo, LLC and Famous Dave’s of America, Inc.

On December 8, 2022, MTY Franchising USA, Inc. and its wholly owned subsidiary Twisted Merger Sub, Inc. (“WP Merger Sub”), a Delaware corporation, entered into an agreement with COP WP Parent, Inc. (“COP”), a Delaware corporation, providing for the acquisition of COP by MTY Franchising USA, Inc., consisting of a merger of WP Merger Sub with and into COP (the “COP Merger”), with COP surviving the COP Merger as a wholly-owned subsidiary of MTY Franchising USA, Inc., under the name Twisted Merger Sub, Inc. In November 2023, MTY Franchising USA, Inc. became the parent company of Wetzel’s Pretzels, LLC (“Wetzel’s Pretzels”), a California limited liability company. This transaction included the rights to franchise and/or operate the Wetzel Pretzel’s brand, through Wetzel’s Pretzels. As of November 30, 2025, there were 458 Wetzel Pretzels

restaurants (including franchised and company-owned) in the United States and 32 franchised restaurants internationally. With the merger closing that took place on December 8, 2022, MTY Franchising USA, Inc. is the parent company of Wetzel's Pretzels, LLC.

On December 15, 2022, MTY Franchising USA, Inc. via its wholly owned subsidiary Sauce Restaurants, LLC ("Sauce Restaurants"), an Arizona limited liability company, simultaneously signed and closed an asset purchase agreement with Sauce, LLC, an Arizona limited liability company, Sauce Holdings, LLC, a Delaware limited liability company, and several other of their affiliates (collectively, "Sauce Sellers"), providing for the acquisition of the assets of Sauce Sellers by Sauce Restaurants. This transaction included the rights to operate (and ultimately franchise should Sauce Restaurants so desire) the Sauce Pizza and Wine brand. As of November 30, 2025, there were 13 Sauce Pizza and Wine restaurants (all of which were company-owned) in the United States. BBQ Holdings, Inc., a subsidiary of MTY Franchising USA, Inc., is the direct parent company of Sauce Restaurants.

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

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

### The Franchise

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

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

*Surf City Squeeze* restaurants serve the general public, and people of all ages consume the products offered by *Surf City Squeeze* restaurants. Most *Surf City Squeeze* restaurants may be operated throughout the year; however, sales may fluctuate during the year. You will have to compete with other restaurants, fast food outlets, supermarkets and other food retailers located in your venue or market area. Some of your competitors may include *Surf City Squeeze* restaurants operated by other franchisees or by our affiliates. The extent to which you may succeed at any particular location cannot be predicted. Because of the highly competitive nature of the business involved, successful

operation of the *Surf City Squeeze* restaurant will depend in part upon the best efforts, capabilities, management, and efficient operation by the franchisee; as well as the general economic trend and other local marketing conditions.

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

## **ITEM 2: BUSINESS EXPERIENCE**

References to titles and positions for the persons listed in this Item 2 may be assigned to MTY, MTY Canada, MTY USA, Kahala Brands, or any one or more affiliated companies.

### Chief Executive Officer: Eric Lefebvre

Mr. Lefebvre was promoted and became the Chief Executive Officer of MTY effective November 2018. Prior to that, Mr. Lefebvre was the Chief Financial Officer of MTY since June 2012, and was Vice President of Finance of MTY from November 2009 until June 2012.

### Chief Financial Officer: Renee St-Onge

Ms. St-Onge was promoted to Chief Financial Officer of MTY effective November 2018. Prior to that, Ms. St-Onge was with MTY as Controller since 2012.

### Chief Operating Officer: Jeff Smit

Mr. Smit has been the Chief Operating Officer of Kahala Brands since June 2009 and has been a Director of MTY USA since November 2018. Prior to that, Mr. Smit was the Blimpie Brand President from November 2007 until December 2010 and the Sr. Vice President of Operations for Cold Stone Creamery from February 2005 to December 2007.

### Senior Vice President of Restaurant Operations: Anthony Crosby

Mr. Crosby joined Kahala Brands in October 2009 as the Vice President of Restaurant Operations. He assumed his current role in August 2011.

### Vice President of Restaurant Operations: Blake Borwick

Mr. Borwick was a Cold Stone Creamery franchisee in Cedar Falls and Waterloo, Iowa from April 2005 to March 2014. From March of 2014 to January 2017, he was the Regional Director of Operations of Cold Stone Creamery and Blimpie. He was promoted to Vice President of Operations for the Blimpie brand in January 2017 and then became Vice President of Operations for the Cold Stone Creamery brand in March 2018. In May of 2021 he was promoted to Vice President of Restaurant Operations for Kahala Brands.

### Vice President of Restaurant Operations: Logan Reeves

Mr. Reeves joined Kahala Brands in May 2021 in his current role. Prior to joining Kahala Brands, Mr. Reeves was an Independent Restaurant Consultant from March 2020 through April 2021. Prior to that, Mr. Reeves was with Tilted Kilt Franchise Operating, LLC in Tempe, Arizona as Vice President of Operations from January 2014 to July 2016, Chief Operating Officer from July 2016 through

December 2018, and as Senior Vice President of Franchise Operations of the Dick's Wings & Grill brand from January 2019 through March 2020.

Chief Legal Officer: Jenny Moody

Ms. Moody has been with the Kahala Brands' Legal department since June 2010. In August 2012 she was named Corporate Counsel, in September 2013 International Counsel, in September 2016 Deputy General Counsel, and in November 2019 General Counsel. In August 2023, Ms. Moody assumed her current role.

Vice President of Training and Customer Service: Kerri Kudla

Ms. Kudla joined the Cold Stone Creamery training team in June 2002. She became Director of Operations & Training Development in January 2009 and was promoted to Senior Director of Operations & Training Development in October 2012. In June 2014, Ms. Kudla assumed her current role.

Senior Vice President of Marketing: Steven Evans

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

**Franchise Sales**

Senior Vice President of Development: John Wuycheck

Mr. Wuycheck has served as Kahala Brands' Senior Vice President of Development since September 2014. In this role, Mr. Wuycheck oversees franchise development for Kahala Brands' portfolio, including Wetzel's Pretzels.

Vice President of Franchise Development: Jay Goldstein

Mr. Goldstein has held his current role since May of 2009. Prior to this, he served as Senior Director of Operations, then Senior Director of Development for Kahala Franchising and has worked with the Cold Stone Creamery brand since October 2005.

Director of Franchise Development: Doug Merenda

Mr. Merenda joined Kahala Brands' sales team in October 2015 as a Director of Franchise Development and was a franchise broker for Kahala Brands from April 2015 through October 2015.

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

Mr. Zandi is the Vice President of Business Development – USA, a position he has held since February 2009.

Franchise Development Manager: Traci Zandi

Ms. Zandi has assisted our Development team in awarding franchise units since October 2016. She also served as Office Manager and Executive Assistant for Extreme Pita from April 2011 until October 2016.

Vice President of Franchise Development: Peter Tsafoulis

Mr. Tsafoulis is the Vice President of Franchise Development, a position he has held since March of 2018. Prior to that, he served as the Director of Franchising of IRG from January 2008 until March 2018.

Manager of Franchise Development: Marilyn Bower

Ms. Bower joined Kahala Brands as Manager of Franchise Development in February 2025. Previously, she held similar roles at Gold Spectrum and SunMed from 2022 through 2024. Prior to that, Ms. Bower was a Customer Service Representative with Farmers Insurance Agency in Bradenton, Florida from 2020 through 2022.

Senior Director of Franchise Sales: Shemar Pucel

Ms. Pucel joined the company in November 2020 as Director of Franchise Sales and was promoted to Senior Director of Franchise Sales in February 2022. From October 2018 to August 2020, Ms. Pucel was a Director of Development for sweetFrog Premium Frozen Yogurt & Samurai Sam's. From October 2015 to October 2018, Ms. Pucel was with SFF, LLC (formerly SweetFrog Enterprises, LLC) where she first served as Manager of Franchise Marketing and Development and was promoted to Director of Franchise Marketing and Development in August 2016.

Sr. Director of Franchise Sales: Adam Lueras

Mr. Lueras became the Director of Franchise Sales for Wetzel's Pretzels effective March 2020 and was promoted to Sr. Director of Franchise Sales in February 2023. Mr. Lueras previously served as a Franchise Development Director with Jackson Hewitt Tax Service in Jersey City, New Jersey from March 2019 through November 2019. Prior to that, Mr. Lueras served as a Franchise Development Director with Wyndham Hotel Group in Parsippany, New Jersey from March 2016 through July 2018. Prior to that, Mr. Lueras served as a National Sales Manager with Avalara Software in Seattle, Washington from February 2014 through March 2016.

Director of Franchise Sales – Non-Traditional: Ross Duggal

Mr. Duggal became the Director of Franchise Sales – Non-Traditional for Wetzel's Pretzels effective July 2022. Mr. Duggal previously served as the Senior Director of Business Development for OLM Foods located in Sioux Falls, South Dakota from June 2020 through July 2022. Prior to that, Mr. Duggal served as the Director of Business Development for Chester's International in Birmingham, Alabama from March 2015 through May 2020.

Sr. Franchise Sales Manager: Diana Krankl

Ms. Krankl has held her current role since March of 2024, and prior to that was the Franchise Sales Manager for Wetzel's Pretzels effective September 2021. Ms. Krankl previously owned and operated D's Superblends, a food truck business in Los Angeles, California from July 2016 through March 2020, where Ms. Krankl's responsibilities included training, customer service, human resources,



quality control, event booking, maintaining and strengthening partner relationships, marketing, bookkeeping, inventory management, design development as well as menu and recipe development.

Vice President of Non-Trad Franchise Development US and International: Sam Arif

Mr. Arif has held this current role since November 1, 2025. Prior to this, he co-founded the La Duperie brand in 2014 and served as VP of La Duperie from 2016 until October 31, 2025.

### **ITEM 3: LITIGATION**

#### **LITIGATION INVOLVING FRANCHISOR, PREDECESSORS AND AFFILIATES**

##### **Concluded Arbitration and Litigation Involving The Extreme Pita Franchising USA, Inc. predecessor in interest to MTY Franchising USA, Inc.**

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

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

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

*KOHO, Inc. v. Kahala Franchising, L.L.C.*; Superior Court of the State of California for the County of Los Angeles; Case No.: BC572565.

On or about February 17, 2015, Koho, Inc. ("Koho") filed a Complaint against Kahala Franchising, L.L.C. ("Kahala") alleging: (i) breach of contract; (ii) unjust enrichment; and (iii) declaratory relief. Koho sought: (i) no less than \$540,000 in special and general damages; (ii) litigation costs; (iii) prejudgment interest; (iv) reasonable attorney's fees; and (v) declaratory relief. On or about May 5, 2015, Kahala filed a Cross-Complaint against Koho; Heeyong Kyle Chung; and Hannah Kim; alleging: (i) breach of contract; (ii) unjust enrichment; (iii) disgorgement and restitution; (iv) fraud-deceit and concealment; (v) negligent misrepresentation; (vi) conversion; (vii) negligence; and (viii) declaratory relief. Kahala sought: (i) breach of contract damages in amount according to proof; (ii) disgorgement and restitution on Unjust Enrichment cause of action; (iii) judicial determination that Kahala is permitted and entitled to set off amounts owed to it by Koho with funds in its possession which would otherwise have been due Koho; (iv) costs; (v) attorneys' fees; (vi) punitive damages; and (vii) prejudgment interest; (viii) any other relief the Court deems just and proper. On or about June 15, 2015, Koho filed a Notice of Hearing on Demurrer and Demurrer to Kahala's Cross-Complaint; Memorandum of Points and Authorities; Declaration of Daniel D. Hoffman and Exhibits in Support Thereof. Koho filed its Notice of Motion and Motion to Strike Certain Portions of Kahala's Cross Complaint; Memorandum of Points and Authorities on June 17, 2015. On October 16, 2015, the Court overruled Koho's Demurrer to

Kahala's Cross Complaint in its entirety and denied their motion to strike Kahala's punitive damages claims; the Court sustained the Demurrer as to Hannah Kim. Mediation was held on May 3, 2016, which failed to yield a settlement between the two parties. On May 5, 2016, Kahala dismissed the claims against Koho and Kyle Chung because they satisfied the debts owed to Kahala, and, therefore, the claims were moot. Hannah Kim was subsequently awarded attorney's fees on June 15, 2016, in the amount of \$10,233. A bench trial commenced on June 15, 2016, and ended on June 16, 2016. Upon the conclusion of Koho's case, Kahala presented its case-in-chief and moved for judgment pursuant to Code of Civil Procedure section 631.8. The Court granted Kahala's Judgment as Koho failed to establish the requisite elements of "breach" and "damages" on the three causes of action asserted in the Complaint. On July 18, 2016, the Court awarded Kahala attorneys' fees in the amount of \$205,000. On September 22, 2016, Koho filed a Notice of Filing of Notice of Appeal and requested that Kahala participate in a mediation to resolve the outstanding award to Kahala. Koho failed to post an appeal bond. On February 13, 2017, Kahala commenced its self-help pursuant to Section 8(i) and (j) of the ARA and began withholding 100% of the Area Representative fees to which Koho would have otherwise been entitled. On June 19, 2017, the parties entered into a settlement agreement whereby Kahala repurchased Koho's Area Developer territory for the sum of \$75,000 and forgave the remaining damages owed in the amount of \$130,000.

**Concluded Arbitration and Litigation Involving SFF, L.L.C., successor in interest to SweetFrog Enterprises, L.L.C.**

*SFF, L.L.C. v. Carmel Village Yogurt Company L.L.C.*; City of Richmond, Virginia Circuit Court; Case No. CL16-3927.

On August 29, 2016, SFF, L.L.C. ("Plaintiff") filed a lawsuit against three sweetFrog franchisee entities, Carmel Village Yogurt Company L.L.C. ("Defendant Carmel YC"), Huntersville Yogurt Company, L.L.C. ("Defendant Huntersville YC"), and Mooresville Yogurt Co, L.L.C. ("Defendant Mooresville YC"), and their main member, Steve Anto ("Defendant Anto"); (all named Defendants collectively referred to as, "Anto Defendants"). Plaintiff alleged: (i) Defendant Carmel YC breached its franchise agreement through its unauthorized closure of its franchised shop; and (ii) as a result of the breach, Plaintiff had the contractual right to terminate Defendant Carmel YC's franchise agreement and cross terminate the franchise agreements of Defendant Huntersville YC and Defendant Mooresville YC. Plaintiff sought: (i) declaratory judgment that the three franchise agreements had terminated; (ii) specific performance of the Anto Defendants' post-termination obligations; (iii) damages for past due fees; (iv) lost future royalties in excess of \$116,000; and (v) recovery of its attorneys' fees. In response to Plaintiff's complaint, Anto Defendants denied Plaintiff's claims and asserted counterclaims against Plaintiff and alleged: (i) Defendant Carmel YC's franchise agreement was unenforceable and, alternatively, that Plaintiff was in breach of Defendant Carmel YC's franchise agreement due to Plaintiff's allowance of another franchisee to open a shop within three miles of Defendant Carmel YC's shop. Anto Defendants sought: (i) a declaratory judgment that they were not in default of their franchise agreements; (ii) damages of not less than \$425,000; and (iii) recovery of their attorneys' fees. Plaintiff denied Anto Defendants' claims and filed a demurrer and pleas in bar seeking to have those claims dismissed. Prior to the court hearing and ruling on Plaintiff's motion, the parties entered into an agreement pursuant to which: (i) the parties acknowledged the valid termination of Defendant Carmel YC's franchise agreement; (ii) Defendant Carmel YC transferred the assets of its business to Plaintiff and Plaintiff paid Defendant Carmel YC \$25,000; (iii) Plaintiff reinstated Defendant Huntersville YC's and Defendant Mooresville YC's terminated franchise agreements; and (iv) Plaintiff granted Defendant Anto the right to develop a new sweetFrog shop at a mutually acceptable location on or before November 8, 2018. The case was dismissed with prejudice on December 15, 2016.

## **Concluded Arbitration and Litigation Involving Famous Dave's of America, Inc.**

*Desert Ribs, L.L.C., Famous Gracie, L.L.C., Famous Freddie, L.L.C., Famous George, L.L.C. and Famous Charlie, L.L.C. v. Famous Dave's of America, Inc., American Arbitration Association, Minneapolis, Minnesota, Case No. 01 16 0000 8549.*

On March 14, 2016, the franchisees for the Famous Dave's® Restaurants in Chandler, Peoria, Mesa and Gilbert, Arizona ("Claimants") filed a Demand for Arbitration against Famous Dave's alleging that Famous Dave's (1) violated the Minnesota Franchise Act ("MFA"), (2) breached the implied covenant of good faith and fair dealing under the Famous Dave's® Franchise Agreements with Claimants (the "Franchise Agreements"), and (3) breached certain express provisions of the Franchise Agreements. Claimants sought damages of \$2,984,098, and a permanent injunction prohibiting Famous Dave's from engaging in discriminatory conduct in violation of the MFA. On July 20, 2016, the arbitrators ruled in partial favor of the pre-hearing motion filed by Famous Dave's by dismissing Claimants' MFA claims against Famous Dave's. Upon the dismissal of the MFA claims, Claimants voluntarily dismissed their remaining claims against Famous Dave's and entered into a confidential settlement agreement and mutual release (the "Settlement Agreement"), dated August 22, 2016, with Famous Dave's. The Settlement Agreement included the following material terms: (i) the territorial rights granted to Claimants in the Franchise Agreements were modified; (ii) the managing member of Claimants (the "Consultant") entered into a consulting agreement with Famous Dave's that provided for the design, development and build-out of a counter-service/line-service prototype barbecue restaurant concept (the "Prototype") and the payment of a consulting fee of \$410,000 to the Consultant in installments over a three-year period; and (iii) Claimants entered into a right of first offer agreement with Famous Dave's granting to a Claimant the first right to enter into an area development agreement with Famous Dave's for the development of seven Prototype restaurants in a reserved territory in Arizona.

*Famous Dave's of America, Inc. v. Allan Gantes; John Gantes; M Mart 1, LLC; Kurt Schneider; Shoreline FD Investors, L.L.C.; SR El Centro FD, Inc. SR Long Beach FD, Inc.; SR Palmdale FD, Inc.; SR Restaurant Holdings Group, Inc.; SR Simi Valley FD, Inc.; SR Tracey FD, Inc., Superior Court of the State of California, County of Los Angeles, Central Division, Case No. BC589329.*

On July 24, 2015, Famous Dave's of America, Inc. filed a lawsuit against Allan Gantes; John Gantes; M Mart 1, L.L.C.; Kurt Schneider; Shoreline FD Investors, LLC; SR El Centro FD, Inc.; SR Long Beach FD, Inc.; SR Palmdale FD, Inc.; SR Restaurant Holdings Group, Inc.; SR Simi Valley FD, Inc.; SR Tracey FD, Inc., (collectively referred to herein as "Defendants") (SR El Centro FD, Inc.; SR Long Beach FD, Inc.; SR Palmdale FD, Inc.; SR Restaurant Holdings Group, Inc.; SR Simi Valley FD, Inc.; SR Tracey FD, Inc. will herein be referred to as the "SR Defendants"), the former franchisees for the Famous Dave's® Restaurants in El Centro, Long Beach, Palmdale, Simi Valley, and Tracy, California, and others (collectively referred to herein as "Restaurants") based in part on the continued operation of the Restaurants as Famous Dave's® Restaurants using Famous Dave's Marks and Restaurant System after the termination of their Franchise Agreements by Famous Dave's for failure to cure breaches of the Franchise Agreement, including the failure to pay the Royalty and Marketing Fund Fees due under the Franchise Agreements, within the prescribed cure period after receipt of written notice, in violation of the post-termination obligations of the Franchise Agreements. Famous Dave's alleged Lanham Act violations, including federal trademark infringement, federal trademark dilution, federal unfair competition and false advertising, and federal trade dress dilution; trademark infringement, trademark dilution, unfair competition and false advertising under California law; common law trademark infringement; breach of the Franchise Agreements; breach of the implied covenant of good faith and fair dealing; and intentional interference with contract. Famous Dave's sought injunctive relief to enjoin Defendants from continuing to use the Marks and Restaurant System and enforcing compliance with the post-termination obligations of the Franchise Agreements, and

also sought damages in an amount that was to be determined at trial, reasonable attorneys' fees, interest and costs of suit. On March 11, 2016, the SR Defendants filed its First Amended Cross Complaint against Famous Dave's. The SR Defendants alleged that (i) Famous Dave's breached its obligations cited in the Franchise Agreements by failing to provide certain marketing support and access to customer contact data, vendors, internet reporting and support; (ii) Famous Dave's failed to provide operations and preferred practices training to the SR Defendants designated representative (iii) breach of the covenant of good faith and fair dealing; and (iv) breach of fiduciary duty. The SR Defendants sought: (i) compensatory damages in an amount not less than twenty million dollars; (ii) punitive damages; (iii) costs; (iv) attorney's fees. On September 7, 2016, Famous Dave's filed its Answer to the first amended cross complaint vehemently denying the allegations alleged by the SR Defendants. On September 29, 2018, the parties agreed to enter into a confidential settlement agreement and a mutual release of claims (the "El Centro Settlement Agreement"), which contained the following material terms: (i) SR Defendants received \$75,000 towards the payment of their attorney's fees contingent on the de-imaging of the Restaurants and the sale of its Major Assets (as defined in the Franchise Agreement) relating to the El Centro restaurant to Gantes; (ii) Allan Gantes paid to SR Restaurant Holdings Group, Inc. \$7,500 upon the closing of the sale of the Major Assets; (iii) the SR Defendants agreed to de-identify the Restaurants in Long Beach, California and Tracy, California; (iv) notices (sent via email and mailer) were provided to the "Pig Club" customers of the Long Beach, California and Tracy, California Restaurants to opt into notices from Q restaurants; and (v) Famous Dave's consented to the sale of the Major Assets owned by SR El Centro FD, Inc. to an entity wholly owned by Gantes or an affiliate subject to Famous Dave's review of the purchase agreement which review would not be withheld or unreasonably delayed, and satisfaction of all conditions to the Assignment stated in the Franchise Agreement. Upon completion of the sale the aforementioned \$75,000 would be paid to the SR Defendants; (vi) the SR Defendants no longer could hold themselves out as Famous Dave's franchisees and (vii) all franchise agreements that were the subject of the lawsuit were terminated. The Request for Dismissal with prejudice was entered on November 26, 2018.

#### **Concluded Arbitration and Litigation Involving VI BrandCo, L.L.C.**

In re: Restaurants Acquisition I, LLC (Giuliano vs. W. Craig Barber et. al. United States Bankruptcy Court for the District of Delaware on December 2, 2015 (Case No. 15-12406 (KG)).

On December 1, 2017, the Chapter 7 trustee in the Restaurants Acquisition I, LLC ("RAI") bankruptcy proceeding filed suit in the United States Bankruptcy Court against our Chief Executive Officer W. Craig Barber, our Chief Concept Officer – Family Restaurant Division Robert Langford and companies owned jointly by them alleging avoidance, fraudulent transfer, breach of contract and breach of fiduciary duty in connection with their executive roles with RAI and as members of Dynamic Management Company, LLC related to the RAI's ownership and operation of Black-Eyed Pea and Dixie House restaurants. On March 6, 2019, Barber and Langford each settled with the Chapter 7 trustee by each agreeing to pay to the trustee and estate separate payments totaling \$150,000 each over a three-year period.

#### **Concluded Arbitration and Litigation Involving Wetzel's Pretzels, L.L.C.**

Pretzelsdallas1, Inc. v. Wetzel's Pretzels, LLC; Los Angeles, California; AAA Case No.01-19-0002-9326.

On or about July 19, 2017, we entered into a franchise agreement with Pretzelsdallas1, Inc. (then known as Triple Scoops, Inc.). On or about September 11, 2019, Pretzelsdallas1, Inc., ("Claimant/Counter Respondent") a franchisee, filed a demand for arbitration against Wetzel's Pretzels, L.L.C. ("Respondent/Counter Claimant") with the American Arbitration Association in which it alleged claims for (i) rescission and restitution for intentional misrepresentation, (ii) rescission and

restitution for negligent misrepresentation and (iii) violation of the California Corporations Code §31201. Claimant/Counter Respondent sought \$368,837 in damages. On or about February 26, 2020, Respondent/Counter Claimant filed an answer and counterclaim against Claimant/Counter Respondent. Respondent/Counter Claimant alleged: (i) breach of contract- franchise agreement; (ii) breach of contract – sublease agreement; and (iii) breach of guaranty. Respondent/Counter Claimant sought: (i) judgment on its claims for payments on the franchise agreement in the amount of \$133,600; (ii) judgment on its claims for payments on the sublease agreement in the amount of \$14,8520; judgment in its favor on its claims for payments on the guaranty in the amount of \$148,450; (iv) interest on the sums; (v) attorney's fees; and (vi) any other relief the court deems fit. On September 24, 2021, the parties entered into a settlement agreement, in which a mutual release of all claims was agreed to, and Respondent/Counter Claimant paid Claimant/Counter Respondent the sum of \$125,000. The matter was subsequently dismissed with prejudice.

### **Concluded Arbitration and Litigation Involving Papa Murphy's International, L.L.C.**

DTD Pizza LLC, Brian Watson, Alton Spears, LMP Enterprises LLC, Pizza Enterprises LLC, Alan and Denise Barnett, DOB Enterprises, Inc., Douglas and Lesia Billing, Rob & Bud's Pizza, Robert J. Dickerson Trust UA, Rob Dickerson, 4LM Enterprises, Inc., Jana and Randell Lifes, Ben and Kim Mayfield, SEAMS Holdings LLC, Scott and Erica Shelby, Robert Hoersting, PM Savannah LLC, James and Mona King, Hans King, Pizza For 4 Kings Corp, Alamo Quality Pizza I, LLC., Quality Pizza III, LLC., Gerardo Torres, George Knost, Arkel Food Services, LLC., Reece Alexander Overcash, III, Angelo S. Chantilis, Jr., Double AA Partners, LLC., Jeffrey L Comish, John Stalker, and Papa's of Tennessee, LLC. v. Papa Murphy's International LLC, Papa Murphy's Company Stores, Inc., PMI Holdings Inc., Papa Murphy's Intermediate Inc., Papa Murphy's Holdings, Inc., Lee Equity Partners LLC, John D. Barr, Ken Calwell, Thomas H. Lee, Yoo Jin Kim, Benjamin Hochberg, John D. Schafer, Achi Yaffe, Janet Pirus, Victoria Blackwell, Gail Lawson, Dan Harmon, Scott Mullen, Jayson Tipp, Kevin King, Stephen Maeker, Steve Millard, Steve Figiola; Washington Superior Court, Clark County, Case No. 14-2-00904-0.

and

Mitch and Kristen Brink, Brink Holdings Inc., Angela Buchannan, Tim Forester, Z-Axis, Inc., Heather and Gary Nychyk, Bar N Pizza, LLC, John DeMattia, DeMattia LLC, a Texas Limited Liability Company, Harry and Terry Olson, Hot Pizza Inc., Steven Pyatt, Craig Braun, David Mraz, JIM LLC, Philip and Maria Ahn Wilson, Papa South, LLC, Steven and Holly Mead, Thomas Lance, PMG Tampa, LLC, Ilya and Chantal Rubin, Pie in the Sky LLC, Joanna and Glenn Patcha, Alchemy Foods LLC, Ian Hasinoff and Susan Lorimer, Eddrachillis LLC, Cole Kilen, Eye on the Pie LLC, Ann and Harvey Callegan, Just for Fun, LLC, Eugene and Joy Hill, Conn, Edward Turnbull, Turnbull Restaurant Group LP, Turnbull Restaurant Group GP, Conn, LLC, Loralie and Trey Bennett, Pizza Revolution of Fort Walton Beach LLC, Pizza Revolution of Panama City LLC, Pizza Revolution at Tyndall LLC, Steven Terry, Matthew and Cindy Terry, Alice and Douglas Worthington, Thomas Stephenson, Make Dough Enterprises Inc., Jared Richardson, Russell Crader, and Red Rust, LLC, v. Papa Murphy's International LLC, Papa Murphy's Company Stores, Inc., PMI Holdings Inc., Papa Murphy's Intermediate Inc., Murphy's Holdings, Inc., Lee Equity Partners LLC, John D. Barr, Ken Calwell, Thomas H. Lee, , Yoo Jin Kim, Benjamin Hochberg, John D. Schafer, Achi Yaffe, Janet Pirus, Victoria Blackwell, Gail Lawson, Dan Harmon, Scott Mullen, Jayson Tipp, Kevin King, Stephen Maeker, Steve Millard, Steve Figiola; Washington Superior Court, Clark County, Case No. 14-2-01743-3.

These two related actions were commenced in April 2014 and June 2014, respectively, by separate groups of current and former franchisees against us, certain members of our board of managers and executive team, and others in Washington Superior Court (Clark County), alleging misrepresentations

involving financial performance representations in ITEM 19 of the franchise disclosure document the franchisees' local marketing obligations, among other things, and brought claims for violation of the Washington Franchise Investment Protection Act ("WFIPA"), fraud, negligent misrepresentation and breach of contract. These two actions were consolidated in September 2014 under Case Number 14-2-00904-0.

Each of the plaintiff groups entered into settlements with Papa Murphy's in which they dismissed all of their claims against defendants with prejudice and the action was dismissed in June 2020. The settlements are as follows: (1) one plaintiff group dismissed its claims against Papa Murphy's for no consideration; (2) two plaintiff groups agreed to pay amounts ranging from \$5,000 to \$8,000 to Papa Murphy's and remained in the system; (3) Papa Murphy's agreed to pay one plaintiff group's advertising costs for one year, agreed to allow the franchisee to develop an additional franchise, and agreed to return the franchisee's initial development fee of \$10,000; (4) another plaintiff group agreed to remain in the system in exchange for Papa Murphy's paying 3.8% of the franchisees' sales towards local advertising for a period of two years and extending the franchise agreement's term for an additional ten years; (5) Papa Murphy's settled with fifteen different plaintiff groups and paid amounts ranging from \$10,000 per group to \$4 million per group; (6) Papa Murphy's agreed to purchase one plaintiff group's nine Papa Murphy's stores at an agreed upon value of the stores' assets plus \$500,000; and (7) Papa Murphy's agreed to purchase seven plaintiff groups' Papa Murphy's stores at an agreed upon value of the stores' assets.

*Rob & Bud's Pizza, LLC v. Papa Murphy's International, Inc. and Papa Murphy's International, LLC;*  
United States District Court for the Western District of Washington, Case No. 5:15-cv-05090-TLB.

In spring 2015, Papa Murphy's sent a notice of default to plaintiff for alleged defaults under the plaintiff's franchise agreements. In response, on April 17, 2015, the plaintiff brought an action seeking a declaratory judgment and injunction preventing Papa Murphy's from terminating the franchises. The plaintiff subsequently added claims in the case alleging that Papa Murphy's tortiously interfered with the plaintiff's employees and negligence in how Papa Murphy's handled the plaintiff's customer database, and sought compensatory damages, punitive damages and costs in an unspecified amount. The plaintiff was also a plaintiff in the LMP case described above. The case was dismissed with prejudice as part of a settlement with plaintiff in this case and the LMP case under which Papa Murphy's purchased plaintiff's nine Papa Murphy's stores at an agreed upon value of the stores' assets plus \$500,000.

### **PUBLIC AGENCY ACTIONS AGAINST MTY USA, AFFILIATES AND/OR THEIR PREDECESSORS**

#### **Concluded State Administrative Actions Involving SFF, L.L.C., successor in interest to SweetFrog Enterprises, L.L.C.**

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

As a result of an inquiry into the franchise related activities of SweetFrog Enterprises, L.L.C., ("SFE") the Maryland Securities Commissioner ("Commissioner") concluded that grounds existed to allege that SFE violated the registration and disclosure provisions of the Maryland Franchise Law in relation to the offer and sale of certain license agreements. SFE acknowledged that those license agreements constituted franchises as defined under the Maryland Franchise Law. SFE represented that it entered into license agreements with eight Maryland licensees during the time it was not registered to offer and sell franchises in Maryland. On August 29, 2012, the Commissioner and SFE agreed to enter

into a consent order whereby SFE, without admitting or denying any violations of the law, agreed to: (i) immediately and permanently cease from the offer and sale of franchises in violation of the Maryland Franchise Law; (ii) file and diligently pursue an application for an initial franchise registration in Maryland relating to the license agreements it offered and sold to Maryland licensees; and (iii) to offer to rescind the license agreements of all Maryland licensees to whom it sold unregistered franchises. We are not aware of any licensees that accepted the rescission and have made a good faith effort to obtain that information.

#### **Concluded State Administrative Actions Involving Predecessor Blimpie Associates, Ltd.**

In May 1992, Blimpie Associates, Ltd. (“Blimpie”) and Joseph Dornbush (formerly the President of Blimpie) (collectively “Respondents”) responded to a claim by the New York Department of Law that it had sold franchises during a period of time when Blimpie’s prospectus had not been updated by amendment. Without the admission of any wrongdoing, Respondents consented to the entry of an order in which Respondents agreed: (i) to entry of a judgment enjoining them from further violations of the New York Franchise Sales Act; and (ii) to pay the sum of \$18,000 to the State of New York as an additional allowance. Respondents paid the \$18,000 in May 1992 and executed the consent judgment on August 25, 1992.

#### **Concluded State Administrative Actions Involving Maui Wowi Franchising, Inc., predecessor in interest to Kahala Franchising, L.L.C.**

In the Matter of Maui Wowi Franchising, Inc., Before the Securities Commissioner of Maryland, Case No. 2005-0651.

On November 11, 2005, Maui Wowi Franchising, Inc., the predecessor franchisor of the Maui Wowi brand (“MWF”), entered into a Consent Order with the Securities Commissioner of Maryland (“Commissioner”) resulting from MWF inadvertently entering into four franchise agreements with Maryland residents after its registration in Maryland expired on June 9, 2004 (“Maryland Franchisees”). The Consent Order required MWF to cease and desist from the offer and sale of unregistered franchises in Maryland; to diligently pursue the completion of its then pending application; to register its Offering Circular in Maryland; to develop and implement new franchise law compliance procedures to ensure future compliance with the registration and disclosure provisions of Maryland Franchise Law; and to enroll an officer and a franchise compliance person in a franchise law compliance training program. Upon notification by the Commissioner, MWF sent to the Maryland Franchisees the registered Offering Circular, a copy of the Consent Order, and a letter notifying the Maryland Franchisees that they could rescind their franchise agreements. At this time, MWF is in full compliance with the Consent Order.

In the Matter of Maui Wowi Franchising, Inc., Before the Securities Commissioner of Maryland, Case No. 2007-0194.

On September 12, 2007, “MWF” entered into a Consent Order with the Maryland Commissioner resulting from MWF inadvertently entering into two franchise agreements with two Maryland residents (“Second Maryland Franchisees”) without delivering to them the appropriate Offering Circular. MWF was registered in the State of Maryland at the time of the offer and sale with an Offering Circular containing certain specific information required only by Maryland law. At the same time, MWF used a second form of Offering Circular in other states that did not contain all of the information required by Maryland law. Prior to the execution of the franchise agreements with the Second Maryland Franchisees, MWF accidentally delivered to them the Offering Circular that did not contain the Maryland-specific information. We subsequently reported these mistakes to the Commissioner. The Consent Order required MWF to cease and desist from the offer and sale of franchises in Maryland

in violation of the Maryland Franchise Law; to diligently pursue the completion of its then pending application to register its Offering Circular in Maryland; to implement additional compliance measures to ensure future compliance with the Maryland Franchise Law; to employ an approved franchise law compliance training program or trainer to monitor MWF's franchise activities in Maryland for two years; and to reimburse the Maryland Attorney General for its investigation and resolution costs in the total amount of \$2,500. Additionally, MWF was required to provide to the Second Maryland Franchisees the registered Offering Circular, a copy of the Consent Order, and a letter notifying the Second Maryland Franchisees that they have a right to rescind their franchise agreements. The Commissioner and MWF subsequently entered into an Amended Consent Order in which MWF elected to withdraw from the State of Maryland instead of employing a compliance monitor, with the agreement to employ a monitor if MWF was to re-register in the State of Maryland. MWF fully complied with the Amended Consent Order, and subsequently employed a compliance monitor and was granted registration in the State of Maryland.

**Concluded State Administrative Actions, Arbitration, and Litigation Involving BF Acquisition Holdings, L.L.C. and/or its predecessors**

*State of Maryland Determination; Case Number 2012-0073.*

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

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

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



denying the allegations, on November 26, 2012, Triune voluntarily entered into a Settlement Order with the Commission and agreed: (i) to not violate the Virginia Act in the future; (ii) to pay Virginia the sum of \$25,000 as a penalty and the sum of \$5,000 to defray the Commission's costs of investigation; (iii) to offer certain Virginia franchisees a refund of their initial franchise fees; and (iv) to send a copy of the Settlement Order to certain Virginia franchisees.

**Lawsuits Filed by Franchisor Kahala Franchising, L.L.C. Against Franchisees During Fiscal Year December 1, 2024 through November 30, 2025**

**Suit for Breach of Contract**

*Kahala Franchising, L.L.C. v. Golden Enterprises, Inc.; DBH Associates, LP, Deseret Sales, Inc., Randy Herzog, Laurie Herzog, Amy Wilson, Rob Wilson, Clare Hunter, Deobrah Hunter; United States District Court in and for the Eastern District of Washington; Case No.: 2:25-cv-00426.*

*Kahala Franchising, L.L.C. v. Mid Valley Foods, Inc., Candyce Dilbeck, Steve Hopkins, Gegory M. Hopkins; United States District Court in and for the District of Arizona; Case No.: 2:25-cv-04166-KML.*

**Suit for Federal Trademark Infringement, Lanham Act, 15 U.S.C. §1124; Common Law Trademark Infringement; Federal Unfair Competition, Lanham Act, 15 U.S. C. §1125; Common Law Unfair Competition; Breach of Contract; Unjust Enrichment; Audit Demand/Accounting**

*Kahala Franchising, L.L.C. v. Byron Washington and Bram Berg; United States District Court for the Southern District of New York; Case No.: 1:25-cv-06392.*

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

**ITEM 4: BANKRUPTCY**

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

**ITEM 5: INITIAL FEES**

The initial franchise fee ("Initial Franchise Fee") for your first traditional *Surf City Squeeze* restaurant location is \$30,000. The Initial Franchise Fee is reduced for your second and each subsequent traditional restaurant to \$17,500. The Initial Franchise Fee for your first non-traditional *Surf City Squeeze* restaurant location is \$7,500. The Initial Franchise Fee is reduced for your second and each subsequent non-traditional restaurant to \$5,000.

If you are currently an active or active reserve member of the U.S. Armed Forces, have been honorably discharged from the U.S. Armed Forces ("Eligible Military"), or if the franchisee is a federally recognized 501(c)(3) organization ("501(c)(3)"), you will receive a 20% discount on the Initial Franchise Fee.

The initial fees to be paid to us and/or our affiliate(s) before the franchisee's business opens are indicated on the chart below and in the notes to the chart. The initial fees to be paid to us and/or our affiliate(s) before the franchisee's business opens are the total of the Initial Franchise Fee, Grand Opening Marketing, lease review fee (if any), lease guarantee fee (if any), and the cost of menu boards, wall décor, and supplement containers, and ranges from \$12,500 to \$30,400 for a non-traditional location, and from \$27,500 to \$57,900 for a traditional location.

For the 2025 fiscal year, the formula used to calculate the range of initial fees paid to us and/or our affiliate(s) before the franchisee's business opened was: the total of the Initial Franchise Fee, Grand Opening Marketing, lease review fee (if any), lease guarantee fee (if any), and the cost of menu boards, wall décor, and supplement containers purchased from Neptune Equipment. The factors that determined these amounts were: (i) if the Initial Franchise Fee was discounted or waived; (ii) if the restaurant was traditional or non-traditional; (iii) if the restaurant was the franchisee's first, second, or subsequent franchise; (iv) the lease review fee, if the franchisee requested a full lease review; (v) the lease guarantee fee if the franchisee requested we guarantee their lease and Kahala Franchising or its affiliate agreed to be a guarantor on their lease; and (vi) the cost of menu boards, wall décor, and supplement containers purchased from our affiliate, Neptune Equipment, and/or third party vendor.

There are no refunds of the Initial Franchise Fee under any circumstances. We may periodically reduce the Initial Franchise Fee in connection with limited time promotions, new concepts and/or operational programs. We may vary the terms of our franchises in connection with testing new marketing, branding and/or operational programs. These tests are generally conducted with experienced, existing franchisees and may include incentives and other rights which are not available to all franchisees. If you sign the Franchise Agreement in connection with a transfer or renewal, you will not pay the Initial Franchise Fee.

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

| CATEGORY                                                               | AMOUNT                                                                    | METHOD OF PAYMENT | DUE DATE                           | TO WHOM PMT IS MADE | REFUNDABILITY |
|------------------------------------------------------------------------|---------------------------------------------------------------------------|-------------------|------------------------------------|---------------------|---------------|
| Initial Franchise Fee – first traditional location                     | \$30,000<br><br>(reduced to \$24,000 for Eligible Military and 501(c)(3)) | Lump Sum          | Signing of the Franchise Agreement | Kahala Franchising  | See Note (1)  |
| Initial Franchise Fee – second traditional location and each afterward | \$17,500<br><br>(reduced to \$14,000 for Eligible Military and 501(c)(3)) | Lump Sum          | Signing of the Franchise Agreement | Kahala Franchising  | See Note (1)  |
| Initial Franchise Fee – first non-traditional location                 | \$7,500<br><br>(reduced to \$6,000 for Eligible Military and 501(c)(3))   | Lump Sum          | Signing of the Franchise Agreement | Kahala Franchising  | See Note (1)  |

| CATEGORY                                                                   | AMOUNT                                                                                           | METHOD OF PAYMENT | DUE DATE                                                                      | TO WHOM PMT IS MADE                                          | REFUNDABILITY |
|----------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|-------------------|-------------------------------------------------------------------------------|--------------------------------------------------------------|---------------|
| Initial Franchise Fee – second non-traditional location and each afterward | \$5,000<br><br>(reduced to \$4,000 for Eligible Military and 501(c)(3))                          | Lump Sum          | Signing of the Franchise Agreement                                            | Kahala Franchising                                           | See Note (1)  |
| Grand Opening Marketing                                                    | \$10,000 for a traditional store and \$5,000 for a non-traditional store                         | Lump Sum          | Earlier of; prior to execution of a lease or prior to construction of premise | Kahala Franchising or its affiliate                          | See Note (1)  |
| Lease Guarantee Fee (optional)                                             | 10% of the total amount guaranteed, up to a maximum payment of \$10,000 (if applicable) (Note 2) | Lump Sum          | Signing of the lease guarantee agreement (if applicable)                      | Kahala Franchising or its affiliate who guarantees the lease | See Note (1)  |
| Lease Review Fee (optional)                                                | \$0 to \$2,500 (Note 3)                                                                          | Lump Sum          | When you request review by Kahala Management's real estate department         | Kahala Franchising                                           | See Note (1)  |
| Menu boards, wall décor, and supplement containers                         | \$3,500 to \$5,400 (Note 4)                                                                      | Lump sum          | When invoiced                                                                 | Neptune Equipment                                            | See Note (1)  |

**Notes:**

(1) There are no refunds under any circumstances. Kahala Franchising does not offer any financing of the Initial Franchise Fee. We may periodically reduce the Initial Franchise Fee in connection with limited time promotions, testing new marketing, branding and/or operational programs.

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

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

(4) Certain items will be purchased from Neptune Equipment, an affiliate of Kahala Franchising.

#### ITEM 6: OTHER FEES

| Column 1                                        | Column 2                                                                                                                                                                                 | Column 3                                                                     | Column 4                                                                                                                                                                                                                                                                                  |
|-------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Type of Fee                                     | Amount                                                                                                                                                                                   | Due Date                                                                     | Remarks                                                                                                                                                                                                                                                                                   |
| Royalty Fee and Surcharge (Notes 1 and 9)       | Royalty Fee is the greater of the following: (i) 6% of total weekly Gross Sales or (ii) \$300 per week. Surcharge is a maximum of \$10 per week in addition to the Royalty Fee. (Note 2) | Withdrawn electronically from your Depository Account each Thursday (Note 3) | "Gross Sales" include all revenue from the Franchised Business excluding sales tax and authorized refunds, credits and allowances.                                                                                                                                                        |
| Advertising Fees (Note 1)                       | Up to 4% of weekly Gross Sales                                                                                                                                                           | Same as Royalty Fee (Note 3)                                                 | Currently, Advertising Fee is 1% of weekly Gross Sales (except for <i>Surf City Squeeze</i> restaurants co-branded with Blimpie restaurants located within Wal-Mart stores, the current Advertising Fee for <i>Surf City Squeeze</i> is 2%), which goes to the Advertising Fund (Note 4). |
| Additional Persons Training Fee (Note 1)        | \$1,250 per person (\$500 per person for the In-Store portion of the Training Program, and \$750 per person for the New Owner Training portion of the Training Program)                  | 2 weeks prior to beginning of training                                       | The training of two individuals is included in the Initial Franchise Fee. The Additional Persons Training Fee is for any additional persons who attend the Training Program.                                                                                                              |
| Additional Training Fee (Note 1)                | \$300 per person per day                                                                                                                                                                 | At time of training                                                          | Payable if we require or you request additional training after attending the Training Program                                                                                                                                                                                             |
| Annual Meeting Registration Fee (Notes 1 and 5) | Up to \$1,000 plus incidental costs to attend                                                                                                                                            | 60-90 days prior to the Meeting                                              | We will debit your Depository Account for this fee, which is non-refundable. This fee is charged to all franchisees whether or not they attend the Meeting.                                                                                                                               |

| <b>Column 1</b>                                             | <b>Column 2</b>                                                                                 | <b>Column 3</b>                                           | <b>Column 4</b>                                                                                                                                                                         |
|-------------------------------------------------------------|-------------------------------------------------------------------------------------------------|-----------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Type of Fee</b>                                          | <b>Amount</b>                                                                                   | <b>Due Date</b>                                           | <b>Remarks</b>                                                                                                                                                                          |
| Depository Account                                          | \$3,000 (must be replenished on a regular basis)                                                | Signing of Franchise Agreement                            | (Note 3)                                                                                                                                                                                |
| Data Fees (Notes 1 and 6)                                   | Up to \$75 per month (Subject to reasonable annual and/or service enhancement increases)        | Same as Royalty                                           | Fee for collecting or polling data from your POS System.                                                                                                                                |
| POS Help Desk Phone Support Maintenance Contract Fee        | \$55 per month                                                                                  | Last Thursday of each month                               | We will debit your Depository Account for this fee.                                                                                                                                     |
| Renewal Franchise Fee (Note 1)                              | 50% of the then-current Initial Franchise Fee not including any discounts or reductions         | Signing of new Franchise Agreement at renewal             | Applicable if you are renewing your Franchise Agreement.                                                                                                                                |
| Transfer Franchise Fee – traditional locations (Note 1)     | \$7,500                                                                                         | When transfer documents are signed                        | Payable if you are purchasing your Franchised Business as a result of a full transfer. A full transfer includes, but is not limited to, a transfer of 50% or more ownership or control. |
| Transfer Franchise Fee – non-traditional locations (Note 1) | \$5,000                                                                                         | When transfer documents are signed                        | Payable if you are purchasing your Franchised Business as a result of a full transfer. A full transfer includes, but is not limited to, a transfer of 50% or more ownership or control. |
| Relocation Fee (Note 1)                                     | \$500                                                                                           | At signing of relocation amendment to Franchise Agreement | Payable if we approve the relocation of your store.                                                                                                                                     |
| Transfer Training Fee (Note 1)                              | \$2,500 for two (2) individuals (\$500 for each additional individual)                          | When transfer documents are signed                        | Payable if you are purchasing your Franchised Business as a result of a full transfer from another franchisee.                                                                          |
| Document Administration Fee                                 | \$500 (Note 7)                                                                                  | As incurred                                               | Applicable if an amendment must be prepared, including for an affiliate transfer.                                                                                                       |
| Default Interest (Note 1)                                   | \$50 plus interest at 1-1/2% per month or maximum legal rate, if less ("Default Rate") (Note 8) | Payable upon assessment                                   | Payable on all overdue amounts.                                                                                                                                                         |
| Late Report Fee (Note 1)                                    | \$100 per report                                                                                | Payable upon assessment                                   | Payable if any required financial statement or report is delinquent.                                                                                                                    |

| <b>Column 1</b>                    | <b>Column 2</b>                                                                                                                                                                                                                                      | <b>Column 3</b>                                      | <b>Column 4</b>                                                                                                                                                                                                                                                                               |
|------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Type of Fee</b>                 | <b>Amount</b>                                                                                                                                                                                                                                        | <b>Due Date</b>                                      | <b>Remarks</b>                                                                                                                                                                                                                                                                                |
| Sublease Late Charge               | 5% of the late or unpaid amount plus any late charges and interest incurred under the Master Lease as a result of the late payment (where applicable).                                                                                               | As incurred                                          | Payable to our affiliate if you are subleasing your restaurant space from our affiliate.                                                                                                                                                                                                      |
| Collection Costs (Note 1)          | All collection costs including, but not limited to, reasonable attorneys' fees                                                                                                                                                                       | Payable upon assessment                              | Payable only if we are required to retain an attorney or collection agency to collect delinquent payments from you. We will also collect as damages any attorneys' fees and costs incurred by us in defending claims that arise due to your actions as a <i>Surf City Squeeze</i> franchisee. |
| Non-Sufficient Funds Fee (Note 1)  | \$50 for each electronic funds transfer returned for non-sufficient funds; \$25 for each check or draft returned for non-sufficient funds                                                                                                            | Payable upon assessment                              | Payable only if your electronic funds transfer from your Depository Account or any check you remit to us is returned for non-sufficient funds.                                                                                                                                                |
| Audit (Note 1)                     | Cost of Audit plus interest at Default Rate on underpayments or the maximum rate permissible by law (Note 9)                                                                                                                                         | Payable upon assessment                              | Payable only if audit is caused by your failure to furnish reports or if audit reveals an understatement of fees or assessment of 5% or more.                                                                                                                                                 |
| New Supplier Approval Fee (Note 1) | A charge not to exceed the reasonable cost of the inspection and the actual cost of the test not to exceed \$5,000.                                                                                                                                  | Payable upon assessment                              | Payable by either you or the proposed supplier if you request our approval of a new or alternative supplier.                                                                                                                                                                                  |
| Early Termination Damages (Note 1) | The average monthly Royalty and Advertising Fees paid for any consecutive 12 month period within the preceding 48 month period multiplied by the number of months remaining in the term of the Franchise Agreement, and the product is divided by 2. | 30 days prior to the early closing of the restaurant | You must provide us with 90 days prior written notice of the termination of your Franchise Agreement.                                                                                                                                                                                         |

| <b>Column 1</b>                          | <b>Column 2</b>                                                                                                                                                                                                                                                    | <b>Column 3</b>                                                                       | <b>Column 4</b>                                                                                                                                                                                                    |
|------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Type of Fee</b>                       | <b>Amount</b>                                                                                                                                                                                                                                                      | <b>Due Date</b>                                                                       | <b>Remarks</b>                                                                                                                                                                                                     |
| Non-Participation Fee<br>(Note 1)        | \$100 per day                                                                                                                                                                                                                                                      | Payable upon assessment                                                               | For failure to participate in local, regional, seasonal, promotional and other programs, initiative and campaigns                                                                                                  |
| Management Fee                           | 6% of the Franchised Business' Gross Sales (in addition to the Royalty Fee and Advertising Fee) plus our direct out-of-pocket costs and expenses.                                                                                                                  | Payable with Royalty and Advertising Fee                                              | If we assume the management of your Franchised Business for any period of time.                                                                                                                                    |
| Gift Card Redemption Fee (if applicable) | 5-11% of the amount of the gift card redemption                                                                                                                                                                                                                    | Monthly                                                                               | The Gift Card program does not currently incur a redemption fee payable to us or an approved vendor but may in the future and if so, those fees may be charged by us and collected by a third party on our behalf. |
| Lease Guarantee Fee<br>(optional)        | 10% of the total amount guaranteed, up to a maximum payment of \$10,000 (if applicable) (Note 10)                                                                                                                                                                  | Signing of the lease guarantee agreement (if applicable)                              | See Note 10                                                                                                                                                                                                        |
| Reimbursement of Taxes                   | We may seek reimbursement from you the cost of all taxes, assessments and similar charges we incur arising from your operation of the Franchised Business or our licensing of intellectual property to you in the state where your Franchised Business is located. | Payable monthly by electronic funds transfer at same time as royalty and service fee. | Only imposed if government authority collects these taxes or assessments                                                                                                                                           |

**Notes:**

(1) These fees are collected by Kahala Franchising, are payable to Kahala Franchising, and are non-refundable. These fees are uniformly imposed by Kahala Franchising; however, Kahala Franchising, in its sole discretion, may reduce or waive a one-time fee (*i.e.*, transfer franchise fee, renewal franchise fee, etc.) or may waive or reduce an ongoing fee (*i.e.*, Royalty Fee or Advertising Fees) for a defined period of time.

(2) The Royalty Fee for a non-traditional *Surf City Squeeze* restaurant will be 6% of total weekly Gross Sales with no minimum royalty. In our sole discretion, we may charge, in addition to the Royalty Fee, a Surcharge of up to \$10 per week if your Franchised Business is located in a state

that imposes additional reporting requirements on a franchisor. Currently, New York is the only state that has imposed the additional reporting requirements.

(3) At the time you sign the Franchise Agreement, you will set up a depository account of a minimum of \$3,000 with your local banking institution. You are required to maintain a minimum balance of \$3,000 in this account at all times. This will mean that you must replenish the depository account to \$3,000 after Kahala Franchising makes any withdrawals. (A Pre-Authorized Electronic Funds Transfer Form by and payable to Franchisor is attached as Exhibit P).

(4) Kahala Franchising directs that Advertising Fees be paid to us, a national advertising fund ("National Fund") designated by us, and/or, in our sole discretion, to a designated approved regional advertising fund ("Regional Fund," and together with the National Fund, the "Advertising Fund" or "Fund"). Upon thirty (30) days' notice by us to you, we may unilaterally increase the Advertising Fee from its current level not to exceed four percent (4%) of your weekly Gross Sales. We encourage the formation of franchisee cooperative advertising associations (each a "Cooperative"). Currently, there are no *Surf City Squeeze* Cooperatives, so there are no fees imposed by Cooperatives. Kahala Franchising reserves the right to require Cooperative contributions in the future. If a Cooperative is formed for your region, you must financially contribute to the Cooperative as required by us. Failure to do so will be deemed a breach of the Franchise Agreement and you may also, in Franchisor's sole discretion, or lose your right to vote on decisions the Cooperative makes. The membership of the Cooperative is defined by us according to your market area. For each of our company-owned or affiliate-owned restaurants, it's our policy that such restaurants make contributions to the Fund at a rate equal to the lowest rate a franchisee is then-required to contribute. Company-owned or affiliate-owned outlets have the same voting power as franchisee-owned outlets. On our request, you must assist in establishing a Cooperative or in deciding how to allocate contributions we may make to the Cooperative. We reserve the right to establish general standards concerning the operation of a Cooperative, to specify the advertising agencies a Cooperative must retain, and to designate advertising programs a Cooperative must conduct. Notwithstanding anything to the contrary, no Cooperative may make decisions or spend advertising contributions without our prior written approval.

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

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

(7) The Document Administration Fee in the amount of \$500 will be charged to you if an amendment to your franchise documents must be prepared.

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

(9) Franchisor has the absolute right to charge Franchisee the greater of: three (3) times the fixed Royalty fee; or, if on a percentage Royalty fee the Royalties may be increased to up to eighteen percent (18%) of Gross Sales with respect to any period during which Franchisee is in breach or default of its/his/her obligations under this Agreement. The Royalties paid or owing to



Franchisor with respect to the period during which Franchisee is in breach or default are referred to as "Breaching Royalties." Breaching Royalties will be charged for a minimum fourteen (14) day period, regardless of the length of the actual breach or default.

(10) If, in order to obtain the lease agreement for the site of your Surf City Squeeze restaurant, the landlord requires you to obtain a third party lease guarantee, and we or one of our affiliates agrees to serve as such guarantor (with such determination to be made in our sole and absolute discretion), you will pay to us a lease guarantee fee in the amount of 10% of the total amount of the rental obligations being guaranteed under the lease during its term up to a maximum payment of \$10,000.

## ITEM 7: ESTIMATED INITIAL INVESTMENT

### YOUR ESTIMATED INITIAL INVESTMENT

#### Traditional Surf City Squeeze Restaurant

| Column 1<br><br>Type of Expenditure                                                                               | Column 2<br><br>Amount (low) | Column 3<br><br>Amount (high) | Column 4<br><br>Method of Payment | Column 5<br><br>When Due                                              | Column 6<br><br>To Whom Payment is to be Made |
|-------------------------------------------------------------------------------------------------------------------|------------------------------|-------------------------------|-----------------------------------|-----------------------------------------------------------------------|-----------------------------------------------|
| Initial Franchise Fee (Note 1)                                                                                    | \$14,000                     | \$30,000                      | Lump Sum                          | At Signing of Franchise Agreement                                     | Us                                            |
| Lease Review Fee                                                                                                  | \$0                          | \$2,500                       | Lump Sum                          | When you request review by Kahala Management's real estate department | Us                                            |
| Rent/Security Deposit (for three months) (Note 2)                                                                 | \$6,000                      | \$30,000                      | As Incurred                       | Prior to Opening                                                      | Landlord(s)                                   |
| Travel and Living Expenses (2 persons) while training, not including salaries, if any, for you and your employees | \$2,500                      | \$5,000                       | As Incurred                       | During Training                                                       | Airlines, Hotels, Restaurants, etc.           |
| Real Estate                                                                                                       | (Note 2)                     | (Note 2)                      | (Note 2)                          | (Note 2)                                                              | (Note 2)                                      |
| Architectural Fees                                                                                                | \$10,000                     | \$20,500                      | As Incurred                       | Prior to Opening                                                      | Licensed and Approved Architect               |
| Leasehold Improvements (Note 4)                                                                                   | \$6,000                      | \$180,000                     | As Incurred                       | Prior to Opening                                                      | Approved Contractors and Vendors              |

| <b>Column 1</b>                                                                         | <b>Column 2</b>     | <b>Column 3</b>      | <b>Column 4</b>                                   | <b>Column 5</b>                                                               | <b>Column 6</b>                                             |
|-----------------------------------------------------------------------------------------|---------------------|----------------------|---------------------------------------------------|-------------------------------------------------------------------------------|-------------------------------------------------------------|
| <b>Type of Expenditure</b>                                                              | <b>Amount (low)</b> | <b>Amount (high)</b> | <b>Method of Payment</b>                          | <b>When Due</b>                                                               | <b>To Whom Payment is to be Made</b>                        |
| Restaurant Equipment, Furniture, Small Wares, Interior Signage and Menu Panels (Note 4) | \$14,000            | \$45,000             | Lump Sum                                          | Prior to Opening                                                              | Approved Vendors and Suppliers                              |
| Exterior Signage                                                                        | \$8,000             | \$17,000             | As Incurred                                       | Prior to Opening                                                              | Approved Vendors and Suppliers                              |
| Computer Hardware, Software (POS System)                                                | \$2,510             | \$10,000             | Lump Sum                                          | Prior to Opening                                                              | Approved Suppliers                                          |
| PCI Compliance Costs                                                                    | \$150               | \$1,300              | As billed by third party vendor                   | As billed by third party vendor                                               | Approved Vendor                                             |
| Opening Inventory (food and paper) (Note 5)                                             | \$2,500             | \$5,000              | As Incurred                                       | Prior to Opening                                                              | Approved Suppliers                                          |
| Business Insurance (Note 6)                                                             | \$1,000             | \$5,000              | Lump Sum                                          | Prior to Opening                                                              | Insurance Company/Agent                                     |
| Miscellaneous Opening Costs (Note 7)                                                    | \$4,750             | \$17,200             | As Incurred                                       | As Incurred                                                                   | Approved Suppliers, Utilities, etc.                         |
| Grand Opening Marketing                                                                 | \$10,000            | \$10,000             | Lump Sum                                          | Earlier of; prior to execution of a lease or prior to construction of premise | Us (Note 8)                                                 |
| Depository Account (Note 9)                                                             | \$3,000             | \$3,000              | Lump Sum (must be replenished on a regular basis) | Signing of Franchise Agreement                                                | Your bank (we have the right to withdraw from this account) |
| Additional Funds - 3 month initial period (Note 10)                                     | \$5,000             | \$15,000             | As Incurred                                       | As Incurred                                                                   | Us, Employees, Various Third Parties                        |

| Column 1<br><br>Type of Expenditure | Column 2<br><br>Amount (low) | Column 3<br><br>Amount (high) | Column 4<br><br>Method of Payment                                                                                                                    | Column 5<br><br>When Due | Column 6<br><br>To Whom Payment is to be Made |
|-------------------------------------|------------------------------|-------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|-----------------------------------------------|
| TOTAL (Note 11)                     | \$89,410                     | \$396,500                     | <i>(Does not include real estate costs, construction of the building or rent for the business location except for the initial security deposit.)</i> |                          |                                               |

**YOUR ESTIMATED INITIAL INVESTMENT**  
Non-Traditional Surf City Squeeze Restaurant

| Column 1<br><br>Type of Expenditure                                                                               | Column 2<br><br>Amount (low) | Column 3<br><br>Amount (high) | Column 4<br><br>Method of Payment | Column 5<br><br>When Due                                              | Column 6<br><br>To Whom Payment is to be Made                 |
|-------------------------------------------------------------------------------------------------------------------|------------------------------|-------------------------------|-----------------------------------|-----------------------------------------------------------------------|---------------------------------------------------------------|
| Initial Franchise Fee (Note 1)                                                                                    | \$4,000                      | \$7,500                       | Lump Sum                          | At Signing of Franchise Agreement                                     | Us                                                            |
| Lease Review Fee                                                                                                  | \$0                          | \$2,500                       | Lump Sum                          | When you request review by Kahala Management's real estate department | Us                                                            |
| Rent/Security Deposit (for three months) (Note 2)                                                                 | \$6,000                      | \$30,000                      | As Incurred                       | Prior to Opening                                                      | Landlord(s)                                                   |
| Travel and Living Expenses (2 persons) while training, not including salaries, if any, for you and your employees | \$2,500                      | \$5,000                       | As Incurred                       | During Training                                                       | Airlines, Hotels, Restaurants, etc.                           |
| Real Estate                                                                                                       | (Note 2)                     | (Note 2)                      | (Note 2)                          | (Note 2)                                                              | (Note 2)                                                      |
| Architectural Fees                                                                                                | \$5,000                      | \$21,500                      | As Incurred                       | Prior to Opening                                                      | Designated and Approved Architect and Project Management Firm |
| Leasehold Improvements (Note 4)                                                                                   | \$6,000                      | \$150,000                     | As Incurred                       | Prior to Opening                                                      | Approved Contractors and Vendors (Note 3)                     |

| <b>Column 1</b>                                                                         | <b>Column 2</b>     | <b>Column 3</b>      | <b>Column 4</b>                                                                                                                                      | <b>Column 5</b>                                                               | <b>Column 6</b>                                             |
|-----------------------------------------------------------------------------------------|---------------------|----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|-------------------------------------------------------------|
| <b>Type of Expenditure</b>                                                              | <b>Amount (low)</b> | <b>Amount (high)</b> | <b>Method of Payment</b>                                                                                                                             | <b>When Due</b>                                                               | <b>To Whom Payment is to be Made</b>                        |
| Restaurant Equipment, Furniture, Small Wares, Interior Signage and Menu Panels (Note 4) | \$13,000            | \$45,000             | Lump Sum                                                                                                                                             | Prior to Opening                                                              | Approved Vendors and Suppliers                              |
| Exterior Signage                                                                        | \$9,000             | \$17,000             | As Incurred                                                                                                                                          | Prior to Opening                                                              | Approved Sign Company                                       |
| Computer Hardware, Software (POS System)                                                | \$2,510             | \$10,000             | Lump Sum                                                                                                                                             | Prior to Opening                                                              | Approved Suppliers                                          |
| PCI Compliance Costs                                                                    | \$150               | \$1,300              | As billed by third party vendor                                                                                                                      | As billed by third party vendor                                               | Approved Vendor                                             |
| Opening Inventory (food and paper) (Note 5)                                             | \$2,500             | \$5,000              | As Incurred                                                                                                                                          | Prior to Opening                                                              | Approved Suppliers                                          |
| Business Insurance (Note 6)                                                             | \$1,000             | \$5,000              | Lump Sum                                                                                                                                             | Prior to Opening                                                              | Insurance Company/Agent                                     |
| Miscellaneous Opening Costs (Note 7)                                                    | \$4,750             | \$17,200             | As Incurred                                                                                                                                          | As Incurred                                                                   | Approved Suppliers, Utilities, etc.                         |
| Grand Opening Marketing                                                                 | \$5,000             | \$5,000              | Lump Sum                                                                                                                                             | Earlier of; prior to execution of a lease or prior to construction of premise | US (Note 8)                                                 |
| Depository Account (Note 9)                                                             | \$3,000             | \$3,000              | Lump Sum (must be replenished on a regular basis)                                                                                                    | Signing of Franchise Agreement                                                | Your bank (we have the right to withdraw from this account) |
| Additional Funds - 3 month initial period (Note 10)                                     | \$5,000             | \$15,000             | As Incurred                                                                                                                                          | As Incurred                                                                   | Us, Employees, Various Third Parties                        |
| TOTAL (Note 11)                                                                         | \$69,410            | \$340,000            | <i>(Does not include real estate costs, construction of the building or rent for the business location except for the initial security deposit.)</i> |                                                                               |                                                             |

Notes:

- (1) The Initial Franchise Fee includes the training fee for two individuals.
- (2) If you do not own a suitable premises approved by us, you must lease or purchase the premises for your *Surf City Squeeze* restaurant. If you decide to lease the premises, the landlord will generally require a security deposit, the amount of which generally ranges from one month of monthly rent to six months of monthly rent. The amount of your security deposit will vary according to your area, the type of location (enclosed mall, strip center, or free-standing building), and various other factors. A lease security deposit may be non-refundable and is paid directly to the landlord of the premises. If you decide to purchase land and construct your own building or buy an existing building, you can expect to add the cost of the real estate and costs of building to the total investment. Real estate costs vary considerably depending on fair market values in your area; size, condition, and location of the premises; and municipal requirements.
- (3) The Landlord may provide some leasehold improvements, but if not, they will be at your expense. The total amount of leasehold improvements for your *Surf City Squeeze* restaurant will vary greatly, depending on the type of premises for your restaurant (pad site with drive-thru on the high end versus modular kiosk or retrofitted existing restaurant on the low end), condition of the premises, and what improvements you require. Construction costs also vary considerably depending on fair market values in your area; size, condition, and location of the premises; labor costs (union versus non-union); and equipment requirements. The minimum square footage needed to establish your *Surf City Squeeze* restaurant is approximately 150 square feet for a traditional restaurant and 100 square feet for a non-traditional restaurant. There is a wide range of probable locations that a *Surf City Squeeze* restaurant could be in, and therefore, a wide range for the approximate size of the property and building. The probable locations for a *Surf City Squeeze* restaurant are college shopping malls, airports, sports arenas and college campuses, with sizes of the property and building the *Surf City Squeeze* restaurant could be located in ranging from 1,000 square feet for a stand-alone location to over one million square feet for a large regional shopping mall or airport.
- (4) This amount includes estimated costs of furniture, furnishings, installations, equipment, trade fixtures, and certain other items on the restaurant premises, the amount and specific items of which will vary depending upon the location, size and condition of a particular restaurant. You must purchase restaurant equipment for your *Surf City Squeeze* restaurant from approved vendors and according to our specifications. A list of approved distributors for our approved vendors is maintained by our purchasing department and will be provided to you during the pre-opening and/or construction phase for your Franchised Business. Updates will be provided to you as changes are made (i.e., additions and deletions) to the list of approved distributors for our approved vendors.
- (5) As with any retail business, you will purchase inventory continuously as long as you operate your *Surf City Squeeze* restaurant.
- (6) Initial premiums for commercial general liability insurance are subject to change due to market forces beyond either of our control. The cost of other coverages, including workers' compensation and employer liability coverage and your discretionary purchases, varies widely.

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

| MISCELLANEOUS OPENING COSTS           | ESTIMATED TYPICAL RANGE |         |
|---------------------------------------|-------------------------|---------|
| Pre-opening Employee Training Payroll | \$1,000                 | \$3,000 |
| Utility Deposits (e.g., gas, water)   | \$1,000                 | \$3,500 |

| MISCELLANEOUS OPENING COSTS                                                                                                                                                                                                                                   | ESTIMATED TYPICAL RANGE |          |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|----------|
| Petty Cash (including cash register "opening banks")                                                                                                                                                                                                          | \$250                   | \$700    |
| Licenses and Permits (including any required deposits)                                                                                                                                                                                                        | \$500                   | \$3,000  |
| Miscellaneous Expenses (e.g., food safety manager certification training fees, uniforms, menus, security system, interior/exterior landscaping, sound system, business telephone deposit (phone additional), banking pre-opening costs, accountants, lawyers) | \$2,000                 | \$7,000  |
| ESTIMATED TOTAL                                                                                                                                                                                                                                               | \$4,750                 | \$17,200 |

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

(8) You are required, to pay a Grand Opening Marketing fee of \$10,000 for a Traditional store or \$5,000 for a Non-Traditional store payable to US on the earlier of (i) prior to you executing a lease for the premises where the Franchised Business will be located; or (ii) prior to construction commencing at the premises where the Franchised Business will be located. We or our designated affiliate will create a marketing plan for (i) a grand opening event at your Franchised Business, and (ii) the initial advertising of your Franchised Business, and will work with you to obtain your input on the marketing plan. We or our designated affiliate will use the Grand Opening Marketing fee to pay for the grand opening and initial advertising, but may, in our sole discretion, reimburse you for some local store marketing expenses that you pay if you received our prior approval and we received your reimbursement request within six (6) months from the opening of your Franchised Business to the public. The Grand Opening Marketing fee should be used within six (6) months of the opening of your Franchised Business to the public. However, if a portion of the Grand Opening Marketing fee is not used within those six (6) months, we may, in our sole discretion, and without prior notice, transfer the remaining portion of the Grand Opening Marketing fee after six (6) months from the opening of your Franchised Business to the public to the National Advertising Fund.

(9) At the time you sign the Franchise Agreement, you will set up a depository account of \$3,000 with your local banking institution. You are required to maintain a minimum balance of \$3,000 in this account at all times.

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

(11) Your initial investment for a new *Surf City Squeeze* restaurant depends primarily upon the size, configuration, location, who pays the costs to develop the real estate and/or construction of the restaurant, and the amount and terms of financing, if any. The initial funds required must be estimated as most costs are not within our control and may change at frequent intervals. These estimated ranges are based on our experience and information provided by franchisees.

## ITEM 8: RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

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

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

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

and products of any approved supplier and revoke its approval upon the supplier's failure to meet any of our then-current minimum standards and specifications. If you receive a written notice of revocation from us, you must stop selling disapproved products and stop purchasing from the disapproved supplier.

We will provide you with one set of our confidential “ops package” which may consist of the operations manual, “ops toolkit” and related printed and electronic documents (collectively, the “Confidential Manual”.) We provide all specifications and standards to you in the Confidential Manual, which we may modify from time to time by providing you with “rollout guides” for limited time offers, amendments, modifications or supplemental inserts through notices or bulletins, or by amending the Confidential Manual. A list of approved distributors for our approved vendors is maintained by our purchasing department and will be provided to you during the pre-opening and/or construction phase for your Franchised Business. Updates will be provided to you as changes are made (i.e., additions and deletions) to the list of approved distributors for our approved vendors. We may acquire certain used equipment and signage and offer it for sale to prospective or existing franchisees at a price that we believe to be equal to or less than the fair market value of that equipment and signage. If we make that offer to you, you have the option of purchasing that equipment and signage from us or purchasing new equipment and signage from the approved third parties.

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

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

Pursuant to the mergers as fully described in Item 1, the total revenues and expenses of Kahala Franchising and its subsidiaries and affiliates have been consolidated with MTY USA's, as reflected in the audited consolidated financial statements presented in this disclosure document. For the year ending November 30, 2025, MTY USA and its subsidiaries, as of such date, derived revenues from the sales of products, services, and vendor allowances in the amount of \$47,054,607, which was approximately 7.8% of MTY USA's total consolidated recognized revenue in the amount of \$604,239,000.

Various suppliers and vendors of MTY USA and its subsidiaries contribute marketing and other revenues to MTY USA and/or its subsidiaries based upon system-wide purchases from those suppliers and vendors. During our last fiscal year, MTY USA and its subsidiaries on a consolidated basis earned a total of \$29,352,205 of the \$47,054,607 from such vendors. Additional other revenues (for example, revenue from miscellaneous fees and expenses from franchisees) in the amount of \$5,917,821 were also received by MTY USA and its subsidiaries during the last fiscal year.



A subsidiary of MTY USA that earned revenue from purchases of equipment, furniture, menu boards, interior and exterior signage, wall décor and smallwares made by us, our franchisees, and licensees is Neptune Equipment. Neptune Equipment provides the following services: purchases your equipment from various approved manufacturers; provides logistics services by arranging for bundled delivery to you; and assists with warranty support of the equipment purchased. Neptune Equipment charges a markup on the equipment and a handling fee for its services. During our last fiscal year, Neptune Equipment earned a total of \$1,849,497 of the \$47,054,607 from franchisee purchases.

During our last fiscal year, MTY USA on a consolidated basis with its subsidiaries, earned revenue from POS help desk support maintenance services and the sale of POS equipment in a total amount of \$1,813,085 of the \$47,054,607.

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

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

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

We have a master beverage agreement with the Coca-Cola Company ("Coke") (the "Coke Agreement") under which Coke products are the only approved carbonated fountain soft drinks for your *Surf City Squeeze* restaurant. Coke may pay allowances to you, the Advertising Fund, and/or us based on Coke products purchased. Coke may also: (i) subsidize or provide your financing for approved Coke dispensing and ice making equipment (your subsidy or financing will be offset by some or all of your allowances from Coke); (ii) service the Coke dispensing equipment (to be paid for out of your allowance, if available); and (iii) subsidize or provide your financing to us or third party service providers for certain promotional and advertising materials, including menu panels (your contribution, subsidy or financing will be offset by some or all of your allowances from Coke). Your allowances and equipment support payments may be terminated if you or we do not comply with the Coke Agreement. Coke and/or we may also provide you or make available to you for purchase selected promotional and marketing materials, which shall be paid for with all or a portion of your allowances earned from Coke. Additional information is available on request from us. We reserve the right to amend, modify or terminate the Coke Agreement as we deem appropriate.

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

You must purchase an interior and exterior sign package and menu panels in accordance with our specifications indicated in the Confidential Manual and related documents provided to all franchisees. You may be required, or opt to, purchase certain digital menu boards for your restaurant from our approved supplier. The cost to purchase and install digital menu boards may vary depending on various factors including the store format and offerings, the number of menu boards or screens purchased, restaurant location, and the hardware and installation of the boards or screens. We estimate the costs associated with the initial purchase of the digital menu boards to range between \$7,000 to \$20,000. Currently the digital menu board software fee is estimated at \$100 per display per year, payable to the approved supplier/vendor and subject to their applicable increases. In addition, you must have your *Surf City Squeeze* restaurant be consistent in color, design and style with the standards and specifications adopted and approved by us, and as we may modify those standards periodically. You must maintain the appearance and atmosphere of your *Surf City Squeeze*

restaurant, and the equipment and premises used in connection with your *Surf City Squeeze* restaurant, in accordance with the standards we may adopt from time to time. Any variations in color, design, style, appearance or atmosphere must be approved in writing by us. Our current standards and specifications are included in our Confidential Manual.

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

You are required to accept all approved debit and credit cards, along with Kahala Franchising or its affiliate's stored value gift cards, loyalty cards, frequency cards, and any other similar Kahala Franchising or affiliate sponsored electronic card and/or payment program (collectively, the "Gift/Loyalty Card") from consumers at your *Surf City Squeeze* restaurant. Prior to the opening of your restaurant, you will be required to acquire an approved debit, credit and Gift/Loyalty Card processing system to use during the operation of your *Surf City Squeeze* restaurant. The components and specifications of this system are specifically identified in the Confidential Manual. Additionally, you must utilize our approved third party payment card processor, as identified in the Confidential Manual, for processing all such debit, credit, rewards, and Gift/Loyalty card transactions. The Payment Processor will charge fees for credit card processing based on the applicable card brand and issuing bank. Network and interchange fees vary depending on card brand, card type, and method of acceptance. For certain required credit card brands, fees are assessed on an interchange-plus basis at the then-current interchange and network rates, plus a processor markup of \$0.0175 per transaction, and are subject to future changes. Other required credit card brands may be assessed using a tiered discount rate structure, under which the applicable percentage rate varies based on card type and tier classification. All rates and fees are subject to change by the applicable network and other applicable third parties. In addition, the Payment Processor may assess additional charges for voice authorizations, chargebacks, and debit PIN transactions, as applicable.

You may be required to utilize our approved mobile application ("App") and online food ordering service (including any third-party delivery order integration) and may not use any other store-specific App or online ordering service. Olo is a Franchisor-approved online ordering vendor, as of this Disclosure Document's issuance date. You may also utilize or be required to utilize third-party delivery services through a provider of your choice, unless we require you to use a specific third-party(ies) and provided that if required and/or if you choose to participate in such third-party delivery services, you may be required to utilize a point-of-sale integration directed by us.

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

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

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

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

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

You must obtain all insurance we require and obtain it from an insurer having an A.M. Best's financial strength rating of "A-VIII" or better. Your insurance must: (i) insure the particular Franchisee listed on your Franchise Agreement; (ii) name us and our parents, subsidiaries, affiliates, directors, officers, and employees as additional insured; (iii) contain a waiver by the insurance carrier of all subrogation rights against us and our affiliates for casualty losses; (iv) provide that we will receive by an endorsement 30 days' prior written notice of cancellation; and (v) provide that failure by franchisee to comply with any term, condition or provision of the contract, or other conduct by franchisee, will NOT void or otherwise affect the coverage afforded us. Before you may open your *Surf City Squeeze* restaurant, at the time you sign your lease, annually at least 10 days prior to renewal of your insurance coverage, and at any other time upon our request, you must provide a copy of your certificate of insurance to us which meets our requirements.

Our minimum insurance coverage requirements (subject to change, including to increase) are below. You need to evaluate if your particular business will require greater coverage or other types of insurance. For example, we strongly recommend that you consult with an insurance broker to discuss whether your particular lease/situation requires and/or should obtain additional common types of insurance (including without limitation, employment practices liability, business interruption, umbrella insurance and cyber liability/data breach insurance coverage). Such insurance may significantly increase your premiums but may also save you money in the long run. We make no representation that the minimum coverage that we specify will be sufficient for your business. You will pay your insurance premiums directly to your insurance broker or to the insurance company issuing the policy.

| TYPE OF COVERAGE                                         | LIMITS/SPECIFICATIONS                                                                              |
|----------------------------------------------------------|----------------------------------------------------------------------------------------------------|
| General Liability                                        | \$1,000,000 Bodily Injury/Property Damage Per Occurrence / \$2,000,000 Aggregate                   |
| Building Improvements and Betterments                    | 100% of Full Replacement Cost – No Coinsurance (minimum of \$100,000)                              |
| Business Personal Property                               | 100% of Full Replacement Cost – No Coinsurance – Special Form or equivalent (minimum of \$100,000) |
| Spoilage                                                 | \$5,000                                                                                            |
| Flood, Earthquake and Volcanic Eruption                  | Subject to Territory Limitations – required if in a designated Flood Zone                          |
| Workers' Compensation and Employer's Liability Insurance | As required by law                                                                                 |
| Hired and Non-Owned Automobile Liability                 | \$1,000,000 Combined Single Limit per accident                                                     |

You must always keep the required insurance coverage in force, and you must comply with any changes we make periodically to our insurance requirements. Upon 30 days' notice to you, we may require you to increase and/or otherwise change the minimum coverage of the insurance referred

to above including to reflect identification of special risks, changes in law or standards of liability, higher damage awards or other relevant changes in circumstances. In the event you fail to obtain or maintain the required insurance coverage, we reserve the right, but are not obligated to, obtain the required insurance on your behalf and charge the insurance premium to you.

We want to ensure that our franchisees comply with their leases for the premises where their restaurants are located, the limitations on their use of the approved location, and their obligations to us. Thus, if you open and operate a restaurant, one of our Leasing Affiliates may enter into a Master Lease for your restaurant and will then Sublease it back to you (See Exhibit O: Sublease and Guaranty of Sublease). The Sublease will contain substantially the same terms as the Master Lease. The term of the Sublease will be for the entire term of the Master Lease, less one day. You will sign the Sublease at the time our Leasing Affiliate signs the Master Lease for the premises. You must provide all security deposits, guaranties, and other assurances the landlord of the premises requires. We or our Leasing Affiliate will try to negotiate favorable terms under the Master Lease, but we cannot guarantee that the lease terms, including but not limited to rent, will be the most favorable terms available in the market. We encourage you to participate in the lease negotiation process, with the assistance of your attorney. Our attorneys represent us, not you.

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

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

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

## ITEM 9: FRANCHISEE'S OBLIGATIONS

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

| Obligation                              | Article or Section in Franchise Agreement | Section in Sublease | Disclosure Document Item |
|-----------------------------------------|-------------------------------------------|---------------------|--------------------------|
| a. Site selection and acquisition/lease | Operating Unit Riders                     | Preamble            | 7 and 11                 |
| b. Pre-opening purchases/leases         | Operating Unit Riders, 3.3, 4.6 and 9.3   | Not Applicable      | 5, 7, 8, 10 and 11       |

| <b>Obligation</b>                                              | <b>Article or Section in Franchise Agreement</b>        | <b>Section in Sublease</b> | <b>Disclosure Document Item</b> |
|----------------------------------------------------------------|---------------------------------------------------------|----------------------------|---------------------------------|
| c. Site development and other pre-opening requirements         | 2.3 and 2.4                                             | 1.2                        | 7, 8 and 11                     |
| d. Initial and ongoing training                                | 4.1, 4.2 and 4.3                                        | Not Applicable             | 11                              |
| e. Opening                                                     | 3.1<br>(Note 1)                                         | Not Applicable             | 11                              |
| f. Fees                                                        | 5                                                       | 3, 4, 5 and 18             | 5, 6, 7 and 10                  |
| g. Compliance with standards and policies/ Confidential Manual | 1.4, 3.2, 4.5 and 9                                     | Not Applicable             | 8, 11 and 14                    |
| h. Trademarks and proprietary information                      | 6 and 7                                                 | Not Applicable             | 13 and 14                       |
| i. Restrictions on products/ services offered                  | Operating Unit Riders, 3.2 and 9.2                      | 6                          | 8 and 16                        |
| j. Warranty and customer service requirements                  | No obligation imposed                                   | Not Applicable             | Not applicable                  |
| k. Territorial development and sales quotas                    | No obligation imposed                                   | Not Applicable             | Not applicable                  |
| l. Ongoing product/service purchases                           | 3.2, 9.2 and 9.3                                        | Not Applicable             | 8                               |
| m. Maintenance, appearance, and remodeling requirements        | Operating Unit Riders, 1.4, 12.3 and 13                 | 8                          | 7 and 11                        |
| n. Insurance                                                   | 9.5                                                     | 12                         | 7                               |
| o. Advertising                                                 | 5.3 and 10                                              | Not Applicable             | 6, 7 and 11                     |
| p. Indemnification                                             | 8.2, 8.3, 14.7 and 16.17                                | 2.3, 7, 11 and 16          | 13 and 14                       |
| q. Owner's participation/management/ staffing                  | 4.1, 4.2, 4.3, 9.1 and 9.6                              | Not Applicable             | 11 and 15                       |
| r. Records and reports                                         | 5.2, 5.6 and 11.1                                       | 3                          | 6 and 11                        |
| s. Inspections and audits                                      | 4.3, 4.4, 5.18, 9.7 and 11.2                            | 3.3 and 13                 | 6 and 11                        |
| t. Transfer                                                    | 12                                                      | 9                          | 6, 16 and 17                    |
| u. Renewal                                                     | 13                                                      | 2.2                        | 6, 16 and 17                    |
| v. Post-termination obligations                                | 14.5                                                    | Not Applicable             | 17                              |
| w. Non-competition covenants                                   | 14.6                                                    | Not Applicable             | 15 and 17                       |
| x. Dispute resolution                                          | 16.3                                                    | Not Applicable             | 17                              |
| y. Other                                                       |                                                         |                            |                                 |
| Personal Acceptance; Personal and Spousal Guarantees; Non-     | 9.8; Personal Acceptance of Sections 7.1, 7.2, 14.6 and | Guaranty of Sublease       | 10, 15                          |

| Obligation                     | Article or Section in Franchise Agreement                                               | Section in Sublease | Disclosure Document Item |
|--------------------------------|-----------------------------------------------------------------------------------------|---------------------|--------------------------|
| Disclosure and Non-Competition | 14.8; Guaranty of Franchise Agreement; and Non-Disclosure and Non-Competition Agreement |                     |                          |

Note 1: Not applicable for renewal Franchise Agreements.

## ITEM 10: FINANCING

We do not offer direct financing to franchisees. However, in limited circumstances and in our sole discretion, we or one of our affiliates may provide financing in connection with your purchase of a corporate-owned restaurant sold on an “as-is” basis, or in other limited, one-off circumstances. In addition, we may, in our sole discretion, provide a lease guarantee for an approved restaurant site.

Other than as described above, we do not guarantee franchisee obligations under any note or other obligation, except as specifically described below.

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

Lease guarantee fees, if applicable, are disclosed in Item 6 (Other Fees) of this Disclosure Document.

If the franchisee is an individual, the individual franchisee (and his/her spouse, if married) must personally guarantee the debt. If the franchisee is a corporation, limited liability company, partnership, or other entity, each of the principals of the entity (and each of their respective spouses, if married) must personally guarantee the debt. Once paid, the lease guarantee fee is non-refundable under all circumstances. We do not offer financing for the lease guarantee fee as it is payable in full upon the execution of the guarantee. Neither we, nor any of our affiliates, are required to serve as a guarantor of your lease for the site of your restaurant. The decision of whether to serve as a guarantor of your lease shall be made at our sole and absolute discretion.

If you purchase a corporate restaurant “as-is” that is owned and operated by one of our affiliates, we may finance up to 100% of the purchase price, at our sole discretion. When you purchase a corporate-owned restaurant from one of our affiliates, you will enter into an “Asset Purchase Agreement” (see Exhibit D: Asset Purchase Agreement (For Sale of a Corporate Store to a Franchisee)). If you finance any portion of the purchase price of the corporate-owned restaurant

through Kahala Holdings or Kahala Restaurants, you will also enter into a “Promissory Note and Security Agreement” and a “Guaranty,” which are exhibits to the Asset Purchase Agreement (and also the form of agreement we would use in any other limited, one-off circumstance in which we or our affiliates, in our sole discretion, provide financing). The purchase price may include the initial franchise fee, any transferrable furniture, fixtures, and equipment, the leasehold, and/or any transferable leasehold improvements that are located in the restaurant at the time of purchase, along with any inventory in the restaurant at the time of purchase. The lender providing the financing is one of our affiliates, Kahala Holdings or Kahala Restaurants, whichever entity owns the restaurant. The annual rate of interest charged will be between 0% and 12% and will depend on the creditworthiness of the franchisee, the amount being financed, and the dollar amount being paid up-front by the franchisee. There are no finance charges associated with the Promissory Note and Security Agreement. The amount being financed will be required to be re-paid in equal monthly installments and the period of repayment will be between 12 months and 60 months, depending on the amount being financed. The security interest required by us is a first position lien on all equipment. If the franchisee is an individual, the individual franchisee (and his/her spouse, if married) must personally guarantee the debt. If the franchisee is a corporation, limited liability company, partnership, or other entity, each of the principals of the entity (and their respective spouses, if married) must personally guarantee the debt. The Promissory Note and Security Agreement may be pre-paid in full or in part at any time and from time to time without penalty. The franchisee’s potential liabilities upon default include: (i) an accelerated obligation to pay the entire amount due, including but not limited to all accrued and unpaid interest, if the default is not cured within seven calendar days; and the interest rate will be increased to an annual rate of 18%; (ii) obligation to pay costs and attorneys’ fees incurred in collecting the debt; (iii) termination of the franchise; and (iv) liabilities from cross defaults resulting from non-payment or from the loss of business property on franchisee’s other restaurants named in the Promissory Note and Security Agreement and granting either Kahala Holdings or Kahala Restaurants the right to take back the restaurant(s). Additional waiver provisions are set forth in the Promissory Note and Security Agreement attached as Exhibit D to this Disclosure Document. The Promissory Note and Security Agreement requires franchisees to waive the following legal rights: demand, notice, diligence, protest, presentment for payment, and notice of extension, dishonor, protest, demand and nonpayment of the promissory note; any release or discharge by reason of any release or substitution of, or other change in, any security given for the indebtedness or the obligation of any person or entity who may become directly or indirectly liable for the note or any extension or other modification of the note; and rights to contest or appeal our exercise of the take back rights and not receiving compensation for the restaurant after the take back rights have been exercised. The Promissory Note and Security Agreement also bars the franchisee’s right to contest the take back rights.

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

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

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

We or our affiliates may, in our sole discretion, lease the site approved by us for your *Surf City Squeeze* restaurant and sublease the site to you. In addition, if and when you sign the Sublease, you must pay to us an amount equal to two months base rent under the Master Lease, plus a security deposit in an amount equal to the security deposit required under the Master Lease. (We reserve the right, however, to require a greater security deposit, based upon your creditworthiness.)

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

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

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

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

### **Pre-Opening Assistance**

Before you open your business, we will provide the following assistance to you:

#### **Site Selection**

1. You will be required to lease or purchase the premises for your *Surf City Squeeze* restaurant from a third party. Generally, we do not own or lease the premises and Sublease it to you. Most restaurants are developed by franchisees who find their own locations and negotiate their own real estate interests. We may, upon your written request, assist you in selecting a site for your *Surf City Squeeze*. You must select, and we must approve, an acceptable location within nine (9) months after the effective date of the Franchise Agreement. The lease or purchase agreement will be subject to our prior approval, and you must provide us with a copy of the lease or purchase agreement at least 30 days prior to execution. We will notify you if we do not approve the site within 30 days of receiving your site selection information. We will not unreasonably withhold our approval of the location. The location must be within a geographic area identified in Section 1.1 of the Franchise Agreement. The factors that we will consider in approving your proposed location include, among other things: occupancy costs, proximity to major retail activity and other *Surf City Squeeze* restaurants, sign visibility, traffic volume and speeds, parking availability, neighborhood economic profile, population density, accessibility, competition and other tenants in the shopping center, mall, or applicable retail structure. If you cannot secure a location acceptable to us within nine (9) months after the effective date of the Franchise Agreement, we may terminate your Franchise Agreement



after giving you written notice and the opportunity to cure (See Exhibit E-1: Franchise Agreement (New)—Section 2.1). The decision to establish and operate your *Surf City Squeeze* restaurant at the location will be made solely by you, without any reliance upon any information provided (if any), recommendation made (if any) or approval given (if any) by us, any Area Representative or any of our or their respective shareholders, directors, officers, employees, representatives, agents or affiliates. You must purchase or lease your business location from independent third parties. If you intend to lease your business location, the lease must include certain required provisions (See Exhibit L: Required Lease Terms; Exhibit E: Franchise Agreement—Section 2.2). We will, within 60 days after we receive a proposed Master Lease (and additional materials required by us), review the Master Lease to make sure it meets our minimum site requirements, in our sole discretion if deemed applicable. Upon submission of a proposed Master Lease, you must provide us with any additional documentation and information that we may require regarding the proposed site, the proposed lease, your financial condition and your Principals' financial condition.

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

### **Construction and Furnishings**

1. We will provide you with a copy of the design drawings, which is the detailed plans and specifications including landscaping and parking space, if applicable, for your Franchised Business upon our approval of the plans. You must hire and use, at your sole cost and expense, a licensed and approved third party architect (See Exhibit E: Franchise Agreement—Section 2.3). You are solely responsible for conforming the premises to all codes and ordinances, including the Americans with Disabilities Act (the “ADA”), and obtaining all required permits. You are solely responsible for constructing or remodeling and decorating the location according to our system standards and subject to our approval. We do not provide assistance with conforming the premises to codes and ordinances, including the ADA, obtaining permits, or constructing, remodeling or decorating your restaurant. We must approve any and all changes or revisions to the plans required for your site before you begin construction. Our approval of the plans is solely for complying with our system standards, and not for determining compliance with codes, ordinances, the ADA, or any lease-specific requirements.

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

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

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

## Confidential Operations Manual

We will provide you, as part of the Confidential Manual, an electronic or print version of the with operating procedures to assist you in complying with our standard methods of controls and production methods, and with policies, procedures and resources to support brand consistency and compliance. The Operations Manual is collectively 43 pages. (See Exhibit E: Franchise Agreement – Section 4.5). The Table of Contents of the Operations Manual is attached to this Disclosure Document as Exhibit T.

## Time to Open

The typical length of time between the earlier of the signing of the Franchise Agreement or the first payment of consideration for the franchise and the opening of the franchisee's business is 4-8 months for both a traditional and non-traditional *Surf City Squeeze* restaurant. The factors that may affect this time are: lease or purchase negotiations; zoning procedures; financing applications; local ordinances and approvals; obtaining licenses and permits; construction delays; weather conditions; shortages; delayed installation of equipment, fixtures and signs; development or construction not in accordance with our requirements; labor disputes; Acts of God; and other reasons.

## Training

1. We will provide you with the Operations Manual that contains mandatory and suggested specifications, standards and procedures. The Operations Manual is 61 pages. The Operations Manual is confidential and remains our property. We may modify the Operations Manual as and when we desire, but no modification will materially alter your status and rights under the Franchise Agreement (See Exhibit E: Franchise Agreement—Section 4.5).

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

## TRAINING PROGRAM

| Column 1<br><br>Subject                                           | Column 2<br><br>Hours of<br>Classroom<br>Training | Column 3<br><br>Hours of<br>on-the-job<br>training | Column 4<br><br>Location                                                                                         |
|-------------------------------------------------------------------|---------------------------------------------------|----------------------------------------------------|------------------------------------------------------------------------------------------------------------------|
| New Owner Training                                                | 40                                                | ---                                                | Online, KTEC (Kahala Training & Education Center) in Scottsdale, Arizona or such other location designated by us |
| In-Store Training held during opening week (See section 8e below) |                                                   | 40                                                 | Training restaurant in Arizona or such other location designated by us                                           |

a. The training of two individuals is included in the Initial Franchise Fee. You or another partner, shareholder or member of your business organization must have successfully completed our Training Program to our satisfaction. Your manager, at your sole discretion, may be one of the two individuals you bring to training, or you may bring your manager in addition to the two individuals and pay the Additional Persons Training Fee. You and your restaurant managers must be able to read and write English adequately, in our good faith opinion, to satisfactorily complete our Training Program and to communicate with employees, customers and suppliers. Notwithstanding the foregoing, Franchisor has the right to require Franchisee and/or its managers(s) to attend additional in-store training in the event Franchisee is not operating the Franchised Business pursuant to Franchisor's Systems Standards. Please note, at our sole discretion, the Training Program for a non-traditional Surf City Squeeze may differ slightly from the Training Program outlined above (See Exhibit H: Amendment to Franchise Agreement (for non-traditional locations excluding those co-branded with another affiliated brand); Exhibit I: Amendment to Franchise Agreement (for co-branded non-traditional locations)).

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

c. You must complete the Training Program no more than three months and no less than one (1) day prior to the opening of your *Surf City Squeeze* restaurant. The New Owner Training will be conducted once a month. The In Store Training portions of the Training Program are scheduled as needed and determined by the Franchisor. We do not currently require you to attend additional training courses or refresher courses. However, if you would like additional training after completing the Training Program, we will provide additional training to you at a cost of \$300 per person per day. Notwithstanding the foregoing, Franchisor has the right to require Franchisee and/or its managers(s) to attend additional in-store training in the event Franchisee is not operating the Franchised Business pursuant to Franchisor's Systems Standards.

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

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

### **Post-Opening Assistance**

During the operation of the Franchised Business:

1. If you are opening a new restaurant, we or our designated affiliate will create a marketing plan for (i) a grand opening event and (ii) the initial advertising of your Franchised Business, and will work with you to obtain your input on the marketing plan (See Exhibit E: Franchise Agreement—Sections 5.24 and 10.2).

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

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

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

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

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

7. We may offer you the option for a one-time renewal of your Franchise Agreement prior to its expiration for a maximum term of five years, if you meet our requirements. Upon renewal, you must execute our form of Franchise Agreement being used at the time of your renewal and pay us

the applicable Renewal Franchise Fee (See Exhibit E-1: Franchise Agreement (New) – Article 13; Exhibit E-3: Franchise Agreement (Transfer)).

### **Optional Assistance**

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

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

### **Advertising**

1. We (or, at our election, a third party that may be an affiliate of ours) will establish and administer the Fund that will include your Advertising Fees and those of other franchise owners in the System, in accordance with the Franchise Agreement. The Advertising Fee, which is a percentage of your weekly Gross Sales (See Exhibit E: Franchise Agreement – Section 5.3), shall be due and payable with the Royalty Fee (See Exhibit E: Franchise Agreement – Section 5.2). Except in limited circumstances as described below, all *Surf City Squeeze* franchisees must contribute to the Fund at the same rate, which is currently 1% of your weekly Gross Sales (or for restaurants co-branded with Blimpie restaurants located within Wal-Mart stores, currently 2% of your weekly Gross Sales) to the National Fund. In limited cases in our sole discretion (for example, certain international restaurants or non-traditional restaurants such as airport or university locations that require different advertising support), some stores may not be obligated to contribute to the Fund. If an affiliate of ours administers the Fund or places advertising in connection with the System, such affiliate may be paid a fee that will not exceed the fee that would be payable to unrelated third parties for comparable services. For each of our company-owned or affiliate-owned restaurants, it's our policy that such restaurants make contributions to the Fund at a rate equal to the lowest rate a franchisee is then-required to contribute. Unless required by applicable law, we will have no obligation to create a trust account, escrow account or other special account for the Fund, and the monies comprising the Fund may be placed in our general account(s) if we desire. We may also reserve portions of the Fund for use in a subsequent year. The Fund is not audited, and the financial statements for the Fund and accounting of the Fund are not available to franchisees.

2. The Fund will be used for marketing, advertising, production and media expenses to promote the *Surf City Squeeze* name, System, products and services. The Fund may be used to pay any and all costs of maintaining, administering, directing and preparing advertising, including the cost of preparing and conducting television, radio, magazine, digital, and newspaper advertising campaigns and other public relations activities, employing advertising agencies to assist in such campaigns or other activities, and providing promotional brochures and other marketing materials to franchise owners. We are entitled to receive the following from the Fund: reimbursement of our expenses, overhead, and employee salaries for services, materials, supplies, facilities, equipment or capital provided to the Fund, and rent for office space provided to the Fund. Advertising funds not spent in the fiscal year in which they accrue are rolled over to the next fiscal year. We have no fiduciary responsibility to you on our management of the Fund, and no obligation to you to spend the Fund in your market area and/or in your Cooperative area, if applicable.

3. We, or our designee, will direct all advertising programs to be undertaken through the use of the Fund. We will have sole discretion over all creative concepts, materials and media used in such programs and the placement and allocation of such programs. Advertisements generally will be in print, digital, and broadcast media, initially with local coverage. We are not required to use any specific amounts from the Fund in your market. However, we in our sole discretion may use some

amounts contributed by you to any approved regional advertising funds, if any, in the same geographic area in which your restaurant is located. We may use an outside advertising agency to create and place advertising or we may use our in-house marketing department. The Fund will be used to create new marketing material and promote the products and services offered by *Surf City Squeeze* restaurants.

Advertising Fund expenditures during our most recent fiscal year ending November 30, 2025, fell into the following categories:

|                 |        |
|-----------------|--------|
| Production      | 14.94% |
| Media Placement | 46.92% |
| Administrative  | 34.43% |
| Other           | 3.71%  |
| TOTAL           | 100%   |

The “other” expenses included public relations, research, concept development and communications. None of the Fund was used for the solicitation of franchises.

4. A telephone directory advertisement must be approved by us in advance (See Exhibit E: Franchise Agreement—Section 10.2).

5. In addition to contributions to the Fund and the telephone directory advertisements, if applicable, described above, we strongly recommend that you spend not less than 2% of your monthly Gross Sales on local advertising. (See Exhibit E: Franchise Agreement—Section 5.3).

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

7. You may not maintain a web site, software application, an App (application), social media account (including, but not limited to, an account, group or page on Facebook®, Flickr®, Foursquare®, Google+®, Instagram®, LinkedIn®, Pinterest®, Snapchat®, Tumblr®, X/Twitter®, YouTube®, Vine®, VKontakte or Weibo®), or otherwise maintain a presence or advertise on the Internet or any other public computer network in connection with the Franchised Business without our prior written approval (See Exhibit E: Franchise Agreement – Section 3.4).

8. We will not prevent the formation of franchisee cooperatives. Currently, there are no regional or national marketing cooperatives for *Surf City Squeeze* franchisees. We encourage our franchisees to form and operate Cooperatives. If a Cooperative is formed for your region, you must financially contribute to the Cooperative as required by us. Failure to do so will be deemed a breach of the Franchise Agreement and you may also, in Franchisor’s sole discretion, lose your right to vote as to Cooperative matters. The membership of the Cooperative would be defined by us according to your market area. We reserve the right at any time, in our sole discretion, to form, change, dissolve, or merge Cooperatives.

9. Currently, there is no advertising council composed of *Surf City Squeeze* franchisees that advises us on advertising policies.

## Computer System

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

a. We require you to use a POS System that meets our specifications in order to: (i) assist you in the operation of your *Surf City Squeeze* restaurant; (ii) allow us to monitor your gross sales; (iii) enable us to develop chain-wide statistics that may improve purchasing; (iv) assist us in the development of new authorized products or the removal of existing unsuccessful authorized products; (v) enable us to refine existing authorized products; (vi) generally improve system-wide understanding of our marketing efforts; and (vii) obtain new types of information. The POS System must be configured so that we have independent and remote access to the information and data stored in it. We must also have independent access to your computer system. This access allows us to exchange/collect data and other information on such basis as we shall from time to time communicate to you. There are no contractual limitations on our right to access the information in your POS System. All approved cash registers are capable of recording accumulated sales and cannot be turned back or reset, and must be able to retain data in the event of power loss. You must purchase the approved electronic POS System from an approved vendor, as we have required our approved supplier to make special modifications to their equipment and systems to comply with our requirements (See Exhibit E: Franchise Agreement – Section 4.6). You must also purchase approved software for your restaurant. The cost of purchasing the POS System, including the software, ranges from \$2,510 to \$10,000. You must also purchase from us a POS Help Desk Phone Support Maintenance contract on both the software and hardware for your FOCUS POS System, the cost of which is currently \$55 per month and subject to increase. It is recommended that you also purchase the hardware support for all modules for the first year you operate your restaurant. The cost is approximately \$150 to \$1,300 per year depending on the equipment installed. This cost is subject to change by the supplier. If you are required to purchase digital menu boards, you may also be required to purchase hardware to manage the digital menu board, the cost is approximately \$5,500.

b. The approved POS System has in its specifications integrated “card swipe” systems that process debit card, credit card, or other non-cash payment systems including our stored value gift cards, loyalty cards, frequency cards, gift certificates, vouchers, and any other similar electronic card and/or payment programs (collectively, the “Gift/Loyalty Card”) sponsored by us or our affiliates. You must obtain credit card and gift card processing services from our approved vendors. The charges associated with credit card and gift card transactions are compiled per transaction and therefore will vary from restaurant to restaurant. We estimate that the costs associated with credit card transactions will be between 1% and 4% of your gross sales. A 5% to 11% gift card redemption amount may be charged in the future but as of the date of this disclosure is not currently collected by franchisor or an affiliate. The Payment Card Industry (“PCI”) requires all companies that process, store, or transmit credit card information to protect the cardholders’ information by complying with the PCI Data Security Standard (“PCI DSS”). Therefore, as a franchisee who accepts credit cards, you are required to be PCI compliant by following and adhering to PCI DSS, completing an annual questionnaire and quarterly network PCI scans and installing a network firewall appliance for logging, tracking, reporting, and security assessment. We may require a particular firewall (hardware and/or software). The PCI compliance is mandated by the Payment Card Industry. The cost for the quarterly network security scans, network firewall appliance and annual questionnaire ranges from \$150 to \$1,300 per year. You are also required to validate with Kahala that your store is PCI complaint to show validation you must send Kahala your Passing Certificate showing your store is PCI compliant and also verify that you have a PCI compliant firewall appliance installed at your location if you process credit cards via high speed internet connectivity.

c. You must purchase a computer and connect to the Internet so that you can report your gross sales online, so that we can communicate by email, so that you can use Internet and Extranet services, and so that you can receive other electronic information we send. You also must, at your cost, maintain membership in a designated third party network, and maintain an active email account. We may revise our computer specifications. If we do so, we may require you to upgrade or update your computer, including but not limited to your operating system. There is no contractual limitation on the frequency and cost of this obligation. You are responsible for backing up and otherwise protecting your data on your computer. You are also responsible for recording and restoring all software license keys. We may require you to upgrade the hardware and software as reasonably necessary to provide reports and information required by us. All franchisees are required to participate in online ordering and delivery programs, which may, in Franchisor’s sole discretion, require you to pay for certain goods and/or services from Franchisor, Franchisor’s affiliate, and/or unaffiliated third-party providers. For example, as of the Disclosure Document’s Issuance Date, franchisees are required to enter into an agreement with, and pay corresponding fees to, Olo as established by Olo for such goods and/or services. Applicable fees may include, as of the Disclosure Document’s Issuance Date, a monthly fee of \$60, a dispatch fee of \$0.50 per order plus a portion of the delivery fee, a Technology Transaction Fee ranging from \$0.025 to \$0.035 per transaction, an Order with Google fee equal to 5% of the order subtotal, an Olo Pay fee ranging from 2.65% to 2.80%, a one-time store activation fee of \$250 for all new locations, and chargeback fees of \$5 per dispute; additional fees may apply if applicable, including a Catering Monthly Fee, Catering Order Transaction Fee, Billing Service Admin Fee, Post-Launch Transaction Fee, and a Location Transfer Fee. This provider and/or its fees may change, in Franchisor’s sole discretion, upon advance notice to you. Additionally, third-party delivery programs may charge varying fees, including commissions of 15% to 24%, order processing fees (for example, \$0.99 promo fees, 2.99% processing fees, or 3.05% plus \$0.30 per order), and pickup fees of 6% to 10%. Program terms and fees vary by provider and may change or increase under the provider’s then-current terms.

2. We require that you permit us to poll your sales information on a daily basis, and that you execute a Pre-Authorized Electronic Funds Transfer Form by and payable to Kahala Franchising (which is attached to this Disclosure Document as Exhibit P), permitting us to weekly debit your



account for payment of weekly royalty and advertising fees and debit your account as necessary for product purchases from us or our affiliates (See Exhibit E: Franchise Agreement – Sections 5.2, 5.3, and 5.4). We may require you to enter weekly inventory information, and if so, would require that you permit us have remote access to that information (See Exhibit E: Franchise Agreement – Section 4.6). We may require you to permit us access to your POS System, restaurant management software, and financial records (or similar tools thereto) to poll your information daily, or more frequently, by electronic or other remote means (See Exhibit E: Franchise Agreement – Section 5.2).

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

## **ITEM 12: TERRITORY**

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

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

In addition, we (and/or our affiliates) may market and/or test, directly or indirectly, *Surf City Squeeze* products or services through channels of distribution other than *Surf City Squeeze* restaurants operated by us, our affiliates and franchisees, including through the Internet, catalog sales, telemarketing, grocery stores, movie theaters, limited access highway food facilities, mobile units, off-site sales accounts, electronic mail, converting other chains and other distribution opportunities, or vending machines and similar automated dispensing systems (“Other Channels”) which generally are not available for us to franchise to you, and typically involve trademark licensing and/or the sale of our branded products. We may also distribute, sell and/or license other persons or entities to distribute and/or sell products through all Other Channels. Where tests prove to be successful, we may expand our sale of products in similar businesses on a regional, national or international level. We reserve the right to establish Other Channels to make sales that may compete with your location using our principal trademarks. These Other Channels could compete with you in the sale of your products. Kahala Franchising is under no obligation to compensate its franchisees on sales Kahala Franchising makes using Other Channels. Kahala Franchising is under no obligation to compensate franchisees for soliciting or accepting orders in the franchisee’s territory as the franchisee is granted no exclusive territory. Franchisees may not use Other Channels, including the Internet, catalog sales or telemarketing to make sales except that the franchisee may provide catering

services anywhere as long as such services comply with the current version of our Confidential Manual. All sales made from catering services must be included in the franchisee's Gross Sales. We reserve the right, directly or through third parties, to manufacture or sell, or both, anywhere, other products which are the same as or similar to those sold in *Surf City Squeeze* restaurants, but which bear trademarks that are not confusingly similar to any of the trademarks you are authorized to use under the Franchise Agreement.

We reserve the right, either directly or through affiliated entities, to operate or license others to operate businesses other than *Surf City Squeeze* restaurants anywhere, including, but not limited to, locations of our other quick service restaurant concepts and you agree that we or our affiliates may do so within your Territory (if applicable), and you agree that we or our affiliates may do so anywhere.

The NrGize Lifestyle Cafe brand is a business that we franchise under a different trademark than *Surf City Squeeze* that sells smoothies, fruit drinks and nutritional supplements similar to those offered by *Surf City Squeeze*. The Frullati Cafe & Bakery brand listed above is another business that we franchise under a different trademark than *Surf City Squeeze* that also sells blended fruit and vegetable drinks similar to the smoothies offered by *Surf City Squeeze*. The Maui Wowi brand is a business that we franchise under a different trademark than *Surf City Squeeze* that sells smoothies similar to those offered by *Surf City Squeeze*. The Cold Stone Creamery brand listed above is another business that we franchise under a different trademark than *Surf City Squeeze* that sells smoothies similar to those offered by *Surf City Squeeze*. The La Duperie brand is a business our affiliate franchises under a different trademark than *Surf City Squeeze* that specializes in the retail sale of a smoothie offerings that are similar to those offered by *Surf City Squeeze*. The Planet Smoothie brand is a business that we franchise under a different trademark than *Surf City Squeeze* that sells smoothies, fruit drinks and nutritional supplements similar to those offered by *Surf City Squeeze*. The Pinkberry brand is a business that we franchise under a different trademark than *Surf City Squeeze* that sells smoothies similar to those offered by *Surf City Squeeze*. The NrGize Lifestyle Cafe franchises are offered under the NrGize Lifestyle Cafe word and design trademarks, the Maui Wowi franchises are offered under the Maui Wowi word and design trademarks, the Frullati Cafe & Bakery franchises are offered under the Frullati Cafe & Bakery word and design trademarks, the Cold Stone Creamery franchises are offered under the Cold Stone Creamery word and design trademarks, the Planet Smoothie franchises are offered by under the Planet Smoothie trademark, the Pinkberry franchises are offered by under the Pinkberry trademark, and the La Duperie franchises are offered by our affiliate under the La Duperie trademark. The NrGize Lifestyle Cafe restaurants, Frullati Cafe & Bakery restaurants, Maui Wowi mobile and fixed operating units, La Duperie stores Planet Smoothie restaurants, Pinkberry restaurants and Cold Stone Creamery restaurants are primarily franchised, but may also be operated by an affiliate of Kahala Franchising. NrGize Lifestyle Cafe franchises have been offered by us from 2006 until March 2010 under the name of Kahala Franchise Corp. and since August 2010 under the name of Kahala Franchising; Frullati Cafe & Bakery franchises have been offered by us from 1999 until 2004 under the name of Frullati Franchise Systems, Inc., from 2004 until March 2010 under the name of Kahala Franchise Corp., and since August 2010 under the name of Kahala Franchising; Cold Stone Creamery franchises have been offered by us from May 2007 until April 2008 under the name of Cold Stone Creamery, Inc., from April 2008 until March 2010 under the name of Kahala Franchise Corp., and since August 2010 under the name of Kahala Franchising; Maui Wowi franchises have been offered by us since November 2015; Planet Smoothie franchises have been offered by us from June 2015 until April 2016 under the name Tasti D-Lite LLC, and since June 2016 under the name of Kahala Franchising; and Pinkberry franchises have been offered by us from December 2015 until April 2016 under the name Pinkberry Ventures, Inc., and since June 2016 under the name of Kahala Franchising. La Duperie franchises have been offered by our affiliate since April 2019. A Maui Wowi mobile and/or fixed operating unit, an NrGize Lifestyle Cafe restaurant, a Frullati Cafe & Bakery restaurant, a Cold Stone Creamery restaurant, La Duperie restaurant, a Planet Smoothie restaurant

and/or a Pinkberry restaurant may be located within the vicinity of your *Surf City Squeeze* restaurant. Franchisees of the NrGize Lifestyle Cafe brand, Frullati Cafe & Bakery brand, Maui Wowi brand, Cold Stone Creamery brand, *Surf City Squeeze* brand Pinkberry and La Duperie brand are not currently given an exclusive territory, but traditional Planet Smoothie franchises do have an exclusive territory pertaining to other traditional Planet Smoothie franchises. Kahala Franchising will provide support to all of its concepts regardless of the vicinity of a concept to another concept that sells similar products. The principal business address of these similar concepts is the same as Kahala Franchising's address.

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

On July 26, 2016, Franchisor's parent company, Kahala Brands, merged with a wholly-owned subsidiary of MTY. MTY's address is 8150 Transcanada Highway, Suite 200, Saint Laurent, Québec H4S 1MF. As described in Item 1, subsequent to the merger, in addition to the concepts franchised by Kahala Franchising or its current or former affiliates, MTY franchises over fifty-five (55) different restaurant concepts and sub-franchises two (2) other different restaurant concepts.

Certain of the restaurant concepts franchised by MTY offer goods or services that are the same or similar to those that you will offer under the *Surf City Squeeze* brand. MTY offers the same or similar goods or services under the Cafe Depot, Country Style, Croissant Plus, Muffin Plus, Jugo Juice, La Crémère, and Van Houtte trademarks. At this time, the Cafe Depot, Country Style, Croissant Plus, Muffin Plus, Jugo Juice, La Crémère, Purbblendz, and Van Houtte concepts are not franchised by MTY in the United States and are only offered in Canada by MTY subsidiary, MTY Canada, with no plans at this time to expand to the United States.

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

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

### **ITEM 13: TRADEMARKS**

We will grant you the non-exclusive right to operate the *Surf City Squeeze* restaurant specified in your Franchise Agreement or any amendments to your Franchise Agreement under the *Surf City Squeeze* trademark. You will also be granted the right to use our other current or future trademarks that we may from time to time designate as being available for use by franchisees in the *Surf City Squeeze* System. By "trademarks" we mean trade names, trademarks, service marks, logos, Trade Dress (as defined below), and product identifiers used to identify your Franchised Business. "Trade Dress" is defined as the total appearance and image of the *Surf City Squeeze*

restaurant; smoothie, fruit drinks, and nutritional supplement combinations and packaging graphics of *Surf City Squeeze* restaurants and the smoothie, fruit drinks, and nutritional supplement combinations and packaging; and all advertising and marketing techniques used to promote the franchise, as well as specifically including, without limitation, all signage, menu boards, product displays, and any color schemes and designs utilized in connection with *Surf City Squeeze* restaurants' interior walls, counters, table tops, chairs, and floors. You must not directly or indirectly contest our right to our trademarks.

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

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

| TRADEMARK                                                                         | REGISTRATION DATE  | REGISTRATION NUMBER |
|-----------------------------------------------------------------------------------|--------------------|---------------------|
| Surf City Squeeze                                                                 | December 24, 2002  | 2,666,237           |
|  | September 12, 2006 | 3,141,952           |

All affidavits of use required to be filed to maintain these registrations have been filed.

There are no applications pending with the U.S. Patent and Trademark Office at this time.

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

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

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

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

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

We do not know of any superior prior rights or infringing uses or effective material determinations of the United States Patent and Trademark Office, Trademark Trial and Appeal Board, trademark administrator of this state or of any court, nor do we know of any pending infringement, opposition or cancellation proceeding that could materially affect your use of our trademarks. We do not know of any pending material federal or state court litigation regarding our use or ownership rights in the above registered trademarks or pending applications.

#### **ITEM 14: PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION**

We own proprietary information and rights in numerous items, such as menu formats, advertising designs, processes, techniques, formulae for Surf City Squeeze drinks and smoothies, the method of production and storage of products and information contained in the Confidential Manual and related documents. In connection with the operation of the Franchised Business, we may disclose to you certain information in which we claim proprietary rights. For example, our Confidential Manual incorporates certain information that we believe is protected under the law of trade secrets, including sales and marketing techniques and restaurant operations. In addition, although we have not registered the copyright with the United States Copyright Office, the Confidential Manual is protected against unauthorized copying under United States Copyright laws for 100 years from the date of creation or 75 years from the date of publication, whichever is shorter. You must use the proprietary information only in the manner required by us and in no other manner. This information is strictly confidential and you may not disclose it to any person, or use any of that

information for any purpose, except disclosure to a person who has signed and delivered to us the “Confidentiality Agreement” included in the Confidential Manual, and you may only use this information as necessary in connection with the operation of your Franchised Business. In addition, you must fully and strictly comply with all security measures required by us for maintaining the confidentiality of all information designated by us as trade secrets.

To date, we have not registered any work with the United States Copyright Office. There are no agreements currently in effect that significantly limit our right to use or license the use of our copyright protected works.

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

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

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

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

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

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

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

If you are an individual and married, your spouse must: sign the Guaranty of Franchise Agreement in which your spouse agrees to perform, and guarantees, all of the franchisee's obligations to us and our affiliates contained in the Franchise Agreement (see Exhibit F-1) and a Non-Disclosure and Non-Competition Agreement (see Exhibit F-2); if applicable; sign the Guaranty of Sublease in which your spouse agrees to perform, and guarantees, all of the sublessee's obligations to us and our affiliates contained in the Sublease (see Exhibit O); and, if you purchase a corporate restaurant, sign the Guaranty of Promissory Note and Security Agreement and Guaranty of Sublease in which your spouse agrees to perform, and guarantees, all of the franchisee's obligations to us and our affiliates contained in the Promissory Note and Security Agreement, and all of the sublessee's obligations to us and our affiliates contained in the Sublease (see Exhibit D: Guaranty of Promissory Note and Security Agreement and Exhibit O: Guaranty of Sublease). Each person, corporation, partnership, limited liability company or other entity that owns, directly or indirectly, an equity interest in the franchised entity ("Principal"), and each executive officer must sign the Personal Acceptance attached to the Franchise Agreement ("Personal Acceptance") in which the Principal agrees to be bound by the restrictive covenants, the confidentiality provisions and certain other provisions contained in the Franchise Agreement. Each Principal (and his/her spouse, if married) must also: sign the Guaranty of Franchise Agreement in which the Principal (and his/her spouse, if married) agree to perform, and guarantee, all of the franchisee's obligations to us and our affiliates contained in the Franchise Agreement; his/her spouse, if married, sign the Non-disclosure and Non-Competition Agreement; if applicable, sign the Guaranty of Sublease in which the Principal (and his/her spouse, if married) agree to perform, and guarantee, all of the sublessee's obligations to us and our affiliates contained in the Sublease; and if purchasing a corporate restaurant, sign the Guaranty of Promissory Note and Security Agreement and Guaranty of Sublease in which each Principal (and his or her spouse, if married) agrees to perform, and guarantees, all of the franchisee's obligations to us and our affiliates contained in the Promissory Note and Security Agreement and all of the sublessee's obligations to us and our affiliates contained in the Sublease. In the event that any person who has not signed an appropriate guaranty becomes your spouse or the holder of any class or your stock or ownership interests or a spouse of such holder, at any time after the execution of the respective agreement as referenced above, you must cause such person(s) to immediately execute and deliver the required guaranty to us.

We are not seeking to license you to operate a *Surf City Squeeze* restaurant if your principals are merely seeking a passive investment.

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

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

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

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

#### **ITEM 16: RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL**

We require that your business is solely that of a *Surf City Squeeze* restaurant, and you may not conduct any other business or activity at the site of the restaurant without our prior written approval. For traditional *Surf City Squeeze* franchises, you must offer the full menu prescribed by us, subject to change from time to time in our sole discretion. Non-traditional *Surf City Squeeze* franchises may offer a more limited menu than the traditional *Surf City Squeeze* franchises, as detailed in the Confidential Manual. We have the right to require you to sell additional authorized products and services from time to time that we believe will be successful. You will be obligated to offer and sell those new products and to participate in all local, regional, seasonal and promotional programs, initiatives and campaigns adopted by us in which we require you to participate. We reserve the right to designate which of our franchisees may, or will be required to, participate in new product or service tests, new or modified product or service offerings and other programs and initiatives that we may periodically develop. If we designate you for participation in any such program, initiative or campaign, you must participate when and as required by us. There are no limits on our right to require you to offer and sell those new products or to participate in those programs, initiatives and campaigns. You may not add any item to your menu unless it is first researched and tested through our research and development center and approved by us in writing. In addition, you may not offer or sell any products or services specified by us in any configuration, form or manner (including items for resale) other than those specifically approved by us. You are prohibited from offering or selling any products or services not authorized or approved by us. You may only use products, materials,



ingredients, supplies, paper goods, uniforms, fixtures, furnishings, signs, equipment, POS System, debit and credit card and Gift/Loyalty Card processing service, and methods of product preparation and delivery that meet our requirements as specified in the Confidential Manual.

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

## ITEM 17: RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

### THE FRANCHISE RELATIONSHIP

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

| Provision                                    | Section in Franchise Agreement | Summary                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|----------------------------------------------|--------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| a. Length of the Term of the Franchise       | Section 1.3                    | If you are <u>purchasing a new or existing non-operating <i>Surf City Squeeze</i> restaurant</u> , the term is (i) 10 years from the date the restaurant opens to the public if you own the property, or enter into a lease directly with the landlord or other third party, or (ii) the term of the sublease if you enter into a sublease with a Kahala Franchising affiliate excluding any extensions or renewal options. <u>If you are purchasing an existing and operating <i>Surf City Squeeze</i> restaurant</u> , the term is 10 years from the effective date of the franchise agreement if you own the property, or enter into a lease directly with the landlord or other third party, or (ii) the term of the sublease if you enter into a sublease with a Kahala Franchising affiliate, excluding any extensions or renewal options. <u>If you are purchasing a <i>Surf City Squeeze</i> restaurant that will be co-branded into another Kahala-brand restaurant</u> , the term of your franchise agreement for this brand will equal the remaining term of the existing franchise agreement for the store which this brand will be co-branded into, so both franchise agreements will expire concurrently. <u>If you are entering into a renewal agreement for your <i>Surf City Squeeze</i> Restaurant</u> , the term is five years from the effective date of your renewal Franchise Agreement. |
| b-1. Renewal or extension of the Term        | Article 13 (New & Transfer)    | If you are not in default and satisfy certain conditions, you may renew for a single renewal term of 5 years, with no further right to renew at the end of the renewal term.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| c-1. Requirements for you to renew or extend | Article 13 (New & Transfer)    | “Renewal” means to sign a renewal Franchise Agreement (which will be in the form of the Franchise Agreement then customarily used by us in renewing franchises) and all other agreements then                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

| Provision                                           | Section in Franchise Agreement | Summary                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-----------------------------------------------------|--------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                     |                                | customarily used by us in the granting of franchises. The renewal franchise agreement may have materially different terms and conditions than the original Franchise Agreement, including higher royalty and advertising fees. If offered, you must: give at least 210 days' notice prior to the expiration date of the term; not be in default; be in compliance with the terms of the Franchise Agreement and Confidential Manual; not have received more than 3 notices of default or breach of the Franchise Agreement during its term, nor more than 2 such notices during the 5 years immediately before the proposed renewal date; have a premises; sign a Franchise Agreement which may have materially different terms and conditions than the original Franchise Agreement; pay a renewal franchise fee; remodel or refurbish if necessary; and be current on all financial obligations to us. You must also sign the General Release in form attached to the Disclosure Document as <u>Exhibit Q</u> .                                                                                                                                                                                                                                                                                                                                                                                          |
| b-2. Successor Term                                 | Article 13 (Renewal)           | If at the end of your renewal term, you are not in default and satisfy certain conditions, you may apply for a successor term                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| c-2 Requirements for you to obtain a successor term | Article 13 (Renewal)           | Applying for and entering into a "successor" term means to sign a new Franchise Agreement (which will be in the form of the Franchise Agreement then customarily used by us in entering into new franchises) and all other agreements then customarily used by us in the granting of franchises. The successor term Franchise Agreement may have materially different terms and conditions than the original Franchise Agreement, including higher royalty and advertising fees. In the event you desire to apply to us to extend your rights to operate the Franchised Business for a successor term, you must: give at least 210 days' notice prior to the expiration date of the renewal term; not be in default; be in compliance with the terms of the Franchise Agreement and Confidential Manual; not have received more than 3 notices of default or breach of the Franchise Agreement during its term, nor more than 2 such notices during the 5 years immediately before the proposed successor term effective date; have a premises; sign a Franchise Agreement which may have materially different terms and conditions than the original Franchise Agreement; pay an initial franchise fee; remodel or refurbish if necessary; and be current on all financial obligations to us. You must also sign the General Release in form attached to the Disclosure Document as <u>Exhibit Q</u> . We |

| Provision                                     | Section in Franchise Agreement         | Summary                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-----------------------------------------------|----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                               |                                        | reserve the right to reject your application for a successor term, at our sole discretion, for any reason, without limitation, failure to meet our then-current standards or requirements for new franchisees. If we decide to reject your application for a successor term to operate the Franchise Business, we will give you a notice to that effect within sixty (60) days after you deliver to us your notice of intent to apply for a successor term.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| d. Termination by you                         | Not Applicable                         | -----                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| e. Termination by us without cause            | Not Applicable                         | -----                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| f. Termination by us with cause               | Sections 3.1 (New & Transfer) and 14.1 | We can terminate only if you are in default under the Franchise Agreement or any other Franchise Agreements or other agreements between You and us.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| g. "Cause" defined—defaults that can be cured | Sections 14.1 and 14.2                 | You have an immediate cure period of less than 24 hours to cure defaults of your violation of our social media policy regarding posting content containing inappropriate public displays of affection, confidential information, violations of health or safety standards, foul or obscene language, or images that have not been consented to. You have 24 hours to cure defaults of your violation of (i) any law, regulation, or order; (ii) our standards relating to health, sanitation, or safety; (iii) our policy regarding posting defamatory or offensive comments on social media sites; or (iv) you cease to operate your store for a period of 48 hours without our consent. You have 48 hours to cure defaults of your violation of our social media policy where you have a social media site in connection with your franchised business without approval or hold out your social media site to be an official site of <i>Surf City Squeeze</i> , or if you fail to participate in any limited time product offering, value offering, contest, promotion or charity event. You have 7 days to cure defaults of failure to (i) pay us or any Advertising Fund (inclusive of a Cooperative) monies owing; or (ii) maintain insurance. You have 14 days to cure other defaults, except those which have no cure period. If a statute in the state or municipality in which the Franchised Business is located requires application of that state or municipal law, and that statute requires a cure period for the applicable default which is longer than the cure period listed in the Franchise Agreement, the statutory cure period will apply. |

| Provision                                         | Section in Franchise Agreement      | Summary                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|---------------------------------------------------|-------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| h. "Cause" defined— defaults that cannot be cured | Sections 12.1, 14.1 and 14.2        | Non-curable defaults: failure to open your restaurant within the time period listed in your Franchise Agreement; non-compliance with applicable laws and regulations, failure to adhere to the highest standards of honesty, integrity, fair dealing and ethical conduct, involvement in any business practice which may be injurious to the System or goodwill associated with the Proprietary Marks; defaulting on your lease or sublease and failure to cure such default, lease or sublease is terminated due to your default, or location is lost for failure to comply with lease or sublease; you, or any owner, co-owner or principal of the franchise, is convicted of a felony, a crime involving moral turpitude, or any other crime or offense that is reasonably likely to adversely affect the System, the goodwill associated therewith, or our interest therein; closing or relocating your restaurant, without our express advance written consent; transferring or attempting to transfer your Franchise Agreement or Franchised Business to a third party without our express advance written consent; bankruptcy, insolvency and similar events; conviction of felony; making any false representations or warranties; repeated defaults even if previously cured; abandonment; trademark misuse; unauthorized use of any of the components of the System; materially impair the goodwill or reputation of the System; breach of confidentiality or non-competition covenants; fraud with respect to obligations under the Franchise Agreement; you or any of your owners, officers, directors, managers, members, or partners violate any anti-bribery, corruption, or similar law or appear on a "blocked" persons list, or receive funding from any embargoed country; falsify financial data; failure to promptly provide upon request financial data and records specified in the Franchise Agreement; and intentionally underreporting weekly Gross Sales. |
| i. Your obligations on termination/non-renewal    | Sections 14.5, 14.6, 14.7, and 14.9 | Obligations include cessation of your operation of the franchised business in all matters, complete de-identification, payment of amounts due us (also see "r" below) including early termination damages if any, transfer of telephone numbers, maintenance of records, and compliance with any confidentiality requirements and covenants not to compete.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| j. Assignment of contract by us                   | Section 12.5                        | No restriction on our right to assign.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |

| Provision                                                                           | Section in Franchise Agreement | Summary                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|-------------------------------------------------------------------------------------|--------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| k. "Transfer" by you—definition                                                     | Section 12.1                   | Any voluntary, involuntary (including by operation of law), direct or indirect assignment, sale, gift or other transfer by you.                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| l. Our approval of transfer by franchise owner                                      | Section 12.1                   | We have the right to approve all transfers, but we will not unreasonably withhold approval.                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| m. Conditions for our approval of transfer                                          | Sections 5.13, 5.15 and 12.3   | New franchise owner qualifies, no existing defaults, transfer franchise fee and transfer training fee paid, all obligations under the Franchise Agreement are fully paid and satisfied, new franchisee completes training for two individuals (additional fee for additional individuals trained), remodels or refurbishes if necessary, and keeps existing store telephone number, release signed by you, new agreements signed.                                                                                                                                         |
| n. Our right of first refusal to acquire your business                              | Section 12.2                   | We can match any offer for your business.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| o. Our option to purchase your business                                             | Section 12.2                   | We can match any offer for your business.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| p. Your death or disability                                                         | Section 12.4                   | If representative of franchisee wants the restaurant to continue operating, it must be transferred within 90 days to an approved buyer. Upon non-compliance, all of franchisee's rights under the Franchise Agreement will be automatically terminated.                                                                                                                                                                                                                                                                                                                   |
| q. Non-competition covenants during the term of the franchise                       | Section 14.6                   | No involvement in any competing business.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| r. Non-competition covenants after the Franchise Agreement is terminated or expires | Section 14.6                   | No competing business for 2 years, within 10 miles of another <i>Surf City Squeeze</i> restaurant.                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| s. Modification of the Agreement                                                    | Sections 4.5 and 16.13         | Confidential Manual subject to change at any time; otherwise no modifications unless in writing and signed by both parties.                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| t. Integration/merger clause                                                        | Section 16.14                  | Only the terms of the Franchise Agreement are binding (subject to state law). Any representations or promises outside the Disclosure Document and Franchise Agreement may not be enforceable.                                                                                                                                                                                                                                                                                                                                                                             |
| u. Dispute resolution by arbitration or mediation                                   | Section 16.3                   | Any dispute that cannot be resolved by, or is not subject to, mediation shall be settled by arbitration administered by the American Arbitration Association in the county and state where the Franchised Business is located, before a single arbitrator who is a licensed U.S. attorney with at least five years of franchise law experience. This does not apply to a dispute where we bring an action for an express obligation to pay monies, declaratory relief, preliminary or permanent equitable relief, any action for damage to Kahala Franchising's goodwill, |

| Provision          | Section in Franchise Agreement | Summary                                                                                                                                                                                                                                                                                                                                                                                                          |
|--------------------|--------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                    |                                | proprietary information, trademarks, or for fraudulent conduct by the franchisee, or where a delay in the dispute resolution process may adversely affect the public. Disputes must be conducted on an individual basis only. Any issue regarding the validity or applicability of the class action waiver must be decided by a court. If the waiver is deemed unenforceable, arbitration will not apply.        |
| v. Choice of forum | Section 16.3                   | Arbitration takes place in the county and state where the Franchised Business is located. For certain excluded disputes (e.g., IP, money owed, injunctive relief, urgent matters), the Franchisor may bring an action in any court having jurisdiction, and the Franchisee waives all objections to venue and jury trial.                                                                                        |
| w. Choice of law   | Section 16.3                   | Except to the extent governed by the United States trademark laws or the franchise laws of any state, the laws of the State where the Franchised Business is located govern all rights and obligations of the parties under this Agreement without regard to conflict of law, and any arbitration shall take place before a sole arbitrator in the County of the State where the Franchised Business is located. |

### **Sublease**

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

| Provision                                  | Section in Sublease | Summary                                                                                                                                                                                      |
|--------------------------------------------|---------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| a. Term of the Sublease                    | 2.1                 | Ends one day before expiration of Master Lease, including any renewals of Master Lease.                                                                                                      |
| b. Renewal or extension of the term        | 2.2 and 2.3         | If the Master Lease contains a renewal option, you must notify us to exercise it.                                                                                                            |
| c. Requirements for you to renew or extend | 2.2 and 2.3         | You must be in good standing and you must notify us of your intent to renew at least 60 (but not more than 90) days before we are required to notify the Master Landlord of intent to renew. |
| d. Termination by you                      | Not Applicable      | You have no right to terminate the Sublease.                                                                                                                                                 |
| e. Termination by us without cause         | Not Applicable      | There is no right to terminate the Sublease without cause.                                                                                                                                   |
| f. Termination by us with cause            | 15                  | Our Leasing Affiliate may terminate the Sublease for cause. Our Leasing Affiliate can terminate only if you default under the Master Lease, Sublease or the Franchise Agreement.             |

| <b>Provision</b>                                                          | <b>Section in Sublease</b> | <b>Summary</b>                                                                                                                                                                                                                                                                                                             |
|---------------------------------------------------------------------------|----------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| g. "Cause" defined – curable defaults                                     | 15.1                       | Our Leasing Affiliate can terminate if you default in the: (i) payment of any sums you owe; (ii) performance of any of the terms, covenants, or conditions of the Master Lease or Sublease; or (iii) default under the Franchise Agreement or any other agreement between you or your affiliates and us or our affiliates. |
| h. "Cause" defined – defaults that cannot be cured                        | 15.1                       | Bankruptcy of, or general assignment for the benefit of creditors by, franchisee; defaults under the Master Lease that are not curable                                                                                                                                                                                     |
| i. Your obligations on termination/nonrenewal                             | 15                         | Our Leasing Affiliate may enter and take possession of the premises and all of the furniture, fixtures, equipment, signage, inventory and other items covered by our lien under Section 4.2 of the Sublease; you are not relieved of further obligations under the Sublease.                                               |
| j. Assignment of agreement by us                                          | 22                         | Our Leasing Affiliate has the right to assign under the Master Lease.                                                                                                                                                                                                                                                      |
| k. "Transfer" by you – defined                                            | 9 and 22                   | Approval of Leasing Affiliate is required.                                                                                                                                                                                                                                                                                 |
| l. Our approval of transfer by you                                        | 9                          | Approval of Leasing Affiliate, at its sole discretion, and approval of landlord may be required.                                                                                                                                                                                                                           |
| m. Conditions for our approval of transfer                                | 9                          | Our Leasing Affiliate must consent.                                                                                                                                                                                                                                                                                        |
| n. Our right of first refusal to acquire your business                    | Not Applicable             | None. Our Leasing Affiliate already holds the Master Lease.                                                                                                                                                                                                                                                                |
| o. Our option to purchase your business                                   | Not Applicable             | None. Our Leasing Affiliate already holds the Master Lease.                                                                                                                                                                                                                                                                |
| p. Your death or disability                                               | Not Applicable             | None                                                                                                                                                                                                                                                                                                                       |
| q. Non-competition covenants during the term of the franchise             | Not Applicable             | None                                                                                                                                                                                                                                                                                                                       |
| r. Non-competition covenants after the franchise is terminated or expires | Not Applicable             | None                                                                                                                                                                                                                                                                                                                       |
| s. Modification of the agreement                                          | Not Applicable             | None                                                                                                                                                                                                                                                                                                                       |
| t. Integration/merger clause                                              | 24                         | The Sublease, including any exhibits, contains the entire agreement of the parties.                                                                                                                                                                                                                                        |
| u. Dispute resolution by arbitration or mediation                         | Not Applicable             | None                                                                                                                                                                                                                                                                                                                       |
| v. Choice of forum                                                        | Not Applicable             | None                                                                                                                                                                                                                                                                                                                       |
| w. Choice of law                                                          | 20                         | The laws of the state where the Premises are located applies.                                                                                                                                                                                                                                                              |

## ITEM 18: PUBLIC FIGURES

We currently do not use any public figure to promote our *Surf City Squeeze* franchise System.

## ITEM 19: FINANCIAL PERFORMANCE REPRESENTATIONS

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

We do not make any representations about a franchisee's future financial performance or the past financial performance of company-owned or franchised outlets. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor's management by contacting John Wuycheck, Kahala Franchising, L.L.C., 9311 E. Via De Ventura, Scottsdale, Arizona 85258; (480) 362-4800, the Federal Trade Commission, and the appropriate state regulatory agencies.

## ITEM 20: OUTLETS AND FRANCHISEE INFORMATION

Table No. 1

### Systemwide Outlet Summary For years 2023 to 2025

| Column 1        | Column 2 | Column 3                         | Column 4                       | Column 5   |
|-----------------|----------|----------------------------------|--------------------------------|------------|
| OUTLET TYPE     | YEAR     | OUTLETS AT THE START OF THE YEAR | OUTLETS AT THE END OF THE YEAR | NET CHANGE |
| Franchised      |          |                                  |                                |            |
|                 | 2023     | 69                               | 64                             | -5         |
|                 | 2024     | 64                               | 62                             | -2         |
|                 | 2025     | 62                               | 59                             | -3         |
| Company - Owned |          |                                  |                                |            |
|                 | 2023     | 1                                | 1                              | 0          |
|                 | 2024     | 1                                | 1                              | 0          |
|                 | 2025     | 1                                | 2                              | 1          |
| Total Outlets   |          |                                  |                                |            |



|  |      |    |    |    |
|--|------|----|----|----|
|  | 2023 | 70 | 65 | -5 |
|  | 2024 | 65 | 63 | -2 |
|  | 2025 | 63 | 61 | -2 |

**Table No. 2**

**Transfers of Outlets from Franchisees to New Owners (other than the Franchisor) For years 2023 to 2025**

| Column 1     | Column 2    | Column 3                   |
|--------------|-------------|----------------------------|
|              |             |                            |
| <b>STATE</b> | <b>YEAR</b> | <b>NUMBER OF TRANSFERS</b> |
| Idaho        |             |                            |
|              | 2023        | 0                          |
|              | 2024        | 0                          |
|              | 2025        | 4                          |
| Illinois     |             |                            |
|              | 2023        | 0                          |
|              | 2024        | 1                          |
|              | 2025        | 0                          |
| Michigan     |             |                            |
|              | 2023        | 0                          |
|              | 2024        | 1                          |
|              | 2025        | 0                          |
| New Jersey   |             |                            |
|              | 2023        | 1                          |
|              | 2024        | 1                          |
|              | 2025        | 0                          |
| New York     |             |                            |
|              | 2023        | 1                          |
|              | 2024        | 1                          |
|              | 2025        | 0                          |
|              |             |                            |
| Total        | 2023        | 2                          |
|              | 2024        | 4                          |
|              | 2025        | 4                          |

Table No. 3

**Status of Franchised Outlets  
For years 2023 to 2025**

| Col. 1      | Col. 2 | Col.3                                 | Col.4                     | Col. 5           | Col. 6               | Col. 7                                 | Col. 8                                                 | Col. 9                                  |
|-------------|--------|---------------------------------------|---------------------------|------------------|----------------------|----------------------------------------|--------------------------------------------------------|-----------------------------------------|
|             |        |                                       |                           |                  |                      |                                        |                                                        |                                         |
| STATE       | YEAR   | OUTLE<br>TS AT<br>START<br>OF<br>YEAR | OUTLE<br>TS<br>OPENE<br>D | TERMIN<br>ATIONS | NON-<br>RENEW<br>ALS | REACQ<br>UIRED<br>BY<br>FRANC<br>HISOR | CEASE<br>D<br>OPERA<br>TIONS -<br>OTHER<br>REASO<br>NS | OUTLE<br>TS AT<br>END OF<br>THE<br>YEAR |
| California  |        |                                       |                           |                  |                      |                                        |                                                        |                                         |
|             | 2023   | 26                                    | 0                         | 0                | 2                    | 0                                      | 1                                                      | 23                                      |
|             | 2024   | 23                                    | 1                         | 0                | 0                    | 0                                      | 1                                                      | 23                                      |
|             | 2025   | 23                                    | 0                         | 0                | 1                    | 0                                      | 0                                                      | 22                                      |
|             |        |                                       |                           |                  |                      |                                        |                                                        |                                         |
| Connecticut |        |                                       |                           |                  |                      |                                        |                                                        |                                         |
|             | 2023   | 1                                     | 0                         | 0                | 0                    | 0                                      | 0                                                      | 1                                       |
|             | 2024   | 1                                     | 1                         | 0                | 0                    | 0                                      | 0                                                      | 2                                       |
|             | 2025   | 2                                     | 0                         | 0                | 1                    | 1                                      | 0                                                      | 0                                       |
|             |        |                                       |                           |                  |                      |                                        |                                                        |                                         |
| Guam        |        |                                       |                           |                  |                      |                                        |                                                        |                                         |
|             | 2023   | 5                                     | 0                         | 0                | 0                    | 0                                      | 0                                                      | 5                                       |
|             | 2024   | 5                                     | 0                         | 0                | 0                    | 0                                      | 0                                                      | 5                                       |
|             | 2025   | 5                                     | 0                         | 0                | 0                    | 0                                      | 0                                                      | 5                                       |
|             |        |                                       |                           |                  |                      |                                        |                                                        |                                         |
| Idaho       |        |                                       |                           |                  |                      |                                        |                                                        |                                         |
|             | 2023   | 5                                     | 0                         | 0                | 0                    | 0                                      | 0                                                      | 5                                       |
|             | 2024   | 5                                     | 0                         | 0                | 0                    | 0                                      | 0                                                      | 5                                       |
|             | 2025   | 5                                     | 0                         | 0                | 0                    | 0                                      | 0                                                      | 5                                       |
|             |        |                                       |                           |                  |                      |                                        |                                                        |                                         |
| Illinois    |        |                                       |                           |                  |                      |                                        |                                                        |                                         |
|             | 2023   | 2                                     | 2                         | 0                | 0                    | 0                                      | 0                                                      | 2                                       |
|             | 2024   | 2                                     | 0                         | 0                | 0                    | 0                                      | 0                                                      | 2                                       |
|             | 2025   | 2                                     | 0                         | 0                | 0                    | 0                                      | 0                                                      | 2                                       |
|             |        |                                       |                           |                  |                      |                                        |                                                        |                                         |
| Michigan    |        |                                       |                           |                  |                      |                                        |                                                        |                                         |
|             | 2023   | 5                                     | 0                         | 0                | 0                    | 0                                      | 0                                                      | 5                                       |
|             | 2024   | 5                                     | 0                         | 0                | 1                    | 0                                      | 0                                                      | 4                                       |
|             | 2025   | 4                                     | 0                         | 0                | 0                    | 0                                      | 0                                                      | 4                                       |

|              |      |   |   |   |   |   |   |   |
|--------------|------|---|---|---|---|---|---|---|
|              |      |   |   |   |   |   |   |   |
| Minnesota    |      |   |   |   |   |   |   |   |
|              | 2023 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
|              | 2024 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
|              | 2025 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
|              |      |   |   |   |   |   |   |   |
| Nevada       |      |   |   |   |   |   |   |   |
|              | 2023 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
|              | 2024 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
|              | 2025 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
|              |      |   |   |   |   |   |   |   |
| New Jersey   |      |   |   |   |   |   |   |   |
|              | 2023 | 9 | 0 | 0 | 0 | 0 | 1 | 8 |
|              | 2024 | 8 | 0 | 0 | 1 | 0 | 0 | 7 |
|              | 2025 | 7 | 0 | 0 | 0 | 0 | 2 | 5 |
|              |      |   |   |   |   |   |   |   |
| New York     |      |   |   |   |   |   |   |   |
|              | 2023 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
|              | 2024 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
|              | 2025 | 2 | 0 | 0 | 0 | 0 | 1 | 1 |
|              |      |   |   |   |   |   |   |   |
| Oregon       |      |   |   |   |   |   |   |   |
|              | 2023 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
|              | 2024 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
|              | 2025 | 1 | 4 | 0 | 0 | 0 | 0 | 5 |
|              |      |   |   |   |   |   |   |   |
| Pennsylvania |      |   |   |   |   |   |   |   |
|              | 2023 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
|              | 2024 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
|              | 2025 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
|              |      |   |   |   |   |   |   |   |
| Texas        |      |   |   |   |   |   |   |   |
|              | 2023 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
|              | 2024 | 1 | 0 | 0 | 0 | 0 | 1 | 0 |
|              | 2025 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
|              |      |   |   |   |   |   |   |   |
| Utah         |      |   |   |   |   |   |   |   |
|              | 2023 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
|              | 2024 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
|              | 2025 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
|              |      |   |   |   |   |   |   |   |

|                 |      |    |    |   |   |   |   |    |
|-----------------|------|----|----|---|---|---|---|----|
| Virginia        |      |    |    |   |   |   |   |    |
|                 | 2023 | 2  | 0  | 0 | 0 | 0 | 0 | 2  |
|                 | 2024 | 2  | 0  | 0 | 0 | 0 | 0 | 2  |
|                 | 2025 | 2  | 0  | 0 | 0 | 0 | 0 | 2  |
|                 |      |    |    |   |   |   |   |    |
| Washington D.C. |      |    |    |   |   |   |   |    |
|                 | 2023 | 1  | 0  | 0 | 0 | 0 | 1 | 0  |
|                 | 2024 | 0  | 0  | 0 | 0 | 0 | 0 | 0  |
|                 | 2025 | 0  | 0  | 0 | 0 | 0 | 0 | 0  |
|                 |      |    |    |   |   |   |   |    |
| Wyoming         |      |    |    |   |   |   |   |    |
|                 | 2023 | 4  | 0  | 0 | 0 | 0 | 0 | 4  |
|                 | 2024 | 4  | 0  | 0 | 0 | 0 | 0 | 4  |
|                 | 2025 | 4  | 0  | 0 | 0 | 0 | 1 | 3  |
|                 |      |    |    |   |   |   |   |    |
| Total - U.S.    |      |    |    |   |   |   |   |    |
|                 | 2023 | 69 | 49 | 0 | 2 | 0 | 3 | 64 |
|                 | 2024 | 64 | 2  | 0 | 2 | 0 | 2 | 62 |
|                 | 2025 | 62 | 4  | 0 | 2 | 1 | 4 | 59 |

**Table No. 4**

**Status of Company Owned Outlets  
For years 2023 to 2025**

| Col. 1       | Col. 2      | Col.3                                       | Col.4                     | Col. 5                                                          | Col. 6                    | Col. 7                                         | Col. 8                                        |
|--------------|-------------|---------------------------------------------|---------------------------|-----------------------------------------------------------------|---------------------------|------------------------------------------------|-----------------------------------------------|
|              |             |                                             |                           |                                                                 |                           |                                                |                                               |
| <b>STATE</b> | <b>YEAR</b> | <b>OUTLETS<br/>AT<br/>START<br/>OF YEAR</b> | <b>OUTLETS<br/>OPENED</b> | <b>OUTLETS<br/>REACQUI<br/>RED<br/>FROM<br/>FRANCHI<br/>SEE</b> | <b>OUTLETS<br/>CLOSED</b> | <b>OUTLETS<br/>SOLD TO<br/>FRANCHI<br/>SEE</b> | <b>OUTLETS<br/>AT END<br/>OF THE<br/>YEAR</b> |
| AZ           |             |                                             |                           |                                                                 |                           |                                                |                                               |
|              | 2023        | 1                                           | 0                         | 0                                                               | 0                         | 0                                              | 1                                             |
|              | 2024        | 1                                           | 0                         | 0                                                               | 0                         | 0                                              | 1                                             |
|              | 2025        | 1                                           | 0                         | 0                                                               | 0                         | 0                                              | 1                                             |
| CT           |             |                                             |                           |                                                                 |                           |                                                |                                               |
|              | 2023        | 0                                           | 0                         | 0                                                               | 0                         | 0                                              | 0                                             |
|              | 2024        | 0                                           | 0                         | 0                                                               | 0                         | 0                                              | 0                                             |
|              | 2025        | 0                                           | 0                         | 1                                                               | 0                         | 0                                              | 1                                             |
| Totals       |             |                                             |                           |                                                                 |                           |                                                |                                               |

|  |      |   |   |   |   |   |   |
|--|------|---|---|---|---|---|---|
|  | 2023 | 1 | 0 | 0 | 0 | 0 | 1 |
|  | 2024 | 1 | 0 | 0 | 0 | 0 | 1 |
|  | 2025 | 1 | 0 | 1 | 0 | 0 | 2 |

**Table No. 5**

**Projected Openings As Of November 30, 2025**

| State         | Franchise Agreements Signed But Outlet Not Opened | Projected New Franchised Outlets In The Next Fiscal Year | Projected New Company-Owned Outlets in the Next Fiscal Year |
|---------------|---------------------------------------------------|----------------------------------------------------------|-------------------------------------------------------------|
| California    | 2                                                 | 0                                                        | 0                                                           |
| Michigan      | 1                                                 | 1                                                        | 0                                                           |
| Minnesota     | 1                                                 | 0                                                        | 0                                                           |
| New Hampshire | 1                                                 | 0                                                        | 0                                                           |
| Total         | 5                                                 | 1                                                        | 0                                                           |

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

We had 7 franchise owners in the United States who had an outlet terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the Franchise Agreements during the year ending November 30, 2025. We had 0 franchise owners in the United States who had an outlet terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the Franchise Agreements during the year ending November 30, 2025, that were not previously disclosed. We also had franchise owners who had an outlet transfer during the year ending November 30, 2025, before the date of this Disclosure Document. We had no franchisees who had their Franchise Agreements terminated during the year ending November 30, 2025, for a restaurant that never opened. The name, city and state and current business telephone number, or if unknown, the last known home telephone number, of these franchisees is as follows:

Franchisees who had an outlet terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the Franchise Agreements during the year ending November 30, 2025, that was not previously disclosed:

| <b>Company Name</b>         | <b>Owner Names</b>                  | <b>City</b> | <b>State</b> | <b>Owner Phone</b>         |
|-----------------------------|-------------------------------------|-------------|--------------|----------------------------|
| S & K Surf City, LLC        | Aalap Amin, Sandeep Amin            | Rocky Hill  | CT           | 860-521-0004, 860-543-1287 |
| Whang Sang                  | Sang (Helen) Whang                  | Redlands    | CA           | 818-488-1184               |
| Valley TT Enterprises, Inc. | Andrea Owens                        | Lyman       | WY           | 307-787-6528               |
| GOOD QSR NY, LLC            | Charles Esposito, Jennifer Esposito | Woodstock   | CT           | 860-377-8519, 860-377-5500 |
| KE786 LLC                   | Syed Hamad Khalil                   | Rockaway    | NJ           | 973-868-7922               |
| Good QSR NJ LLC             | Charles Esposito, Jennifer Esposito | Woodstock   | CT           | 860-377-8519, 860-377-5500 |

Franchisees who had an outlet transfer during the year ending November 30, 2025

| <b>Prior Company Name</b> | <b>Prior Franchisee Names</b> | <b>Prior Franchisee City</b> | <b>Prior Franchisee State</b> | <b>Prior Franchisee Phone</b> |
|---------------------------|-------------------------------|------------------------------|-------------------------------|-------------------------------|
| SCR Northland, Inc.       | Steve Reed                    | Eagle                        | ID                            | 208-863-6838                  |
| SCR Northland, Inc.       | Steve Reed                    | Eagle                        | ID                            | 208-863-6838                  |
| SCR Northland, Inc.       | Steve Reed                    | Eagle                        | ID                            | 208-863-6838                  |
| SCR Northland, Inc.       | Steve Reed                    | Eagle                        | ID                            | 208-863-6838                  |

We had no franchisees that transferred their Franchise Agreement for a restaurant that never opened during the year ending November 30, 2025, for a restaurant that was not yet open.

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 the *Surf City Squeeze* franchise system. You may wish to speak with current and former franchisees, but be aware that not all such franchisees will be able to communicate with you.

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

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

## ITEM 21: FINANCIAL STATEMENTS

Attached to this Disclosure Document as Exhibit V are the audited consolidated financial statements of Franchisor's parent company, MTY Franchising USA, Inc. ("Guarantor") for the fiscal years ended November 30, 2025, and 2024, and for the fiscal years ended on November 30, 2024, and 2023.

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

## ITEM 22: CONTRACTS

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

|             |                                                                                                                                                   |
|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| Exhibit D   | Asset Purchase Agreement (For Sale of a Corporate Store to a Franchisee) with Promissory Note and Security Agreement and Guaranty (if applicable) |
| Exhibit E-1 | Franchise Agreement (New)                                                                                                                         |
| Exhibit E-2 | Franchise Agreement (Renewal)                                                                                                                     |
| Exhibit E-3 | Franchise Agreement (Transfer)                                                                                                                    |
| Exhibit F-1 | Guaranty of Franchise Agreement                                                                                                                   |
| Exhibit F-2 | Non-Disclosure and Non-Competition Agreement                                                                                                      |
| Exhibit G   | Collateral Assignment and Irrevocable Special Power of Attorney                                                                                   |
| Exhibit H   | Amendment to Franchise Agreement (for non-traditional locations excluding those co-branded with another affiliated brand)                         |
| Exhibit I   | Amendment to Franchise Agreement (for co-branded non-traditional locations)                                                                       |
| Exhibit J   | In-Store Training Release and Waiver of Liability Agreement                                                                                       |
| Exhibit K   | Addendum to the Franchise Agreement for SBA Loans                                                                                                 |
| Exhibit L   | Required Lease Terms (Lease Addendum to Lease Agreement)                                                                                          |
| Exhibit M   | Lease Guaranty Acknowledgement                                                                                                                    |
| Exhibit N   | Lease Review and/or Negotiation Agreement and Release and State Addenda                                                                           |
| Exhibit O   | Sublease and Guaranty of Sublease                                                                                                                 |
| Exhibit P   | Pre-Authorized Electronic Funds Transfer Form                                                                                                     |
| Exhibit Q   | General Release for Renewal of Franchise Agreement                                                                                                |
| Exhibit R-1 | Consent to Transfer and Release Agreement (without Sublease)                                                                                      |
| Exhibit R-2 | Consent to Transfer and Release Agreement (with Sublease)                                                                                         |
| Exhibit S   | State Specific Addenda to Franchise Documents                                                                                                     |
| Exhibit W   | Performance Guaranty                                                                                                                              |
| Exhibit X   | Addendum for Sale of Company-Affiliated Owned Stores                                                                                              |
| Exhibit Y   | Receipts                                                                                                                                          |

## ITEM 23: RECEIPTS

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

**EXHIBIT A**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**State Addenda to Franchise Disclosure Document**



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

- A. THE CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES THAT A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE DISCLOSURE DOCUMENT.**
- B. Neither the franchisor, franchise broker nor any person in Item 2 of the Disclosure Document are subject to any currently effective order of any National Securities Association or National Securities Exchange, as defined in the Securities Exchange Act of 1934, 15 U.S.C.A. 78A et seq., suspending or expelling such person from membership in such association or exchange.**
- C. The Franchise Agreement provides for termination upon bankruptcy. This provision may not be enforceable under Federal Bankruptcy Law. (11 U.S.C.A. Sec. 101 et seq.).**
- D. The Franchise Agreement contains a covenant not to compete which extends beyond the termination of the agreements. This provision may not be enforceable under California law.**
- E. Section 31125 of the California Corporations Code requires us to give you a disclosure document, in a form containing the information that the commissioner may by rule or order require, before a solicitation of a proposed material modification of an existing franchise.**
- F. YOU MUST SIGN A GENERAL RELEASE IF YOU RENEW OR TRANSFER YOUR FRANCHISE. CALIFORNIA CORPORATIONS CODE §31512 VOIDS A WAIVER OF YOUR RIGHTS UNDER THE FRANCHISE INVESTMENT LAW (CALIFORNIA CORPORATIONS CODE §§31000 THROUGH 31516).**
- G. BUSINESS AND PROFESSIONS CODE §20010 VOIDS A WAIVER OF YOUR RIGHTS UNDER THE FRANCHISE RELATIONS ACT (BUSINESS AND PROFESSIONS CODE §§20000 THROUGH 20043).**
- H. California Business and Professions Code Sections 20000 through 20043 provide rights to the franchisee concerning termination or non-renewal of a franchise. If the Franchise Agreement contains a provision that is inconsistent with the law, the law will control.**
- I. If the Franchisee resides in the State of California or the franchised business is located within the State of California, the venue for any dispute may be within the State of California. Business and Professions Code Section 20040.5 voids restricting a venue to a forum outside California with respect to any claim arising under or relating to a Franchise Agreement involving a franchise business operating in California.**
- J. OUR WEBSITE HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT. ANY COMPLAINTS CONCERNING THE CONTENTS OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT at [www.dbo.ca.gov](http://www.dbo.ca.gov).**
- K. 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.**

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

These franchises will be/have been filed under the Franchise Investment Law of the State of Hawaii. Filing does not constitute approval, recommendation or endorsement by the Director of Commerce and Consumer Affairs or a finding by the Director of Commerce and Consumer Affairs that the information provided herein is true, complete and not misleading.

The Franchise Investment Law makes it unlawful to offer or sell any franchise in this state without first providing to the prospective franchisee, or subfranchisor, at least seven days prior to the execution by the prospective franchisee of any binding franchise or other agreement, or at least seven days prior to the payment of any consideration by the franchisee, or subfranchisor, whichever occurs first, a copy of the Disclosure Document, together with a copy of all proposed agreements relating to the sale of the franchise.

This Disclosure Document contains a summary only of certain material provisions of the Franchise Agreement. The contract or agreement should be referred to for a statement of all rights, conditions, restrictions and obligations of both the franchisor and the franchisee.

A Federal Trade Commission rule makes it unlawful to offer or sell any franchise without first providing this Disclosure Document to the prospective franchisee at the earlier of (1) fourteen calendar days before the signing of any franchise or related agreement; or (2) fourteen calendar days before any payment. The prospective franchisee must also receive a Franchise Agreement containing all material terms at least seven calendar days prior to the signing of the Franchise Agreement.

If this Disclosure Document is not delivered on time, or if it contains a false, incomplete, inaccurate or misleading statement, a violation of federal and state law may have occurred and should be reported to the Federal Trade Commission, Washington D.C. 20580 and to Hawaii Department of Commerce and Consumer Affairs which administers and enforces the Hawaii Franchise Disclosure Act.

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

Department of Commerce and Consumer Affairs  
Business Registration Division  
Commissioner of Securities  
Securities Compliance Branch  
335 Merchant Street, Room 203  
Honolulu, Hawaii 96813

1. The following paragraph is added to Item 17:

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

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

A. The states in which this proposed registration is effective: None.

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

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

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

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

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

4. 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.

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

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

The conditions under which your Franchise Agreement may be terminated and your rights upon non-renewal may be affected by Illinois Law, 815 ILCS 705/19 and 705/20.

2. Items 17.f, 17.g, 17.t, 17.v, and 17.w are supplemented with the following language:

This summary applies to both the Franchise Agreement and the Area Representative Agreement.

3. The Summary in Item 17.v is deleted and replaced by the following Summary:

Litigation in Illinois.

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

Illinois law applies.

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

6. 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.

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

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

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

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

Except that under Indiana law, you may have the right to bring an action in Indiana, and have Indiana law apply.
5. The Indiana Deceptive Franchise Practices Act, IC 23-2-2.7-1 (10) prohibits the limitation of litigation brought for breach of a Franchise Agreement including any limitation on the forum chosen. Any provision in the Franchise Agreement, specifying a forum contrary to Indiana law, shall not apply to any claims brought under the Indiana Deceptive Franchise Practices Act and/or the Indiana Franchise Act, Ind. Code ANN. §§ 1-51 (1994).
6. The Indiana Deceptive Franchise Practices Act, IC 23-2-2.7-1 (10) prohibits the limitation of litigation brought for breach of a Franchise Agreement. Any provision in the Franchise Agreement requiring the application of another state's law shall not apply to any claims brought under the Indiana Deceptive Franchise Practices Act and/or the Indiana Franchise Act, Ind. Code ANN. §§ 1-51 (1994).
7. Indiana Code § 23-2-2.5-9 (2) requires a franchisor to give you a copy of the Franchise Disclosure Document at the earlier of: (i) 10 days prior to signing the franchise agreement; or (ii) 10 days prior to franchisor's receipt of any consideration. The Receipt is amended to reflect the 10 day waiting period.
8. 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.

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

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

Based upon the franchisor's financial condition, the Maryland Securities Commissioner has required a financial assurance. Therefore, all initial fees and payments owed by franchisees shall be deferred until the franchisor completes its pre-opening obligations under the franchise agreement.

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

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

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

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

4. Item 17 is amended to disclose the following:

Any general release required as a condition of renewal, sale, and/or assignment/transfer shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.

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

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

Item 17 is amended to disclose the following:

This franchise agreement provides that disputes are resolved through arbitration. A Maryland franchise regulation states that it is an unfair or deceptive practice to require a franchisee to waive its right to file a lawsuit in Maryland claiming a violation of the Maryland Franchise Law. In light of the Federal Arbitration Act, there is some dispute as to whether this forum selection requirement is legally enforceable.

6. 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.



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

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

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

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

- (i) The failure of the proposed transferee to meet the franchisor's then current reasonable qualifications or standards.
- (ii) The fact that the proposed transferee is a competitor of the franchisor or subfranchisor.
- (iii) The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.
- (iv) The failure of the franchisee or proposed transferee to pay any sums owing to the franchisor or to cure any default in the Franchise Agreement existing at the time of the proposed transfer.

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

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

(J) 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.

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

Any questions regarding this notice shall be directed to:

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

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

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

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

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

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

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

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

3. The following paragraph is added to Item 13:

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

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

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

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

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

Minnesota Statutes, Section 80C.21 and Minnesota Rules 2860.4400(J) prohibit the franchisor from requiring litigation to be conducted outside Minnesota, requiring waiver of a jury trial, or requiring the franchisee to consent to liquidated damages, termination penalties or judgment notes. In addition, nothing in the Franchise Disclosure Document or agreement(s) can abrogate or reduce (1) any of the franchisee's rights as provided for in Minnesota Statutes, Chapter 80C or (2) franchisee's rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.

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

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

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

With respect to franchises governed by Minnesota law, the franchisor will comply with Minnesota Statutes, Section 80C.14, Subd. 3-5, which require (except in certain specified cases) (1) that a franchisee be given 90 days notice of termination (with 60 days to cure) and 180 days notice for non-renewal of the franchise agreement and (2) that consent to the transfer of the franchise will not be unreasonably withheld.

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

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

8. 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.

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

1. The following information is added to the cover page of the Franchise Disclosure Document:

**INFORMATION COMPARING FRANCHISORS IS AVAILABLE. CALL THE STATE ADMINISTRATORS LISTED IN EXHIBIT B OR YOUR PUBLIC LIBRARY FOR SOURCES OF INFORMATION. REGISTRATION OF THIS FRANCHISE BY NEW YORK STATE DOES NOT MEAN THAT NEW YORK STATE RECOMMENDS IT OR HAS VERIFIED THE INFORMATION IN THIS DISCLOSURE DOCUMENT. IF YOU LEARN THAT ANYTHING IN THE DISCLOSURE DOCUMENT IS UNTRUE, CONTACT THE FEDERAL TRADE COMMISSION AND NEW YORK STATE DEPARTMENT OF LAW, BUREAU OF INVESTOR PROTECTION AND SECURITIES, 120 BROADWAY, 23<sup>RD</sup> FLOOR, NEW YORK, NEW YORK 10271.**

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

Except as provided above, with regard to the franchisor, its predecessor, a person identified in Item 2, or an affiliate offering franchises under the franchisor's principal trademark:

A. No such party has an administrative, criminal or civil action pending against that person alleging: a felony, a violation of a franchise, antitrust, or securities law, fraud, embezzlement, fraudulent conversion, misappropriation of property, unfair or deceptive practices, or comparable civil or misdemeanor allegations.

B. No such party has pending actions, other than routine litigation incidental to the business, which are significant in the context of the number of franchisees and the size, nature or financial condition of the franchise system or its business operations.

C. No such party has been convicted of a felony or pleaded nolo contendere to a felony charge or, within the 10 year period immediately preceding the application for registration, has been convicted of or pleaded nolo contendere to a misdemeanor charge or has been the subject of a civil action alleging: violation of a franchise, antifraud, or securities law; fraud; embezzlement; fraudulent conversion or misappropriation of property; or unfair or deceptive practices or comparable allegations.

D. No such party is subject to a currently effective injunctive or restrictive order or decree relating to the franchise, or under a Federal, State, or Canadian franchise, securities, antitrust, trade regulation or trade practice law, resulting from a concluded or pending action or proceeding brought by a public agency; or is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities and Exchange Act of 1934, suspending or expelling such person from membership in such association or exchange; or is subject to a currently effective injunctive or restrictive order relating to any other business activity as a result of an action brought by a public agency or department, including, without limitation, actions affecting a license as a real estate broker or sales agent.

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

The initial franchise fee constitutes part of our general operating funds and will be used as such in our discretion.

4. The following is added to the end of the “Summary” sections of Item 17(c), titled “Requirements for franchisee to renew or extend,” and Item 17(m), entitled “Conditions for franchisor approval of transfer”:

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

5. The following language replaces the “Summary” section of Item 17(d), titled “Termination by franchisee”:

You may terminate the agreement on any grounds available by law.

6. The following is added to the end of the “Summary” sections of Item 17(v), titled “Choice of forum”, and Item 17(w), titled “Choice of law”:

The foregoing choice of law should not be considered a waiver of any right conferred upon the franchisor or upon the franchisee by Article 33 of the General Business Law of the State of New York.

7. The franchisor may, if it chooses, negotiate with you about items covered in the prospectus. However, the franchisor cannot use the negotiating process to prevail upon a prospective franchisee to accept terms which are less favorable than those set forth in this prospectus.

8. The Franchise Agreement and the other documents to be signed by the franchisee provide that we do not grant you any exclusive or protected territory for your restaurant.

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

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

11. 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.

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

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

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

**NORTH DAKOTA LAW MODIFICATIONS**

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

- a. If the Franchisee is required in the Franchise Agreement to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action that would violate the Law, or a rule or order under the Law, such release shall exclude claims arising under the North Dakota Franchise Investment Law, and such acknowledgements shall be void with respect to claims under the Law.
- b. Covenants not to compete during the term and upon termination or expiration of the Franchise Agreement are enforceable only under certain conditions according to North Dakota Law. If the Franchise Agreement contains a covenant not to compete which is inconsistent with North Dakota Law, the covenant may be unenforceable.
- c. If the Franchise Agreement requires litigation to be conducted in a forum other than the State of North Dakota, the requirement is void with respect to claims under the North Dakota Franchise Investment Law.
- d. If the Franchise Agreement requires that it be governed by a state's law, other than the State of North Dakota, to the extent that such law conflicts with the North Dakota Franchise Investment Law, the North Dakota Franchise Investment Law will control.
- e. If the Franchise Agreement requires mediation or arbitration to be conducted in a forum other than the State of North Dakota, the requirement may be unenforceable under the North Dakota Franchise Investment Law. Arbitration involving a franchise purchased in the State of North Dakota must be held either in a location mutually agreed upon prior to the arbitration or if the parties cannot agree on a location, the location will be determined by the arbitrator.

- f. If the Franchise Agreement requires payment of a termination penalty, the requirement may be unenforceable under the North Dakota Franchise Investment Law.
- g. Section 51-19-08 of the North Dakota Franchise Investment Law requires franchisor to give you a copy of the Franchise Disclosure Document at the earlier of: (i) seven days prior to signing the franchise agreement; or (ii) seven days prior to franchisor's receipt of any consideration.
- h. 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.

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

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



J. Enforcement of Agreement: Franchise Agreements that require the franchisee to pay all costs and expenses incurred by the franchisor in enforcing the agreement. The prevailing party in any enforcement action is entitled to recover all costs and expenses including attorney's fees.

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

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

**RHODE ISLAND LAW MODIFICATIONS**

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

- a. If the Franchise Agreement restricts jurisdiction or venue to a forum other than the State of Rhode Island, the requirement is void under Rhode Island Franchise Investment Act Sec. 19-28.1-14.
- b. If the Franchise Agreement requires that it be governed by a state's law, other than the State of Rhode Island, to the extent that such law conflicts with Rhode Island Franchise Investment Act it is void under Sec. 19-28.1-14.
- c. If the Franchisee is required in the Franchise Agreement to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action that would violate the Act, or a rule or order under the Act, such release shall exclude claims arising under the Rhode Island Franchise Investment Act, and such acknowledgements shall be void with respect to claims under the Act.
- d. 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.

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

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

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

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

mutually agreed upon by the parties. If the parties cannot agree on location for the mediation/arbitration, the location shall be determined by the mediator/arbitrator selected.

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

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

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

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

Pursuant to Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a franchisor to cancel a franchise without reasonable cause. If any grounds for default or termination stated in the Franchise Agreement does not constitute "reasonable cause," as that term may be defined in the Virginia Retail Franchising Act or the laws of Virginia, that provision may not be enforceable.

2. 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.

## WASHINGTON ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT, THE FRANCHISE AGREEMENT, AND ALL RELATED AGREEMENTS

The provisions of this Addendum form an integral part of, are incorporated into, and modify the Franchise Disclosure Document, the franchise agreement, and all related agreements regardless of anything to the contrary contained therein. This addendum applies if: (a) the offer to sell a franchise is accepted in Washington; (b) the purchaser of the franchise is a resident of Washington; and/or (c) the franchised business that is the subject of the sale is to be located or operated, wholly or partly, in Washington.

1. **Conflict of Laws.** In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, chapter 19.100 RCW will prevail.
2. **Franchisee Bill of Rights.** RCW 19.100.180 may supersede provisions in the franchise agreement or related agreements concerning your relationship with the franchisor, including in the areas of termination and renewal of your franchise. There may also be court decisions that supersede the franchise agreement or related agreements concerning your relationship with the franchisor. Franchise agreement provisions, including those summarized in Item 17 of the Franchise Disclosure Document, are subject to state law.
3. **Site of Arbitration, Mediation, and/or Litigation.** In any arbitration or mediation involving a franchise purchased in Washington, the arbitration or mediation site will be either in the state of Washington, or in a place mutually agreed upon at the time of the arbitration or mediation, or as determined by the arbitrator or mediator at the time of arbitration or mediation. In addition, if litigation is not precluded by the franchise agreement, a franchisee may bring an action or proceeding arising out of or in connection with the sale of franchises, or a violation of the Washington Franchise Investment Protection Act, in Washington.
4. **General Release.** A release or waiver of rights in the franchise agreement or related agreements purporting to bind the franchisee to waive compliance with any provision under the Washington Franchise Investment Protection Act or any rules or orders thereunder is void except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel, in accordance with RCW 19.100.220(2). In addition, any such release or waiver executed in connection with a renewal or transfer of a franchise is likewise void except as provided for in RCW 19.100.220(2).
5. **Statute of Limitations and Waiver of Jury Trial.** Provisions contained in the franchise agreement or related agreements that unreasonably restrict or limit the statute of limitations period for claims under the Washington Franchise Investment Protection Act, or rights or remedies under the Act such as a right to a jury trial, may not be enforceable.
6. **Transfer Fees.** Transfer fees are collectable only to the extent that they reflect the franchisor's reasonable estimated or actual costs in effecting a transfer.
7. **Termination by Franchisee.** The franchisee may terminate the franchise agreement under any grounds permitted under state law.

8. **Certain Buy-Back Provisions.** Provisions in franchise agreements or related agreements that permit the franchisor to repurchase the franchisee's business for any reason during the term of the franchise agreement without the franchisee's consent are unlawful pursuant to RCW 19.100.180(2)(j), unless the franchise is terminated for good cause.
9. **Fair and Reasonable Pricing.** Any provision in the franchise agreement or related agreements that requires the franchisee to purchase or rent any product or service for more than a fair and reasonable price is unlawful under RCW 19.100.180(2)(d).
10. **Waiver of Exemplary & Punitive Damages.** RCW 19.100.190 permits franchisees to seek treble damages under certain circumstances. Accordingly, provisions contained in the franchise agreement or elsewhere requiring franchisees to waive exemplary, punitive, or similar damages are void, except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel, in accordance with RCW 19.100.220(2).
11. **Franchisor's Business Judgement.** Provisions in the franchise agreement or related agreements stating that the franchisor may exercise its discretion on the basis of its reasonable business judgment may be limited or superseded by RCW 19.100.180(1), which requires the parties to deal with each other in good faith.
12. **Indemnification.** Any provision in the franchise agreement or related agreements requiring the franchisee to indemnify, reimburse, defend, or hold harmless the franchisor or other parties is hereby modified such that the franchisee has no obligation to indemnify, reimburse, defend, or hold harmless the franchisor or any other indemnified party for losses or liabilities to the extent that they are caused by the indemnified party's negligence, willful misconduct, strict liability, or fraud.
13. **Attorneys' Fees.** If the franchise agreement or related agreements require a franchisee to reimburse the franchisor for court costs or expenses, including attorneys' fees, such provision applies only if the franchisor is the prevailing party in any judicial or arbitration proceeding.
14. **Noncompetition Covenants.** Pursuant to RCW 49.62.020, a noncompetition covenant is void and unenforceable against an employee, including an employee of a franchisee, unless the employee's earnings from the party seeking enforcement, when annualized, exceed \$100,000 per year (an amount that will be adjusted annually for inflation). In addition, a noncompetition covenant is void and unenforceable against an independent contractor of a franchisee under RCW 49.62.030 unless the independent contractor's earnings from the party seeking enforcement, when annualized, exceed \$250,000 per year (an amount that will be adjusted annually for inflation). As a result, any provision contained in the franchise agreement or elsewhere that conflicts with these limitations is void and unenforceable in Washington.
15. **Nonsolicitation Agreements.** RCW 49.62.060 prohibits a franchisor from restricting, restraining, or prohibiting a franchisee from (i) soliciting or hiring any employee of a franchisee of the same franchisor or (ii) soliciting or hiring any employee of the franchisor. As a result, any such provisions contained in the franchise agreement or elsewhere are void and unenforceable in Washington.

16. **Questionnaires and Acknowledgements.** No statement, questionnaire, or acknowledgment signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the franchisor. This provision supersedes any other term of any document executed in connection with the franchise.
17. **Prohibitions on Communicating with Regulators.** Any provision in the franchise agreement or related agreements that prohibits the franchisee from communicating with or complaining to regulators is inconsistent with the express instructions in the Franchise Disclosure Document and is unlawful under RCW 19.100.180(2)(h).
18. **Advisory Regarding Franchise Brokers.** Under the Washington Franchise Investment Protection Act, a “franchise broker” is defined as a person that engages in the business of the offer or sale of franchises. A franchise broker represents the franchisor and is paid a fee for referring prospects to the franchisor and/or selling the franchise. If a franchisee is working with a franchise broker, franchisees are advised to carefully evaluate any information provided by the franchise broker about a franchise.



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

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

**WISCONSIN LAW MODIFICATIONS**

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

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

2. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of the Wisconsin law applicable to the provision are met independent of

this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

**EXHIBIT B**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Directory of State Agencies and Administrators**

## DIRECTORY OF STATE AGENCIES AND ADMINISTRATORS

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| <p><b><u>CALIFORNIA</u></b><br/> Department of Business Oversight<br/> 320 West 4<sup>th</sup> Street, Suite 750<br/> Los Angeles, CA 90013<br/> (213) 576-7500</p> <p><b><u>HAWAII</u></b><br/> Department of Commerce and Consumer Affairs<br/> Business Registration Division<br/> Commissioner of Securities<br/> King Kalakaua Building<br/> 335 Merchant Street, Room 205<br/> Honolulu, HI 96813<br/> (808) 586-2744</p> <p><b><u>ILLINOIS</u></b><br/> Illinois Attorney General's Office<br/> Franchise Bureau<br/> 500 South Second Street<br/> Springfield, IL 62701<br/> (217) 782-1090</p> <p><b><u>INDIANA</u></b><br/> Indiana Secretary of State<br/> Securities Division<br/> 302 W. Washington St.<br/> Room E111<br/> Indianapolis, IN 46204<br/> (317) 232-6681</p> <p><b><u>MARYLAND</u></b><br/> Office of the Attorney General<br/> Securities Division<br/> 200 St. Paul Place<br/> Baltimore, MD 21202<br/> (410) 576-6360</p> <p><b><u>MICHIGAN</u></b><br/> Michigan Department of Attorney General<br/> Corporate Oversight Division<br/> G. Mennen Williams Building<br/> 525 W. Ottawa Street<br/> Lansing, MI 48909<br/> (517) 373-7117</p> | <p><b><u>MINNESOTA</u></b><br/> Minnesota Department of Commerce,<br/> 85 7th Place East, Suite 280<br/> Saint Paul, MN 55101<br/> (651) 539-1600</p> <p><b><u>NEW YORK</u></b><br/> Office of the Attorney General<br/> New York State Department of Law<br/> Investor Protection Bureau<br/> 28 Liberty Street<br/> New York, NY 10005<br/> (212) 416-6684</p> <p><b><u>NORTH DAKOTA</u></b><br/> Insurance Commissioner<br/> 600 E. Boulevard Avenue<br/> Dept. 401<br/> Bismarck, ND 58505<br/> (701) 328-2910</p> <p><b><u>RHODE ISLAND</u></b><br/> Department of Business Regulation, Securities Division,<br/> Franchise Section<br/> 1511 Pontiac Avenue<br/> Building 69-2<br/> Cranston, RI 02920<br/> (401) 462-9500</p> <p><b><u>SOUTH DAKOTA</u></b><br/> Division of Insurance<br/> Securities Regulation<br/> 124 S. Euclid Ave., 2<sup>nd</sup> Floor<br/> Pierre, SD 57501-3185<br/> (605) 773-3563</p> | <p><b><u>VIRGINIA</u></b><br/> State Corporation Commission<br/> Division of Securities and Retail Franchising<br/> P.O. Box 1197<br/> Richmond, VA 23218<br/> (804) 371-9051</p> <p><b><u>WASHINGTON</u></b><br/> Department of Financial Institutions<br/> Securities Division<br/> 150 Israel Rd SW<br/> Tumwater, WA 98501<br/> (360) 902-8760</p> <p><b><u>WISCONSIN</u></b><br/> State of Wisconsin<br/> Department of Financial Institutions<br/> Division of Securities<br/> 4822 Madison Yards Way<br/> North Tower<br/> Madison, WI 53705<br/> (608) 266-2139</p> |
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**EXHIBIT C**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Franchisor's Agent for Service of Process**

## **FRANCHISOR'S AGENT FOR SERVICE OF PROCESS**

### **ARIZONA**

CT CORPORATION SYSTEM  
3800 North Central Avenue, Suite 460  
Phoenix, AZ 85012

### **CALIFORNIA**

COMMISSIONER OF BUSINESS OVERSIGHT  
320 West 4<sup>th</sup> Street, Suite 750  
Los Angeles, CA 90013

### **HAWAII**

COMMISSIONER OF SECURITIES  
King Kalakua Building  
335 Merchant Street, Room 205  
Honolulu, HI 96813

### **ILLINOIS**

ILLINOIS ATTORNEY GENERAL  
500 South Second Street  
Springfield, IL 62701

### **INDIANA**

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

### **MARYLAND**

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

### **MINNESOTA**

Minnesota Department of Commerce  
Commissioner of Commerce  
85 7th Place East, Suite 280,  
Saint Paul, MN 55101-2198

### **NEW YORK**

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

### **NORTH DAKOTA**

INSURANCE COMMISSIONER  
600 E. Boulevard Ave  
Dept. 401  
Bismarck, North Dakota 58505

### **RHODE ISLAND**

Director of the Rhode Island Department of  
Business Regulation, Securities Division,  
Franchise Section  
1511 Pontiac Avenue, Building 69-2  
Cranston, RI 02920

### **SOUTH DAKOTA**

Division of Insurance  
Securities Regulation  
124 S. Euclid Ave.,  
Suite 104  
Pierre, SD 57501-3185

### **VIRGINIA**

CLERK OF THE STATE CORPORATION  
COMMISSION  
Tyler Building  
1300 East Main Street  
Richmond, VA 23219

### **WASHINGTON**

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

### **WISCONSIN**

ADMINISTRATOR, DEPARTMENT OF  
FINANCIAL INSTITUTIONS, DIVISION OF  
SECURITIES  
4822 Madison Yards Way, North Tower  
Madison, WI 53705

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

**EXHIBIT D**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

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



## ASSET PURCHASE AGREEMENT

This ASSET PURCHASE AGREEMENT ("Agreement"), dated \_\_\_\_\_ ("Execution Date") and which will be effective as of the Closing Date as defined in Section 5(a) below is by and between [SELLING ENTITY], a [state] [Corporation/Limited Liability Company, etc.] [LIQUOR LICENSE ENTITY if applicable] ("Seller" or as may be applicable the "Seller Parties"), and \_\_\_\_\_, a [state] [Corporation/Limited Liability Company, etc.] ("Purchaser"). Seller [or as applicable the Seller Parties] and Purchaser may also be referred to in this Agreement each individually as a "Party" and collectively as the "Parties."

### Recitals

A. Seller owns certain assets of, maintains certain licenses of, and operates Surf City Squeeze restaurant no. \_\_\_\_\_ ("Franchised Business") located at [store address, city and state] ("Premises"). [LIQUOR LICENSE ENTITY if applicable] owns certain assets of and maintains certain licenses of the Franchised Business [and executed a master lease] with respect to the Premises.

B. [LEASING ENTITY,] a(n) \_\_\_\_\_ affiliated with Seller ("Sublessor"), has executed a lease with respect to the Premises. [MONTH TO MONTH LANGUAGE IF APPLICABLE: Notwithstanding the foregoing, the Lease Agreement is currently on a month-to-month basis, and Purchaser is currently in direct negotiations with the landlord for the Premises to enter into a new lease directly with the landlord. Upon execution of said newly negotiated lease, the Lease Agreement shall be terminated and become null and void.]

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

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

E. In conjunction with the execution of this Agreement, Purchaser executed a sublease to be effective as of the Closing Date ("Sublease Agreement") with Sublessor and shall comply with all terms and conditions in the Sublease, including but not limited to, paying any additional security deposits, if required. [MONTH TO MONTH LANGUAGE IF APPLICABLE: Notwithstanding the foregoing, the Sublease Agreement is currently on a month-to-month basis and may be terminated by Sublessor with thirty (30) days prior written notice to Purchaser. As stated above, Purchaser is currently in direct negotiations with the landlord for the Premises to enter into a new lease directly with the landlord and upon execution of said newly negotiated lease, the Sublease Agreement shall be terminated and become null and void.]

### Agreement

NOW, THEREFORE, in consideration of the foregoing promises and the mutual covenants and

agreements contained herein, including the foregoing Recitals which are hereby incorporated in and made a part of this Agreement, the Parties hereby agree as follows:

**1. Sale of Assets.**

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

- (i) All of the fixtures, equipment, signs and other tangible assets of the Franchised Business ("Equipment") as may be more fully described on **Schedule 1** attached to this Agreement and incorporated into this Agreement by reference.
- (ii) [IF LIQUOR LICENSE: The State of [\_\_\_\_\_] [State Agency Name] ("\_\_\_\_\_) liquor license no. [\_\_\_\_\_] issued on [\_\_\_\_\_] and maintained by [entity] and used by [entity] in the operation of the Franchised Business ("License"), to the extent that such license is fully transferable or partially transferable in connection with Purchaser securing its own continuing operations permit (or something similar) with the [State Agency Name].

- (b) **Excluded Assets.** The following assets shall be excluded from this transaction ("Excluded Assets"):

- (i) All cash in any safe located at the Franchised Business or any cash in banks and/or other financial institution accounts associated with the Franchised Business.
- (ii) The business records which relate to the operations of the Franchised Business for all periods prior to the date immediately preceding the Closing Date ("Business Records").
- (iii) All refunds of federal, state or local income or franchise taxes or worker's compensation insurance premiums due to either Seller Party, as may be applicable, as of the date immediately preceding the Closing Date.
- (iv) All intellectual property rights of either Seller Party and/or Franchisor, as applicable.

- (c) **Inventory.** The Purchase Price (as defined in Section 2) does not include: (i) consumable inventory including food products, perishables and paper products; or (ii) cash on

hand.

## 2. Purchase Price.

- (a) In consideration of the sale of the Transferred Assets, Purchaser shall pay:

Simultaneously with the execution and delivery of this Agreement, the Purchase Price (as defined in Section 2(b) below) by electronic funds transfer, wire transfer, or cashiers' or certified check of immediately available funds.

- (b) The "Purchase Price" is XX Thousand Dollars (**\$XX,000**), which shall be allocated as follows: [(i) XX Thousand Dollars (**\$XX,000**) to the leasehold improvements at the Premises;] [(ii) XX Thousand Dollars (**\$XX,000**) to the Transferred Assets, including all furniture, fixtures and equipment, as more fully described in **Schedule 1** to the Bill of Sale, attached hereto as **Exhibit A**, and incorporated herein by reference.]

## 3. Representations and Warranties.

- (a) To induce Purchaser to enter into this Agreement and to perform Purchaser's obligations hereunder, and with full knowledge that Purchaser will rely thereon, Seller represents and warrants as follows:
- (i) Seller has title to and rightful possession to the Transferred Assets, and each of the Transferred Assets is and shall, upon the delivery thereof to Purchaser, be free and clear of recorded and publicly available liens, claims, charges, encumbrances and security interests.
  - (ii) Seller is a limited liability company duly organized, validly existing and in good standing under the law of the State of [State].
  - (iii) Seller has full right, power and authority to execute and deliver this Agreement, and to consummate the transactions contemplated hereby.
  - (iv) This Agreement has been duly executed and delivered by Seller and constitutes the legal, valid and binding obligation of Seller, enforceable against Seller in accordance with its terms.
  - (v) Neither the execution and delivery of this Agreement, nor the consummation of the transactions contemplated hereby, will conflict with, violate or result in a breach of or default under (with or without the giving of notice or the passage of time, or both): (a) any license, instrument, contract or agreement to which Seller is a party or by which Seller is bound, or (b) the articles of incorporation or the bylaws of Seller. Neither the execution and delivery of this Agreement, nor the consummation of the transactions contemplated hereby, will result in the creation of any lien, claim, charge, encumbrance or security interest of any nature or type whatsoever with respect to the Transferred Assets. Neither the execution and delivery of this Agreement, nor the consummation of the transactions contemplated hereby, will require any consent or approval of, or any filing with, any governmental entity or other person.

- (vi) On the Closing Date, the Transferred Assets are being purchased in “**AS IS**” condition and will comprise all of the assets and property necessary to conduct the Franchised Business in accordance with Franchisor’s confidential operations manual (“Confidential Manual”).
  - (vii) The development and/or conduct of the Franchised Business, and the ownership and use of the Transferred Assets in accordance with Franchisor’s Confidential Manual, complies, or will (as of the Closing Date) comply, with all applicable federal, foreign, state and local laws, regulations and ordinances; provided, however, that Purchaser may be required to obtain certain licenses and permits in connection with the operation of the Franchised Business.
- (b) To induce Seller to enter into this Agreement and to perform Seller’s obligations hereunder, and with full knowledge that Seller will rely thereon, Purchaser represents and warrants as follows:
- (i) Purchaser is a [type of entity] duly organized, validly existing and in good standing under the law of the State of [state].
  - (ii) Purchaser has full right, power and authority to execute and deliver this Agreement, and to consummate the transactions contemplated hereby.
  - (iii) This Agreement has been duly executed and delivered by Purchaser and constitutes the legal, valid and binding obligation of Purchaser, enforceable against Purchaser in accordance with its terms.
  - (iv) Neither the execution and delivery of this Agreement, nor the consummation of the transactions contemplated hereby, will conflict with, violate or result in a breach of or default under (with or without the giving of notice or the passage of time, or both): (a) any license, instrument, contract or agreement to which Purchaser is a party or by which Purchaser is bound, or (b) the certificate of incorporation or the bylaws (or other comparable charter documents) of Purchaser. Neither the execution and delivery of this Agreement, nor the consummation of the transactions contemplated hereby, will require any consent or approval of, or any filing with, any governmental entity or other person.
  - (v) Purchaser acknowledges that:
    - (a) There are several potential locations for the location of Purchaser’s Surf City Squeeze restaurant;
    - (b) The decision to establish and operate Purchaser’s Surf City Squeeze restaurant at the Premises was made solely by Purchaser, without any reliance upon any information provided (if any), recommendation made (if any) or approval given by Seller, any area representative, Sublessor, or any of their respective shareholders, directors, officers, employees, representatives, agents or affiliates;
    - (c) Seller’s selection and approval of the Premises as a site for a Surf

City Squeeze restaurant provides no assurance or guaranty as to Purchaser's results of operations in connection with its Surf City Squeeze restaurant at the Premises;

- (d) Purchaser has reviewed the lease (including all amendments and addendums) with respect to the Premises and approves of the terms thereof, including rental payment amounts;
- (e) Purchaser accepts full responsibility for the consequences of Purchaser's decision to open and operate a Surf City Squeeze restaurant at the Premises.

**4. Interim Period [ONLY IF APPLICABLE].**

- (a) Between the Execution Date and the Closing Date, as applicable, Seller has operated the Franchised Business, in accordance with Seller's standard operating procedures for operating Surf City Squeeze restaurants and the Franchised Business is open to the public for business.
- (b) Purchaser shall attend Franchisor's training program, if so required by Franchisor in the Franchise Agreement.

**5. Closing.**

- (a) Subject to the conditions set forth in Sections 5(b) and 5(c) hereof, the transactions contemplated by this Agreement shall be consummated on the date that Seller turns over the Franchised Business to Purchaser which is estimated to be on or around \_\_\_\_\_ ("Closing Date") at an office designated by Seller or at another mutually agreeable location.
- (b) The obligations of Seller to consummate the transactions contemplated by this Agreement are subject to the satisfaction at or prior to the Closing Date of the following conditions, any of which may be waived by Seller, in its sole discretion. Purchaser shall use its best efforts to cause each and every one of the following conditions to be satisfied at or before the Closing Date.
  - (i) Purchaser shall have delivered to Seller the Purchase Price as set forth in Section 2 of this Agreement;
  - (ii) Purchaser shall have executed and delivered to Franchisor the Franchise Agreement and to Sublessor the Sublease with respect to the Premises, in the forms then being executed by new franchisees of Franchisor and sublessees of Sublessor;
  - (iii) Purchaser shall have delivered to Sublessor the Sublease Security Deposit in the amount of \_\_\_\_\_ Dollars (\$\_\_\_\_\_) as defined in the Sublease [and a Lease Security Deposit in the amount of \_\_\_\_\_ Dollars (\$\_\_\_\_\_) as defined in the Sublease in connection with the Premises as contemplated by the Sublease and pursuant to Section 5(d) below, as applicable;

- (iv) Purchaser shall have delivered to Franchisor the Initial Franchise Fee in the amount of \_\_\_\_\_ Dollars (\$\_\_\_\_\_) as defined in the Franchise Agreement; and
- (v) The representations and warranties of Purchaser contained in this Agreement shall be true and correct on and as of the Closing Date, and each and all of the terms, covenants, conditions and agreements to be performed or complied with by Purchaser on or before the Closing Date shall have been performed or complied with. This provision shall be self-executing, and the consummation of the transactions contemplated by this Agreement by Purchaser shall constitute Purchaser's certification of the conditions stated herein.

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

- (c) The obligations of Purchaser to consummate the transactions contemplated by this Agreement are subject to the satisfaction at or prior to the Closing Date of the following conditions, any of which may be waived by Purchaser, in its sole discretion. Seller shall use its best efforts to cause each and every one of the following conditions to be satisfied at or before the Closing Date.
  - (i) As of the Closing Date, there shall have been no material adverse change in the Franchised Business, the Transferred Assets or the Premises, or the condition thereof, since the Execution Date of this Agreement, other than changes contemplated by Section 5;
  - (ii) Seller shall have delivered to Purchaser the Bill of Sale executed by Seller; and
  - (iii) The representations and warranties of Seller contained in this Agreement shall be true and correct on and as of the Closing Date, with the same effect as though such representations and warranties had been made on and as of the Closing Date; and each and all of the terms, covenants, conditions and agreements to be performed or complied with by Seller on or before the Closing Date shall have been performed or complied with. This provision shall be self-executing, and the consummation of the transactions contemplated by this Agreement by Seller shall constitute Seller's certification of the conditions stated herein.

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

- (d) The rent payable pursuant to the lease for the Premises shall be paid by Sublessor

for the month in which the Closing Date occurs and Purchaser shall pay to Sublessor (on a per diem basis, based upon a thirty (30)-day month) an amount equal to the rent prepaid by Sublessor with respect to the period on and after the Closing Date, via an EFT, ACH, or other type of debit authorized by Seller or Sublessor, as may be applicable will bill Purchaser for such pro-rated rent amount.

- (e) Seller shall be responsible for all compensation to employees of the Franchised Business for the period through the date immediately preceding the Closing Date. Purchaser shall be responsible for all compensation to employees of the Franchised Business for the period on and after the Closing Date. Notwithstanding anything contained in this Agreement to the contrary, Purchaser shall not be obligated to employ any of Seller's employees after the Closing Date.
- (f) Seller shall be responsible for all costs, fees and expenses relating to the Franchised Business, including but not limited to CAM reconciliation charges, and property taxes, on a pro-rated basis for the period through the date immediately preceding the Closing Date. Purchaser shall be responsible for all costs, fees and expenses relating to the Franchised Business, including but not limited to, CAM reconciliation charges, property taxes, etc., on a pro-rated basis for the period on and after the Closing Date.
- (g) As of and after the Closing Date, Purchaser shall assume, acquire, take over, become responsible for, and promise to pay all contracts, leases, agreements and other liabilities (collectively the "Assumed Liabilities") in connection with the Franchised Business except for those contracts, leases, agreements and other liabilities which are specifically excluded as set forth below:

\_\_[List all contracts, leases, agreements and other liabilities which Purchaser is NOT assuming] OR [List "None"] \_\_

- (h) Purchaser shall indemnify, defend and hold Seller free and harmless from and against any and all "Losses" (as defined below), which Seller shall incur or suffer which arise or result from the operation or conduct of the business of the Franchised Business by Purchaser as of and after the Closing Date, including, but not limited to, any Losses arising from any default of Purchaser arising under the Franchise Agreement or Sublease, and from any default of Purchaser with respect to the Assumed Liabilities. "Losses" shall mean any and all obligations, liabilities, costs (including reasonable attorneys' fees), expenses, damages and losses actually incurred by Seller, net of any insurance proceeds and material tax adjustments, benefits, savings or reductions to which Seller is entitled by virtue of such obligations, liabilities, costs, expenses, damages and losses; provided however, that "Losses" exclude all consequential damages of any kind (including, but not limited to, loss of revenue or income, cost of capital or loss of business reputation or opportunity). As of and prior to the Closing Date, Seller shall have good and marketable title to the Transferred Assets, free and clear of any and all liens, claims, judgments, taxes, encumbrances, security interests, debts or other adverse claims or rights of any kind, except as otherwise provided herein. Seller agrees to indemnify Purchaser of any and all liens, claims, judgments, taxes, encumbrances, security interests, debts or other adverse claims or rights of any kind, which accrued up through the date immediately preceding the Closing Date, whether or not known by either Seller or Purchaser. Seller further agrees to indemnify Purchaser of any and all liens, claims, judgments, taxes, encumbrances,

security interests, debts or other adverse claims or rights of any kind, which accrued up to the date immediately preceding the Closing Date, even if such liens, claims, judgments, taxes, encumbrances, security interests, debts or other adverse claims or rights of any kind are discovered at any future date. Any and all liens, claims, judgments, taxes, encumbrances, security interests, debts or other adverse claims or rights of any kind which accrue on or after the Closing Date are the sole obligation and responsibility of the Purchaser. **For avoidance of doubt, Seller's limited indemnification herein shall not apply to the actual condition or quality of the Transferred Assets as such are being purchased by Purchase in "AS-IS" condition.**

**6. Notices.** All notices, consents, approvals or other instruments required or permitted to be given by either Party pursuant to this Agreement shall be in writing and given by (a) hand delivery, (b) express overnight delivery service, or (c) certified or registered mail, return receipt requested, and shall be deemed to have been delivered upon (i) receipt, if hand-delivered, (ii) the next business day following the date of deposit with the delivery service, if delivered by express overnight delivery service, or (iii) the third business day following the day of deposit of such notice with the United States Postal Service, if sent by certified or registered mail, return receipt requested. Notices shall be provided to the Parties at the addresses specified below:

If to Seller: [Selling Entity]  
Attention: Legal Department  
9311 East Via De Ventura  
Scottsdale, Arizona 85258

If to Liquor License Entity (if applicable) [Liquor License Entity]  
Attention: Legal Department  
9311 East Via De Ventura  
Scottsdale, Arizona 85258

If to Purchaser: [Purchaser]  
[address]  
Telephone Number:

Any Party may change its address by giving notice in writing, stating its new address to the other Party to this Agreement as provided in the foregoing manner.

**7. [USE ONLY IF BROKER INVOLVED WITH SALE, OTHERWISE RESERVE][Brokers' Fees.** Seller has retained Broker Entity ("Broker") as broker in connection with the sale of the Transferred Assets contemplated hereby. The Seller shall be solely responsible for the payment of any fees due Broker in connection with the sale of the Transferred Assets contemplated hereby.]

**8. Survival.** Each of the representations, warranties and covenants contained herein shall survive the Closing Date, irrespective of any investigation or inquiry made by, or any knowledge of, any Party.

**9. Successors and Assigns.** This Agreement shall be binding upon, and inure to the benefit of, the Parties and their respective assigns, legal representatives, executors, heirs and



successors.

**10. Amendment, Modification or Waiver.**

- (a) No amendment, modification or waiver of any condition, provision or term of this Agreement shall be valid or of any effect unless made in writing, signed by the Parties and specifying with particularity the nature and extent of the amendment, modification or waiver. Waiver of any matter shall not be deemed a waiver of the same or any other matter on any future occasion.
- (b) Failure on the part of any Party to complain of any act or failure to act of the other Party or to declare the other Party in default, irrespective of how long the failure continues, shall not constitute a waiver by that Party of its rights under this Agreement.

**11. Entire Agreement.** This Agreement, including the exhibits hereto, contains the entire understanding and agreement of the Parties with respect to the subject matter hereof and supersedes all prior agreements and understandings between the Parties with respect to such subject matter. Each of the exhibits is incorporated in this Agreement by this reference and constitutes a part of this Agreement.

**12. Counterparts.** This Agreement may be executed in two or more counterparts, each of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the Parties and delivered to the other Party.

**13. Dispute Resolution.**

- (a) Except as otherwise provided herein, any dispute, claim or controversy arising out of or relating to this Agreement, the breach hereof, the rights and obligations of the Parties hereto or the relationship between the Parties, or the entry, making, interpretation, or performance of either Party under this Agreement ("Dispute"), which cannot be resolved by mediation under Section 13(d) below or is not subject to mediation under the terms of this Agreement, shall be settled by arbitration administered by the American Arbitration Association ("AAA") in accordance with its Commercial Arbitration Rules as modified below.
- (b) Any arbitration shall take place before a sole arbitrator in the county and state where the Franchised Business is located. Purchaser agrees to conducting the arbitration where Seller is located is appropriate. The Parties agree that the arbitrator shall be an attorney licensed to practice law in the United States and must have a minimum of five (5) years of experience in franchise law. Judgment on the award rendered by the arbitrator may be entered in any court of competent jurisdiction. The arbitrator shall, in the award, allocate all of the costs of the arbitration, including the fees of the arbitrator and the reasonable attorney's fees of the prevailing Party, against the Party who did not prevail. To the extent permitted by applicable law, no issue of fact or law shall be given preclusive or collateral estoppel effect in any other dispute, arbitration proceeding or litigation, except to the extent such issue may have been specifically determined in another proceeding between the Parties. This agreement to arbitrate shall survive any termination or expiration of this Agreement, however effected. The Parties agree

that any arbitration shall be solely between them (including any affiliates) and shall not include as a Party, by consolidation, joinder, or in any other manner, any other person or entity, unless both Parties consent in writing. Both Parties shall have the absolute right to refuse such consent. Further, the Parties expressly waive any right to bring and/or participate in any class or other consolidated, joined or multi-party arbitration claim or proceeding, whether or not permissible under the AAA Commercial Arbitration Rules, including, but not limited to, any claim brought on their behalf by an association of which it, he or she is a member. At the request of any Party, the arbitration shall be conducted in a manner that maintains the confidentiality of the proceedings.

- (c) The arbitrator(s) will issue a reasoned award, with findings of fact and conclusions of law. Actions to enforce an express obligation to pay monies may be brought under the Expedited Procedures of the AAA's Commercial Arbitration Rules. The Federal Arbitration Act shall govern, excluding all state arbitration laws. The laws of the state where the Franchised Business is located will govern all other issues. With respect to discovery, the arbitrator shall require each Party to make a good cause showing before any discovery exceeding that specifically authorized by the AAA Commercial Arbitration Rules will be granted.
- (d) Prior to the commencement of an arbitration proceeding, the Parties must first submit any Dispute to non-binding mediation. At the request of any Party, the mediation will be confidential. The mediation shall be conducted in the county and state where the Franchised Business is located, unless the Parties shall mutually agree to a different location. The Parties to the mediation will share equally in its costs and expenses, except those costs and expenses incurred separately by each Party, including, without limitation, counsel fees and expenses. The mediation process will be deemed "Completed" when the Parties agree that it has been completed, the mediator declares that any impasse exists or sixty (60) days have elapsed since the date of the initiating Party's notice to the other Party that it is initiating the mediation process, whichever occurs first.
- (e) Notwithstanding anything contained in this Agreement to the contrary, the provisions of Sections 13(a), 13(b), 13(c) and 13(d) do not apply to a Dispute where: (i) Seller brings an action for an express obligation to pay monies, declaratory relief, preliminary or permanent equitable relief, any action at law for damage to Seller's goodwill, the confidential information, the proprietary marks or for fraudulent conduct by Purchaser; or (ii) the delay resulting from the mediation process may endanger or adversely affect the public (for example, unhealthy, unsafe or unsanitary conditions would continue to exist). For such disputes, Seller may bring an action in any federal or state court having jurisdiction, whether for monetary damages and/or for temporary preliminary and permanent injunctive relief or specific performance in addition to, and not exclusive of, any other remedies available to Seller. Purchaser hereby consents to and waives any objection or defense and agrees not to contest venue, forum non conveniens or jurisdiction of such court or arbitration.
- (f) Disputes concerning the validity or scope of arbitration, including whether a dispute is subject to arbitration, are beyond the authority of the arbitrator(s) and will be determined by a court of competent jurisdiction pursuant to the Federal Arbitration Act, 9 U.S.C. § 1 et seq., as amended from time to time.

- (g) Either Party may appeal the final award of the arbitrator, if it is over One Hundred Thousand Dollars (\$100,000), to the appropriate U.S. District Court. The Court's review of the arbitrator's findings of fact will be under the clearly erroneous standard, and the Court's review of all legal rulings will be *de novo*. If it should be determined that this provision for federal court review is not enforceable, then either Party may appeal the arbitrator's final award, if it is over One Hundred Thousand Dollars (\$100,000), to a panel of three arbitrators chosen under AAA procedures, which will employ the same standards of review stated immediately above.

**14. Applicable Law and Forum; Waiver of Jury; Statute of Limitations.**

Except to the extent that the United States Trademark Act of 1946, as amended (15 U.S.C., § 1051 et seq.) or the franchising laws of any state that may be applicable, the laws of the state where the Franchised Business is located shall govern all rights and obligations of the Parties under this Agreement. Seller and Purchaser agree, subject to the mandatory mediation and arbitration provisions of Section 13 of this Agreement, that any appropriate state or federal court located in the county and state where the Franchised Business is located shall have exclusive jurisdiction over any Dispute arising under or in connection with this Agreement and is the proper forum in which to adjudicate the case or controversy. Notwithstanding the foregoing, any action initiated by Seller may, at Seller's election, be brought in any jurisdiction where Purchaser is domiciled or that has jurisdiction over Purchaser. The Parties hereto irrevocably submit to the jurisdiction of, and venue in, any such court, and hereby waive any objection or defense thereto. THE PARTIES AGREE THAT ALL DISPUTES SUBMITTED TO THE COURT PURSUANT TO THIS SECTION SHALL BE TRIED TO THE COURT SITTING WITHOUT A JURY, NOTWITHSTANDING ANY STATE OR FEDERAL CONSTITUTIONAL OR STATUTORY RIGHTS OR PROVISIONS.

Notwithstanding anything contained in this Agreement to the contrary, the Parties agree that any claims under, arising out of, or related to, this Agreement must be brought within two (2) years of the date on which the underlying cause of action accrued, and Seller and Purchaser hereby waive any right to bring any such action after such two-year period except for the collection of any unpaid amounts due to Seller or its affiliate.

**15. Attorneys' Fees.** In the event of any claim, controversy or dispute arising out of or relating to this Agreement, or the breach thereof, the prevailing Party may recover reasonable attorneys' fees incurred in connection with any court or arbitration proceeding.

**16. Remedies Cumulative.** The remedies of the Parties under this Agreement are cumulative and shall not exclude any other remedies to which any Party may be lawfully entitled.

**17. Captions.** Captions used throughout this Agreement are for convenience of reference only and shall not be considered in any manner in the construction or interpretation hereof.

**18. Additional Actions.** Each Party agrees to do all acts and things and to make, execute and deliver such written instruments as may from time to time be reasonably required to carry out the terms and provisions of this Agreement.

**19. Construction.** The Parties acknowledge that each Party was represented (or had the opportunity to be represented) by legal counsel in connection with this Agreement, the exhibits hereto and the transactions contemplated by this Agreement and that each of them and its counsel have reviewed this Agreement, or have had an opportunity to do so, and that any rule of construction to the effect that ambiguities are to be resolved against the drafting Party shall not be employed in the interpretation of this Agreement or any amendments or any exhibits hereto or thereto.

***[SIGNATURE PAGE FOLLOWS]***

IN WITNESS WHEREOF, the Parties hereto, by and through its respective representatives with full rights, power and authority to enter into and bind his or her respective Party without further consent or approval of any kind, has duly executed and delivered this Agreement as of the Execution Date and effective as of the Effective Date.

**SELLER:**

[SELLING ENTITY,]

a(n) \_\_\_\_\_

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

[Name,] [Title]

[Liquor License Entity (if applicable)]:

[ENTITY,]

a(n) \_\_\_\_\_

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

[Name,] [Title]

**PURCHASER:**

[PURCHASER,]

a(n) \_\_\_\_\_

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

[Name, Title]

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

[Name, Title]

**EXHIBIT A**  
**TO ASSET PURCHASE AGREEMENT**  
**(BILL OF SALE)**

## BILL OF SALE

This BILL OF SALE, dated \_\_\_\_\_, executed by [SELLING ENTITY], a(n) \_\_\_\_\_ [IF LIQUOR LICENSE ENTITY] ("Grantor") in favor of [PURCHASER], a(n) \_\_\_\_\_ ("Grantee").

FOR GOOD AND VALUABLE CONSIDERATION, the receipt and sufficiency of which are hereby acknowledged, Grantor does hereby convey, grant, bargain, sell, transfer, set over, assign, alien, remise, release, deliver and confirm unto Grantee, its successors and assigns forever, free and clear of all liens, security interests, claims, charges or encumbrances of any kind, the assets listed on **Schedule 1** attached hereto (collectively, "Transferred Assets"), TO HAVE AND TO HOLD all of the Assets unto Grantee, its successors and assigns to their own use and behoof forever.

***Purchaser represents, warrants, acknowledges and agrees that Purchaser is purchasing the Transferred Assets in an "As-Is" condition with no warranties or representations whatsoever in connection with the furniture, fixtures, equipment, inventory and/or leasehold improvements and Purchaser understands that Seller made or makes no representation or warranty, express or implied, regarding the merchantability of the furniture, fixtures, equipment, inventory and/or leasehold improvements or the condition or quality thereof AND HEREBY EXPRESSLY DISCLAIMS ANY IMPLIED WARRANTY OF MERCHANTABILITY OR OF FITNESS FOR A PARTICULAR PURPOSE.***

The following are excluded assets and are excluded from **Schedule 1**:

- a. Cash deposits, including, but not limited to, any utility and security deposits, banks accounts, certificates of deposit, securities or evidences of indebtedness received prior to and including the date of this Bill of Sale;
- b. Credit card or house accounts receivable from sales generated from the Franchised Business and constituting a part thereof, prior to and including the date of this Bill of Sale, any other accounts receivable, or choses of action accruing on or before the Closing Date, as defined in the Asset Purchase Agreement; and
- c. Consumable inventory including, but not limited to, food products, perishables, paper products, cash on hand and other goods.

**EXECUTED** as of the date first set forth above.

[IF LIQUOR LICENSE ENTITY]

**GRANTOR:**

[SELLING ENTITY],  
a(n) \_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]

## Schedule 1 to Bill of Sale

### List of Assets

1. All telephone numbers used in connection with the Franchised Business, including, without limitation, the following:
2. The leasehold under the master lease along with all improvements which may be associated with the Franchised Business.
3. All goodwill associated with the Franchised Business.
4. [IF LIQUOR LICENSE: The License maintained by [Entity] as may be transferrable under [applicable State] law.
5. All of Grantor's furniture, fixtures and equipment, appliances and personal property located at the Franchised Business, including, without limitation, the following:

**Quantity**

**Description**

**Serial Number**



**EXHIBIT B**  
**TO ASSET PURCHASE AGREEMENT**

(PROMISSORY NOTE AND SECURITY AGREEMENT)

[Attached]

[Not Applicable] [OR] [Applicable only if Purchaser enters into a Promissory Note and Security Agreement]

## PROMISSORY NOTE AND SECURITY AGREEMENT

Note Amount:  
[\$AMOUNT]

Scottsdale, Arizona  
[DATE]

1. Promise to Pay. For value received, [NAME], a(n) [\_\_\_\_\_] corporation / limited liability company / individual] ("Maker"), promises to pay to the order of [Holder Entity], a [state] [Corporation/Limited Liability Company, etc.] ("Holder"), at 9311 East Via De Ventura, Scottsdale, Arizona 85258, or at such other address as Holder may designate at any time by written notice to Maker, in lawful money of the United States of America, the principal sum of XX Dollars (\$XX) together with all then-accrued and unpaid interest and other amounts that are Maker's obligations under this Promissory and Security Agreement ("Note"), if any. Maker and Holder may also be referred to in this Agreement as a "Party" and collectively as "Parties." The Note balance represents the principal amount owing by Maker to Holder for [description of debt] due under the Asset Purchase Agreement in the aggregate amount of XX Dollars (\$XX) [plus the UCC-1 filing fee (as described in Section 7) in the amount of XX Dollars (\$XX)]([collectively,]"Debt") for the [Brand] store/restaurant number \_\_\_\_ at the following location \_\_\_\_\_ ("Store").

2. Computation of Interest. Except as otherwise set forth in this Note, this Note shall [not bear interest OR bear interest at the rate of \_\_\_\_% per annum] based on a \_\_\_\_ [month/year] amortization schedule.

3. Required Payments; Method of Payment. Principal and interest, if any, shall be repaid to Holder in a total of \_\_\_\_\_ (XX) [weekly/monthly] installments, consisting of the first \_\_\_\_\_ (XX) installments in the amount of \_\_\_\_\_ **AND xx/100 DOLLARS (\$\_\_\_\_\_.),** and the final installment in the amount of \_\_\_\_\_ **AND xx/100 DOLLARS (\$\_\_\_\_\_.)** which installments shall be due on the [day of the week, or date of the month] (X<sup>xx</sup>) of each consecutive [week / month], with the first installment due on [DATE] and the final installment due on [DATE], all as set forth on the Amortization Schedule attached hereto as **EXHIBIT "1"** and incorporated herein by reference. Maker authorizes Holder (or one of its affiliates) to deduct payments owed by Maker (or one of its affiliates) to Holder under this Note out of Maker's bank accounts via electronic funds transfer in the same way Holder (or one of its affiliates) is authorized to collect payment under the Franchise Agreement entered into by and between Holder and Maker dated \_\_\_\_\_, 20\_\_\_\_ or other franchise documents that Maker (or a related entity) entered into with Holder (or one of its affiliates) for the Store (individually and collectively, "Franchise Agreement"). All payments due under this Note shall be deducted by Holder's close of business from Maker's Depository Account (as defined in the Franchise Agreement) on the day they are due (or the preceding banking business day if such date is a holiday or falls on a weekend). Holder shall not be responsible for any interest charges for any overage collected due to Maker's failure to timely authorize payment. Additionally, Holder shall not be responsible for any bank service charges incurred by Maker which result in the withdrawal of funds from Maker's Depository Account. Maker shall pay Holder FIFTY AND 00/100 DOLLARS (\$50.00) for each withdrawal attempted from Maker's Depository Account pursuant to this Section 3 that is returned for non-sufficient funds. Maker shall also reimburse Holder for all other costs incurred by Holder in collecting or attempting to collect funds due Holder from the Depository Account (for example, without limitation, charges for non-sufficient funds, uncollected funds or other discrepancies in deposits or maintenance of the Depository Account balance in accordance with the terms of the Franchise Agreement). Holder does not have to make or give "presentment, demand, protest or notice" to get paid. Maker hereby waives any right to "presentment, demand, protest and notice" as set forth in Section 10 below.

4. Application of Payments. All payments and other credits due under this Note shall be applied: [if part of Note balance a non-refundable fee (i) first to the amount of principal allocated to the [Type of Fee/Payment Owed] [(i) first][(ii) second,] to fees, costs and expenses payable by Maker under this Note, [(ii) second,][(iii) third,] to accrued and unpaid interest, if any, and [(iii) third][(iv) fourth,] to principal.

5. Collection Costs. If suit, arbitration, or other legal proceeding or any non-judicial foreclosure proceeding is instituted or any other action is taken by Holder to collect all or any part of the indebtedness evidenced hereby or to proceed against the Collateral (as defined below) for any portion of such indebtedness or against any guarantor of the payment of any portion of the indebtedness, Maker promises to pay Holder's attorneys' fees and other costs (to be determined by the court and not by a jury) incurred thereby. Such fees and costs shall be included in any judgment or arbitration award obtained by Holder, and shall bear interest at the default rate set forth in Section 12.

6. Optional Prepayments. Maker shall have the option to prepay this Note, in full or in part, at any time and from time to time, without penalty. Maker shall identify each optional prepayment of principal as such by written notice to Holder at the time of payment, and no such prepayment shall decrease or defer the monthly installment payments required by Section 3 above.

7. Security Interest. The indebtedness evidenced by this Note shall be secured by, and Maker hereby grants to Holder, a security interest in the equipment, inventory, leasehold improvements, and all proceeds thereof, and all increases, additions, accessories, accessions, substitutions, and replacements thereto located at the Store [and other stores owned by Maker, as applicable (the "Other Stores")] including, without limitation, insurance proceeds ("Collateral"). A description of the Collateral is attached hereto as **EXHIBIT "2"** and incorporated herein by reference. Concurrent with the execution of this Note or at any time after the execution of this Note so long as a balance remains outstanding under this Note, Maker shall execute and deliver to Holder, or alternatively Maker gives Holder permission to file, at Maker's expense, a UCC-1 financing statement, evidencing the security interest granted by this Section 7.

8. Guaranty of Promissory Note and Security Agreement. [If Maker is an individual and married, Maker represents and warrants that Maker's obligations under this Note are guaranteed by Maker's spouse and/or any other individuals requested by Holder as consideration for its agreements herein (together, "Guarantors"), pursuant to the Guaranty of Promissory Note and Security Agreement attached hereto as **EXHIBIT "3"** and incorporated herein by reference.] If Maker is a corporation, limited liability company, or other business entity, Maker represents and warrants that Maker's obligations under this Note are guaranteed by each of the persons who are shareholders, members, or other owners, direct or indirect, of Maker (and their respective spouses, if married); and/or any other individuals requested by Holder as consideration for its agreements herein (together, also "Guarantors"), pursuant to the Guaranty of Promissory Note and Security Agreement attached hereto as **EXHIBIT "3"** and incorporated herein by reference. In the event any person who has not previously signed a Guaranty of Promissory Note and Security Agreement becomes Maker's spouse; person who is a shareholder, member, or other owner, direct or indirect, of Maker (or their respective spouses, if married); and/or any other individual requested by Holder as consideration for its agreements herein, at any time after the execution of this Agreement, Maker must cause such person(s) to immediately execute and deliver a Guaranty of Franchise Agreement to Holder.

9. Maker's Representations and Warranties. Maker represents and warrants the

following:

A. Collateral.

(i) Maker will make sure that the Collateral is maintained and in good operating condition, necessary to the conduct of Maker's business. All maintenance must also comply with any legal or regulatory requirements.

(ii) Maker will make sure that Maker has not suffered any material adverse change in Maker's financial condition or operations.

(iii) Maker will protect and preserve the Collateral and Holder's security interest therein, and assist Holder in all ways in enforcing Holder's security interests in the Collateral.

(iv) Maker will not incur any debts beyond Maker's ability to pay such debts as they mature.

(v) Maker will pay, before they become delinquent, all taxes and claims, assessments, charges, and the like, as well as all amounts due under all agreements with third parties.

(vi) Maker will take all actions necessary or appropriate to protect the Collateral that consists of technology and proprietary information. This includes, without limitation, filing all applicable documentation with the United States and foreign patent and trademark offices.

(vii) Holder will give Maker prior notice if Holder, or Holder's agents, want to inspect the Collateral. Holder may inspect the Collateral during regular business hours. Holder will take reasonable steps not to interfere with Maker's business operations during any such inspection. If Holder finds during an inspection that Maker is not complying with this Note or if Maker is otherwise in default under this Note, Maker (and not Holder) will pay Holder's reasonable travel, meals and lodging costs, Holder's salary costs, and Holder's costs and fees and those of Holder's agents for re-inspection. Maker will promptly cure any problems with the Collateral that are discovered during Holder's inspections.

(viii) Maker will use the Collateral only for business purposes. Maker will obey all legal and regulatory requirements in Maker's use of the Collateral and the conduct of Maker's business.

(ix) Maker will make all additions, modifications and improvements to the Collateral to the extent necessary. Otherwise, Maker will not alter the Collateral without Holder's written permission.

(x) Maker will not remove the Collateral from the Store location.

(xi) Maker has and will continue to have good and merchantable title to all of the Collateral, free and clear of all security interests, liens and other encumbrances, with the exception of Holder's lien described in Section 7 above.

(xii) Maker will not convey, assign, sell, mortgage, transfer, encumber, pledge, hypothecate, grant a security interest in, grant options with respect to, lease or otherwise dispose of all or any part of any interest whatsoever in or to any or all of the Collateral, or any interest therein.

B. Insurance.

(i) Until Maker has made all payments to Holder under this Note in full, Maker will keep the Collateral insured. The amount of insurance, the coverage, and the insurance company must be acceptable to Holder.

(ii) If Maker does not provide Holder with written evidence of insurance that is acceptable to Holder, Holder may buy the insurance, at Maker's expense. Maker will promptly pay Holder the cost of this insurance. Holder has no obligation to purchase any insurance. Any insurance that Holder purchases will be Holder's insurance, and not Maker's, and Holder may insure the Collateral beyond the date of satisfaction of the Debt.

(iii) Insurance proceeds may be used to repair or replace damaged or lost Collateral or to pay Holder the present value of the payments described herein.

(iv) Maker appoints Holder as Maker's "attorney-in-fact" to make claims under the insurance policies, to receive payments under the insurance policies, and to endorse Maker's name on all documents, checks or drafts relating to insurance claims for Collateral. Upon request by Maker, Holder will provide Maker with copies of any and all documents signed as Maker's attorney-in-fact. Holder agrees to pay Maker any insurance proceeds received by Holder in excess of the any and all amounts due Holder under this Note.

10. Waivers and Acknowledgments. Maker, and any sureties, endorsers and guarantors of all or any portion of the indebtedness evidenced by this Note waive: (a) demand, notice, diligence, protest, presentment for payment, and notice of extension, dishonor, protest, demand and nonpayment of this Note; and (b) any release or discharge by reason of (i) any release or substitution of, or other change in, any security given for the indebtedness evidenced by this Note or the obligation of any other person or entity who or which is now or may become directly or indirectly liable for all or any portion of the indebtedness evidenced by this Note, or (ii) any extension or other modification of the time or terms of payment of all or any portion of the indebtedness evidenced by this Note. Maker, and any sureties, endorsers and guarantors agree that their liability for the indebtedness evidenced hereby shall be joint and several.

11. Default, Take-Back Rights and Additional Remedies.

A. Default. Maker will be in default if any of the following occurs:

(i) Maker does not pay Holder, within seven (7) days after written notice is received by Maker from Holder, any payment that Maker owes Holder under this Note, the Franchise Agreement (including, but not limited to, royalty and advertising fees) or any other agreement, loan, debt, lease or other financial arrangement that Maker has with Holder or one of its affiliates (each a "Payment Default").

(ii) Any of the financial information that Maker gives Holder is not materially true and complete, or Maker fails to tell Holder anything that would make the financial information not materially misleading.

(iii) Maker does something it is not permitted to do, or Maker fails to do anything that is required of them, under this Note, the Franchise Agreement or any other lease, loan, debt or other financial arrangement that Maker has with Holder and such breach continues uncured for a period of seven (7) days after Holder has given written notice of such default to Maker, provided that such cure period shall not apply to any covenant relating to insurance covering the Collateral described in Section 7.

(iv) An event of default occurs under the Franchise Agreement, or under any other lease, loan, debt or obligation of Maker (or any guarantor) that exceeds Fifty Thousand Dollars (\$50,000) in the aggregate that results in the acceleration or mandatory prepayment thereof.

(v) Maker files bankruptcy, or involuntary bankruptcy is filed against Maker or any guarantor and such involuntary bankruptcy is not dismissed within sixty (60) days.

(vi) Maker is subject to any other insolvency proceeding other than bankruptcy (for example, a receivership action or an assignment for the benefit of creditors) and such proceeding that is involuntary is not dismissed within sixty (60) days.

(vii) Without Holder's permission, Maker sells all or a substantial part of Maker's assets, merges or consolidates (other than with an affiliate where Maker is the surviving entity), or a majority of Maker's voting stock or interests (or any guarantor's voting stock or interests) is transferred.

(viii) There is a material adverse change in Maker's financial condition, business or operations.

B. "Take Back Rights." In the event of a Payment Default, Maker hereby grants Holder the following "Take Back Rights" (as defined below in this Section 11.B.) with respect to the Store. Maker shall have seven (7) days after receipt of written notice from Holder to cure any such Payment Default. If Maker does not timely cure the Payment Default, Maker hereby grants Holder the irrevocable right to immediately enter the Store and take possession and full ownership of the Store going forward, and further agrees to execute any and all reasonably necessary documents to transfer ownership of the Store, including all assets located therein, to Holder or its designee and to assign the lease for the premises of the Store to Holder or its designee ("Take Back Rights"). In the event of an uncured Payment Default, Maker further acknowledges and agrees to the following: (i) the Take Back Rights represent Holder's liquidated damages for Maker's Payment Default; (ii) that such damages are reasonable under the circumstances; (iii) that Maker shall have no right to contest, and hereby waives any such rights to contest or appeal, Holder's Take Back Rights, including Holder's entry into the Store and subsequent possession, control; and ownership of the Store thereafter; and (iv) that Maker shall receive no compensation or other monetary consideration from Holder for the Store. For purposes of the Take Back Rights under this Section 11, all notices shall be sent by certified mail, return receipt requested, or via overnight delivery service, to the other Party at the addresses listed in Section 16.

C. Acceleration in the Event of Default. In the event of any default, including a Payment Default, under this Note which is not cured within seven (7) calendar days after receipt of written notice from Holder, the principal sum hereof, together with all accrued and unpaid interest, shall, at the option of the Holder (and without limiting any remedies available to Holder),

become immediately due and payable without further notice or demand by the Holder.

D. Consent to Credit Reports. Maker hereby agrees that upon notice of default or upon an uncured default of this Note, the Franchise Agreement or any other agreement between Maker (or a legal entity thereof) and Holder or its affiliates, and with no prior notice, Maker consents to Holder's (or its affiliates' or third-party contractors') acquisition and use of non-business consumer credit reports on Maker in order to evaluate as necessary the financial condition of Maker as principal(s), member(s), manager(s), franchisee(s), and/or guarantor(s) in connection with the collection of monetary obligations as contemplated by this Note, Maker's Franchise Agreement, the Guaranty of Agreement, or any other agreements between Maker (or a legal entity thereof), and Holder or its affiliates.

E. Acceleration in the Event of the Sale of the Store. In the event Maker sells the Store (as defined in Section 1 above) effective on or before \_\_\_\_\_, then the entire principal balance (plus all accrued interest) shall become due and payable upon the closing of the transaction of the sale of the Store.

12. Default Interest. After maturity, including maturity upon acceleration as described in Section 11 above, or at any time that Maker is more than seven (7) calendar days delinquent in the payment of money as required by this Note (whether or not Holder has given any notice of default or any cure period has expired), then all amounts outstanding hereunder and any advances thereafter made from the Debt evidenced hereby and any accruing costs and reasonable attorneys' fees which are the obligation of Maker shall thereafter bear interest at the rate of eighteen percent (18%) per annum until paid.

13. Indemnity. Maker shall indemnify, defend and hold Holder harmless for, from and against any and all claims, expenses and reasonable attorneys' fees actually incurred by Holder concerning or arising from the Collateral, this Note, or Maker's breach of any material representation, warranty or covenant. It includes, without limitation, any claims, losses or charges actually incurred concerning, arising out of or in connection with the manufacture, selection, delivery, possession, use, operation or return of the Collateral and any claims, losses or damages actually incurred concerning, arising out of or in connection with this Note. This obligation of Maker's to indemnify Holder continues even after satisfaction of this Note.

14. No Waiver by Holder. Failure of the Holder to exercise any option hereunder shall not constitute a waiver of the right to exercise the same in the event of any subsequent default or in the event of continuance of any existing default after demand for strict performance thereof.

15. Time of Essence. Time is of the essence of this Note.

16. Notices. All notices required or permitted to be given by either Party pursuant to this Note shall be in writing and given by (a) hand delivery, (b) express overnight delivery service or (c) certified or registered mail, return receipt requested, and shall be deemed to have been delivered upon (i) receipt, if hand delivered, (ii) the next business day following the date of deposit with the delivery service, if delivered by express overnight delivery service, or (iii) the third business day following the day of deposit of such notice with the United States Postal Service, if sent by certified or registered mail, return receipt requested. Notices shall be provided to the Parties at the addresses specified below:

If to Holder: [Seller Entity]  
Attention: Legal Department  
9311 East Via De Ventura  
Scottsdale, Arizona 85258

If to Maker: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

17. Governing Law. This Note shall be construed according to the substantive laws and judicial decisions of the State of Arizona, without regard to any conflict of laws principles. Any action brought to enforce this Note may be commenced and maintained in the Superior Court of the State of Arizona in and for the County of Maricopa. Maker and any sureties, endorsers and guarantors irrevocably consent to jurisdiction and venue in such court for such purposes.

18. RELEASE. IN EXCHANGE FOR HOLDER'S AGREEMENT TO ARRANGE FOR MAKER'S PAYMENT OF THE DEBT, MAKER AND EACH OF ITS CURRENT, PAST AND FUTURE PREDECESSORS, SUCCESSORS AND ASSIGNS, AND EACH OF ITS AND THE FOREGOING ENTITIES' RESPECTIVE PARENTS, SUBSIDIARIES, SHAREHOLDERS, MEMBERS, MANAGERS, OWNERS, PARTNERS, DIRECTORS, OFFICERS, EMPLOYEES, REPRESENTATIVES, AGENTS, SUCCESSORS, ASSIGNS, GUARANTORS, INSURERS, SPOUSES, HEIRS, EXECUTORS, TRUSTEES, AND ESTATES, IF ANY, OF ANY AND ALL SUCH ENTITIES (COLLECTIVELY WITH MAKER "MAKER PARTIES"), HEREBY IRREVOCABLY AND UNCONDITIONALLY RELEASE, REMISE AND FOREVER DISCHARGE HOLDER AND EACH OF ITS CURRENT, PAST AND FUTURE PREDECESSORS, SUCCESSORS AND ASSIGNS, AND EACH OF ITS AND THE FOREGOING ENTITIES RESPECTIVE PARENTS, SUBSIDIARIES, SHAREHOLDERS, MEMBERS, MANAGERS, OWNERS, PARTNERS, DIRECTORS, OFFICERS, EMPLOYEES, REPRESENTATIVES, AGENTS, SUCCESSORS, ASSIGNS, GUARANTORS, INSURERS, SPOUSES, HEIRS, EXECUTORS, TRUSTEES, AND ESTATES, IF ANY, OF ANY AND ALL SUCH ENTITIES (COLLECTIVELY WITH HOLDER "HOLDER PARTIES"), FROM ANY AND ALL CLAIMS, DEMANDS, CAUSES OF ACTION, SUITS, DEBTS, DUTIES, ACCOUNTS, COVENANTS, CONTRACTS, AGREEMENTS, PROMISES, DAMAGES, JUDGMENTS, TAXES, LIABILITIES AND OBLIGATIONS, BOTH CONTINGENT AND FIXED, KNOWN AND UNKNOWN, NOW EXISTING OR HEREFTER, OF EVERY KIND AND NATURE WHATSOEVER, IN LAW OR EQUITY, OR OTHERWISE, UNDER LOCAL, STATE, OR FEDERAL LAW OR THE LAW OF ANY OTHER APPLICABLE JURISDICTION, THAT ANY OF THE MAKER PARTIES HAVE AGAINST ANY OF THE HOLDER PARTIES, INCLUDING, WITHOUT LIMITATION, THOSE ARISING FROM, IN CONNECTION WITH OR RELATING TO: (I) THE FRANCHISE AGREEMENT (INCLUDING ANY AMENDMENTS OR MODIFICATIONS THERETO); (II) THE OPERATION, LEASING OR SUBLEASING OF THE STORE; AND (III) THE OFFERING AND SALE OF THE FRANCHISE FOR THE STORE; ARISING FROM AN ACT, OMISSION, CONDUCT OR ACTIVITY OCCURRING BEFORE AND INCLUDING THE DATE OF THIS NOTE WRITTEN ABOVE.

IT IS UNDERSTOOD BY MAKER THAT IF THE FACTS OR LAW WITH RESPECT TO THE FOREGOING RELEASE HEREFTER TURN OUT TO BE DIFFERENT FROM THE FACTS OR LAW KNOWN TO BE OR BELIEVED BY MAKER TO BE TRUE AT THE TIME OF EXECUTION OF THIS NOTE, THEN MAKER EXPRESSLY ASSUMES THE RISK OF THE FACTS OR LAW TURNING OUT TO BE SO DIFFERENT, AND AGREES THAT THE



FOREGOING RELEASE SHALL BE IN ALL RESPECTS EFFECTIVE AND NOT SUBJECT TO TERMINATION OR RESCISSION, IN WHOLE OR IN PART, BASED UPON SUCH DIFFERENCES.

19. Counterparts; Signatures. This Note may be executed in one or more counterparts, each of which shall be deemed to be an original copy of this Note and all of which, when taken together, shall be deemed to constitute one and the same Note. The signatures required for execution may be transmitted to the other Party via facsimile or a scanned .pdf file sent via email and such signature shall be deemed a duplicate original, shall be effective upon receipt by the other Party, may be admitted in evidence and shall fully bind the Party and person making such signature.

***[SIGNATURE PAGE FOLLOWS]***

IN WITNESS WHEREOF, Maker, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective Party without further consent or approval of any kind, has duly executed and delivered this Note as of the date first written above.

**MAKER:**

\_\_\_\_\_, a(n) \_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]

**EXHIBIT “1” TO PROMISSORY NOTE**  
**AMORTIZATION SCHEDULE**

(Attached)

## **EXHIBIT "2" TO PROMISSORY NOTE**

### **COLLATERAL**

All assets owned by [NAME], a(n) [State] [corporation / limited liability company] ("Borrower"), whether now owned or hereafter acquired by Borrower and located at the following location: [Store Address], including, without limitation, the following properties of Borrower:

- (a) All accounts, contract rights, rights to payment, accounts receivable, chattel paper, leases, instruments, notes, securities, documents of title, deposit accounts, certificates of deposit and general intangibles;
- (b) All inventory, including, without limitation, raw materials, work-in-process or materials used or consumed in the business of Borrower, whether in the possession of Borrower, warehouseman, bailee or any other person or entity;
- (c) All machinery, furniture, fixtures and other equipment;
- (d) All negotiable and nonnegotiable documents of title;
- (e) All proceeds of any of the above-described property;
- (f) All books and records pertaining to any of the above-described property, including, without limitation, any computer readable memory and any computer hardware or software necessary to process such memory;
- (g) All rights under contracts of insurance covering any of the above-described property;
- (h) All attachments, accessions, tools, parts, supplies, increases and additions to and all replacements of and substitutions for any of the above-described property; and
- (i) All products of any of the above-described property.

**EXHIBIT “3” TO PROMISSORY NOTE**

**[GUARANTY OF PROMISSORY NOTE AND SECURITY AGREEMENT] or [NOT  
APPLICABLE]**

## GUARANTY OF PROMISSORY NOTE AND SECURITY AGREEMENT

This GUARANTY OF PROMISSORY NOTE AND SECURITY AGREEMENT ("Guaranty") is dated as of [Date] ("Effective Date"), and is executed by each of the undersigned ([individually and collectively,] "Guarantor") in favor of [SELLING ENTITY], a [state] [Corporation/Limited Liability Company, etc.] ("Seller"). To the extent this Guaranty contains terms and conditions that differ from those contained in the Note (as defined in Recital A below), this Guaranty shall control. All capitalized terms not otherwise defined in this Guaranty will have the same meanings ascribed to such terms in the Note.

### Recitals

A. As an inducement for Seller to provide debt to [Franchisee], a [State] [corporation/limited liability company], ("Franchisee"), and to perform Seller's obligations under the Promissory Note and Security Agreement dated [Start Date] ("Note") in the amount of \_\_\_\_\_ Dollars (\$\_\_\_\_), Guarantor has agreed to jointly and severally guarantee the obligations of Franchisee under the Note.

B. Franchisee and [applicable franchisor name] signed a Franchise Agreement, as amended, with respect to [Brand] Store No. \_\_\_\_\_ ("Franchise") dated [Franchise Agreement Date] ("Franchise Agreement").

C. Guarantor is an individual who owns, directly or indirectly, a five percent (5%) or greater equity interest in the Franchise, has agreed to guarantee the Franchisee's obligations pursuant to the Franchise Agreement and Note, or is Franchisee's spouse.

NOW THEREFORE, in consideration of the foregoing, the execution and delivery of the Note by Seller, and the performance of Seller's obligations under the Note, Guarantor agrees, for the benefit of Seller and its affiliates as follows:

### Agreement

1. Guarantor unconditionally guarantees and promises to pay to Seller and/or its affiliates and to perform, for the benefit of Seller and/or its affiliates, on demand, any and all obligations and liabilities of Franchisee in connection with, with respect to, or arising out of, the Note and all Schedules entered into in connection therewith ("Obligations").

2. This is a guaranty of payment and not of collection. This Guaranty will remain in full force and effect until all amounts payable by Guarantor have been validly, finally and irrevocably paid-in-full and all Obligations will have been validly, finally and irrevocably satisfied or performed-in-full.

3. Guarantor's Obligations under this Guaranty are joint and several and are independent of the obligations of Franchisee. A separate action or actions may be brought and prosecuted against Guarantor regardless of whether an action is brought against the Franchisee or whether the Franchisee (or, if more than one Guarantor, the other Guarantors) is joined in any such action. Guarantor waives the benefit of any statute of limitations affecting Guarantor's liability under this Guaranty or the enforcement of this Guaranty. Guarantor waives its rights under A.R.S. Section 12-1641, *et seq.* and Rule 17(f) of the Arizona Rules of Civil Procedure for the Superior Courts of Arizona, which set forth certain rights and obligations among guarantors, debtors and creditors, if applicable, including the right to require Seller to bring an action against the Franchisee prior to enforcing its rights under this Guaranty. Guarantor waives any right to require Seller to proceed against or exhaust any security interest held in the property of Franchisee or to pursue any other remedies that Seller may have. Guarantor waives all requirements as to presentment, demand for performance, notice of non-performance, protest,

notice of protest, notice of dishonor, and notice of acceptance of this Guaranty and of the existence, creation or incurring of new or additional Obligations or indebtedness.

4. Guarantor authorizes Seller, without notice or demand and without affecting Guarantor's liability under this Guaranty to renew, compromise, modify, extend, accelerate or otherwise change the terms of any present or future Obligations and/or agreements between Franchisee and Seller or Seller's affiliates. Any change in the Obligations and/or agreements will have no effect on Guarantor's liability under this Guaranty. Guarantor will remain liable for the Obligations as set forth in this Guaranty if Franchisee fails to satisfy any of its obligations.

5. If any one or more of the provisions in this Guaranty will be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provision of this Guaranty, and this Guaranty will be construed as if such provision had never been contained herein. Notwithstanding the foregoing, if the provision held invalid, illegal or unenforceable is a material part of this Guaranty, as determined by Seller, the Parties shall promptly negotiate a substitute provision consistent with then-current law and the Parties' original intent to replace the provision held to be invalid, illegal or unenforceable.

6. If Seller is required to take any legal action to enforce its rights under this Guaranty, Seller may recover from Guarantor Seller's costs and expenses in connection therewith, including, without limitation, reasonable attorneys' fees, whether or not suit is filed, and all costs of collection, suit, and preparation for suit (whether at the trial or appellate level).

7. Nothing in this Guaranty will constitute a waiver or limitation of any other rights or remedies of Seller or its affiliates against Franchisee or Guarantor. No failure or delay on the part of Seller or its affiliates in exercising its rights under this Guaranty will operate as a waiver of, or impair, any such right. No single or partial exercise of any such right will preclude any other or further exercise thereof or the exercise of any other right. No waiver of any right will be effective unless given in writing, specifying with particularity the nature of the waiver. No waiver of any right will be deemed a waiver of any other right. The rights provided for in this Guaranty are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

8. Guarantor agrees that it will not exercise any rights of subrogation that Guarantor may acquire due to any payment or performance of the Obligations of the Franchisee pursuant to this Guaranty unless and until all amounts payable to Seller or its affiliates, and all Obligations for the benefit of Seller or its affiliates, due under the Note will have been validly, finally and irrevocably paid and performed in full.

9. This Guaranty will be binding upon Guarantor and its respective successors, heirs and assigns, and will inure to the benefit of Seller, its affiliates and their respective successors and assigns.

10. If more than one person signs this Guaranty, each Guarantor's obligations will be joint and several. Guarantor acknowledges and agrees that Seller will materially rely upon Guarantor's promises and obligations under this Guaranty.

11. [The undersigned \_\_\_\_\_][include name(s) here of each of the undersigned who is not married] each represents that he/she is not married as of the Effective Date.

**This Guaranty will be governed by, and construed and enforced in accordance with, the law of the State of Arizona, notwithstanding any conflict of law provisions to the contrary.**

**Guarantor agrees that any litigation in connection with this Guaranty will be commenced and maintained only in the courts located in Maricopa County, Arizona, and Guarantor consents to the jurisdiction of such courts.**

**GUARANTOR:**

\_\_\_\_\_  
[Name], an individual

\_\_\_\_\_  
[Name], an individual

\_\_\_\_\_  
[Name], an individual

\_\_\_\_\_  
[Name], an individual



**EXHIBIT E-1**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Franchise Agreement (New)**

***SURF CITY SQUEEZE***

**FRANCHISE AGREEMENT  
(New)**

**between**

**KAHALA FRANCHISING, L.L.C.**

**and**

\_\_\_\_\_, a(n) \_\_\_\_\_

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**SURF CITY SQUEEZE**  
**FRANCHISE AGREEMENT**  
("Agreement")

**PARTIES:**

KAHALA FRANCHISING, L.L.C.,  
an Arizona limited liability company

("Franchisor")

\_\_\_\_\_  
a(n) \_\_\_\_\_

([individually and collectively,] "Franchisee")

**RESTAURANT NO.:** \_\_\_\_\_

**EFFECTIVE DATE:** \_\_\_\_\_

("Effective Date")

**TRADITIONAL RESTAURANT (YES or NO):** \_\_\_\_\_

**RESTAURANT DESCRIPTION IF NON-TRADITIONAL:** \_\_\_\_\_

A "traditional" restaurant is a restaurant that is easily accessible by the general public, such as a free-standing building, inline retail shop, shopping mall and street front location. A traditional *Surf City Squeeze* restaurant normally offers a full menu. A "non-traditional" restaurant is a *Surf City Squeeze* restaurant that is located in a non-traditional marketplace, as determined by us (in our sole discretion), such as an airport, amusement park, sports or entertainment venue, train station, travel plaza, toll roads, cafeteria, retail store, convenience store, military base, hospital, office building, movie theater, hotel, casino, kiosk, cart, or high school or college campus. A non-traditional restaurant may also be a *Surf City Squeeze* restaurant that is co-branded into another brand restaurant, at Franchisor's sole discretion. A non-traditional *Surf City Squeeze* restaurant normally offers a limited version of the full *Surf City Squeeze* menu.

To simplify the language in this Agreement, the terms "we," "us," "our" and the like may be used to refer to the Franchisor, and the terms "you," "your" and the like may be used to refer to the Franchisee. The term "you" as used herein is applicable to one (1) or more persons, a corporation, partnership, trust, other entity, association or form of organization as the case may be, and the singular usage includes the plural, masculine, neuter, feminine, and possessive usages. Franchisor and Franchisee may individually be referred to as a "party" and collectively referred to as the "parties."

**RECITALS:**

This Agreement is entered into with reference to the following facts and circumstances:

A. We have, over a period of time and at considerable expense, developed and established a uniform and unique method of operation, customer service, advertising, publicity, processes, recipes, techniques and technical knowledge in connection with the restaurant business, specializing in smoothies, fruit drinks, functional drinks, nutritional supplements, and other related beverage and food items. These restaurants do business under the trade name "*Surf*

*City Squeeze*®. These Surf City Squeeze recipes, techniques, processes and methods constitute our “Trade Secrets.” All of our knowledge, experience, Trade Secrets, processes, methods, specifications, techniques, Proprietary Marks (as defined in Recital B.), System Standards (as defined in *Section 1.4*) and information are referred to in this Agreement as the “System.” The System may be changed, supplemented, improved and further developed by us from time to time.

B. We have owned and issued franchises to others for the operation of franchised restaurants in the United States and in other countries. We have registered and applied for proprietary marks with the United States Patent and Trademark Office and with offices in other countries serving similar functions. These proprietary interests, trademarks, service marks, logos, insignias, trade names and trade dress are referred to in this Agreement as the “Proprietary Marks.”

C. We are engaged in the business of licensing the right to use the Proprietary Marks in connection with the operation and promotion of the System.

D. You understand and recognize that: (1) our Trade Secrets, Proprietary Marks, developments and other properties as recited above are of considerable value; and (2) it is of importance to us and all of our franchisees to maintain the development of the System in a uniform and distinctive manner, allowing you and our other franchisees to enjoy a public image and reputation greater than most single franchisees could establish.

E. You desire to make use of the “*Surf City Squeeze*®” trademark and to enjoy the benefits of that mark, the other Proprietary Marks, and the System; and to establish a “*Surf City Squeeze*” franchise to be operated in accordance with System Standards set forth from time to time by us. System Standards are set forth in, without limitation, the confidential “ops package,” which consists of the “operations manual” (“Operations Manual”), “ops toolkit” and related printed and electronic documents, both now existing and hereinafter developed (individually and collectively, “Confidential Manual”). We are willing to grant you the right to do so under the terms, conditions and provisions set forth in this Agreement, which includes any and all appendices, addenda, amendments, attachments and exhibits.

F. You recognize the necessity and desirability of protecting our reputation, goodwill, Trade Secrets, and other confidential business information; and that disclosure of Trade Secrets and confidential business information, including specifics of the System to any third-party, will cause irreparable damage and harm to us.

### **AGREEMENT:**

The parties agree that the foregoing Recitals are hereby incorporated and made part of this Agreement and further agree as follows:

## **ARTICLE 1. GRANT OF FRANCHISE; TERM; SYSTEM STANDARDS**

### **1.1 Franchise Grant.**

We hereby grant to you a *Surf City Squeeze* franchise that includes the right to use the System as provided in this Agreement, at the following location (“Location”):

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

City/State/Zip Code: \_\_\_\_\_

Additional Location Information  
(if applicable) \_\_\_\_\_

The *Surf City Squeeze* franchise at the Location will be collectively herein referred to as the "Franchised Business".

## **1.2 Location of the Franchised Business; No Exclusive Territory or Other Rights.**

You must operate the Franchised Business only from the Location, including any catering services of *Surf City Squeeze* menu items you provide. You acknowledge that the *Surf City Squeeze* franchise granted under this Agreement is non-exclusive, that we are not granting you any territorial protection or any other exclusive rights, and that we, directly or through one (1) or more affiliates, reserve the right in our sole discretion, and without compensating you or seeking your prior approval: (i) to establish, and grant to other franchisees or licensees the right to establish, a *Surf City Squeeze* restaurant or any other business using the Proprietary Marks, the *Surf City Squeeze* System or any variation thereof, in any location other than the approved Location (including locations in the immediate vicinity of your Location), on any terms and conditions that we deem appropriate; (ii) to establish, and grant to other franchisees or licensees the right to establish, any restaurant concept other than *Surf City Squeeze* in any location on any terms and conditions that we deem appropriate (including locations in the immediate vicinity of the Location); (iii) to sell products identified by the Proprietary Marks or other trademarks, service marks or commercial symbols in any location through any distribution channels, including grocery stores, convenience stores, supermarkets, club stores, vending machines, delivery services and restaurants other than *Surf City Squeeze* restaurants; and (iv) to take any other action that we are not expressly prohibited from taking under this Agreement.

We hereby grant to you during the term of this Agreement, a non-exclusive right and license to operate a single restaurant at the Location only, according to the System Standards and subject to the terms, conditions and restrictions contained in this Agreement. This Agreement is limited to the operation of one traditional restaurant, unless otherwise amended, and does not grant you the right to buy, own or operate additional restaurants.

Except as expressly limited in this Agreement, we (for ourselves and our affiliates and designees) retain all rights with respect to all Proprietary Marks and the sale of *Surf City Squeeze* products anywhere in the world with no compensation or liability to you, including the right to:

- a. Establish and operate (or license to any other person or entity the right to establish and operate) *Surf City Squeeze* restaurants owned or licensed by us at any location;
- b. Develop, market, own, operate and participate in any other business under the Proprietary Marks or any other trademarks (including trademarks identified in the Franchise Disclosure Document ("Disclosure Document") and other trademarks we or our affiliates own or have the right to license);

c. Develop, lease and license the use of, at any location, trademarks other than the Proprietary Marks, in connection with the operation of a system that offers products or services that are the same as, or similar to, those offered by us under this Agreement on any terms or conditions that we deem advisable, in our sole discretion;

d. Merge with, acquire or be acquired by any other business, including a business that competes with your Franchised Business, or acquire and convert any retail stores, including retail stores operated by competitors, or otherwise operated independently or as part of, or in association with, any other system or chain, whether franchised or corporate-owned;

e. Distribute, sell and license other persons or entities to distribute and sell products through all other channels of distribution, including catalog sales, telemarketing, grocery stores, warehouses, big box shops, specialty shops, limited access highway food facilities, vending machines and similar automated dispensing systems, mobile units, off-site sales accounts, electronic mail, Internet sales, and movie theaters (individually and collectively, "Other Channels"); and

f. Implement multi-area marketing programs that may allow us or others to solicit or sell to customers anywhere. We also reserve the right to issue mandatory policies to coordinate such multi-area marketing programs.

### **1.3 Term of Agreement.**

This Agreement will commence on the Effective Date and continue as set forth in either *Section 1.3a.* or *1.3b.* below ("Term").

a. If you are purchasing a new or existing non-operating Franchised Business, the Term will expire on either: (1) the ten (10) year anniversary of the date you open this Franchised Business to the public if you own the property where this Franchised Business is located or if you enter into a lease directly with the landlord or other third-party for the property where this Franchised Business is located; or (2) if you have entered into a sublease with one of our affiliates, the expiration of the term of the sublease for the Location excluding any extensions or renewal options, unless terminated earlier in accordance with *Article 14* or any other provisions of this Agreement, renewed in accordance with *Article 13*, or transferred in accordance with *Article 12*; or

b. If you are purchasing an existing and operating Franchised Business, the Term will expire on either: (1) the ten (10) year anniversary of the Effective Date if you own the property where this Franchised Business is located or if you enter into a lease directly with the landlord or other third-party for the property where this Franchised Business is located; or (2) if you have entered into a sublease with one of our affiliates, the expiration of the term of the sublease for the Location excluding any extensions or renewal options, unless terminated earlier in accordance with *Article 14* or any other provisions of this Agreement, renewed in accordance with *Article 13*, or transferred in accordance with *Article 12*.

### **1.4 System Standards.**

You shall operate the Franchised Business in accordance with our standards, including the following:

- a. restaurant design, maintenance, health and safety and remodeling;
- b. types, models, brands and suppliers of required fixtures, furnishings, equipment, signs, materials and supplies;
- c. recipes and ingredients, menu items and menu design;
- d. cooperation with and participation in sales, marketing, advertising and promotional programs (including loyalty programs, online ordering programs, discount coupons, discount gift cards, special menu promotions, and entering into product and service agreements directly with third-party vendors and service providers as required by us) and materials and media used in those programs, including discontinued use and removal of promotional materials as directed by us;
- e. use and display of the Proprietary Marks;
- f. restaurant operations, including matters related to the management of the Franchised Business; training of your employees consistent with the System Standards; and commercial impression of the Franchised Business to the public;
- g. cooperation with and participation consistent with our responses and resolutions in response to customer feedback;
- h. cooperation with and participation in: (i) market research and testing; and (ii) product and service development programs;
- i. acceptance of our stored value gift cards, including gift cards sold at a discount, loyalty cards, frequency cards, gift certificates, vouchers, and any other similar electronic card and payment programs (individually and collectively, "Gift/Loyalty Card"), credit and debit cards, other payment systems, check verification services and use of point of sale computer systems; You agree to enter into a separate participation agreement with the approved vendor for data processing services;
- j. bookkeeping, accounting, data processing and record keeping systems; computer hardware and software; connections to the Internet or to proprietary networks; forms, methods, formats, content and frequency of reports to us of Gross Sales (as defined in *Article 5*), financial performance and condition; and providing tax returns and other operating and financial information to us; and
- k. conduct and maintain the Franchised Business and Location so as not to distract from or interfere with the integrity of the System (individually and collectively, "System Standards"). We may, in whole or in part, change, improve, update and further develop the System Standards, from time to time during the term. You shall comply with the updated System Standards as directed by us.

The operation and maintenance of your Franchised Business according to the System Standards are essential to the well-being and vitality of the System and to preserve the goodwill of the Proprietary Marks for us and for all other franchisees operating under the System. It is critical to the *Surf City Squeeze* System for all restaurants operating under the *Surf City Squeeze* System to present a uniform and professional image to *Surf City Squeeze* customers



regardless of which location the customer visits. Any information regarding the operation of the Franchised Business will be considered a mandatory System Standard, unless it is clear from the express language of our communication that the information is merely optional or is intended by us as a suggestion, rather than a requirement.

You agree that System Standards constitute binding provisions of this Agreement as if they were an integral part of this Agreement.

## **ARTICLE 2. SELECTION OF LOCATION; CONSTRUCTION AND RELOCATION**

### **2.1 Location Selection Procedures.**

You must select a Location that satisfies our minimum site requirements (such confirmation will be provided to you by us in writing), for your Franchised Business within nine (9) months from the Effective Date. If you cannot secure an acceptable Location for your Franchised Business within nine (9) months from the Effective Date, then we may terminate this Agreement by giving you notice to that effect. You are ultimately responsible for the selection of the Location. We will not have any liability to you with respect to your selection of the Location, any assistance we provide you in making your selection, our recommendation of any location or a third party to assist you in selecting a location, or our allowing you to move forward on any location. You agree that your selection of the Location will be based on your own independent investigation of the suitability of the Location.

### **2.2 Lease and Purchase Approval.**

If you intend to lease the Location for your Franchised Business, the lease will be subject to our prior limited review and acknowledgment so that we can confirm that certain lease terms are incorporated into the lease. You must provide us, at least thirty (30) days prior to executing the lease, a copy of the lease and details relating to square footage, rent per square foot, the term of the lease, and either confirmation that such other terms as we reasonably require are incorporated into the lease or that you and the landlord agree to incorporate the lease addendum to lease agreement as an exhibit to the lease. You or your attorney shall be responsible for negotiating the terms of the lease, which shall be subject to our final limited review and acknowledgment. If you do not submit all of the required documents to us, we will not allow you to move forward with your lease. We have no liability to you regarding the terms or negotiations of the lease.

If, prior to executing the lease, you or your attorney request a full review of your lease, including any and all exhibits attached thereto, and we or our designated affiliate review your entire lease and exhibits and provide to you or your attorney its review of the entire lease and suggested changes to the lease ("Lease Review"), you must pay a Lease Review Fee (as defined in *Section 5.7*) to compensate for time and effort in reviewing the lease. The Lease Review is optional and only completed by us or our designated affiliate at your or your attorney's request. The Lease Review Fee is due only in the event that you or your attorney request us or our affiliate to complete a Lease Review. Each lease must contain the required lease terms set forth in the Lease Addendum to Lease Agreement, and must specifically state that we are a third-party beneficiary of the lease. If we cure any default by you under the lease, any amounts that we pay to cure the default will be payable by you to us on demand, together with interest thereon, at the lesser rate of one and one-half percent (1½%) or the maximum rate that does

not violate applicable state usury laws ("Default Rate") per month from the date we make such payment.

You acknowledge and agree that on the earlier of thirty (30) days after: (i) you receive a fully executed copy of your lease for the Location of your Franchised Business; or (ii) you open your Franchised Business to the public, you must provide a fully-executed copy of your lease for the Location to us. Failure to timely provide us with a fully-executed copy of the lease will result in a default under this Agreement.

If you intend to purchase the Location for your Franchised Business, the terms of such purchase shall be subject to our prior approval, and you must provide us, at least thirty (30) days prior to executing the purchase agreement, a copy of the purchase agreement and details relating to square footage, price per square foot and such other terms as we reasonably require.

You acknowledge and understand that our confirmation that you may move forward with any specific location, lease or purchase agreement does not in any way guarantee or ensure the success or profitability of the Franchised Business, or the conformity of the Location, lease or purchase agreement to applicable laws, and such confirmations are only for our own benefit.

## **2.3 Construction.**

a. You must, at your sole cost and expense, construct, furnish, make improvements to and equip, if necessary, the Franchised Business at the Location selected by you and meeting our minimum site requirements, in accordance with plans and specifications approved by us or our third-party approved architect, if applicable. Our approval of plans is solely for complying with our System Standards and not for determining compliance with codes, ordinances and other legal requirements, including the Americans with Disabilities Act ("ADA") or any requirements under the lease for your Location. You are solely responsible for ensuring that your Location conforms to all codes and ordinances, including the ADA, and all lease-specific requirements. You must, at your sole cost and expense, use our designated and approved third-party design architect ("Design Architect") to prepare the initial design drawings for any construction, alterations or improvements, as applicable, for your Franchised Business. The Design Architect must provide us with one (1) set of the design drawings, including landscaping and parking spaces if applicable, which are the detailed plans and specifications ("Plans") for your Franchised Business. We will provide you with a copy of the Plans upon our approval of the Plans. You must also, at your sole cost and expense, retain a licensed architect of record to prepare the permitted construction set of drawings for any construction, alterations or improvements. The permitted construction set of drawings must be submitted to us for our files prior to the start of construction, alterations or improvements. In addition, you must obtain the appropriate construction documents and all mechanical, plumbing, electrical and architectural plans must be sealed and stamped, as we may require, even if local laws in the jurisdiction where your Franchised Business is located do not require same.

b. Any material modifications to the approved Plans must be submitted to us for approval and you will not undertake any construction, alterations or improvements until such modifications have been approved by us. Approval of such modifications does not constitute any representation by us of compliance with applicable zoning laws, building codes or other laws.

c. You will be solely responsible for the cost and expense of obtaining all necessary governmental construction permits and licenses, and you must, at your sole cost and expense, comply with all laws, zoning ordinances, rules and regulations of any governmental agencies that may govern any construction, alterations or improvements of the Franchised Business in accordance with the approved Plans. We will have the right, but are not required, to meet with the Design Architect and to inspect any construction, alterations or improvements during its course to ensure that the provisions of this *Section 2.3* are being observed; and you agree to allow our authorized representatives, at any and all times while construction, alterations or improvements are in progress, to meet with the licensed architect and general contractor and enter onto the Location for this purpose. If we determine in good faith that the provisions of this *Section 2.3* are not being observed, you will, at your sole cost and expense, immediately take all necessary corrective action.

d. You must, at your sole cost and expense, use a general contractor that is licensed, and if applicable, registered in the state and local jurisdiction where your Franchised Business is located for any and all construction, alterations and improvements. The general contractor must have prior experience in the construction, alterations and improvement of quick-service restaurants.

e. You acknowledge that the design and appearance of the *Surf City Squeeze* Franchised Business is part of the System, and that uniformity is essential to the System. Therefore, you agree that after the Franchised Business has been constructed, altered or improved, you will not make any material changes to the building plan or design or its appearance without our prior written consent, and you will, at your sole cost and expense, maintain the interior and exterior décor of the Franchised Business in a first class condition and in such manner as we may reasonably prescribe from time to time. In addition to any remodeling required by us upon the transfer of the Franchised Business and upon the renewal of this Agreement, as set forth in *Articles 12* and *13*, respectively, you will, upon thirty (30) days' prior notice from us, and at your sole cost and expense, remodel and make all alterations and improvements in and to your Franchised Business as reasonably determined by us to reflect the then-current *Surf City Squeeze* System specifications, standards, format, image and appearance.

f. A certificate of occupancy for your Franchised Business must be submitted to us approximately six (6) days prior to the day you open your Franchised Business to the public and as otherwise requested by us throughout the Term.

## **2.4 Signage.**

You will acquire, repair and replace, as necessary, and maintain in a first class condition throughout the Term, signs for advertising and identifying the Franchised Business as a *Surf City Squeeze* restaurant. All signs must be in accordance with the System Standards, specifications and any local governing body (i.e., city or county governments) requirements, as well as any other applicable laws, including the ADA, and exterior signage must be the maximum size allowed by the landlord and local governing body. You acknowledge that quality control is essential to protect and promote our Proprietary Marks, standards, and uniform image, and you shall acquire all signs only from approved suppliers. In addition, you shall prominently display on all communications, forms, advertising, business stationery and business cards, and in a sign easily visible to consumers at the Franchised Business, the following words: "INDEPENDENTLY OWNED AND OPERATED."

## 2.5 Relocation.

a. If you desire to relocate the Franchised Business, you may request our consent upon the following conditions:

(i) Not less than sixty (60) days prior to the desired date of relocation (unless prior notice is impractical because of a required relocation, due to a third-party or our request, in which event notice shall be made as soon as possible), you must make a written request for consent to relocate, describing the reasons for the relocation and providing details respecting any proposed new location.

(ii) Within twenty-one (21) days after receiving your written request, we shall advise you in writing if the proposed new location meets our minimum real estate site requirements as provided in *Section 2.1* and if you have our authorization to proceed with the relocation. In the event of our denial to proceed with the relocation, you may request an alternative proposed new location pursuant to the provisions of this *Section 2.5*.

(iii) The Term will not be extended in connection with the requested relocation.

b. At the time you request to relocate the Franchised Business, you must also meet each of the following requirements:

(i) You must not be in default under this Agreement or any other agreement or note then in effect between you and us and any affiliate of ours, and no event shall have occurred that, with the giving of notice, the passage of time, or both, would constitute a default under this Agreement;

(ii) You must neither have received more than three (3) notices of default or breach during the Term; nor more than two (2) notices of default or breach during the five (5) years immediately preceding the effective date of the proposed relocation;

(iii) The equipment, fixtures and signage used in connection with the operation of the Franchised Business must either meet our then-existing System specifications and System Standards, or you must agree, within a timeframe required by us, to replace or refurbish such items, and otherwise modify the methods of operation of the Franchised Business at your cost and expense, in order to comply with our System specifications and System Standards then applicable to new franchise owners; and

(iv) You shall have paid to us a Relocation Fee (as defined in *Section 5.14*).

c. If we approve the relocation of your Franchised Business, (i) you and we must execute an amendment to this Agreement indicating the address for your relocated Franchised Business and you must sign a general release provided by us, and (ii) you must open your Franchised Business at the new location within thirty (30) days after you close your Franchised Business at the current Location. Provided that you comply with all of the terms and conditions set forth in this Agreement including this Section 2.5, during the period of time between the closure of your Franchised Business at the current Location, and the opening of the Franchised Business at the approved relocation address, you will not owe the Royalty Fee (as defined in *Section 5.2*).

## **2.6 Restricted Use of Restaurant Location.**

You may not wholly or partially sublet the Location without our prior written consent. The Location may be used only for the operation of a *Surf City Squeeze* restaurant in compliance with this Agreement and the System Standards. You shall not conduct other businesses or activities at the Location without our prior written consent.

## **2.7 Not Applicable.**

# **ARTICLE 3. OPERATIONS**

## **3.1 Commencing Operations.**

You agree to start operating your *Surf City Squeeze* Franchised Business at the confirmed Location within eighteen (18) months from the Effective Date. You acknowledge that before starting operations you must, at your own expense, do the following (in addition to any other requirements set forth in this Agreement):

- a. Complete a food safety training program at your sole cost and expense. We will accept the certificate for the required program through your local county or state health department or any other nationally recognized food safety program. You must provide us with a copy of your certificate prior to commencing training;
- b. Successfully complete the Training Program described in *Section 4.1*;
- c. Purchase, lease or otherwise acquire from the list of approved sources provided by us all the signage, supplies, equipment, fixtures, inventory and other items necessary to operate the *Surf City Squeeze* Franchised Business; and
- d. Obtain liability insurance in accordance with the requirements described in *Section 9.5* and provide to us evidence that such insurance has been obtained.

Prior to opening the Franchised Business, you must notify us that you have satisfied all requirements to begin operations, and provide us with such documents as we may reasonably request that show your compliance with all such requirements. Upon receipt of our acknowledgment that such requirements have been satisfied, you will have five (5) days to begin operations of your *Surf City Squeeze* restaurant. If you do not begin operations of your Franchised Business at the confirmed Location before the expiration of the eighteen (18) month period from the Effective Date, then we may terminate this Agreement by giving you notice to that effect.

## **3.2 Supplies and Promotional Materials; Rollouts.**

You agree to sell only those menu items, products and services authorized under the terms of this Agreement and as specified in the Confidential Manual, and you shall use only supplies and ingredients in making those menu items that are in compliance with the standards as set forth in the Confidential Manual or other documents provided by, or approved by, us as they presently exist or may exist in the future. In addition to approved vendors and approved distributor(s), we may, in our sole discretion, require you to purchase certain products or services through designated purchasing channels, programs, platforms, or contractual arrangements specified by

us. You shall purchase all such services, supplies and ingredients only from approved vendors and utilize approved distributor(s) as specified in the documents provided by, or approved by, us as they presently exist or may exist in the future. You must purchase promotional materials containing the Proprietary Marks, including stationery, business cards, promotional and advertising materials and similar items, from suppliers approved by us, except that we must first approve all such promotional and advertising materials before you use them, and all such printed materials containing any of the Proprietary Marks shall be accompanied by the words "INDEPENDENTLY OWNED AND OPERATED." Additionally, during the Term, you agree to participate in any Rollout of new products and suppliers, as defined in *Section 9.3*.

### **3.3 Fixtures, Furnishings, and Equipment.**

Unless otherwise approved by us in writing, you will: (1) acquire, repair and replace, as necessary, and maintain in a first class condition throughout the Term, fixtures, furnishings, and equipment to be used in the operation of your Franchised Business that is in accordance with the System Standards, specifications set forth by us in the Confidential Manual or other documents provided by, or approved by, us as they presently exist or may exist in the future, and with applicable laws including, without limitation, including the ADA; and (2) procure the fixtures, furnishings, and equipment from suppliers or vendors previously approved in writing by us.

### **3.4 Online Presence.**

You may not maintain a website, software application, an App (application), social media account (including, but not limited to, an account, group or page on Facebook®, Flickr®, Foursquare®, Google+®, Instagram®, LinkedIn®, Pinterest®, Snapchat®, Tumblr®, X/Twitter®, YouTube®, Vine®, VKontakte or Weibo®), or otherwise maintain a presence or advertise on the Internet or any other public computer network (individually and collectively, "Site") in connection with the Franchised Business without our prior written approval, which we may withhold in our sole discretion. If we grant you written approval, you agree to submit to us for approval before use, true and correct printouts, of all Site pages you propose to use in connection with the Franchised Business. You understand and agree that our right of approval of all such Site pages is necessitated by the fact that such Site pages will include and be inextricably linked with our Proprietary Marks. If we approve your use of a Site, you may only use Site pages that we have approved. Your Site must conform to all online presence requirements, policies and procedures per our System Standards. You agree to provide all information regarding your online presence that we require. If we grant approval for a Site, you may not use any of the Proprietary Marks on the Site except as we expressly permit. You may not post any of our proprietary, confidential or copyrighted material or information on the Site without our prior written permission. If you wish to modify your approved Site, all proposed modifications must also receive our prior written approval. You explicitly understand that you may not post on any Site (whether yours or someone else's) any material in which a third-party has any direct or indirect ownership interest (including video clips, photographs, sound bites, copyrighted text, trademarks or service marks, or any other text or image which any third-party may claim intellectual property or other rights in). If we grant approval, you agree to list on the Site any website and social media account maintained by us, and any other information we require in the manner we dictate. You agree to obtain our prior written approval for any Internet domain name, home page address and Uniform Resource Locator. The requirement for our prior approval set forth in this *Section 3.4* will apply to all activities on the Internet or other communications network to be conducted by you, except that you may maintain one (1) or more

e-mail addresses and may conduct individual e-mail communications without our prior written approval. You agree to obtain our prior approval as provided above if you propose to send advertising to multiple addressees via e-mail or text messages. You may not use a Site to represent that: (1) the Site is an official account, application, page or group of, or video produced by us; or (2) you are the owner of the *Surf City Squeeze* brand. On any Site you use in connection with the Franchised Business, you must affirmatively state: (a) that you are a franchisee and the opinion and content being expressed are your own and not that of the *Surf City Squeeze* brand; and (b) the Location of your Franchised Business.

### **3.5 Not Applicable.**

## **ARTICLE 4. TRAINING, ASSISTANCE AND START-UP MATERIALS**

### **4.1 Training Program.**

We will provide up to two (2) natural persons (individually and collectively, "Trainees") with a training program designed to inform the participants as to the fundamentals of operating the Franchised Business prior to your opening of the Franchised Business. At minimum, one (1) of the two (2) natural persons must have an ownership interest in the Franchised Business. The remaining position may be filled by a natural person with an ownership interest in or management responsibility for the Franchised Business. The training program is made up of the "In-Store Training," which is approximately forty (40) hours, and "New Owner Training," which is approximately forty (40) hours (collectively, "Training Program"). You will be solely responsible for all transportation costs, food, lodging and other personal expenses incurred by you and your employees in connection with the Training Program. The New Owner Training will be conducted either online or in person at our sole discretion. If the New Owner Training is conducted in person, it will be at the Franchisor training and education center in Scottsdale, Arizona or at such other location as we may designate at our sole discretion and the In-Store Training will be conducted at a training store in Arizona or such other location as we may designate at our sole discretion. You acknowledge that adequate knowledge regarding the operation of the Franchised Business is essential to the growth of your franchise and to the promotion of the System. Furthermore, Franchisor has the right to require Franchisee and/or its manager(s) to attend additional training and pay the Additional Training Fee (as defined below), as provided for in this *Section 4.1* and *Section 5.10*, in the event Franchisee is not operating the Franchised Business pursuant to Franchisor's Systems Standards.

### **4.2 Employee Training.**

You acknowledge that the employees of your *Surf City Squeeze* Franchised Business are an integral and important part of the Franchised Business, as they will have substantial contact with customers. You alone are responsible, and acknowledge that we have no direct or indirect control and no right or authority, for the hiring, firing, training, supervising, setting the terms and conditions of employment (including employee tasks and work schedules), compensation of your employees, or maintaining employment records, for the safety of your employees and for your employees' compliance with the System Standards. The System Standards are in place to protect our interests in the System and not for exercising any control over you, your employees or your Franchised Business. You must ensure that your employees who have direct interaction with the public are able to speak and read English and any other language that may be required to adequately meet the public needs in your Franchised Business.

#### 4.3 Additional Programs; Continuing Assistance.

Franchisor, or the Area Representative or other agent or representative representing Franchisor, as may be applicable, will come to Franchisee's restaurant during opening week for up to four (4) days, at no additional cost to Franchisee, to work with you or your manager on your grand opening, and on operating and marketing your restaurant. We may, in the future, request that Trainees participate in refresher or additional training programs. We may also hold an annual conference to introduce new products, discuss sales and marketing techniques, personnel training, advertising programs, merchandising procedures and other subjects. You may be charged a registration fee for these programs and you will be solely responsible for the cost of transportation, food, lodging and other expenses incurred by Trainees at any such program. Attendance at these additional training programs and conferences is mandatory. They will be held in the metropolitan Phoenix, Arizona area, or at other locations in the United States chosen by us, at our sole discretion.

In addition to the initial training available under *Section 4.1*, we shall provide such periodic evaluations or inspections as we deem appropriate, utilizing our field representatives who may visit the Franchised Business from time to time. The frequency and duration of such visits to a Franchised Business by our representatives shall be in our sole discretion. Any such evaluation or inspection is not intended to exercise any control over your employees or the daily operation of your Franchised Business. In addition, we will be available on an ongoing basis at our offices for consultation and guidance with respect to the operation and management of the Franchised Business. In addition to the Confidential Manual, we may, but are not required to, from time to time provide you with additional materials relating to the Franchised Business.

#### 4.4 Area Representatives.

We may retain the services of an independent third-party area representative ("Area Representative") to represent us in the area in which the Franchised Business is located and perform some or all of the services we provide under this Agreement. The services the Area Representative may perform could include: (i) assistance in location selection and evaluating and confirming that the Location meets our minimum site requirements; (ii) advice and guidance regarding lease negotiations; (iii) assistance in opening new *Surf City Squeeze* locations; (iv) assistance with training on the approved POS System (as defined in *Section 4.6a.*); (v) assistance with marketing advice; (vi) periodic Quality Service Cleanliness and Experience ("QSCE") evaluations; (vii) assistance with collection of the various sums due to us from *Surf City Squeeze* franchisees; and (viii) coordination with other *Surf City Squeeze* franchisees in your area and general supervision and monitoring of your Franchised Business on our behalf. You agree in advance to our delegation to an Area Representative of some or all of our obligations, and assignment to an Area Representative of some or all of our rights under this Agreement. You agree that we may require you to submit to an Area Representative any reports you are required to submit to us. Upon our request, you will provide the Area Representative with access, inspection and audit rights to the same extent we have those rights under this Agreement. You are not a third-party beneficiary of any agreement between us and any Area Representative. If we have designated an Area Representative for your Franchised Business as of the Effective Date, the name and contact information of the Area Representative is shown in *Section 17.3h*. We reserve the right in our sole discretion to remove any Area Representative in your area at any time and to appoint any other Area Representative for your area. We have no obligation to appoint an Area Representative in the area in which your



Franchised Business is located, and we have no obligation to appoint a new Area Representative after we have removed an Area Representative.

You acknowledge that Area Representatives and their owners and employees may not contractually bind us without our express written authorization. You further acknowledge no Area Representative has the authority to: (i) enter into agreements or execute any agreements on our behalf; or (ii) bind us in any way without our prior written consent. Unless expressly authorized and agreed to by us in writing, we disavow any agreements, whether verbal or written, entered into by an Area Representative that in any way attempts to bind us. In any litigation or arbitration proceeding, you agree to waive any claim or defense that an Area Representative is our express or implied agent and such an assertion by you constitutes a material default under this Agreement.

#### **4.5 Confidential Manual.**

To protect the reputation and goodwill of the System and to maintain the uniform standards of operation under the Proprietary Marks, you must conduct your business in accordance with our Confidential Manual. The Confidential Manual is confidential and remains our property.

The Operations Manual is available to Franchisee via the franchisee portal at: <https://portal.kahalamgmt.com>. In the event Franchisee desires to receive a hard copy of the Operations Manual, then Franchisee shall submit such request in writing to [kahala.training@mtygroup.com](mailto:kahala.training@mtygroup.com). Upon such request, a hard copy of the Operations Manual will be mailed to Franchisee via regular mail within approximately forty-five (45) days thereafter.

So that you may benefit from new knowledge gained by us as to improved techniques in the operation of the Franchised Business, we may from time to time revise, amend, restate or supplement the content of the Confidential Manual or other documents provided by, or approved by, us as they presently exist or may exist in the future. You will at all times ensure that your copy of the Confidential Manual is kept current and up to date. In the event of a dispute regarding any of the content of the Confidential Manual, the master copies maintained by us at our corporate office will control.

#### **4.6 Computer Systems; Debit and Credit Card Processing.**

a. Prior to the opening of your Franchised Business, you will be required to acquire, to maintain, and to exclusively use an approved cash register/computer system ("POS System") during the operation of the Franchised Business. You and your employees must complete training for the POS System as we require, and you will be required to use the POS System to produce sales reports, keep inventory control and post sales tax, refunds, credits and allowances and submit that information to us immediately upon our request. You are required to obtain high-speed/always-on internet connection service for your POS System. If high-speed/always-on is not available in your area, dial-up Internet access may be used until high-speed/always-on service becomes available in your area. The POS System must be configured so that we will have remote access to the information and data stored in the POS System, which may include inventory information. This access will allow us to exchange/collect data and other information on such bases as we will communicate to you from time to time. You will be required to maintain the POS System in good working order at all times, and to upgrade or update the POS System during the Term as we may require from time to time. It will be your

responsibility to enter into contracts for the maintenance, upgrades and updates to the POS System with an approved supplier of such services identified by us on the list of approved vendors and distributors or other notification to you from us advising of suppliers for your market area. You shall also be required to own a personal computer or similar device with access to the Internet that allows you to report your Gross Sales (as defined in *Section 5.2*) online, send and receive e-mails with us, and receive online orders. If implemented by us, all *Surf City Squeeze* franchisees of traditional restaurants will be required to participate in an online ordering program. We may provide specifications that you must follow for the hardware, software, and Internet provider for such computer equipment. We may require you to upgrade the hardware and software including, but not limited to, your operating system, as reasonably necessary to provide reports and information required by us.

b. You are required to accept debit and credit cards and Gift/Loyalty Cards from consumers at the Franchised Business and participate in any online ordering programs which Franchisor may require. Prior to the opening of your Franchised Business, you will be required to acquire and maintain an approved debit, credit and Gift/Loyalty Card processing system to use during the operation of the Franchised Business. Additionally, you must utilize our approved third-party Gift/Loyalty payment card processor for processing all such Gift/Loyalty Card transactions, including entering into a Gift Card Participation Agreement with one of our affiliates, or its successors or assigns, or other approved vendor for the Gift/Loyalty Card processing services. The Payment Card Industry (“PCI”) requires all companies that process, store, or transmit credit card information to protect the cardholders’ information by complying with the PCI Data Security Standard (“PCI DSS”). Therefore, as a franchisee who accepts credit cards, you are required to be PCI compliant by following and adhering to PCI DSS, which includes ensuring that your POS System, back office computer (if supplied), and any other device that is plugged into the network is only used for business purposes. You are also required to complete an annual questionnaire and quarterly network PCI scans and install a network firewall appliance for logging, tracking, reporting, and security assessment. You are also required to validate with Franchisor that your store is PCI compliant, and Franchisor may in its sole discretion require you to install a particular type of firewall (hardware and/or software). To show such validation you must send us your passing certificate showing your Franchised Business is PCI compliant. You are also required to verify that you have a PCI compliant firewall appliance installed at your Location if you process credit cards via a high speed internet connection. We require your Franchised Business’ POS System, including terminals, computers, and software to be in compliance with the PCI DSS at all times. The PCI DSS is often updated, and you are required to obtain and comply with all updated standards. You must also be PCI compliant in order to obtain cyber liability/data breach insurance coverage.

## **ARTICLE 5. FEES AND DEPOSITS**

You agree to pay each of the following amounts to us via a lump sum, with each and every amount being non-refundable because of our investment in time and money, in addition to any other benefits conferred upon you, including processing your application, reviewing your documents, and providing you with relevant information, unless otherwise expressly specified below, in accordance with the provisions set forth in this *Article 5*. Notwithstanding your designation to the contrary, we have the sole discretion to apply any of your payments, in part or in whole, to any of your indebtedness to us.

## 5.1 Initial Franchise Fee.

The initial franchise fee is Thirty Thousand Dollars (\$30,000) ("Initial Franchise Fee"). The Initial Franchise Fee will be due and payable by you to us by cashier's check, wire transfer or other form of immediately available funds acceptable to us, upon your execution of this Agreement. You and we agree that our grant of the franchise and your payment of the Initial Franchise Fee provided for in this *Section 5.1* does not give you any rights with respect to other franchises, if any, as we in our sole discretion may elect to make available in the future.

## 5.2 Royalty Fee and Surcharge.

For the period of time commencing on the later of the Effective Date or the date the Franchised Business opens to the public, and for the duration of the Term, you must pay to us a weekly royalty fee equal to the greater of the following: (i) six percent (6%) of total Gross Sales (as defined below); or (ii) Three Hundred Dollars (\$300) ("Royalty Fee"). If we or the landlord of the Location require you to remodel your Franchised Business in such a way that your Franchised Business (including catering) stops offering items to the public, or if there is a disaster at your Franchised Business, such as a fire, flood or damage caused by an act of God, that requires you to temporarily close your Franchised Business, you are not required to pay the Royalty Fee during the period of time of such temporary closure; provided you provide us or our authorized representative with notice of such temporary closure as soon as reasonably possible, but in no event more than twenty-four (24) hours after such closure begins. Notwithstanding the above, all amounts owed to us under this Agreement prior to the temporary closure shall still be fully due and payable. The temporary closure of your Franchised Business shall not exceed ninety (90) days, but may be extended on a case-by-case basis at our sole discretion and with our prior written approval.

In our sole discretion, we may charge, in addition to the Royalty Fee, a surcharge of up to Ten Dollars (\$10) per week if your Franchised Business is located in a state that imposes additional reporting requirements on a franchisor ("Surcharge"). The Royalty Fee and applicable Surcharge shall be due and payable no later than Thursday of each week, which day may be modified by us without prior notice to or approval from you, for the week ending on the preceding Sunday in which applicable Gross Sales (as defined below) were earned from the Franchised Business. The weekly Royalty Fee and applicable Surcharge shall be paid by electronic funds transfer, as detailed below.

For the period of time commencing on the later of the Effective Date or the date the Franchised Business opens to the public, and for the duration of the Term, you are required to report Gross Sales to our designated accounting office, which as of the Effective Date, is via the Internet at <http://franchisee.kahalamgmt.com>, as set forth in *Section 5.6*. Nothing herein shall prevent Franchisor from electronically polling Franchisee's POS system, restaurant management software, and financial records (or similar tools thereto) daily, or more frequently, by electronic or other remote means and Franchisee hereby grants Franchisor authority to do so; however, such authority does not negate Franchisee's requirement to ensure all sales are timely and accurately reported each week. You shall be required to establish a Depository Account (as defined in *Section 5.6*) at the time you execute this Agreement as set forth in *Section 5.6*. Payment of the Royalty Fee, Advertising Fee (as defined in *Section 5.3*), and all other fees due under this Agreement to us shall be made via electronic transfer of funds from the Depository Account. To accomplish this electronic transfer of funds from the Depository

Account, you must complete, sign and deliver to us, and maintain for the duration of the Term, a current Electronic Funds Transfer Authorization in a form that we provide.

### **5.3 Advertising Fee.**

a. You must pay to us, or directly into a national advertising fund or also any regional advertising funds, as designated by us at our sole discretion, (individually and collectively, "Advertising Fund") a weekly advertising fee of one percent (1%) of the Gross Sales for the preceding week ("Advertising Fee"). Upon thirty (30) days' notice by us to you, we may unilaterally increase the Advertising Fee from its current level not to exceed four percent (4%) of your weekly Gross Sales. The Advertising Fee shall be due and payable with the Royalty Fee under *Section 5.2*. The Advertising Fee is our property and may be deposited by us into our general operating account.

b. The Advertising Fund will be used for marketing, advertising, production and media expenses to promote the *Surf City Squeeze* name, System, products and services. We are entitled to deduct, free of charge the following from the Advertising Fund: (i) reimbursement of expenses, overhead, and employee salaries for services provided; and (ii) rent for office space provided to the Advertising Fund. We have no fiduciary obligation to you in connection with the operation of any Advertising Fund. No interest on an unexpended Advertising Fee shall be imputed or otherwise charged for the benefit of, or payable to, you. You understand and agree that the only obligations we have regarding the collection and spending of the Advertising Fee or the administration of the Advertising Fund are the express contractual obligations in this *Section 5.3*. We are not acting as a trustee, fiduciary, agent or in any other special capacity. We do not give any representation or warranty regarding the quality or effectiveness of the advertising and marketing activities funded by the Advertising Fee or of the Advertising Fund, and we will have no liability to you with respect to how these funds are spent.

c. Your own local marketing and advertising should be developed to maximize your particular customer base.

### **5.4 Not Applicable.**

### **5.5 Not Applicable.**

### **5.6 Depository Account; Payment Procedures.**

You are required to establish, at the time you execute this Agreement, and maintain for the duration of the Term a depository account ("Depository Account") at a bank or other federally insured financial institution ("Depository") under the same name as Franchisee under this Agreement. You will initially deposit no less than Three Thousand Dollars (\$3,000) into the Depository Account and are required to maintain a balance of at least Three Thousand Dollars (\$3,000) in the Depository Account at all times during the Term by replenishing the Depository Account to at minimum Three Thousand Dollars (\$3,000) after any withdrawals. We shall not be responsible for any bank service charges incurred by you which result from the withdrawal of funds from your Depository Account.

On Wednesday of each week, you must submit a report to us regarding the weekly period which ended on the preceding Sunday, including details on Gross Sales and other statistical data as provided in this Agreement, Confidential Manual, or as otherwise specified

from time to time by us. We will withdraw funds electronically on Thursday of each week from the Depository Account. The withdrawals are based upon the figures you report and constitute the Royalty Fee and Advertising Fee as described in *Sections 5.2 and 5.3*. If you do not submit a report on any Wednesday, we may estimate the Royalty Fee and Advertising Fee based upon prior reports and withdraw the estimated amounts up to the entire Three Thousand Dollars (\$3,000). We will return or credit back to you, in our sole discretion, any overage within thirty (30) days after our receipt of your report(s). We shall not be responsible to you for any interest charges for any overage collected due to your failure to timely report your sales. You shall instruct the Depository to disburse each week to our designated bank, via electronic funds transfer by the close of business on Thursday (or preceding banking business day, if Thursday is a bank holiday), the weekly Royalty Fee and Advertising Fee and other fees due for that week, which week shall end on the preceding Sunday. The days of the week specified above may be modified by us without prior notice to or approval from you.

We will also withdraw the monthly POS Help Desk Phone Support Maintenance Fee (as defined in *Section 5.20*) from the Depository Account on the last Thursday of each month. Under no circumstances shall such access to the Depository Account be deemed control or joint control of the Depository Account by us.

Subject to reasonable advance notice for non-recurring payment amounts, we have the right to debit your Depository Account, or any other depository account you have with us, according to the terms of your Electronic Funds Transfer Authorization for any of the payments described in this Agreement. If you do not pay all amounts due by the due date, we may suspend our and our affiliates' services and support until your payment default is cured. Repeated failure to pay all amounts when due, whether or not the defaults are subsequently cured, may be cause for termination under *Article 14*.

You shall pay us Fifty Dollars (\$50) for each electronic funds transfer attempted from your Depository Account pursuant to this *Section 5.6* that is returned for non-sufficient funds. You shall also reimburse us for all other costs and expenses incurred by us in collecting or attempting to collect funds due to us from the Depository Account (for example, without limitation, charges for non-sufficient funds, uncollected funds or other discrepancies in deposits or maintenance of the Depository Account balance in accordance with the terms hereof). The Depository Account shall be established and maintained solely for the purposes set forth in this *Section 5.6* and any other fees authorized under this Agreement and any other agreements between you and us or any of our affiliates.

## **5.7 Lease Review Fee.**

If you request us or one of our designated affiliates to complete a Lease Review, you are required to pay us or our designated affiliate a lease review fee in the amount of Two Thousand Five Hundred Dollars (\$2,500) ("Lease Review Fee") for reviewing and providing comments to your proposed lease.

## **5.8 Lease Guarantee Fee.**

If, in order to obtain the lease agreement for the Location of your Franchised Business, the landlord requires you to obtain a lease guarantee, and we or one of our affiliates agree to serve as such guarantor, you will pay us or our affiliate a fee in the amount of ten percent (10%) of the total amount of the rental obligations being guaranteed under the lease during its term up

to a maximum fee of Ten Thousand Dollars (\$10,000) ("Lease Guarantee Fee"). The Lease Guarantee Fee will be due and payable upon our or our affiliate's execution of the applicable lease guarantee agreement with the landlord. Neither we nor any of our affiliates are required to serve as a guarantor of your lease for the Location of your Franchised Business; rather, the decision of whether to serve as a guarantor shall be made in our sole discretion. In the event that you request us or our affiliate to either agree to be the tenant under the lease or execute a separate guarantee to the lease, and you pay the required Lease Guarantee Fee, you agree and acknowledge that payment of the Lease Guarantee Fee shall not, in any manner, be deemed as an insurance policy which limits your liability in connection with the Franchised Business, including any and all financial liability under the sublease or lease related to the Location. You further agree and acknowledge that our or our affiliate's agreement to act as tenant or guarantor under the lease, and your payment of the Lease Guarantee Fee to us or our affiliate, does not result in the assumption or transfer of your liability, in connection with the Franchised Business, by or to us or our affiliate.

#### **5.9 Additional Persons Training Fee.**

The training of two (2) individuals is included in the Initial Franchise Fee. If you desire to have more than two (2) people attend the Training Program, you must pay an additional training fee of Five Hundred Dollars (\$500) for each such person to attend the In-Store Training and an additional Seven Hundred Fifty Dollars (\$750) for each such person to attend the New Owner Training (individually and collectively, "Additional Persons Training Fee") (see *Section 4.1*).

#### **5.10 Additional Training Fee.**

If, after attending the Training Program, you desire to, or we require that you, receive additional training, we will provide additional training time to you for a fee of Three Hundred Dollars (\$300) per person per day. Such additional training will be at a time reasonably agreed to by you and us, and will be conducted at Franchisor's headquarters, online, or such other location as we may designate in our sole discretion. You will be solely responsible for all transportation costs and expenses, food, lodging and other personal costs and expenses incurred by you and your employees in connection with this additional training.

#### **5.11 Document Administration Fee.**

A document administration fee of Five Hundred Dollars (\$500) ("Document Administration Fee") is payable to us when we must prepare an amendment to your franchise documents.

#### **5.12 Renewal Franchise Fee.**

A renewal franchise fee of fifty percent (50%) of the then-current initial franchise fee not including any discounts or reductions ("Renewal Franchise Fee") is payable to us when you renew this Agreement (see *Section 13.1*).

#### **5.13 Transfer Franchise Fee.**

- a. Not applicable.
- b. A Potential Transferee (as defined in *Section 12.1c.*) receiving this Agreement,

as may be amended, in connection with a Full Transfer (as defined in *Section 12.1a.1.*), must pay to us a transfer franchise fee of Seven Thousand Five Hundred Dollars (\$7,500) ("Transfer Franchise Fee").

#### **5.14 Relocation Fee.**

A relocation fee of Five Hundred Dollars (\$500) ("Relocation Fee") is payable to us when you sign the amendment to your Franchise Agreement for your relocation (see *Section 2.5*).

#### **5.15 Transfer Training Fee.**

A Potential Transferee receiving this Agreement, as may be amended, in connection with a Full Transfer, must pay to us, in addition to the Transfer Franchise Fee, a transfer training fee of Two Thousand Five Hundred Dollars (\$2,500) ("Transfer Training Fee"). The Transfer Training Fee is used to provide training for two (2) individuals, and a fee of Five Hundred Dollars (\$500) will be charged for each additional individual trained over two (2).

#### **5.16 Annual Meeting Registration Fee.**

If we hold an annual meeting ("Meeting"), the Meeting may be held at various locations throughout the United States and/or online as we may designate in our sole discretion. Because the planning and funding of the Meeting must be done well in advance and requires a substantial financial commitment, we have the right to debit your Depository Account for up to One Thousand Dollars (\$1,000) for the Meeting registration fee at any time sixty (60) to ninety (90) days prior to the first day of the Meeting. This fee may be debited from your account (even if you do not attend the Meeting). You will also be solely responsible for all costs incidental to attending the Meeting. If you do not attend the Meeting, we will make available to you one (1) full set of the substantive materials that were presented at the Meeting.

#### **5.17 Late Report, Default and Non-Sufficient Funds Fees, Breaching Royalties and Collection Costs and Expenses.**

If you fail to submit to us any financial statements, forms, reports or records required to be provided under this Agreement by its due date, including your weekly Gross Sales report for calculating your Royalty Fee and Advertising Fee, you must pay to us a non-refundable late report charge of One Hundred Dollars (\$100) per report.

If any fees or assessments due under this Agreement, including the Royalty Fee and Advertising Fee, are not paid when due, interest shall accrue on the late payment (from the date payment is due until the date payment is made) at the Default Rate, which amount, plus a Fifty Dollar (\$50) late fee, shall be added to each late payment. For any payments made by you to us under this Agreement which are returned for non-sufficient funds of a processed check, you shall be charged a non-sufficient funds fee of Twenty-Five Dollars (\$25) per occurrence. Pursuant to *Section 5.6*, for each electronic funds transfer that is attempted from the Depository Account but returned for non-sufficient funds, you shall be charged a non-sufficient funds fee of Fifty Dollars (\$50) per occurrence.

Franchisor has the absolute right to charge Franchisee the greater of: three (3) times the fixed Royalty Fee; or, if on a percentage Royalty Fee, the Royalty Fee will be increased up to eighteen percent (18%) of Gross Sales, with respect to any period during which Franchisee is in

breach or default of its/his/her obligations under this Agreement without providing Franchisee advance notice or right to cure. The Royalty Fees paid or owing to Franchisor with respect to the period during which Franchisee is in breach or default are referred to as “Breaching Royalties.” Breaching Royalties will be charged for a minimum fourteen (14) day period, regardless of the length of the actual breach or default.

If, as a result of your failure to remit payments required under any provision of this Agreement, we retain an attorney or a collection agency to collect such payments, you must pay all collection costs and expenses, including reasonable attorneys’ fees and expenses, whether or not legal proceedings are initiated. Our rights under this *Section 5.17* are in addition to any other rights or remedies that we may have as a result of your default under this Agreement.

#### **5.18 Audit Fees.**

For the purpose of this *Section 5.18*, we have the right, at any time during business hours, and with or without prior notice to you, to inspect and audit, or cause to be inspected and audited, the business records, cash control devices, bookkeeping and accounting records, sales and income tax records and returns and other records of the Franchised Business and your entity’s books and records.

You hereby grant us access to any computers utilized by you for such purposes and we will have the ability, at all times, via modem, to obtain daily and weekly sales reports and other financial records that the POS System provides. You will fully cooperate with our representatives, the Area Representative, if applicable, and independent accountants hired by us to conduct any such inspection or audit. In addition, in the event such inspection or audit is made necessary by your failure to furnish reports, supporting records or other information, as required herein, or to furnish such reports, records or information on a timely basis, or if an understatement of Gross Sales, resulting in an underpayment of the Royalty Fee or Advertising Fee for the period of any audit (which shall not be for less than one (1) month) is determined by any such audit or inspection to be five percent (5%) or greater, you will pay to us, immediately after receipt of the inspection or audit report, any additional Royalty Fee and Advertising Fee and other amounts due as a result of any such understatement, plus interest at the Default Rate from the date originally due until the date of payment and you must reimburse us for such audit or inspection, including the charges of any independent accountants, and the travel expenses, room, board and compensation of such accountants and our employees.

The remedies in this *Section 5.18* will be in addition to all other remedies and rights available to us under this Agreement or otherwise available.

#### **5.19 Data Fee.**

We may require you to pay us or a third-party we designate a data fee of up to Seventy-Five Dollars (\$75) per month for polling or collecting data from your POS System.

#### **5.20 POS Help Desk Phone Support Maintenance Service Fee.**

You must purchase from us a help desk phone support maintenance service that covers phone support for both the software and hardware of your POS System that is supported by the help desk, the cost of which is currently Fifty-Five Dollars (\$55) monthly, and subject to increase upon thirty (30) days’ notice (“POS Help Desk Phone Support Maintenance Service Fee”). The



POS Help Desk Phone Support Maintenance Service Fee shall be paid by electronic funds transfer, as detailed in *Section 5.6*, and debited from your account on the last Thursday of each month.

#### **5.21 New Supplier Approval Fee.**

All requests for approving new or alternative suppliers must be submitted in writing by you or the supplier to our Purchasing Department. Each request will be reviewed in accordance with our then-current procedures and the supplier must meet our then-current requirements, which may include that our representatives be allowed to inspect the facilities of the proposed supplier, and that samples from the proposed supplier be delivered, at no charge, either to us or to our designee for testing. A charge not to exceed the amounts incurred in connection with the inspection and the test, with such cumulative amount not to exceed Five Thousand Dollars (\$5,000), must be paid by you and/or the supplier. If approved, in our sole discretion, we will notify you or the supplier in writing within sixty (60) days after our receipt of an approval request. If you do not receive a written notification from us of our approval or disapproval, then the request will be deemed automatically denied after the expiration of such sixty (60) day period. You must not offer or sell in any manner any of the proposed alternative supplier's products until you receive our written approval of the proposed alternative supplier.

#### **5.22 Reserved.**

#### **5.23 Non-participation Fee.**

You must offer and sell at the Location of the Franchised Business all products designated by us, consistent with our System Standards. In addition, you must immediately incorporate into the Franchised Business all new products and services designated by us and must fully participate in all local, regional, seasonal, promotional and other programs, initiatives and campaigns adopted by us in which we require you to participate. If you fail or refuse to fully participate in any such program, initiative or campaign, you may, in our sole discretion, be required to pay a non-participation fee of One Hundred Dollars (\$100) per day that you are not in compliance ("Non-participation Fee").

#### **5.24 Grand Opening Marketing.**

Ten Thousand Dollars (\$10,000) ("Grand Opening Marketing") is payable to us on the earlier of: (i) prior to you executing a lease for the premises where the Franchised Business will be located; or (ii) prior to construction commencing at the premises where the Franchised Business will be located. We or our designated affiliate will create a marketing plan for (i) a grand opening event at your Franchised Business, and (ii) the initial advertising of your Franchised Business, and will work with you to obtain your input on the marketing plan. We or our designated affiliate will use the Grand Opening Marketing to pay for the grand opening and initial advertising, but may, in our sole discretion, reimburse you for some local store marketing expenses that you pay if you received our prior written approval and we received your reimbursement request within six (6) months from the opening of your Franchised Business to the public. The Grand Opening Marketing should be used within six (6) months of the opening of your Franchised Business to the public. However, if a portion of the Grand Opening Marketing is not used within those six (6) months, we may, in our sole discretion, and without prior notice, transfer the remaining portion of the Grand Opening Marketing after six (6) months from the opening of your Franchised Business to the public to the National Advertising Fund.

**5.25 through 5.35 Not Applicable.**

## **ARTICLE 6. PROPRIETARY MARKS**

### **6.1 Ownership and Right to Use.**

We warrant to you that:

- a. We are the owner of all right, title and interest in and to the Proprietary Marks;
- b. We have granted to you the personal, non-exclusive, limited, revocable right and license to use the Proprietary Marks in connection with the operation of your Franchised Business;
- c. We have taken and will take all steps reasonably necessary to preserve and protect our rights in the Proprietary Marks; and
- d. We will only permit you to use the Proprietary Marks in accordance with the System Standards.

### **6.2 Covenants of Franchise Owners.**

- a. You acknowledge our ownership of the Proprietary Marks, and you agree that during the Term and after its expiration or termination, you will not directly or indirectly contest, or aid in contesting, the validity of the Proprietary Marks or our ownership of the Proprietary Marks, nor will you take any action which might impair or prejudice our ownership of the Proprietary Marks. You shall not, directly or indirectly, apply to register, register or otherwise seek to own or control any of the Proprietary Marks, or any confusingly similar mark thereto, whether in whole or in part, in any place or jurisdiction either within or outside of the United States; nor will you assist any others to do so.
- b. You agree that the license granted pursuant to this Agreement authorizes you to use the Proprietary Marks solely in connection with the Franchised Business only at the Location, and for no other purpose. You have no right to license or sublicense any aspect of the System Standards or any of the Proprietary Marks.
- c. You agree to use the Proprietary Marks only in the manner and to the extent specifically licensed by this Agreement. You further agree that any unauthorized use or continued use of the Proprietary Marks after the termination or expiration of this Agreement will constitute irreparable harm and is subject to injunctive relief.
- d. The license granted by this Agreement includes only the Proprietary Marks, now existing or which may exist in the future. This license does not include the right to use any other trademarks, service marks, trade name or trade dress owned by us or our licensor anywhere in the world. You agree that any and all goodwill associated with and identified by your use of the Proprietary Marks will inure directly and exclusively to our benefit, and that, on the expiration or termination of this Agreement, no monetary amount will be due or payable to you as a result of any goodwill associated with your ownership or operation of the Franchised Business.

### **6.3 Limitations on Franchisee's Use of Proprietary Marks.**

To develop and maintain high and uniform standards of quality and service and thereby protect our reputation and goodwill and that of the System, you agree:

- a. To operate and advertise the Franchised Business only under the Proprietary Marks authorized by us;
- b. To adopt and use the Proprietary Marks licensed by this Agreement solely in the manner prescribed by us;
- c. That your corporate, partnership or other entity name including trade name, will not include any of the Proprietary Marks, in whole or in part, or any terms confusingly similar thereto, unless first authorized by us in writing;
- d. To submit all advertising, promotional materials and all printed matter, including stationery, business cards, and any materials to be used on the Internet to us for our written approval before you use any of these items; and
- e. That we may from time to time change or modify the System Standards, including modifying existing Proprietary Marks or adopting new marks. You agree, at your own expense, to adopt, use and display any such new or modified Proprietary Marks within ninety (90) days after notification from us. However, if we require you to modify or discontinue use of our proprietary information or use other information or rights in its place at any time other than upon renewal of this Agreement, and that requirement is a direct result of proceedings or litigation that determined that our and our franchisees' use of the proprietary information infringed upon a third-party's rights, we or our affiliate will bear the actual, direct, and reasonable costs of those modifications or discontinuances. The rights granted to Franchisee under this Section shall be Franchisee's sole and exclusive remedy for any infringement by any part of the System.

Upon your abandonment of the Franchised Business (whether voluntary or involuntary), termination or expiration of this Agreement, you must immediately cease to use, in any manner whatsoever, any of the Proprietary Marks or any other marks which, in whole or in part, may be confusingly similar to any of the Proprietary Marks.

### **6.4 Non-Exclusive License of Proprietary Marks.**

You understand and agree that your license to use the Proprietary Marks is non-exclusive; that we, in our sole discretion, can grant to other franchisees the right to use the Proprietary Marks and obtain the benefits of the System Standards, in addition to the licenses and rights granted to you under this Agreement; and that we or our affiliates may develop and license other proprietary marks in conjunction with concepts other than the *Surf City Squeeze* concept, on any terms and conditions we deem advisable. You will have no right or interest in any such other licenses, proprietary marks or systems.

### **6.5 Notification of Infringement and Claims.**

You agree that you will notify us immediately of any apparent infringement of, or challenge to your use of any of the Proprietary Marks, or any claim by any person of any rights in any of the Proprietary Marks. You agree that you will not communicate with any person,

other than us and our legal counsel, in connection with any such infringement, challenge or claim. We will have the sole discretion to take such action as we may deem appropriate to protect the Proprietary Marks and the exclusive right to control any litigation, United States Patent and Trademark Office proceeding, or other proceeding arising out of any such infringement, challenge, claim or otherwise relating to any Proprietary Marks. You agree to execute any and all instruments and documents, render such assistance, and do such acts and things as may, in the opinion of our counsel, be necessary or advisable to protect and maintain our interests in connection with any such litigation or proceeding, or to otherwise protect and maintain our interests in the Proprietary Marks.

## **ARTICLE 7. TRADE SECRETS AND PROPRIETARY INFORMATION**

### **7.1 Innovations.**

During the Term, you and your principals, officers, managers and employees may conceive, invent, create, design or develop various ideas, techniques, methods, processes and procedures, recipes, formulae, products, packaging or other concepts and features relating to restaurant operations, business practices or the manufacturing, production, marketing and sale of smoothies, fruit drinks, functional drinks, nutritional supplements, and other food and beverage items, and related goods now in existence or later developed, adopted, or improved in connection with the Franchised Business (individually and collectively, "Innovations"). You, without further consideration, hereby assign any and all of your rights, title and interest in the Innovations, including any intellectual property rights, to us, and also agree to cooperate with us and our counsel in the protection of the Innovations, including the perfecting of title thereto in us. In addition, you will require all of your principals, officers, managers and employees to sign an agreement in the form set forth in our System Standards and incorporated herein by reference ("Confidentiality Agreement"), and shall be liable to us for obligating your principals, officers, managers and employees to assign all of their rights, title and interest to the Innovations to us and requiring your principals, officers, managers and employees to cooperate in obtaining, protecting, maintaining and enforcing our right, title and interest in the Innovations.

### **7.2 Confidentiality Agreement.**

a. In connection with the operation of the Franchised Business, you will from time to time receive, have access to, or learn certain information and materials that are proprietary to us or our affiliate. You and any person signing this Agreement under the heading "Personal Acceptance of *Sections 7.1, 7.2, 14.6 and 14.8*" agree that you will keep confidential, and will not use for your own purposes, nor supply or divulge to any other person, any of our Trade Secrets, including our methods of operation, processes, techniques, formulae and procedures, information a reasonable person would believe to be confidential and any other proprietary information regardless of whether such is expressly marked as confidential ("Confidential Information"). You acknowledge that much of the information imparted to you by us is confidential, constitutes Trade Secrets, is unique to us, and remains our sole exclusive property. Our Confidential Information includes, without limitation, the following:

1. The Confidential Manual and any amendments thereto;
2. Ingredients, recipes, and methods of preparation of food products;
3. Methods of operation of *Surf City Squeeze* restaurants;

4. Information about products, services, or procedures before they become public knowledge;

5. Information which relates in any manner to our business or the System Standards, whether oral or reduced to writing, and which is not generally known to, or readily ascertainable by, other persons who might derive economic benefit from its disclosure or use; and

6. Any other information which may be imparted to you from time to time and designated by us as confidential.

b. You and any person signing this Agreement under the heading "Personal Acceptance of *Sections 7.1, 7.2, 14.6 and 14.8*" acknowledge and agree that the Confidential Information and any business goodwill of the Franchised Business is our sole and exclusive property, and that you will preserve the confidentiality thereof. Upon termination or expiration of this Agreement, all items, records or documentation recording or incorporating any Confidential Information, including any copies thereof, will be immediately turned over by you to us or our authorized representative.

c. You agree to take all steps necessary, at your own expense, to protect the Confidential Information, including our Trade Secrets, and to adopt and implement all reasonable procedures prescribed by us from time to time to prevent the unauthorized use or disclosure of any of the Confidential Information. We require that all of your executive officers, agents, directors, shareholders, trustees, beneficiaries, partners and managers who may or are likely to obtain knowledge concerning the Proprietary Information (and who do not sign this Agreement under the heading "Personal Acceptance of *Sections 7.1, 7.2, 14.6 and 14.8*") sign the Confidentiality Agreement binding such person to preserve the confidentiality of the Confidential Information as part of the terms and conditions of such person's employment or association with you. You must obtain a Confidentiality Agreement signed by any such person prior to or at the same time that you begin employment of, or association with, that person. This will be a continuing obligation on your part throughout the Term. You must keep each original signed Confidentiality Agreement and provide us with a copy of each Confidentiality Agreement when requested by us or our authorized representative.

d. Notwithstanding the above, Confidential Information shall not include information which you can reasonably prove: (i) entered the public domain through no breach by you or your affiliate of any duty of confidentiality, or (ii) you received our prior express written consent to disclose in the manner in which you disclosed it.

e. If anyone under a Confidentiality Agreement is legally compelled or required by a regulatory body to disclose any Confidential Information, he/she/it will notify us as soon as possible and will use his/her/its best efforts to obtain, and give us an opportunity to obtain, appropriate assurances of confidential treatment.

f. The requirements under this *Section 7.2* will remain in full force and effect during the Term and after termination or expiration of this Agreement.

## ARTICLE 8. RELATIONSHIP OF THE PARTIES AND INDEMNIFICATION

### 8.1 Relationship of the Parties.

You and we agree that this Agreement does not create any fiduciary or employment relationship between you, or any of your employees, and us, that you are an independent contractor, and that nothing in this Agreement is intended to make either you or us a general or special agent, legal representative, subsidiary, joint venture, partner, employee or servant of the other for any purpose. You shall not enter into any agreement on behalf of or otherwise bind us for any purpose.

Should it ever be asserted that Franchisor is the employer, joint employer or co-employer of any of your or your affiliate's employees in any private or government investigation, action, proceeding, arbitration, or other setting, you irrevocably agree to assist Franchisor in defending said allegation, including (if necessary) appearing at any venue requested by Franchisor to testify on our behalf (and, as may be necessary, submitting itself to depositions, other appearances and/or preparing affidavits dismissive of any allegation that Franchisor is the employer, joint employer or co-employer of any of your employees).

### 8.2 Indemnification of Franchisor.

***You agree to indemnify, defend and hold us and our affiliates (including our parent and subsidiary companies, current, past and future predecessors, successors and assigns), and each of our shareholders, owners, directors, officers, members, managers, partners, joint venturers, attorneys, employees, contractors, agents, representatives, guarantors, insurers, spouses, heirs, executors, trustees and estates (collectively with us, "Indemnified Parties") harmless for, from and against any and all claims, liabilities, causes of action, suits, debts, duties, accounts, covenants, contracts, agreements, promises, taxes, demands, obligations, costs and expenses, including reasonable attorneys' fees, damages, judgments, and proceedings, of every kind and nature whatsoever, whether actual or threatened, in law or equity, or otherwise, under local, state or federal law including, without limitation the ADA, or the law of any other applicable jurisdiction (individually and collectively, "Claims") suffered or incurred by any of the Indemnified Parties arising out of or relating to your construction, ownership, marketing, Promotions (as defined in Article 10), operation, including your failure to comply with PCI DSS or any law, statute, regulation, order, rule, or ordinance, or management of the Franchised Business, except for Claims held to have resulted solely from our gross negligence or willful misconduct. Notwithstanding the foregoing, we will have the right, at our option, to defend any Claim, but you must reimburse us upon demand for the costs and expenses of such defense. You shall immediately give us notice of any demand, investigation, written inquiry, action, suit, proceeding, or claim in any way related to us or the Surf City Squeeze brand.***

### 8.3 Indemnification of Franchisee.

We agree to indemnify, defend and hold you and your affiliates, and their shareholders, directors, officers, members, managers, partners, employees, agents, successors and assignees harmless for, from and against any and all Claims, arising out of any Claim of infringement or unfair competition in connection with your authorized use of the Proprietary Marks or Confidential Information, provided that such use is in accordance with the provisions of

this Agreement. However, if we require you to modify or discontinue use of our Proprietary Marks or Confidential Information or use other information or rights in its place at any time other than upon renewal of this Agreement, and that requirement is a direct result of proceedings or litigation that determined that our and our franchisees' use of the Proprietary Marks or Confidential Information infringed upon a third-party's rights, we will bear the cost of those modifications or discontinuances as set forth in this Agreement.

#### **8.4 Special Power of Attorney.**

You agree to cooperate with and assist us as we may request from time to time to obtain, protect, maintain or enforce our intellectual property and Proprietary Marks, including executing documents and appearing as a witness. You hereby appoint us as your attorney-of-fact and hereby grant us an irrevocable Special Power of Attorney, coupled with an interest, with full power and authority for the purpose of executing documents or taking such action as necessary or appropriate as you might or could do if personally present, hereby ratifying all that we, as your attorney-in-fact, shall lawfully do or cause to be done by virtue of this Special Power of Attorney to obtain, protect, maintain or enforce our intellectual property and Proprietary Marks if we are, for any reason, unable to obtain your cooperation or assistance. The Special Power of Attorney granted by this *Section 8.4*, shall survive your dissolution, death, incompetence or disability and the termination or expiration of this Agreement.

### **ARTICLE 9. OPERATING STANDARDS AND DUTIES OF FRANCHISE OWNER**

#### **9.1 Compliance with System Standards and Confidential Manual.**

You understand and acknowledge that every detail of the operation of the Franchised Business is important in order to develop and maintain high and uniform standards of quality, cleanliness, appearance, service, facilities and techniques; to increase the demand for the System; and to protect our reputation and goodwill and that of other *Surf City Squeeze* franchisees. You also acknowledge that the operation of the Franchised Business is your sole responsibility, and that neither we nor our affiliates have any responsibility to obtain customers for you. The System Standards will constitute provisions of this Agreement as if fully set forth herein.

#### **9.2 Authorized Products and Services.**

a. You agree that you will not, without our prior written approval, offer at the Location any menu items, beverages, products or services that are not authorized by us for the Franchised Business, as set forth in the System Standards.

b. You have complete discretion in establishing the minimum price you charge for your products. Although we may suggest pricing strategy, you will have the final pricing decision.

c. Notwithstanding the terms of *Section 9.2b.*, we may conduct periodic promotional campaigns during which a specified product or products are promoted at a specified price. During the promotional period, you may not charge your customers more than the specified promotional price, although you may charge less than the promotional price.

d. We may conduct new marketing, research and development, branding and operational program tests, which will generally be conducted with experienced, existing franchisees and may include incentives and other rights that are not available to all franchisees.

e. You hereby consent to third-party vendors, suppliers and distributors sharing with us any and all information, reports, invoices and related documentation covering and otherwise detailing your purchases for the Franchised Business, and to us sharing your contact information with them when we reasonably believe they may offer you a desired benefit.

f. You are required to accept debit and credit cards (including Visa®, MASTERCARD® and AMERICAN EXPRESS®) and Gift/Loyalty Cards from consumers at the Franchised Business. Prior to the opening of your Franchised Business, you are required to acquire, and maintain during the Term, an approved debit, credit and Gift/Loyalty Card processing system ("Card Processing System") to use during the operation of the Franchised Business. Additionally, you must utilize our approved third-party payment card processor, as identified in the System Standards, for processing all Card Processing System transactions.

### **9.3 Specifications and Standards for Supplies; Approved Suppliers; Rollouts.**

a. You must purchase or otherwise acquire certain proprietary or required equipment and supplies utilized in the Franchised Business only from our designated approved distributors or suppliers. If, during the Term, we change designated approved distributors or suppliers for any of the proprietary or required equipment and supplies utilized in the Franchised Business, you shall change to the new designated approved distributor or supplier within sixty (60) days after written notification of such change from us.

You acknowledge Franchisor and/or its affiliates has the right to receive commissions, volume discounts, purchase discounts, performance payments, bonuses, rebates, marketing and advertising allowances, co-op advertising, administrative fees, enhancements, price discounts, economic benefits and/or other payments ("Payments") based upon the actual purchases of the foods, beverages, and other products by Franchisor, its affiliates, area developers and franchisees from suppliers. Any such Payments made to Franchisor may be retained by Franchisor as it deems appropriate, in its sole discretion. All Payments received from a supplier for a designated purpose (such as participation at an annual convention, etc.) will be spent in accordance with the supplier's designated purpose.

b. If you desire to purchase or otherwise acquire any equipment, supplies or inventory items required by the System Standards but not previously approved by us, or from sources not previously approved by us, you must submit to us sufficient specifications, photographs, drawings and other information sufficient to allow us to determine whether such equipment, supplies or inventory items meet our System Standards. We may require that our representatives be allowed to inspect the facilities of the proposed supplier and revoke its approval upon the supplier's failure to meet any of our then-current minimum System Standards. We may also require that samples from the proposed supplier be delivered, at no charge to us, either to us or to our designee for testing. A charge not to exceed the reasonable cost and expense of the inspection and the actual cost and expense of the test must be paid to us either by you or by the proposed supplier. We will notify you within sixty (60) days after your request of our approval or disapproval of the proposed product or supplier, with such determination to be made at our sole discretion. If you do not receive a written notification from us of our approval or disapproval, then the request will be deemed automatically denied after the



expiration of such sixty (60) day period. You acknowledge and agree that our approval of any item or supplier of equipment, supplies or inventory not previously approved by us will not, in and of itself, make the supplier of that item an approved supplier for other *Surf City Squeeze* franchise owners in the System. We may, in our sole discretion, at any time and from time to time, re-inspect the facilities and products of any approved supplier and revoke its approval upon the supplier's failure to meet any of our then-current System Standards. If you receive a notice of revocation from us, you must immediately stop selling disapproved products and purchasing from the disapproved supplier.

c. We will provide to you a list of all recommended and required items of equipment, fixtures, supplies, smallwares and interior decor. This list will be included in the System Standards.

d. At any time and from time to time, we may in our sole option engage in new product rollouts to add to or change the menu items offered for sale in the Franchised Business and the ingredients or supplier of ingredients utilized in the preparation of the menu items sold in the Franchised Business ("Rollout"). If we engage in a Rollout, you shall participate in the changes that are the subject of such Rollout, including offering the new menu items, changing the menu items, changing to the new supplier of the ingredients utilized in the preparation of the menu items, and changing to the new ingredients utilized in the preparation of the menu items. If we engage in a Rollout, we will notify you of the details of the Rollout and provide you sixty (60) days from said notification to take the applicable actions required by the Rollout.

#### **9.4 Compliance with Legal Requirements and Good Business Practices.**

You must, at your sole expense, operate the Franchised Business in full compliance with all applicable Federal, state and local statutes, laws, ordinances and regulations, including, without limitation, health and safety regulations, food and drug laws, disability laws, labor and employment laws and data privacy laws, as may be amended, supplemented or enacted from time to time. You must pay all costs and expenses incurred by, and in the conduct of, the Franchised Business, including all rent, salaries, taxes (excluding our income taxes), disbursements, license or permit fees, insurance premiums, traveling expenses and any other business expenses when they become due. We may collect from you, or require you to reimburse us for, any taxes, mandatory industry-funded compliance fees, regulatory fees, assessments, surcharges, or similar charges imposed or assessed by any governmental authority, quasi-governmental authority, or industry body, whether assessed against you or against us, as a result of your operation of the Franchised Business or the license of our intangible property in the jurisdiction where the Franchised Business is located, to the extent permitted by law. If you receive any demand, action, suit or proceeding, or the issuance of any order, writ, injunction, award or decree of any court, agency or other governmental instrumentality relating to your Franchised Business, you must immediately notify us, and in no event, later than three (3) days after your receipt. Any such notice must be accompanied by a copy of the demand, complaint, order, writ, injunction, award, decree or other similar document. You must, in all dealings with your employees, customers, suppliers, the public and us adhere to the highest standards of honesty, integrity, fair dealing and ethical conduct. You agree to refrain from any business practice that may be injurious to the System or the goodwill associated with the Proprietary Marks.

## 9.5 Maintenance of Insurance.

At all times during the Term, you must maintain in full force and effect at least the minimum types and amounts of insurance coverage that we require, under one (1) or more policies of insurance (each of which shall be primary coverage and shall not be contributory or secondary to any other coverage maintained by us), insured under the particular name of the Franchisee and for the particular address of the Franchised Business. You understand and acknowledge that you remain fully liable for any and all claims in connection with the operation of the Franchised Business arising during the Term of this Agreement, including without limitation, for any time period during which you may be in the process of obtaining a valid and complete certificate of insurance or is otherwise out of compliance. We do not waive and hereby reserve your obligations under this Agreement, including without limitation your insurance obligations.

Such insurance policies must be issued by insurers acceptable to us having an A.M. Best's financial strength rating of at minimum "A-VIII," and grant us authority to obtain copies of your certificate of insurance directly from the carrier or your agent/broker. The particular requirements of our minimum insurance coverage will be made available to you throughout your term. Currently, the general liability insurance required by this Agreement must: (i) name Kahala Franchising, L.L.C. as the certificate holder; (ii) name Kahala Franchising, L.L.C. and MTY Franchising USA, Inc. and their parents, subsidiaries, affiliates, officers, directors, and employees as additional insureds; (iii) contain a waiver by the insurance carrier of all subrogation rights against us and our affiliates and our affiliates' respective officers, directors and employees for casualty losses; (iv) indicate the address of the Franchised Business being insured; and (v) provide that we will receive a copy, via an endorsement, thirty (30) days' prior notice of cancellation of any such policy. Additional minimum insurance coverage requirements (subject to increase or otherwise change in our sole discretion) are as follows:

| TYPE OF COVERAGE                                         | LIMITS/SPECIFICATIONS                                                                              |
|----------------------------------------------------------|----------------------------------------------------------------------------------------------------|
| General Liability                                        | \$1,000,000 Bodily Injury/Property Damage Per Occurrence / \$2,000,000 Aggregate                   |
| Building Improvements and Betterments                    | 100% of Full Replacement Cost – No Coinsurance (minimum of \$100,000)                              |
| Business Personal Property                               | 100% of Full Replacement Cost – No Coinsurance – Special Form or equivalent (minimum of \$100,000) |
| Spoilage                                                 | \$5,000                                                                                            |
| Flood, Earthquake and Volcanic Eruption                  | Subject to Territory Limitations – required if in a designated Flood Zone                          |
| Workers' Compensation and Employer's Liability Insurance | As required by law                                                                                 |

| TYPE OF COVERAGE                         | LIMITS/SPECIFICATIONS                          |
|------------------------------------------|------------------------------------------------|
| Hired and Non-Owned Automobile Liability | \$1,000,000 Combined Single Limit per accident |

You need to evaluate if your particular business will require greater coverage or other types of insurance. For example, we strongly recommend that you consult with an insurance broker to discuss whether your particular lease/situation requires and/or should obtain additional common types of insurance (including without limitation, employment practices liability, umbrella insurance, and cyber liability/data breach insurance coverage). Such insurance may significantly increase your premiums, but may also save you money in the long run.

You are responsible for maintaining insurance coverage and limits as required by us, at minimum, pursuant to this *Section 9.5*, provided, if your landlord requires additional coverage, higher limits, or any other requirements not required by us, then you are responsible for maintaining such additional items as well. You must always keep the required insurance coverage in force at all times during the operation of the Franchised Business, and you must comply with any changes we make periodically to our insurance requirements. Upon 30 days' notice to you, we may require you to increase and/or otherwise change the minimum coverage of the insurance referred to above, including to reflect identification of special risks, changes in law or standards of liability, higher damage awards or other relevant changes in circumstances.

Subject to *Section 3.1*, before you may open your Franchised Business, annually thereafter at least ten (10) days prior to renewal of your insurance coverage, and at any other time on our request, you must provide us with certificates of insurance or copies of insurance policies showing that you are in compliance with our insurance requirements, as well as proof that you have paid the premiums you owe for the insurance we require. You will pay your insurance premiums to your insurance broker or to the insurance company issuing the policy. We or our affiliate may, at our option and in addition to our other rights and remedies under this Agreement, obtain such insurance coverage on your behalf, and you must promptly execute any applications or other forms or instruments required to obtain any such insurance and pay to us, on demand, any costs, expenses and premiums (in whole or part) incurred by us. Your obligation to obtain and maintain the insurance described above will not be limited in any way by reason of any insurance maintained by us, nor will your performance of such obligations relieve you of any obligations under *Section 8.2*.

## **9.6 Management of the Franchised Business.**

You are directly responsible for all aspects of operating the Franchised Business, and you agree that you will, at all times, operate the Franchised Business and use your best efforts to enhance your Franchised Business and the System. The Franchised Business must be personally managed and directly operated by either you or another partner, shareholder or member of your business organization, or a manager.

## **9.7 Inspections by Franchisor.**

For the purpose of this *Section 9.7*, you must make available to us or our authorized representatives such financial and other information concerning the Franchised Business, and

you must permit us or our authorized representatives to have full and free access to such information at your Franchised Business Location during regular business hours without prior notice. We and our authorized representatives will have the right to communicate freely with your employees, and make extracts from, and copies of, all such information. Our authorized representative may make announced or unannounced inspections of your Franchised Business to ensure compliance with all of the requirements of this Agreement.

## **9.8 Personal Guaranty.**

If you are an individual and married, your spouse must execute and deliver to us a Guaranty of Franchise Agreement at the same time that you sign the Agreement unless your spouse is also signing the Agreement as an individual.

If you are a corporation, limited liability company, or other business entity, each of your shareholders, members, or other owners, whether direct or indirect (and their respective spouses, if married) must execute and deliver to us a Guaranty of Franchise Agreement at the same time that you sign this Agreement.

In the event any person who has not previously signed a Guaranty of Franchise Agreement becomes your spouse or shareholder, member, or other owner, direct or indirect or a spouse of such shareholders, members, or other owner, at any time after the execution of this Agreement, you must cause such person(s) to immediately execute and deliver a Guaranty of Franchise Agreement to us.

Failure to provide a Guaranty of Franchise Agreement to us may, in our sole discretion, be grounds for termination of this Agreement as set forth in *Section 14.2a*.

## **9.9 Not Applicable.**

# **ARTICLE 10. ADVERTISING AND PROMOTION**

## **10.1 Advertising by Franchisor.**

We (or at our election a third-party which may be an affiliate of ours) will administer the Advertising Fund that will include your Advertising Fee and those of other franchise owners in the System. If an affiliate of ours administers the Advertising Fund or places advertising in connection with the System, such affiliate may be paid a fee that will not exceed the fee that would be payable to unrelated third-parties for comparable services. Unless required by applicable law, we will have no obligation to create a trust account, escrow account or other special account for the Advertising Fund, and the monies comprising the Advertising Fund may be placed in our general account. We may also reserve the Advertising Fee for use in a subsequent year.

We will direct all advertising and promotional programs. We will have sole discretion over all creative concepts, materials and media used in such programs and the placement and allocation of such programs. The Advertising Fund will be used for marketing, advertising, production and media expenses to promote the *Surf City Squeeze* trade name, System, products and services. We are entitled to deduct, free of charge, the following from the Advertising Fund: reimbursement of expenses, overhead, and employee salaries for services provided; and rent for office space provided to the Advertising Fund. We are not required to use

any specific amounts from the Advertising Fund in your market. However, we in our sole discretion, may use some amounts contributed by you to any Advertising Fund, if any (see *Section 5.3*), in the same geographic area in which your Franchised Business is located.

## **10.2 Advertising by Franchisee.**

In addition to your Advertising Fee, if applicable, and your grand opening promotional advertising program required under *Section 5.24*, and unless your Franchised Business is located in an enclosed shopping mall or other enclosed structure identified in *Section 1.1*, you agree to pay for a regular (white pages) and classified (yellow pages) telephone directory advertisement in the main directory distributed in the area where your Franchised Business is located, in such directory categories as we specify, utilizing forms of listing and classified directory advertisements approved by us. We also recommend that, in addition to your Advertising Fee, you spend at least two percent (2%) of your monthly Gross Sales on local advertising.

Your own local marketing and advertising plan should be developed to maximize your particular customer base. You should not rely upon a marketing program or plan by us as the sole means of obtaining customers. All marketing and advertising materials must be reviewed by Franchisor's or Franchisor's affiliate's marketing department for look and feel. The marketing department's review is not for determining compliance with federal, state and local laws.

All advertising by you in any medium must be conducted in a professional manner and must conform to the System Standards. We may make available to you, from time to time, advertising, promotional plans and materials for purchase.

Under no circumstances may you use, without limitation, the name, image, or voice of a celebrity, public figure, character or other person in connection with the Proprietary Marks or the Franchised Business without our prior written consent. We retain the sole and exclusive right to use, without limitation, the name, services or image of any celebrity, public figure, character or other person in advertising, endorsing or recommending the System.

## **ARTICLE 11. ACCOUNTING PROCEDURES AND REPORTS**

### **11.1 Maintenance of Records.**

You shall keep full, complete, and accurate books and accounts in accordance with generally accepted accounting principles, and in the form and manner indicated below or as from time to time further required by us. You agree to submit reports and data to us electronically if we advise you to do so. You agree:

- a. to submit to us electronically the weekly Gross Sales as set forth in *Section 5.6*;
- b. to submit to us, on or before the thirtieth (30th) day of each month, commencing with the opening of the Franchised Business, in a format and method approved by us (including through a third-party vendor that franchisee may be required to pay for), a profit and loss statement of the Franchised Business for the preceding calendar month prepared in accordance with generally accepted accounting principles;
- c. to submit to us, within ninety (90) days after the end of each calendar year, commencing with the opening of the Franchised Business, in a format approved by us, a profit

and loss statement and balance sheet (including a statement of retained earnings or partnership account) for the preceding calendar year;

d. to submit to us, at the times required, such other periodic forms, reports and information as may from time to time be required by us;

e. to preserve, in the English language and for the time periods set forth below, all accounting records and supporting documents related to the Franchised Business (individually and collectively, "Records"), including:

1. daily cash reports;
2. cash receipts journal and general ledger;
3. cash disbursements journal and weekly payroll register;
4. monthly bank statements, daily deposit slips and canceled checks;
5. all tax returns, including your personal returns and those of your officers, shareholders, partners and members;
6. suppliers invoices (paid and unpaid);
7. dated cash register tapes (detailed and summary);
8. semi-annual balance sheets and monthly profit and loss statements;
9. daily production, throwaway and finishing records and weekly inventories;
10. records of promotion and coupon redemptions;
11. records of all outside sales; and
12. such other records as we may from time to time request.

f. to record all sales on cash registers approved by us, as specified in the Confidential Manual;

g. to file all of your federal and state tax returns on a timely basis and to provide copies of them to us. We may, where applicable, require that tax returns from all of your shareholders, members or partners be provided to us, if you are other than an individual;

h. During the Term, you shall preserve the Records for at least the current fiscal year and for the three (3) immediately preceding fiscal years. For three (3) years after the date of any transfer of an interest in this Agreement, the transferor of such interest will preserve the Records for its last three (3) fiscal years of operation under this Agreement. For three (3) years after the expiration of the Term (or after any earlier termination), you shall preserve the Records for the last three (3) fiscal years of operation of the Franchised Business; and

i. In connection with our efforts to attract additional franchise owners to the System, we will have the right to use (without identifying you, except as required or allowed by law) any financial statements, sales reports, profit and loss statements or balance sheets provided by you and, in connection therewith, you authorize us to disclose any information

contained on such financial reports as may be required by any federal or state registration or disclosure law.

## **11.2 Audit by Franchisor.**

We will have the right, at any time during business hours, and with or without prior notice to you, to inspect and audit, or cause to be inspected and audited, the Records and cash control devices of the Franchised Business, and your corporate, partnership or limited liability company books and records (if you are a corporation, partnership, limited liability company, or other entity). You agree that we may access any computers utilized by you for such purposes.

You will fully cooperate with our authorized representatives and independent accountants hired by us to conduct any such inspection or audit. In the event any such inspection or audit discloses an understatement of your Gross Sales for any period in question, you will pay to us, immediately after receipt of the inspection or audit report, any additional Royalty Fee or Advertising Fee due as a result of any such understatement, plus interest at the Default Rate from the date originally due until the date such understatement is paid in full.

In addition, in the event such inspection or audit is made necessary by your failure to timely furnish Records, or if an understatement of the Royalty Fee or Advertising Fee for the period of any audit (which period shall not be for less than one (1) month) is determined by any such audit or inspection to be five percent (5%) or greater, you must reimburse us all amounts incurred in connection with such audit or inspection including our employee costs and expenses, any independent accountants' and attorneys' fees, transportation, room, and meal expenses.

The remedies in this *Section 11.2* will be in addition to all our other remedies and rights under this Agreement or under applicable law.

## **ARTICLE 12. TRANSFER**

*Sections 12.1 through 12.4* apply to all transfers, except transfers by us, which are described in *Section 12.5*.

### **12.1 Prior Consent of Franchisor.**

a. As used in this Agreement, "Transfer" means any voluntary, involuntary (including by operation of law), direct or indirect assignment, sale, gift or other transfer by you, including:

1. "Full Transfer," which is any act or circumstance, except those set forth in *Section 12.1.a.2.*, by which fifty percent (50%) or more of the ownership or control is shifted from any individual or corporation, partnership or other business entity (individually and collectively, "Entity") to another, including:

(i) Transfer of this Agreement or the Franchised Business, or any right or interest granted by this Agreement;

(ii) Transfer of an interest in you, if you are an Entity;

(iii) Merger, consolidation or issuance of additional ownership interests or redemption of ownership interests in you, if you are an Entity; or

(iv) Transfer of an interest in any other Entity holding an interest in this Agreement or you, if you are an Entity.

2. "Affiliate Transfer," which includes:

(i) Transfer in a separation or divorce, regardless of how much of the ownership or control is shifted from any individual or Entity to another;

(ii) Transfer of this Agreement or the Franchised Business, or any right or interest granted by this Agreement from your name as an individual(s) to your Entity name in which you are the sole owner(s) of the Entity;

(iii) Transfer of this Agreement or the Franchised Business, or any right or interest granted by this Agreement, from your Entity name in which you are the sole owner(s) to your name as an individual(s);

(iv) Transfer of this Agreement or the Franchised Business, or any right or interest granted by this Agreement from one Entity name to another Entity name in which the owners of the entities are the same;

(v) Removing an owner from the Franchisee (unless the person has a fifty percent (50%) or more ownership interest);

(vi) Adding an owner to the Franchisee (unless the person has a fifty percent (50%) or more ownership interest); or

(vii) Transfer by which less than fifty percent (50%) of the ownership or control is shifted from any individual or entity to another for any act or circumstance listed in *Section 12.1.a.1.*

b. We are entering into this Agreement based upon our knowledge of and faith in your ability. Therefore, the Franchised Business and all the rights granted by this Agreement are personal to you and you may not Transfer without our prior written consent. Any attempted Transfer without our prior written consent will be null and void, and will give us the right to terminate this Agreement and your rights under it, in addition to any remedies which we may have for the breach of this covenant by reason of an attempted Transfer.

c. We shall not unreasonably withhold or delay our consent to a Transfer, so long as it is shown to our satisfaction that the potential transferee ("Potential Transferee") can perform a franchisee's obligations under the then-current form of franchise agreement and all other agreements, legal instruments and documents required of new franchisees.

## **12.2 Advance Notice of Proposed Terms and Right of First Refusal.**

a. If you, or any of your shareholders, members or partners, have received and desire to accept a signed bona fide written offer from a third-party to Transfer, you shall notify us and provide us with a complete copy of the offer (letter of intent) which must include the name, address and telephone number for every Potential Transferee. You must also include information as to the identity of all who will own an interest in this Agreement or in the Franchised



Business after the completion of the Transfer, their respective interests, and the proposed terms and conditions of sale and payment.

b. We shall have the right and option, exercisable within thirty (30) days after the date we receive a copy of the offer, to purchase the interest proposed to be transferred, at the price and upon the same terms and conditions specified in the notice.

c. If we do not exercise our option, and the terms of the unaccepted offer are altered, you must, in each such instance, notify us of the changed offer; and we will again have thirty (30) days to exercise our right to purchase on the altered terms. If we do not exercise our option, then the Transfer may take place on the terms and price set forth in the notice; provided: (i) we give our written consent; (ii) the Transfer takes place no later than six (6) months from receipt of our written refusal to exercise our option to purchase; and (iii) all the conditions set forth in *Section 12.3* are satisfied.

### **12.3 Requirement for Consent to Transfer.**

If a Transfer is proposed and we do not exercise our right of first refusal pursuant to *Section 12.2*, then we will consent to the Transfer, provided that:

a. All your obligations under this Agreement are fully paid and satisfied, including the Royalty Fee and Advertising Fee; you are not in default under any provisions of this Agreement or any other agreement, legal instrument or document with us or any of our affiliates; and you enter into written agreements with us, including (except where prohibited by law) a general release by you of all claims against us;

b. Potential Transferee provides to us a completed application and financial documents, is financially acceptable, is not associated with any of our competitors, is of good moral character and reputation, and meets our criteria, which includes: work experience and aptitude; ability to devote time and best efforts to the Franchised Business; equity interest in the Franchised Business; ability to speak and read English sufficient in our opinion to communicate with employees, customers and suppliers and to satisfactorily complete our training; no conflicting interests; and other criteria and conditions that we apply to new franchisees;

c. Potential Transferee provides us with copies of all governing documents of Potential Transferee (e.g., certificate of incorporation or organization, by-laws, stock certificates, operating agreement, membership certificates (if any)) which must be reasonably satisfactory to us in our sole discretion;

d. You provide to us a copy of the purchase and sale agreement, if a Full Transfer, or other documentation evidencing the Transfer, if an Affiliate Transfer, and following our analysis of the terms and conditions of the proposed Transfer, we, in our sole discretion, conclude that such terms and conditions will not interfere with the financial feasibility of the future operation of the Franchised Business;

e. Potential Transferee enters into all agreements, legal instruments and other documents, whether our then-current agreements, legal instruments and documents or a transfer of this Agreement and related legal instruments and documents, as determined by us (individually and collectively, "Transfer Documents"). The terms of the Transfer Documents may

vary materially from the current agreements used by us, including the payment of a higher Royalty Fee and Advertising Fee;

f. Not Applicable;

g. Potential Transferee pays to us the transfer franchise fee set forth in the Transfer Documents, if a Full Transfer; or Potential Transferee pays us the Document Administration Fee, if an Affiliate Transfer; Franchisee shall be liable to the Franchisor for the transfer franchise fee or Document Administration Fee in the event the Potential Transferee fails to pay such fee that is owing in full;

h. Potential Transferee pays to us the transfer training fee set forth in the Transfer Documents, if a Full Transfer; Franchisee shall be liable to Franchisor for the training fee if Potential Transferee fails to pay the training fee owing in full; If Potential Transferee or any of its employees or representatives cancel or reschedule participation in any training course or program which Potential Transferee schedules with Franchisor, Potential Transferee or Franchisee must reimburse Franchisor for all of its employee's travel expenses, wages and other expenses incurred as a result of such cancellation or rescheduling;

i. Potential Transferee successfully completes the training program required by the Transfer Documents, if a Full Transfer;

j. Potential Transferee agrees to complete all remodeling and improvements as required by us, and must upgrade the POS System to the then-current required POS System, within the time period specified by us, if a Full Transfer;

k. You and Potential Transferee agree not to assert any security interest, lien, right or claim now or in the future, in the Franchised Business. Any security interest, lien, claim or right asserted with respect to any personal property at the Location must not include any after-acquired property and must be subject, junior and subordinate to any security interest, lien, right or claim now or in the future, asserted by us, our successors or assigns; and

l. You agree to complete and sign a letter of agency, letter of authorization, or equivalent and provide it to Potential Transferee so that Potential Transferee may keep the existing telephone number when the store is transferred to Potential Transferee.

#### **12.4 Death or Incapacity of Individual Franchisee; Change in Entity.**

a. Death or incapacity of Franchisee when Franchisee is an individual:

(i) In the event of your death or incapacity, your legal representative may, for a period of ninety (90) days from the date of death or incapacitation, continue to operate the Franchised Business, provided that the operation is conducted in accordance with this Agreement and any other agreements with us.

(ii) If your representative desires to continue the operation of the Franchised Business beyond the ninety (90) day period, then, prior to the expiration of this period, your legal representative must apply in writing for the right to transfer the Franchised Business to the person or persons (whether spouse, heir, devisee, purchaser, or any other person), as the legal

representative may specify. The application for transfer will be treated in the same manner as any other proposed Transfer under this Agreement.

(iii) If your legal representative does not comply with the provisions of the preceding paragraph, or does not propose a Potential Transferee acceptable to us under the standards set forth in this Agreement, all rights licensed to you under this Agreement will terminate immediately and automatically revert to us. We shall have the right and option, in our sole discretion, exercisable upon such termination, to purchase all removable furniture, fixtures, signs, equipment and other chattels, but not leasehold improvements, at a price to be agreed upon by the parties or, if no agreement as to price is reached by the parties, at such price as may be determined by a qualified appraiser, approved by both parties, such approval not to be unreasonably withheld. We shall give notice of our intent to exercise the option no later than twenty-one (21) days prior to termination.

b. Death or incapacity of any shareholder, partner, or member in Franchisee when Franchisee is a business entity:

(i) In the event of the death or incapacity of any of your shareholders, partners, or members, the surviving shareholders, partners, or members may, for a period of ninety (90) days from the date of death or incapacitation, continue to operate the Franchised Business, provided that the operation is conducted in accordance with this Agreement and any other agreements with us.

(ii) If your shareholders, partners or members desire to continue the operation of the Franchised Business beyond the ninety (90) day period, then, prior to the expiration of this period, your shareholders, partners, or members must apply jointly with all surviving shareholders, partners or members in writing, for the right to transfer the Franchised Business (or the interest of the deceased or incapacitated shareholder, partner, or member in the Franchised Business), to the person or business entity as the surviving shareholders, partners, or members may specify. The application for transfer will be treated in the same manner as any other proposed Transfer under this Agreement.

(iii) If all surviving shareholders, partners or members do not comply with the provisions of the preceding paragraph, or do not propose a Potential Transferee acceptable to us under the standards set forth in this Agreement, all rights licensed to you under this Agreement will terminate immediately and automatically revert to us. We shall have the right and option, in our sole discretion, exercisable upon such termination, to purchase all removable furniture, fixtures, signs, equipment and other chattels, but not leasehold improvements, at a price to be agreed upon by the parties or, if no agreement as to price is reached by the parties, at such price as may be determined by a qualified appraiser, approved by both parties, such approval not to be unreasonably withheld. We shall give notice of our intent to exercise the option no later than twenty-one (21) days prior to termination.

## **12.5 Assignment by Franchisor.**

You agree and affirm that we may, without your prior consent, sell our business, our assets, or our System, in whole or in part, to a third-party; may issue a public offering of our securities; may engage in private placement of some or all of our securities; may merge with or acquire other corporations, or be acquired by another corporation; and may undertake a refinancing, recapitalization, leveraged buyout or other economic or financial restructuring. You

further agree and affirm that we have the right, now and in the future, without your prior consent, to purchase, merge, acquire or affiliate with an existing competitive or non-competitive franchise network, chain or any other business regardless of the location of such franchise network, chain or business, which you acknowledge may be proximate to your Franchised Business, and to operate, franchise or license such franchise networks, chains or businesses operating under the Proprietary Marks or any other marks following our purchase, merger, acquisition or affiliation. With regard to any of the above sales, assignments and dispositions, you expressly and specifically waive any claims, demands or damages against us arising from or related to the loss of your rights to use the System as authorized under this Agreement.

This Agreement will inure to the benefit of our successors and assigns. In conjunction with one (1) or more of the transactions contemplated above, or as otherwise determined by us, we have the right to assign our rights and obligations under this Agreement to any person or entity, without your prior consent. Upon such assignment, we will be relieved of all obligations or liabilities then existing or thereafter able to be asserted under this Agreement.

## **12.6 Restrictions on Security Interests and Subfranchising.**

Except as otherwise set forth in this *Section 12.6*, you shall not have any rights to pledge, encumber, hypothecate or otherwise give any third-party a security interest in this Agreement in any manner whatsoever, nor subfranchise or otherwise transfer, or attempt to subfranchise or transfer the Franchised Business, in whole or in part, so long as it is operated as the Franchised Business, without our express prior written permission, which permission may be withheld for any reason whatsoever in our sole discretion. Notwithstanding anything contained herein to the contrary, you shall have the right to pledge your accounts receivable, net of the Royalty Fee, Advertising Fee, and rent, without our prior written consent for the sole purpose of obtaining financing for the operation of the Franchised Business, provided you are in full compliance with this Agreement and any other agreement, arrangement or understanding with us.

## **ARTICLE 13. RENEWAL**

Subject to the terms and conditions described below, you will have the right to renew your license to operate the Franchised Business for an additional term of five (5) years. In the event you desire to renew your license, you must give us notice to that effect at least two hundred ten (210) days prior to the expiration date of the Term. In addition to giving the notice of renewal referred to above in a timely manner, in order to have the right to renew the license to operate the Franchised Business for an additional term, you must also meet each of the following requirements:

a. You must not then be in default under this Agreement or any other agreement, legal instrument or document with us or any of our affiliates, and no event shall have occurred that, with the giving of notice, the passage of time, or both, would constitute a default under this Agreement, including all financial obligations to us;

b. You must be in complete compliance with the terms of this Agreement, including all financial obligations to us, and the then-current Confidential Manual;

c. You must not have received more than three (3) notices of default or breach of this Agreement during the Term, nor more than two (2) notices of default or breach during the five (5) years immediately preceding the effective date of the proposed renewal;

d. You must have the existing right to maintain possession of the Location or you must have secured and developed a suitable substitute location that meets our then-current minimum site requirements (such confirmation will be provided to you by us in writing);

e. You must sign a general release provided by us;

f. You and we must execute all agreements, legal instruments and other documents (individually and collectively, "Renewal Documents") then used by us in the renewal of franchises and then being required of new franchise owners in connection with the System. The Renewal Documents will supersede this Agreement, but will not terminate your liability to perform any obligations which you have not yet performed under this Agreement, or which survive the termination of this Agreement; nor will the Renewal Documents terminate or supersede any Guaranty of Franchise Agreement, Confidentiality Agreement, or Non-Disclosure and Non-Competition Agreement executed pursuant to this Agreement. The terms of the Renewal Documents may vary materially from the current agreements used by us, including the payment of a higher Royalty Fee and Advertising Fee;

g. The equipment, fixtures and signage used in connection with the operation of the Franchised Business must either meet our then-existing System specifications and standards, or you must agree, within a timeframe required by us, to replace or refurbish such items, and otherwise modify the methods of operation of the Franchised Business at your cost and expense, in order to comply with our System specifications and standards then applicable to new franchise owners;

h. You agree to complete all remodeling and improvements as required by us, and must upgrade the POS System to the then-current required POS System, within the time period specified by us; and

i. You shall have paid to us the Renewal Franchise Fee as required under *Section 5.12*.

If you do not meet any of the requirements for renewal, we will give you a notice to that effect which will specify the requirements not met. The notice will be given to you within sixty (60) days after you deliver to us your notice of intent to renew.

## **ARTICLE 14. DEFAULT AND TERMINATION**

### **14.1 Default; Termination.**

a. You will be in default under this Agreement:

(i) If: (a) you become insolvent or make an assignment for the benefit of creditors; (b) you file a petition in bankruptcy, or if such a petition is filed against and consented to by you, and such petition is not dismissed within thirty (30) days from the filing date of such petition; (c) you are adjudicated bankrupt; (d) a bill in equity or other proceeding for the appointment of your receiver or other custodian for your business or assets is filed and is

consented to by you or is not dismissed within thirty (30) days from the filing date of such bill or other proceeding; (e) a receiver or other custodian is appointed; (f) proceedings for composition with creditors under any state or federal law is instituted by or against you; (g) the real or personal property of the Franchised Business is sold at levy thereupon by any sheriff, marshal or constable, or sold by a secured party under any state's Commercial Code;

(ii) If you fail to pay, perform, observe or comply with any of your duties and obligations under this Agreement or the Confidential Manual, including failure to provide a fully-executed copy of the lease to us when due and failure to pay when due, any sum due to us under this Agreement (including the Royalty Fee and Advertising Fee) or to any Advertising Fund (inclusive of any Association); or if you breach any of your obligations under any lease, sublease, mortgage, equipment agreement, promissory note, vendor account, conditional sales contract or other contract arising from, or in connection with, the Franchised Business, to which you are a party or by which you are bound, whether or not we are a party thereto;

(iii) If your lease or sublease for the Location of the Franchised Business is either: (a) in default and you fail to cure such default as provided in the lease or sublease; (b) is terminated for reason of default by you; or (c) the Location is lost as a result of your failure to comply with the lease or sublease;

(iv) If you fail, within thirty (30) days of the entry of a final judgment against you in an amount exceeding Two Thousand Dollars (\$2,000), to discharge, vacate or reverse the judgment or to stay its execution pending appeal, or to discharge any judgment which is not vacated or reversed within thirty (30) days after expiration of the stay of execution;

(v) If we determine that a serious health or safety problem exists at the Franchised Business, in which case, we may require you to immediately correct the problem or cease operating until the problem is corrected;

(vi) If you, or any owner, co-owner or principal of the Franchised Business, is convicted of a felony, a crime involving moral turpitude, or any other crime or offense that is reasonably likely to adversely affect the System, the goodwill associated therewith, or our interest therein;

(vii) Except for any reason provided in *Section 5.2*, if you abandon the Franchised Business, which abandonment shall conclusively be deemed established if the Franchised Business is closed for more than three (3) consecutive days;

(viii) Except for any reason provided in *Section 5.2*, if you close or relocate the Franchised Business, without our express advance written consent;

(ix) If you fail to maintain an independent contractor relationship with us;

(x) If you either negligently or knowingly inaccurately report, or fail to report, any information in your franchise application;

(xi) If you or any owner, co-owner or principal of the Franchised Business commits an act, or permits an act to be committed, that violates any federal, state or local law that adversely impacts the Franchised Business;

(xii) If you fail to participate in any Rollout detailed in *Section 9.3*;

(xiii) If you violate any of the provisions of *Sections 2.3, 3.2, 9.2, 9.3 or 9.4* including the requirement that you: (a) sell or offer for sale only those products and services authorized by us; (b) purchase such authorized products and services only from suppliers or service providers who are approved in writing by us; and (c) utilize or switch to any of our designated approved suppliers, including a supplier who has entered into a national or regional master supplier agreement with us;

(xiv) If you transfer or attempt to transfer any rights or obligations under this Agreement or any other property or assets to any third-party in violation of the provisions of *Article 12*;

(xv) If you or any of your owners, officers, directors, managers, members, or partners (as applicable): (a) become subject to U.S. Executive Order 13224 or are involved in any activity that violates the U.S. Foreign Corrupt Practices Act or any other anti-corruption, bribery or any other laws, orders or governmental notices affecting your ability to conduct business in or with the United States, as may be amended and whether in effect as of the Effective Date or at any time during the Term, (b) are identified on the U.S. Department of the Treasury's Office of Foreign Assets Control Specialty Designated National and Blocked Persons list, or (c) receive any funding from any country that is subject to an embargo by the United States, any foreign government or government official, political party; or

(xvi) If you intentionally made any false representations and warranties under *Section 17.1*.

b. Cross-default: A default by you under this Agreement will be deemed a default of all agreements between: (i) you and your principals in his or her individual capacity or any other entity in which your principals are owners, members, managers, shareholders or partners (individually and collectively, "Franchisee Entity"); and (ii) us or any of our affiliates or predecessors (individually and collectively, "Franchisor Entity"). A Franchisee Entity's default of any other agreement, legal instrument or other document between the Franchisee Entity and a Franchisor Entity will be deemed a default under this Agreement. A default by any guarantor of your obligations under this Agreement or any agreement, legal instrument or document between a Franchisee Entity and a Franchisor Entity will be deemed a default of this Agreement.

c. Termination: If you fail to cure any default to our satisfaction, within the applicable period following notice from us, if applicable, or otherwise breach this Agreement, we may, in addition to all other remedies at law or in equity or as otherwise set forth in this Agreement, immediately terminate this Agreement. This termination will be effective immediately upon the giving of notice pursuant to *Article 15*.

d. Cross-termination: If this Agreement is terminated as a result of your default of this Agreement or any other agreement related to the Franchised Business, we may, at our option, elect to terminate any or all other agreements, legal instruments or documents between a Franchisee Entity and a Franchisor Entity. If any agreement, legal instrument or document between a Franchisee Entity and a Franchisor Entity is terminated as a result of a default by the Franchisee Entity, we may, at our sole discretion, elect to terminate this Agreement. It is agreed that an incurable or uncured default under this Agreement or any other agreement, legal instrument or document between a Franchisee Entity and a Franchisor Entity will be grounds for

termination of this Agreement or any other agreement, legal instrument or document between a Franchisee Entity and a Franchisor Entity, without additional notice or opportunity to cure.

## **14.2 Opportunity to Cure.**

a. Fourteen-Day Cure Period - Except as otherwise provided in this *Section 14.2*, you will have the right to cure your default under this Agreement within fourteen (14) days after notice of default is given by us pursuant to *Article 15*. Notwithstanding the foregoing, the following lesser periods will apply under the circumstances described:

b. Seven-Day Cure Period - A seven (7) day cure period will apply if you fail, refuse, or neglect to pay when due, any monies owing to us (including the Royalty Fee and Advertising Fee), or otherwise to any Advertising Fund (inclusive of any Association), or if you fail to maintain the insurance coverage set forth in this Agreement;

c. 48-Hour Cure Period – A forty-eight (48) hour cure period will apply (1) if you are in default of *Section 3.4* or (2) if you fail to participate in any limited time product offering, value offering, contest, promotion or charity event. You must initiate your participation in such offering, contest, promotion or event within forty-eight (48) hours and fully participate in such offering, contest, promotion or event as soon as reasonably possible, in our sole discretion, thereafter;

d. 24-Hour Cure Period - A twenty-four (24) hour cure period will apply to your violation of any law, regulation, order or our standards relating to health, sanitation or safety; or, except as provided in *Section 5.2*, if you cease to operate the Franchised Business for a period of forty-eight (48) hours without our prior written consent. In addition, a twenty-four (24) hour cure period will apply if you post on any Site or direct others to any site or page, post, blog or other social media site where there are posted any defamatory or offensive comments about: other franchisees; the *Surf City Squeeze* brand; other brands franchised by us or one of our affiliates; your or other franchisees' customers; any of our, your or franchisees' vendors; us or any of our affiliates; or any of our, your or franchisees' competitors;

e. Immediate Cure Period (less than 24 hours) – An immediate cure period (less than twenty-four (24) hours) will apply if you post any content to a Site in which the content includes any inappropriate public displays of affection, our or others' confidential information or materials, violations of health or safety standards, foul or obscene language, or any images of or information about any persons from whom you did not obtain prior written consent;

f. No Cure Period - No cure period will be available: (1) if you are in default of *Sections 3.1, 7.2, 9.4, 14.1a.(i), 14.1a.(iii), 14.1a.(vi), 14.1a.(vii), 14.1a.(viii), 14.1a.(xiv), 14.1a.(xv)*, or *14.6*; (2) if you intentionally underreport weekly Gross Sales, falsify financial data, fail to promptly provide upon our request financial data and records specified in this Agreement, or otherwise commit an act of fraud with respect to your rights or obligations under this Agreement; (3) if you repeatedly fail to comply with the provisions of this Agreement, whether or not subsequently cured; (4) if you, having twice previously cured a default of this Agreement, commit the default again; (5) if you made any false representations and warranties under *Sections 17.1f., 17.1g., 17.1m. or 17.1n.*; or (6) if you engage in trademark misuse or otherwise materially misuse or make an unauthorized use of any of the components of the System or commit any other act which does, or can reasonably be expected to, materially impair the goodwill or reputation associated with any aspect of the System;



g. Statutory Cure Period - If a statute in the state or municipality in which the Franchised Business is located requires application of that state or municipal law, and that statute requires a cure period for the applicable default which is longer than any cure period specified in this *Article 14*, the statutory cure period will apply.

### **14.3 Our Right to Take Over Management.**

We have the right (but not the obligation), under the circumstances described below, to enter the Franchised Business and assume the Franchised Business' management for any period of time we feel is appropriate. If we assume the Franchised Business' management, you must pay us, in addition to the Royalty Fee and Advertising Fee, six percent (6%) of the Gross Sales, plus our direct out-of-pocket cost and expenses, for the period of time we assume the Franchised Business' management. If we assume the Franchised Business' management, you acknowledge that our duty is limited to using our reasonable efforts, and we will not be liable to you or your owners for any debts, losses or obligations the Franchised Business incurs, or to any of your creditors for any supplies or services the Franchised Business purchases. We may assume the Franchised Business' management if you abandon the Franchised Business or if you fail to comply with any provision of this Agreement and did not cure the failure within the time period we specify in our notice to you. You agree to complete and sign a letter of agency, letter of authorization, or equivalent and provide it to us upon our request if we assume the Franchised Business' management so that we may keep the existing telephone, facsimile, alarm, and credit card machine numbers (as applicable) in operation under our phone service provider. You also agree to keep the phone, water, gas, electric service (as applicable) turned on and active for one (1) week after we assume the Franchised Business's management to allow us to switch the services over to us or our affiliate. Our exercise of our management rights under this *Section 14.3* will not affect our right to terminate this Agreement.

### **14.4 Remedies.**

a. Interest, Costs and Damages - If you fail to remit when due any payments required under this Agreement, you agree to pay, in addition to the unpaid amounts, all of our collection costs and expenses, expert fees, reasonable attorneys' fees, and costs and expenses, including all fees, costs and expenses of court, including all appeals, with interest on the unpaid amounts at the Default Rate or the highest permissible rate. If you fail to cure a default, following notice, within the applicable time period set forth in *Section 14.2*, or if this Agreement is terminated as a result of your default, you shall pay to us all damages of any kind and nature whatsoever and all collection costs and expenses, expert fees, reasonable attorneys' fees, and costs and expenses, including all fees, costs and expenses of court, including all appeals, together with interest at the Default Rate or the highest permissible rate. If you fail to report Gross Sales in accordance with *Sections 5.2* and *5.6*, we may estimate your Royalty Fee and Advertising Fee based on prior reports, and may sue for and obtain judgment for such estimates unless you prove, prior to the entry of any default order or judgment, that your Royalty Fee and Advertising Fee are different than the estimates.

b. Waiver of Punitive Damages - Both we and you waive, to the full extent permitted by law, any right we or you otherwise may have had to claim, pursue, demand or receive any exemplary or punitive damages arising out of or related in any way to this Agreement and its addenda, amendments, appendices, exhibits and attachments.

c. If you breach any of the terms of this Agreement, including if you are in default of this Agreement, we may enforce our rights by injunction, specific performance, or any other remedy available under this Agreement, at law or in equity, including termination. These remedies are cumulative and not exclusive and we may use all remedies available. In addition, we may elect to terminate this Agreement and all your rights under it as set forth in *Section 14.5*.

d. If you breach any of the terms of this Agreement, including if you are in default of this Agreement, we have the right to have a receiver appointed to take possession, manage and control the assets of the Franchised Business, collect the profits, and pay the net income for the operation of the Franchised Business as ordered by a court of competent jurisdiction. The right to appoint a receiver will be available regardless of whether waste or danger of loss or destruction of the assets exists.

#### **14.5 Effect of Termination or Expiration.**

Upon termination or expiration of this Agreement, we can advise all suppliers of *Surf City Squeeze* proprietary food items and other supplies bearing any of the Proprietary Marks or service marks to cease delivering the items and products to you.

Upon your abandonment of the Franchised Business (whether voluntary or involuntary), any termination of this Agreement (whether pursuant to *Sections 14.1, 14.2, 14.4*, or otherwise), or upon expiration of the Term, you must immediately cease to hold yourself out to the public as a franchise owner of the System, and you must comply with the following:

a. Immediately pay to us or any affiliate of ours all sums owing from you to us or such affiliate, including the Royalty Fee and Advertising Fee, for any period prior to the date of termination, the applicable Early Termination Damages (as defined in *Section 14.9* below), and all amounts owed for services, supplies or other items purchased by you from us or any affiliate of ours, or that were financed by us or any affiliate of ours, or which we or any affiliate of ours loaned to you, together with any interest or late fees accrued thereon, together with all other sums due us under this Agreement, and all damages of any kind or nature whatsoever that may be allowed by law;

b. Immediately cease to use, in any manner whatsoever, including in all advertising, the Proprietary Marks, any Trade Secrets, any Confidential Information, any benefits of the System or any part thereof, any methods associated with the System, any forms, recipes, Confidential Manual, slogans, signs, sign posts, marks, symbols, or devices used in connection with the operation of the Franchised Business; and you must deliver or destroy all of the above-mentioned materials, including any materials containing or referencing any of the foregoing, to us as directed by us. If we do not recover any such items, such items shall be valued at their then-current replacement cost, for purposes of determining the damages owing by you to us for failure to return such items, if we pursue a damage claim as a result thereof;

c. Immediately discontinue all advertising as a franchisee of the System, and thereafter refrain from any advertising that would indicate that you are or ever were a franchisee or licensee of ours, or otherwise were affiliated with us or the System;

d. Immediately take such steps as may be necessary or appropriate to:

(i) delete your listing in all telephone directories, if applicable, and terminate any other listings that indicate that you are or were a franchisee or licensee of ours, or otherwise were affiliated with us or the System; and

(ii) transfer to our designee or us all telephone numbers used by you in connection with the Franchised Business. You acknowledge that between you and us, we have the sole right and interest in all telephone numbers and directory listings associated with any Proprietary Marks, and you authorize us and appoint us and any officer or agent of ours, as your attorney-in-fact, to direct the telephone company and all listings agencies to accept such direction, or this Agreement, as conclusive evidence of our exclusive rights in such telephone numbers and directory listings and our authority to direct their transfer;

e. Immediately take such action as may be required to cancel all fictitious or assumed names, amend any entity name, or dissolve any entity that contains any Proprietary Mark, in whole or in part, regardless of whether the entity name was authorized by us, and amend or cancel any and all equivalent registrations relating to your use of any Proprietary Mark. You acknowledge that between you and us, we have the sole right and interest in all such fictitious or assumed names, entity name, and equivalent registrations, and you authorize us and appoint us and any officer or agent of ours as your attorney-in-fact, to effect the termination or cancellation of such fictitious or assumed names or equivalent registrations should you fail or refuse to do so, and the appropriate federal, state, and local agencies may accept your direction or this Agreement as conclusive evidence of our exclusive rights in such fictitious or assumed names or equivalent registrations, and our authority to direct their termination or cancellation;

f. Comply with the confidentiality requirements and the covenant against competition in this Agreement for the specified period. You acknowledge that you, or (if an entity) your authorized representative, has carefully reviewed the confidentiality requirements and the covenant against competition in this Agreement; and that you have agreed to be bound by all the requirements and covenants; and

g. Maintain at a place made known to us all books, records and reports required under this Agreement for a period of not less than three (3) years after the date of termination or expiration of this Agreement, to allow us to make a final inspection of your books and records for the purpose of verifying that all amounts owing have been paid.

If you fail to do any of the foregoing, we may pursue any remedy available at law or in equity against: (i) you; (ii) any or all guarantors of your obligations under this Agreement; and (iii) you and any or all guarantors of your obligations under this Agreement.

h. Right of First Refusal. We have the right, but not the obligation, to purchase from you any assets or property (but not leasehold improvements) used in the operation of the Franchised Business for an amount equal to the Value (as defined below), as of the expiration date or termination date, as applicable ("RoFR"). If we are required, by law, regulation or court order, to purchase the equipment and other tangible assets used in connection with the Franchised Business, the purchase price will be equal to the Value. For purposes of this Agreement, the term "Value" means, subject to applicable law, **the lesser of**: (i) an amount equal to the original cost for such assets, less depreciation computed using a two hundred percent (200%) declining balance method over a five (5) year period with a salvage value equal to the original cost divided by the greater of: five (5), or the total age in years (including a

fraction thereof); or (ii) Franchisee's actual initial cost of acquiring such assets, if pre-owned, depreciated by twenty percent (20%) per year (including a fraction thereof); or (iii) the fair market value of such assets. If all, or any portion of, the assets that are being purchased by us or our authorized representative are subject to lien(s), we or our authorized representative may, in our sole and absolute discretion, pay, on Franchisee's behalf, the lienholder(s) that portion of the purchase price for the assets (which may be the entire purchase price) that is necessary to obtain the release of those assets from the lien(s), in lieu of paying you those funds. Further, we may offset any amounts payable to you pursuant to this *Section 14.5.h*, or otherwise pursuant to this Agreement, against any unpaid amounts payable to us or our affiliates pursuant to this Agreement or any agreement executed in connection with this Agreement.

In the event Franchisor exercises this RoFR, Franchisor will send to Franchisee a written notice whereby Franchisee shall be required to sell and turnover us such assets for an amount equal to the Value within thirty (30) days. If you fail to comply with this section, then you will be in breach of the Agreement and shall owe damages in the cumulative amount of the amount of the replacement cost of such assets (including installation costs) minus the Value. For the avoidance of doubt, and for example purposes, in the event that we purchase such assets and some are missing or broken beyond repair, you shall owe damages in the amount of the replacement cost of those missing or broken assets minus the Value of those assets.

#### **14.6 Covenant Not to Compete; Conflicting Interests.**

a. During the Term and for a period of two (2) years after your abandonment of the Franchised Business, expiration of this Agreement, or termination of this Agreement (whether voluntary or involuntary), you shall not engage in any Competing Business (as defined in *Section 14.6c.*) with any *Surf City Squeeze* restaurant, nor shall you have any Conflicting Interest (as defined in *Section 14.6d.*) in a Competing Business. The provisions of this Agreement bind you in any capacity, including as a franchisee, sole proprietor, partner, limited partner, member, employer, franchisor, shareholder, officer, director or employee.

b. During the Term, and for a period of two (2) years after your abandonment of the Franchised Business, expiration of this Agreement, or termination of this Agreement (whether voluntary or involuntary), you shall not divert or attempt to divert any business, customers, or potential customers of the *Surf City Squeeze* System to any Competing Business, by direct or indirect inducement or otherwise. In addition, you shall not at any time do or perform any act, directly or indirectly, which harms the goodwill or reputation of us or the System.

c. For purposes of this *Section 14.6*, "Competing Business" means a business which is primarily engaged in the sale of smoothies, and all variations thereof, within a geographical area consisting of: (1) during the Term, anywhere else; and (2) after abandonment, expiration or termination of this Agreement, within a ten (10) mile radius from the Location or location of any *Surf City Squeeze* restaurant of ours, our third-party licensees or our third-party franchisees. The term "*Surf City Squeeze* restaurant" includes not only the restaurants now in existence, but also those established at a later date. The term of this covenant will be extended by any time consumed in litigation to enforce it in both trial and appellate courts. If a court of competent jurisdiction determines that the restrictions in this paragraph are excessive in time, geographic scope, or otherwise, the court may reduce the restriction to the level that provides the maximum restriction allowed by law.

d. For purposes of this *Section 14.6*, “Conflicting Interest” means an interest by which you, or your executive officers, directors and shareholders (if you are a corporation), or your partners (if you are a partnership), or your members (if you are a limited liability company), or your designated manager, spouses, and/or guarantor(s) directly or indirectly, have a controlling interest in, lend money to, consult with or otherwise assist any Competing Business. If any of the persons named above do not sign this Agreement under the heading “Personal Acceptance of *Sections 7.1, 7.2, 14.6 and 14.8*,” then you agree to obtain the execution by such person of a written agreement setting forth the foregoing in a form acceptable to us.

#### **14.7 Continuing Obligations.**

All your obligations that expressly survive the expiration or termination of this Agreement, including *Sections 14.5 and 14.6*, or by the implicit nature thereof require performance after the expiration or termination of this Agreement, will continue in full force and effect (subsequent to, and notwithstanding, your abandonment of the Franchised Business (whether voluntary or involuntary) the expiration of the Term, or termination of this Agreement), until they are satisfied in full or by their nature expire. The indemnities and obligations set forth in *Article 8* will continue in full force and effect subsequent to, and notwithstanding, the expiration or termination of this Agreement.

#### **14.8 Remedies.**

You acknowledge and agree that the restrictions contained in this Agreement, including in this *Article 14*, are fair and reasonable and necessary for the protection of our legitimate business interests and you intend and agree that such restrictions be enforceable and enforced to their fullest extent. You further understand and agree that, notwithstanding any other provision of this Agreement, your breach of your obligations under this *Article 14*, will cause us irreparable harm for which recovery of monetary damages alone would not be an adequate remedy. Both parties shall be entitled to obtain timely injunctive relief, including a temporary restraining order, preliminary and permanent injunctions, to protect their rights under this Agreement, in addition to and not exclusive of any and all other remedies available to each party.

#### **14.9 Early Termination Damages.**

If you discontinue operating your Franchised Business before this Agreement expires, with or without obtaining our prior written consent, or in the event of a termination of this Agreement arising from or related to your default and breach of its provisions, you will become obligated to pay Franchisor early termination damages (“Early Termination Damages”). The Early Termination Damages shall be considered damages and not a penalty, are not in lieu of other damages, and your payment of these damages shall not constitute a release of any other obligation owed to us. Franchisor, Franchisee, each individual signing on behalf of Franchisee, and each guarantor guaranteeing Franchisee’s obligations hereunder, hereby acknowledge and agree that Franchisor’s losses due to Franchisee’s unilateral closure of the Franchised Business or termination of this Agreement would be highly difficult or impossible to calculate with reasonable certainty and, therefore, have agreed at the outset of this Agreement that the Early Termination Damages, and the formula for calculating these damages, constitutes a reasonable, good faith forecast of Franchisor’s estimated losses and damages due to the premature closure of the Franchised Business or termination of this Agreement.

The amount of the Early Termination Damages is calculated as follows:

- a. Compute the average monthly Royalty Fee and Advertising Fee due for any consecutive twelve (12) month period within the forty-eight (48) months immediately preceding the date we receive notification of the closure, or if you failed to timely notify us of the closure then the date the Franchise Business closed, or, if the Franchised Business has been open for less than twelve (12) months, the average monthly Royalty Fee and Advertising Fee due since the opening of the Franchised Business ("Monthly Average");
- b. Multiply the Monthly Average by the number of months remaining in the Term;  
and
- c. Divide the resulting total computed in b. above by two (2).

For example purposes only: If the average monthly Royalty Fee and Advertising Fee were collectively \$1,000 and there were five years (60 months) remaining in the Term, the Early Termination Damages would be \$30,000, calculated as follows:  $\$1,000 \times 60 \text{ months} = \$60,000 \div 2 = \$30,000$ .

If you unilaterally close the Franchised Business and/or unilaterally terminate this Agreement prior to the end of the Term, you must give us at least ninety (90) days prior notice of the early termination ("Early Termination Notice") pursuant to the applicable notice requirements as set forth in Article 15 of this Agreement. For avoidance of doubt, sending the Early Termination Notice via facsimile, email or through other electronic means does not constitute proper notice). Within ten (10) days after our receipt of your Early Termination Notice, we will calculate the Early Termination Damages, which will be due and payable thirty (30) days prior to the closure of your Franchised Business. In the event of a closure or termination arising from or related to your default under this Agreement, or if you do not: (i) timely or properly provide us with the Early Termination Notice at least ninety (90) days prior to the early termination of your Franchised Business and this Agreement; (ii) remain open for at least ninety (90) days after providing us with the Early Termination Notice; and (iii) pay the Early Termination Damages in full at least thirty (30) days prior to closing of the Franchised Business, the Early Termination Damages due may, in our sole discretion, be increased as follows: it will be calculated by multiplying the Monthly Average by the number of months remaining in the Term, and will not be divided by two (2).

If you have not paid your Royalty Fee and/or Advertising Fee for any period(s) within the forty-eight (48) months prior to notifying us of your early closure or termination, or if you have not reported your Gross Sales for any period(s) within the forty-eight (48) months prior to notifying us of your intended early termination, we will estimate the Royalty Fee and Advertising Fee based upon prior reports to calculate the Monthly Average.

## **ARTICLE 15. NOTICES**

Unless otherwise provided in this *Article 15*, all notices specified by this Agreement or required by law must be in writing and given by personal delivery, sent by carrier (i.e., FedEx®, UPS®, etc.), U.S. certified mail, return receipt requested. All notices to us must be given at the address set forth below or to such other address as we may designate in writing from time to time in accordance with this *Article 15*. All notices to you may be given at the address set forth below, at the address of the Franchised Business, at any of your franchised restaurants, at your residence

(if an individual), or at the residence of your principal shareholder(s), partner(s), or member(s) (if a business entity). Notices will be conclusively deemed to be given, delivered, and effective when sent pre-paid and actually left in the custody of an adult agent, employee or resident at a place of business or residence if given by personal delivery; or if given by carrier, twenty-four (24) hours after deposited with carrier, or if by U.S. certified mail, three (3) days after deposited with the U.S. Postal Service. You have an obligation to promptly notify us pursuant to this *Article 15* whenever your mailing address, phone number or email address change. Notwithstanding the foregoing, only Franchisor has the right to give you written notice via email to an email address you provide us regarding all notices specified by this Agreement or required by law, with such email notification to be deemed received by you twenty-four (24) hours after we send it, unless you otherwise earlier acknowledge receipt.

If to Franchisor: KAHALA FRANCHISING, LLC  
Attn: Legal Department  
9311 E. Via De Ventura  
Scottsdale, Arizona 85258

If to Franchisee: FRANCHISEE ENTITY, a[n] \_\_\_\_\_  
Attn: \_\_\_\_\_  
\_\_\_\_\_  
Telephone No. \_\_\_\_\_  
Email(s): \_\_\_\_\_

## **ARTICLE 16. CONSTRUCTION AND ENFORCEMENT; MISCELLANEOUS**

### **16.1 Independent Contractors.**

The relationship between you and us is that of independent contractors. You are in no way to be deemed our partner, joint venturer, agent, employee, or servant. You have no authority to bind us to any contractual obligation or incur any liability for or on our behalf. You shall identify yourself as an independent owner of the Franchised Business in all dealings with customers, lessors, contractors, suppliers, public officials, employees, and others.

### **16.2 Severability and Substitution of Provisions.**

Except as provided to the contrary in this Agreement, each article, section, term and provision of this Agreement, and any portion thereof, will be considered severable, and if, for any reason, any such portion of this Agreement is held to be invalid, contrary to, or in conflict with any applicable present or future law or regulation, or as a result of a final, non-appealable ruling issued by any court, agency or tribunal with competent jurisdiction in a proceeding to which we are a party, that regulation or ruling will not impair the operation of, or have any other effect upon, such other portions of this Agreement as may otherwise remain valid, and such other portions will continue to be given full force and effect and bind the parties to this Agreement. If the severed provision is material to this Agreement, we shall promptly provide a substitute provision to replace the invalid severed provision consistent with then-current law and the original intent of the parties.

If any applicable and binding law or rule of any jurisdiction requires a greater prior notice of the termination of, or refusal to renew, this Agreement than is required under this Agreement,

or the taking of some other action not required under this Agreement, or if under any applicable law, regulation, or court ruling of any jurisdiction, any provision of this Agreement or any specification, standard or operating procedure prescribed by us is invalid or unenforceable, the prior notice or other action required by such law, regulation, or court ruling will be substituted for the comparable provisions of this Agreement, and we will have the right, in our sole discretion, to modify such invalid or unenforceable provision, specification, standard or operating procedure to the extent required to be valid and enforceable. Such modifications to this Agreement shall be effective only in such jurisdiction, unless we elect to give them greater applicability, and otherwise shall be enforced as originally made and entered into in all other jurisdictions.

### **16.3 Dispute Resolution.**

a. Except as otherwise provided herein, any dispute, claim or controversy arising out of or relating to this Agreement, the breach hereof, the rights and obligations of the parties hereto or the relationship between the parties, or the entry, making, interpretation, or performance of either party under this Agreement ("Dispute"), which cannot be resolved by mediation under Section 16.3d. or is not subject to mediation under the terms of this Agreement, shall be settled by binding arbitration administered by the American Arbitration Association ("AAA") before a single arbitrator in accordance with its Commercial Arbitration Rules as modified below, and pursuant to the Federal Arbitration Act, 9 U.S.C. §1 et seq.

b. Except to the extent that the United States Trademark Act of 1946, as amended (15 U.S.C. § 1051 *et seq.*), the laws of the State where the Franchised Business is located govern all rights and obligations of the parties under this Agreement without regard to conflict of law, and any arbitration shall take place before a sole arbitrator in the County of the State where the Franchised Business is located. The parties agree that the arbitrator shall be an attorney licensed to practice law in the United States and must have a minimum of five (5) years of experience in franchise law. Judgment on the award rendered by the arbitrator may be entered in any court of competent jurisdiction. The arbitrator shall, in the award, allocate all of the costs and expenses of the arbitration, including the fees of the arbitrator and the reasonable attorneys' fees of the prevailing party, against the party who did not prevail. This agreement to arbitrate shall survive termination or expiration of this Agreement. The parties agree that any arbitration shall be solely between them (including any affiliates) and shall not include as a party, by consolidation, joinder, or in any other manner, any other person or entity, unless both parties to this Agreement consent in writing. Both parties shall have the absolute right to refuse such consent. The parties expressly waive any right to bring or participate in any class or other consolidated, joined or multi-party arbitration claim or proceeding, whether or not permissible under the AAA Commercial Arbitration Rules, including any claim brought on their behalf by an association of which it, he or she is a member. At the request of either party, the arbitration shall be conducted in a manner that maintains the confidentiality of the proceedings.

c. The arbitrator will issue a reasoned award, with findings of fact and conclusions of law. Actions to enforce an express obligation to pay monies may be brought under the Expedited Procedures of the AAA's Commercial Arbitration Rules. Discovery shall be conducted according to the AAA Commercial Arbitration Rules.

d. Prior to the commencement of an arbitration proceeding, a party must notify the other party of its intent to commence arbitration by providing written notice to the other party that describes the facts and subject matter of the Dispute at least sixty (60) days prior to commencing arbitration with the AAA. During the sixty (60) days after a written notice of intent to



arbitrate is received by either party, the parties must first mediate the Dispute with a mutually agreed upon private mediator. At the request of any party, the mediation will be confidential. The mediation shall be conducted in the County of the State where the Franchised Business is located, unless the parties mutually agree to a different location. The parties to the mediation will share equally in its costs and expenses, except those costs and expenses incurred separately by each party, including counsel fees and expenses. The mediation process will be deemed "Completed" when the parties agree that it has been completed, the mediator declares that any impasse exists, or sixty (60) days have elapsed since the date of the initiating party's notice to the other party that it is initiating the mediation process, whichever occurs first.

e. Notwithstanding anything contained in this Agreement to the contrary, the provisions of Sections 16.3a., 16.3b., 16.3c. and 16.3d. do not apply to a Dispute where: (i) we bring an action for an express obligation to pay monies, declaratory relief, preliminary or permanent equitable relief, any action for damage to our goodwill, the Confidential Information, the Proprietary Marks or for fraudulent conduct by you; or (ii) the delay resulting from the dispute resolution process set forth in section 16.3 may endanger or adversely affect the public (for example, unhealthy, unsafe or unsanitary conditions would continue to exist), or may cause irreparable harm to Franchisor or its affiliates. For such Disputes, we may bring an action in any federal or state court having jurisdiction, whether for monetary damages, temporary and permanent injunctive relief or specific performance in addition to, and not exclusive of, any other remedies available to us. You hereby consent to and waive any objection or defense and agree not to contest venue, forum non conveniens or jurisdiction of such court. THE PARTIES AGREE THAT ALL DISPUTES SUBMITTED TO THE COURT PURSUANT TO THIS SECTION SHALL BE TRIED TO THE COURT SITTING WITHOUT A JURY, NOTWITHSTANDING ANY STATE OR FEDERAL CONSTITUTIONAL OR STATUTORY RIGHTS OR PROVISIONS.

f. Disputes concerning the validity or scope of arbitration, including whether the Dispute is subject to arbitration, are beyond the authority of the arbitrator and will be determined by a court of competent jurisdiction pursuant to the Federal Arbitration Act, 9 U.S.C. §1 et seq., as amended from time to time.

g. To the extent Law permits, any Dispute arising out of or relating to this Agreement, whether in arbitration or in court, will be conducted only on an individual basis and not in a class, consolidated or representative action. Notwithstanding any other provision of this Agreement or the AAA Rules, disputes regarding the interpretation, applicability, or enforceability of this class waiver may be resolved only by a court and not by an arbitrator. If this waiver of class or consolidated actions is deemed invalid or unenforceable, neither party is entitled to arbitration.

#### **16.4 Statute of Limitations and Limitation on Franchisor Liability.**

a. Notwithstanding anything contained in this Agreement to the contrary, the parties agree that any claims under, arising out of, or related to, this Agreement must be brought within two (2) years of the date on which the underlying cause of action accrued, and the parties hereby waive any right to bring any such action after such two (2)-year period, except for the collection of any unpaid Royalty Fee, Advertising Fee, and any other amount due to us or our affiliates.

b. **YOU HEREBY WAIVE THE RIGHT TO SEEK OR COLLECT PUNITIVE, MULTIPLE, CONSEQUENTIAL AND SPECIAL DAMAGES IN ANY FORUM, INCLUDING**

**ARBITRATION. YOU HEREBY FURTHER WAIVE THE RIGHT, IF ANY, OF ANY ASSOCIATION OR MEMBERSHIP GROUP TO ASSERT CLAIMS ON YOUR BEHALF IN ANY ACTION.**

**c. YOU HEREBY WAIVE THE RIGHT TO ANY DAMAGES IN CONNECTION WITH OR RESULTING FROM THE WRONGFUL ISSUANCE OF AN INJUNCTION.**

d. The parties agree that the maximum damages that you may recover in connection with a wrongful termination of your franchise and this Agreement will be an amount equal to the product of:

(i) the annual net profit (as defined below) multiplied by the lessor of:

(a) The number of full years existing between the date on which the franchise and this agreement were wrongfully terminated and the date on which the Term would have otherwise expired; or

(b) Three.

For purposes of this Agreement, the term "net profit" means an amount equal to the net profits of your Franchised Business, as reflected on your tax return filed with the Internal Revenue Service prior to such termination; provided, however, that if such tax return reflects the operations of your Franchised Business for a period less than one (1) year, such net profits will be annualized based upon the net profits reflected in such tax return.

#### **16.5 No Guarantee of Franchisee's Success.**

You have been informed of and acknowledge the highly competitive nature of the business involved, and agree that the successful operation of your Franchised Business will depend in part, upon your best efforts, capabilities, management, and efficient operation; as well as the general economic trend and other market conditions.

#### **16.6 Existence of Various Forms of Franchise Agreements.**

You acknowledge that our present and future franchisees operate under a number of forms of franchise agreements and consequently, our obligations and rights with respect to our various franchisees may differ materially in certain instances. The existence of different forms or versions of the franchise agreement does not entitle you to benefit from any such difference; nor does it operate to alter or amend the agreement of the parties set forth in this Agreement.

#### **16.7 Franchise Owner May Not Withhold Payments.**

You agree that you will not, on grounds of alleged or actual nonperformance or breach by us of any of our obligations under this Agreement, withhold payment of any Royalty Fee, Advertising Fee, amounts due to us or any of our affiliates for goods or services purchased by you, or any other amounts due to us or any of our affiliates.

#### **16.8 Remedies Are Cumulative.**

The rights and remedies of the parties to this Agreement are cumulative and not exclusive, and no exercise or enforcement by either party of any right or remedy under this

Agreement shall preclude the exercise or enforcement by such party of any other right or remedy under this Agreement or otherwise available at law or in equity to such party.

#### **16.9 Interpretation.**

All the terms and provisions of this Agreement will be binding upon and inure to the benefit of the successors and assigns of the parties. However, nothing in this *Section 16.9* may be construed as our consent to the Transfer of this Agreement or any rights by you.

#### **16.10 Waiver.**

Our failure to insist upon the strict performance of any term, covenant or condition contained in this Agreement will not constitute or be construed as a waiver or relinquishment of our right to enforce thereafter any such term, covenant or condition and such term, covenant or condition will continue in full force and effect. For example, Franchisor's acceptance of any payments made, or Franchisor's failure to require any payments, by Franchisee after a breach of this Agreement shall not be, nor be construed as, a waiver by Franchisor of any breach by Franchisee of any term, covenant or condition of this Agreement or of Franchisor's right to later require such payments as a result of such prior breach.

#### **16.11 Litigation Expense.**

If an action at law or suit in equity is brought to establish, obtain or enforce any right by either of the parties to this Agreement, the prevailing party in the suit or action, in the trial and appellate courts, will be entitled to recover from the non-prevailing party reasonable attorneys' fees, costs and expenses and disbursements incurred in such suit or action.

#### **16.12 No Third-Party Beneficiaries.**

This Agreement is not intended to benefit any other person or entity except the named parties hereto and no other person or entity shall be entitled to any rights hereunder by virtue of so-called "third-party beneficiary rights" or otherwise.

#### **16.13 Binding Effect; Modification.**

This Agreement is binding upon the parties to this Agreement and their respective executors, administrators, personal representatives, heirs, permitted assigns and successors in interest. No amendment, change, or modification of this Agreement shall be binding on any party unless executed in writing by you and us.

#### **16.14 Entire Agreement; Nature and Scope; Construction.**

This Agreement, all exhibits, attachments, addendums, and amendments, constitute the entire understanding and agreement between the parties, and there are no other oral or written understandings or agreements between us and you relating to the subject matter of this Agreement. If required to be signed, any state specific addendums are incorporated herein by reference. Any representation not specifically contained in this Agreement made prior to entering into this Agreement does not survive subsequent to the execution of this Agreement. We and you have entered into this Agreement for the sole purpose of authorizing you to use the System licensed by this Agreement in the operation of the Franchised Business during the Term

in which those specific items designated by us for sale and use in such locations are offered for sale and use in individual, face-to-face transactions with patrons visiting the Franchised Business (and equivalent telephone, online, or mail transactions accepted as a convenience to that customer group). All consideration being furnished by us to you during the course of performance of this Agreement has been determined based on the limited rights and other limitations expressed herein. No other rights have been bargained for or paid for. This provision is intended to define the nature and extent of the parties' mutual contractual intent, there being no mutual intent to enter into contract relations, whether by agreement or by implication, other than as set forth in this Agreement. The parties further acknowledge that these limitations are intended to achieve the highest possible degree of certainty in the definition of the contract being formed, in recognition of the fact that uncertainty creates economic risks for both parties which, if not addressed as provided in this Agreement, would affect the economic terms of this bargain.

Nothing in this Agreement or in any related agreement is intended to disclaim the representations we made in the Disclosure Document. Nothing in this Agreement is intended, nor shall be deemed, to confer any rights or remedies upon any person or legal entity not a party hereto.

#### **16.15 Terminology.**

In addition to the terms defined elsewhere in this Agreement, the following terms defined below are incorporated in this Agreement by reference and shall be deemed to include all persons who succeed to the interest of the original, where applicable:

The term "affiliate" means any person who, directly or indirectly through one (1) or more intermediaries, controls, is controlled by, or is under common control with any person;

The term "Dollars" means United States Dollars and all amounts due under this Agreement shall be paid in United States currency;

The use of the terms "includes" and "including" in any provision of this Agreement followed by specific examples used shall not be construed to limit application of the provision to only the specific examples used;

The term "person" means any natural person, corporation, partnership, trust, other entity, association or form of organization;

The term "will" and "shall" shall be synonymous, and shall be mandatory and not discretionary, unless otherwise specifically provided herein; and

Any references to articles or sections refer to articles and sections in this Agreement unless specified otherwise.

#### **16.16 Counterparts.**

This Agreement may be executed in one (1) or more original counterparts, and all of which, when taken together, shall be deemed to be one (1) original Agreement. The signatures required for execution may be transmitted to the other party via facsimile or a scanned .pdf file sent via email and such signature shall be deemed a duplicate original, shall be effective upon

receipt by the other party, may be admitted in evidence and shall fully bind the party and person making such signature. A fully-executed copy of this Agreement shall be of the same force and effect as the original.

#### **16.17 Offerings.**

If you are a corporation, partnership or other entity, and if you intend to offer securities, partnership interests or other ownership interests in you through any public or private offering, you shall not use any Proprietary Marks in such public or private offering, except to reflect your franchise relationship with us; nor shall you misrepresent your relationship with us by any statement or omission of an essential statement. You shall indemnify and hold us harmless from any liability in connection with such offering. Nothing in the foregoing shall modify the provisions of *Article 12*, and no such offering shall be made without first complying with any applicable provisions of *Article 12*.

#### **16.18 Time.**

Time is of the essence of each and every provision of this Agreement.

#### **16.19 Force Majeure.**

Neither of the parties will be liable for loss or damage or be deemed to be in breach of this Agreement if the failure to perform the party's obligations results from: (a) transportation shortages, inadequate supply of equipment, merchandise, supplies, labor, material or energy, or the voluntary foregoing of the right to acquire or use any of the foregoing in order to accommodate or comply with the orders, requests, regulations, recommendations or instructions of any government or any department or agency thereof, or (b) acts of God—, and in all case being unforeseeable forces which Franchisee could not by the exercise of due diligence have avoided; provided however that Franchisee must: (i) immediately upon the start of the above-mentioned act, provide written notice to Franchisor that it expressly enacts its rights granted under this Section, and (ii) use all commercially reasonable efforts to mitigate the effect of the event of Force Majeure upon its performance and to fulfill its obligations under this Agreement. Any delay resulting from any of these causes will extend performance accordingly or excuse performance, in whole or in part, as may be reasonable, except that no such cause will excuse payments of amounts owed at the time of such occurrence or payment of the Royalty Fee and all other amounts due to us and our affiliates thereafter, or permit Franchisee to permanently close the Franchised Business.

#### **16.20 Plurals and Captions.**

Words in the singular number include the plural when the context requires (and vice-versa). The table of contents and the captions are inserted only for convenience and are not a part of this Agreement or a limitation of the scope of the particular article or section to which each refers.

#### **16.21 Joint and Several Liability.**

If you consist of two (2) or more individuals, whether in the form of separate individuals or a business entity controlled by the individuals, then each individual and each business entity will be jointly and severally liable under the provisions of this Agreement.

## **16.22 Trademark Notice.**

All trademarks referenced in this Agreement are those of their respective owners.

## **16.23 No Accord or Satisfaction.**

If you pay, or we otherwise receive, a lesser amount than the full amount provided for under this Agreement for any payment due hereunder, such payment or receipt may, in our sole discretion, be applied against the earliest amount due us. In addition, if interest or late fees are owed, we may, in our sole discretion, apply any amounts paid to the late fees and interest before such amounts are applied to the principal amount owed. We may accept any check or other payment in any amount without prejudice to our right to recover the entire balance of the amount due or to pursue any other right or remedy. No endorsement or statement by you on any check or payment or in any letter accompanying any check or payment or elsewhere shall constitute or be construed as an accord or satisfaction.

## **ARTICLE 17. ACKNOWLEDGMENTS AND REPRESENTATIONS OF FRANCHISEE**

### **17.1 Certain Representations and Warranties of Franchisee.**

You represent and warrant that the following statements are true and complete as of the Effective Date:

a. You do not seek to obtain the Franchised Business for speculative or investment purposes and have no present intention to sell or transfer or attempt to sell or transfer the Franchised Business except as previously approved by Franchisor and subject and conditioned to Article 12 of this Agreement.

b. You understand and acknowledge the value to the System of uniform and ethical standards of quality, appearance and service described in and required by the Confidential Manual and the necessity of operating the Franchised Business under the System Standards. You represent that you have the capabilities, professionally, financially and otherwise, to comply with our System Standards.

c. If you are a corporation, limited liability company, partnership, or other form of entity, you are duly incorporated, organized, or formed and are qualified to do business in the state and any other applicable jurisdiction within which the Franchised Business is located, and you are and shall remain duly organized and in good standing during the Term.

d. You represent and warrant that: (i) if you are an individual, you are; or (ii) if you are an entity, that each of your owners, shareholders, partners, and members are, a United States citizen or a lawful resident alien of the United States.

e. All financial and other information that you have provided to us or otherwise made available to us in connection with your application for this franchise is true, complete, accurate, and not intentionally misleading.

f. The execution of this Agreement by you will not constitute or violate any other agreement or commitment to which you are a party.

g. Any individual executing this Agreement on your behalf is duly authorized to do

so and the Agreement shall constitute your valid and binding obligation and, if applicable, all of your partners, members, or shareholders, if you are a partnership, limited liability company, or corporation.

h. You have, or if you are a partnership, corporation or other entity, your partners or principals have, carefully read this Agreement and all other related documents to be executed by you concurrently or in conjunction with the execution hereof; that you have obtained, or had the opportunity to obtain, the advice of counsel in connection with the execution and delivery of this Agreement; that you understand the nature of this Agreement and that you intend to comply with and be bound by this Agreement.

i. You have read and understand the information and disclosures made in the Disclosure Document provided to you as acknowledged in *Section 17.3e*. You understand and acknowledge that: (i) estimates for initial start-up expenses are estimates only and there can be additional start-up expenses; and (ii) your sales may differ substantially from any sales provided in Item 19 of the Disclosure Document, and there is no assurance that your sales will meet or exceed any sales listed in Item 19 of the Disclosure Document. You have had the opportunity to and have consulted or elected not to consult with your attorney, accountant and business advisors before entering into this Agreement.

j. You understand and agree that, while not applicable in every case, our past experience indicates that owner-operated restaurants generally perform better than absentee owners with hired managers. The food business is a personal business and is dependent upon your business skill and judgment. This includes your choice of employees. Your skill in hiring the right people to work in your Franchised Business is very important in determining whether people decide to purchase menu items from your Franchised Business or from another restaurant in the same vicinity.

k. You understand and agree that ownership of a franchise and the Franchised Business carries certain risks. These risks include the loss of your initial investment, other continued financial losses such as rent payments due under lease obligations and other contractual obligations, the loss of your time and energy in starting up and running your Franchised Business, and loss of earnings and investment income from your investment in the Franchised Business. You understand and agree that the Franchised Business may make money and may lose money and are entering this business venture with this express understanding. You are not relying upon anything which is not contained within this Agreement or the Disclosure Document in determining and deciding to become a franchisee.

l. Notwithstanding the foregoing, you understand and agree that the System must not remain static if it is to meet (without limitation) presently unforeseen changes in technology, competitive circumstances, demographics, populations, consumer trends, social trends and other market place variables, and if it is to best serve the interests of us, you and all other franchisees. Accordingly, you expressly understand and agree that we may from time to time change the components of the System, including altering the products, programs, services, methods, standards, forms, policies and procedures of that System; abandoning the System altogether in favor of another system in connection with a merger, acquisition or other business combination or for other reasons; adding to, deleting from or modifying those products, programs and services which your Franchised Business is authorized and required to offer, modifying or substituting entirely the equipment, signage, trade dress, décor, color schemes and uniform System Standards and specifications and all other unit constructions, design,

appearance and operation attributes which you are required to observe under this Agreement; and, abandoning, changing, improving, modifying or substituting the Proprietary Marks. You expressly agree to comply with any such modifications, changes, additions, deletions, substitutions and alterations. You shall accept, use and effectuate any such changes or modifications to, or substitution of, the System as if they were part of the System at the time that this Agreement was executed. Except as provided herein, we shall not be liable to you for any expenses, losses or damages sustained by you as a result of any of the modifications contemplated hereby.

m. You represent that neither you nor any of your affiliates, officers, directors, managers, members, or partners (as applicable) or funding sources are subject to U.S. Executive Order 13224, identified on the U.S. Department of the Treasury's Office of Foreign Assets Control Specially Designated National and Blocked Persons list, or any terrorist list or other blocked persons list. In addition, you represent that you have not received funding from, nor are you owned, controlled, or acting on behalf of the government of any country that is subject to an embargo by the United States, any foreign government official, political party or international organization, and that no foreign government or government official, political party or international organization has any financial interest in the Franchised Business or any monies earned by the Franchised Business.

n. You represent, warrant and agree that you, your officers, directors, managers, members, or partners (as applicable) will each at all times conduct themselves in an ethical manner and avoid any activity that might result in a violation of the U.S. Foreign Corrupt Practices Act, Anti-Terrorism Laws, or any other applicable anti-corruption or bribery laws.

## **17.2 Additional Information Respecting Franchisee.**

a. You have delivered to us or will deliver concurrent herewith, complete and accurate copies of all of your organizational documents, including all partnership agreements, certificates of partnership, articles of organization, operating agreements, articles or certificates of incorporation, by-laws and shareholder agreements, including all amendments, side letters and other items modifying such documents.

b. Reserved.

## **17.3 Acknowledgements of Franchisee.**

a. You acknowledge that you have conducted an independent investigation of the business venture contemplated by this Agreement and recognize that this business venture involves substantial business risks and will largely depend upon your ability. Other than the financial performance representation contained in Item 19 of the Disclosure Document, if any, we expressly disclaim making, and you acknowledge that you have not received or relied on, any warranty or guarantee, express or implied, as to the potential volume, profits, or success of the Franchised Business contemplated by this Agreement.

Franchisee Initials \_\_\_\_/\_\_\_\_



b. You hereby certify that none of our employees, no other person speaking on our behalf, and no Area Representative, if applicable, have: (i) made any oral, written, visual, or other representation, agreement, commitment, claim, or statement that stated or suggested any level or range of actual or potential sales, costs, income, expenses, profits, cash flow, or otherwise other than any financial performance representation contained in Item 19 of the Disclosure Document; or (ii) made any oral, written, visual, or other representation, agreement, commitment, claim, or statement from which any level or range of actual or potential sales, costs, income, expenses, profits, cash flow, or otherwise might be ascertained, related to a *Surf City Squeeze* franchise, that is different from, contrary to, or not contained in the *Surf City Squeeze* Disclosure Document; or (iii) made any representation, agreement, commitment, claim or statement to you that is different from, contrary to, or not contained in, the *Surf City Squeeze* Disclosure Document. You acknowledge and agree that we do not make or endorse, nor do we allow any of our employees or other persons speaking on our behalf to make or endorse, any additional oral, written, visual, or other representation, agreement, commitment, claim, or statement that states or suggests any level or range of actual or potential sales, costs, income, expenses, profits, cash flow, or otherwise with respect to a *Surf City Squeeze* franchise other than any financial performance representation contained in Item 19 of the Disclosure Document.

Franchisee Initials \_\_\_\_/\_\_\_\_

c. You acknowledge that you have received, read and understand this Agreement and the related exhibits, attachments and agreements and that we have afforded you sufficient time and opportunity to consult with advisors selected by you about the potential benefits and risks of entering into this Agreement.

Franchisee Initials \_\_\_\_/\_\_\_\_

d. You understand that this Agreement, including any amendments and exhibits, contains the entire agreement between the parties concerning the Franchised Business, and that any prior oral or written statements that are not set out in this Agreement, including any amendments, exhibits and attachments will not be binding. You acknowledge and agree that we do not permit any representations, agreements, commitments, claims, or statements or approve any changes in this Agreement or any of the amendments, exhibits and attachments to this Agreement, except by means of a written amendment or addendum signed by all parties to this Agreement. You acknowledge that nothing in this Agreement or in any related agreement is intended to disclaim the representations we made in the Disclosure Document.

Franchisee Initials \_\_\_\_/\_\_\_\_

e. You acknowledge receipt of our Disclosure Document fourteen (14) days prior to the execution of this Agreement or your payment of any monies to us or our agent (or sooner if required by applicable state law).

Franchisee Initials \_\_\_\_/\_\_\_\_

f. You acknowledge that, other than what was previously disclosed to you in our Disclosure Document to which you acknowledge receipt thereof, you have not: (1) received any financial statements for us or any of our parent or affiliated companies; or (2) relied on the financial condition of us or of any of our parent or affiliated companies when making the decision to purchase the Franchised Business.

Franchisee Initials \_\_\_\_/\_\_\_\_

g. You acknowledge, as detailed in *Section 2.3*, that you must, at your own cost and expense, use only our designated and approved Design Architect for the design of your Franchised Business.

Franchisee Initials \_\_\_\_/\_\_\_\_

h. You acknowledge that the following is your Area Representative (if applicable):

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

Franchisee Initials \_\_\_\_/\_\_\_\_

i. If an Area Representative is identified in *Section 17.3h.*, you make the following representations with respect to the Area Representative:

(i) You have met or spoken to only \_\_\_\_\_, the Area Representative;

(ii) Other than any financial performance representation contained in Item 19 of the Disclosure Document, at no time did the Area Representative make any promises or statements, or projections or forecasts, or estimates or warranties or representations or other statement or agreement concerning profits or expenses or costs or actual or projected sales of any kind directly or by implication about *Surf City Squeeze* restaurants or about the Franchised Business that we desire to develop under this Agreement or about obtaining the confirmed Location or about any other matter other than what is contained in the *Surf City Squeeze* Disclosure Document or *Surf City Squeeze* restaurant brochure.

(iii) You acknowledge that you have not received any written materials from us or the Area Representative except for the *Surf City Squeeze* brochure and Disclosure Document; and

If there are any exceptions to *Sections 17.3i.(i) – (iii)*, identify the item number and list the exception here:

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

Franchisee Initials \_\_\_\_/\_\_\_\_

j. You acknowledge there have been no other inducements made with any person or entity, including the Identified Area Representative, encouraging you to purchase the Franchised Business, such as a “side deal” or other promise or agreement not included in the Agreement.

Franchisee Initials \_\_\_\_/\_\_\_\_

k. You acknowledge and understand that *Article 6* covers the use of the *Surf City Squeeze* trademark and prohibition on registration of our Proprietary Marks. You acknowledge

the ownership of the Proprietary Marks by us, and you agree that during the Term and after its expiration or termination, you will not, directly or indirectly, apply to register, register or otherwise seek to use or control or in any way use “*Surf City Squeeze*”, or any other of our proprietary marks, or any confusingly similar form or variation, in any place or jurisdiction either within or outside the United States; nor will you assist any others to do so. You further agree that your corporate, partnership or other entity name will not include any of the Proprietary Marks or phrases similar thereto as a part thereof. Furthermore, you acknowledge and understand that you are prohibited from filing applications for the registration of our trade names used in connection with your Franchised Business.

Franchisee Initials \_\_\_\_/\_\_\_\_

I. You acknowledge and understand that in the event you have registered a trade name or entity name containing our trademarks, you will be required to immediately discontinue all further use of the trademark, all Proprietary Marks and any other marks or names confusingly similar thereto in your entity name. Furthermore, you will take such action as may be required to amend your entity name and affirmatively cancel or terminate and dissolve all fictitious or assumed names or other registrations that contain our Proprietary Marks. In the event you do not comply and execute any and all instruments and documents necessary to protect and maintain our interests in the Proprietary Marks, we will then have power of attorney to execute any documents necessary to protect and maintain our interests in the Proprietary Marks.

Franchisee Initials \_\_\_\_/\_\_\_\_

#### **ARTICLE 18. SUBMISSION OF AGREEMENT**

The submission of this Agreement to you does not constitute an offer and this Agreement shall become effective only upon the execution thereof by the parties. THIS AGREEMENT SHALL NOT BE BINDING ON US UNLESS AND UNTIL IT SHALL HAVE BEEN ACCEPTED AND SIGNED BY FRANCHISOR.

***[SIGNATURE PAGE FOLLOWS]***

**IN WITNESS WHEREOF**, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, has duly executed and delivered this Agreement as of the Effective Date.

**FRANCHISEE:**

\_\_\_\_\_, a(n) \_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]

By: \_\_\_\_\_  
[Name, Title]

**FRANCHISOR:**

KAHALA FRANCHISING, L.L.C., an  
Arizona limited liability company

By: \_\_\_\_\_  
[Name, Title]

**PERSONAL ACCEPTANCE OF SECTIONS 7.1, 7.2, 14.6, AND 14.8**

Each of the undersigned individually and personally accepts and agrees to be bound by the provisions of Sections 7.1, 7.2, 14.6, and 14.8 of the foregoing Franchise Agreement.

\_\_\_\_\_, \_\_\_\_\_, an individual  
(signature) Date: \_\_\_\_\_

\_\_\_\_\_, \_\_\_\_\_, an individual  
(signature) Date: \_\_\_\_\_

\_\_\_\_\_, \_\_\_\_\_, an individual  
(signature) Date: \_\_\_\_\_

\_\_\_\_\_, \_\_\_\_\_, an individual  
(signature) Date: \_\_\_\_\_

**EXHIBIT E-2**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Franchise Agreement (Renewal)**

***SURF CITY SQUEEZE***

**FRANCHISE AGREEMENT  
(Renewal)**

**between**

**KAHALA FRANCHISING, L.L.C.**

**and**

\_\_\_\_\_, a(n) \_\_\_\_\_

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**SURF CITY SQUEEZE**  
**FRANCHISE AGREEMENT**  
("Agreement")

**PARTIES:**

KAHALA FRANCHISING, L.L.C.,  
an Arizona limited liability company

("Franchisor")

\_\_\_\_\_  
a(n) \_\_\_\_\_

([individually and collectively,] "Franchisee")

**RESTAURANT NO.:** \_\_\_\_\_

**EFFECTIVE DATE:** \_\_\_\_\_

("Effective Date")

**TRADITIONAL RESTAURANT (YES or NO):** \_\_\_\_\_

**RESTAURANT DESCRIPTION IF NON-TRADITIONAL:** \_\_\_\_\_

A "traditional" restaurant is a restaurant that is easily accessible by the general public, such as a free-standing building, inline retail shop, shopping mall, or street front location. A traditional *Surf City Squeeze* restaurant normally offers a full menu. A "non-traditional" restaurant is a *Surf City Squeeze* restaurant that is located in a non-traditional marketplace, as determined by us (in our sole discretion), such as an airport, amusement park, sports or entertainment venue, train station, travel plaza, toll roads, cafeteria, retail store, convenience store, military base, hospital, office building, movie theater, hotel, casino, kiosk, cart, or high school or college campus. A non-traditional restaurant may also be a *Surf City Squeeze* restaurant that is co-branded into another brand restaurant, at Franchisor's sole discretion. A non-traditional *Surf City Squeeze* restaurant normally offers a limited version of the full *Surf City Squeeze* menu.

To simplify the language in this Agreement, the terms "we," "us," "our" and the like may be used to refer to the Franchisor, and the terms "you," "your" and the like may be used to refer to the Franchisee. The term "you" as used herein is applicable to one (1) or more persons, a corporation, partnership, trust, other entity, association or form of organization as the case may be, and the singular usage includes the plural, masculine, neuter, feminine, and possessive usages. Franchisor and Franchisee may individually be referred to as a "party" and collectively referred to as the "parties."

**RECITALS:**

This Agreement is entered into with reference to the following facts and circumstances:

A. We have, over a period of time and at considerable expense, developed and established a uniform and unique method of operation, customer service, advertising, publicity, processes, recipes, techniques and technical knowledge in connection with the restaurant business, specializing in smoothies, fruit drinks, functional drinks, nutritional supplements, and other related beverage and food items. These restaurants do business under the trade name "*Surf*

*City Squeeze*®. These Surf City Squeeze recipes, techniques, processes and methods constitute our “Trade Secrets.” All of our knowledge, experience, Trade Secrets, processes, methods, specifications, techniques, Proprietary Marks (as defined in Recital B.), System Standards (as defined in *Section 1.4*) and information are referred to in this Agreement as the “System.” The System may be changed, supplemented, improved and further developed by us from time to time.

B. We have owned and issued franchises to others for the operation of franchised restaurants in the United States and in other countries. We have registered and applied for proprietary marks with the United States Patent and Trademark Office and with offices in other countries serving similar functions. These proprietary interests, trademarks, service marks, logos, insignias, trade names and trade dress are referred to in this Agreement as the “Proprietary Marks.”

C. We are engaged in the business of licensing the right to use the Proprietary Marks in connection with the operation and promotion of the System.

D. You understand and recognize that: (1) our Trade Secrets, Proprietary Marks, developments and other properties as recited above are of considerable value; and (2) it is of importance to us and all of our franchisees to maintain the development of the System in a uniform and distinctive manner, allowing you and our other franchisees to enjoy a public image and reputation greater than most single franchisees could establish.

E. You desire to make use of the “*Surf City Squeeze*®” trademark and to enjoy the benefits of that mark, the other Proprietary Marks, and the System; and to establish a “*Surf City Squeeze*” franchise to be operated in accordance with System Standards set forth from time to time by us. System Standards are set forth in, without limitation, the confidential “ops package,” which consists of the “operations manual” (“Operations Manual”), “ops toolkit” and related printed and electronic documents, both now existing and hereinafter developed (individually and collectively, “Confidential Manual”). We are willing to grant you the right to do so under the terms, conditions and provisions set forth in this Agreement, which includes any and all appendices, addenda, amendments, attachments and exhibits.

F. You recognize the necessity and desirability of protecting our reputation, goodwill, Trade Secrets, and other confidential business information; and that disclosure of Trade Secrets and confidential business information, including specifics of the System to any third-party, will cause irreparable damage and harm to us.

### **AGREEMENT:**

The parties agree that the foregoing Recitals are hereby incorporated and made part of this Agreement and further agree as follows:

## **ARTICLE 1. GRANT OF FRANCHISE; TERM; SYSTEM STANDARDS**

### **1.1 Franchise Grant.**

We hereby grant to you a *Surf City Squeeze* franchise that includes the right to use the System as provided in this Agreement, at the following location (“Location”):

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

City/State/Zip Code: \_\_\_\_\_

Additional Location Information  
(if applicable) \_\_\_\_\_

The *Surf City Squeeze* franchise at the Location will be collectively herein referred to as the "Franchised Business".

## **1.2 Location of the Franchised Business; No Exclusive Territory or Other Rights.**

You must operate the Franchised Business only from the Location, including any catering services of *Surf City Squeeze* menu items you provide. You acknowledge that the *Surf City Squeeze* franchise granted under this Agreement is non-exclusive, that we are not granting you any territorial protection or any other exclusive rights, and that we, directly or through one (1) or more affiliates, reserve the right in our sole discretion, and without compensating you or seeking your prior approval: (i) to establish, and grant to other franchisees or licensees the right to establish, a *Surf City Squeeze* restaurant or any other business using the Proprietary Marks, the *Surf City Squeeze* System or any variation thereof, in any location other than the approved Location (including locations in the immediate vicinity of your Location), on any terms and conditions that we deem appropriate; (ii) to establish, and grant to other franchisees or licensees the right to establish, any restaurant concept other than *Surf City Squeeze* in any location on any terms and conditions that we deem appropriate (including locations in the immediate vicinity of the Location); (iii) to sell products identified by the Proprietary Marks or other trademarks, service marks or commercial symbols in any location through any distribution channels, including grocery stores, convenience stores, supermarkets, club stores, vending machines, delivery services and restaurants other than *Surf City Squeeze* restaurants; and (iv) to take any other action that we are not expressly prohibited from taking under this Agreement.

We hereby grant to you during the term of this Agreement, a non-exclusive right and license to operate a single restaurant at the Location only, according to the System Standards and subject to the terms, conditions and restrictions contained in this Agreement. This Agreement is limited to the operation of one traditional restaurant, unless otherwise amended, and does not grant you the right to buy, own or operate additional restaurants.

Except as expressly limited in this Agreement, we (for ourselves and our affiliates and designees) retain all rights with respect to all Proprietary Marks and the sale of *Surf City Squeeze* products anywhere in the world with no compensation or liability to you, including the right to:

- a. Establish and operate (or license to any other person or entity the right to establish and operate) *Surf City Squeeze* restaurants owned or licensed by us at any location;
- b. Develop, market, own, operate and participate in any other business under the Proprietary Marks or any other trademarks (including trademarks identified in the Franchise Disclosure Document ("Disclosure Document") and other trademarks we or our affiliates own or have the right to license);

c. Develop, lease and license the use of, at any location, trademarks other than the Proprietary Marks, in connection with the operation of a system that offers products or services that are the same as, or similar to, those offered by us under this Agreement on any terms or conditions that we deem advisable, in our sole discretion;

d. Merge with, acquire or be acquired by any other business, including a business that competes with your Franchised Business, or acquire and convert any retail stores, including retail stores operated by competitors, or otherwise operated independently or as part of, or in association with, any other system or chain, whether franchised or corporate-owned;

e. Distribute, sell, and license other persons or entities to distribute and sell, products through all other channels of distribution, including catalog sales, telemarketing, grocery stores, warehouses, big box shops, specialty shops, limited access highway food facilities, vending machines and similar automated dispensing systems, mobile units, off-site sales accounts, electronic mail, Internet sales, and movie theaters (individually and collectively, "Other Channels"); and

f. Implement multi-area marketing programs that may allow us or others to solicit or sell to customers anywhere. We also reserve the right to issue mandatory policies to coordinate such multi-area marketing programs.

### **1.3 Term of Agreement.**

a. The term for this Agreement will commence on the Effective Date and will expire on \_\_\_\_\_, unless terminated earlier in accordance with *Article 14* or any other provisions of this Agreement, or transferred in accordance with *Article 12* ("Term").

### **1.4 System Standards.**

You shall operate the Franchised Business in accordance with our standards, including the following:

- a. restaurant design, maintenance, health and safety and remodeling;
- b. types, models, brands and suppliers of required fixtures, furnishings, equipment, signs, materials and supplies;
- c. recipes and ingredients, menu items and menu design;
- d. cooperation with and participation in sales, marketing, advertising and promotional programs (including loyalty programs, online ordering programs, discount coupons, discount gift cards, special menu promotions, and entering into product and service agreements directly with third-party vendors and service providers as required by us) and materials and media used in those programs, including discontinued use and removal of promotional materials as directed by us;
- e. use and display of the Proprietary Marks;
- f. restaurant operations, including matters related to the management of the Franchised Business; training of your employees consistent with the System Standards; and commercial impression of the Franchised Business to the public;

g. cooperation with and participation consistent with our responses and resolutions in response to customer feedback;

h. cooperation with and participation in: (i) market research and testing; and (ii) product and service development programs;

i. acceptance of our stored value gift cards, including gift cards sold at a discount, loyalty cards, frequency cards, gift certificates, vouchers, and any other similar electronic card and payment programs (individually and collectively, "Gift/Loyalty Card"), credit and debit cards, other payment systems, check verification services and use of point of sale computer systems; You agree to enter into a separate participation agreement with the approved vendor for data processing services;

j. bookkeeping, accounting, data processing and record keeping systems; computer hardware and software; connections to the Internet or to proprietary networks; forms, methods, formats, content and frequency of reports to us of Gross Sales (as defined in *Article 5*), financial performance and condition; and providing tax returns and other operating and financial information to us; and

k. conduct and maintain the Franchised Business and Location so as not to distract from or interfere with the integrity of the System (individually and collectively, "System Standards"). We may, in whole or in part, change, improve, update and further develop the System Standards, from time to time during the term. You shall comply with the updated System Standards as directed by us.

The operation and maintenance of your Franchised Business according to the System Standards are essential to the well-being and vitality of the System and to preserve the goodwill of the Proprietary Marks for us and for all other franchisees operating under the System. It is critical to the *Surf City Squeeze* System for all restaurants operating under the *Surf City Squeeze* System to present a uniform and professional image to *Surf City Squeeze* customers regardless of which location the customer visits. Any information regarding the operation of the Franchised Business will be considered a mandatory System Standard, unless it is clear from the express language of our communication that the information is merely optional or is intended by us as a suggestion, rather than a requirement.

You agree that System Standards constitute binding provisions of this Agreement as if they were an integral part of this Agreement.

## **ARTICLE 2. SELECTION OF LOCATION; CONSTRUCTION AND RELOCATION**

### **2.1 Location Selection Procedures.**

You are ultimately responsible for the continuation of operation of the Franchised Business at the selected Location. We will not have any liability to you with respect to your decision to continue to operate at the selected Location, any assistance we provide you in assisting you to make your decision, our recommendation of any location or a third party to assist you in your decision, or our allowing you to continue to operate in the selected Location. You agree that your decision to continue to operate at the selected Location will be based on your own independent investigation of the suitability of the Location.

## **2.2 Lease and Purchase Approval.**

If you intend to lease the Location for your Franchised Business, the lease will be subject to our prior limited review and acknowledgment so that we can confirm that certain lease terms are incorporated into the lease. You must provide us, at least thirty (30) days prior to executing the lease, a copy of the lease and details relating to square footage, rent per square foot, the term of the lease, and either confirmation that such other terms as we reasonably require are incorporated into the lease or that you and the landlord agree to incorporate our required lease addendum to lease agreement ("Lease Addendum") as an exhibit to the lease. You or your attorney shall be responsible for negotiating the terms of the lease, which shall be subject to our final limited review and acknowledgment. If you do not submit all of the required documents to us, we will not allow you to move forward with your lease. We have no liability to you regarding the terms or negotiations of the lease.

If, prior to executing the lease, you or your attorney request a full review of your lease, including any and all exhibits attached thereto, and we or our designated affiliate review your entire lease and exhibits and provide to you or your attorney its review of the entire lease and suggested changes to the lease ("Lease Review"), you must pay a Lease Review Fee (as defined in *Section 5.7*) to compensate for time and effort in reviewing the lease. The Lease Review is optional and only completed by us or our designated affiliate at your or your attorney's request. The Lease Review Fee is due only in the event that you or your attorney request us or our affiliate to complete a Lease Review. Each lease must contain the required lease terms set forth in the Lease Addendum and must specifically state that we are a third-party beneficiary of the lease. If we cure any default by you under the lease, any amounts that we pay to cure the default will be payable by you to us on demand, together with interest thereon, at the lesser rate of one and one-half percent (1½%) or the maximum rate that does not violate applicable state usury laws ("Default Rate") per month from the date we make such payment.

You acknowledge and agree that no later than thirty (30) days after our written request (email suffices), you must provide a fully-executed copy of any and all of your lease documents for the Location. Failure to timely provide us with a fully-executed copy of the lease documents will result in a default under this Agreement.

If you intend to purchase the Location for your Franchised Business, the terms of such purchase shall be subject to our prior approval, and you must provide us, at least thirty (30) days prior to executing the purchase agreement, a copy of the purchase agreement and details relating to square footage, price per square foot and such other terms as we reasonably require.

You acknowledge and understand that our confirmation that you may move forward with any specific location, lease or purchase agreement does not in any way guarantee or ensure the success or profitability of the Franchised Business, or the conformity of the Location, lease or purchase agreement to applicable laws, and such confirmations are only for our own benefit.

## **2.3 Construction.**

a. You must, at your sole cost and expense, construct, furnish, make improvements to and equip, if necessary, the Franchised Business at the Location selected by you and meeting our minimum site requirements, in accordance with plans and specifications approved by us or our third-party approved architect, if applicable. Our approval of plans is solely for complying with our System Standards and not for determining compliance with laws, codes,

ordinances and other legal requirements, including the Americans with Disabilities Act (“ADA”) or any requirements under the lease for your Location. You are solely responsible for ensuring that your Location conforms to all laws, codes, and ordinances, including the ADA, and all lease-specific requirements. You must, at your sole cost and expense, use our designated and approved third-party design architect (“Design Architect”) to prepare the initial design drawings for any construction, alterations or improvements, as applicable, for your Franchised Business. The Design Architect must provide us with one (1) set of the design drawings, including landscaping and parking spaces if applicable, which are the detailed plans and specifications (“Plans”) for your Franchised Business. We will provide you with a copy of the Plans upon our approval of the Plans. You must also, at your sole cost and expense, retain a licensed architect of record to prepare the permitted construction set of drawings for any construction, alterations or improvements. The permitted construction set of drawings must be submitted to us for our files prior to the start of construction, alterations or improvements. In addition, you must obtain the appropriate construction documents and all mechanical, plumbing, electrical and architectural plans must be sealed and stamped, as we may require, even if local laws in the jurisdiction where your Franchised Business is located do not require same.

b. Any material modifications to the approved Plans must be submitted to us for approval and you will not undertake any construction, alterations or improvements until such modifications have been approved by us. Approval of such modifications does not constitute any representation by us of compliance with applicable zoning laws, building codes or other laws.

c. You will be solely responsible for the cost and expense of obtaining all necessary governmental construction permits and licenses, and you must, at your sole cost and expense, comply with all laws, zoning ordinances, rules and regulations of any governmental agencies that may govern any construction, alterations or improvements of the Franchised Business in accordance with the approved Plans. We will have the right, but are not required, to meet with the Design Architect and to inspect any construction, alterations or improvements during its course to ensure that the provisions of this *Section 2.3* are being observed; and you agree to allow our authorized representatives, at any and all times while construction, alterations or improvements are in progress, to meet with the licensed architect and general contractor and enter onto the Location for this purpose. If we determine in good faith that the provisions of this *Section 2.3* are not being observed, you will, at your sole cost and expense, immediately take all necessary corrective action.

d. You must, at your sole cost and expense, use a general contractor that is licensed, and if applicable, registered in the state and local jurisdiction where your Franchised Business is located for any and all construction, alterations and improvements. The general contractor must have prior experience in the construction, alterations and improvement of quick-service restaurants.

e. You acknowledge that the design and appearance of the *Surf City Squeeze* Franchised Business is part of the System, and that uniformity is essential to the System. Therefore, you agree that after the Franchised Business has been constructed, altered or improved, you will not make any material changes to the building plan or design or its appearance without our prior written consent, and you will, at your sole cost and expense, maintain the interior and exterior décor of the Franchised Business in a first class condition and in such manner as we may reasonably prescribe from time to time. In addition to any remodeling required by us upon the transfer of the Franchised Business and upon the granting

of a successor term to operate the Franchised Business, as set forth in *Articles 12 and 13*, respectively, you will, upon thirty (30) days' prior notice from us, and at your sole cost and expense, remodel and make all alterations and improvements in and to your Franchised Business as reasonably determined by us to reflect the then-current *Surf City Squeeze* System specifications, standards, format, image and appearance.

f. You must submit to us a certificate of occupancy for your Franchised Business at any time upon our request.

## **2.4 Signage.**

You will acquire, repair and replace, as necessary, and maintain in a first class condition throughout the Term, signs for advertising and identifying the Franchised Business as a *Surf City Squeeze* restaurant. All signs must be in accordance with the System Standards, specifications and any local governing body (i.e., city or county governments) requirements, as well as any other applicable laws, including the ADA, and exterior signage must be the maximum size allowed by the landlord and local governing body. You acknowledge that quality control is essential to protect and promote our Proprietary Marks, standards, and uniform image, and you shall acquire all signs only from approved suppliers. In addition, you shall prominently display on all communications, forms, advertising, business stationery and business cards, and in a sign easily visible to consumers at the Franchised Business, the following words: "INDEPENDENTLY OWNED AND OPERATED."

## **2.5 Relocation.**

a. If you desire to relocate the Franchised Business, you may request our consent upon the following conditions:

(i) Not less than sixty (60) days prior to the desired date of relocation (unless prior notice is impractical because of a required relocation, due to a third-party or our request, in which event notice shall be made as soon as possible), you must make a written request for consent to relocate, describing the reasons for the relocation and providing details respecting any proposed new location.

(ii) Within twenty-one (21) days after receiving your written request, we shall advise you in writing if the proposed new location meets our minimum real estate site requirements as provided in *Section 2.1* and if you have our authorization to proceed with the relocation. In the event of our denial to proceed with the relocation, you may request an alternative proposed new location pursuant to the provisions of this *Section 2.5*.

(iii) The Term will not be extended in connection with the requested relocation.

b. At the time you request to relocate the Franchised Business, you must also meet each of the following requirements:

(i) You must not be in default under this Agreement or any other agreement or note then in effect between you and us or any affiliate of ours, and no event shall have occurred that, with the giving of notice, the passage of time, or both, would constitute a default under this Agreement;



(ii) You must neither have received more than three (3) notices of default or breach during the Term; nor more than two (2) notices of default or breach during the five (5) years immediately preceding the effective date of the proposed relocation;

(iii) The equipment, fixtures and signage used in connection with the operation of the Franchised Business must either meet our then-existing System specifications and System Standards, or you must agree, within a timeframe required by us, to replace or refurbish such items, and otherwise modify the methods of operation of the Franchised Business at your cost and expense, in order to comply with our System specifications and System Standards then applicable to new franchise owners; and

(iv) You shall have paid to us a Relocation Fee (as defined in *Section 5.14*).

c. If we approve the relocation of your Franchised Business, (i) you and we must execute an amendment to this Agreement indicating the address for your relocated Franchised Business and you must sign a general release provided by us, and (ii) you must open your Franchised Business at the new location within thirty (30) days after you close your Franchised Business at the current Location. Provided that you comply with all of the terms and conditions set forth in this Agreement including this Section 2.5, during the period of time between the closure of your Franchised Business at the current Location, and the opening of the Franchised Business at the approved relocation address, you will not owe the Royalty Fee (as defined in *Section 5.2*).

## **2.6 Restricted Use of Restaurant Location.**

You may not wholly or partially sublet the Location without our prior written consent. The Location may be used only for the operation of a *Surf City Squeeze* restaurant in compliance with this Agreement and the System Standards. You shall not conduct other businesses or activities at the Location without our prior written consent.

## **2.7 Not Applicable.**

# **ARTICLE 3. OPERATIONS**

**3.1** You agree to commence and continue operations at your *Surf City Squeeze* Franchised Business as of the Effective Date.

## **3.2 Supplies and Promotional Materials; Rollouts.**

You agree to sell only those menu items, products and services authorized under the terms of this Agreement and as specified in the Confidential Manual, and you shall use only supplies and ingredients in making those menu items that are in compliance with the standards as set forth in the Confidential Manual or other documents provided by, or approved by, us as they presently exist or may exist in the future. In addition to approved vendors and approved distributor(s), we may, in our sole discretion, require you to purchase certain products or services through designated purchasing channels, programs, platforms, or contractual arrangements specified by us. You shall purchase all such services, supplies and ingredients only from approved vendors and utilize approved distributor(s) as specified in the documents provided by, or approved by, us as they presently exist or may exist in the future. You must purchase promotional materials containing the Proprietary Marks, including stationery, business cards, promotional and

advertising materials and similar items, from suppliers approved by us, except that we must first approve all such promotional and advertising materials before you use them, and all such printed materials containing any of the Proprietary Marks shall be accompanied by the words "INDEPENDENTLY OWNED AND OPERATED." Additionally, during the Term, you agree to participate in any Rollout of new products and suppliers, as defined in *Section 9.3*.

### **3.3 Fixtures, Furnishings, and Equipment.**

Unless otherwise approved by us in writing, you will: (1) acquire, repair and replace, as necessary, and maintain in a first class condition throughout the Term, fixtures, furnishings, and equipment to be used in the operation of your Franchised Business that are in accordance with the System Standards, specifications set forth by us in the Confidential Manual or other documents provided by, or approved by, us as they presently exist or may exist in the future, and with applicable laws including, without limitation, the ADA; and (2) procure the fixtures, furnishings, and equipment from suppliers or vendors previously approved in writing by us.

### **3.4 Online Presence.**

You may not maintain a website, software application, an App (application), social media account (including, but not limited to, an account, group or page on Facebook®, Flickr®, Foursquare®, Google+®, Instagram®, LinkedIn®, Pinterest®, Snapchat®, Tumblr®, X/Twitter®, YouTube®, Vine®, VKontakte or Weibo®), or otherwise maintain a presence or advertise on the Internet or any other public computer network (individually and collectively, "Site") in connection with the Franchised Business without our prior written approval, which we may withhold in our sole discretion. If we grant you written approval, you agree to submit to us for approval before use, true and correct printouts, of all Site pages you propose to use in connection with the Franchised Business. You understand and agree that our right of approval of all such Site pages is necessitated by the fact that such Site pages will include and be inextricably linked with our Proprietary Marks. If we approve your use of a Site, you may only use Site pages that we have approved. Your Site must conform to all online presence requirements, policies and procedures per our System Standards. You agree to provide all information regarding your online presence that we require. If we grant approval for a Site, you may not use any of the Proprietary Marks on the Site except as we expressly permit. You may not post any of our proprietary, confidential or copyrighted material or information on the Site without our prior written permission. If you wish to modify your approved Site, all proposed modifications must also receive our prior written approval. You explicitly understand that you may not post on any Site (whether yours or someone else's) any material in which a third-party has any direct or indirect ownership interest (including video clips, photographs, sound bites, copyrighted text, trademarks or service marks, or any other text or image which any third-party may claim intellectual property or other rights in). If we grant approval, you agree to list on the Site any website and social media account maintained by us, and any other information we require in the manner we dictate. You agree to obtain our prior written approval for any Internet domain name, home page address and Uniform Resource Locator. The requirement for our prior approval set forth in this *Section 3.4* will apply to all activities on the Internet or other communications network to be conducted by you, except that you may maintain one (1) or more e-mail addresses and may conduct individual e-mail communications without our prior written approval. You agree to obtain our prior approval as provided above if you propose to send advertising to multiple addressees via e-mail or text messages. You may not use a Site to represent that: (1) the Site is an official account, application, page or group of, or video produced by us; or (2) you are the owner of the *Surf City Squeeze* brand. On any Site you use

in connection with the Franchised Business, you must affirmatively state: (a) that you are a franchisee and the opinion and content being expressed are your own and not that of the *Surf City Squeeze* brand; and (b) the Location of your Franchised Business.

### **3.5 Not Applicable.**

## **ARTICLE 4. TRAINING, ASSISTANCE AND START-UP MATERIALS**

### **4.1 Training Program.**

The training program is made up of the "In-Store Training," which is approximately forty (40) hours, and "New Owner Training," which is approximately forty (40) hours (collectively, "Training Program"). You will be solely responsible for all transportation costs, food, lodging and other personal expenses incurred by you and your employees in connection with the Training Program. The New Owner Training will be conducted either online or in person at our sole discretion. If the New Owner Training is conducted in person, it will be at the Franchisor training and education center in Scottsdale, Arizona or at such other location as we may designate at our sole discretion and the In-Store Training will be conducted at a training store in Arizona or such other location as we may designate at our sole discretion. You acknowledge that adequate knowledge regarding the operation of the Franchised Business is essential to the growth of your franchise and to the promotion of the System. Furthermore, Franchisor has the right to require Franchisee and/or its manager(s) to attend additional training and pay the Additional Training Fee (as defined below) as provided for in this *Section 4.1* and *Section 5.10*, in the event Franchisee is not operating the Franchised Business pursuant to Franchisor's Systems Standards. Notwithstanding the foregoing, because Franchisee has prior experience in the food service industry, and in particular with the operation of a *Surf City Squeeze* restaurant, Franchisor hereby waives the requirement for Franchisee to attend and successfully complete the Training Program at the time Franchisee executes this Agreement. Franchisor and Franchisee hereby agree that Franchisor has no obligation to provide the Training Program to Franchisee, or any persons who have an ownership interest in the Franchised Business, prior to, or in connection with Franchisee's continuing operations of the Franchised Business. Franchisee understands and agrees that the foregoing waiver is not a permanent waiver by Franchisor and Franchisor does not waive and hereby reserves the right to require Franchisee to later attend and successfully complete any training as may be prescribed by Franchisor at any time during the Term.

### **4.2 Employee Training.**

You acknowledge that the employees of your *Surf City Squeeze* Franchised Business are an integral and important part of the Franchised Business, as they will have substantial contact with customers. You alone are responsible, and acknowledge that we have no direct or indirect control and no right or authority, for the hiring, firing, training, supervising, setting the terms and conditions of employment (including employee tasks and work schedules), compensation of your employees, or maintaining employment records, for the safety of your employees and for your employees' compliance with the System Standards. The System Standards are in place to protect our interests in the System and not for exercising any control over you, your employees or your Franchised Business. You must ensure that your employees who have direct interaction with the public are able to speak and read English and any other language that may be required to adequately meet the public needs in your Franchised Business.

#### **4.3 Additional Programs; Continuing Assistance.**

We may, in the future, request that you participate in refresher or additional training programs. We may also hold an annual conference to introduce new products, discuss sales and marketing techniques, personnel training, advertising programs, merchandising procedures and other subjects. You may be charged a registration fee for these programs and you will be solely responsible for the cost of transportation, food, lodging and other expenses incurred by you at any such program. Attendance at these additional training programs and conferences is mandatory. They will be held in the metropolitan Phoenix, Arizona area, or at other locations in the United States chosen by us, at our sole discretion.

We shall provide such periodic evaluations or inspections as we deem appropriate, utilizing our field representatives who may visit the Franchised Business from time to time. The frequency and duration of such visits to a Franchised Business by our representatives shall be in our sole discretion. Any such evaluation or inspection is not intended to exercise any control over your employees or the daily operation of your Franchised Business. In addition, we will be available on an ongoing basis at our offices for consultation and guidance with respect to the operation and management of the Franchised Business. In addition to the Confidential Manual, we may, but are not required to, from time to time provide you with additional materials relating to the Franchised Business.

#### **4.4 Area Representatives.**

We may retain the services of an independent third-party area representative ("Area Representative") to represent us in the area in which the Franchised Business is located and perform some or all of the services we provide under this Agreement. The services the Area Representative may perform could include: (i) assistance in location selection and evaluating and confirming that the Location meets our minimum site requirements; (ii) advice and guidance regarding lease negotiations; (iii) assistance in opening new *Surf City Squeeze* locations; (iv) assistance with training on the approved POS System (as defined in *Section 4.6a.*); (v) assistance with marketing advice; (vi) periodic Quality Service Cleanliness and Experience ("QSCE") evaluations; (vii) assistance with collection of the various sums due to us from *Surf City Squeeze* franchisees; and (viii) coordination with other *Surf City Squeeze* franchisees in your area and general supervision and monitoring of your Franchised Business on our behalf. You agree in advance to our delegation to an Area Representative of some or all of our obligations, and assignment to an Area Representative of some or all of our rights under this Agreement. You agree that we may require you to submit to an Area Representative any reports you are required to submit to us. Upon our request, you will provide the Area Representative with access, inspection and audit rights to the same extent we have those rights under this Agreement. You are not a third-party beneficiary of any agreement between us and any Area Representative. If we have designated an Area Representative for your Franchised Business as of the Effective Date, the name and contact information of the Area Representative is shown in *Section 17.3h*. We reserve the right in our sole discretion to remove any Area Representative in your area at any time and to appoint any other Area Representative for your area. We have no obligation to appoint an Area Representative in the area in which your Franchised Business is located, and we have no obligation to appoint a new Area Representative after we have removed an Area Representative.

You acknowledge that Area Representatives and their owners and employees may not contractually bind us without our express written authorization. You further acknowledge no

Area Representative has the authority to: (i) enter into agreements or execute any agreements on our behalf; or (ii) bind us in any way without our prior written consent. Unless expressly authorized and agreed to by us in writing, we disavow any agreements, whether verbal or written, entered into by an Area Representative that in any way attempts to bind us. In any litigation or arbitration proceeding, you agree to waive any claim or defense that an Area Representative is our express or implied agent and such an assertion by you constitutes a material default under this Agreement.

#### **4.5 Confidential Manual.**

To protect the reputation and goodwill of the System and to maintain the uniform standards of operation under the Proprietary Marks, you must conduct your business in accordance with our Confidential Manual. The Confidential Manual is confidential and remains our property.

The Operations Manual is available to Franchisee via the franchisee portal at: <https://portal.kahalamgmt.com>. In the event Franchisee desires to receive a hard copy of the Operations Manual, then Franchisee shall submit such request in writing to [kahala.training@mtygroup.com](mailto:kahala.training@mtygroup.com). Upon such request, a hard copy of the Operations Manual will be mailed to Franchisee via regular mail within approximately forty-five (45) days thereafter.

So that you may benefit from new knowledge gained by us as to improved techniques in the operation of the Franchised Business, we may from time to time revise, amend, restate or supplement the content of the Confidential Manual or other documents provided by, or approved by, us as they presently exist or may exist in the future. You will at all times ensure that your copy of the Confidential Manual is kept current and up to date. In the event of a dispute regarding any of the content of the Confidential Manual, the master copies maintained by us at our corporate office will control.

#### **4.6 Computer Systems; Debit and Credit Card Processing.**

a. You are required to acquire, as necessary, to maintain, and to exclusively use an approved cash register/computer system ("POS System") during the operation of the Franchised Business. You and your employees must complete training for the POS System as we require, and you will be required to use the POS System to produce sales reports, keep inventory control and post sales tax, refunds, credits and allowances and submit that information to us immediately upon our request. You are required to obtain high-speed/always-on internet connection service for your POS System. If high-speed/always-on is not available in your area, dial-up Internet access may be used until high-speed/always-on service becomes available in your area. The POS System must be configured so that we will have remote access to the information and data stored in the POS System, which may include inventory information. This access will allow us to exchange/collect data and other information on such bases as we will communicate to you from time to time. You will be required to maintain the POS System in good working order at all times, and to upgrade or update the POS System during the Term as we may require from time to time. It will be your responsibility to enter into contracts for the maintenance, upgrades and updates to the POS System with an approved supplier of such services identified by us on the list of approved vendors and distributors or other notification to you from us advising of suppliers for your market area. You shall also be required to own a personal computer or similar device with access to the Internet that allows you to report your Gross Sales (as defined in *Section 5.2*) online, send and receive e-mails with

us, and receive online orders. If implemented by us, all *Surf City Squeeze* franchisees of traditional restaurants will be required to participate in an online ordering program. We may provide specifications that you must follow for the hardware, software, and Internet provider for such computer equipment. We may require you to upgrade the hardware and software including, but not limited to, your operating system, as reasonably necessary to provide reports and information required by us.

b. You are required to accept debit and credit cards and Gift/Loyalty Cards from consumers at the Franchised Business and participate in any online ordering programs which Franchisor may require. Prior to commencing operations of your Franchised Business, you will be required to acquire and maintain an approved debit, credit and Gift/Loyalty Card processing system to use during the operation of the Franchised Business. Additionally, you must utilize our approved third-party Gift/Loyalty payment card processor for processing all such Gift/Loyalty Card transactions, including entering into a Gift Card Participation Agreement with one of our affiliates, or its successors or assigns, or other approved vendor for the Gift/Loyalty Card processing services. The Payment Card Industry ("PCI") requires all companies that process, store, or transmit credit card information to protect the cardholders' information by complying with the PCI Data Security Standard ("PCI DSS"). Therefore, as a franchisee who accepts credit cards, you are required to be PCI compliant by following and adhering to PCI DSS, which includes ensuring that your POS System, back office computer (if supplied), and any other device that is plugged into the network is only used for business purposes. You are also required to complete an annual questionnaire and quarterly network PCI scans and install a network firewall appliance for logging, tracking, reporting, and security assessment. You are also required to validate with Franchisor that your store is PCI compliant, and Franchisor may in its sole discretion require you to install a particular type of firewall (hardware and/or software). To show such validation you must send us your passing certificate showing your Franchised Business is PCI compliant. You are also required to verify that you have a PCI compliant firewall appliance installed at your Location if you process credit cards via a high speed internet connection. We require your Franchised Business' POS System, including terminals, computers, and software to be in compliance with the PCI DSS at all times. The PCI DSS is often updated, and you are required to obtain and comply with all updated standards. You must also be PCI compliant in order to obtain cyber liability/data breach insurance coverage.

## **ARTICLE 5. FEES AND DEPOSITS**

You agree to pay each of the following amounts to us via a lump sum, with each and every amount being non-refundable because of our investment in time and money, in addition to any other benefits conferred upon you, including processing your application, reviewing your documents, and providing you with relevant information, unless otherwise expressly specified below, in accordance with the provisions set forth in this *Article 5*. Notwithstanding your designation to the contrary, we have the sole discretion to apply any of your payments, in part or in whole, to any of your indebtedness to us.

### **5.1 Not Applicable.**

### **5.2 Royalty Fee and Surcharge.**

For the period of time commencing on the Effective Date, and for the duration of the Term, you must pay to us a weekly royalty fee equal to the greater of the following: (i) six percent (6%) of total Gross Sales (as defined below); or (ii) Three Hundred Dollars (\$300)

("Royalty Fee"). If we or the landlord of the Location require you to remodel your Franchised Business in such a way that your Franchised Business (including catering) stops offering items to the public, or if there is a disaster at your Franchised Business, such as a fire, flood or damage caused by an act of God, that requires you to temporarily close your Franchised Business, you are not required to pay the Royalty Fee during the period of time of such temporary closure; provided you provide us or our authorized representative with notice of such temporary closure as soon as reasonably possible, but in no event more than twenty-four (24) hours after such closure begins. Notwithstanding the above, all amounts owed to us under this Agreement prior to the temporary closure shall still be fully due and payable. The temporary closure of your Franchised Business shall not exceed ninety (90) days, but may be extended on a case-by-case basis at our sole discretion and with our prior written approval.

In our sole discretion, we may charge, in addition to the Royalty Fee, a surcharge of up to Ten Dollars (\$10) per week if your Franchised Business is located in a state that imposes additional reporting requirements on a franchisor ("Surcharge"). The Royalty Fee and applicable Surcharge shall be due and payable no later than Thursday of each week, which day may be modified by us without prior notice to or approval from you, for the week ending on the preceding Sunday in which applicable Gross Sales (as defined below) were earned from the Franchised Business. The weekly Royalty Fee and applicable Surcharge shall be paid by electronic funds transfer, as detailed below.

For the period of time commencing on the Effective Date, and for the duration of the Term, you are required to report Gross Sales to our designated accounting office, which as of the Effective Date, is via the Internet at <http://franchisee.kahalamgmt.com>, as set forth in *Section 5.6*. Nothing herein shall prevent Franchisor from electronically polling Franchisee's POS system, restaurant management software, and financial records (or similar tools thereto) daily, or more frequently, by electronic or other remote means and Franchisee hereby grants Franchisor authority to do so; however, such authority does not negate Franchisee's requirement to ensure all sales are timely and accurately reported each week. You shall be required to establish a Depository Account (as defined in *Section 5.6*) at the time you execute this Agreement as set forth in *Section 5.6*. Payment of the Royalty Fee, Advertising Fee (as defined in *Section 5.3*), and all other fees due under this Agreement to us shall be made via electronic transfer of funds from the Depository Account. To accomplish this electronic transfer of funds from the Depository Account, you must complete, sign and deliver to us, and maintain for the duration of the Term, a current Electronic Funds Transfer Authorization in a form that we provide.

As used in this Agreement, "Gross Sales" means all sales, money or things of value, received or receivable, directly or indirectly, by Franchisee on account of the Franchised Business, less applicable sales taxes and any properly documented refunds, credits and allowances given by you to customers in accordance with the System Standards, but without deducting any of your income taxes, costs and other expenses. All sales made from catering services must be included in the Gross Sales.

### **5.3 Advertising Fee.**

a. You must pay to us, or directly into a national advertising fund or also any regional advertising funds, as designated by us at our sole discretion, (individually and collectively, "Advertising Fund") a weekly advertising fee of one percent (1%) of the Gross Sales for the preceding week ("Advertising Fee"). Upon thirty (30) days' notice by us to you, we may

unilaterally increase the Advertising Fee from its current level not to exceed four percent (4%) of your weekly Gross Sales. The Advertising Fee shall be due and payable with the Royalty Fee under *Section 5.2*. The Advertising Fee is our property and may be deposited by us into our general operating account.

b. The Advertising Fund will be used for marketing, advertising, production and media expenses to promote the *Surf City Squeeze* name, System, products and services. We are entitled to deduct, free of charge, the following from the Advertising Fund: (i) reimbursement of expenses, overhead, and employee salaries for services provided; and (ii) rent for office space provided to the Advertising Fund. We have no fiduciary obligation to you in connection with the operation of any Advertising Fund. No interest on an unexpended Advertising Fee shall be imputed or otherwise charged for the benefit of, or payable to, you. You understand and agree that the only obligations we have regarding the collection and spending of the Advertising Fee or the administration of the Advertising Fund are the express contractual obligations in this *Section 5.3*. We are not acting as a trustee, fiduciary, agent or in any other special capacity. We do not give any representation or warranty regarding the quality or effectiveness of the advertising and marketing activities funded by the Advertising Fee or of the Advertising Fund, and we will have no liability to you with respect to how these funds are spent.

c. Your own local marketing and advertising should be developed to maximize your particular customer base.

#### **5.4 Not Applicable.**

#### **5.5 Not Applicable.**

#### **5.6 Depository Account; Payment Procedures.**

As of the Effective Date, you are required to maintain for the duration of the Term a depository account ("Depository Account") at a bank or other federally insured financial institution ("Depository") under the same name as Franchisee under this Agreement. You are required to maintain a balance of at least Three Thousand Dollars (\$3,000) in the Depository Account at all times during the Term by replenishing the Depository Account to at minimum Three Thousand Dollars (\$3,000) after any withdrawals. We shall not be responsible for any bank service charges incurred by you which result from the withdrawal of funds from your Depository Account.

On Wednesday of each week, you must submit a report to us regarding the weekly period which ended on the preceding Sunday, including details on Gross Sales and other statistical data as provided in this Agreement, Confidential Manual, or as otherwise specified from time to time by us. We will withdraw funds electronically on Thursday of each week from the Depository Account. The withdrawals are based upon the figures you report and constitute the Royalty Fee and Advertising Fee as described in *Sections 5.2* and *5.3*. If you do not submit a report on any Wednesday, we may estimate the Royalty Fee and Advertising Fee based upon prior reports and withdraw the estimated amounts up to the entire Three Thousand Dollars (\$3,000). We will return or credit back to you, in our sole discretion, any overage within thirty (30) days after our receipt of your report(s). We shall not be responsible to you for any interest charges for any overage collected due to your failure to timely report your sales. You shall instruct the Depository to disburse each week to our designated bank, via electronic funds transfer by the close of business on Thursday (or preceding banking business day, if Thursday



is a bank holiday), the weekly Royalty Fee and Advertising Fee and other fees due for that week, which week shall end on the preceding Sunday. The days of the week specified above may be modified by us without prior notice to or approval from you.

We will also withdraw the monthly POS Help Desk Phone Support Maintenance Fee (as defined in *Section 5.20*) from the Depository Account on the last Thursday of each month. Under no circumstances shall such access to the Depository Account be deemed control or joint control of the Depository Account by us.

Subject to reasonable advance notice for non-recurring payment amounts, we have the right to debit your Depository Account, or any other depository account you have with us, according to the terms of your Electronic Funds Transfer Authorization for any of the payments described in this Agreement. If you do not pay all amounts due by the due date, we may suspend our and our affiliates' services and support until your payment default is cured. Repeated failure to pay all amounts when due, whether or not the defaults are subsequently cured, may be cause for termination under *Article 14*.

You shall pay us Fifty Dollars (\$50) for each electronic funds transfer attempted from your Depository Account pursuant to this *Section 5.6* that is returned for non-sufficient funds. You shall also reimburse us for all other costs and expenses incurred by us in collecting or attempting to collect funds due to us from the Depository Account (for example, without limitation, charges for non-sufficient funds, uncollected funds or other discrepancies in deposits or maintenance of the Depository Account balance in accordance with the terms hereof). The Depository Account shall be established and maintained solely for the purposes set forth in this *Section 5.6* and any other fees authorized under this Agreement and any other agreements between you and us or any of our affiliates.

#### **5.7 Lease Review Fee.**

If you request us or one of our designated affiliates to complete a Lease Review, you are required to pay us or our designated affiliate a lease review fee in the amount of Two Thousand Five Hundred Dollars (\$2,500) ("Lease Review Fee") for reviewing and providing comments to your proposed lease.

#### **5.8 Lease Guarantee Fee.**

If, in order to obtain the lease agreement for the Location of your Franchised Business, the landlord requires you to obtain a lease guarantee, and we or one of our affiliates agree to serve as such guarantor, you will pay us or our affiliate a fee in the amount of ten percent (10%) of the total amount of the rental obligations being guaranteed under the lease during its term up to a maximum fee of Ten Thousand Dollars (\$10,000) ("Lease Guarantee Fee"). The Lease Guarantee Fee will be due and payable upon our or our affiliate's execution of the applicable lease guarantee agreement with the landlord. Neither we nor any of our affiliates are required to serve as a guarantor of your lease for the Location of your Franchised Business; rather, the decision of whether to serve as a guarantor shall be made in our sole discretion. In the event that you request us or our affiliate to either agree to be the tenant under the lease or execute a separate guarantee to the lease, and you pay the required Lease Guarantee Fee, you agree and acknowledge that payment of the Lease Guarantee Fee shall not, in any manner, be deemed as an insurance policy which limits your liability in connection with the Franchised Business, including any and all financial liability under the sublease or lease related to the

Location. You further agree and acknowledge that our or our affiliate's agreement to act as tenant or guarantor under the lease, and your payment of the Lease Guarantee Fee to us or our affiliate, does not result in the assumption or transfer of your liability, in connection with the Franchised Business, by or to us or our affiliate.

**5.9 Not Applicable.**

**5.10 Additional Training Fee.**

If you desire or we require that you receive additional training, we will provide additional training time to you for a fee of Three Hundred Dollars (\$300) per person per day. Such additional training will be at a time reasonably agreed to by you and us, and will be conducted at Franchisor's headquarters, online, or such other location as we may designate in our sole discretion. You will be solely responsible for all transportation costs and expenses, food, lodging and other personal costs and expenses incurred by you and your employees in connection with this additional training.

**5.11 Document Administration Fee.**

A document administration fee of Five Hundred Dollars (\$500) ("Document Administration Fee") is payable to us when we must prepare an amendment to your franchise documents.

**5.12 Not Applicable.**

**5.13 Transfer Franchise Fee.**

a. Not applicable.

b. A Potential Transferee (as defined in *Section 12.1c.*) receiving this Agreement, as may be amended, in connection with a Full Transfer (as defined in *Section 12.1a.1.*), must pay to us a transfer franchise fee of Seven Thousand Five Hundred Dollars (\$7,500) ("Transfer Franchise Fee").

**5.14 Relocation Fee.**

A relocation fee of Five Hundred Dollars (\$500) ("Relocation Fee") is payable to us when you sign the amendment to your Franchise Agreement for your relocation (see *Section 2.5*).

**5.15 Transfer Training Fee.**

A Potential Transferee receiving this Agreement, as may be amended, in connection with a Full Transfer, must pay to us, in addition to the Transfer Franchise Fee, a transfer training fee of Two Thousand Five Hundred Dollars (\$2,500) ("Transfer Training Fee"). The Transfer Training Fee is used to provide training for two (2) individuals, and a fee of Five Hundred Dollars (\$500) will be charged for each additional individual trained over two (2).

**5.16 Annual Meeting Registration Fee.**

If we hold an annual meeting ("Meeting"), the Meeting may be held at various locations throughout the United States and/or online as we may designate in our sole discretion. Because

the planning and funding of the Meeting must be done well in advance and requires a substantial financial commitment, we have the right to debit your Depository Account for up to One Thousand Dollars (\$1,000) for the Meeting registration fee at any time sixty (60) to ninety (90) days prior to the first day of the Meeting. This fee may be debited from your account (even if you do not attend the Meeting). You will also be solely responsible for all costs incidental to attending the Meeting. If you do not attend the Meeting, we will make available to you one (1) full set of the substantive materials that were presented at the Meeting.

#### **5.17 Late Report, Default and Non-Sufficient Funds Fees, Breaching Royalties and Collection Costs and Expenses.**

If you fail to submit to us any financial statements, forms, reports or records required to be provided under this Agreement by its due date, including your weekly Gross Sales report for calculating your Royalty Fee and Advertising Fee, you must pay to us a non-refundable late report charge of One Hundred Dollars (\$100) per report.

If any fees or assessments due under this Agreement, including the Royalty Fee and Advertising Fee, are not paid when due, interest shall accrue on the late payment (from the date payment is due until the date payment is made) at the Default Rate, which amount, plus a Fifty Dollar (\$50) late fee, shall be added to each late payment. For any payments made by you to us under this Agreement which are returned for non-sufficient funds of a processed check, you shall be charged a non-sufficient funds fee of Twenty-Five Dollars (\$25) per occurrence. Pursuant to *Section 5.6*, for each electronic funds transfer that is attempted from the Depository Account but returned for non-sufficient funds, you shall be charged a non-sufficient funds fee of Fifty Dollars (\$50) per occurrence.

Franchisor has the absolute right to charge Franchisee the greater of: three (3) times the fixed Royalty Fee; or, if on a percentage Royalty Fee, the Royalty Fee will be increased up to eighteen percent (18%) of Gross Sales, with respect to any period during which Franchisee is in breach or default of its/his/her obligations under this Agreement without providing Franchisee advance notice or right to cure. The Royalty Fees paid or owing to Franchisor with respect to the period during which Franchisee is in breach or default are referred to as "Breaching Royalties." Breaching Royalties will be charged for a minimum fourteen (14) day period, regardless of the length of the actual breach or default.

If, as a result of your failure to remit payments required under any provision of this Agreement, we retain an attorney or a collection agency to collect such payments, you must pay all collection costs and expenses, including reasonable attorneys' fees and expenses, whether or not legal proceedings are initiated. Our rights under this *Section 5.17* are in addition to any other rights or remedies that we may have as a result of your default under this Agreement.

#### **5.18 Audit Fees.**

For the purpose of this *Section 5.18*, we have the right, at any time during business hours, and with or without prior notice to you, to inspect and audit, or cause to be inspected and audited, the business records, cash control devices, bookkeeping and accounting records, sales and income tax records and returns and other records of the Franchised Business and your entity's books and records.

You hereby grant us access to any computers utilized by you for such purposes and we will have the ability, at all times, via modem, to obtain daily and weekly sales reports and other financial records that the POS System provides. You will fully cooperate with our representatives, the Area Representative, if applicable, and independent accountants hired by us to conduct any such inspection or audit. In addition, in the event such inspection or audit is made necessary by your failure to furnish reports, supporting records or other information, as required herein, or to furnish such reports, records or information on a timely basis, or if an understatement of Gross Sales, resulting in an underpayment of the Royalty Fee or Advertising Fee for the period of any audit (which shall not be for less than one (1) month) is determined by any such audit or inspection to be five percent (5%) or greater, you will pay to us, immediately after receipt of the inspection or audit report, any additional Royalty Fee and Advertising Fee and other amounts due as a result of any such understatement, plus interest at the Default Rate from the date originally due until the date of payment and you must reimburse us for such audit or inspection, including the charges of any independent accountants, and the travel expenses, room, board and compensation of such accountants and our employees.

The remedies in this *Section 5.18* will be in addition to all other remedies and rights available to us under this Agreement or otherwise available.

#### **5.19 Data Fee.**

We may require you to pay us or a third-party we designate a data fee of up to Seventy-Five Dollars (\$75) per month for polling or collecting data from your POS System.

#### **5.20 POS Help Desk Phone Support Maintenance Service Fee.**

You must purchase from us a help desk phone support maintenance service that covers phone support for both the software and hardware of your POS System that is supported by the help desk, the cost of which is currently Fifty-Five Dollars (\$55) monthly, and subject to increase upon thirty (30) days' notice ("POS Help Desk Phone Support Maintenance Service Fee"). The POS Help Desk Phone Support Maintenance Service Fee shall be paid by electronic funds transfer, as detailed in *Section 5.6*, and debited from your account on the last Thursday of each month.

#### **5.21 New Supplier Approval Fee.**

All requests for approving new or alternative suppliers must be submitted in writing by you or the supplier to our Purchasing Department. Each request will be reviewed in accordance with our then-current procedures and the supplier must meet our then-current requirements, which may include that our representatives be allowed to inspect the facilities of the proposed supplier, and that samples from the proposed supplier be delivered, at no charge, either to us or to our designee for testing. A charge not to exceed the amounts incurred in connection with the inspection and the test, with such cumulative amount not to exceed Five Thousand Dollars (\$5,000), must be paid by you and/or the supplier. If approved, in our sole discretion, we will notify you or the supplier in writing within sixty (60) days after our receipt of an approval request. You must not offer or sell in any manner any of the proposed alternative supplier's products until you receive our written approval of the proposed alternative supplier.

#### **5.22 Reserved.**

### **5.23 Non-participation Fee.**

You must offer and sell at the Location of the Franchised Business all products designated by us, consistent with our System Standards. In addition, you must immediately incorporate into the Franchised Business all new products and services designated by us and must fully participate in all local, regional, seasonal, promotional and other programs, initiatives and campaigns adopted by us in which we require you to participate. If you fail or refuse to fully participate in any such program, initiative or campaign, you may, in our sole discretion, be required to pay a non-participation fee of One Hundred Dollars (\$100) per day that you are not in compliance ("Non-participation Fee").

### **5.24 Not Applicable.**

### **5.25 through 5.35 Not Applicable.**

## **ARTICLE 6. PROPRIETARY MARKS**

### **6.1 Ownership and Right to Use.**

We warrant to you that:

- a. We are the owner of all right, title and interest in and to the Proprietary Marks;
- b. We have granted to you the personal, non-exclusive, limited, revocable right and license to use the Proprietary Marks in connection with the operation of your Franchised Business;
- c. We have taken and will take all steps reasonably necessary to preserve and protect our rights in the Proprietary Marks; and
- d. We will only permit you to use the Proprietary Marks in accordance with the System Standards.

### **6.2 Covenants of Franchise Owners.**

a. You acknowledge our ownership of the Proprietary Marks, and you agree that during the Term and after its expiration or termination, you will not directly or indirectly contest, or aid in contesting, the validity of the Proprietary Marks or our ownership of the Proprietary Marks, nor will you take any action which might impair or prejudice our ownership of the Proprietary Marks. You shall not, directly or indirectly, apply to register, register or otherwise seek to own or control any of the Proprietary Marks, or any confusingly similar mark thereto, whether in whole or in part, in any place or jurisdiction either within or outside of the United States; nor will you assist any others to do so.

b. You agree that the license granted pursuant to this Agreement authorizes you to use the Proprietary Marks solely in connection with the Franchised Business only at the Location, and for no other purpose. You have no right to license or sublicense any aspect of the System Standards or any of the Proprietary Marks.

c. You agree to use the Proprietary Marks only in the manner and to the extent specifically licensed by this Agreement. You further agree that any unauthorized use or

continued use of the Proprietary Marks after the termination or expiration of this Agreement will constitute irreparable harm and is subject to injunctive relief.

d. The license granted by this Agreement includes only the Proprietary Marks, now existing or which may exist in the future. This license does not include the right to use any other trademarks, service marks, trade name or trade dress owned by us or our licensor anywhere in the world. You agree that any and all goodwill associated with and identified by your use of the Proprietary Marks will inure directly and exclusively to our benefit, and that, on the expiration or termination of this Agreement, no monetary amount will be due or payable to you as a result of any goodwill associated with your ownership or operation of the Franchised Business.

### **6.3 Limitations on Franchisee's Use of Proprietary Marks.**

To develop and maintain high and uniform standards of quality and service and thereby protect our reputation and goodwill and that of the System, you agree:

a. To operate and advertise the Franchised Business only under the Proprietary Marks authorized by us;

b. To adopt and use the Proprietary Marks licensed by this Agreement solely in the manner prescribed by us;

c. That your corporate, partnership or other entity name (including trade name), will not include any of the Proprietary Marks, in whole or in part, or any terms confusingly similar thereto, unless first authorized by us in writing;

d. To submit all advertising, promotional materials and all printed matter, including stationery, business cards, and any materials to be used on the Internet to us for our written approval before you use any of these items; and

e. That we may from time to time change or modify the System Standards, including modifying existing Proprietary Marks or adopting new marks. You agree, at your own expense, to adopt, use and display any such new or modified Proprietary Marks within ninety (90) days after notification from us. However, if we require you to modify or discontinue use of our proprietary information or use other information or rights in its place at any time other than upon us granting you a successor term to operate the Franchised Business pursuant to *Article 13*, and that requirement is a direct result of proceedings or litigation that determined that our and our franchisees' use of the proprietary information infringed upon a third-party's rights, we or our affiliate will bear the actual, direct, and reasonable costs of those modifications or discontinuances. The rights granted to Franchisee under this Section shall be Franchisee's sole and exclusive remedy for any infringement by any part of the System

Upon your abandonment of the Franchised Business (whether voluntary or involuntary), termination or expiration of this Agreement, you must immediately cease to use, in any manner whatsoever, any of the Proprietary Marks or any other marks which, in whole or in part, may be confusingly similar to any of the Proprietary Marks.

#### **6.4 Non-Exclusive License of Proprietary Marks.**

You understand and agree that your license to use the Proprietary Marks is non-exclusive; that we, in our sole discretion, can grant to other franchisees the right to use the Proprietary Marks and obtain the benefits of the System Standards, in addition to the licenses and rights granted to you under this Agreement; and that we or our affiliates may develop and license other proprietary marks in conjunction with concepts other than the *Surf City Squeeze* concept, on any terms and conditions we deem advisable. You will have no right or interest in any such other licenses, proprietary marks or systems.

#### **6.5 Notification of Infringement and Claims.**

You agree that you will notify us immediately of any apparent infringement of, or challenge to your use of any of the Proprietary Marks, or any claim by any person of any rights in any of the Proprietary Marks. You agree that you will not communicate with any person, other than us and our legal counsel, in connection with any such infringement, challenge or claim. We will have the sole discretion to take such action as we may deem appropriate to protect the Proprietary Marks and the exclusive right to control any litigation, United States Patent and Trademark Office proceeding, or other proceeding arising out of any such infringement, challenge, claim or otherwise relating to any Proprietary Marks. You agree to execute any and all instruments and documents, render such assistance, and do such acts and things as may, in the opinion of our counsel, be necessary or advisable to protect and maintain our interests in connection with any such litigation or proceeding, or to otherwise protect and maintain our interests in the Proprietary Marks.

### **ARTICLE 7. TRADE SECRETS AND PROPRIETARY INFORMATION**

#### **7.1 Innovations.**

During the Term, you and your principals, officers, managers and employees may conceive, invent, create, design or develop various ideas, techniques, methods, processes and procedures, recipes, formulae, products, packaging or other concepts and features relating to restaurant operations, business practices or the manufacturing, production, marketing and sale of smoothies, fruit drinks, functional drinks, nutritional supplements, and other food and beverage items, and related goods now in existence or later developed, adopted, or improved in connection with the Franchised Business (individually and collectively, "Innovations"). You, without further consideration, hereby assign any and all of your rights, title and interest in the Innovations, including any intellectual property rights, to us, and also agree to cooperate with us and our counsel in the protection of the Innovations, including the perfecting of title thereto in us. In addition, you will require all of your principals, officers, managers and employees to sign an agreement in the form set forth in our System Standards and incorporated herein by reference ("Confidentiality Agreement"), and shall be liable to us for obligating your principals, officers, managers and employees to assign all of their rights, title and interest to the Innovations to us and requiring your principals, officers, managers and employees to cooperate in obtaining, protecting, maintaining and enforcing our right, title and interest in the Innovations.

#### **7.2 Confidentiality Agreement.**

a. In connection with the operation of the Franchised Business, you will from time to time receive, have access to, or learn certain information and materials that are proprietary to us

or our affiliate. You and any person signing this Agreement under the heading "Personal Acceptance of *Sections 7.1, 7.2, 14.6 and 14.8*" agree that you will keep confidential, and will not use for your own purposes, nor supply or divulge to any other person, any of our Trade Secrets, including our methods of operation, processes, techniques, formulae and procedures, information a reasonable person would believe to be confidential and any other proprietary information regardless of whether such is expressly marked as confidential ("Confidential Information"). You acknowledge that much of the information imparted to you by us is confidential, constitutes Trade Secrets, is unique to us, and remains our sole exclusive property. Our Confidential Information includes, without limitation, the following:

1. The Confidential Manual and any amendments thereto;
2. Ingredients, recipes, and methods of preparation of food products;
3. Methods of operation of *Surf City Squeeze* restaurants;
4. Information about products, services, or procedures before they become public knowledge;
5. Information which relates in any manner to our business or the System Standards, whether oral or reduced to writing, and which is not generally known to, or readily ascertainable by, other persons who might derive economic benefit from its disclosure or use; and
6. Any other information which may be imparted to you from time to time and designated by us as confidential.

b. You and any person signing this Agreement under the heading "Personal Acceptance of *Sections 7.1, 7.2, 14.6 and 14.8*" acknowledge and agree that the Confidential Information and any business goodwill of the Franchised Business is our sole and exclusive property, and that you will preserve the confidentiality thereof. Upon termination or expiration of this Agreement, all items, records or documentation recording or incorporating any Confidential Information, including any copies thereof, will be immediately turned over by you to us or our authorized representative.

c. You agree to take all steps necessary, at your own expense, to protect the Confidential Information, including our Trade Secrets, and to adopt and implement all reasonable procedures prescribed by us from time to time to prevent the unauthorized use or disclosure of any of the Confidential Information. We require that all of your executive officers, agents, directors, shareholders, trustees, beneficiaries, partners and managers who may or are likely to obtain knowledge concerning the Proprietary Information (and who do not sign this Agreement under the heading "Personal Acceptance of *Sections 7.1, 7.2, 14.6 and 14.8*") sign the Confidentiality Agreement binding such person to preserve the confidentiality of the Confidential Information as part of the terms and conditions of such person's employment or association with you. You must obtain a Confidentiality Agreement signed by any such person prior to or at the same time that you begin employment of, or association with, that person. This will be a continuing obligation on your part throughout the Term. You must keep each original signed Confidentiality Agreement and provide us with a copy of each Confidentiality Agreement when requested by us or our authorized representative.



d. Notwithstanding the above, Confidential Information shall not include information which you can reasonably prove: (i) entered the public domain through no breach by you or your affiliate of any duty of confidentiality, or (ii) you received our prior express written consent to disclose in the manner in which you disclosed it.

e. If anyone under a Confidentiality Agreement is legally compelled or required by a regulatory body to disclose any Confidential Information, he/she/it will notify us as soon as possible and will use his/her/its best efforts to obtain, and give us an opportunity to obtain, appropriate assurances of confidential treatment.

f. The requirements under this *Section 7.2* will remain in full force and effect during the Term and after termination or expiration of this Agreement.

## **ARTICLE 8. RELATIONSHIP OF THE PARTIES AND INDEMNIFICATION**

### **8.1 Relationship of the Parties.**

You and we agree that this Agreement does not create any fiduciary or employment relationship between you, or any of your employees, and us, that you are an independent contractor, and that nothing in this Agreement is intended to make either you or us a general or special agent, legal representative, subsidiary, joint venture, partner, employee or servant of the other for any purpose. You shall not enter into any agreement on behalf of or otherwise bind us for any purpose.

Should it ever be asserted that Franchisor is the employer, joint employer or co-employer of any of your or your affiliate's employees in any private or government investigation, action, proceeding, arbitration, or other setting, you irrevocably agree to assist Franchisor in defending said allegation, including (if necessary) appearing at any venue requested by Franchisor to testify on our behalf (and, as may be necessary, submitting itself to depositions, other appearances and/or preparing affidavits dismissive of any allegation that Franchisor is the employer, joint employer or co-employer of any of your employees).

### **8.2 Indemnification of Franchisor.**

***You agree to indemnify, defend and hold us and our affiliates (including our parent and subsidiary companies, current, past and future predecessors, successors and assigns), and each of our shareholders, owners, directors, officers, members, managers, partners, joint venturers, attorneys, employees, contractors, agents, representatives, guarantors, insurers, spouses, heirs, executors, trustees and estates (collectively with us, "Indemnified Parties") harmless for, from and against any and all claims, liabilities, causes of action, suits, debts, duties, accounts, covenants, contracts, agreements, promises, taxes, demands, obligations, costs and expenses, including reasonable attorneys' fees, damages, judgments, and proceedings, of every kind and nature whatsoever, whether actual or threatened, in law or equity, or otherwise, under local, state or federal law including, without limitation the ADA, or the law of any other applicable jurisdiction (individually and collectively, "Claims") suffered or incurred by any of the Indemnified Parties arising out of or relating to your construction, ownership, marketing, Promotions (as defined in Article 10), operation, including your failure to comply with PCI DSS or any law, statute, regulation, order, rule, or ordinance, or management of the Franchised Business, except for Claims held to have resulted solely***

***from our gross negligence or willful misconduct. Notwithstanding the foregoing, we will have the right, at our option, to defend any Claim, but you must reimburse us upon demand for the costs and expenses of such defense. You shall immediately give us notice of any demand, investigation, written inquiry, action, suit, proceeding, or claim in any way related to us or the Surf City Squeeze brand.***

### **8.3 Indemnification of Franchisee.**

We agree to indemnify, defend and hold you and your affiliates, and their shareholders, directors, officers, members, managers, partners, employees, agents, successors and assignees harmless for, from and against any and all Claims, arising out of any Claim of infringement or unfair competition in connection with your authorized use of the Proprietary Marks or Confidential Information, provided that such use is in accordance with the provisions of this Agreement. However, if we require you to modify or discontinue use of our Proprietary Marks or Confidential Information or use other information or rights in its place at any time other than upon us granting you a successor term to operate the Franchised Business pursuant to *Article 13*, and that requirement is a direct result of proceedings or litigation that determined that our and our franchisees' use of the Proprietary Marks or Confidential Information infringed upon a third-party's rights, we will bear the cost of those modifications or discontinuances as set forth in this Agreement.

### **8.4 Special Power of Attorney.**

You agree to cooperate with and assist us as we may request from time to time to obtain, protect, maintain or enforce our intellectual property and Proprietary Marks, including executing documents and appearing as a witness. You hereby appoint us as your attorney-in-fact and hereby grant us an irrevocable Special Power of Attorney, coupled with an interest, with full power and authority for the purpose of executing documents or taking such action as necessary or appropriate as you might or could do if personally present, hereby ratifying all that we, as your attorney-in-fact, shall lawfully do or cause to be done by virtue of this Special Power of Attorney to obtain, protect, maintain or enforce our intellectual property and Proprietary Marks if we are, for any reason, unable to obtain your cooperation or assistance. The Special Power of Attorney granted by this *Section 8.4*, shall survive your dissolution, death, incompetence or disability and the termination or expiration of this Agreement.

## **ARTICLE 9. OPERATING STANDARDS AND DUTIES OF FRANCHISE OWNER**

### **9.1 Compliance with System Standards and Confidential Manual.**

You understand and acknowledge that every detail of the operation of the Franchised Business is important in order to develop and maintain high and uniform standards of quality, cleanliness, appearance, service, facilities and techniques; to increase the demand for the System; and to protect our reputation and goodwill and that of other *Surf City Squeeze* franchisees. You also acknowledge that the operation of the Franchised Business is your sole responsibility, and that neither we nor our affiliates have any responsibility to obtain customers for you. The System Standards will constitute provisions of this Agreement as if fully set forth herein.

## 9.2 Authorized Products and Services.

a. You agree that you will not, without our prior written approval, offer at the Location any menu items, beverages, products or services that are not authorized by us for the Franchised Business, as set forth in the System Standards.

b. You have complete discretion in establishing the minimum price you charge for your products. Although we may suggest pricing strategy, you will have the final pricing decision.

c. Notwithstanding the terms of *Section 9.2b.*, we may conduct periodic promotional campaigns during which a specified product or products are promoted at a specified price. During the promotional period, you may not charge your customers more than the specified promotional price, although you may charge less than the promotional price.

d. We may conduct new marketing, research and development, branding and operational program tests, which will generally be conducted with experienced, existing franchisees and may include incentives and other rights that are not available to all franchisees.

e. You hereby consent to third-party vendors, suppliers and distributors sharing with us any and all information, reports, invoices and related documentation covering and otherwise detailing your purchases for the Franchised Business, and to us sharing your contact information with them when we reasonably believe they may offer you a desired benefit.

f. You are required to accept debit and credit cards (including Visa®, MASTERCARD® and AMERICAN EXPRESS®) and Gift/Loyalty Cards from consumers at the Franchised Business. You are required to acquire, as necessary, and maintain during the Term, an approved debit, credit and Gift/Loyalty Card processing system ("Card Processing System") to use during the operation of the Franchised Business. Additionally, you must utilize our approved third-party payment card processor, as identified in the System Standards, for processing all Card Processing System transactions.

## 9.3 Specifications and Standards for Supplies; Approved Suppliers; Rollouts.

a. You must purchase or otherwise acquire certain proprietary or required equipment and supplies utilized in the Franchised Business only from our designated approved distributors or suppliers. If, during the Term, we change designated approved distributors or suppliers for any of the proprietary or required equipment and supplies utilized in the Franchised Business, you shall change to the new designated approved distributor or supplier within sixty (60) days after written notification of such change from us.

You acknowledge Franchisor and/or its affiliates has the right to receive commissions, volume discounts, purchase discounts, performance payments, bonuses, rebates, marketing and advertising allowances, co-op advertising, administrative fees, enhancements, price discounts, economic benefits and/or other payments ("Payments") based upon the actual purchases of the foods, beverages, and other products by Franchisor, its affiliates, area developers and franchisees from suppliers. Any such Payments made to Franchisor may be retained by Franchisor as it deems appropriate, in its sole discretion. All Payments received from a supplier for a designated purpose (such as participation at an annual convention, etc.) will be spent in accordance with the supplier's designated purpose.

b. If you desire to purchase or otherwise acquire any equipment, supplies or inventory items required by the System Standards but not previously approved by us, or from sources not previously approved by us, you must submit to us sufficient specifications, photographs, drawings and other information sufficient to allow us to determine whether such equipment, supplies or inventory items meet our System Standards. We may require that our representatives be allowed to inspect the facilities of the proposed supplier and revoke its approval upon the supplier's failure to meet any of our then-current minimum System Standards. We may also require that samples from the proposed supplier be delivered, at no charge to us, either to us or to our designee for testing. A charge not to exceed the reasonable cost and expense of the inspection and the actual cost and expense of the test must be paid to us either by you or by the proposed supplier. We will notify you within sixty (60) days after your request of our approval or disapproval of the proposed product or supplier, with such determination to be made at our sole discretion. You acknowledge and agree that our approval of any item or supplier of equipment, supplies or inventory not previously approved by us will not, in and of itself, make the supplier of that item an approved supplier for other *Surf City Squeeze* franchise owners in the System. We may, in our sole discretion, at any time and from time to time, re-inspect the facilities and products of any approved supplier and revoke its approval upon the supplier's failure to meet any of our then-current System Standards. If you receive a notice of revocation from us, you must immediately stop selling disapproved products and purchasing from the disapproved supplier.

c. We will provide to you a list of all recommended and required items of equipment, fixtures, supplies, smallwares and interior decor. This list will be included in the System Standards.

d. At any time and from time to time, we may in our sole option engage in new product rollouts to add to or change the menu items offered for sale in the Franchised Business and the ingredients or supplier of ingredients utilized in the preparation of the menu items sold in the Franchised Business ("Rollout"). If we engage in a Rollout, you shall participate in the changes that are the subject of such Rollout, including offering the new menu items, changing the menu items, changing to the new supplier of the ingredients utilized in the preparation of the menu items, and changing to the new ingredients utilized in the preparation of the menu items. If we engage in a Rollout, we will notify you of the details of the Rollout and provide you sixty (60) days from said notification to take the applicable actions required by the Rollout.

#### **9.4 Compliance with Legal Requirements and Good Business Practices.**

You must, at your sole expense, operate the Franchised Business in full compliance with all applicable Federal, state and local statutes, laws, ordinances and regulations, including without limitation health and safety regulations, food and drug laws, disability laws, labor and employment laws and data privacy laws, as may be amended, supplemented or enacted from time to time. You must pay all costs and expenses incurred by, and in the conduct of, the Franchised Business, including all rent, salaries, taxes (excluding our income taxes), disbursements, license or permit fees, insurance premiums, traveling expenses and any other business expenses when they become due. We may collect from you, or require you to reimburse us for, any taxes, mandatory industry-funded compliance fees, regulatory fees, assessments, surcharges, or similar charges imposed or assessed by any governmental authority, quasi-governmental authority, or industry body, whether assessed against you or against us, as a result of your operation of the Franchised Business or the license of our intangible property in the jurisdiction where the Franchised Business is located, to the extent

permitted by law. If you receive any demand, action, suit or proceeding, or the issuance of any order, writ, injunction, award or decree of any court, agency or other governmental instrumentality relating to your Franchised Business, you must immediately notify us, and in no event, later than three (3) days after your receipt. Any such notice must be accompanied by a copy of the demand, complaint, order, writ, injunction, award, decree or other similar document. You must, in all dealings with your employees, customers, suppliers, the public and us adhere to the highest standards of honesty, integrity, fair dealing and ethical conduct. You agree to refrain from any business practice that may be injurious to the System or the goodwill associated with the Proprietary Marks.

## 9.5 Maintenance of Insurance.

At all times during the Term, you must maintain in full force and effect at least the minimum types and amounts of insurance coverage that we require, under one (1) or more policies of insurance (each of which shall be primary coverage and shall not be contributory or secondary to any other coverage maintained by us), insured under the particular name of the Franchisee and for the particular address of the Franchised Business. You understand and acknowledge that you remain fully liable for any and all claims in connection with the operation of the Franchised Business arising during the Term of this Agreement, including without limitation, for any time period during which you may be in the process of obtaining a valid and complete certificate of insurance or is otherwise out of compliance. We do not waive and hereby reserve your obligations under this Agreement, including without limitation your insurance obligations.

Such insurance policies must be issued by insurers acceptable to us having an A.M. Best's financial strength rating of at minimum "A-VIII," and grant us authority to obtain copies of your certificate of insurance directly from the carrier or your agent/broker. The particular requirements of our minimum insurance coverage will be made available to you throughout your term. Currently, the general liability insurance required by this Agreement must: (i) name Kahala Franchising, L.L.C. as the certificate holder; (ii) name Kahala Franchising, L.L.C. and MTY Franchising USA, Inc. and their parents, subsidiaries, affiliates, officers, directors, and employees as additional insureds; (iii) contain a waiver by the insurance carrier of all subrogation rights against us and our affiliates and our affiliates' respective officers, directors and employees for casualty losses; (iv) indicate the address of the Franchised Business being insured; and (v) provide that we will receive a copy, via an endorsement, thirty (30) days' prior notice of cancellation of any such policy. Additional minimum insurance coverage requirements (subject to increase or otherwise change in our sole discretion) are as follows:

| TYPE OF COVERAGE                      | LIMITS/SPECIFICATIONS                                                                              |
|---------------------------------------|----------------------------------------------------------------------------------------------------|
| General Liability                     | \$1,000,000 Bodily Injury/Property Damage Per Occurrence / \$2,000,000 Aggregate                   |
| Building Improvements and Betterments | 100% of Full Replacement Cost – No Coinsurance (minimum of \$100,000)                              |
| Business Personal Property            | 100% of Full Replacement Cost – No Coinsurance – Special Form or equivalent (minimum of \$100,000) |

| TYPE OF COVERAGE                                         | LIMITS/SPECIFICATIONS                                                     |
|----------------------------------------------------------|---------------------------------------------------------------------------|
| Spoilage                                                 | \$5,000                                                                   |
| Flood, Earthquake and Volcanic Eruption                  | Subject to Territory Limitations – required if in a designated Flood Zone |
| Workers' Compensation and Employer's Liability Insurance | As required by law                                                        |
| Hired and Non-Owned Automobile Liability                 | \$1,000,000 Combined Single Limit per accident                            |

You need to evaluate if your particular business will require greater coverage or other types of insurance. For example, we strongly recommend that you consult with an insurance broker to discuss whether your particular lease/situation requires and/or should obtain additional common types of insurance (including without limitation, employment practices liability, umbrella insurance, and cyber liability/data breach insurance coverage). Such insurance may significantly increase your premiums, but may also save you money in the long run.

You are responsible for maintaining insurance coverage and limits as required by us, at minimum, pursuant to this *Section 9.5*, provided, if your landlord requires additional coverage, higher limits, or any other requirements not required by us, then you are responsible for maintaining such additional items as well. You must always keep the required insurance coverage in force at all times during the operation of the Franchised Business, and you must comply with any changes we make periodically to our insurance requirements. Upon 30 days' notice to you, we may require you to increase and/or otherwise change the minimum coverage of the insurance referred to above, including to reflect identification of special risks, changes in law or standards of liability, higher damage awards or other relevant changes in circumstances.

On the Effective Date, at least ten (10) days prior to renewal of your insurance coverage, and at any other time on our request, you must provide us with certificates of insurance or copies of insurance policies showing that you are in compliance with our insurance requirements, as well as proof that you have paid the premiums you owe for the insurance we require. You will pay your insurance premiums to your insurance broker or to the insurance company issuing the policy. We or our affiliate may, at our option and in addition to our other rights and remedies under this Agreement, obtain such insurance coverage on your behalf, and you must promptly execute any applications or other forms or instruments required to obtain any such insurance and pay to us, on demand, any costs, expenses and premiums (in whole or part) incurred by us. Your obligation to obtain and maintain the insurance described above will not be limited in any way by reason of any insurance maintained by us, nor will your performance of such obligations relieve you of any obligations under *Section 8.2*.

## **9.6 Management of the Franchised Business.**

You are directly responsible for all aspects of operating the Franchised Business, and you agree that you will, at all times, operate the Franchised Business and use your best efforts to enhance your Franchised Business and the System. The Franchised Business must be

personally managed and directly operated by either you or another partner, shareholder or member of your business organization, or a manager.

#### **9.7 Inspections by Franchisor.**

For the purpose of this *Section 9.7*, you must make available to us or our authorized representatives such financial and other information concerning the Franchised Business, and you must permit us or our authorized representatives to have full and free access to such information at your Franchised Business Location during regular business hours without prior notice. We and our authorized representatives will have the right to communicate freely with your employees, and make extracts from, and copies of, all such information. Our authorized representative may make announced or unannounced inspections of your Franchised Business to ensure compliance with all of the requirements of this Agreement.

#### **9.8 Personal Guaranty.**

If you are an individual and married, your spouse must execute and deliver to us a Guaranty of Franchise Agreement at the same time that you sign the Agreement unless your spouse is also signing the Agreement as an individual.

If you are a corporation, limited liability company, or other business entity, each of your shareholders, members, or other owners, whether direct or indirect (and their respective spouses, if married) must execute and deliver to us a Guaranty of Franchise Agreement at the same time that you sign this Agreement.

In the event any person who has not previously signed a Guaranty of Franchise Agreement becomes your spouse or shareholder, member, or other owner, direct or indirect or a spouse of such shareholders, members, or other owner, at any time after the execution of this Agreement, you must cause such person(s) to immediately execute and deliver a Guaranty of Franchise Agreement to us.

Failure to provide a Guaranty of Franchise Agreement to us may, in our sole discretion, be grounds for termination of this Agreement as set forth in *Section 14.2a*.

#### **9.9 Not Applicable.**

### **ARTICLE 10. ADVERTISING AND PROMOTION**

#### **10.1 Advertising by Franchisor.**

We (or at our election a third-party which may be an affiliate of ours) will administer the Advertising Fund that will include your Advertising Fee and those of other franchise owners in the System. If an affiliate of ours administers the Advertising Fund or places advertising in connection with the System, such affiliate may be paid a fee that will not exceed the fee that would be payable to unrelated third-parties for comparable services. Unless required by applicable law, we will have no obligation to create a trust account, escrow account or other special account for the Advertising Fund, and the monies comprising the Advertising Fund may be placed in our general account. We may also reserve the Advertising Fee for use in a subsequent year.

We will direct all advertising and promotional programs. We will have sole discretion over all creative concepts, materials and media used in such programs and the placement and allocation of such programs. The Advertising Fund will be used for marketing, advertising, production and media expenses to promote the *Surf City Squeeze* trade name, System, products and services. We are entitled to deduct, free of charge, the following from the Advertising Fund: reimbursement of expenses, overhead, and employee salaries for services provided; and rent for office space provided to the Advertising Fund. We are not required to use any specific amounts from the Advertising Fund in your market. However, we in our sole discretion, may use some amounts contributed by you to any Advertising Fund, if any (see *Section 5.3*), in the same geographic area in which your Franchised Business is located.

## **10.2 Advertising by Franchisee.**

In addition to your Advertising Fee, if applicable, and unless your Franchised Business is located in an enclosed shopping mall or other enclosed structure identified in *Section 1.1*, you agree to pay for a regular (white pages) and classified (yellow pages) telephone directory advertisement in the main directory distributed in the area where your Franchised Business is located, in such directory categories as we specify, utilizing forms of listing and classified directory advertisements approved by us. We also recommend that, in addition to your Advertising Fee, you spend at least two percent (2%) of your monthly Gross Sales on local advertising.

Your own local marketing and advertising plan should be developed to maximize your particular customer base. You should not rely upon a marketing program or plan by us as the sole means of obtaining customers. All marketing and advertising materials must be reviewed by Franchisor's or Franchisor's affiliate's marketing department for look and feel. The marketing department's review is not for determining compliance with federal, state and local laws.

All advertising by you in any medium must be conducted in a professional manner and must conform to the System Standards. We may make available to you, from time to time, advertising, promotional plans and materials for purchase.

Under no circumstances may you use, without limitation, the name, image, or voice of a celebrity, public figure, character or other person in connection with the Proprietary Marks or the Franchised Business without our prior written consent. We retain the sole and exclusive right to use, without limitation, the name, services or image of any celebrity, public figure, character or other person in advertising, endorsing or recommending the System.

## **ARTICLE 11. ACCOUNTING PROCEDURES AND REPORTS**

### **11.1 Maintenance of Records.**

You shall keep full, complete, and accurate books and accounts in accordance with generally accepted accounting principles, and in the form and manner indicated below or as from time to time further required by us. You agree to submit reports and data to us electronically if we advise you to do so. You agree:

- a. to submit to us electronically the weekly Gross Sales as set forth in *Section 5.6*;
- b. to submit to us, on or before the thirtieth (30th) day of each month, commencing on the Effective Date, in a format and method approved by us (including through a third-party



vendor that franchisee may be required to pay for), a profit and loss statement of the Franchised Business for the preceding calendar month prepared in accordance with generally accepted accounting principles;

c. to submit to us, within ninety (90) days after the end of each calendar year, commencing on the Effective Date, in a format approved by us, a profit and loss statement and balance sheet (including a statement of retained earnings or partnership account) for the preceding calendar year;

d. to submit to us, at the times required, such other periodic forms, reports and information as may from time to time be required by us;

e. to preserve, in the English language and for the time periods set forth below, all accounting records and supporting documents related to the Franchised Business (individually and collectively, "Records"), including:

1. daily cash reports;
2. cash receipts journal and general ledger;
3. cash disbursements journal and weekly payroll register;
4. monthly bank statements, daily deposit slips and canceled checks;
5. all tax returns, including your personal returns and those of your officers, shareholders, partners and members;
6. suppliers invoices (paid and unpaid);
7. dated cash register tapes (detailed and summary);
8. semi-annual balance sheets and monthly profit and loss statements;
9. daily production, throwaway and finishing records and weekly inventories;
10. records of promotion and coupon redemptions;
11. records of all outside sales; and
12. such other records as we may from time to time request.

f. to record all sales on cash registers approved by us, as specified in the Confidential Manual;

g. to file all of your federal and state tax returns on a timely basis and to provide copies of them to us. We may, where applicable, require that tax returns from all of your shareholders, members or partners be provided to us, if you are other than an individual;

h. During the Term, you shall preserve the Records for at least the current fiscal year and for the three (3) immediately preceding fiscal years. For three (3) years after the date of any transfer of an interest in this Agreement, the transferor of such interest will preserve the Records for its last three (3) fiscal years of operation under this Agreement. For three (3) years

after the expiration of the Term (or after any earlier termination), you shall preserve the Records for the last three (3) fiscal years of operation of the Franchised Business; and

i. In connection with our efforts to attract additional franchise owners to the System, we will have the right to use (without identifying you, except as required or allowed by law) any financial statements, sales reports, profit and loss statements or balance sheets provided by you and, in connection therewith, you authorize us to disclose any information contained on such financial reports as may be required by any federal or state registration or disclosure law.

## **11.2 Audit by Franchisor.**

We will have the right, at any time during business hours, and with or without prior notice to you, to inspect and audit, or cause to be inspected and audited, the Records and cash control devices of the Franchised Business, and your corporate, partnership or limited liability company books and records (if you are a corporation, partnership, limited liability company, or other entity). You agree that we may access any computers utilized by you for such purposes.

You will fully cooperate with our authorized representatives and independent accountants hired by us to conduct any such inspection or audit. In the event any such inspection or audit discloses an understatement of your Gross Sales for any period in question, you will pay to us, immediately after receipt of the inspection or audit report, any additional Royalty Fee or Advertising Fee due as a result of any such understatement, plus interest at the Default Rate from the date originally due until the date such understatement is paid in full.

In addition, in the event such inspection or audit is made necessary by your failure to timely furnish Records, or if an understatement of the Royalty Fee or Advertising Fee for the period of any audit (which period shall not be for less than one (1) month) is determined by any such audit or inspection to be five percent (5%) or greater, you must reimburse us all amounts incurred in connection with such audit or inspection including our employee costs and expenses, any independent accountants' and attorneys' fees, transportation, room, and meal expenses.

The remedies in this *Section 11.2* will be in addition to all our other remedies and rights under this Agreement or under applicable law.

## **ARTICLE 12. TRANSFER**

*Sections 12.1 through 12.4* apply to all transfers, except transfers by us, which are described in *Section 12.5*.

### **12.1 Prior Consent of Franchisor.**

a. As used in this Agreement, "Transfer" means any voluntary, involuntary (including by operation of law), direct or indirect assignment, sale, gift or other transfer by you, including:

1. "Full Transfer," which is any act or circumstance, except those set forth in *Section 12.1.a.2.*, by which fifty percent (50%) or more of the ownership or control is shifted from any individual or corporation, partnership or other business entity (individually and collectively, "Entity") to another, including:

(i) Transfer of this Agreement or the Franchised Business, or any right or interest granted by this Agreement;

(ii) Transfer of an interest in you, if you are an Entity;

(iii) Merger, consolidation or issuance of additional ownership interests or redemption of ownership interests in you, if you are an Entity; or

(iv) Transfer of an interest in any other Entity holding an interest in this Agreement or you, if you are an Entity.

2. "Affiliate Transfer," which includes:

(i) Transfer in a separation or divorce, regardless of how much of the ownership or control is shifted from any individual or Entity to another;

(ii) Transfer of this Agreement or the Franchised Business, or any right or interest granted by this Agreement from your name as an individual(s) to your Entity name in which you are the sole owner(s) of the Entity;

(iii) Transfer of this Agreement or the Franchised Business, or any right or interest granted by this Agreement, from your Entity name in which you are the sole owner(s) to your name as an individual(s);

(iv) Transfer of this Agreement or the Franchised Business, or any right or interest granted by this Agreement from one Entity name to another Entity name in which the owners of the entities are the same;

(v) Removing an owner from the Franchisee (unless the person has a fifty percent (50%) or more ownership interest);

(vi) Adding an owner to the Franchisee (unless the person has a fifty percent (50%) or more ownership interest); or

(vii) Transfer by which less than fifty percent (50%) of the ownership or control is shifted from any individual or entity to another for any act or circumstance listed in *Section 12.1.a.1.*

b. We are entering into this Agreement based upon our knowledge of and faith in your ability. Therefore, the Franchised Business and all the rights granted by this Agreement are personal to you and you may not Transfer without our prior written consent. Any attempted Transfer without our prior written consent will be null and void, and will give us the right to terminate this Agreement and your rights under it, in addition to any remedies which we may have for the breach of this covenant by reason of an attempted Transfer.

c. We shall not unreasonably withhold or delay our consent to a Transfer, so long as it is shown to our satisfaction that the potential transferee ("Potential Transferee") can perform a franchisee's obligations under the then-current form of franchise agreement and all other agreements, legal instruments and documents required of new franchisees.

## **12.2 Advance Notice of Proposed Terms and Right of First Refusal.**

a. If you, or any of your shareholders, members or partners, have received and desire to accept a signed bona fide written offer from a third-party to Transfer, you shall notify us and provide us with a complete copy of the offer (letter of intent) which must include the name, address and telephone number for every Potential Transferee. You must also include information as to the identity of all who will own an interest in this Agreement or in the Franchised Business after the completion of the Transfer, their respective interests, and the proposed terms and conditions of sale and payment.

b. We shall have the right and option, exercisable within thirty (30) days after the date we receive a copy of the offer, to purchase the interest proposed to be transferred, at the price and upon the same terms and conditions specified in the notice.

c. If we do not exercise our option, and the terms of the unaccepted offer are altered, you must, in each such instance, notify us of the changed offer; and we will again have thirty (30) days to exercise our right to purchase on the altered terms. If we do not exercise our option, then the Transfer may take place on the terms and price set forth in the notice; provided: (i) we give our written consent; (ii) the Transfer takes place no later than six (6) months from receipt of our written refusal to exercise our option to purchase; and (iii) all the conditions set forth in *Section 12.3* are satisfied.

## **12.3 Requirement for Consent to Transfer.**

If a Transfer is proposed and we do not exercise our right of first refusal pursuant to *Section 12.2*, then we will consent to the Transfer, provided that:

a. All your obligations under this Agreement are fully paid and satisfied, including the Royalty Fee and Advertising Fee; you are not in default under any provisions of this Agreement or any other agreement, legal instrument or document with us or any of our affiliates; and you enter into written agreements with us, including (except where prohibited by law) a general release by you of all claims against us;

b. Potential Transferee provides to us a completed application and financial documents, is financially acceptable, is not associated with any of our competitors, is of good moral character and reputation, and meets our criteria, which includes: work experience and aptitude; ability to devote time and best efforts to the Franchised Business; equity interest in the Franchised Business; ability to speak and read English sufficient in our opinion to communicate with employees, customers and suppliers and to satisfactorily complete our training; no conflicting interests; and other criteria and conditions that we apply to new franchisees;

c. Potential Transferee provides us with copies of all governing documents of Potential Transferee (e.g., certificate of incorporation or organization, by-laws, stock certificates, operating agreement, membership certificates (if any)) which must be reasonably satisfactory to us in our sole discretion;

d. You provide to us a copy of the purchase and sale agreement, if a Full Transfer, or other documentation evidencing the Transfer, if an Affiliate Transfer, and following our analysis of the terms and conditions of the proposed Transfer, we, in our sole discretion,

conclude that such terms and conditions will not interfere with the financial feasibility of the future operation of the Franchised Business;

e. Potential Transferee enters into all agreements, legal instruments and other documents, whether our then-current agreements, legal instruments and documents or a transfer of this Agreement and related legal instruments and documents, as determined by us (individually and collectively, "Transfer Documents"). The terms of the Transfer Documents may vary materially from the current agreements used by us, including the payment of a higher Royalty Fee and Advertising Fee;

f. Not Applicable;

g. Potential Transferee pays to us the transfer franchise fee set forth in the Transfer Documents, if a Full Transfer; or Potential Transferee pays us the Document Administration Fee, if an Affiliate Transfer; Franchisee shall be liable to the Franchisor for the transfer franchise fee or Document Administration Fee in the event the Potential Transferee fails to pay such fee that is owing in full;

h. Potential Transferee pays to us the transfer training fee set forth in the Transfer Documents, if a Full Transfer; Franchisee shall be liable to Franchisor for the training fee if Potential Transferee fails to pay the training fee owing in full; If Potential Transferee or any of its employees or representatives cancel or reschedule participation in any training course or program which Potential Transferee schedules with Franchisor, Potential Transferee or Franchisee must reimburse Franchisor for all of its employee's travel expenses, wages and other expenses incurred as a result of such cancellation or rescheduling;

i. Potential Transferee successfully completes the training program required by the Transfer Documents, if a Full Transfer;

j. Potential Transferee agrees to complete all remodeling and improvements as required by us, and must upgrade the POS System to the then-current required POS System, within the time period specified by us, if a Full Transfer;

k. You and Potential Transferee agree not to assert any security interest, lien, right or claim now or in the future, in the Franchised Business. Any security interest, lien, claim or right asserted with respect to any personal property at the Location must not include any after-acquired property and must be subject, junior and subordinate to any security interest, lien, right or claim now or in the future, asserted by us, our successors or assigns; and

l. You agree to complete and sign a letter of agency, letter of authorization, or equivalent and provide it to Potential Transferee so that Potential Transferee may keep the existing telephone number when the store is transferred to Potential Transferee.

#### **12.4 Death or Incapacity of Individual Franchisee; Change in Entity.**

a. Death or incapacity of Franchisee when Franchisee is an individual:

(i) In the event of your death or incapacity, your legal representative may, for a period of ninety (90) days from the date of death or incapacitation, continue to operate the

Franchised Business, provided that the operation is conducted in accordance with this Agreement and any other agreements with us.

(ii) If your representative desires to continue the operation of the Franchised Business beyond the ninety (90) day period, then, prior to the expiration of this period, your legal representative must apply in writing for the right to transfer the Franchised Business to the person or persons (whether spouse, heir, devisee, purchaser, or any other person), as the legal representative may specify. The application for transfer will be treated in the same manner as any other proposed Transfer under this Agreement.

(iii) If your legal representative does not comply with the provisions of the preceding paragraph, or does not propose a Potential Transferee acceptable to us under the standards set forth in this Agreement, all rights licensed to you under this Agreement will terminate immediately and automatically revert to us. We shall have the right and option, in our sole discretion, exercisable upon such termination, to purchase all removable furniture, fixtures, signs, equipment and other chattels, but not leasehold improvements, at a price to be agreed upon by the parties or, if no agreement as to price is reached by the parties, at such price as may be determined by a qualified appraiser, approved by both parties, such approval not to be unreasonably withheld. We shall give notice of our intent to exercise the option no later than twenty-one (21) days prior to termination.

b. Death or incapacity of any shareholder, partner, or member in Franchisee when Franchisee is a business entity:

(i) In the event of the death or incapacity of any of your shareholders, partners, or members, the surviving shareholders, partners, or members may, for a period of ninety (90) days from the date of death or incapacitation, continue to operate the Franchised Business, provided that the operation is conducted in accordance with this Agreement and any other agreements with us.

(ii) If your shareholders, partners or members desire to continue the operation of the Franchised Business beyond the ninety (90) day period, then, prior to the expiration of this period, your shareholders, partners, or members must apply jointly with all surviving shareholders, partners or members in writing, for the right to transfer the Franchised Business (or the interest of the deceased or incapacitated shareholder, partner, or member in the Franchised Business), to the person or business entity as the surviving shareholders, partners, or members may specify. The application for transfer will be treated in the same manner as any other proposed Transfer under this Agreement.

(iii) If all surviving shareholders, partners or members do not comply with the provisions of the preceding paragraph, or do not propose a Potential Transferee acceptable to us under the standards set forth in this Agreement, all rights licensed to you under this Agreement will terminate immediately and automatically revert to us. We shall have the right and option, in our sole discretion, exercisable upon such termination, to purchase all removable furniture, fixtures, signs, equipment and other chattels, but not leasehold improvements, at a price to be agreed upon by the parties or, if no agreement as to price is reached by the parties, at such price as may be determined by a qualified appraiser, approved by both parties, such approval not to be unreasonably withheld. We shall give notice of our intent to exercise the option no later than twenty-one (21) days prior to termination.

## **12.5 Assignment by Franchisor.**

You agree and affirm that we may, without your prior consent, sell our business, our assets, or our System, in whole or in part, to a third-party; may issue a public offering of our securities; may engage in private placement of some or all of our securities; may merge with or acquire other corporations, or be acquired by another corporation; and may undertake a refinancing, recapitalization, leveraged buyout or other economic or financial restructuring. You further agree and affirm that we have the right, now and in the future, without your prior consent, to purchase, merge, acquire or affiliate with an existing competitive or non-competitive franchise network, chain or any other business regardless of the location of such franchise network, chain or business, which you acknowledge may be proximate to your Franchised Business, and to operate, franchise or license such franchise networks, chains or businesses operating under the Proprietary Marks or any other marks following our purchase, merger, acquisition or affiliation. With regard to any of the above sales, assignments and dispositions, you expressly and specifically waive any claims, demands or damages against us arising from or related to the loss of your rights to use the System as authorized under this Agreement.

This Agreement will inure to the benefit of our successors and assigns. In conjunction with one (1) or more of the transactions contemplated above, or as otherwise determined by us, we have the right to assign our rights and obligations under this Agreement to any person or entity, without your prior consent. Upon such assignment, we will be relieved of all obligations or liabilities then existing or thereafter able to be asserted under this Agreement.

## **12.6 Restrictions on Security Interests and Subfranchising.**

Except as otherwise set forth in this *Section 12.6*, you shall not have any rights to pledge, encumber, hypothecate or otherwise give any third-party a security interest in this Agreement in any manner whatsoever, nor subfranchise or otherwise transfer, or attempt to subfranchise or transfer the Franchised Business, in whole or in part, so long as it is operated as the Franchised Business, without our express prior written permission, which permission may be withheld for any reason whatsoever in our sole discretion. Notwithstanding anything contained herein to the contrary, you shall have the right to pledge your accounts receivable, net of the Royalty Fee, the Advertising Fee, and rent, without our prior written consent for the sole purpose of obtaining financing for the operation of the Franchised Business, provided you are in full compliance with this Agreement and any other agreement, arrangement or understanding with us.

## **ARTICLE 13. SUCCESSOR TERM**

We have no obligation under any circumstances to extend your rights to operate the Franchised Business beyond the Term. Notwithstanding the foregoing, in the event the Term expires in accordance with *Section 1.3*, you may apply to us to extend your rights to operate the Franchised Business for a successor term. In the event you desire to apply to us to extend your rights to operate the Franchised Business for a successor term, you must give us notice to that effect at least two hundred ten (210) days prior to the expiration date of the Term. In addition to giving the notice of intent to apply for a successor term referred to above in a timely manner, in order to qualify for a license to operate the Franchised Business for a successor term, you must also, at a minimum, meet each of the following requirements:

- a. You must successfully complete the then-current application process required of

new franchisees;

b. You must not then be in default under this Agreement or any other agreement, legal instrument or document with us or any of our affiliates, and no event shall have occurred that, with the giving of notice, the passage of time, or both, would constitute a default under this Agreement, including all financial obligations to us;

c. You must be in complete compliance with the terms of this Agreement, including all financial obligations to us, and the then-current Confidential Manual;

d. You must not have received more than three (3) notices of default or breach of this Agreement during the Term, nor more than two (2) notices of default or breach during the five (5) years immediately preceding the effective date of the proposed successor term;

e. You must have the existing right to maintain possession of the Location or you must have secured and developed a suitable substitute location that meets our then-current minimum site requirements (such confirmation will be provided to you by us in writing);

f. You must sign a general release provided by us;

g. You and we must execute all agreements, legal instruments and other documents (individually and collectively, "Successor Franchise Documents") then used by us in the granting of franchises and then being required of new franchise owners in connection with the System. The Successor Franchise Documents will supersede this Agreement, but will not terminate your liability to perform any obligations which you have not yet performed under this Agreement, or which survive the termination of this Agreement; nor will the Successor Franchise Documents terminate or supersede any Guaranty of Franchise Agreement, Confidentiality Agreement, or Non-Disclosure and Non-Competition Agreement executed pursuant to this Agreement. The terms of the Successor Franchise Documents may vary materially from the current agreements used by us, including the payment of a higher Royalty Fee and Advertising Fee;

h. The equipment, fixtures and signage used in connection with the operation of the Franchised Business must either meet our then-existing System specifications and standards, or you must agree, within a timeframe required by us, to replace or refurbish such items, and otherwise modify the methods of operation of the Franchised Business at your cost and expense, in order to comply with our System specifications and standards then applicable to new franchise owners;

i. You agree to complete all remodeling and improvements as required by us, and must upgrade the POS System to the then-current required POS System, within the time period specified by us; and

j. You shall have paid to us the then-current initial franchise fee.

We reserve the right to reject your application for a successor term, at our sole discretion, for any reason, without limitation, failure to meet our then-current standards or requirements for new franchisees. If we decide to reject your application for a successor term to operate the Franchise Business, we will give you a notice to that effect within sixty (60) days after you deliver to us your notice of intent to apply for a successor term.



## ARTICLE 14.

## DEFAULT AND TERMINATION

### 14.1 Default; Termination.

a. You will be in default under this Agreement:

(i) If: (a) you become insolvent or make an assignment for the benefit of creditors; (b) you file a petition in bankruptcy, or if such a petition is filed against and consented to by you, and such petition is not dismissed within thirty (30) days from the filing date of such petition; (c) you are adjudicated bankrupt; (d) a bill in equity or other proceeding for the appointment of your receiver or other custodian for your business or assets is filed and is consented to by you or is not dismissed within thirty (30) days from the filing date of such bill or other proceeding; (e) a receiver or other custodian is appointed; (f) proceedings for composition with creditors under any state or federal law is instituted by or against you; (g) the real or personal property of the Franchised Business is sold at levy thereupon by any sheriff, marshal or constable, or sold by a secured party under any state's Commercial Code;

(ii) If you fail to pay, perform, observe or comply with any of your duties and obligations under this Agreement or the Confidential Manual, including failure to provide a fully-executed copy of the lease to us when due and failure to pay when due, any sum due to us under this Agreement (including the Royalty Fee and Advertising Fee) or to any Advertising Fund (inclusive of any Association); or if you breach any of your obligations under any lease, sublease, mortgage, equipment agreement, promissory note, vendor account, conditional sales contract or other contract arising from, or in connection with, the Franchised Business, to which you are a party or by which you are bound, whether or not we are a party thereto;

(iii) If your lease or sublease for the Location of the Franchised Business is either: (a) in default and you fail to cure such default as provided in the lease or sublease; (b) is terminated for reason of default by you; or (c) the Location is lost as a result of your failure to comply with the lease or sublease;

(iv) If you fail, within thirty (30) days of the entry of a final judgment against you in an amount exceeding Two Thousand Dollars (\$2,000), to discharge, vacate or reverse the judgment or to stay its execution pending appeal, or to discharge any judgment which is not vacated or reversed within thirty (30) days after expiration of the stay of execution;

(v) If we determine that a serious health or safety problem exists at the Franchised Business, in which case, we may require you to immediately correct the problem or cease operating until the problem is corrected;

(vi) If you, or any owner, co-owner or principal of the Franchised Business, is convicted of a felony, a crime involving moral turpitude, or any other crime or offense that is reasonably likely to adversely affect the System, the goodwill associated therewith, or our interest therein;

(vii) Except for any reason provided in *Section 5.2*, if you abandon the Franchised Business, which abandonment shall conclusively be deemed established if the Franchised Business is closed for more than three (3) consecutive days;

(viii) Except for any reason provided in *Section 5.2*, if you close or relocate the Franchised Business, without our express advance written consent;

(ix) If you fail to maintain an independent contractor relationship with us;

(x) If you either negligently or knowingly inaccurately report, or fail to report, any information in your franchise application;

(xi) If you or any owner, co-owner or principal of the Franchised Business commits an act, or permits an act to be committed, that violates any federal, state or local law that adversely impacts the Franchised Business;

(xii) If you fail to participate in any Rollout detailed in *Section 9.3*;

(xiii) If you violate any of the provisions of *Sections 2.3, 3.2, 9.2, 9.3 or 9.4* including the requirement that you: (a) sell or offer for sale only those products and services authorized by us; (b) purchase such authorized products and services only from suppliers or service providers who are approved in writing by us; and (c) utilize or switch to any of our designated approved suppliers, including a supplier who has entered into a national or regional master supplier agreement with us;

(xiv) If you transfer or attempt to transfer any rights or obligations under this Agreement or any other property or assets to any third-party in violation of the provisions of *Article 12*;

(xv) If you or any of your owners, officers, directors, managers, members, or partners (as applicable): (a) become subject to U.S. Executive Order 13224 or are involved in any activity that violates the U.S. Foreign Corrupt Practices Act or any other anti-corruption, bribery or any other laws, orders or governmental notices affecting your ability to conduct business in or with the United States, as may be amended and whether in effect as of the Effective Date or at any time during the Term, (b) are identified on the U.S. Department of the Treasury's Office of Foreign Assets Control Specialty Designated National and Blocked Persons list, or (c) receive any funding from any country that is subject to an embargo by the United States, any foreign government or government official, political party; or

(xvi) If you intentionally made any false representations and warranties under *Section 17.1*.

b. Cross-default: A default by you under this Agreement will be deemed a default of all agreements between: (i) you and your principals in his or her individual capacity or any other entity in which your principals are owners, members, managers, shareholders or partners (individually and collectively, "Franchisee Entity"); and (ii) us or any of our affiliates or predecessors (individually and collectively, "Franchisor Entity"). A Franchisee Entity's default of any other agreement, legal instrument or other document between the Franchisee Entity and a Franchisor Entity will be deemed a default under this Agreement. A default by any guarantor of your obligations under this Agreement or any agreement, legal instrument or document between a Franchisee Entity and a Franchisor Entity will be deemed a default of this Agreement.

c. Termination: If you fail to cure any default to our satisfaction, within the applicable period following notice from us, if applicable, or otherwise breach this Agreement, we

may, in addition to all other remedies at law or in equity or as otherwise set forth in this Agreement, immediately terminate this Agreement. This termination will be effective immediately upon the giving of notice pursuant to *Article 15*.

d. Cross-termination: If this Agreement is terminated as a result of your default of this Agreement or any other agreement related to the Franchised Business, we may, at our option, elect to terminate any or all other agreements, legal instruments or documents between a Franchisee Entity and a Franchisor Entity. If any agreement, legal instrument or document between a Franchisee Entity and a Franchisor Entity is terminated as a result of a default by the Franchisee Entity, we may, at our sole discretion, elect to terminate this Agreement. It is agreed that an incurable or uncured default under this Agreement or any other agreement, legal instrument or document between a Franchisee Entity and a Franchisor Entity will be grounds for termination of this Agreement or any other agreement, legal instrument or document between a Franchisee Entity and a Franchisor Entity, without additional notice or opportunity to cure.

## **14.2 Opportunity to Cure.**

a. Fourteen-Day Cure Period - Except as otherwise provided in this *Section 14.2*, you will have the right to cure your default under this Agreement within fourteen (14) days after notice of default is given by us pursuant to *Article 15*. Notwithstanding the foregoing, the following lesser periods will apply under the circumstances described:

b. Seven-Day Cure Period - A seven (7) day cure period will apply if you fail, refuse, or neglect to pay when due, any monies owing to us (including the Royalty Fee and Advertising Fee), or otherwise to any Advertising Fund (inclusive of any Association), or if you fail to maintain the insurance coverage set forth in this Agreement;

c. 48-Hour Cure Period – A forty-eight (48) hour cure period will apply (1) if you are in default of *Section 3.4* or (2) if you fail to participate in any limited time product offering, value offering, contest, promotion or charity event. You must initiate your participation in such offering, contest, promotion or event within forty-eight (48) hours and fully participate in such offering, contest, promotion or event as soon as reasonably possible, in our sole discretion, thereafter;

d. 24-Hour Cure Period - A twenty-four (24) hour cure period will apply to your violation of any law, regulation, order or our standards relating to health, sanitation or safety; or, except as provided in *Section 5.2*, if you cease to operate the Franchised Business for a period of forty-eight (48) hours without our prior written consent. In addition, a twenty-four (24) hour cure period will apply if you post on any Site or direct others to any site or page, post, blog or other social media site where there are posted any defamatory or offensive comments about: other franchisees; the *Surf City Squeeze* brand; other brands franchised by us or one of our affiliates; your or other franchisees' customers; any of our, your or franchisees' vendors; us or any of our affiliates; or any of our, your or franchisees' competitors;

e. Immediate Cure Period (less than 24 hours) – An immediate cure period (less than twenty-four (24) hours) will apply if you post any content to a Site in which the content includes any inappropriate public displays of affection, our or others' confidential information or materials, violations of health or safety standards, foul or obscene language, or any images of or information about any persons from whom you did not obtain prior written consent;

f. No Cure Period - No cure period will be available: (1) if you are in default of *Sections 3.1, 7.2, 9.4, 14.1a.(i), 14.1a.(iii), 14.1a.(vi), 14.1a.(vii), 14.1a.(viii), 14.1a.(xiv), 14.1a.(xv), or 14.6*; (2) if you intentionally underreport weekly Gross Sales, falsify financial data, fail to promptly provide upon our request financial data and records specified in this Agreement, or otherwise commit an act of fraud with respect to your rights or obligations under this Agreement; (3) if you repeatedly fail to comply with the provisions of this Agreement, whether or not subsequently cured; (4) if you, having twice previously cured a default of this Agreement, commit the default again; (5) if you made any false representations and warranties under *Sections 17.1f., 17.1g., 17.1m. or 17.1n.*; or (6) if you engage in trademark misuse or otherwise materially misuse or make an unauthorized use of any of the components of the System or commit any other act which does, or can reasonably be expected to, materially impair the goodwill or reputation associated with any aspect of the System;

g. Statutory Cure Period - If a statute in the state or municipality in which the Franchised Business is located requires application of that state or municipal law, and that statute requires a cure period for the applicable default which is longer than any cure period specified in this *Article 14*, the statutory cure period will apply.

### **14.3 Our Right to Take Over Management.**

We have the right (but not the obligation), under the circumstances described below, to enter the Franchised Business and assume the Franchised Business' management for any period of time we feel is appropriate. If we assume the Franchised Business' management, you must pay us, in addition to the Royalty Fee and Advertising Fee, six percent (6%) of the Gross Sales, plus our direct out-of-pocket cost and expenses, for the period of time we assume the Franchised Business' management. If we assume the Franchised Business' management, you acknowledge that our duty is limited to using our reasonable efforts, and we will not be liable to you or your owners for any debts, losses or obligations the Franchised Business incurs, or to any of your creditors for any supplies or services the Franchised Business purchases. We may assume the Franchised Business' management if you abandon the Franchised Business or if you fail to comply with any provision of this Agreement and did not cure the failure within the time period we specify in our notice to you. You agree to complete and sign a letter of agency, letter of authorization, or equivalent and provide it to us upon our request if we assume the Franchised Business' management so that we may keep the existing telephone, facsimile, alarm, and credit card machine numbers (as applicable) in operation under our phone service provider. You also agree to keep the phone, water, gas, electric service (as applicable) turned on and active for one (1) week after we assume the Franchised Business's management to allow us to switch the services over to us or our affiliate. Our exercise of our management rights under this *Section 14.3* will not affect our right to terminate this Agreement.

### **14.4 Remedies.**

a. Interest, Costs and Damages - If you fail to remit when due any payments required under this Agreement, you agree to pay, in addition to the unpaid amounts, all of our collection costs and expenses, expert fees, reasonable attorneys' fees, and costs and expenses, including all fees, costs and expenses of court, including all appeals, with interest on the unpaid amounts at the Default Rate or the highest permissible rate. If you fail to cure a default, following notice, within the applicable time period set forth in *Section 14.2*, or if this Agreement is terminated as a result of your default, you shall pay to us all damages of any kind and nature whatsoever and all collection costs and expenses, expert fees, reasonable

attorneys' fees, and costs and expenses, including all fees, costs and expenses of court, including all appeals, together with interest at the Default Rate or the highest permissible rate. If you fail to report Gross Sales in accordance with *Sections 5.2 and 5.6*, we may estimate your Royalty Fee and Advertising Fee based on prior reports, and may sue for and obtain judgment for such estimates unless you prove, prior to the entry of any default order or judgment, that your Royalty Fee and Advertising Fee are different than the estimates.

b. Waiver of Punitive Damages - Both we and you waive, to the full extent permitted by law, any right we or you otherwise may have had to claim, pursue, demand or receive any exemplary or punitive damages arising out of or related in any way to this Agreement and its addenda, amendments, appendices, exhibits and attachments.

c. If you breach any of the terms of this Agreement, including if you are in default of this Agreement, we may enforce our rights by injunction, specific performance, or any other remedy available under this Agreement, at law or in equity, including termination. These remedies are cumulative and not exclusive and we may use all remedies available. In addition, we may elect to terminate this Agreement and all your rights under it as set forth in *Section 14.5*.

d. If you breach any of the terms of this Agreement, including if you are in default of this Agreement, we have the right to have a receiver appointed to take possession, manage and control the assets of the Franchised Business, collect the profits, and pay the net income for the operation of the Franchised Business as ordered by a court of competent jurisdiction. The right to appoint a receiver will be available regardless of whether waste or danger of loss or destruction of the assets exists.

#### **14.5 Effect of Termination or Expiration.**

Upon termination or expiration of this Agreement, we can advise all suppliers of *Surf City Squeeze* proprietary food items and other supplies bearing any of the Proprietary Marks or service marks to cease delivering the items and products to you.

Upon your abandonment of the Franchised Business (whether voluntary or involuntary), any termination of this Agreement (whether pursuant to *Sections 14.1, 14.2, 14.4*, or otherwise), or upon expiration of the Term, you must immediately cease to hold yourself out to the public as a franchise owner of the System, and you must comply with the following:

a. Immediately pay to us or any affiliate of ours all sums owing from you to us or such affiliate, including the Royalty Fee and Advertising Fee, for any period prior to the date of termination, the applicable Early Termination Damages (as defined in *Section 14.9* below), and all amounts owed for services, supplies or other items purchased by you from us or any affiliate of ours, or that were financed by us or any affiliate of ours, or which we or any affiliate of ours loaned to you, together with any interest or late fees accrued thereon, together with all other sums due us under this Agreement, and all damages of any kind or nature whatsoever that may be allowed by law;

b. Immediately cease to use, in any manner whatsoever, including in all advertising, the Proprietary Marks, any Trade Secrets, any Confidential Information, any benefits of the System or any part thereof, any methods associated with the System, any forms, recipes, Confidential Manual, slogans, signs, sign posts, marks, symbols, or devices used in connection

with the operation of the Franchised Business; and you must deliver or destroy all of the above-mentioned materials, including any materials containing or referencing any of the foregoing, to us as directed by us. If we do not recover any such items, such items shall be valued at their then-current replacement cost, for purposes of determining the damages owing by you to us for failure to return such items, if we pursue a damage claim as a result thereof;

c. Immediately discontinue all advertising as a franchisee of the System, and thereafter refrain from any advertising that would indicate that you are or ever were a franchisee or licensee of ours, or otherwise were affiliated with us or the System;

d. Immediately take such steps as may be necessary or appropriate to:

(i) delete your listing in all telephone directories, if applicable, and terminate any other listings that indicate that you are or were a franchisee or licensee of ours, or otherwise were affiliated with us or the System; and

(ii) transfer to our designee or us all telephone numbers used by you in connection with the Franchised Business. You acknowledge that between you and us, we have the sole right and interest in all telephone numbers and directory listings associated with any Proprietary Marks, and you authorize us and appoint us and any officer or agent of ours, as your attorney-in-fact, to direct the telephone company and all listings agencies to accept such direction, or this Agreement, as conclusive evidence of our exclusive rights in such telephone numbers and directory listings and our authority to direct their transfer;

e. Immediately take such action as may be required to cancel all fictitious or assumed names, amend any entity name, or dissolve any entity that contains any Proprietary Mark, in whole or in part, regardless of whether the entity name was authorized by us, and amend or cancel any and all equivalent registrations relating to your use of any Proprietary Mark. You acknowledge that between you and us, we have the sole right and interest in all such fictitious or assumed names, entity name, and equivalent registrations, and you authorize us and appoint us and any officer or agent of ours as your attorney-in-fact, to effect the termination or cancellation of such fictitious or assumed names or equivalent registrations should you fail or refuse to do so, and the appropriate federal, state, and local agencies may accept your direction or this Agreement as conclusive evidence of our exclusive rights in such fictitious or assumed names or equivalent registrations, and our authority to direct their termination or cancellation;

f. Comply with the confidentiality requirements and the covenant against competition in this Agreement for the specified period. You acknowledge that you, or (if an entity) your authorized representative, has carefully reviewed the confidentiality requirements and the covenant against competition in this Agreement; and that you have agreed to be bound by all the requirements and covenants; and

g. Maintain at a place made known to us all books, records and reports required under this Agreement for a period of not less than three (3) years after the date of termination or expiration of this Agreement, to allow us to make a final inspection of your books and records for the purpose of verifying that all amounts owing have been paid.

If you fail to do any of the foregoing, we may pursue any remedy available at law or in equity against: (i) you; (ii) any or all guarantors of your obligations under this Agreement; and (iii) you and any or all guarantors of your obligations under this Agreement.

h. Right of First Refusal. We have the right, but not the obligation, to purchase from you any assets or property (but not leasehold improvements) used in the operation of the Franchised Business for an amount equal to the Value (as defined below), as of the expiration date or termination date, as applicable ("RoFR"). If we are required, by law, regulation or court order, to purchase the equipment and other tangible assets used in connection with the Franchised Business, the purchase price will be equal to the Value. For purposes of this Agreement, the term "Value" means, subject to applicable law, the lesser of: (i) an amount equal to the original cost for such assets, less depreciation computed using a two hundred percent (200%) declining balance method over a five (5) year period with a salvage value equal to the original cost divided by the greater of: five (5), or the total age in years (including a fraction thereof); or (ii) Franchisee's actual initial cost of acquiring such assets, if pre-owned, depreciated by twenty percent (20%) per year (including a fraction thereof); or (iii) the fair market value of such assets. If all, or any portion of, the assets that are being purchased by us or our authorized representative are subject to lien(s), we or our authorized representative may, in our sole and absolute discretion, pay, on Franchisee's behalf, the lienholder(s) that portion of the purchase price for the assets (which may be the entire purchase price) that is necessary to obtain the release of those assets from the lien(s), in lieu of paying you those funds. Further, we may offset any amounts payable to you pursuant to this *Section 14.5.h*, or otherwise pursuant to this Agreement, against any unpaid amounts payable to us or our affiliates pursuant to this Agreement or any agreement executed in connection with this Agreement.

In the event Franchisor exercises this RoFR, Franchisor will send to Franchisee a written notice whereby Franchisee shall be required to sell and turnover to us such assets for an amount equal to the Value within thirty (30) days. If you fail to comply with this section, then you will be in breach of the Agreement and shall owe damages in the cumulative amount of the amount of the replacement cost of such assets (including installation costs) minus the Value. For the avoidance of doubt, and for example purposes, in the event that we purchase such assets and some are missing or broken beyond repair, you shall owe damages in the amount of the replacement cost of those missing or broken assets minus the Value of those assets.

#### **14.6 Covenant Not to Compete; Conflicting Interests.**

a. During the Term and for a period of two (2) years after your abandonment of the Franchised Business, expiration of this Agreement, or termination of this Agreement (whether voluntary or involuntary), you shall not engage in any Competing Business (as defined in *Section 14.6c.*) with any *Surf City Squeeze* restaurant, nor shall you have any Conflicting Interest (as defined in *Section 14.6d.*) in a Competing Business. The provisions of this Agreement bind you in any capacity, including as a franchisee, sole proprietor, partner, limited partner, member, employer, franchisor, shareholder, officer, director or employee.

b. During the Term, and for a period of two (2) years after your abandonment of the Franchised Business, expiration of this Agreement, or termination of this Agreement (whether voluntary or involuntary), you shall not divert or attempt to divert any business, customers, or potential customers of the *Surf City Squeeze* System to any Competing Business, by direct or indirect inducement or otherwise. In addition, you shall not at any time do or perform any act, directly or indirectly, which harms the goodwill or reputation of us or the System.

c. For purposes of this *Section 14.6*, "Competing Business" means a business which is primarily engaged in the sale of smoothies, and all variations thereof, within a

geographical area consisting of: (1) during the Term, anywhere else; and (2) after abandonment, expiration or termination of this Agreement, within a ten (10) mile radius from the Location or location of any *Surf City Squeeze* restaurant of ours, our third-party licensees or our third-party franchisees. The term "*Surf City Squeeze* restaurant" includes not only the restaurants now in existence, but also those established at a later date. The term of this covenant will be extended by any time consumed in litigation to enforce it in both trial and appellate courts. If a court of competent jurisdiction determines that the restrictions in this paragraph are excessive in time, geographic scope, or otherwise, the court may reduce the restriction to the level that provides the maximum restriction allowed by law.

d. For purposes of this *Section 14.6*, "Conflicting Interest" means an interest by which you, or your executive officers, directors and shareholders (if you are a corporation), or your partners (if you are a partnership), or your members (if you are a limited liability company), or your designated manager, spouses, and/or guarantor(s) directly or indirectly, have a controlling interest in, lend money to, consult with or otherwise assist any Competing Business. If any of the persons named above do not sign this Agreement under the heading "Personal Acceptance of *Sections 7.1, 7.2, 14.6 and 14.8*," then you agree to obtain the execution by such person of a written agreement setting forth the foregoing in a form acceptable to us.

#### **14.7 Continuing Obligations.**

All your obligations that expressly survive the expiration or termination of this Agreement, including *Sections 14.5 and 14.6*, or by the implicit nature thereof require performance after the expiration or termination of this Agreement, will continue in full force and effect (subsequent to, and notwithstanding, your abandonment of the Franchised Business (whether voluntary or involuntary) the expiration of the Term, or termination of this Agreement), until they are satisfied in full or by their nature expire. The indemnities and obligations set forth in *Article 8* will continue in full force and effect subsequent to, and notwithstanding, the expiration or termination of this Agreement.

#### **14.8 Remedies.**

You acknowledge and agree that the restrictions contained in this Agreement, including in this *Article 14*, are fair and reasonable and necessary for the protection of our legitimate business interests and you intend and agree that such restrictions be enforceable and enforced to their fullest extent. You further understand and agree that, notwithstanding any other provision of this Agreement, your breach of your obligations under this *Article 14*, will cause us irreparable harm for which recovery of monetary damages alone would not be an adequate remedy. Both parties shall be entitled to obtain timely injunctive relief, including a temporary restraining order, preliminary and permanent injunctions, to protect their rights under this Agreement, in addition to and not exclusive of any and all other remedies available to each party.

#### **14.9 Early Termination Damages.**

If you discontinue operating your Franchised Business before this Agreement expires, with or without obtaining our prior written consent, or in the event of a termination of this Agreement arising from or related to your default and breach of its provisions, you will become obligated to pay Franchisor early termination damages ("Early Termination Damages"). The Early Termination Damages shall be considered damages and not a penalty, are not in lieu of



other damages, and your payment of these damages shall not constitute a release of any other obligation owed to us. Franchisor, Franchisee, each individual signing on behalf of Franchisee, and each guarantor guaranteeing Franchisee's obligations hereunder, hereby acknowledge and agree that Franchisor's losses due to Franchisee's unilateral closure of the Franchised Business or termination of this Agreement would be highly difficult or impossible to calculate with reasonable certainty and, therefore, have agreed at the outset of this Agreement that the Early Termination Damages, and the formula for calculating these damages, constitutes a reasonable, good faith forecast of Franchisor's estimated losses and damages due to the premature closure of the Franchised Business or termination of this Agreement.

The amount of the Early Termination Damages is calculated as follows:

- a. Compute the average monthly Royalty Fee and Advertising Fee due for any consecutive twelve (12) month period within the forty-eight (48) months immediately preceding the date we receive notification of the closure, or if you failed to timely notify us of the closure then the date the Franchise Business closed, or, if the Franchised Business has been open for less than twelve (12) months, the average monthly Royalty Fee and Advertising Fee due since the opening of the Franchised Business ("Monthly Average");
- b. Multiply the Monthly Average by the number of months remaining in the Term; and
- c. Divide the resulting total computed in b. above by two (2).

For example purposes only: If the average monthly Royalty Fee and Advertising Fee were collectively \$1,000 and there were five years (60 months) remaining in the Term, the Early Termination Damages would be \$30,000, calculated as follows:  $\$1,000 \times 60 \text{ months} = \$60,000 \div 2 = \$30,000$ .

If you unilaterally close the Franchised Business and/or unilaterally terminate this Agreement prior to the end of the Term, you must give us at least ninety (90) days prior notice of the early termination ("Early Termination Notice") pursuant to the applicable notice requirements as set forth in Article 15 of this Agreement. For avoidance of doubt, sending the Early Termination Notice via facsimile, email or through other electronic means does not constitute proper notice). Within ten (10) days after our receipt of your Early Termination Notice, we will calculate the Early Termination Damages, which will be due and payable thirty (30) days prior to the closure of your Franchised Business. In the event of a closure or termination arising from or related to your default under this Agreement, or if you do not: (i) timely or properly provide us with the Early Termination Notice at least ninety (90) days prior to the early termination of your Franchised Business and this Agreement; (ii) remain open for at least ninety (90) days after providing us with the Early Termination Notice; and (iii) pay the Early Termination Damages in full at least thirty (30) days prior to closing of the Franchised Business, the Early Termination Damages due may, in our sole discretion, be increased as follows: it will be calculated by multiplying the Monthly Average by the number of months remaining in the Term, and will not be divided by two (2).

If you have not paid your Royalty Fee and/or Advertising Fee for any period(s) within the forty-eight (48) months prior to notifying us of your early closure or termination, or if you have not reported your Gross Sales for any period(s) within the forty-eight (48) months prior to notifying us of your intended early termination, we will estimate the Royalty Fee and Advertising Fee based upon prior reports to calculate the Monthly Average.

## ARTICLE 15. NOTICES

Unless otherwise provided in this *Article 15*, all notices specified by this Agreement or required by law must be in writing and given by personal delivery, sent by carrier (i.e., FedEx®, UPS®, etc.), U.S. certified mail, return receipt requested. All notices to us must be given at the address set forth below or to such other address as we may designate in writing from time to time in accordance with this *Article 15*. All notices to you may be given at the address set forth below, at the address of the Franchised Business, at any of your franchised restaurants, at your residence (if an individual), or at the residence of your principal shareholder(s), partner(s), or member(s) (if a business entity). Notices will be conclusively deemed to be given, delivered, and effective when sent pre-paid and actually left in the custody of an adult agent, employee or resident at a place of business or residence if given by personal delivery; or if given by carrier, twenty-four (24) hours after deposited with carrier, or if by U.S. certified mail, three (3) days after deposited with the U.S. Postal Service. You have an obligation to promptly notify us pursuant to this *Article 15* whenever your mailing address, phone number or email address change. Notwithstanding the foregoing, only Franchisor has the right to give you written notice via email to an email address you provide us regarding all notices specified by this Agreement or required by law, with such email notification to be deemed received by you twenty-four (24) hours after we send it, unless you otherwise earlier acknowledge receipt.

If to Franchisor: KAHALA FRANCHISING, LLC  
Attn: Legal Department  
9311 E. Via De Ventura  
Scottsdale, Arizona 85258

If to Franchisee: FRANCHISEE ENTITY, a[n] \_\_\_\_\_  
Attn: \_\_\_\_\_  
\_\_\_\_\_  
Telephone No. \_\_\_\_\_  
Email(s): \_\_\_\_\_

## ARTICLE 16. CONSTRUCTION AND ENFORCEMENT; MISCELLANEOUS

### 16.1 Independent Contractors.

The relationship between you and us is that of independent contractors. You are in no way to be deemed our partner, joint venturer, agent, employee, or servant. You have no authority to bind us to any contractual obligation or incur any liability for or on our behalf. You shall identify yourself as an independent owner of the Franchised Business in all dealings with customers, lessors, contractors, suppliers, public officials, employees, and others.

### 16.2 Severability and Substitution of Provisions.

Except as provided to the contrary in this Agreement, each article, section, term and provision of this Agreement, and any portion thereof, will be considered severable, and if, for any reason, any such portion of this Agreement is held to be invalid, contrary to, or in conflict with any applicable present or future law or regulation, or as a result of a final, non-appealable ruling issued by any court, agency or tribunal with competent jurisdiction in a proceeding to which we are a party, that regulation or ruling will not impair the operation of, or have any other

effect upon, such other portions of this Agreement as may otherwise remain valid, and such other portions will continue to be given full force and effect and bind the parties to this Agreement. If the severed provision is material to this Agreement, we shall promptly provide a substitute provision to replace the invalid severed provision consistent with then-current law and the original intent of the parties.

If any applicable and binding law or rule of any jurisdiction requires a greater prior notice of the termination of, or refusal to renew or grant a successor term to, this Agreement than is required under this Agreement, or the taking of some other action not required under this Agreement, or if under any applicable law, regulation, or court ruling of any jurisdiction, any provision of this Agreement or any specification, standard or operating procedure prescribed by us is invalid or unenforceable, the prior notice or other action required by such law, regulation, or court ruling will be substituted for the comparable provisions of this Agreement, and we will have the right, in our sole discretion, to modify such invalid or unenforceable provision, specification, standard or operating procedure to the extent required to be valid and enforceable. Such modifications to this Agreement shall be effective only in such jurisdiction, unless we elect to give them greater applicability, and otherwise shall be enforced as originally made and entered into in all other jurisdictions.

### **16.3 Dispute Resolution.**

a. Except as otherwise provided herein, *any* dispute, claim or controversy arising out of or relating to this Agreement, the breach hereof, the rights and obligations of the parties hereto or the relationship between the parties, or performance of either party under this Agreement ("Dispute"), which cannot be resolved by mediation under *Section 16.3d.* or is not subject to mediation under the terms of this Agreement, shall be settled by binding arbitration administered by the American Arbitration Association ("AAA") before a single arbitrator in accordance with its Commercial Arbitration Rules as modified below, and pursuant to the Federal Arbitration Act, 9 U.S.C. §1 et seq.

b. Except to the extent that the United States Trademark Act of 1946, as amended (15 U.S.C. § 1051 *et seq.*), the laws of the State where the Franchised Business is located govern all rights and obligations of the parties under this Agreement without regard to conflict of law, and any arbitration shall take place before a sole arbitrator in the County of the State where the Franchised Business is located.. The parties agree that the arbitrator shall be an attorney licensed to practice law in the United States and must have a minimum of five (5) years of experience in franchise law. Judgment on the award rendered by the arbitrator may be entered in any court of competent jurisdiction. The arbitrator shall, in the award, allocate all of the costs and expenses of the arbitration, including the fees of the arbitrator and the reasonable attorneys' fees of the prevailing party, against the party who did not prevail. This agreement to arbitrate shall survive termination or expiration of this Agreement,. The parties agree that any arbitration shall be solely between them (including any affiliates) and shall not include as a party, by consolidation, joinder, or in any other manner, any other person or entity, unless both parties to this Agreement consent in writing. Both parties shall have the absolute right to refuse such consent. The parties expressly waive any right to bring or participate in any class or other consolidated, joined or multi-party arbitration claim or proceeding, whether or not permissible under the AAA Commercial Arbitration Rules, including any claim brought on their behalf by an association of which it, he or she is a member. At the request of either party, the arbitration shall be conducted in a manner that maintains the confidentiality of the proceedings.

c. The arbitrator will issue a reasoned award, with findings of fact and conclusions of law. Actions to enforce an express obligation to pay monies may be brought under the Expedited Procedures of the AAA's Commercial Arbitration Rules. Discovery shall be conducted according to the AAA Commercial Arbitration Rules.

d. Prior to the commencement of an arbitration proceeding, a party must notify the other party of its intent to commence arbitration by providing written notice to the other party that describes the facts and subject matter of the Dispute at least sixty (60) days prior to commencing arbitration with the AAA. During the sixty (60) days after a written notice of intent to arbitrate is received by either party, the parties must first mediate the Dispute with a mutually agreed upon private mediator. At the request of any party, the mediation will be confidential. The mediation shall be conducted in the County of the State where the Franchised Business is located, unless the parties mutually agree to a different location. The parties to the mediation will share equally in its costs and expenses, except those costs and expenses incurred separately by each party, including counsel fees and expenses. The mediation process will be deemed "Completed" when the parties agree that it has been completed, the mediator declares that any impasse exists, or sixty (60) days have elapsed since the date of the initiating party's notice to the other party that it is initiating the mediation process, whichever occurs first.

e. Notwithstanding anything contained in this Agreement to the contrary, the provisions of Sections 16.3a., 16.3b., 16.3c. and 16.3d. do not apply to a Dispute where: (i) we bring an action for an express obligation to pay monies, declaratory relief, preliminary or permanent equitable relief, any action for damage to our goodwill, the Confidential Information, the Proprietary Marks or for fraudulent conduct by you; or (ii) the delay resulting from the dispute resolution process set forth in section 16.3 may endanger or adversely affect the public (for example, unhealthy, unsafe or unsanitary conditions would continue to exist), or may cause irreparable harm to Franchisor or its affiliates. For such disputes, we may bring an action in any federal or state court having jurisdiction, whether for monetary damages, temporary and permanent injunctive relief or specific performance in addition to, and not exclusive of, any other remedies available to us. You hereby consent to and waive any objection or defense and agree not to contest venue, forum non conveniens or jurisdiction of such court. THE PARTIES AGREE THAT ALL DISPUTES SUBMITTED TO THE COURT PURSUANT TO THIS SECTION SHALL BE TRIED TO THE COURT SITTING WITHOUT A JURY, NOTWITHSTANDING ANY STATE OR FEDERAL CONSTITUTIONAL OR STATUTORY RIGHTS OR PROVISIONS

f. Disputes concerning the validity or scope of arbitration, including whether the Dispute is subject to arbitration, are beyond the authority of the arbitrator and will be determined by a court of competent jurisdiction pursuant to the Federal Arbitration Act, 9 U.S.C. §1 et seq., as amended from time to time.

g. To the extent Law permits, any dispute arising out of or relating to this Agreement, whether in arbitration or in court, will be conducted only on an individual basis and not in a class, consolidated or representative action. Notwithstanding any other provision of this Agreement or the AAA Rules, disputes regarding the interpretation, applicability, or enforceability of this class waiver may be resolved only by a court and not by an arbitrator. If this waiver of class or consolidated actions is deemed invalid or unenforceable, neither party is entitled to arbitration.

#### **16.4 Statute of Limitations and Limitation of Franchisor Liability.**

a. Notwithstanding anything contained in this Agreement to the contrary, the parties agree that any claims under, arising out of, or related to, this Agreement must be brought within two (2) years of the date on which the underlying cause of action accrued, and the parties hereby waive any right to bring any such action after such two (2)-year period, except for the collection of any unpaid Royalty Fee, Advertising Fee, and any other amount due to us or our affiliates.

b. **YOU HEREBY WAIVE THE RIGHT TO SEEK OR COLLECT PUNITIVE, MULTIPLE, CONSEQUENTIAL AND SPECIAL DAMAGES IN ANY FORUM, INCLUDING ARBITRATION. YOU HEREBY FURTHER WAIVE THE RIGHT, IF ANY, OF ANY ASSOCIATION OR MEMBERSHIP GROUP TO ASSERT CLAIMS ON YOUR BEHALF IN ANY ACTION.**

c. **YOU HEREBY WAIVE THE RIGHT TO ANY DAMAGES IN CONNECTION WITH OR RESULTING FROM THE WRONGFUL ISSUANCE OF AN INJUNCTION.**

d. The parties agree that the maximum damages that you may recover in connection with a wrongful termination of your franchise and this Agreement will be an amount equal to the product of:

(i) the annual net profit (as defined below) multiplied by the lessor of:

(a) The number of full years existing between the date on which the franchise and this agreement were wrongfully terminated and the date on which the Term would have otherwise expired; or

(b) Three.

For purposes of this Agreement, the term "net profit" means an amount equal to the net profits of your Franchised Business, as reflected on your tax return filed with the Internal Revenue Service prior to such termination; provided, however, that if such tax return reflects the operations of your Franchised Business for a period less than one (1) year, such net profits will be annualized based upon the net profits reflected in such tax return.

#### **16.5 No Guarantee of Franchisee's Success.**

You have been informed of and acknowledge the highly competitive nature of the business involved, and agree that the successful operation of your Franchised Business will depend in part, upon your best efforts, capabilities, management, and efficient operation; as well as the general economic trend and other market conditions.

#### **16.6 Existence of Various Forms of Franchise Agreements.**

You acknowledge that our present and future franchisees operate under a number of forms of franchise agreements and consequently, our obligations and rights with respect to our various franchisees may differ materially in certain instances. The existence of different forms or versions of the franchise agreement does not entitle you to benefit from any such difference; nor does it operate to alter or amend the agreement of the parties set forth in this Agreement.

#### **16.7 Franchise Owner May Not Withhold Payments.**

You agree that you will not, on grounds of alleged or actual nonperformance or breach by us of any of our obligations under this Agreement, withhold payment of any Royalty Fee, Advertising Fee, amounts due to us or any of our affiliates for goods or services purchased by you, or any other amounts due to us or any of our affiliates.

#### **16.8 Remedies Are Cumulative.**

The rights and remedies of the parties to this Agreement are cumulative and not exclusive, and no exercise or enforcement by either party of any right or remedy under this Agreement shall preclude the exercise or enforcement by such party of any other right or remedy under this Agreement or otherwise available at law or in equity to such party.

#### **16.9 Interpretation.**

All the terms and provisions of this Agreement will be binding upon and inure to the benefit of the successors and assigns of the parties. However, nothing in this *Section 16.9* may be construed as our consent to the Transfer of this Agreement or any rights by you.

#### **16.10 Waiver.**

Our failure to insist upon the strict performance of any term, covenant or condition contained in this Agreement will not constitute or be construed as a waiver or relinquishment of our right to enforce thereafter any such term, covenant or condition and such term, covenant or condition will continue in full force and effect. For example, Franchisor's acceptance of any payments made, or Franchisor's failure to require any payments, by Franchisee after a breach of this Agreement shall not be, nor be construed as, a waiver by Franchisor of any breach by Franchisee of any term, covenant or condition of this Agreement or of Franchisor's right to later require such payments as a result of such prior breach.

#### **16.11 Litigation Expense.**

If an action at law or suit in equity is brought to establish, obtain or enforce any right by either of the parties to this Agreement, the prevailing party in the suit or action, in the trial and appellate courts or in arbitration, will be entitled to recover from the non-prevailing party reasonable attorneys' fees, costs and expenses and disbursements incurred in such suit or action.

#### **16.12 No Third-Party Beneficiaries.**

This Agreement is not intended to benefit any other person or entity except the named parties hereto and no other person or entity shall be entitled to any rights hereunder by virtue of so-called "third-party beneficiary rights" or otherwise.

#### **16.13 Binding Effect; Modification.**

This Agreement is binding upon the parties to this Agreement and their respective executors, administrators, personal representatives, heirs, permitted assigns and successors in interest. No amendment, change, or modification of this Agreement shall be binding on any party unless executed in writing by you and us.

#### **16.14 Entire Agreement; Nature and Scope; Construction.**

This Agreement, all exhibits, attachments, addendums, and amendments, constitute the entire understanding and agreement between the parties, and there are no other oral or written understandings or agreements between us and you relating to the subject matter of this Agreement. If required to be signed, any state specific addendums are incorporated herein by reference. Any representation not specifically contained in this Agreement made prior to entering into this Agreement does not survive subsequent to the execution of this Agreement. We and you have entered into this Agreement for the sole purpose of authorizing you to use the System licensed by this Agreement in the operation of the Franchised Business during the Term in which those specific items designated by us for sale and use in such locations are offered for sale and use in individual, face-to-face transactions with patrons visiting the Franchised Business (and equivalent telephone, online, or mail transactions accepted as a convenience to that customer group). All consideration being furnished by us to you during the course of performance of this Agreement has been determined based on the limited rights and other limitations expressed herein. No other rights have been bargained for or paid for. This provision is intended to define the nature and extent of the parties' mutual contractual intent, there being no mutual intent to enter into contract relations, whether by agreement or by implication, other than as set forth in this Agreement. The parties further acknowledge that these limitations are intended to achieve the highest possible degree of certainty in the definition of the contract being formed, in recognition of the fact that uncertainty creates economic risks for both parties which, if not addressed as provided in this Agreement, would affect the economic terms of this bargain.

Nothing in this Agreement or in any related agreement is intended to disclaim the representations we made in the Disclosure Document. Nothing in this Agreement is intended, nor shall be deemed, to confer any rights or remedies upon any person or legal entity not a party hereto.

#### **16.15 Terminology.**

In addition to the terms defined elsewhere in this Agreement, the following terms defined below are incorporated in this Agreement by reference and shall be deemed to include all persons who succeed to the interest of the original, where applicable:

The term "affiliate" means any person who, directly or indirectly through one (1) or more intermediaries, controls, is controlled by, or is under common control with any person;

The term "Dollars" means United States Dollars and all amounts due under this Agreement shall be paid in United States currency;

The use of the terms "includes" and "including" in any provision of this Agreement followed by specific examples used shall not be construed to limit application of the provision to only the specific examples used;

The term "person" means any natural person, corporation, partnership, trust, other entity, association or form of organization;

The term "will" and "shall" shall be synonymous, and shall be mandatory and not discretionary, unless otherwise specifically provided herein; and

Any references to articles or sections refer to articles and sections in this Agreement unless specified otherwise.

#### **16.16 Counterparts.**

This Agreement may be executed in one (1) or more original counterparts, and all of which, when taken together, shall be deemed to be one (1) original Agreement. The signatures required for execution may be transmitted to the other party via facsimile or a scanned .pdf file sent via email and such signature shall be deemed a duplicate original, shall be effective upon receipt by the other party, may be admitted in evidence and shall fully bind the party and person making such signature. A fully-executed copy of this Agreement shall be of the same force and effect as the original.

#### **16.17 Offerings.**

If you are a corporation, partnership or other entity, and if you intend to offer securities, partnership interests or other ownership interests in you through any public or private offering, you shall not use any Proprietary Marks in such public or private offering, except to reflect your franchise relationship with us; nor shall you misrepresent your relationship with us by any statement or omission of an essential statement. You shall indemnify and hold us harmless from any liability in connection with such offering. Nothing in the foregoing shall modify the provisions of *Article 12*, and no such offering shall be made without first complying with any applicable provisions of *Article 12*.

#### **16.18 Time.**

Time is of the essence of each and every provision of this Agreement.

#### **16.19 Force Majeure.**

Neither of the parties will be liable for loss or damage or be deemed to be in breach of this Agreement if the failure to perform the party's obligations results from: (a) transportation shortages, inadequate supply of equipment, merchandise, supplies, labor, material or energy, or the voluntary foregoing of the right to acquire or use any of the foregoing in order to accommodate or comply with the orders, requests, regulations, recommendations or instructions of any government or any department or agency thereof, or (b) acts of God, in each case, being unforeseeable forces which Franchisee could not by the exercise of due diligence have avoided; provided however that Franchisee must: (i) immediately upon the start of the above-mentioned act, provide written notice to Franchisor that it expressly enacts its rights granted under this Section, and (ii) use all commercially reasonable efforts to mitigate the effect of the event of Force Majeure upon its performance and to fulfill its obligations under this Agreement. Any delay resulting from any of these causes will extend performance accordingly or excuse performance, in whole or in part, as may be reasonable, except that no such cause will excuse payments of amounts owed at the time of such occurrence or payment of the Royalty Fee and all other amounts due to us and our affiliates thereafter, or permit Franchisee to permanently close the Franchised Business.



## **16.20 Plurals and Captions.**

Words in the singular number include the plural when the context requires (and vice-versa). The table of contents and the captions are inserted only for convenience and are not a part of this Agreement or a limitation of the scope of the particular article or section to which each refers.

## **16.21 Joint and Several Liability.**

If you consist of two (2) or more individuals, whether in the form of separate individuals or a business entity controlled by the individuals, then each individual and each business entity will be jointly and severally liable under the provisions of this Agreement.

## **16.22 Trademark Notice.**

All trademarks referenced in this Agreement are those of their respective owners.

## **16.23 No Accord or Satisfaction.**

If you pay, or we otherwise receive, a lesser amount than the full amount provided for under this Agreement for any payment due hereunder, such payment or receipt may, in our sole discretion, be applied against the earliest amount due us. In addition, if interest or late fees are owed, we may, in our sole discretion, apply any amounts paid to the late fees and interest before such amounts are applied to the principal amount owed. We may accept any check or other payment in any amount without prejudice to our right to recover the entire balance of the amount due or to pursue any other right or remedy. No endorsement or statement by you on any check or payment or in any letter accompanying any check or payment or elsewhere shall constitute or be construed as an accord or satisfaction.

# **ARTICLE 17. ACKNOWLEDGMENTS AND REPRESENTATIONS OF FRANCHISEE**

## **17.1 Certain Representations and Warranties of Franchisee.**

You represent and warrant that the following statements are true and complete as of the Effective Date:

a. You do not seek to obtain the Franchised Business for speculative or investment purposes and have no present intention to sell or transfer or attempt to sell or transfer the Franchised Business except as previously approved by Franchisor and subject and conditioned to Article 12 of this Agreement.

b. You understand and acknowledge the value to the System of uniform and ethical standards of quality, appearance and service described in and required by the Confidential Manual and the necessity of operating the Franchised Business under the System Standards. You represent that you have the capabilities, professionally, financially and otherwise, to comply with our System Standards.

c. If you are a corporation, limited liability company, partnership, or other form of entity, you are duly incorporated, organized, or formed and are qualified to do business in the state and any other applicable jurisdiction within which the Franchised Business is located, and you are and shall remain duly organized and in good standing during the Term.

d. You represent and warrant that: (i) if you are an individual, you are; or (ii) if you are an entity, that each of your owners, shareholders, partners, and members are, a United States citizen or a lawful resident alien of the United States.

e. All financial and other information that you have provided to us or otherwise made available to us in connection with your application for this franchise is true , complete, accurate, and not intentionally misleading.

f. The execution of this Agreement by you will not constitute or violate any other agreement or commitment to which you are a party.

g. Any individual executing this Agreement on your behalf is duly authorized to do so and the Agreement shall constitute your valid and binding obligation and, if applicable, all of your partners, members, or shareholders, if you are a partnership, limited liability company, or corporation.

h. You have, or if you are a partnership, corporation or other entity, your partners or principals have, carefully read this Agreement and all other related documents to be executed by you concurrently or in conjunction with the execution hereof; that you have obtained, or had the opportunity to obtain, the advice of counsel in connection with the execution and delivery of this Agreement; that you understand the nature of this Agreement and that you intend to comply with and be bound by this Agreement.

i. You have read and understand the information and disclosures made in the Disclosure Document provided to you as acknowledged in *Section 17.3e*. You understand and acknowledge that: (i) estimates for initial start-up expenses are estimates only and there can be additional start-up expenses; and (ii) your sales may differ substantially from any sales provided in Item 19 of the Disclosure Document, and there is no assurance that your sales will meet or exceed any sales listed in Item 19 of the Disclosure Document. You have had the opportunity to and have consulted or elected not to consult with your attorney, accountant and business advisors before entering into this Agreement.

j. You understand and agree that, while not applicable in every case, our past experience indicates that owner-operated restaurants generally perform better than absentee owners with hired managers. The food business is a personal business and is dependent upon your business skill and judgment. This includes your choice of employees. Your skill in hiring the right people to work in your Franchised Business is very important in determining whether people decide to purchase menu items from your Franchised Business or from another restaurant in the same vicinity.

k. You understand and agree that ownership of a franchise and the Franchised Business carries certain risks. These risks include the loss of your initial investment, other continued financial losses such as rent payments due under lease obligations and other contractual obligations, the loss of your time and energy in starting up and running your Franchised Business, and loss of earnings and investment income from your investment in the Franchised Business. You understand and agree that the Franchised Business may make money and may lose money and are entering this business venture with this express understanding. You are not relying upon anything which is not contained within this Agreement or the Disclosure Document in determining and deciding to become a franchisee.

l. Notwithstanding the foregoing, you understand and agree that the System must not remain static if it is to meet (without limitation) presently unforeseen changes in technology, competitive circumstances, demographics, populations, consumer trends, social trends and other market place variables, and if it is to best serve the interests of us, you and all other franchisees. Accordingly, you expressly understand and agree that we may from time to time change the components of the System, including altering the products, programs, services, methods, standards, forms, policies and procedures of that System; abandoning the System altogether in favor of another system in connection with a merger, acquisition or other business combination or for other reasons; adding to, deleting from or modifying those products, programs and services which your Franchised Business is authorized and required to offer, modifying or substituting entirely the equipment, signage, trade dress, décor, color schemes and uniform System Standards and specifications and all other unit constructions, design, appearance and operation attributes which you are required to observe under this Agreement; and, abandoning, changing, improving, modifying or substituting the Proprietary Marks. You expressly agree to comply with any such modifications, changes, additions, deletions, substitutions and alterations. You shall accept, use and effectuate any such changes or modifications to, or substitution of, the System as if they were part of the System at the time that this Agreement was executed. Except as provided herein, we shall not be liable to you for any expenses, losses or damages sustained by you as a result of any of the modifications contemplated hereby.

m. You represent that neither you nor any of your affiliates, officers, directors, managers, members, or partners (as applicable) or funding sources are subject to U.S. Executive Order 13224, identified on the U.S. Department of the Treasury's Office of Foreign Assets Control Specially Designated National and Blocked Persons list, or any terrorist list or other blocked persons list. In addition, you represent that you have not received funding from, nor are you owned, controlled, or acting on behalf of the government of any country that is subject to an embargo by the United States, any foreign government official, political party or international organization, and that no foreign government or government official, political party or international organization has any financial interest in the Franchised Business or any monies earned by the Franchised Business.

n. You represent, warrant and agree that you, your officers, directors, managers, members, or partners (as applicable) will each at all times conduct themselves in an ethical manner and avoid any activity that might result in a violation of the U.S. Foreign Corrupt Practices Act, Anti-Terrorism Laws, or any other applicable anti-corruption or bribery laws.

## **17.2 Additional Information Respecting Franchisee.**

a. You have delivered to us or will deliver concurrent herewith, complete and accurate copies of all of your organizational documents, including all partnership agreements, certificates of partnership, articles of organization, operating agreements, articles or certificates of incorporation, by-laws and shareholder agreements, including all amendments, side letters and other items modifying such documents.

b. Reserved.

### 17.3 Acknowledgements of Franchisee.

a. You acknowledge that you have conducted an independent investigation of the business venture contemplated by this Agreement and recognize that this business venture involves substantial business risks and will largely depend upon your ability. Other than the financial performance representation contained in Item 19 of the Disclosure Document, if any, we expressly disclaim making, and you acknowledge that you have not received or relied on, any warranty or guarantee, express or implied, as to the potential volume, profits, or success of the Franchised Business contemplated by this Agreement.

Franchisee Initials \_\_\_\_/\_\_\_\_

b. You hereby certify that none of our employees, no other person speaking on our behalf, and no Area Representative, if applicable, have: (i) made any oral, written, visual, or other representation, agreement, commitment, claim, or statement that stated or suggested any level or range of actual or potential sales, costs, income, expenses, profits, cash flow, or otherwise other than any financial performance representation contained in Item 19 of the Disclosure Document; or (ii) made any oral, written, visual, or other representation, agreement, commitment, claim, or statement from which any level or range of actual or potential sales, costs, income, expenses, profits, cash flow, or otherwise might be ascertained, related to a *Surf City Squeeze* franchise, that is different from, contrary to, or not contained in the *Surf City Squeeze* Disclosure Document; or (iii) made any representation, agreement, commitment, claim or statement to you that is different from, contrary to, or not contained in, the *Surf City Squeeze* Disclosure Document. You acknowledge and agree that we do not make or endorse, nor do we allow any of our employees or other persons speaking on our behalf to make or endorse, any additional oral, written, visual, or other representation, agreement, commitment, claim, or statement that states or suggests any level or range of actual or potential sales, costs, income, expenses, profits, cash flow, or otherwise with respect to a *Surf City Squeeze* franchise other than any financial performance representation contained in Item 19 of the Disclosure Document.

Franchisee Initials \_\_\_\_/\_\_\_\_

c. You acknowledge that you have received, read and understand this Agreement and the related exhibits, attachments and agreements and that we have afforded you sufficient time and opportunity to consult with advisors selected by you about the potential benefits and risks of entering into this Agreement.

Franchisee Initials \_\_\_\_/\_\_\_\_

d. You understand that this Agreement, including any amendments and exhibits, contains the entire agreement between the parties concerning the Franchised Business, and that any prior oral or written statements that are not set out in this Agreement, including any amendments, exhibits and attachments will not be binding. You acknowledge and agree that we do not permit any representations, agreements, commitments, claims, or statements or approve any changes in this Agreement or any of the amendments, exhibits and attachments to this Agreement, except by means of a written amendment or addendum signed by all parties to this Agreement. You acknowledge that nothing in this Agreement or in any related agreement is intended to disclaim the representations we made in the Disclosure Document.

Franchisee Initials \_\_\_\_/\_\_\_\_

e. You acknowledge receipt of our Disclosure Document fourteen (14) days prior to the execution of this Agreement or your payment of any monies to us or our agent (or sooner if required by applicable state law).

Franchisee Initials \_\_\_\_/\_\_\_\_

f. You acknowledge that, other than what was previously disclosed to you in our Disclosure Document to which you acknowledge receipt thereof, you have not: (1) received any financial statements for us or any of our parent or affiliated companies; or (2) relied on the financial condition of us or of any of our parent or affiliated companies when making the decision to purchase the Franchised Business.

Franchisee Initials \_\_\_\_/\_\_\_\_

g. You acknowledge, as detailed in *Section 2.3*, that you must, at your own cost and expense, use only our designated and approved Design Architect for the design of your Franchised Business.

Franchisee Initials \_\_\_\_/\_\_\_\_

h. You acknowledge that the following is your Area Representative (if applicable):

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

Franchisee Initials \_\_\_\_/\_\_\_\_

i. If an Area Representative is identified in *Section 17.3h.*, you make the following representations with respect to the Area Representative:

(i) You have met or spoken to only \_\_\_\_\_, the Area Representative;

(ii) Other than any financial performance representation contained in Item 19 of the Disclosure Document, at no time did the Area Representative make any promises or statements, or projections or forecasts, or estimates or warranties or representations or other statement or agreement concerning profits or expenses or costs or actual or projected sales of any kind directly or by implication about *Surf City Squeeze* restaurants or about the Franchised Business that we desire to develop under this Agreement or about obtaining the confirmed Location or about any other matter other than what is contained in the *Surf City Squeeze* Disclosure Document or *Surf City Squeeze* restaurant brochure.

(iii) You acknowledge that you have not received any written materials from us or the Area Representative except for the *Surf City Squeeze* brochure and Disclosure Document; and

If there are any exceptions to *Sections 17.3i.(i) – (iii)*, identify the item number and list the exception here:

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

Franchisee Initials \_\_\_\_/\_\_\_\_

j. You acknowledge there have been no other inducements made with any person or entity, including the Identified Area Representative, encouraging you to purchase the Franchised Business, such as a “side deal” or other promise or agreement not included in the Agreement.

Franchisee Initials \_\_\_\_/\_\_\_\_

k. You acknowledge and understand that *Article 6* covers the use of the *Surf City Squeeze* trademark and prohibition on registration of our Proprietary Marks. You acknowledge the ownership of the Proprietary Marks by us, and you agree that during the Term and after its expiration or termination, you will not, directly or indirectly, apply to register, register or otherwise seek to use or control or in any way use “*Surf City Squeeze*”, or any other of our proprietary marks, or any confusingly similar form or variation, in any place or jurisdiction either within or outside the United States; nor will you assist any others to do so. You further agree that your corporate, partnership or other entity name will not include any of the Proprietary Marks or phrases similar thereto as a part thereof. Furthermore, you acknowledge and understand that you are prohibited from filing applications for the registration of our trade names used in connection with your Franchised Business.

Franchisee Initials \_\_\_\_/\_\_\_\_

l. You acknowledge and understand that in the event you have registered a trade name or entity name containing our trademarks, you will be required to immediately discontinue all further use of the trademark, all Proprietary Marks and any other marks or names confusingly similar thereto in your entity name. Furthermore, you will take such action as may be required to amend your entity name and affirmatively cancel or terminate and dissolve all fictitious or assumed names or other registrations that contain our Proprietary Marks. In the event you do not comply and execute any and all instruments and documents necessary to protect and maintain our interests in the Proprietary Marks, we will then have power of attorney to execute any documents necessary to protect and maintain our interests in the Proprietary Marks.

Franchisee Initials \_\_\_\_/\_\_\_\_

## **ARTICLE 18. SUBMISSION OF AGREEMENT**

The submission of this Agreement to you does not constitute an offer and this Agreement shall become effective only upon the execution thereof by the parties. THIS AGREEMENT SHALL NOT BE BINDING ON US UNLESS AND UNTIL IT SHALL HAVE BEEN ACCEPTED AND SIGNED BY FRANCHISOR.

**[SIGNATURE PAGE FOLLOWS]**

**IN WITNESS WHEREOF**, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, has duly executed and delivered this Agreement as of the Effective Date.

**FRANCHISEE:**

\_\_\_\_\_, a(n) \_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]

By: \_\_\_\_\_  
[Name, Title]

**FRANCHISOR:**

KAHALA FRANCHISING, L.L.C., an  
Arizona limited liability company

By: \_\_\_\_\_  
[Name, Title]

**PERSONAL ACCEPTANCE OF SECTIONS 7.1, 7.2, 14.6, AND 14.8**

Each of the undersigned individually and personally accepts and agrees to be bound by the provisions of Sections 7.1, 7.2, 14.6, and 14.8 of the foregoing Franchise Agreement.

\_\_\_\_\_, \_\_\_\_\_, an individual  
(signature) Date: \_\_\_\_\_

\_\_\_\_\_, \_\_\_\_\_, an individual  
(signature) Date: \_\_\_\_\_

\_\_\_\_\_, \_\_\_\_\_, an individual  
(signature) Date: \_\_\_\_\_

\_\_\_\_\_, \_\_\_\_\_, an individual  
(signature) Date: \_\_\_\_\_



**EXHIBIT E-3**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Franchise Agreement (Transfer)**

***SURF CITY SQUEEZE***

**FRANCHISE AGREEMENT  
(Transfer)**

**between**

**KAHALA FRANCHISING, L.L.C.**

**and**

\_\_\_\_\_, a(n) \_\_\_\_\_

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**SURF CITY SQUEEZE  
FRANCHISE AGREEMENT  
("Agreement")**

**PARTIES:**

KAHALA FRANCHISING, L.L.C.,  
an Arizona limited liability company

("Franchisor")

\_\_\_\_\_  
a(n) \_\_\_\_\_

([individually and collectively,] "Franchisee")

**RESTAURANT NO.:** \_\_\_\_\_

**EFFECTIVE DATE:** \_\_\_\_\_

("Effective Date")

**TRADITIONAL RESTAURANT (YES or NO):** \_\_\_\_\_

**RESTAURANT DESCRIPTION IF NON-TRADITIONAL:** \_\_\_\_\_

A "traditional" restaurant is a restaurant that is easily accessible by the general public, such as a free-standing building, inline retail shop, shopping mall and street front location. A traditional *Surf City Squeeze* restaurant normally offers a full menu. A "non-traditional" restaurant is a *Surf City Squeeze* restaurant that is located in a non-traditional marketplace, as determined by us (in our sole discretion), such as an airport, amusement park, sports or entertainment venue, train station, travel plaza, toll roads, cafeteria, retail store, convenience store, military base, hospital, office building, movie theater, hotel, casino, kiosk, cart, or high school or college campus. A non-traditional restaurant may also be a *Surf City Squeeze* restaurant that is co-branded into another brand restaurant, at Franchisor's sole discretion. A non-traditional *Surf City Squeeze* restaurant normally offers a limited version of the full *Surf City Squeeze* menu.

To simplify the language in this Agreement, the terms "we," "us," "our" and the like may be used to refer to the Franchisor, and the terms "you," "your" and the like may be used to refer to the Franchisee. The term "you" as used herein is applicable to one (1) or more persons, a corporation, partnership, trust, other entity, association or form of organization as the case may be, and the singular usage includes the plural, masculine, neuter, feminine, and possessive usages. Franchisor and Franchisee may individually be referred to as a "party" and collectively referred to as the "parties."

**RECITALS:**

This Agreement is entered into with reference to the following facts and circumstances:

A. We have, over a period of time and at considerable expense, developed and established a uniform and unique method of operation, customer service, advertising, publicity, processes, recipes, techniques and technical knowledge in connection with the restaurant business, specializing in smoothies, fruit drinks, functional drinks, nutritional supplements, and other related beverage and food items. These restaurants do business under the trade name "*Surf*

*City Squeeze*®. These Surf City Squeeze recipes, techniques, processes and methods constitute our “Trade Secrets.” All of our knowledge, experience, Trade Secrets, processes, methods, specifications, techniques, Proprietary Marks (as defined in Recital B.), System Standards (as defined in *Section 1.4*) and information are referred to in this Agreement as the “System.” The System may be changed, supplemented, improved and further developed by us from time to time.

B. We have owned and issued franchises to others for the operation of franchised restaurants in the United States and in other countries. We have registered and applied for proprietary marks with the United States Patent and Trademark Office and with offices in other countries serving similar functions. These proprietary interests, trademarks, service marks, logos, insignias, trade names and trade dress are referred to in this Agreement as the “Proprietary Marks.”

C. We are engaged in the business of licensing the right to use the Proprietary Marks in connection with the operation and promotion of the System.

D. You understand and recognize that: (1) our Trade Secrets, Proprietary Marks, developments and other properties as recited above are of considerable value; and (2) it is of importance to us and all of our franchisees to maintain the development of the System in a uniform and distinctive manner, allowing you and our other franchisees to enjoy a public image and reputation greater than most single franchisees could establish.

E. You desire to make use of the “*Surf City Squeeze*®” trademark and to enjoy the benefits of that mark, the other Proprietary Marks, and the System; and to establish a “*Surf City Squeeze*” franchise to be operated in accordance with System Standards set forth from time to time by us. System Standards are set forth in, without limitation, the confidential “ops package,” which consists of the “operations manual” (“Operations Manual”), “ops toolkit” and related printed and electronic documents, both now existing and hereinafter developed (individually and collectively, “Confidential Manual”). We are willing to grant you the right to do so under the terms, conditions and provisions set forth in this Agreement, which includes any and all appendices, addenda, amendments, attachments and exhibits.

F. You recognize the necessity and desirability of protecting our reputation, goodwill, Trade Secrets, and other confidential business information; and that disclosure of Trade Secrets and confidential business information, including specifics of the System to any third-party, will cause irreparable damage and harm to us.

### **AGREEMENT:**

The parties agree that the foregoing Recitals are hereby incorporated and made part of this Agreement and further agree as follows:

## **ARTICLE 1. GRANT OF FRANCHISE; TERM; SYSTEM STANDARDS**

### **1.1 Franchise Grant.**

We hereby grant to you a *Surf City Squeeze* franchise that includes the right to use the System as provided in this Agreement, at the following location (“Location”):

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

City/State/Zip Code: \_\_\_\_\_

Additional Location Information  
(if applicable) \_\_\_\_\_

The *Surf City Squeeze* franchise at the Location will be collectively herein referred to as the "Franchised Business".

## **1.2 Location of the Franchised Business; No Exclusive Territory or Other Rights.**

You must operate the Franchised Business only from the Location, including any catering services of *Surf City Squeeze* menu items you provide. You acknowledge that the *Surf City Squeeze* franchise granted under this Agreement is non-exclusive, that we are not granting you any territorial protection or any other exclusive rights, and that we, directly or through one (1) or more affiliates, reserve the right in our sole discretion, and without compensating you or seeking your prior approval: (i) to establish, and grant to other franchisees or licensees the right to establish, a *Surf City Squeeze* restaurant or any other business using the Proprietary Marks, the *Surf City Squeeze* System or any variation thereof, in any location other than the approved Location (including locations in the immediate vicinity of your Location), on any terms and conditions that we deem appropriate; (ii) to establish, and grant to other franchisees or licensees the right to establish, any restaurant concept other than *Surf City Squeeze* in any location on any terms and conditions that we deem appropriate (including locations in the immediate vicinity of the Location); (iii) to sell products identified by the Proprietary Marks or other trademarks, service marks or commercial symbols in any location through any distribution channels, including grocery stores, convenience stores, supermarkets, club stores, vending machines, delivery services and restaurants other than *Surf City Squeeze* restaurants; and (iv) to take any other action that we are not expressly prohibited from taking under this Agreement.

We hereby grant to you during the term of this Agreement, a non-exclusive right and license to operate a single restaurant at the Location only, according to the System Standards and subject to the terms, conditions and restrictions contained in this Agreement. This Agreement is limited to the operation of one traditional restaurant, unless otherwise amended, and does not grant you the right to buy, own or operate additional restaurants.

Except as expressly limited in this Agreement, we (for ourselves and our affiliates and designees) retain all rights with respect to all Proprietary Marks and the sale of *Surf City Squeeze* products anywhere in the world with no compensation or liability to you, including the right to:

- a. Establish and operate (or license to any other person or entity the right to establish and operate) *Surf City Squeeze* restaurants owned or licensed by us at any location;
- b. Develop, market, own, operate and participate in any other business under the Proprietary Marks or any other trademarks (including trademarks identified in the Franchise Disclosure Document ("Disclosure Document") and other trademarks we or our affiliates own or have the right to license);

c. Develop, lease and license the use of, at any location, trademarks other than the Proprietary Marks, in connection with the operation of a system that offers products or services that are the same as, or similar to, those offered by us under this Agreement on any terms or conditions that we deem advisable, in our sole discretion;

d. Merge with, acquire or be acquired by any other business, including a business that competes with your Franchised Business, or acquire and convert any retail stores, including retail stores operated by competitors, or otherwise operated independently or as part of, or in association with, any other system or chain, whether franchised or corporate-owned;

e. Distribute, sell and license other persons or entities to distribute and sell products through all other channels of distribution, including catalog sales, telemarketing, grocery stores, warehouses, big box shops, specialty shops, limited access highway food facilities, vending machines and similar automated dispensing systems, mobile units, off-site sales accounts, electronic mail, Internet sales, and movie theaters (individually and collectively, "Other Channels"); and

f. Implement multi-area marketing programs that may allow us or others to solicit or sell to customers anywhere. We also reserve the right to issue mandatory policies to coordinate such multi-area marketing programs.

### **1.3 Term of Agreement.**

a. This Agreement will commence on the Effective Date and will expire on either: (1) the ten (10) year anniversary of the Effective Date if you own the property where this Franchised Business is located or if you enter into a lease directly with the landlord or other third-party for the property where this Franchised Business is located; or (2) if you have entered into a sublease with one of our affiliates, the expiration of the term of the sublease for the Location excluding any extensions or renewal options, unless terminated earlier in accordance with *Article 14* or any other provisions of this Agreement, renewed in accordance with *Article 13*, or transferred in accordance with *Article 12* ("Term").

### **1.4 System Standards.**

You shall operate the Franchised Business in accordance with our standards, including the following:

- a. restaurant design, maintenance, health and safety and remodeling;
- b. types, models, brands and suppliers of required fixtures, furnishings, equipment, signs, materials and supplies;
- c. recipes and ingredients, menu items and menu design;
- d. cooperation with and participation in sales, marketing, advertising and promotional programs (including loyalty programs, online ordering programs, discount coupons, discount gift cards, special menu promotions, and entering into product and service agreements directly with third-party vendors and service providers as required by us) and materials and media used in those programs, including discontinued use and removal of promotional materials as directed by us;

- e. use and display of the Proprietary Marks;
- f. restaurant operations, including matters related to the management of the Franchised Business; training of your employees consistent with the System Standards; and commercial impression of the Franchised Business to the public;
- g. cooperation with and participation consistent with our responses and resolutions in response to customer feedback;
- h. cooperation with and participation in: (i) market research and testing; and (ii) product and service development programs;
- i. acceptance of our stored value gift cards, including gift cards sold at a discount, loyalty cards, frequency cards, gift certificates, vouchers, and any other similar electronic card and payment programs (individually and collectively, "Gift/Loyalty Card"), credit and debit cards, other payment systems, check verification services and use of point of sale computer systems; You agree to enter into a separate participation agreement with the approved vendor for data processing services;
- j. bookkeeping, accounting, data processing and record keeping systems; computer hardware and software; connections to the Internet or to proprietary networks; forms, methods, formats, content and frequency of reports to us of Gross Sales (as defined in *Article 5*), financial performance and condition; and providing tax returns and other operating and financial information to us; and
- k. conduct and maintain the Franchised Business and Location so as not to distract from or interfere with the integrity of the System (individually and collectively, "System Standards"). We may, in whole or in part, change, improve, update and further develop the System Standards, from time to time during the term. You shall comply with the updated System Standards as directed by us.

The operation and maintenance of your Franchised Business according to the System Standards are essential to the well-being and vitality of the System and to preserve the goodwill of the Proprietary Marks for us and for all other franchisees operating under the System. It is critical to the *Surf City Squeeze* System for all restaurants operating under the *Surf City Squeeze* System to present a uniform and professional image to *Surf City Squeeze* customers regardless of which location the customer visits. Any information regarding the operation of the Franchised Business will be considered a mandatory System Standard, unless it is clear from the express language of our communication that the information is merely optional or is intended by us as a suggestion, rather than a requirement.

You agree that System Standards constitute binding provisions of this Agreement as if they were an integral part of this Agreement.

## **ARTICLE 2.                   SELECTION OF LOCATION; CONSTRUCTION AND RELOCATION**

### **2.1     Location Selection Procedures.**

You are ultimately responsible for the selection of the Location. We will not have any liability to you with respect to your selection of the Location, any assistance we provide you in



making your selection, our recommendation of any location or a third party to assist you in selecting a location, or our allowing you to move forward on any location. You agree that your selection of the Location will be based on your own independent investigation of the suitability of the Location.

## **2.2 Lease and Purchase Approval.**

If you intend to lease the Location for your Franchised Business, the lease will be subject to our prior limited review and acknowledgment so that we can confirm that certain lease terms are incorporated into the lease. You must provide us, at least thirty (30) days prior to executing the lease, a copy of the lease and details relating to square footage, rent per square foot, the term of the lease, and either confirmation that such other terms as we reasonably require are incorporated into the lease or that you and the landlord agree to incorporate the lease addendum to lease agreement as an exhibit to the lease. You or your attorney shall be responsible for negotiating the terms of the lease, which shall be subject to our final limited review and acknowledgment. If you do not submit all of the required documents to us, we will not allow you to move forward with your lease. We have no liability to you regarding the terms or negotiations of the lease.

If, prior to executing the lease, you or your attorney request a full review of your lease, including any and all exhibits attached thereto, and we or our designated affiliate review your entire lease and exhibits and provide to you or your attorney its review of the entire lease and suggested changes to the lease ("Lease Review"), you must pay a Lease Review Fee (as defined in *Section 5.7*) to compensate for time and effort in reviewing the lease. The Lease Review is optional and only completed by us or our designated affiliate at your or your attorney's request. The Lease Review Fee is due only in the event that you or your attorney request us or our affiliate to complete a Lease Review. Each lease must contain the required lease terms set forth in the Lease Addendum to Lease Agreement, and must specifically state that we are a third-party beneficiary of the lease. If we cure any default by you under the lease, any amounts that we pay to cure the default will be payable by you to us on demand, together with interest thereon, at the lesser rate of one and one-half percent (1½%) or the maximum rate that does not violate applicable state usury laws ("Default Rate") per month from the date we make such payment.

You acknowledge and agree that on the earlier of thirty (30) days after: (i) you receive a fully executed copy of your lease for the Location of your Franchised Business; or (ii) you commence operations at your Franchised Business to the public, you must provide a fully-executed copy of your lease for the Location to us. Failure to timely provide us with a fully-executed copy of the lease will result in a default under this Agreement.

If you intend to purchase the Location for your Franchised Business, the terms of such purchase shall be subject to our prior approval, and you must provide us, at least thirty (30) days prior to executing the purchase agreement, a copy of the purchase agreement and details relating to square footage, price per square foot and such other terms as we reasonably require.

You acknowledge and understand that our confirmation that you may move forward with any specific location, lease or purchase agreement does not in any way guarantee or ensure the success or profitability of the Franchised Business, or the conformity of the Location, lease or purchase agreement to applicable laws, and such confirmations are only for our own benefit.

## 2.3 Construction.

a. You must, at your sole cost and expense, construct, furnish, make improvements to and equip, if necessary, the Franchised Business at the Location selected by you and meeting our minimum site requirements, in accordance with plans and specifications approved by us or our third-party approved architect, if applicable. Our approval of plans is solely for complying with our System Standards and not for determining compliance with codes, ordinances and other legal requirements, including the Americans with Disabilities Act ("ADA") or any requirements under the lease for your Location. You are solely responsible for ensuring that your Location conforms to all codes and ordinances, including the ADA, and all lease-specific requirements. You must, at your sole cost and expense, use our designated and approved third-party design architect ("Design Architect") to prepare the initial design drawings for any construction, alterations or improvements, as applicable, for your Franchised Business. The Design Architect must provide us with one (1) set of the design drawings, including landscaping and parking spaces if applicable, which are the detailed plans and specifications ("Plans") for your Franchised Business. We will provide you with a copy of the Plans upon our approval of the Plans. You must also, at your sole cost and expense, retain a licensed architect of record to prepare the permitted construction set of drawings for any construction, alterations or improvements. The permitted construction set of drawings must be submitted to us for our files prior to the start of construction, alterations or improvements. In addition, you must obtain the appropriate construction documents and all mechanical, plumbing, electrical and architectural plans must be sealed and stamped, as we may require, even if local laws in the jurisdiction where your Franchised Business is located do not require same.

b. Any material modifications to the approved Plans must be submitted to us for approval and you will not undertake any construction, alterations or improvements until such modifications have been approved by us. Approval of such modifications does not constitute any representation by us of compliance with applicable zoning laws, building codes or other laws.

c. You will be solely responsible for the cost and expense of obtaining all necessary governmental construction permits and licenses, and you must, at your sole cost and expense, comply with all laws, zoning ordinances, rules and regulations of any governmental agencies that may govern any construction, alterations or improvements of the Franchised Business in accordance with the approved Plans. We will have the right, but are not required, to meet with the Design Architect and to inspect any construction, alterations or improvements during its course to ensure that the provisions of this *Section 2.3* are being observed; and you agree to allow our authorized representatives, at any and all times while construction, alterations or improvements are in progress, to meet with the licensed architect and general contractor and enter onto the Location for this purpose. If we determine in good faith that the provisions of this *Section 2.3* are not being observed, you will, at your sole cost and expense, immediately take all necessary corrective action.

d. You must, at your sole cost and expense, use a general contractor that is licensed, and if applicable, registered in the state and local jurisdiction where your Franchised Business is located for any and all construction, alterations and improvements. The general contractor must have prior experience in the construction, alterations and improvement of quick-service restaurants.

e. You acknowledge that the design and appearance of the *Surf City Squeeze* Franchised Business is part of the System, and that uniformity is essential to the System. Therefore, you agree that after the Franchised Business has been constructed, altered or improved, you will not make any material changes to the building plan or design or its appearance without our prior written consent, and you will, at your sole cost and expense, maintain the interior and exterior décor of the Franchised Business in a first class condition and in such manner as we may reasonably prescribe from time to time. In addition to any remodeling required by us upon the transfer of the Franchised Business and upon the renewal of this Agreement, as set forth in *Articles 12 and 13*, respectively, you will, upon thirty (30) days' prior notice from us, and at your sole cost and expense, remodel and make all alterations and improvements in and to your Franchised Business as reasonably determined by us to reflect the then-current *Surf City Squeeze* System specifications, standards, format, image and appearance.

f. A certificate of occupancy for your Franchised Business must be submitted to us approximately six (6) days prior to the day you commence operations at your Franchised Business to the public and as otherwise requested by us throughout the Term.

## **2.4 Signage.**

You will acquire, repair and replace, as necessary, and maintain in a first class condition throughout the Term, signs for advertising and identifying the Franchised Business as a *Surf City Squeeze* restaurant. All signs must be in accordance with the System Standards, specifications and any local governing body (i.e., city or county governments) requirements, as well as any other applicable laws, including the ADA, and exterior signage must be the maximum size allowed by the landlord and local governing body. You acknowledge that quality control is essential to protect and promote our Proprietary Marks, standards, and uniform image, and you shall acquire all signs only from approved suppliers. In addition, you shall prominently display on all communications, forms, advertising, business stationery and business cards, and in a sign easily visible to consumers at the Franchised Business, the following words: "INDEPENDENTLY OWNED AND OPERATED."

## **2.5 Relocation.**

a. If you desire to relocate the Franchised Business, you may request our consent upon the following conditions:

(i) Not less than sixty (60) days prior to the desired date of relocation (unless prior notice is impractical because of a required relocation, due to a third-party or our request, in which event notice shall be made as soon as possible), you must make a written request for consent to relocate, describing the reasons for the relocation and providing details respecting any proposed new location.

(ii) Within twenty-one (21) days after receiving your written request, we shall advise you in writing if the proposed new location meets our minimum real estate site requirements as provided in *Section 2.1* and if you have our authorization to proceed with the relocation. In the event of our denial to proceed with the relocation, you may request an alternative proposed new location pursuant to the provisions of this *Section 2.5*.

(iii) The Term will not be extended in connection with the requested relocation.

b. At the time you request to relocate the Franchised Business, you must also meet each of the following requirements:

(i) You must not be in default under this Agreement or any other agreement or note then in effect between you and us and any affiliate of ours, and no event shall have occurred that, with the giving of notice, the passage of time, or both, would constitute a default under this Agreement;

(ii) You must neither have received more than three (3) notices of default or breach during the Term; nor more than two (2) notices of default or breach during the five (5) years immediately preceding the effective date of the proposed relocation;

(iii) The equipment, fixtures and signage used in connection with the operation of the Franchised Business must either meet our then-existing System specifications and System Standards, or you must agree, within a timeframe required by us, to replace or refurbish such items, and otherwise modify the methods of operation of the Franchised Business at your cost and expense, in order to comply with our System specifications and System Standards then applicable to new franchise owners; and

(iv) You shall have paid to us a Relocation Fee (as defined in *Section 5.14*).

c. If we approve the relocation of your Franchised Business, (i) you and we must execute an amendment to this Agreement indicating the address for your relocated Franchised Business and you must sign a general release provided by us, and (ii) you must open your Franchised Business at the new location within thirty (30) days after you close your Franchised Business at the current Location. Provided that you comply with all of the terms and conditions set forth in this Agreement including this Section 2.5, during the period of time between the closure of your Franchised Business at the current Location, and the opening of the Franchised Business at the approved relocation address, you will not owe the Royalty Fee (as defined in *Section 5.2*).

## **2.6 Restricted Use of Restaurant Location.**

You may not wholly or partially sublet the Location without our prior written consent. The Location may be used only for the operation of a *Surf City Squeeze* restaurant in compliance with this Agreement and the System Standards. You shall not conduct other businesses or activities at the Location without our prior written consent.

## **2.7 Not Applicable.**

# **ARTICLE 3. OPERATIONS**

## **3.1 Commencing Operations.**

You agree to start operating your *Surf City Squeeze* Franchised Business as of the Effective Date. You acknowledge that before starting operations you must, at your own expense, do the following (in addition to any other requirements set forth in this Agreement):

a. Complete a food safety training program at your sole cost and expense. We will accept the certificate for the required program through your local county or state health

department or any other nationally recognized food safety program. You must provide us with a copy of your certificate prior to commencing training;

b. Successfully complete the Training Program described in *Section 4.1*;

c. Purchase, lease or otherwise acquire from the list of approved sources provided by us all the signage, supplies, equipment, fixtures, inventory and other items necessary to operate the *Surf City Squeeze* Franchised Business; and

d. Obtain liability insurance in accordance with the requirements described in *Section 9.5* and provide to us evidence that such insurance has been obtained.

Prior to starting operations of the Franchised Business, you must notify us that you have satisfied all requirements to begin operations, and provide us with such documents as we may reasonably request that show your compliance with all such requirements. If you do not begin operations of your Franchised Business at the Location as of the Effective Date, then we may terminate this Agreement by giving you notice to that effect.

### **3.2 Supplies and Promotional Materials; Rollouts.**

You agree to sell only those menu items, products and services authorized under the terms of this Agreement and as specified in the Confidential Manual, and you shall use only supplies and ingredients in making those menu items that are in compliance with the standards as set forth in the Confidential Manual or other documents provided by, or approved by, us as they presently exist or may exist in the future. In addition to approved vendors and approved distributor(s), we may, in our sole discretion, require you to purchase certain products or services through designated purchasing channels, programs, platforms, or contractual arrangements specified by us. You shall purchase all such services, supplies and ingredients only from approved vendors and utilize approved distributor(s) as specified in the documents provided by, or approved by, us as they presently exist or may exist in the future. You must purchase promotional materials containing the Proprietary Marks, including stationery, business cards, promotional and advertising materials and similar items, from suppliers approved by us, except that we must first approve all such promotional and advertising materials before you use them, and all such printed materials containing any of the Proprietary Marks shall be accompanied by the words "INDEPENDENTLY OWNED AND OPERATED." Additionally, during the Term, you agree to participate in any Rollout of new products and suppliers, as defined in *Section 9.3*.

### **3.3 Fixtures, Furnishings, and Equipment.**

Unless otherwise approved by us in writing, you will: (1) acquire, repair and replace, as necessary, and maintain in a first class condition throughout the Term, fixtures, furnishings, and equipment to be used in the operation of your Franchised Business that is in accordance with the System Standards, specifications set forth by us in the Confidential Manual or other documents provided by, or approved by, us as they presently exist or may exist in the future, and with applicable laws including, without limitation, including the ADA; and (2) procure the fixtures, furnishings, and equipment from suppliers or vendors previously approved in writing by us.

### **3.4 Online Presence.**

You may not maintain a website, software application, an App (application), social media account (including, but not limited to, an account, group or page on Facebook®, Flickr®, Foursquare®, Google+®, Instagram®, LinkedIn®, Pinterest®, Snapchat®, Tumblr®, X/Twitter®, YouTube®, Vine®, VKontakte or Weibo®), or otherwise maintain a presence or advertise on the Internet or any other public computer network (individually and collectively, “Site”) in connection with the Franchised Business without our prior written approval, which we may withhold in our sole discretion. If we grant you written approval, you agree to submit to us for approval before use, true and correct printouts, of all Site pages you propose to use in connection with the Franchised Business. You understand and agree that our right of approval of all such Site pages is necessitated by the fact that such Site pages will include and be inextricably linked with our Proprietary Marks. If we approve your use of a Site, you may only use Site pages that we have approved. Your Site must conform to all online presence requirements, policies and procedures per our System Standards. You agree to provide all information regarding your online presence that we require. If we grant approval for a Site, you may not use any of the Proprietary Marks on the Site except as we expressly permit. You may not post any of our proprietary, confidential or copyrighted material or information on the Site without our prior written permission. If you wish to modify your approved Site, all proposed modifications must also receive our prior written approval. You explicitly understand that you may not post on any Site (whether yours or someone else’s) any material in which a third-party has any direct or indirect ownership interest (including video clips, photographs, sound bites, copyrighted text, trademarks or service marks, or any other text or image which any third-party may claim intellectual property or other rights in). If we grant approval, you agree to list on the Site any website and social media account maintained by us, and any other information we require in the manner we dictate. You agree to obtain our prior written approval for any Internet domain name, home page address and Uniform Resource Locator. The requirement for our prior approval set forth in this *Section 3.4* will apply to all activities on the Internet or other communications network to be conducted by you, except that you may maintain one (1) or more e-mail addresses and may conduct individual e-mail communications without our prior written approval. You agree to obtain our prior approval as provided above if you propose to send advertising to multiple addressees via e-mail or text messages. You may not use a Site to represent that: (1) the Site is an official account, application, page or group of, or video produced by us; or (2) you are the owner of the *Surf City Squeeze* brand. On any Site you use in connection with the Franchised Business, you must affirmatively state: (a) that you are a franchisee and the opinion and content being expressed are your own and not that of the *Surf City Squeeze* brand; and (b) the Location of your Franchised Business.

### **3.5 Not Applicable.**

## **ARTICLE 4. TRAINING, ASSISTANCE AND START-UP MATERIALS**

### **4.1 Training Program.**

We will provide up to two (2) natural persons (individually and collectively, “Trainees”) with a training program designed to inform the participants as to the fundamentals of operating the Franchised Business prior to you commencing operations at the Franchised Business. At minimum, one (1) of the two (2) natural persons must have an ownership interest in the Franchised Business. The remaining position may be filled by a natural person with an ownership interest in or management responsibility for the Franchised Business. The training

program is made up of the “In-Store Training,” which is approximately forty (40) hours, and “New Owner Training,” which is approximately forty (40) hours (collectively, “Training Program”). You will be solely responsible for all transportation costs, food, lodging and other personal expenses incurred by you and your employees in connection with the Training Program. The New Owner Training will be conducted either online or in person at our sole discretion. If the New Owner Training is conducted in person, it will be at the Franchisor training and education center in Scottsdale, Arizona or at such other location as we may designate at our sole discretion and the In-Store Training will be conducted at a training store in Arizona or such other location as we may designate at our sole discretion. You acknowledge that adequate knowledge regarding the operation of the Franchised Business is essential to the growth of your franchise and to the promotion of the System. Furthermore, Franchisor has the right to require Franchisee and/or its manager(s) to attend additional training and pay the Additional Training Fee (as defined below), as provided for in this *Section 4.1* and *Section 5.10*, in the event Franchisee is not operating the Franchised Business pursuant to Franchisor’s Systems Standards.

#### **4.2 Employee Training.**

You acknowledge that the employees of your *Surf City Squeeze* Franchised Business are an integral and important part of the Franchised Business, as they will have substantial contact with customers. You alone are responsible, and acknowledge that we have no direct or indirect control and no right or authority, for the hiring, firing, training, supervising, setting the terms and conditions of employment (including employee tasks and work schedules), compensation of your employees, or maintaining employment records, for the safety of your employees and for your employees’ compliance with the System Standards. The System Standards are in place to protect our interests in the System and not for exercising any control over you, your employees or your Franchised Business. You must ensure that your employees who have direct interaction with the public are able to speak and read English and any other language that may be required to adequately meet the public needs in your Franchised Business.

#### **4.3 Additional Programs; Continuing Assistance.**

Franchisor, or the Area Representative or other agent or representative representing Franchisor, as may be applicable, will come to Franchisee’s restaurant by no later than opening week for up to four (4) days, at no additional expense to Franchisee, to work with Franchisee or its manager on operating its restaurant. We may, in the future, request that Trainees participate in refresher or additional training programs. We may also hold an annual conference to introduce new products, discuss sales and marketing techniques, personnel training, advertising programs, merchandising procedures and other subjects. You may be charged a registration fee for these programs and you will be solely responsible for the cost of transportation, food, lodging and other expenses incurred by Trainees at any such program. Attendance at these additional training programs and conferences is mandatory. They will be held in the metropolitan Phoenix, Arizona area, or at other locations in the United States chosen by us, at our sole discretion.

In addition to the initial training available under *Section 4.1*, we shall provide such periodic evaluations or inspections as we deem appropriate, utilizing our field representatives who may visit the Franchised Business from time to time. The frequency and duration of such visits to a Franchised Business by our representatives shall be in our sole discretion. Any such

evaluation or inspection is not intended to exercise any control over your employees or the daily operation of your Franchised Business. In addition, we will be available on an ongoing basis at our offices for consultation and guidance with respect to the operation and management of the Franchised Business. In addition to the Confidential Manual, we may, but are not required to, from time to time provide you with additional materials relating to the Franchised Business.

#### **4.4 Area Representatives.**

We may retain the services of an independent third-party area representative ("Area Representative") to represent us in the area in which the Franchised Business is located and perform some or all of the services we provide under this Agreement. The services the Area Representative may perform could include: (i) assistance in location selection and evaluating and confirming that the Location meets our minimum site requirements; (ii) advice and guidance regarding lease negotiations; (iii) assistance in opening new *Surf City Squeeze* locations; (iv) assistance with training on the approved POS System (as defined in *Section 4.6a.*); (v) assistance with marketing advice; (vi) periodic Quality Service Cleanliness and Experience ("QSCE") evaluations; (vii) assistance with collection of the various sums due to us from *Surf City Squeeze* franchisees; and (viii) coordination with other *Surf City Squeeze* franchisees in your area and general supervision and monitoring of your Franchised Business on our behalf. You agree in advance to our delegation to an Area Representative of some or all of our obligations, and assignment to an Area Representative of some or all of our rights under this Agreement. You agree that we may require you to submit to an Area Representative any reports you are required to submit to us. Upon our request, you will provide the Area Representative with access, inspection and audit rights to the same extent we have those rights under this Agreement. You are not a third-party beneficiary of any agreement between us and any Area Representative. If we have designated an Area Representative for your Franchised Business as of the Effective Date, the name and contact information of the Area Representative is shown in *Section 17.3h*. We reserve the right in our sole discretion to remove any Area Representative in your area at any time and to appoint any other Area Representative for your area. We have no obligation to appoint an Area Representative in the area in which your Franchised Business is located, and we have no obligation to appoint a new Area Representative after we have removed an Area Representative.

You acknowledge that Area Representatives and their owners and employees may not contractually bind us without our express written authorization. You further acknowledge no Area Representative has the authority to: (i) enter into agreements or execute any agreements on our behalf; or (ii) bind us in any way without our prior written consent. Unless expressly authorized and agreed to by us in writing, we disavow any agreements, whether verbal or written, entered into by an Area Representative that in any way attempts to bind us. In any litigation or arbitration proceeding, you agree to waive any claim or defense that an Area Representative is our express or implied agent and such an assertion by you constitutes a material default under this Agreement.

#### **4.5 Confidential Manual.**

To protect the reputation and goodwill of the System and to maintain the uniform standards of operation under the Proprietary Marks, you must conduct your business in accordance with our Confidential Manual. The Confidential Manual is confidential and remains our property.



The Operations Manual is available to Franchisee via the franchisee portal at: <https://portal.kahalamgmt.com>. In the event Franchisee desires to receive a hard copy of the Operations Manual, then Franchisee shall submit such request in writing to [kahala.training@mtygroup.com](mailto:kahala.training@mtygroup.com). Upon such request, a hard copy of the Operations Manual will be mailed to Franchisee via regular mail within approximately forty-five (45) days thereafter.

So that you may benefit from new knowledge gained by us as to improved techniques in the operation of the Franchised Business, we may from time to time revise, amend, restate or supplement the content of the Confidential Manual or other documents provided by, or approved by, us as they presently exist or may exist in the future. You will at all times ensure that your copy of the Confidential Manual is kept current and up to date. In the event of a dispute regarding any of the content of the Confidential Manual, the master copies maintained by us at our corporate office will control.

#### **4.6 Computer Systems; Debit and Credit Card Processing.**

a. You will be required to acquire, to maintain, and to exclusively use, an approved cash register/computer system ("POS System") during the operation of the Franchised Business. You and your employees must complete training for the POS System as we require, and you will be required to use the POS System to produce sales reports, keep inventory control and post sales tax, refunds, credits and allowances and submit that information to us immediately upon our request. You are required to obtain high-speed/always-on internet connection service for your POS System. If high-speed/always-on is not available in your area, dial-up Internet access may be used until high-speed/always-on service becomes available in your area. The POS System must be configured so that we will have remote access to the information and data stored in the POS System, which may include inventory information. This access will allow us to exchange/collect data and other information on such bases as we will communicate to you from time to time. You will be required to maintain the POS System in good working order at all times, and to upgrade or update the POS System during the Term as we may require from time to time. It will be your responsibility to enter into contracts for the maintenance, upgrades and updates to the POS System with an approved supplier of such services identified by us on the list of approved vendors and distributors or other notification to you from us advising of suppliers for your market area. You shall also be required to own a personal computer or similar device with access to the Internet that allows you to report your Gross Sales (as defined in *Section 5.2*) online, send and receive e-mails with us, and receive online orders. If implemented by us, all *Surf City Squeeze* franchisees of traditional restaurants will be required to participate in an online ordering program. We may provide specifications that you must follow for the hardware, software, and Internet provider for such computer equipment. We may require you to upgrade the hardware and software including, but not limited to, your operating system, as reasonably necessary to provide reports and information required by us.

b. You are required to accept debit and credit cards and Gift/Loyalty Cards from consumers at the Franchised Business and participate in any online ordering programs which Franchisor may require. Prior commencing operations at your Franchised Business, you will be required to acquire and maintain an approved debit, credit and Gift/Loyalty Card processing system to use during the operation of the Franchised Business. Additionally, you must utilize our approved third-party Gift/Loyalty payment card processor for processing all such Gift/Loyalty Card transactions, including entering into a Gift Card Participation Agreement with one of our affiliates, or its successors or assigns, or other approved vendor for the Gift/Loyalty Card processing services. The Payment Card Industry ("PCI") requires all companies that process,

store, or transmit credit card information to protect the cardholders' information by complying with the PCI Data Security Standard ("PCI DSS"). Therefore, as a franchisee who accepts credit cards, you are required to be PCI compliant by following and adhering to PCI DSS, which includes ensuring that your POS System, back office computer (if supplied), and any other device that is plugged into the network is only used for business purposes. You are also required to complete an annual questionnaire and quarterly network PCI scans and install a network firewall appliance for logging, tracking, reporting, and security assessment. You are also required to validate with Franchisor that your store is PCI compliant, and Franchisor may in its sole discretion require you to install a particular type of firewall (hardware and/or software). To show such validation you must send us your passing certificate showing your Franchised Business is PCI compliant. You are also required to verify that you have a PCI compliant firewall appliance installed at your Location if you process credit cards via a high speed internet connection. We require your Franchised Business' POS System, including terminals, computers, and software to be in compliance with the PCI DSS at all times. The PCI DSS is often updated, and you are required to obtain and comply with all updated standards. You must also be PCI compliant in order to obtain cyber liability/data breach insurance coverage.

## **ARTICLE 5. FEES AND DEPOSITS**

You agree to pay each of the following amounts to us via a lump sum, with each and every amount being non-refundable because of our investment in time and money, in addition to any other benefits conferred upon you, including processing your application, reviewing your documents, and providing you with relevant information, unless otherwise expressly specified below, in accordance with the provisions set forth in this *Article 5*. Notwithstanding your designation to the contrary, we have the sole discretion to apply any of your payments, in part or in whole, to any of your indebtedness to us.

### **5.1 Not Applicable.**

### **5.2 Royalty Fee and Surcharge.**

For the period of time commencing on the Effective Date, and for the duration of the Term, you must pay to us a weekly royalty fee equal to the greater of the following: (i) six percent (6%) of total Gross Sales (as defined below); or (ii) Three Hundred Dollars (\$300) ("Royalty Fee"). If we or the landlord of the Location require you to remodel your Franchised Business in such a way that your Franchised Business (including catering) stops offering items to the public, or if there is a disaster at your Franchised Business, such as a fire, flood or damage caused by an act of God, that requires you to temporarily close your Franchised Business, you are not required to pay the Royalty Fee during the period of time of such temporary closure; provided you provide us or our authorized representative with notice of such temporary closure as soon as reasonably possible, but in no event more than twenty-four (24) hours after such closure begins. Notwithstanding the above, all amounts owed to us under this Agreement prior to the temporary closure shall still be fully due and payable. The temporary closure of your Franchised Business shall not exceed ninety (90) days, but may be extended on a case-by-case basis at our sole discretion and with our prior written approval.

In our sole discretion, we may charge, in addition to the Royalty Fee, a surcharge of up to Ten Dollars (\$10) per week if your Franchised Business is located in a state that imposes additional reporting requirements on a franchisor ("Surcharge"). The Royalty Fee and applicable Surcharge shall be due and payable no later than Thursday of each week, which day

may be modified by us without prior notice to or approval from you, for the week ending on the preceding Sunday in which applicable Gross Sales (as defined below) were earned from the Franchised Business. The weekly Royalty Fee and applicable Surcharge shall be paid by electronic funds transfer, as detailed below.

For the period of time commencing on the Effective Date, and for the duration of the Term, you are required to report Gross Sales to our designated accounting office, which as of the Effective Date, is via the Internet at <http://franchisee.kahalamgmt.com>, as set forth in *Section 5.6*. Nothing herein shall prevent Franchisor from electronically polling Franchisee's POS system, restaurant management software, and financial records (or similar tools thereto) daily, or more frequently, by electronic or other remote means and Franchisee hereby grants Franchisor authority to do so; however, such authority does not negate Franchisee's requirement to ensure all sales are timely and accurately reported each week. You shall be required to establish a Depository Account (as defined in *Section 5.6*) at the time you execute this Agreement as set forth in *Section 5.6*. Payment of the Royalty Fee, Advertising Fee (as defined in *Section 5.3*), and all other fees due under this Agreement to us shall be made via electronic transfer of funds from the Depository Account. To accomplish this electronic transfer of funds from the Depository Account, you must complete, sign and deliver to us, and maintain for the duration of the Term, a current Electronic Funds Transfer Authorization in a form that we provide.

As used in this Agreement, "Gross Sales" means all sales, money or things of value, received or receivable, directly or indirectly, by Franchisee on account of the Franchised Business, less applicable sales taxes and any properly documented refunds, credits and allowances given by you to customers in accordance with the System Standards, but without deducting any of your income taxes, costs and other expenses. All sales made from catering services must be included in the Gross Sales.

### **5.3 Advertising Fee.**

a. You must pay to us, or directly into a national advertising fund or also any regional advertising funds, as designated by us at our sole discretion, (individually and collectively, "Advertising Fund") a weekly advertising fee of one percent (1%) of the Gross Sales for the preceding week ("Advertising Fee"). Upon thirty (30) days' notice by us to you, we may unilaterally increase the Advertising Fee from its current level not to exceed four percent (4%) of your weekly Gross Sales. The Advertising Fee shall be due and payable with the Royalty Fee under *Section 5.2*. The Advertising Fee is our property and may be deposited by us into our general operating account.

b. The Advertising Fund will be used for marketing, advertising, production and media expenses to promote the *Surf City Squeeze* name, System, products and services. We are entitled to deduct, free of charge the following from the Advertising Fund: (i) reimbursement of expenses, overhead, and employee salaries for services provided; and (ii) rent for office space provided to the Advertising Fund. We have no fiduciary obligation to you in connection with the operation of any Advertising Fund. No interest on an unexpended Advertising Fee shall be imputed or otherwise charged for the benefit of, or payable to, you. You understand and agree that the only obligations we have regarding the collection and spending of the Advertising Fee or the administration of the Advertising Fund are the express contractual obligations in this *Section 5.3*. We are not acting as a trustee, fiduciary, agent or in any other special capacity. We do not give any representation or warranty regarding the quality or effectiveness of the

advertising and marketing activities funded by the Advertising Fee or of the Advertising Fund, and we will have no liability to you with respect to how these funds are spent.

c. Your own local marketing and advertising should be developed to maximize your particular customer base.

**5.4 Not Applicable.**

**5.5 Not Applicable.**

**5.6 Depository Account; Payment Procedures.**

You are required to establish, at the time you execute this Agreement, and maintain for the duration of the Term a depository account ("Depository Account") at a bank or other federally insured financial institution ("Depository") under the same name as Franchisee under this Agreement. You will initially deposit no less than Three Thousand Dollars (\$3,000) into the Depository Account and are required to maintain a balance of at least Three Thousand Dollars (\$3,000) in the Depository Account at all times during the Term by replenishing the Depository Account to at minimum Three Thousand Dollars (\$3,000) after any withdrawals. We shall not be responsible for any bank service charges incurred by you which result from the withdrawal of funds from your Depository Account.

On Wednesday of each week, you must submit a report to us regarding the weekly period which ended on the preceding Sunday, including details on Gross Sales and other statistical data as provided in this Agreement, Confidential Manual, or as otherwise specified from time to time by us. We will withdraw funds electronically on Thursday of each week from the Depository Account. The withdrawals are based upon the figures you report and constitute the Royalty Fee and Advertising Fee as described in *Sections 5.2 and 5.3*. If you do not submit a report on any Wednesday, we may estimate the Royalty Fee and Advertising Fee based upon prior reports and withdraw the estimated amounts up to the entire Three Thousand Dollars (\$3,000). We will return or credit back to you, in our sole discretion, any overage within thirty (30) days after our receipt of your report(s). We shall not be responsible to you for any interest charges for any overage collected due to your failure to timely report your sales. You shall instruct the Depository to disburse each week to our designated bank, via electronic funds transfer by the close of business on Thursday (or preceding banking business day, if Thursday is a bank holiday), the weekly Royalty Fee and Advertising Fee and other fees due for that week, which week shall end on the preceding Sunday. The days of the week specified above may be modified by us without prior notice to or approval from you.

We will also withdraw the monthly POS Help Desk Phone Support Maintenance Fee (as defined in *Section 5.20*) from the Depository Account on the last Thursday of each month. Under no circumstances shall such access to the Depository Account be deemed control or joint control of the Depository Account by us.

Subject to reasonable advance notice for non-recurring payment amounts, we have the right to debit your Depository Account, or any other depository account you have with us, according to the terms of your Electronic Funds Transfer Authorization for any of the payments described in this Agreement. If you do not pay all amounts due by the due date, we may suspend our and our affiliates' services and support until your payment default is cured.

Repeated failure to pay all amounts when due, whether or not the defaults are subsequently cured, may be cause for termination under *Article 14*.

You shall pay us Fifty Dollars (\$50) for each electronic funds transfer attempted from your Depository Account pursuant to this *Section 5.6* that is returned for non-sufficient funds. You shall also reimburse us for all other costs and expenses incurred by us in collecting or attempting to collect funds due to us from the Depository Account (for example, without limitation, charges for non-sufficient funds, uncollected funds or other discrepancies in deposits or maintenance of the Depository Account balance in accordance with the terms hereof). The Depository Account shall be established and maintained solely for the purposes set forth in this *Section 5.6* and any other fees authorized under this Agreement and any other agreements between you and us or any of our affiliates.

#### **5.7 Lease Review Fee.**

If you request us or one of our designated affiliates to complete a Lease Review, you are required to pay us or our designated affiliate a lease review fee in the amount of Two Thousand Five Hundred Dollars (\$2,500) ("Lease Review Fee") for reviewing and providing comments to your proposed lease.

#### **5.8 Lease Guarantee Fee.**

If, in order to obtain the lease agreement for the Location of your Franchised Business, the landlord requires you to obtain a lease guarantee, and we or one of our affiliates agree to serve as such guarantor, you will pay us or our affiliate a fee in the amount of ten percent (10%) of the total amount of the rental obligations being guaranteed under the lease during its term up to a maximum fee of Ten Thousand Dollars (\$10,000) ("Lease Guarantee Fee"). The Lease Guarantee Fee will be due and payable upon our or our affiliate's execution of the applicable lease guarantee agreement with the landlord. Neither we nor any of our affiliates are required to serve as a guarantor of your lease for the Location of your Franchised Business; rather, the decision of whether to serve as a guarantor shall be made in our sole discretion. In the event that you request us or our affiliate to either agree to be the tenant under the lease or execute a separate guarantee to the lease, and you pay the required Lease Guarantee Fee, you agree and acknowledge that payment of the Lease Guarantee Fee shall not, in any manner, be deemed as an insurance policy which limits your liability in connection with the Franchised Business, including any and all financial liability under the sublease or lease related to the Location. You further agree and acknowledge that our or our affiliate's agreement to act as tenant or guarantor under the lease, and your payment of the Lease Guarantee Fee to us or our affiliate, does not result in the assumption or transfer of your liability, in connection with the Franchised Business, by or to us or our affiliate.

#### **5.9 Additional Persons Training Fee.**

The training of two (2) individuals is included in the Transfer Training Fee (as defined in *Section 5.15*). If you desire to have more than two (2) people attend the Training Program, you must pay an additional training fee of Five Hundred Dollars (\$500) for each such person to attend the In-Store Training and an additional Seven Hundred Fifty Dollars (\$750) for each such person to attend the New Owner Training (individually and collectively, "Additional Persons Training Fee") (see *Section 4.1*).

### **5.10 Additional Training Fee.**

If, after attending the Training Program, you desire to, or we require that you, receive additional training, we will provide additional training time to you for a fee of Three Hundred Dollars (\$300) per person per day. Such additional training will be at a time reasonably agreed to by you and us, and will be conducted at Franchisor's headquarters, online, or such other location as we may designate in our sole discretion. You will be solely responsible for all transportation costs and expenses, food, lodging and other personal costs and expenses incurred by you and your employees in connection with this additional training.

### **5.11 Document Administration Fee.**

A document administration fee of Five Hundred Dollars (\$500) ("Document Administration Fee") is payable to us when we must prepare an amendment to your franchise documents.

### **5.12 Renewal Franchise Fee.**

A renewal franchise fee of fifty percent (50%) of the then-current initial franchise fee not including any discounts or reductions ("Renewal Franchise Fee") is payable to us when you renew this Agreement (see *Section 13.i*).

### **5.13 Transfer Franchise Fee.**

a. A transfer franchise fee and other applicable initial fees, as set forth in the Consent to Transfer and Release Agreement executed contemporaneously herewith and to which Franchisee is also a party, are payable to us when you sign this Agreement.

b. If, following the Effective Date, Franchisee desires to complete a Full Transfer (as defined in *Section 12.1.a.1.*) of this Agreement, we will require the Potential Transferee (as defined in *Section 12.1.c.*) to pay us Seven Thousand Five Hundred Dollars (\$7,500) ("Transfer Franchise Fee") as one of the conditions for Franchisee to receive Franchisor's consent for such Transfer (as required in *Section 12.1.b.*).

### **5.14 Relocation Fee.**

A relocation fee of Five Hundred Dollars (\$500) ("Relocation Fee") is payable to us when you sign the amendment to your Franchise Agreement for your relocation (see *Section 2.5*).

### **5.15 Transfer Training Fee.**

a. In connection with a Full Transfer and in addition to the Transfer Franchise Fee, a training fee of Two Thousand Five Hundred Dollars (\$2,500) ("Transfer Training Fee") is payable to us when you sign this Agreement. The Transfer Training Fee is used to provide training for two (2) individuals, and a fee of Five Hundred Dollars (\$500) will be charged for each additional individual trained over two (2).

b. A Potential Transferee receiving this Agreement, as may be amended, as Potential Transferee's Transfer Documents in connection with a Full Transfer must pay to us, in addition to the Transfer Franchise Fee, the Transfer Training Fee. The Transfer Training Fee is used to provide training for two (2) individuals, and a fee of Five Hundred Dollars (\$500) will be

charged for each additional individual trained over two (2).

#### **5.16 Annual Meeting Registration Fee.**

If we hold an annual meeting ("Meeting"), the Meeting may be held at various locations throughout the United States and/or online as we may designate in our sole discretion. Because the planning and funding of the Meeting must be done well in advance and requires a substantial financial commitment, we have the right to debit your Depository Account for up to One Thousand Dollars (\$1,000) for the Meeting registration fee at any time sixty (60) to ninety (90) days prior to the first day of the Meeting. This fee may be debited from your account (even if you do not attend the Meeting). You will also be solely responsible for all costs incidental to attending the Meeting. If you do not attend the Meeting, we will make available to you one (1) full set of the substantive materials that were presented at the Meeting.

#### **5.17 Late Report, Default and Non-Sufficient Funds Fees, Breaching Royalties and Collection Costs and Expenses.**

If you fail to submit to us any financial statements, forms, reports or records required to be provided under this Agreement by its due date, including your weekly Gross Sales report for calculating your Royalty Fee and Advertising Fee, you must pay to us a non-refundable late report charge of One Hundred Dollars (\$100) per report.

If any fees or assessments due under this Agreement, including the Royalty Fee and Advertising Fee, are not paid when due, interest shall accrue on the late payment (from the date payment is due until the date payment is made) at the Default Rate, which amount, plus a Fifty Dollar (\$50) late fee, shall be added to each late payment. For any payments made by you to us under this Agreement which are returned for non-sufficient funds of a processed check, you shall be charged a non-sufficient funds fee of Twenty-Five Dollars (\$25) per occurrence. Pursuant to *Section 5.6*, for each electronic funds transfer that is attempted from the Depository Account but returned for non-sufficient funds, you shall be charged a non-sufficient funds fee of Fifty Dollars (\$50) per occurrence.

Franchisor has the absolute right to charge Franchisee the greater of: three (3) times the fixed Royalty Fee; or, if on a percentage Royalty Fee, the Royalty Fee will be increased up to eighteen percent (18%) of Gross Sales, with respect to any period during which Franchisee is in breach or default of its/his/her obligations under this Agreement without providing Franchisee advance notice or right to cure. The Royalty Fees paid or owing to Franchisor with respect to the period during which Franchisee is in breach or default are referred to as "Breaching Royalties." Breaching Royalties will be charged for a minimum fourteen (14) day period, regardless of the length of the actual breach or default.

If, as a result of your failure to remit payments required under any provision of this Agreement, we retain an attorney or a collection agency to collect such payments, you must pay all collection costs and expenses, including reasonable attorneys' fees and expenses, whether or not legal proceedings are initiated. Our rights under this *Section 5.17* are in addition to any other rights or remedies that we may have as a result of your default under this Agreement.

### **5.18 Audit Fees.**

For the purpose of this *Section 5.18*, we have the right, at any time during business hours, and with or without prior notice to you, to inspect and audit, or cause to be inspected and audited, the business records, cash control devices, bookkeeping and accounting records, sales and income tax records and returns and other records of the Franchised Business and your entity's books and records.

You hereby grant us access to any computers utilized by you for such purposes and we will have the ability, at all times, via modem, to obtain daily and weekly sales reports and other financial records that the POS System provides. You will fully cooperate with our representatives, the Area Representative, if applicable, and independent accountants hired by us to conduct any such inspection or audit. In addition, in the event such inspection or audit is made necessary by your failure to furnish reports, supporting records or other information, as required herein, or to furnish such reports, records or information on a timely basis, or if an understatement of Gross Sales, resulting in an underpayment of the Royalty Fee or Advertising Fee for the period of any audit (which shall not be for less than one (1) month) is determined by any such audit or inspection to be five percent (5%) or greater, you will pay to us, immediately after receipt of the inspection or audit report, any additional Royalty Fee and Advertising Fee and other amounts due as a result of any such understatement, plus interest at the Default Rate from the date originally due until the date of payment and you must reimburse us for such audit or inspection, including the charges of any independent accountants, and the travel expenses, room, board and compensation of such accountants and our employees.

The remedies in this *Section 5.18* will be in addition to all other remedies and rights available to us under this Agreement or otherwise available.

### **5.19 Data Fee.**

We may require you to pay us or a third-party we designate a data fee of up to Seventy-Five Dollars (\$75) per month for polling or collecting data from your POS System.

### **5.20 POS Help Desk Phone Support Maintenance Service Fee.**

You must purchase from us a help desk phone support maintenance service that covers phone support for both the software and hardware of your POS System that is supported by the help desk, the cost of which is currently Fifty-Five Dollars (\$55) monthly, and subject to increase upon thirty (30) days' notice ("POS Help Desk Phone Support Maintenance Service Fee"). The POS Help Desk Phone Support Maintenance Service Fee shall be paid by electronic funds transfer, as detailed in *Section 5.6*, and debited from your account on the last Thursday of each month.

### **5.21 New Supplier Approval Fee.**

All requests for approving new or alternative suppliers must be submitted in writing by you or the supplier to our Purchasing Department. Each request will be reviewed in accordance with our then-current procedures and the supplier must meet our then-current requirements, which may include that our representatives be allowed to inspect the facilities of the proposed supplier, and that samples from the proposed supplier be delivered, at no charge, either to us or to our designee for testing. A charge not to exceed the amounts incurred in connection with the



inspection and the test, with such cumulative amount not to exceed Five Thousand Dollars (\$5,000), must be paid by you and/or the supplier. If approved, in our sole discretion, we will notify you or the supplier in writing within sixty (60) days after our receipt of an approval request. If you do not receive a written notification from us of our approval or disapproval, then the request will be deemed automatically denied after the expiration of such sixty (60) day period. You must not offer or sell in any manner any of the proposed alternative supplier's products until you receive our written approval of the proposed alternative supplier.

**5.22 Reserved.**

**5.23 Non-participation Fee.**

You must offer and sell at the Location of the Franchised Business all products designated by us, consistent with our System Standards. In addition, you must immediately incorporate into the Franchised Business all new products and services designated by us and must fully participate in all local, regional, seasonal, promotional and other programs, initiatives and campaigns adopted by us in which we require you to participate. If you fail or refuse to fully participate in any such program, initiative or campaign, you may, in our sole discretion, be required to pay a non-participation fee of One Hundred Dollars (\$100) per day that you are not in compliance ("Non-participation Fee").

**5.24 Not Applicable.**

**5.25 through 5.35 Not Applicable.**

**ARTICLE 6. PROPRIETARY MARKS**

**6.1 Ownership and Right to Use.**

We warrant to you that:

- a. We are the owner of all right, title and interest in and to the Proprietary Marks;
- b. We have granted to you the personal, non-exclusive, limited, revocable right and license to use the Proprietary Marks in connection with the operation of your Franchised Business;
- c. We have taken and will take all steps reasonably necessary to preserve and protect our rights in the Proprietary Marks; and
- d. We will only permit you to use the Proprietary Marks in accordance with the System Standards.

**6.2 Covenants of Franchise Owners.**

- a. You acknowledge our ownership of the Proprietary Marks, and you agree that during the Term and after its expiration or termination, you will not directly or indirectly contest, or aid in contesting, the validity of the Proprietary Marks or our ownership of the Proprietary Marks, nor will you take any action which might impair or prejudice our ownership of the Proprietary Marks. You shall not, directly or indirectly, apply to register, register or otherwise seek to own or control any of the Proprietary Marks, or any confusingly similar mark thereto,

whether in whole or in part, in any place or jurisdiction either within or outside of the United States; nor will you assist any others to do so.

b. You agree that the license granted pursuant to this Agreement authorizes you to use the Proprietary Marks solely in connection with the Franchised Business only at the Location, and for no other purpose. You have no right to license or sublicense any aspect of the System Standards or any of the Proprietary Marks.

c. You agree to use the Proprietary Marks only in the manner and to the extent specifically licensed by this Agreement. You further agree that any unauthorized use or continued use of the Proprietary Marks after the termination or expiration of this Agreement will constitute irreparable harm and is subject to injunctive relief.

d. The license granted by this Agreement includes only the Proprietary Marks, now existing or which may exist in the future. This license does not include the right to use any other trademarks, service marks, trade name or trade dress owned by us or our licensor anywhere in the world. You agree that any and all goodwill associated with and identified by your use of the Proprietary Marks will inure directly and exclusively to our benefit, and that, on the expiration or termination of this Agreement, no monetary amount will be due or payable to you as a result of any goodwill associated with your ownership or operation of the Franchised Business.

### **6.3 Limitations on Franchisee's Use of Proprietary Marks.**

To develop and maintain high and uniform standards of quality and service and thereby protect our reputation and goodwill and that of the System, you agree:

a. To operate and advertise the Franchised Business only under the Proprietary Marks authorized by us;

b. To adopt and use the Proprietary Marks licensed by this Agreement solely in the manner prescribed by us;

c. That your corporate, partnership or other entity name including trade name, will not include any of the Proprietary Marks, in whole or in part, or any terms confusingly similar thereto, unless first authorized by us in writing;

d. To submit all advertising, promotional materials and all printed matter, including stationery, business cards, and any materials to be used on the Internet to us for our written approval before you use any of these items; and

e. That we may from time to time change or modify the System Standards, including modifying existing Proprietary Marks or adopting new marks. You agree, at your own expense, to adopt, use and display any such new or modified Proprietary Marks within ninety (90) days after notification from us. However, if we require you to modify or discontinue use of our proprietary information or use other information or rights in its place at any time other than upon renewal of this Agreement, and that requirement is a direct result of proceedings or litigation that determined that our and our franchisees' use of the proprietary information infringed upon a third-party's rights, we or our affiliate will bear the actual, direct, and reasonable costs of those modifications or discontinuances. The rights granted to Franchisee under this Section shall be Franchisee's sole and exclusive remedy for any infringement by any part of the System.

Upon your abandonment of the Franchised Business (whether voluntary or involuntary), termination or expiration of this Agreement, you must immediately cease to use, in any manner whatsoever, any of the Proprietary Marks or any other marks which, in whole or in part, may be confusingly similar to any of the Proprietary Marks.

#### **6.4 Non-Exclusive License of Proprietary Marks.**

You understand and agree that your license to use the Proprietary Marks is non-exclusive; that we, in our sole discretion, can grant to other franchisees the right to use the Proprietary Marks and obtain the benefits of the System Standards, in addition to the licenses and rights granted to you under this Agreement; and that we or our affiliates may develop and license other proprietary marks in conjunction with concepts other than the *Surf City Squeeze* concept, on any terms and conditions we deem advisable. You will have no right or interest in any such other licenses, proprietary marks or systems.

#### **6.5 Notification of Infringement and Claims.**

You agree that you will notify us immediately of any apparent infringement of, or challenge to your use of any of the Proprietary Marks, or any claim by any person of any rights in any of the Proprietary Marks. You agree that you will not communicate with any person, other than us and our legal counsel, in connection with any such infringement, challenge or claim. We will have the sole discretion to take such action as we may deem appropriate to protect the Proprietary Marks and the exclusive right to control any litigation, United States Patent and Trademark Office proceeding, or other proceeding arising out of any such infringement, challenge, claim or otherwise relating to any Proprietary Marks. You agree to execute any and all instruments and documents, render such assistance, and do such acts and things as may, in the opinion of our counsel, be necessary or advisable to protect and maintain our interests in connection with any such litigation or proceeding, or to otherwise protect and maintain our interests in the Proprietary Marks.

### **ARTICLE 7. TRADE SECRETS AND PROPRIETARY INFORMATION**

#### **7.1 Innovations.**

During the Term, you and your principals, officers, managers and employees may conceive, invent, create, design or develop various ideas, techniques, methods, processes and procedures, recipes, formulae, products, packaging or other concepts and features relating to restaurant operations, business practices or the manufacturing, production, marketing and sale of smoothies, fruit drinks, functional drinks, nutritional supplements, and other food and beverage items, and related goods now in existence or later developed, adopted, or improved in connection with the Franchised Business (individually and collectively, "Innovations"). You, without further consideration, hereby assign any and all of your rights, title and interest in the Innovations, including any intellectual property rights, to us, and also agree to cooperate with us and our counsel in the protection of the Innovations, including the perfecting of title thereto in us. In addition, you will require all of your principals, officers, managers and employees to sign an agreement in the form set forth in our System Standards and incorporated herein by reference ("Confidentiality Agreement"), and shall be liable to us for obligating your principals, officers, managers and employees to assign all of their rights, title and interest to the Innovations to us and requiring your principals, officers, managers and employees to cooperate in obtaining, protecting, maintaining and enforcing our right, title and interest in the Innovations.

## 7.2 Confidentiality Agreement.

a. In connection with the operation of the Franchised Business, you will from time to time receive, have access to, or learn certain information and materials that are proprietary to us or our affiliate. You and any person signing this Agreement under the heading "Personal Acceptance of *Sections 7.1, 7.2, 14.6 and 14.8*" agree that you will keep confidential, and will not use for your own purposes, nor supply or divulge to any other person, any of our Trade Secrets, including our methods of operation, processes, techniques, formulae and procedures, information a reasonable person would believe to be confidential and any other proprietary information regardless of whether such is expressly marked as confidential ("Confidential Information"). You acknowledge that much of the information imparted to you by us is confidential, constitutes Trade Secrets, is unique to us, and remains our sole exclusive property. Our Confidential Information includes, without limitation, the following:

1. The Confidential Manual and any amendments thereto;
2. Ingredients, recipes, and methods of preparation of food products;
3. Methods of operation of *Surf City Squeeze* restaurants;
4. Information about products, services, or procedures before they become public knowledge;
5. Information which relates in any manner to our business or the System Standards, whether oral or reduced to writing, and which is not generally known to, or readily ascertainable by, other persons who might derive economic benefit from its disclosure or use; and
6. Any other information which may be imparted to you from time to time and designated by us as confidential.

b. You and any person signing this Agreement under the heading "Personal Acceptance of *Sections 7.1, 7.2, 14.6 and 14.8*" acknowledge and agree that the Confidential Information and any business goodwill of the Franchised Business is our sole and exclusive property, and that you will preserve the confidentiality thereof. Upon termination or expiration of this Agreement, all items, records or documentation recording or incorporating any Confidential Information, including any copies thereof, will be immediately turned over by you to us or our authorized representative.

c. You agree to take all steps necessary, at your own expense, to protect the Confidential Information, including our Trade Secrets, and to adopt and implement all reasonable procedures prescribed by us from time to time to prevent the unauthorized use or disclosure of any of the Confidential Information. We require that all of your executive officers, agents, directors, shareholders, trustees, beneficiaries, partners and managers who may or are likely to obtain knowledge concerning the Proprietary Information (and who do not sign this Agreement under the heading "Personal Acceptance of *Sections 7.1, 7.2, 14.6 and 14.8*") sign the Confidentiality Agreement binding such person to preserve the confidentiality of the Confidential Information as part of the terms and conditions of such person's employment or association with you. You must obtain a Confidentiality Agreement signed by any such person prior to or at the same time that you begin employment of, or association with, that person. This

will be a continuing obligation on your part throughout the Term. You must keep each original signed Confidentiality Agreement and provide us with a copy of each Confidentiality Agreement when requested by us or our authorized representative.

d. Notwithstanding the above, Confidential Information shall not include information which you can reasonably prove: (i) entered the public domain through no breach by you or your affiliate of any duty of confidentiality, or (ii) you received our prior express written consent to disclose in the manner in which you disclosed it.

e. If anyone under a Confidentiality Agreement is legally compelled or required by a regulatory body to disclose any Confidential Information, he/she/it will notify us as soon as possible and will use his/her/its best efforts to obtain, and give us an opportunity to obtain, appropriate assurances of confidential treatment.

f. The requirements under this *Section 7.2* will remain in full force and effect during the Term and after termination or expiration of this Agreement.

## **ARTICLE 8. RELATIONSHIP OF THE PARTIES AND INDEMNIFICATION**

### **8.1 Relationship of the Parties.**

You and we agree that this Agreement does not create any fiduciary or employment relationship between you, or any of your employees, and us, that you are an independent contractor, and that nothing in this Agreement is intended to make either you or us a general or special agent, legal representative, subsidiary, joint venture, partner, employee or servant of the other for any purpose. You shall not enter into any agreement on behalf of or otherwise bind us for any purpose.

Should it ever be asserted that Franchisor is the employer, joint employer or co-employer of any of your or your affiliate's employees in any private or government investigation, action, proceeding, arbitration, or other setting, you irrevocably agree to assist Franchisor in defending said allegation, including (if necessary) appearing at any venue requested by Franchisor to testify on our behalf (and, as may be necessary, submitting itself to depositions, other appearances and/or preparing affidavits dismissive of any allegation that Franchisor is the employer, joint employer or co-employer of any of your employees).

### **8.2 Indemnification of Franchisor.**

***You agree to indemnify, defend and hold us and our affiliates (including our parent and subsidiary companies, current, past and future predecessors, successors and assigns), and each of our shareholders, owners, directors, officers, members, managers, partners, joint venturers, attorneys, employees, contractors, agents, representatives, guarantors, insurers, spouses, heirs, executors, trustees and estates (collectively with us, "Indemnified Parties") harmless for, from and against any and all claims, liabilities, causes of action, suits, debts, duties, accounts, covenants, contracts, agreements, promises, taxes, demands, obligations, costs and expenses, including reasonable attorneys' fees, damages, judgments, and proceedings, of every kind and nature whatsoever, whether actual or threatened, in law or equity, or otherwise, under local, state or federal law including, without limitation the ADA, or the law of any other applicable jurisdiction (individually and collectively, "Claims") suffered or incurred by***

***any of the Indemnified Parties arising out of or relating to your construction, ownership, marketing, Promotions (as defined in Article 10), operation, including your failure to comply with PCI DSS or any law, statute, regulation, order, rule, or ordinance, or management of the Franchised Business, except for Claims held to have resulted solely from our gross negligence or willful misconduct. Notwithstanding the foregoing, we will have the right, at our option, to defend any Claim, but you must reimburse us upon demand for the costs and expenses of such defense. You shall immediately give us notice of any demand, investigation, written inquiry, action, suit, proceeding, or claim in any way related to us or the Surf City Squeeze brand.***

### **8.3 Indemnification of Franchisee.**

We agree to indemnify, defend and hold you and your affiliates, and their shareholders, directors, officers, members, managers, partners, employees, agents, successors and assignees harmless for, from and against any and all Claims, arising out of any Claim of infringement or unfair competition in connection with your authorized use of the Proprietary Marks or Confidential Information, provided that such use is in accordance with the provisions of this Agreement. However, if we require you to modify or discontinue use of our Proprietary Marks or Confidential Information or use other information or rights in its place at any time other than upon renewal of this Agreement, and that requirement is a direct result of proceedings or litigation that determined that our and our franchisees' use of the Proprietary Marks or Confidential Information infringed upon a third-party's rights, we will bear the cost of those modifications or discontinuances as set forth in this Agreement.

### **8.4 Special Power of Attorney.**

You agree to cooperate with and assist us as we may request from time to time to obtain, protect, maintain or enforce our intellectual property and Proprietary Marks, including executing documents and appearing as a witness. You hereby appoint us as your attorney-of-fact and hereby grant us an irrevocable Special Power of Attorney, coupled with an interest, with full power and authority for the purpose of executing documents or taking such action as necessary or appropriate as you might or could do if personally present, hereby ratifying all that we, as your attorney-in-fact, shall lawfully do or cause to be done by virtue of this Special Power of Attorney to obtain, protect, maintain or enforce our intellectual property and Proprietary Marks if we are, for any reason, unable to obtain your cooperation or assistance. The Special Power of Attorney granted by this *Section 8.4*, shall survive your dissolution, death, incompetence or disability and the termination or expiration of this Agreement.

## **ARTICLE 9. OPERATING STANDARDS AND DUTIES OF FRANCHISE OWNER**

### **9.1 Compliance with System Standards and Confidential Manual.**

You understand and acknowledge that every detail of the operation of the Franchised Business is important in order to develop and maintain high and uniform standards of quality, cleanliness, appearance, service, facilities and techniques; to increase the demand for the System; and to protect our reputation and goodwill and that of other *Surf City Squeeze* franchisees. You also acknowledge that the operation of the Franchised Business is your sole responsibility, and that neither we nor our affiliates have any responsibility to obtain customers for you. The System Standards will constitute provisions of this Agreement as if fully set forth herein.

## 9.2 Authorized Products and Services.

a. You agree that you will not, without our prior written approval, offer at the Location any menu items, beverages, products or services that are not authorized by us for the Franchised Business, as set forth in the System Standards.

b. You have complete discretion in establishing the minimum price you charge for your products. Although we may suggest pricing strategy, you will have the final pricing decision.

c. Notwithstanding the terms of *Section 9.2b.*, we may conduct periodic promotional campaigns during which a specified product or products are promoted at a specified price. During the promotional period, you may not charge your customers more than the specified promotional price, although you may charge less than the promotional price.

d. We may conduct new marketing, research and development, branding and operational program tests, which will generally be conducted with experienced, existing franchisees and may include incentives and other rights that are not available to all franchisees.

e. You hereby consent to third-party vendors, suppliers and distributors sharing with us any and all information, reports, invoices and related documentation covering and otherwise detailing your purchases for the Franchised Business, and to us sharing your contact information with them when we reasonably believe they may offer you a desired benefit.

f. You are required to accept debit and credit cards (including Visa®, MASTERCARD® and AMERICAN EXPRESS®) and Gift/Loyalty Cards from consumers at the Franchised Business. Prior to the commencing operations at your Franchised Business, you are required to acquire, and maintain during the Term, an approved debit, credit and Gift/Loyalty Card processing system ("Card Processing System") to use during the operation of the Franchised Business. Additionally, you must utilize our approved third-party payment card processor, as identified in the System Standards, for processing all Card Processing System transactions.

## 9.3 Specifications and Standards for Supplies; Approved Suppliers; Rollouts.

a. You must purchase or otherwise acquire certain proprietary or required equipment and supplies utilized in the Franchised Business only from our designated approved distributors or suppliers. If, during the Term, we change designated approved distributors or suppliers for any of the proprietary or required equipment and supplies utilized in the Franchised Business, you shall change to the new designated approved distributor or supplier within sixty (60) days after written notification of such change from us.

You acknowledge Franchisor and/or its affiliates has the right to receive commissions, volume discounts, purchase discounts, performance payments, bonuses, rebates, marketing and advertising allowances, co-op advertising, administrative fees, enhancements, price discounts, economic benefits and/or other payments ("Payments") based upon the actual purchases of the foods, beverages, and other products by Franchisor, its affiliates, area developers and franchisees from suppliers. Any such Payments made to Franchisor may be retained by Franchisor as it deems appropriate, in its sole discretion. All Payments received

from a supplier for a designated purpose (such as participation at an annual convention, etc.) will be spent in accordance with the supplier's designated purpose.

b. If you desire to purchase or otherwise acquire any equipment, supplies or inventory items required by the System Standards but not previously approved by us, or from sources not previously approved by us, you must submit to us sufficient specifications, photographs, drawings and other information sufficient to allow us to determine whether such equipment, supplies or inventory items meet our System Standards. We may require that our representatives be allowed to inspect the facilities of the proposed supplier and revoke its approval upon the supplier's failure to meet any of our then-current minimum System Standards. We may also require that samples from the proposed supplier be delivered, at no charge to us, either to us or to our designee for testing. A charge not to exceed the reasonable cost and expense of the inspection and the actual cost and expense of the test must be paid to us either by you or by the proposed supplier. We will notify you within sixty (60) days after your request of our approval or disapproval of the proposed product or supplier, with such determination to be made at our sole discretion. If you do not receive a written notification from us of our approval or disapproval, then the request will be deemed automatically denied after the expiration of such sixty (60) day period. You acknowledge and agree that our approval of any item or supplier of equipment, supplies or inventory not previously approved by us will not, in and of itself, make the supplier of that item an approved supplier for other *Surf City Squeeze* franchise owners in the System. We may, in our sole discretion, at any time and from time to time, re-inspect the facilities and products of any approved supplier and revoke its approval upon the supplier's failure to meet any of our then-current System Standards. If you receive a notice of revocation from us, you must immediately stop selling disapproved products and purchasing from the disapproved supplier.

c. We will provide to you a list of all recommended and required items of equipment, fixtures, supplies, smallwares and interior decor. This list will be included in the System Standards.

d. At any time and from time to time, we may in our sole option engage in new product rollouts to add to or change the menu items offered for sale in the Franchised Business and the ingredients or supplier of ingredients utilized in the preparation of the menu items sold in the Franchised Business ("Rollout"). If we engage in a Rollout, you shall participate in the changes that are the subject of such Rollout, including offering the new menu items, changing the menu items, changing to the new supplier of the ingredients utilized in the preparation of the menu items, and changing to the new ingredients utilized in the preparation of the menu items. If we engage in a Rollout, we will notify you of the details of the Rollout and provide you sixty (60) days from said notification to take the applicable actions required by the Rollout.

#### **9.4 Compliance with Legal Requirements and Good Business Practices.**

You must, at your sole expense, operate the Franchised Business in full compliance with all applicable Federal, state and local statutes, laws, ordinances and regulations, including, without limitation, health and safety regulations, food and drug laws, disability laws, labor and employment laws and data privacy laws, as may be amended, supplemented or enacted from time to time. You must pay all costs and expenses incurred by, and in the conduct of, the Franchised Business, including all rent, salaries, taxes (excluding our income taxes), disbursements, license or permit fees, insurance premiums, traveling expenses and any other business expenses when they become due. We may collect from you, or require you to



reimburse us for, any taxes, mandatory industry-funded compliance fees, regulatory fees, assessments, surcharges, or similar charges imposed or assessed by any governmental authority, quasi-governmental authority, or industry body, whether assessed against you or against us, as a result of your operation of the Franchised Business or the license of our intangible property in the jurisdiction where the Franchised Business is located, to the extent permitted by law. If you receive any demand, action, suit or proceeding, or the issuance of any order, writ, injunction, award or decree of any court, agency or other governmental instrumentality relating to your Franchised Business, you must immediately notify us, and in no event, later than three (3) days after your receipt. Any such notice must be accompanied by a copy of the demand, complaint, order, writ, injunction, award, decree or other similar document. You must, in all dealings with your employees, customers, suppliers, the public and us adhere to the highest standards of honesty, integrity, fair dealing and ethical conduct. You agree to refrain from any business practice that may be injurious to the System or the goodwill associated with the Proprietary Marks.

## 9.5 Maintenance of Insurance.

At all times during the Term, you must maintain in full force and effect at least the minimum types and amounts of insurance coverage that we require, under one (1) or more policies of insurance (each of which shall be primary coverage and shall not be contributory or secondary to any other coverage maintained by us), insured under the particular name of the Franchisee and for the particular address of the Franchised Business. You understand and acknowledge that you remain fully liable for any and all claims in connection with the operation of the Franchised Business arising during the Term of this Agreement, including without limitation, for any time period during which you may be in the process of obtaining a valid and complete certificate of insurance or is otherwise out of compliance. We do not waive and hereby reserve your obligations under this Agreement, including without limitation your insurance obligations.

Such insurance policies must be issued by insurers acceptable to us having an A.M. Best's financial strength rating of at minimum "A-VIII," and grant us authority to obtain copies of your certificate of insurance directly from the carrier or your agent/broker. The particular requirements of our minimum insurance coverage will be made available to you throughout your term. Currently, the general liability insurance required by this Agreement must: (i) name Kahala Franchising, L.L.C. as the certificate holder; (ii) name Kahala Franchising, L.L.C. and MTY Franchising USA, Inc. and their parents, subsidiaries, affiliates, officers, directors, and employees as additional insureds; (iii) contain a waiver by the insurance carrier of all subrogation rights against us and our affiliates and our affiliates' respective officers, directors and employees for casualty losses; (iv) indicate the address of the Franchised Business being insured; and (v) provide that we will receive a copy, via an endorsement, thirty (30) days' prior notice of cancellation of any such policy. Additional minimum insurance coverage requirements (subject to increase or otherwise change in our sole discretion) are as follows:

| TYPE OF COVERAGE                      | LIMITS/SPECIFICATIONS                                                            |
|---------------------------------------|----------------------------------------------------------------------------------|
| General Liability                     | \$1,000,000 Bodily Injury/Property Damage Per Occurrence / \$2,000,000 Aggregate |
| Building Improvements and Betterments | 100% of Full Replacement Cost – No                                               |

| TYPE OF COVERAGE                                         | LIMITS/SPECIFICATIONS                                                                              |
|----------------------------------------------------------|----------------------------------------------------------------------------------------------------|
|                                                          | Coinsurance (minimum of \$100,000)                                                                 |
| Business Personal Property                               | 100% of Full Replacement Cost – No Coinsurance – Special Form or equivalent (minimum of \$100,000) |
| Spoilage                                                 | \$5,000                                                                                            |
| Flood, Earthquake and Volcanic Eruption                  | Subject to Territory Limitations – required if in a designated Flood Zone                          |
| Workers' Compensation and Employer's Liability Insurance | As required by law                                                                                 |
| Hired and Non-Owned Automobile Liability                 | \$1,000,000 Combined Single Limit per accident                                                     |

You need to evaluate if your particular business will require greater coverage or other types of insurance. For example, we strongly recommend that you consult with an insurance broker to discuss whether your particular lease/situation requires and/or should obtain additional common types of insurance (including without limitation, employment practices liability, umbrella insurance, and cyber liability/data breach insurance coverage). Such insurance may significantly increase your premiums, but may also save you money in the long run.

You are responsible for maintaining insurance coverage and limits as required by us, at minimum, pursuant to this *Section 9.5*, provided, if your landlord requires additional coverage, higher limits, or any other requirements not required by us, then you are responsible for maintaining such additional items as well. You must always keep the required insurance coverage in force at all times during the operation of the Franchised Business, and you must comply with any changes we make periodically to our insurance requirements. Upon 30 days' notice to you, we may require you to increase and/or otherwise change the minimum coverage of the insurance referred to above, including to reflect identification of special risks, changes in law or standards of liability, higher damage awards or other relevant changes in circumstances.

Before you may commence operations at your Franchised Business, annually thereafter at least ten (10) days prior to renewal of your insurance coverage, and at any other time on our request, you must provide us with certificates of insurance or copies of insurance policies showing that you are in compliance with our insurance requirements, as well as proof that you have paid the premiums you owe for the insurance we require. You will pay your insurance premiums to your insurance broker or to the insurance company issuing the policy. We or our affiliate may, at our option and in addition to our other rights and remedies under this Agreement, obtain such insurance coverage on your behalf, and you must promptly execute any applications or other forms or instruments required to obtain any such insurance and pay to us, on demand, any costs, expenses and premiums (in whole or part) incurred by us. Your obligation to obtain and maintain the insurance described above will not be limited in any way by reason of any insurance maintained by us, nor will your performance of such obligations relieve you of any obligations under *Section 8.2*.

## **9.6 Management of the Franchised Business.**

You are directly responsible for all aspects of operating the Franchised Business, and you agree that you will, at all times, operate the Franchised Business and use your best efforts to enhance your Franchised Business and the System. The Franchised Business must be personally managed and directly operated by either you or another partner, shareholder or member of your business organization, or a manager.

## **9.7 Inspections by Franchisor.**

For the purpose of this *Section 9.7*, you must make available to us or our authorized representatives such financial and other information concerning the Franchised Business, and you must permit us or our authorized representatives to have full and free access to such information at your Franchised Business Location during regular business hours without prior notice. We and our authorized representatives will have the right to communicate freely with your employees, and make extracts from, and copies of, all such information. Our authorized representative may make announced or unannounced inspections of your Franchised Business to ensure compliance with all of the requirements of this Agreement.

## **9.8 Personal Guaranty.**

If you are an individual and married, your spouse must execute and deliver to us a Guaranty of Franchise Agreement at the same time that you sign the Agreement unless your spouse is also signing the Agreement as an individual.

If you are a corporation, limited liability company, or other business entity, each of your shareholders, members, or other owners, whether direct or indirect (and their respective spouses, if married) must execute and deliver to us a Guaranty of Franchise Agreement at the same time that you sign this Agreement.

In the event any person who has not previously signed a Guaranty of Franchise Agreement becomes your spouse or shareholder, member, or other owner, direct or indirect or a spouse of such shareholders, members, or other owner, at any time after the execution of this Agreement, you must cause such person(s) to immediately execute and deliver a Guaranty of Franchise Agreement to us.

Failure to provide a Guaranty of Franchise Agreement to us may, in our sole discretion, be grounds for termination of this Agreement as set forth in *Section 14.2a*.

## **9.9 Not Applicable.**

# **ARTICLE 10. ADVERTISING AND PROMOTION**

## **10.1 Advertising by Franchisor.**

We (or at our election a third-party which may be an affiliate of ours) will administer the Advertising Fund that will include your Advertising Fee and those of other franchise owners in the System. If an affiliate of ours administers the Advertising Fund or places advertising in connection with the System, such affiliate may be paid a fee that will not exceed the fee that would be payable to unrelated third-parties for comparable services. Unless required by

applicable law, we will have no obligation to create a trust account, escrow account or other special account for the Advertising Fund, and the monies comprising the Advertising Fund may be placed in our general account. We may also reserve the Advertising Fee for use in a subsequent year.

We will direct all advertising and promotional programs. We will have sole discretion over all creative concepts, materials and media used in such programs and the placement and allocation of such programs. The Advertising Fund will be used for marketing, advertising, production and media expenses to promote the *Surf City Squeeze* trade name, System, products and services. We are entitled to deduct, free of charge, the following from the Advertising Fund: reimbursement of expenses, overhead, and employee salaries for services provided; and rent for office space provided to the Advertising Fund. We are not required to use any specific amounts from the Advertising Fund in your market. However, we in our sole discretion, may use some amounts contributed by you to any Advertising Fund, if any (see *Section 5.3*), in the same geographic area in which your Franchised Business is located.

## **10.2 Advertising by Franchisee.**

In addition to your Advertising Fee, if applicable, and unless your Franchised Business is located in an enclosed shopping mall or other enclosed structure identified in *Section 1.1*, you agree to pay for a regular (white pages) and classified (yellow pages) telephone directory advertisement in the main directory distributed in the area where your Franchised Business is located, in such directory categories as we specify, utilizing forms of listing and classified directory advertisements approved by us. We also recommend that, in addition to your Advertising Fee, you spend at least two percent (2%) of your monthly Gross Sales on local advertising.

Your own local marketing and advertising plan should be developed to maximize your particular customer base. You should not rely upon a marketing program or plan by us as the sole means of obtaining customers. All marketing and advertising materials must be reviewed by Franchisor's or Franchisor's affiliate's marketing department for look and feel. The marketing department's review is not for determining compliance with federal, state and local laws.

All advertising by you in any medium must be conducted in a professional manner and must conform to the System Standards. We may make available to you, from time to time, advertising, promotional plans and materials for purchase.

Under no circumstances may you use, without limitation, the name, image, or voice of a celebrity, public figure, character or other person in connection with the Proprietary Marks or the Franchised Business without our prior written consent. We retain the sole and exclusive right to use, without limitation, the name, services or image of any celebrity, public figure, character or other person in advertising, endorsing or recommending the System.

## **ARTICLE 11. ACCOUNTING PROCEDURES AND REPORTS**

### **11.1 Maintenance of Records.**

You shall keep full, complete, and accurate books and accounts in accordance with generally accepted accounting principles, and in the form and manner indicated below or as

from time to time further required by us. You agree to submit reports and data to us electronically if we advise you to do so. You agree:

- a. to submit to us electronically the weekly Gross Sales as set forth in *Section 5.6*;
- b. to submit to us, on or before the thirtieth (30th) day of each month, commencing with the operations at the Franchised Business, in a format and method approved by us (including through a third-party vendor that franchisee may be required to pay for), a profit and loss statement of the Franchised Business for the preceding calendar month prepared in accordance with generally accepted accounting principles;
- c. to submit to us, within ninety (90) days after the end of each calendar year, commencing with the operations of the Franchised Business, in a format approved by us, a profit and loss statement and balance sheet (including a statement of retained earnings or partnership account) for the preceding calendar year;
- d. to submit to us, at the times required, such other periodic forms, reports and information as may from time to time be required by us;
- e. to preserve, in the English language and for the time periods set forth below, all accounting records and supporting documents related to the Franchised Business (individually and collectively, "Records"), including:
  1. daily cash reports;
  2. cash receipts journal and general ledger;
  3. cash disbursements journal and weekly payroll register;
  4. monthly bank statements, daily deposit slips and canceled checks;
  5. all tax returns, including your personal returns and those of your officers, shareholders, partners and members;
  6. suppliers invoices (paid and unpaid);
  7. dated cash register tapes (detailed and summary);
  8. semi-annual balance sheets and monthly profit and loss statements;
  9. daily production, throwaway and finishing records and weekly inventories;
  10. records of promotion and coupon redemptions;
  11. records of all outside sales; and
  12. such other records as we may from time to time request.
- f. to record all sales on cash registers approved by us, as specified in the Confidential Manual;

g. to file all of your federal and state tax returns on a timely basis and to provide copies of them to us. We may, where applicable, require that tax returns from all of your shareholders, members or partners be provided to us, if you are other than an individual;

h. During the Term, you shall preserve the Records for at least the current fiscal year and for the three (3) immediately preceding fiscal years. For three (3) years after the date of any transfer of an interest in this Agreement, the transferor of such interest will preserve the Records for its last three (3) fiscal years of operation under this Agreement. For three (3) years after the expiration of the Term (or after any earlier termination), you shall preserve the Records for the last three (3) fiscal years of operation of the Franchised Business; and

i. In connection with our efforts to attract additional franchise owners to the System, we will have the right to use (without identifying you, except as required or allowed by law) any financial statements, sales reports, profit and loss statements or balance sheets provided by you and, in connection therewith, you authorize us to disclose any information contained on such financial reports as may be required by any federal or state registration or disclosure law.

## **11.2 Audit by Franchisor.**

We will have the right, at any time during business hours, and with or without prior notice to you, to inspect and audit, or cause to be inspected and audited, the Records and cash control devices of the Franchised Business, and your corporate, partnership or limited liability company books and records (if you are a corporation, partnership, limited liability company, or other entity). You agree that we may access any computers utilized by you for such purposes.

You will fully cooperate with our authorized representatives and independent accountants hired by us to conduct any such inspection or audit. In the event any such inspection or audit discloses an understatement of your Gross Sales for any period in question, you will pay to us, immediately after receipt of the inspection or audit report, any additional Royalty Fee or Advertising Fee due as a result of any such understatement, plus interest at the Default Rate from the date originally due until the date such understatement is paid in full.

In addition, in the event such inspection or audit is made necessary by your failure to timely furnish Records, or if an understatement of the Royalty Fee or Advertising Fee for the period of any audit (which period shall not be for less than one (1) month) is determined by any such audit or inspection to be five percent (5%) or greater, you must reimburse us all amounts incurred in connection with such audit or inspection including our employee costs and expenses, any independent accountants' and attorneys' fees, transportation, room, and meal expenses.

The remedies in this *Section 11.2* will be in addition to all our other remedies and rights under this Agreement or under applicable law.

## **ARTICLE 12. TRANSFER**

*Sections 12.1 through 12.4* apply to all transfers, except transfers by us, which are described in *Section 12.5*.

## 12.1 Prior Consent of Franchisor.

a. As used in this Agreement, "Transfer" means any voluntary, involuntary (including by operation of law), direct or indirect assignment, sale, gift or other transfer by you, including:

1. "Full Transfer," which is any act or circumstance, except those set forth in *Section 12.1.a.2.*, by which fifty percent (50%) or more of the ownership or control is shifted from any individual or corporation, partnership or other business entity (individually and collectively, "Entity") to another, including:

(i) Transfer of this Agreement or the Franchised Business, or any right or interest granted by this Agreement;

(ii) Transfer of an interest in you, if you are an Entity;

(iii) Merger, consolidation or issuance of additional ownership interests or redemption of ownership interests in you, if you are an Entity; or

(iv) Transfer of an interest in any other Entity holding an interest in this Agreement or you, if you are an Entity.

2. "Affiliate Transfer," which includes:

(i) Transfer in a separation or divorce, regardless of how much of the ownership or control is shifted from any individual or Entity to another;

(ii) Transfer of this Agreement or the Franchised Business, or any right or interest granted by this Agreement from your name as an individual(s) to your Entity name in which you are the sole owner(s) of the Entity;

(iii) Transfer of this Agreement or the Franchised Business, or any right or interest granted by this Agreement, from your Entity name in which you are the sole owner(s) to your name as an individual(s);

(iv) Transfer of this Agreement or the Franchised Business, or any right or interest granted by this Agreement from one Entity name to another Entity name in which the owners of the entities are the same;

(v) Removing an owner from the Franchisee (unless the person has a fifty percent (50%) or more ownership interest);

(vi) Adding an owner to the Franchisee (unless the person has a fifty percent (50%) or more ownership interest); or

(vii) Transfer by which less than fifty percent (50%) of the ownership or control is shifted from any individual or entity to another for any act or circumstance listed in *Section 12.1.a.1.*

b. We are entering into this Agreement based upon our knowledge of and faith in your ability. Therefore, the Franchised Business and all the rights granted by this Agreement are personal to you and you may not Transfer without our prior written consent. Any attempted

Transfer without our prior written consent will be null and void, and will give us the right to terminate this Agreement and your rights under it, in addition to any remedies which we may have for the breach of this covenant by reason of an attempted Transfer.

c. We shall not unreasonably withhold or delay our consent to a Transfer, so long as it is shown to our satisfaction that the potential transferee ("Potential Transferee") can perform a franchisee's obligations under the then-current form of franchise agreement and all other agreements, legal instruments and documents required of new franchisees.

## **12.2 Advance Notice of Proposed Terms and Right of First Refusal.**

a. If you, or any of your shareholders, members or partners, have received and desire to accept a signed bona fide written offer from a third-party to Transfer, you shall notify us and provide us with a complete copy of the offer (letter of intent) which must include the name, address and telephone number for every Potential Transferee. You must also include information as to the identity of all who will own an interest in this Agreement or in the Franchised Business after the completion of the Transfer, their respective interests, and the proposed terms and conditions of sale and payment.

b. We shall have the right and option, exercisable within thirty (30) days after the date we receive a copy of the offer, to purchase the interest proposed to be transferred, at the price and upon the same terms and conditions specified in the notice.

c. If we do not exercise our option, and the terms of the unaccepted offer are altered, you must, in each such instance, notify us of the changed offer; and we will again have thirty (30) days to exercise our right to purchase on the altered terms. If we do not exercise our option, then the Transfer may take place on the terms and price set forth in the notice; provided: (i) we give our written consent; (ii) the Transfer takes place no later than six (6) months from receipt of our written refusal to exercise our option to purchase; and (iii) all the conditions set forth in *Section 12.3* are satisfied.

## **12.3 Requirement for Consent to Transfer.**

If a Transfer is proposed and we do not exercise our right of first refusal pursuant to *Section 12.2*, then we will consent to the Transfer, provided that:

a. All your obligations under this Agreement are fully paid and satisfied, including the Royalty Fee and Advertising Fee; you are not in default under any provisions of this Agreement or any other agreement, legal instrument or document with us or any of our affiliates; and you enter into written agreements with us, including (except where prohibited by law) a general release by you of all claims against us;

b. Potential Transferee provides to us a completed application and financial documents, is financially acceptable, is not associated with any of our competitors, is of good moral character and reputation, and meets our criteria, which includes: work experience and aptitude; ability to devote time and best efforts to the Franchised Business; equity interest in the Franchised Business; ability to speak and read English sufficient in our opinion to communicate with employees, customers and suppliers and to satisfactorily complete our training; no conflicting interests; and other criteria and conditions that we apply to new franchisees;



c. Potential Transferee provides us with copies of all governing documents of Potential Transferee (e.g., certificate of incorporation or organization, by-laws, stock certificates, operating agreement, membership certificates (if any)) which must be reasonably satisfactory to us in our sole discretion;

d. You provide to us a copy of the purchase and sale agreement, if a Full Transfer, or other documentation evidencing the Transfer, if an Affiliate Transfer, and following our analysis of the terms and conditions of the proposed Transfer, we, in our sole discretion, conclude that such terms and conditions will not interfere with the financial feasibility of the future operation of the Franchised Business;

e. Potential Transferee enters into all agreements, legal instruments and other documents, whether our then-current agreements, legal instruments and documents or a transfer of this Agreement and related legal instruments and documents, as determined by us (individually and collectively, "Transfer Documents"). The terms of the Transfer Documents may vary materially from the current agreements used by us, including the payment of a higher Royalty Fee and Advertising Fee;

f. Not Applicable;

g. Potential Transferee pays to us the Transfer Franchise Fee, if a Full Transfer; or Potential Transferee pays us the Document Administration Fee, if an Affiliate Transfer; Franchisee shall be liable to the Franchisor for the transfer franchise fee or Document Administration Fee in the event the Potential Transferee fails to pay such fee that is owing in full;

h. Potential Transferee pays to us the transfer training fee set forth in the Transfer Documents, if a Full Transfer; Franchisee shall be liable to Franchisor for the training fee if Potential Transferee fails to pay the training fee owing in full; If Potential Transferee or any of its employees or representatives cancel or reschedule participation in any training course or program which Potential Transferee schedules with Franchisor, Potential Transferee or Franchisee must reimburse Franchisor for all of its employee's travel expenses, wages and other expenses incurred as a result of such cancellation or rescheduling;

i. Potential Transferee successfully completes the training program required by the Transfer Documents, if a Full Transfer;

j. Potential Transferee agrees to complete all remodeling and improvements as required by us, and must upgrade the POS System to the then-current required POS System, within the time period specified by us, if a Full Transfer;

k. You and Potential Transferee agree not to assert any security interest, lien, right or claim now or in the future, in the Franchised Business. Any security interest, lien, claim or right asserted with respect to any personal property at the Location must not include any after-acquired property and must be subject, junior and subordinate to any security interest, lien, right or claim now or in the future, asserted by us, our successors or assigns; and

l. You agree to complete and sign a letter of agency, letter of authorization, or equivalent and provide it to Potential Transferee so that Potential Transferee may keep the existing telephone number when the store is transferred to Potential Transferee.

## **12.4 Death or Incapacity of Individual Franchisee; Change in Entity.**

### **a. Death or incapacity of Franchisee when Franchisee is an individual:**

(i) In the event of your death or incapacity, your legal representative may, for a period of ninety (90) days from the date of death or incapacitation, continue to operate the Franchised Business, provided that the operation is conducted in accordance with this Agreement and any other agreements with us.

(ii) If your representative desires to continue the operation of the Franchised Business beyond the ninety (90) day period, then, prior to the expiration of this period, your legal representative must apply in writing for the right to transfer the Franchised Business to the person or persons (whether spouse, heir, devisee, purchaser, or any other person), as the legal representative may specify. The application for transfer will be treated in the same manner as any other proposed Transfer under this Agreement.

(iii) If your legal representative does not comply with the provisions of the preceding paragraph, or does not propose a Potential Transferee acceptable to us under the standards set forth in this Agreement, all rights licensed to you under this Agreement will terminate immediately and automatically revert to us. We shall have the right and option, in our sole discretion, exercisable upon such termination, to purchase all removable furniture, fixtures, signs, equipment and other chattels, but not leasehold improvements, at a price to be agreed upon by the parties or, if no agreement as to price is reached by the parties, at such price as may be determined by a qualified appraiser, approved by both parties, such approval not to be unreasonably withheld. We shall give notice of our intent to exercise the option no later than twenty-one (21) days prior to termination.

### **b. Death or incapacity of any shareholder, partner, or member in Franchisee when Franchisee is a business entity:**

(i) In the event of the death or incapacity of any of your shareholders, partners, or members, the surviving shareholders, partners, or members may, for a period of ninety (90) days from the date of death or incapacitation, continue to operate the Franchised Business, provided that the operation is conducted in accordance with this Agreement and any other agreements with us.

(ii) If your shareholders, partners or members desire to continue the operation of the Franchised Business beyond the ninety (90) day period, then, prior to the expiration of this period, your shareholders, partners, or members must apply jointly with all surviving shareholders, partners or members in writing, for the right to transfer the Franchised Business (or the interest of the deceased or incapacitated shareholder, partner, or member in the Franchised Business), to the person or business entity as the surviving shareholders, partners, or members may specify. The application for transfer will be treated in the same manner as any other proposed Transfer under this Agreement.

(iii) If all surviving shareholders, partners or members do not comply with the provisions of the preceding paragraph, or do not propose a Potential Transferee acceptable to us under the standards set forth in this Agreement, all rights licensed to you under this Agreement will terminate immediately and automatically revert to us. We shall have the right and option, in our sole discretion, exercisable upon such termination, to purchase all removable

furniture, fixtures, signs, equipment and other chattels, but not leasehold improvements, at a price to be agreed upon by the parties or, if no agreement as to price is reached by the parties, at such price as may be determined by a qualified appraiser, approved by both parties, such approval not to be unreasonably withheld. We shall give notice of our intent to exercise the option no later than twenty-one (21) days prior to termination.

## **12.5 Assignment by Franchisor.**

You agree and affirm that we may, without your prior consent, sell our business, our assets, or our System, in whole or in part, to a third-party; may issue a public offering of our securities; may engage in private placement of some or all of our securities; may merge with or acquire other corporations, or be acquired by another corporation; and may undertake a refinancing, recapitalization, leveraged buyout or other economic or financial restructuring. You further agree and affirm that we have the right, now and in the future, without your prior consent, to purchase, merge, acquire or affiliate with an existing competitive or non-competitive franchise network, chain or any other business regardless of the location of such franchise network, chain or business, which you acknowledge may be proximate to your Franchised Business, and to operate, franchise or license such franchise networks, chains or businesses operating under the Proprietary Marks or any other marks following our purchase, merger, acquisition or affiliation. With regard to any of the above sales, assignments and dispositions, you expressly and specifically waive any claims, demands or damages against us arising from or related to the loss of your rights to use the System as authorized under this Agreement.

This Agreement will inure to the benefit of our successors and assigns. In conjunction with one (1) or more of the transactions contemplated above, or as otherwise determined by us, we have the right to assign our rights and obligations under this Agreement to any person or entity, without your prior consent. Upon such assignment, we will be relieved of all obligations or liabilities then existing or thereafter able to be asserted under this Agreement.

## **12.6 Restrictions on Security Interests and Subfranchising.**

Except as otherwise set forth in this *Section 12.6*, you shall not have any rights to pledge, encumber, hypothecate or otherwise give any third-party a security interest in this Agreement in any manner whatsoever, nor subfranchise or otherwise transfer, or attempt to subfranchise or transfer the Franchised Business, in whole or in part, so long as it is operated as the Franchised Business, without our express prior written permission, which permission may be withheld for any reason whatsoever in our sole discretion. Notwithstanding anything contained herein to the contrary, you shall have the right to pledge your accounts receivable, net of the Royalty Fee, Advertising Fee, and rent, without our prior written consent for the sole purpose of obtaining financing for the operation of the Franchised Business, provided you are in full compliance with this Agreement and any other agreement, arrangement or understanding with us.

## **ARTICLE 13. RENEWAL**

Subject to the terms and conditions described below, you will have the right to renew your license to operate the Franchised Business for an additional term of five (5) years. In the event you desire to renew your license, you must give us notice to that effect at least two hundred ten (210) days prior to the expiration date of the Term. In addition to giving the notice of renewal referred to above in a timely manner, in order to have the right to renew the license

to operate the Franchised Business for an additional term, you must also meet each of the following requirements:

a. You must not then be in default under this Agreement or any other agreement, legal instrument or document with us or any of our affiliates, and no event shall have occurred that, with the giving of notice, the passage of time, or both, would constitute a default under this Agreement, including all financial obligations to us;

b. You must be in complete compliance with the terms of this Agreement, including all financial obligations to us, and the then-current Confidential Manual;

c. You must not have received more than three (3) notices of default or breach of this Agreement during the Term, nor more than two (2) notices of default or breach during the five (5) years immediately preceding the effective date of the proposed renewal;

d. You must have the existing right to maintain possession of the Location or you must have secured and developed a suitable substitute location that meets our then-current minimum site requirements (such confirmation will be provided to you by us in writing);

e. You must sign a general release provided by us;

f. You and we must execute all agreements, legal instruments and other documents (individually and collectively, "Renewal Documents") then used by us in the renewal of franchises and then being required of new franchise owners in connection with the System. The Renewal Documents will supersede this Agreement, but will not terminate your liability to perform any obligations which you have not yet performed under this Agreement, or which survive the termination of this Agreement; nor will the Renewal Documents terminate or supersede any Guaranty of Franchise Agreement, Confidentiality Agreement, or Non-Disclosure and Non-Competition Agreement executed pursuant to this Agreement. The terms of the Renewal Documents may vary materially from the current agreements used by us, including the payment of a higher Royalty Fee and Advertising Fee;

g. The equipment, fixtures and signage used in connection with the operation of the Franchised Business must either meet our then-existing System specifications and standards, or you must agree, within a timeframe required by us, to replace or refurbish such items, and otherwise modify the methods of operation of the Franchised Business at your cost and expense, in order to comply with our System specifications and standards then applicable to new franchise owners;

h. You agree to complete all remodeling and improvements as required by us, and must upgrade the POS System to the then-current required POS System, within the time period specified by us; and

i. You shall have paid to us the Renewal Franchise Fee as required under *Section 5.12*.

If you do not meet any of the requirements for renewal, we will give you a notice to that effect which will specify the requirements not met. The notice will be given to you within sixty (60) days after you deliver to us your notice of intent to renew.

## ARTICLE 14.

## DEFAULT AND TERMINATION

### 14.1 Default; Termination.

a. You will be in default under this Agreement:

(i) If: (a) you become insolvent or make an assignment for the benefit of creditors; (b) you file a petition in bankruptcy, or if such a petition is filed against and consented to by you, and such petition is not dismissed within thirty (30) days from the filing date of such petition; (c) you are adjudicated bankrupt; (d) a bill in equity or other proceeding for the appointment of your receiver or other custodian for your business or assets is filed and is consented to by you or is not dismissed within thirty (30) days from the filing date of such bill or other proceeding; (e) a receiver or other custodian is appointed; (f) proceedings for composition with creditors under any state or federal law is instituted by or against you; (g) the real or personal property of the Franchised Business is sold at levy thereupon by any sheriff, marshal or constable, or sold by a secured party under any state's Commercial Code;

(ii) If you fail to pay, perform, observe or comply with any of your duties and obligations under this Agreement or the Confidential Manual, including failure to provide a fully-executed copy of the lease to us when due and failure to pay when due, any sum due to us under this Agreement (including the Royalty Fee and Advertising Fee) or to any Advertising Fund (inclusive of any Association); or if you breach any of your obligations under any lease, sublease, mortgage, equipment agreement, promissory note, vendor account, conditional sales contract or other contract arising from, or in connection with, the Franchised Business, to which you are a party or by which you are bound, whether or not we are a party thereto;

(iii) If your lease or sublease for the Location of the Franchised Business is either: (a) in default and you fail to cure such default as provided in the lease or sublease; (b) is terminated for reason of default by you; or (c) the Location is lost as a result of your failure to comply with the lease or sublease;

(iv) If you fail, within thirty (30) days of the entry of a final judgment against you in an amount exceeding Two Thousand Dollars (\$2,000), to discharge, vacate or reverse the judgment or to stay its execution pending appeal, or to discharge any judgment which is not vacated or reversed within thirty (30) days after expiration of the stay of execution;

(v) If we determine that a serious health or safety problem exists at the Franchised Business, in which case, we may require you to immediately correct the problem or cease operating until the problem is corrected;

(vi) If you, or any owner, co-owner or principal of the Franchised Business, is convicted of a felony, a crime involving moral turpitude, or any other crime or offense that is reasonably likely to adversely affect the System, the goodwill associated therewith, or our interest therein;

(vii) Except for any reason provided in *Section 5.2*, if you abandon the Franchised Business, which abandonment shall conclusively be deemed established if the Franchised Business is closed for more than three (3) consecutive days;

(viii) Except for any reason provided in *Section 5.2*, if you close or relocate the Franchised Business, without our express advance written consent;

(ix) If you fail to maintain an independent contractor relationship with us;

(x) If you either negligently or knowingly inaccurately report, or fail to report, any information in your franchise application;

(xi) If you or any owner, co-owner or principal of the Franchised Business commits an act, or permits an act to be committed, that violates any federal, state or local law that adversely impacts the Franchised Business;

(xii) If you fail to participate in any Rollout detailed in *Section 9.3*;

(xiii) If you violate any of the provisions of *Sections 2.3, 3.2, 9.2, 9.3 or 9.4* including the requirement that you: (a) sell or offer for sale only those products and services authorized by us; (b) purchase such authorized products and services only from suppliers or service providers who are approved in writing by us; and (c) utilize or switch to any of our designated approved suppliers, including a supplier who has entered into a national or regional master supplier agreement with us;

(xiv) If you transfer or attempt to transfer any rights or obligations under this Agreement or any other property or assets to any third-party in violation of the provisions of *Article 12*;

(xv) If you or any of your owners, officers, directors, managers, members, or partners (as applicable): (a) become subject to U.S. Executive Order 13224 or are involved in any activity that violates the U.S. Foreign Corrupt Practices Act or any other anti-corruption, bribery or any other laws, orders or governmental notices affecting your ability to conduct business in or with the United States, as may be amended and whether in effect as of the Effective Date or at any time during the Term, (b) are identified on the U.S. Department of the Treasury's Office of Foreign Assets Control Specialty Designated National and Blocked Persons list, or (c) receive any funding from any country that is subject to an embargo by the United States, any foreign government or government official, political party; or

(xvi) If you intentionally made any false representations and warranties under *Section 17.1*.

b. Cross-default: A default by you under this Agreement will be deemed a default of all agreements between: (i) you and your principals in his or her individual capacity or any other entity in which your principals are owners, members, managers, shareholders or partners (individually and collectively, "Franchisee Entity"); and (ii) us or any of our affiliates or predecessors (individually and collectively, "Franchisor Entity"). A Franchisee Entity's default of any other agreement, legal instrument or other document between the Franchisee Entity and a Franchisor Entity will be deemed a default under this Agreement. A default by any guarantor of your obligations under this Agreement or any agreement, legal instrument or document between a Franchisee Entity and a Franchisor Entity will be deemed a default of this Agreement.

c. Termination: If you fail to cure any default to our satisfaction, within the applicable period following notice from us, if applicable, or otherwise breach this Agreement, we

may, in addition to all other remedies at law or in equity or as otherwise set forth in this Agreement, immediately terminate this Agreement. This termination will be effective immediately upon the giving of notice pursuant to *Article 15*.

d. Cross-termination: If this Agreement is terminated as a result of your default of this Agreement or any other agreement related to the Franchised Business, we may, at our option, elect to terminate any or all other agreements, legal instruments or documents between a Franchisee Entity and a Franchisor Entity. If any agreement, legal instrument or document between a Franchisee Entity and a Franchisor Entity is terminated as a result of a default by the Franchisee Entity, we may, at our sole discretion, elect to terminate this Agreement. It is agreed that an incurable or uncured default under this Agreement or any other agreement, legal instrument or document between a Franchisee Entity and a Franchisor Entity will be grounds for termination of this Agreement or any other agreement, legal instrument or document between a Franchisee Entity and a Franchisor Entity, without additional notice or opportunity to cure.

## **14.2 Opportunity to Cure.**

a. Fourteen-Day Cure Period - Except as otherwise provided in this *Section 14.2*, you will have the right to cure your default under this Agreement within fourteen (14) days after notice of default is given by us pursuant to *Article 15*. Notwithstanding the foregoing, the following lesser periods will apply under the circumstances described:

b. Seven-Day Cure Period - A seven (7) day cure period will apply if you fail, refuse, or neglect to pay when due, any monies owing to us (including the Royalty Fee and Advertising Fee), or otherwise to any Advertising Fund (inclusive of any Association), or if you fail to maintain the insurance coverage set forth in this Agreement;

c. 48-Hour Cure Period – A forty-eight (48) hour cure period will apply (1) if you are in default of *Section 3.4* or (2) if you fail to participate in any limited time product offering, value offering, contest, promotion or charity event. You must initiate your participation in such offering, contest, promotion or event within forty-eight (48) hours and fully participate in such offering, contest, promotion or event as soon as reasonably possible, in our sole discretion, thereafter;

d. 24-Hour Cure Period - A twenty-four (24) hour cure period will apply to your violation of any law, regulation, order or our standards relating to health, sanitation or safety; or, except as provided in *Section 5.2*, if you cease to operate the Franchised Business for a period of forty-eight (48) hours without our prior written consent. In addition, a twenty-four (24) hour cure period will apply if you post on any Site or direct others to any site or page, post, blog or other social media site where there are posted any defamatory or offensive comments about: other franchisees; the *Surf City Squeeze* brand; other brands franchised by us or one of our affiliates; your or other franchisees' customers; any of our, your or franchisees' vendors; us or any of our affiliates; or any of our, your or franchisees' competitors;

e. Immediate Cure Period (less than 24 hours) – An immediate cure period (less than twenty-four (24) hours) will apply if you post any content to a Site in which the content includes any inappropriate public displays of affection, our or others' confidential information or materials, violations of health or safety standards, foul or obscene language, or any images of or information about any persons from whom you did not obtain prior written consent;

f. No Cure Period - No cure period will be available: (1) if you are in default of Sections 3.1, 7.2, 9.4, 14.1a.(i), 14.1a.(iii), 14.1a.(vi), 14.1a.(vii), 14.1a.(viii), 14.1a.(xiv), 14.1a.(xv), or 14.6; (2) if you intentionally underreport weekly Gross Sales, falsify financial data, fail to promptly provide upon our request financial data and records specified in this Agreement, or otherwise commit an act of fraud with respect to your rights or obligations under this Agreement; (3) if you repeatedly fail to comply with the provisions of this Agreement, whether or not subsequently cured; (4) if you, having twice previously cured a default of this Agreement, commit the default again; (5) if you made any false representations and warranties under Sections 17.1f., 17.1g., 17.1m. or 17.1n.; or (6) if you engage in trademark misuse or otherwise materially misuse or make an unauthorized use of any of the components of the System or commit any other act which does, or can reasonably be expected to, materially impair the goodwill or reputation associated with any aspect of the System;

g. Statutory Cure Period - If a statute in the state or municipality in which the Franchised Business is located requires application of that state or municipal law, and that statute requires a cure period for the applicable default which is longer than any cure period specified in this Article 14, the statutory cure period will apply.

### **14.3 Our Right to Take Over Management.**

We have the right (but not the obligation), under the circumstances described below, to enter the Franchised Business and assume the Franchised Business' management for any period of time we feel is appropriate. If we assume the Franchised Business' management, you must pay us, in addition to the Royalty Fee and Advertising Fee, six percent (6%) of the Gross Sales, plus our direct out-of-pocket cost and expenses, for the period of time we assume the Franchised Business' management. If we assume the Franchised Business' management, you acknowledge that our duty is limited to using our reasonable efforts, and we will not be liable to you or your owners for any debts, losses or obligations the Franchised Business incurs, or to any of your creditors for any supplies or services the Franchised Business purchases. We may assume the Franchised Business' management if you abandon the Franchised Business or if you fail to comply with any provision of this Agreement and did not cure the failure within the time period we specify in our notice to you. You agree to complete and sign a letter of agency, letter of authorization, or equivalent and provide it to us upon our request if we assume the Franchised Business' management so that we may keep the existing telephone, facsimile, alarm, and credit card machine numbers (as applicable) in operation under our phone service provider. You also agree to keep the phone, water, gas, electric service (as applicable) turned on and active for one (1) week after we assume the Franchised Business's management to allow us to switch the services over to us or our affiliate. Our exercise of our management rights under this Section 14.3 will not affect our right to terminate this Agreement.

### **14.4 Remedies.**

a. Interest, Costs and Damages - If you fail to remit when due any payments required under this Agreement, you agree to pay, in addition to the unpaid amounts, all of our collection costs and expenses, expert fees, reasonable attorneys' fees, and costs and expenses, including all fees, costs and expenses of court, including all appeals, with interest on the unpaid amounts at the Default Rate or the highest permissible rate. If you fail to cure a default, following notice, within the applicable time period set forth in Section 14.2, or if this Agreement is terminated as a result of your default, you shall pay to us all damages of any kind and nature whatsoever and all collection costs and expenses, expert fees, reasonable



attorneys' fees, and costs and expenses, including all fees, costs and expenses of court, including all appeals, together with interest at the Default Rate or the highest permissible rate. If you fail to report Gross Sales in accordance with *Sections 5.2 and 5.6*, we may estimate your Royalty Fee and Advertising Fee based on prior reports, and may sue for and obtain judgment for such estimates unless you prove, prior to the entry of any default order or judgment, that your Royalty Fee and Advertising Fee are different than the estimates.

b. Waiver of Punitive Damages - Both we and you waive, to the full extent permitted by law, any right we or you otherwise may have had to claim, pursue, demand or receive any exemplary or punitive damages arising out of or related in any way to this Agreement and its addenda, amendments, appendices, exhibits and attachments.

c. If you breach any of the terms of this Agreement, including if you are in default of this Agreement, we may enforce our rights by injunction, specific performance, or any other remedy available under this Agreement, at law or in equity, including termination. These remedies are cumulative and not exclusive and we may use all remedies available. In addition, we may elect to terminate this Agreement and all your rights under it as set forth in *Section 14.5*.

d. If you breach any of the terms of this Agreement, including if you are in default of this Agreement, we have the right to have a receiver appointed to take possession, manage and control the assets of the Franchised Business, collect the profits, and pay the net income for the operation of the Franchised Business as ordered by a court of competent jurisdiction. The right to appoint a receiver will be available regardless of whether waste or danger of loss or destruction of the assets exists.

#### **14.5 Effect of Termination or Expiration.**

Upon termination or expiration of this Agreement, we can advise all suppliers of *Surf City Squeeze* proprietary food items and other supplies bearing any of the Proprietary Marks or service marks to cease delivering the items and products to you.

Upon your abandonment of the Franchised Business (whether voluntary or involuntary), any termination of this Agreement (whether pursuant to *Sections 14.1, 14.2, 14.4*, or otherwise), or upon expiration of the Term, you must immediately cease to hold yourself out to the public as a franchise owner of the System, and you must comply with the following:

a. Immediately pay to us or any affiliate of ours all sums owing from you to us or such affiliate, including the Royalty Fee and Advertising Fee, for any period prior to the date of termination, the applicable Early Termination Damages (as defined in *Section 14.9* below), and all amounts owed for services, supplies or other items purchased by you from us or any affiliate of ours, or that were financed by us or any affiliate of ours, or which we or any affiliate of ours loaned to you, together with any interest or late fees accrued thereon, together with all other sums due us under this Agreement, and all damages of any kind or nature whatsoever that may be allowed by law;

b. Immediately cease to use, in any manner whatsoever, including in all advertising, the Proprietary Marks, any Trade Secrets, any Confidential Information, any benefits of the System or any part thereof, any methods associated with the System, any forms, recipes, Confidential Manual, slogans, signs, sign posts, marks, symbols, or devices used in connection

with the operation of the Franchised Business; and you must deliver or destroy all of the above-mentioned materials, including any materials containing or referencing any of the foregoing, to us as directed by us. If we do not recover any such items, such items shall be valued at their then-current replacement cost, for purposes of determining the damages owing by you to us for failure to return such items, if we pursue a damage claim as a result thereof;

c. Immediately discontinue all advertising as a franchisee of the System, and thereafter refrain from any advertising that would indicate that you are or ever were a franchisee or licensee of ours, or otherwise were affiliated with us or the System;

d. Immediately take such steps as may be necessary or appropriate to:

(i) delete your listing in all telephone directories, if applicable, and terminate any other listings that indicate that you are or were a franchisee or licensee of ours, or otherwise were affiliated with us or the System; and

(ii) transfer to our designee or us all telephone numbers used by you in connection with the Franchised Business. You acknowledge that between you and us, we have the sole right and interest in all telephone numbers and directory listings associated with any Proprietary Marks, and you authorize us and appoint us and any officer or agent of ours, as your attorney-in-fact, to direct the telephone company and all listings agencies to accept such direction, or this Agreement, as conclusive evidence of our exclusive rights in such telephone numbers and directory listings and our authority to direct their transfer;

e. Immediately take such action as may be required to cancel all fictitious or assumed names, amend any entity name, or dissolve any entity that contains any Proprietary Mark, in whole or in part, regardless of whether the entity name was authorized by us, and amend or cancel any and all equivalent registrations relating to your use of any Proprietary Mark. You acknowledge that between you and us, we have the sole right and interest in all such fictitious or assumed names, entity name, and equivalent registrations, and you authorize us and appoint us and any officer or agent of ours as your attorney-in-fact, to effect the termination or cancellation of such fictitious or assumed names or equivalent registrations should you fail or refuse to do so, and the appropriate federal, state, and local agencies may accept your direction or this Agreement as conclusive evidence of our exclusive rights in such fictitious or assumed names or equivalent registrations, and our authority to direct their termination or cancellation;

f. Comply with the confidentiality requirements and the covenant against competition in this Agreement for the specified period. You acknowledge that you, or (if an entity) your authorized representative, has carefully reviewed the confidentiality requirements and the covenant against competition in this Agreement; and that you have agreed to be bound by all the requirements and covenants; and

g. Maintain at a place made known to us all books, records and reports required under this Agreement for a period of not less than three (3) years after the date of termination or expiration of this Agreement, to allow us to make a final inspection of your books and records for the purpose of verifying that all amounts owing have been paid.

If you fail to do any of the foregoing, we may pursue any remedy available at law or in equity against: (i) you; (ii) any or all guarantors of your obligations under this Agreement; and (iii) you and any or all guarantors of your obligations under this Agreement.

h. Right of First Refusal. We have the right, but not the obligation, to purchase from you any assets or property (but not leasehold improvements) used in the operation of the Franchised Business for an amount equal to the Value (as defined below), as of the expiration date or termination date, as applicable ("RoFR"). If we are required, by law, regulation or court order, to purchase the equipment and other tangible assets used in connection with the Franchised Business, the purchase price will be equal to the Value. For purposes of this Agreement, the term "Value" means, subject to applicable law, the lesser of: (i) an amount equal to the original cost for such assets, less depreciation computed using a two hundred percent (200%) declining balance method over a five (5) year period with a salvage value equal to the original cost divided by the greater of: five (5), or the total age in years (including a fraction thereof); or (ii) Franchisee's actual initial cost of acquiring such assets, if pre-owned, depreciated by twenty percent (20%) per year (including a fraction thereof); or (iii) the fair market value of such assets. If all, or any portion of, the assets that are being purchased by us or our authorized representative are subject to lien(s), we or our authorized representative may, in our sole and absolute discretion, pay, on Franchisee's behalf, the lienholder(s) that portion of the purchase price for the assets (which may be the entire purchase price) that is necessary to obtain the release of those assets from the lien(s), in lieu of paying you those funds. Further, we may offset any amounts payable to you pursuant to this *Section 14.5.h*, or otherwise pursuant to this Agreement, against any unpaid amounts payable to us or our affiliates pursuant to this Agreement or any agreement executed in connection with this Agreement.

In the event Franchisor exercises this RoFR, Franchisor will send to Franchisee a written notice whereby Franchisee shall be required to sell and turnover us such assets for an amount equal to the Value within thirty (30) days. If you fail to comply with this section, then you will be in breach of the Agreement and shall owe damages in the cumulative amount of (i) the amount of the replacement cost of such assets (including installation costs) minus the Value. For the avoidance of doubt, and for example purposes, in the event that we purchase such assets and some are missing or broken beyond repair, you shall owe damages in the amount of the replacement cost of those missing or broken assets minus the Value of those assets.

#### **14.6 Covenant Not to Compete; Conflicting Interests.**

a. During the Term and for a period of two (2) years after your abandonment of the Franchised Business, expiration of this Agreement, or termination of this Agreement (whether voluntary or involuntary), you shall not engage in any Competing Business (as defined in *Section 14.6c.*) with any *Surf City Squeeze* restaurant, nor shall you have any Conflicting Interest (as defined in *Section 14.6d.*) in a Competing Business. The provisions of this Agreement bind you in any capacity, including as a franchisee, sole proprietor, partner, limited partner, member, employer, franchisor, shareholder, officer, director or employee.

b. During the Term, and for a period of two (2) years after your abandonment of the Franchised Business, expiration of this Agreement, or termination of this Agreement (whether voluntary or involuntary), you shall not divert or attempt to divert any business, customers, or potential customers of the *Surf City Squeeze* System to any Competing Business, by direct or indirect inducement or otherwise. In addition, you shall not at any time do or perform any act, directly or indirectly, which harms the goodwill or reputation of us or the System.

c. For purposes of this *Section 14.6*, “Competing Business” means a business which is primarily engaged in the sale of smoothies, and all variations thereof, within a geographical area consisting of: (1) during the Term, anywhere else; and (2) after abandonment, expiration or termination of this Agreement, within a ten (10) mile radius from the Location or location of any *Surf City Squeeze* restaurant of ours, our third-party licensees or our third-party franchisees. The term “*Surf City Squeeze* restaurant” includes not only the restaurants now in existence, but also those established at a later date. The term of this covenant will be extended by any time consumed in litigation to enforce it in both trial and appellate courts. If a court of competent jurisdiction determines that the restrictions in this paragraph are excessive in time, geographic scope, or otherwise, the court may reduce the restriction to the level that provides the maximum restriction allowed by law.

d. For purposes of this *Section 14.6*, “Conflicting Interest” means an interest by which you, or your executive officers, directors and shareholders (if you are a corporation), or your partners (if you are a partnership), or your members (if you are a limited liability company), or your designated manager, spouses, and/or guarantor(s) directly or indirectly, have a controlling interest in, lend money to, consult with or otherwise assist any Competing Business. If any of the persons named above do not sign this Agreement under the heading “Personal Acceptance of *Sections 7.1, 7.2, 14.6 and 14.8*,” then you agree to obtain the execution by such person of a written agreement setting forth the foregoing in a form acceptable to us.

#### **14.7 Continuing Obligations.**

All your obligations that expressly survive the expiration or termination of this Agreement, including *Sections 14.5 and 14.6*, or by the implicit nature thereof require performance after the expiration or termination of this Agreement, will continue in full force and effect (subsequent to, and notwithstanding, your abandonment of the Franchised Business (whether voluntary or involuntary) the expiration of the Term, or termination of this Agreement), until they are satisfied in full or by their nature expire. The indemnities and obligations set forth in *Article 8* will continue in full force and effect subsequent to, and notwithstanding, the expiration or termination of this Agreement.

#### **14.8 Remedies.**

You acknowledge and agree that the restrictions contained in this Agreement, including in this *Article 14*, are fair and reasonable and necessary for the protection of our legitimate business interests and you intend and agree that such restrictions be enforceable and enforced to their fullest extent. You further understand and agree that, notwithstanding any other provision of this Agreement, your breach of your obligations under this *Article 14*, will cause us irreparable harm for which recovery of monetary damages alone would not be an adequate remedy. Both parties shall be entitled to obtain timely injunctive relief, including a temporary restraining order, preliminary and permanent injunctions, to protect their rights under this Agreement, in addition to and not exclusive of any and all other remedies available to each party.

#### **14.9 Early Termination Damages.**

If you discontinue operating your Franchised Business before this Agreement expires, with or without obtaining our prior written consent, or in the event of a termination of this Agreement arising from or related to your default and breach of its provisions, you will become

obligated to pay Franchisor early termination damages ("Early Termination Damages"). The Early Termination Damages shall be considered damages and not a penalty, are not in lieu of other damages, and your payment of these damages shall not constitute a release of any other obligation owed to us. Franchisor, Franchisee, each individual signing on behalf of Franchisee, and each guarantor guaranteeing Franchisee's obligations hereunder, hereby acknowledge and agree that Franchisor's losses due to Franchisee's unilateral closure of the Franchised Business or termination of this Agreement would be highly difficult or impossible to calculate with reasonable certainty and, therefore, have agreed at the outset of this Agreement that the Early Termination Damages, and the formula for calculating these damages, constitutes a reasonable, good faith forecast of Franchisor's estimated losses and damages due to the premature closure of the Franchised Business or termination of this Agreement.

The amount of the Early Termination Damages is calculated as follows:

- a. Compute the average monthly Royalty Fee and Advertising Fee due for any consecutive twelve (12) month period within the forty-eight (48) months immediately preceding the date we receive notification of the closure, or if you failed to timely notify us of the closure then the date the Franchise Business closed, or, if the Franchised Business has been open for less than twelve (12) months, the average monthly Royalty Fee and Advertising Fee due since the opening of the Franchised Business ("Monthly Average");
- b. Multiply the Monthly Average by the number of months remaining in the Term;  
and
- c. Divide the resulting total computed in b. above by two (2).

For example purposes only: If the average monthly Royalty Fee and Advertising Fee were collectively \$1,000 and there were five years (60 months) remaining in the Term, the Early Termination Damages would be \$30,000, calculated as follows:  $\$1,000 \times 60 \text{ months} = \$60,000 \div 2 = \$30,000$ .

If you unilaterally close the Franchised Business and/or unilaterally terminate this Agreement prior to the end of the Term, you must give us at least ninety (90) days prior notice of the early termination ("Early Termination Notice") pursuant to the applicable notice requirements as set forth in Article 15 of this Agreement. For avoidance of doubt, sending the Early Termination Notice via facsimile, email or through other electronic means does not constitute proper notice). Within ten (10) days after our receipt of your Early Termination Notice, we will calculate the Early Termination Damages, which will be due and payable thirty (30) days prior to the closure of your Franchised Business. In the event of a closure or termination arising from or related to your default under this Agreement, or if you do not: (i) timely or properly provide us with the Early Termination Notice at least ninety (90) days prior to the early termination of your Franchised Business and this Agreement; (ii) remain open for at least ninety (90) days after providing us with the Early Termination Notice; and (iii) pay the Early Termination Damages in full at least thirty (30) days prior to closing of the Franchised Business, the Early Termination Damages due may, in our sole discretion, be increased as follows: it will be calculated by multiplying the Monthly Average by the number of months remaining in the Term, and will not be divided by two (2).

If you have not paid your Royalty Fee and/or Advertising Fee for any period(s) within the forty-eight (48) months prior to notifying us of your early closure or termination, or if you have

not reported your Gross Sales for any period(s) within the forty-eight (48) months prior to notifying us of your intended early termination, we will estimate the Royalty Fee and Advertising Fee based upon prior reports to calculate the Monthly Average.

## **ARTICLE 15. NOTICES**

Unless otherwise provided in this *Article 15*, all notices specified by this Agreement or required by law must be in writing and given by personal delivery, sent by carrier (i.e., FedEx®, UPS®, etc.), U.S. certified mail, return receipt requested. All notices to us must be given at the address set forth below or to such other address as we may designate in writing from time to time in accordance with this *Article 15*. All notices to you may be given at the address set forth below, at the address of the Franchised Business, at any of your franchised restaurants, at your residence (if an individual), or at the residence of your principal shareholder(s), partner(s), or member(s) (if a business entity). Notices will be conclusively deemed to be given, delivered, and effective when sent pre-paid and actually left in the custody of an adult agent, employee or resident at a place of business or residence if given by personal delivery; or if given by carrier, twenty-four (24) hours after deposited with carrier, or if by U.S. certified mail, three (3) days after deposited with the U.S. Postal Service. You have an obligation to promptly notify us pursuant to this *Article 15* whenever your mailing address, phone number or email address change. Notwithstanding the foregoing, only Franchisor has the right to give you written notice via email to an email address you provide us regarding all notices specified by this Agreement or required by law, with such email notification to be deemed received by you twenty-four (24) hours after we send it, unless you otherwise earlier acknowledge receipt.

If to Franchisor: KAHALA FRANCHISING, LLC  
Attn: Legal Department  
9311 E. Via De Ventura  
Scottsdale, Arizona 85258

If to Franchisee: FRANCHISEE ENTITY, a[n] \_\_\_\_\_  
Attn: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Telephone No. \_\_\_\_\_  
Email(s): \_\_\_\_\_

## **ARTICLE 16. CONSTRUCTION AND ENFORCEMENT; MISCELLANEOUS**

### **16.1 Independent Contractors.**

The relationship between you and us is that of independent contractors. You are in no way to be deemed our partner, joint venturer, agent, employee, or servant. You have no authority to bind us to any contractual obligation or incur any liability for or on our behalf. You shall identify yourself as an independent owner of the Franchised Business in all dealings with customers, lessors, contractors, suppliers, public officials, employees, and others.

### **16.2 Severability and Substitution of Provisions.**

Except as provided to the contrary in this Agreement, each article, section, term and provision of this Agreement, and any portion thereof, will be considered severable, and if, for

any reason, any such portion of this Agreement is held to be invalid, contrary to, or in conflict with any applicable present or future law or regulation, or as a result of a final, non-appealable ruling issued by any court, agency or tribunal with competent jurisdiction in a proceeding to which we are a party, that regulation or ruling will not impair the operation of, or have any other effect upon, such other portions of this Agreement as may otherwise remain valid, and such other portions will continue to be given full force and effect and bind the parties to this Agreement. If the severed provision is material to this Agreement, we shall promptly provide a substitute provision to replace the invalid severed provision consistent with then-current law and the original intent of the parties.

If any applicable and binding law or rule of any jurisdiction requires a greater prior notice of the termination of, or refusal to renew, this Agreement than is required under this Agreement, or the taking of some other action not required under this Agreement, or if under any applicable law, regulation, or court ruling of any jurisdiction, any provision of this Agreement or any specification, standard or operating procedure prescribed by us is invalid or unenforceable, the prior notice or other action required by such law, regulation, or court ruling will be substituted for the comparable provisions of this Agreement, and we will have the right, in our sole discretion, to modify such invalid or unenforceable provision, specification, standard or operating procedure to the extent required to be valid and enforceable. Such modifications to this Agreement shall be effective only in such jurisdiction, unless we elect to give them greater applicability, and otherwise shall be enforced as originally made and entered into in all other jurisdictions.

### **16.3 Dispute Resolution.**

a. Except as otherwise provided herein, any dispute, claim or controversy arising out of or relating to this Agreement, the breach hereof, the rights and obligations of the parties hereto or the relationship between the parties, or the entry, making, interpretation, or performance of either party under this Agreement ("Dispute"), which cannot be resolved by mediation under Section 16.3d. or is not subject to mediation under the terms of this Agreement, shall be settled by binding arbitration administered by the American Arbitration Association ("AAA") before a single arbitrator in accordance with its Commercial Arbitration Rules as modified below, and pursuant to the Federal Arbitration Act, 9 U.S.C. §1 et seq.

b. Except to the extent that the United States Trademark Act of 1946, as amended (15 U.S.C. § 1051 *et seq.*), the laws of the State where the Franchised Business is located govern all rights and obligations of the parties under this Agreement without regard to conflict of law, and any arbitration shall take place before a sole arbitrator in the County of the State where the Franchised Business is located. The parties agree that the arbitrator shall be an attorney licensed to practice law in the United States and must have a minimum of five (5) years of experience in franchise law. Judgment on the award rendered by the arbitrator may be entered in any court of competent jurisdiction. The arbitrator shall, in the award, allocate all of the costs and expenses of the arbitration, including the fees of the arbitrator and the reasonable attorneys' fees of the prevailing party, against the party who did not prevail. This agreement to arbitrate shall survive termination or expiration of this Agreement. The parties agree that any arbitration shall be solely between them (including any affiliates) and shall not include as a party, by consolidation, joinder, or in any other manner, any other person or entity, unless both parties to this Agreement consent in writing. Both parties shall have the absolute right to refuse such consent. The parties expressly waive any right to bring or participate in any class or other consolidated, joined or multi-party arbitration claim or proceeding, whether or not permissible under the AAA Commercial Arbitration Rules, including any claim brought on their behalf by an

association of which it, he or she is a member. At the request of either party, the arbitration shall be conducted in a manner that maintains the confidentiality of the proceedings.

c. The arbitrator will issue a reasoned award, with findings of fact and conclusions of law. Actions to enforce an express obligation to pay monies may be brought under the Expedited Procedures of the AAA's Commercial Arbitration Rules. Discovery shall be conducted according to the AAA Commercial Arbitration Rules.

d. Prior to the commencement of an arbitration proceeding, a party must notify the other party of its intent to commence arbitration by providing written notice to the other party that describes the facts and subject matter of the Dispute at least sixty (60) days prior to commencing arbitration with the AAA. During the sixty (60) days after a written notice of intent to arbitrate is received by either party, the parties must first mediate the Dispute with a mutually agreed upon private mediator. At the request of any party, the mediation will be confidential. The mediation shall be conducted in the County of the State where the Franchised Business is located, unless the parties mutually agree to a different location. The parties to the mediation will share equally in its costs and expenses, except those costs and expenses incurred separately by each party, including counsel fees and expenses. The mediation process will be deemed "Completed" when the parties agree that it has been completed, the mediator declares that any impasse exists, or sixty (60) days have elapsed since the date of the initiating party's notice to the other party that it is initiating the mediation process, whichever occurs first.

e. Notwithstanding anything contained in this Agreement to the contrary, the provisions of Sections 16.3a., 16.3b., 16.3c. and 16.3d. do not apply to a Dispute where: (i) we bring an action for an express obligation to pay monies, declaratory relief, preliminary or permanent equitable relief, any action for damage to our goodwill, the Confidential Information, the Proprietary Marks or for fraudulent conduct by you; or (ii) the delay resulting from the dispute resolution process set forth in section 16.3 may endanger or adversely affect the public (for example, unhealthy, unsafe or unsanitary conditions would continue to exist), or may cause irreparable harm to Franchisor or its affiliates. For such Disputes, we may bring an action in any federal or state court having jurisdiction, whether for monetary damages, temporary and permanent injunctive relief or specific performance in addition to, and not exclusive of, any other remedies available to us. You hereby consent to and waive any objection or defense and agree not to contest venue, forum non conveniens or jurisdiction of such court. THE PARTIES AGREE THAT ALL DISPUTES SUBMITTED TO THE COURT PURSUANT TO THIS SECTION SHALL BE TRIED TO THE COURT SITTING WITHOUT A JURY, NOTWITHSTANDING ANY STATE OR FEDERAL CONSTITUTIONAL OR STATUTORY RIGHTS OR PROVISIONS.

f. Disputes concerning the validity or scope of arbitration, including whether the Dispute is subject to arbitration, are beyond the authority of the arbitrator and will be determined by a court of competent jurisdiction pursuant to the Federal Arbitration Act, 9 U.S.C. §1 et seq., as amended from time to time.

g. To the extent Law permits, any Dispute arising out of or relating to this Agreement, whether in arbitration or in court, will be conducted only on an individual basis and not in a class, consolidated or representative action. Notwithstanding any other provision of this Agreement or the AAA Rules, disputes regarding the interpretation, applicability, or enforceability of this class waiver may be resolved only by a court and not by an arbitrator. If this waiver of class or consolidated actions is deemed invalid or unenforceable, neither party is entitled to arbitration.



#### **16.4 Statute of Limitations and Limitation on Franchisor Liability.**

a. Notwithstanding anything contained in this Agreement to the contrary, the parties agree that any claims under, arising out of, or related to, this Agreement must be brought within two (2) years of the date on which the underlying cause of action accrued, and the parties hereby waive any right to bring any such action after such two (2)-year period, except for the collection of any unpaid Royalty Fee, Advertising Fee, and any other amount due to us or our affiliate.

b. **YOU HEREBY WAIVE THE RIGHT TO SEEK OR COLLECT PUNITIVE, MULTIPLE, CONSEQUENTIAL AND SPECIAL DAMAGES IN ANY FORUM, INCLUDING ARBITRATION. YOU HEREBY FURTHER WAIVE THE RIGHT, IF ANY, OF ANY ASSOCIATION OR MEMBERSHIP GROUP TO ASSERT CLAIMS ON YOUR BEHALF IN ANY ACTION.**

c. **YOU HEREBY WAIVE THE RIGHT TO ANY DAMAGES IN CONNECTION WITH OR RESULTING FROM THE WRONGFUL ISSUANCE OF AN INJUNCTION.**

d. The parties agree that the maximum damages that you may recover in connection with a wrongful termination of your franchise and this Agreement will be an amount equal to the product of:

(i) the annual net profit (as defined below) multiplied by the lessor of:

(a) The number of full years existing between the date on which the franchise and this agreement were wrongfully terminated and the date on which the Term would have otherwise expired; or

(b) Three.

For purposes of this Agreement, the term "net profit" means an amount equal to the net profits of your Franchised Business, as reflected on your tax return filed with the Internal Revenue Service prior to such termination; provided, however, that if such tax return reflects the operations of your Franchised Business for a period less than one (1) year, such net profits will be annualized based upon the net profits reflected in such tax return.

#### **16.5 No Guarantee of Franchisee's Success.**

You have been informed of and acknowledge the highly competitive nature of the business involved, and agree that the successful operation of your Franchised Business will depend in part, upon your best efforts, capabilities, management, and efficient operation; as well as the general economic trend and other market conditions.

#### **16.6 Existence of Various Forms of Franchise Agreements.**

You acknowledge that our present and future franchisees operate under a number of forms of franchise agreements and consequently, our obligations and rights with respect to our various franchisees may differ materially in certain instances. The existence of different forms or versions of the franchise agreement does not entitle you to benefit from any such difference; nor does it operate to alter or amend the agreement of the parties set forth in this Agreement.

#### **16.7 Franchise Owner May Not Withhold Payments.**

You agree that you will not, on grounds of alleged or actual nonperformance or breach by us of any of our obligations under this Agreement, withhold payment of any Royalty Fee, Advertising Fee, amounts due to us or any of our affiliates for goods or services purchased by you, or any other amounts due to us or any of our affiliates.

#### **16.8 Remedies Are Cumulative.**

The rights and remedies of the parties to this Agreement are cumulative and not exclusive, and no exercise or enforcement by either party of any right or remedy under this Agreement shall preclude the exercise or enforcement by such party of any other right or remedy under this Agreement or otherwise available at law or in equity to such party.

#### **16.9 Interpretation.**

All the terms and provisions of this Agreement will be binding upon and inure to the benefit of the successors and assigns of the parties. However, nothing in this *Section 16.9* may be construed as our consent to the Transfer of this Agreement or any rights by you.

#### **16.10 Waiver.**

Our failure to insist upon the strict performance of any term, covenant or condition contained in this Agreement will not constitute or be construed as a waiver or relinquishment of our right to enforce thereafter any such term, covenant or condition and such term, covenant or condition will continue in full force and effect. For example, Franchisor's acceptance of any payments made, or Franchisor's failure to require any payments, by Franchisee after a breach of this Agreement shall not be, nor be construed as, a waiver by Franchisor of any breach by Franchisee of any term, covenant or condition of this Agreement or of Franchisor's right to later require such payments as a result of such prior breach.

#### **16.11 Litigation Expense.**

If an action at law or suit in equity is brought to establish, obtain or enforce any right by either of the parties to this Agreement, the prevailing party in the suit or action, in the trial and appellate courts, will be entitled to recover from the non-prevailing party reasonable attorneys' fees, costs and expenses and disbursements incurred in such suit or action.

#### **16.12 No Third-Party Beneficiaries.**

This Agreement is not intended to benefit any other person or entity except the named parties hereto and no other person or entity shall be entitled to any rights hereunder by virtue of so-called "third-party beneficiary rights" or otherwise.

#### **16.13 Binding Effect; Modification.**

This Agreement is binding upon the parties to this Agreement and their respective executors, administrators, personal representatives, heirs, permitted assigns and successors in interest. No amendment, change, or modification of this Agreement shall be binding on any party unless executed in writing by you and us.

#### **16.14 Entire Agreement; Nature and Scope; Construction.**

This Agreement, all exhibits, attachments, addendums, and amendments, constitute the entire understanding and agreement between the parties, and there are no other oral or written understandings or agreements between us and you relating to the subject matter of this Agreement. If required to be signed, any state specific addendums are incorporated herein by reference. Any representation not specifically contained in this Agreement made prior to entering into this Agreement does not survive subsequent to the execution of this Agreement. We and you have entered into this Agreement for the sole purpose of authorizing you to use the System licensed by this Agreement in the operation of the Franchised Business during the Term in which those specific items designated by us for sale and use in such locations are offered for sale and use in individual, face-to-face transactions with patrons visiting the Franchised Business (and equivalent telephone, online, or mail transactions accepted as a convenience to that customer group). All consideration being furnished by us to you during the course of performance of this Agreement has been determined based on the limited rights and other limitations expressed herein. No other rights have been bargained for or paid for. This provision is intended to define the nature and extent of the parties' mutual contractual intent, there being no mutual intent to enter into contract relations, whether by agreement or by implication, other than as set forth in this Agreement. The parties further acknowledge that these limitations are intended to achieve the highest possible degree of certainty in the definition of the contract being formed, in recognition of the fact that uncertainty creates economic risks for both parties which, if not addressed as provided in this Agreement, would affect the economic terms of this bargain.

Nothing in this Agreement or in any related agreement is intended to disclaim the representations we made in the Disclosure Document. Nothing in this Agreement is intended, nor shall be deemed, to confer any rights or remedies upon any person or legal entity not a party hereto.

#### **16.15 Terminology.**

In addition to the terms defined elsewhere in this Agreement, the following terms defined below are incorporated in this Agreement by reference and shall be deemed to include all persons who succeed to the interest of the original, where applicable:

The term "affiliate" means any person who, directly or indirectly through one (1) or more intermediaries, controls, is controlled by, or is under common control with any person;

The term "Dollars" means United States Dollars and all amounts due under this Agreement shall be paid in United States currency;

The use of the terms "includes" and "including" in any provision of this Agreement followed by specific examples used shall not be construed to limit application of the provision to only the specific examples used;

The term "person" means any natural person, corporation, partnership, trust, other entity, association or form of organization;

The term "will" and "shall" shall be synonymous, and shall be mandatory and not discretionary, unless otherwise specifically provided herein; and

Any references to articles or sections refer to articles and sections in this Agreement unless specified otherwise.

#### **16.16 Counterparts.**

This Agreement may be executed in one (1) or more original counterparts, and all of which, when taken together, shall be deemed to be one (1) original Agreement. The signatures required for execution may be transmitted to the other party via facsimile or a scanned .pdf file sent via email and such signature shall be deemed a duplicate original, shall be effective upon receipt by the other party, may be admitted in evidence and shall fully bind the party and person making such signature. A fully-executed copy of this Agreement shall be of the same force and effect as the original.

#### **16.17 Offerings.**

If you are a corporation, partnership or other entity, and if you intend to offer securities, partnership interests or other ownership interests in you through any public or private offering, you shall not use any Proprietary Marks in such public or private offering, except to reflect your franchise relationship with us; nor shall you misrepresent your relationship with us by any statement or omission of an essential statement. You shall indemnify and hold us harmless from any liability in connection with such offering. Nothing in the foregoing shall modify the provisions of *Article 12*, and no such offering shall be made without first complying with any applicable provisions of *Article 12*.

#### **16.18 Time.**

Time is of the essence of each and every provision of this Agreement.

#### **16.19 Force Majeure.**

Neither of the parties will be liable for loss or damage or be deemed to be in breach of this Agreement if the failure to perform the party's obligations results from: (a) transportation shortages, inadequate supply of equipment, merchandise, supplies, labor, material or energy, or the voluntary foregoing of the right to acquire or use any of the foregoing in order to accommodate or comply with the orders, requests, regulations, recommendations or instructions of any government or any department or agency thereof, or (b) acts of God, and in each case being unforeseeable forces which Franchisee could not by the exercise of due diligence have avoided; provided however that Franchisee must: (i) immediately upon the start of the above-mentioned act, provide written notice to Franchisor that it expressly enacts its rights granted under this Section, and (ii) use all commercially reasonable efforts to mitigate the effect of the event of Force Majeure upon its performance and to fulfill its obligations under this Agreement. Any delay resulting from any of these causes will extend performance accordingly or excuse performance, in whole or in part, as may be reasonable, except that no such cause will excuse payments of amounts owed at the time of such occurrence or payment of the Royalty Fee and all other amounts due to us and our affiliates thereafter, or permit Franchisee to permanently close the Franchised Business.

## **16.20 Plurals and Captions.**

Words in the singular number include the plural when the context requires (and vice-versa). The table of contents and the captions are inserted only for convenience and are not a part of this Agreement or a limitation of the scope of the particular article or section to which each refers.

## **16.21 Joint and Several Liability.**

If you consist of two (2) or more individuals, whether in the form of separate individuals or a business entity controlled by the individuals, then each individual and each business entity will be jointly and severally liable under the provisions of this Agreement.

## **16.22 Trademark Notice.**

All trademarks referenced in this Agreement are those of their respective owners.

## **16.23 No Accord or Satisfaction.**

If you pay, or we otherwise receive, a lesser amount than the full amount provided for under this Agreement for any payment due hereunder, such payment or receipt may, in our sole discretion, be applied against the earliest amount due us. In addition, if interest or late fees are owed, we may, in our sole discretion, apply any amounts paid to the late fees and interest before such amounts are applied to the principal amount owed. We may accept any check or other payment in any amount without prejudice to our right to recover the entire balance of the amount due or to pursue any other right or remedy. No endorsement or statement by you on any check or payment or in any letter accompanying any check or payment or elsewhere shall constitute or be construed as an accord or satisfaction.

# **ARTICLE 17. ACKNOWLEDGMENTS AND REPRESENTATIONS OF FRANCHISEE**

## **17.1 Certain Representations and Warranties of Franchisee.**

You represent and warrant that the following statements are true and complete as of the Effective Date:

a. You do not seek to obtain the Franchised Business for speculative or investment purposes and have no present intention to sell or transfer or attempt to sell or transfer the Franchised Business except as previously approved by Franchisor and subject and conditioned to Article 12 of this Agreement.

b. You understand and acknowledge the value to the System of uniform and ethical standards of quality, appearance and service described in and required by the Confidential Manual and the necessity of operating the Franchised Business under the System Standards. You represent that you have the capabilities, professionally, financially and otherwise, to comply with our System Standards.

c. If you are a corporation, limited liability company, partnership, or other form of entity, you are duly incorporated, organized, or formed and are qualified to do business in the state and any other applicable jurisdiction within which the Franchised Business is located, and you are and shall remain duly organized and in good standing during the Term.

d. You represent and warrant that: (i) if you are an individual, you are; or (ii) if you are an entity, that each of your owners, shareholders, partners, and members are, a United States citizen or a lawful resident alien of the United States.

e. All financial and other information that you have provided to us or otherwise made available to us in connection with your application for this franchise is true, complete, accurate, and not intentionally misleading.

f. The execution of this Agreement by you will not constitute or violate any other agreement or commitment to which you are a party.

g. Any individual executing this Agreement on your behalf is duly authorized to do so and the Agreement shall constitute your valid and binding obligation and, if applicable, all of your partners, members, or shareholders, if you are a partnership, limited liability company, or corporation.

h. You have, or if you are a partnership, corporation or other entity, your partners or principals have, carefully read this Agreement and all other related documents to be executed by you concurrently or in conjunction with the execution hereof; that you have obtained, or had the opportunity to obtain, the advice of counsel in connection with the execution and delivery of this Agreement; that you understand the nature of this Agreement and that you intend to comply with and be bound by this Agreement.

i. You have read and understand the information and disclosures made in the Disclosure Document provided to you as acknowledged in *Section 17.3e*. You understand and acknowledge that: (i) estimates for initial start-up expenses are estimates only and there can be additional start-up expenses; and (ii) your sales may differ substantially from any sales provided in Item 19 of the Disclosure Document, and there is no assurance that your sales will meet or exceed any sales listed in Item 19 of the Disclosure Document. You have had the opportunity to and have consulted or elected not to consult with your attorney, accountant and business advisors before entering into this Agreement.

j. You understand and agree that, while not applicable in every case, our past experience indicates that owner-operated restaurants generally perform better than absentee owners with hired managers. The food business is a personal business and is dependent upon your business skill and judgment. This includes your choice of employees. Your skill in hiring the right people to work in your Franchised Business is very important in determining whether people decide to purchase menu items from your Franchised Business or from another restaurant in the same vicinity.

k. You understand and agree that ownership of a franchise and the Franchised Business carries certain risks. These risks include the loss of your initial investment, other continued financial losses such as rent payments due under lease obligations and other contractual obligations, the loss of your time and energy in starting up and running your Franchised Business, and loss of earnings and investment income from your investment in the Franchised Business. You understand and agree that the Franchised Business may make money and may lose money and are entering this business venture with this express understanding. You are not relying upon anything which is not contained within this Agreement or the Disclosure Document in determining and deciding to become a franchisee.

l. Notwithstanding the foregoing, you understand and agree that the System must not remain static if it is to meet (without limitation) presently unforeseen changes in technology, competitive circumstances, demographics, populations, consumer trends, social trends and other market place variables, and if it is to best serve the interests of us, you and all other franchisees. Accordingly, you expressly understand and agree that we may from time to time change the components of the System, including altering the products, programs, services, methods, standards, forms, policies and procedures of that System; abandoning the System altogether in favor of another system in connection with a merger, acquisition or other business combination or for other reasons; adding to, deleting from or modifying those products, programs and services which your Franchised Business is authorized and required to offer, modifying or substituting entirely the equipment, signage, trade dress, décor, color schemes and uniform System Standards and specifications and all other unit constructions, design, appearance and operation attributes which you are required to observe under this Agreement; and, abandoning, changing, improving, modifying or substituting the Proprietary Marks. You expressly agree to comply with any such modifications, changes, additions, deletions, substitutions and alterations. You shall accept, use and effectuate any such changes or modifications to, or substitution of, the System as if they were part of the System at the time that this Agreement was executed. Except as provided herein, we shall not be liable to you for any expenses, losses or damages sustained by you as a result of any of the modifications contemplated hereby.

m. You represent that neither you nor any of your affiliates, officers, directors, managers, members, or partners (as applicable) or funding sources are subject to U.S. Executive Order 13224, identified on the U.S. Department of the Treasury's Office of Foreign Assets Control Specially Designated National and Blocked Persons list, or any terrorist list or other blocked persons list. In addition, you represent that you have not received funding from, nor are you owned, controlled, or acting on behalf of the government of any country that is subject to an embargo by the United States, any foreign government official, political party or international organization, and that no foreign government or government official, political party or international organization has any financial interest in the Franchised Business or any monies earned by the Franchised Business.

n. You represent, warrant and agree that you, your officers, directors, managers, members, or partners (as applicable) will each at all times conduct themselves in an ethical manner and avoid any activity that might result in a violation of the U.S. Foreign Corrupt Practices Act, Anti-Terrorism Laws, or any other applicable anti-corruption or bribery laws.

## **17.2 Additional Information Respecting Franchisee.**

a. You have delivered to us or will deliver concurrent herewith, complete and accurate copies of all of your organizational documents, including all partnership agreements, certificates of partnership, articles of organization, operating agreements, articles or certificates of incorporation, by-laws and shareholder agreements, including all amendments, side letters and other items modifying such documents.

b. Reserved.

### 17.3 Acknowledgements of Franchisee.

a. You acknowledge that you have conducted an independent investigation of the business venture contemplated by this Agreement and recognize that this business venture involves substantial business risks and will largely depend upon your ability. Other than the financial performance representation contained in Item 19 of the Disclosure Document, if any, we expressly disclaim making, and you acknowledge that you have not received or relied on, any warranty or guarantee, express or implied, as to the potential volume, profits, or success of the Franchised Business contemplated by this Agreement.

Franchisee Initials \_\_\_\_/\_\_\_\_

b. You hereby certify that none of our employees, no other person speaking on our behalf, and no Area Representative, if applicable, have: (i) made any oral, written, visual, or other representation, agreement, commitment, claim, or statement that stated or suggested any level or range of actual or potential sales, costs, income, expenses, profits, cash flow, or otherwise other than any financial performance representation contained in Item 19 of the Disclosure Document; or (ii) made any oral, written, visual, or other representation, agreement, commitment, claim, or statement from which any level or range of actual or potential sales, costs, income, expenses, profits, cash flow, or otherwise might be ascertained, related to a *Surf City Squeeze* franchise, that is different from, contrary to, or not contained in the *Surf City Squeeze* Disclosure Document; or (iii) made any representation, agreement, commitment, claim or statement to you that is different from, contrary to, or not contained in, the *Surf City Squeeze* Disclosure Document. You acknowledge and agree that we do not make or endorse, nor do we allow any of our employees or other persons speaking on our behalf to make or endorse, any additional oral, written, visual, or other representation, agreement, commitment, claim, or statement that states or suggests any level or range of actual or potential sales, costs, income, expenses, profits, cash flow, or otherwise with respect to a *Surf City Squeeze* franchise other than any financial performance representation contained in Item 19 of the Disclosure Document.

Franchisee Initials \_\_\_\_/\_\_\_\_

c. You acknowledge that you have received, read and understand this Agreement and the related exhibits, attachments and agreements and that we have afforded you sufficient time and opportunity to consult with advisors selected by you about the potential benefits and risks of entering into this Agreement.

Franchisee Initials \_\_\_\_/\_\_\_\_

d. You understand that this Agreement, including any amendments and exhibits, contains the entire agreement between the parties concerning the Franchised Business, and that any prior oral or written statements that are not set out in this Agreement, including any amendments, exhibits and attachments will not be binding. You acknowledge and agree that we do not permit any representations, agreements, commitments, claims, or statements or approve any changes in this Agreement or any of the amendments, exhibits and attachments to this Agreement, except by means of a written amendment or addendum signed by all parties to this Agreement. You acknowledge that nothing in this Agreement or in any related agreement is intended to disclaim the representations we made in the Disclosure Document.

Franchisee Initials \_\_\_\_/\_\_\_\_



e. You acknowledge receipt of our Disclosure Document fourteen (14) days prior to the execution of this Agreement or your payment of any monies to us or our agent (or sooner if required by applicable state law).

Franchisee Initials \_\_\_\_/\_\_\_\_

f. You acknowledge that, other than what was previously disclosed to you in our Disclosure Document to which you acknowledge receipt thereof, you have not: (1) received any financial statements for us or any of our parent or affiliated companies; or (2) relied on the financial condition of us or of any of our parent or affiliated companies when making the decision to purchase the Franchised Business.

Franchisee Initials \_\_\_\_/\_\_\_\_

g. You acknowledge, as detailed in *Section 2.3*, that you must, at your own cost and expense, use only our designated and approved Design Architect for the design of your Franchised Business.

Franchisee Initials \_\_\_\_/\_\_\_\_

h. You acknowledge that the following is your Area Representative (if applicable):

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

Franchisee Initials \_\_\_\_/\_\_\_\_

i. If an Area Representative is identified in *Section 17.3h.*, you make the following representations with respect to the Area Representative:

(i) You have met or spoken to only \_\_\_\_\_, the Area Representative;

(ii) Other than any financial performance representation contained in Item 19 of the Disclosure Document, at no time did the Area Representative make any promises or statements, or projections or forecasts, or estimates or warranties or representations or other statement or agreement concerning profits or expenses or costs or actual or projected sales of any kind directly or by implication about *Surf City Squeeze* restaurants or about the Franchised Business that we desire to develop under this Agreement or about obtaining the confirmed Location or about any other matter other than what is contained in the *Surf City Squeeze* Disclosure Document or *Surf City Squeeze* restaurant brochure.

(iii) You acknowledge that you have not received any written materials from us or the Area Representative except for the *Surf City Squeeze* brochure and Disclosure Document; and

If there are any exceptions to *Sections 17.3i.(i) – (iii)*, identify the item number and list the exception here:

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

Franchisee Initials \_\_\_\_/\_\_\_\_

j. You acknowledge there have been no other inducements made with any person or entity, including the Identified Area Representative, encouraging you to purchase the Franchised Business, such as a “side deal” or other promise or agreement not included in the Agreement.

Franchisee Initials \_\_\_\_/\_\_\_\_

k. You acknowledge and understand that *Article 6* covers the use of the *Surf City Squeeze* trademark and prohibition on registration of our Proprietary Marks. You acknowledge the ownership of the Proprietary Marks by us, and you agree that during the Term and after its expiration or termination, you will not, directly or indirectly, apply to register, register or otherwise seek to use or control or in any way use “*Surf City Squeeze*”, or any other of our proprietary marks, or any confusingly similar form or variation, in any place or jurisdiction either within or outside the United States; nor will you assist any others to do so. You further agree that your corporate, partnership or other entity name will not include any of the Proprietary Marks or phrases similar thereto as a part thereof. Furthermore, you acknowledge and understand that you are prohibited from filing applications for the registration of our trade names used in connection with your Franchised Business.

Franchisee Initials \_\_\_\_/\_\_\_\_

l. You acknowledge and understand that in the event you have registered a trade name or entity name containing our trademarks, you will be required to immediately discontinue all further use of the trademark, all Proprietary Marks and any other marks or names confusingly similar thereto in your entity name. Furthermore, you will take such action as may be required to amend your entity name and affirmatively cancel or terminate and dissolve all fictitious or assumed names or other registrations that contain our Proprietary Marks. In the event you do not comply and execute any and all instruments and documents necessary to protect and maintain our interests in the Proprietary Marks, we will then have power of attorney to execute any documents necessary to protect and maintain our interests in the Proprietary Marks.

Franchisee Initials \_\_\_\_/\_\_\_\_

## **ARTICLE 18. SUBMISSION OF AGREEMENT**

The submission of this Agreement to you does not constitute an offer and this Agreement shall become effective only upon the execution thereof by the parties. THIS AGREEMENT SHALL NOT BE BINDING ON US UNLESS AND UNTIL IT SHALL HAVE BEEN ACCEPTED AND SIGNED BY FRANCHISOR.

**[SIGNATURE PAGE FOLLOWS]**

**IN WITNESS WHEREOF**, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, has duly executed and delivered this Agreement as of the Effective Date.

**FRANCHISEE:**

\_\_\_\_\_, a(n) \_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]

By: \_\_\_\_\_  
[Name, Title]

**FRANCHISOR:**

KAHALA FRANCHISING, L.L.C., an  
Arizona limited liability company

By: \_\_\_\_\_  
[Name, Title]

**PERSONAL ACCEPTANCE OF SECTIONS 7.1, 7.2, 14.6, AND 14.8**

Each of the undersigned individually and personally accepts and agrees to be bound by the provisions of Sections 7.1, 7.2, 14.6, and 14.8 of the foregoing Franchise Agreement.

\_\_\_\_\_, \_\_\_\_\_, an individual  
(signature) Date: \_\_\_\_\_

\_\_\_\_\_, \_\_\_\_\_, an individual  
(signature) Date: \_\_\_\_\_

\_\_\_\_\_, \_\_\_\_\_, an individual  
(signature) Date: \_\_\_\_\_

\_\_\_\_\_, \_\_\_\_\_, an individual  
(signature) Date: \_\_\_\_\_

**EXHIBIT F-1**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Guaranty of Franchise Agreement**

## GUARANTY OF FRANCHISE AGREEMENT

This GUARANTY OF FRANCHISE AGREEMENT ("Guaranty") is entered into as of \_\_\_\_\_ by each of the undersigned ([individually and collectively, ]"Guarantor") in favor of KAHALA FRANCHISING, L.L.C., an Arizona limited liability company ("Franchisor"). To the extent this Guaranty contains terms and conditions that differ from those contained in the Franchise Agreement (as defined in Recital A below), this Guaranty shall control. All capitalized terms not otherwise defined in this Guaranty will have the same meanings ascribed to such terms in the Franchise Agreement.

### Recitals

A. Franchisor and \_\_\_\_\_, a(n) \_\_\_\_\_ ("Franchisee") entered into a Franchise Agreement dated \_\_\_\_\_, 20\_\_\_\_, [ as amended,] (collectively "Franchise Agreement") for a *Surf City Squeeze* restaurant located at \_\_\_\_\_ ("Franchised Business").

B. Guarantor is a shareholder, partner, member, or other person or entity interested in effecting the grant or transfer of the Franchise Agreement.

C. Without this Guaranty, Franchisor cannot be assured that there are sufficient assets to operate the franchise or to protect Franchisor in the event of a default by Franchisee.

D. Franchisor is willing to enter into the Franchise Agreement only if Guarantor personally guarantees faithful performance of all the terms of the Franchise Agreement.

E. Guarantor acknowledges Guarantor received and read the Franchise Agreement and agrees to be bound to the obligations in this Guaranty with regard to the Franchise Agreement.

### Agreement

1. In consideration of the above recitals, Guarantor personally guarantees, for the benefit of Franchisor, its parent, subsidiaries, affiliates and successors and assigns, the prompt and complete performance of all the covenants and conditions contained in the foregoing Franchise Agreement.

2. This Guaranty is effective until all terms of the Franchise Agreement have been fully and completely performed by Franchisee and shall continue through the entire Term of the Franchise Agreement as may be renewed or extended. No release of Franchisee or discharge of Franchisee under bankruptcy law, or any other law, shall impair or effect the obligations of Guarantor to Franchisor hereunder.

3. Franchisor is not required to proceed first against the Franchisee, but may proceed first against the Guarantor alone or concurrent with proceeding against Franchisee. The obligations of Guarantor hereunder are absolute and unconditional.

4. Franchisee and Franchisor may from time to time alter or modify the Franchise Agreement between themselves, possibly changing or increasing the extent of Guarantor's obligation under this Guaranty. Guarantor consents to any and all modifications or amendments of the Franchise Agreement and the documents and Confidential Manual referred to in the Franchise Agreement, without requiring notice to Guarantor or Guarantor's consent.

5. Guarantor agrees specifically to be bound by the confidentiality requirements and the covenant against competition in the Franchise Agreement.

6. Guarantor waives notice of acceptance of this Guaranty and notice of non-performance or non-payment by Franchisee of any of its obligations or liabilities under the Franchise Agreement.

7. A default by Guarantor under this Guaranty will be deemed a default under all Franchise Agreements guaranteed by the Guarantor.

8. Guarantor agrees to pay all attorneys' fees, costs and expenses (including any and all Royalty Fees and Advertising Fees and associated interest on such amounts, that are determined to be owing to Franchisor due to underreporting by Franchisee) incurred by Franchisor in enforcing this Guaranty, whether or not suit or action is filed, and if suit or action is filed, then through trial and all appeals, and also in any proceedings or matter in Bankruptcy Court; Guarantor assumes all liability for all losses, costs, attorneys' fees, and expenses that Franchisor incurs as a result of a default by Franchisee, including those fees and expenses incurred in a bankruptcy proceeding involving Franchisee.

9. Guarantor hereby agrees that upon notice of default or upon an uncured default of the Franchise Agreement or any other agreement between Guarantor (or a legal entity thereof) and Franchisor or its affiliates, and with no prior notice, Guarantor consents to Franchisor's (or any of its affiliate's or third-party contractor's) acquisition and use of non-business consumer credit reports on Guarantor in order to evaluate as necessary the financial condition of Guarantor as principal, member, manager, franchisee, and/or guarantor in connection with the collection of monetary obligations as contemplated by the Franchise Agreement, this Guaranty, a promissory note, or any other agreements between Guarantor (or a legal entity thereof), and Franchisor or its affiliates. Guarantor as an individual or individuals hereby knowingly consent to the use of such credit reports consistent with the Federal Fair Credit Reporting Act as contained in 15 U.S.C. § 1681 et seq.

10. This Guaranty is personal to Guarantor and the obligations and duties imposed herein may not be delegated or assigned; provided, however, that this Guaranty shall be binding upon the successors, assigns, heirs, estate, trustee(s) and personal representative(s) of Guarantor. This Guaranty shall inure to the benefit of Franchisor, its affiliates, successors and assigns.

11. In the event that any one or more provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof and this Guaranty shall be construed to bind Guarantor to the maximum extent permitted by law that is subsumed within the terms of such provision as though it were separately articulated herein.

12. This Guaranty shall be interpreted and construed under the laws of the state where the Franchised Business is located, which laws shall prevail in the event of any conflict of law. Any appropriate state or federal court located in the county and state where the Franchised Business is located has exclusive jurisdiction over any case or controversy arising under or in connection with this Agreement and is the proper forum in which to adjudicate the case or controversy, and the parties hereto irrevocably submit to the jurisdiction of any such court. THE PARTIES AGREE THAT ALL DISPUTES ADMITTED TO THE COURT PURSUANT TO THIS SECTION 12 SHALL BE TRIED TO THE COURT SITTING WITHOUT A JURY, NOTWITHSTANDING ANY STATE OR FEDERAL CONSTITUTIONAL OR STATUTORY RIGHTS OR PROVISIONS.

13. If Guarantor consists of two (2) or more persons, then each person will be jointly and severally liable under the provisions of this Guaranty.

14. [The undersigned \_\_\_\_\_[include name(s) here of each of the undersigned who is not married] each represents that he/she is not married as of the Effective Date.]

15. Guarantor acknowledges that (i) it is a condition to the granting of the Franchise Agreement to Franchisee that Guarantor shall execute and deliver this Guaranty to Franchisor, (ii) that Franchisor has entered into the Franchise Agreement in reliance upon the agreement of Guarantor to do so, and (iii) that, as owner of the Franchisee, Guarantor has received adequate consideration to support its execution of this Guaranty. This Guaranty does not grant or create in Guarantor any interests, rights or privileges in any franchise or Franchise Agreement.

16. This Guaranty may be executed in one or more counterparts, each of which shall be deemed to be an original copy of this Guaranty and all of which, when taken together, shall be deemed to constitute one and the same Guaranty.

17. Words in the singular number include the plural when the context requires (and vice-versa), and defined terms include the possessive when the context requires (and vice-versa).

**GUARANTOR:**

\_\_\_\_\_  
[Name], an individual

\_\_\_\_\_  
[Name], an individual

\_\_\_\_\_  
[Name], an individual

\_\_\_\_\_  
[Name], an individual



**EXHIBIT F-2**

**TO THE FRANCHISE DISCLOSURE DOCUMENT  
Non-Disclosure and Non-Competition Agreement**

## NON-DISCLOSURE AND NON-COMPETITION AGREEMENT

This NON-DISCLOSURE AND NON-COMPETITION AGREEMENT ("Agreement") is made and entered into as of \_\_\_\_\_ ("Effective Date"), by and between KAHALA FRANCHISING, L.L.C., an Arizona limited liability company, having an office located at 9311 East Via De Ventura, Scottsdale, Arizona 85258 ("Franchisor") and the undersigned, an individual, having an address of \_\_\_\_\_. Franchisor and the undersigned may also be referred to in this Agreement individually as "Party" and collectively as "Parties."

### Recitals

A. Franchisor is in the business of licensing franchise systems in the quick service restaurant market and is the owner and/or licensee of certain proprietary, confidential and/or trade secret information related to its business.

B. The undersigned is the spouse of the franchisee or spouse of an employee, officer, director, member, manager, partner or owner of an interest in the equity or voting interests of [Franchisee], the "Franchisee" under and signatory to, that certain "Franchise Agreement" dated \_\_\_\_\_ entered into with Franchisor granting Franchisee the right to operate one *Surf City Squeeze* restaurant ("Franchised Business") on the terms and conditions stated therein.

C. The undersigned acknowledges that, in order to induce Franchisor to enter into the Franchise Agreement, Franchisee must cause those persons as listed in Recital B to execute this Agreement for the benefit of Franchisor.

NOW, THEREFORE, in consideration of the foregoing and of the representations, terms, covenants, conditions and agreements set forth in this Agreement and intending to be legally bound, the Parties hereby agree as follows:

### Agreement

1. **Definition of Confidential Information.** "Confidential Information" includes, without limitation, knowledge and information which Franchisee knows, or should reasonably know, which Franchisor regards as confidential concerning: (i) formulation, ingredients, raw materials, recipes, and food preparation processes for proprietary products, non-proprietary products, collateral logo merchandise or other items or services that Franchisor permits Franchisee to sell at or from the Franchised Business; (ii) Franchisor's supply relationships, inventory requirements and control procedures; (iii) pricing, sales, profit performance or other results of operations of any and all *Surf City Squeeze* restaurants, including the Franchised Business; (iv) demographic data for determining sites and territories; (v) the results of customer surveys and promotional programs; and (vi) in general, business methods, trade secrets, specifications, customer data, cost data, procedures, information systems and knowledge about the operation of *Surf City Squeeze* restaurants or the *Surf City Squeeze* System, whether it is now known or exists or is acquired or created in the future, and whether or not the information is included in the Confidential Manual or Franchisor expressly designates the information as confidential. Confidential Information does not include information which the undersigned can demonstrate came to his or her attention independent of entering into this Agreement and information that Franchisor agrees is, or has become, generally known in the public domain, except where

public knowledge is the result of the undersigned's wrongful disclosure (whether or not deliberate or inadvertent).

## **2. Non-Disclosure of Confidential Information.**

a. The undersigned agrees not to possess, obtain, or seek to obtain, either directly or indirectly, any Confidential Information from any person or other source, unless authorized in writing by Franchisor. In the event that the undersigned does possess, or comes to possess, any Confidential Information, the undersigned shall immediately notify Franchisor of that fact and return the Confidential Information, and all copies and portions thereof, to Franchisor.

b. The undersigned agrees not to disclose, duplicate, sell, reveal, divulge, publish, furnish or communicate, either directly or indirectly, any Confidential Information to any other person, firm or entity, unless authorized in writing by Franchisor.

c. The undersigned agrees not to use any Confidential Information for his or her own personal gain or to further the purposes of others, whether or not the Confidential Information has been conceived, originated, discovered or developed, in whole or in part, by the undersigned or represents the undersigned's work product. To the extent the undersigned has assisted in the preparation of any information that Franchisor considers Confidential Information or has prepared or created such information by himself or herself, the undersigned hereby assigns any rights that he or she may have in such information as creator to Franchisor, including all ideas made or conceived by the undersigned.

d. The undersigned acknowledges that the use, publication or duplication of the Confidential Information for any purpose not authorized by this Agreement constitutes an unfair method of competition by the undersigned.

e. The provisions of this Section 2 shall apply forever, surviving the expiration or termination of all contracts between Franchisor and Franchisee.

f. The provisions concerning non-disclosure of Confidential Information shall not apply if disclosure of Confidential Information is legally compelled in a judicial or administrative proceeding, provided the undersigned shall have used his or her best efforts, and shall have afforded Franchisor the opportunity, to obtain an appropriate protective order or other assurance satisfactory to Franchisor of confidential treatment for the information required to be disclosed. If the undersigned is required to disclose Confidential Information, whether in whole or in part, to any third party pursuant to a subpoena or a court or agency order, the undersigned agrees to only disclose the minimum amount of Confidential Information required to be disclosed.

## **3. Agreements Regarding Competition.**

a. For as long as Franchisee is a party to any franchise agreement with Franchisor, the undersigned agrees that he or she shall not, directly or indirectly, own (neither beneficially nor of record), engage in or render services to, whether as an investor, partner, lender, director, officer, manager, employee, consultant, representative or agent, any Competing Business (as defined in *Section 3.f* below); provided, however, the restrictions stated in this paragraph shall not apply to the undersigned after two (2) years from the date that the undersigned ceases to be a spouse of the Franchisee or spouse of an employee, officer, director, member, manager, partner or owner of an interest in the equity or voting interests of Franchisee or otherwise associated in any capacity with Franchisee.

b. For a period of two (2) years after expiration or termination of the last franchise agreement between Franchisee and Franchisor, it shall be a breach of this Agreement for the undersigned to directly or indirectly, own, engage in or render services to, whether as an investor, partner, lender, director, officer, manager, employee, consultant, representative or agent, any Competitive Business; provided, however, the restrictions stated in this paragraph shall not apply to the undersigned after two (2) years from the date that the undersigned ceases to be a spouse of the Franchisee or spouse of an employee, officer, director, member, manager, partner or owner of an interest in the equity or voting interests of Franchisee or otherwise associated in any capacity with Franchisee.

c. The undersigned may engage in any activities not expressly prohibited by this Agreement. However, in connection with permitted activities, the undersigned shall not (i) use the Confidential Information or any of *Surf City Squeeze* intellectual property including without limitation, any and all rights currently existing or that may come into being which Franchisor or Franchisor's affiliates now own or later acquire in *Surf City Squeeze* trademarks, proprietary products and/or Confidential Information arising under any patent, trade secret, copyright, trade dress, design protection, database protection, trademark, or similar laws of the United States or any other country in which Franchisor or its affiliates operate (collectively "Surf City Squeeze Intellectual Property"); (ii) engage in any conduct or activity which suggests or implies that Franchisor endorses, or authorizes, the undersigned's activities; or (iii) induce any person to engage in conduct prohibited by this Agreement.

d. The undersigned acknowledges that the covenants regarding competition are independent of the other covenants and provisions of this Agreement. If any provision regarding competition is void or unenforceable under any applicable law, but would be enforceable as written or as modified under the laws of the state in which the Franchised Business is located (the "Local Laws"), the parties agree that the Local Laws shall govern any dispute concerning or involving the construction, interpretation, validity or enforcement of the provisions regarding competition. Franchisee expressly authorizes Franchisor to conform the scope of any void or unenforceable covenant in order to conform it to the Local Laws.

e. For purposes of this Section 3, "Surf City Squeeze System" means, collectively, all of the distinctive business methods, proprietary products, Confidential Information and *Surf City Squeeze* Intellectual Property which Franchisor now or in the future authorizes or requires Franchisee to use as a condition of the Franchise Agreement, as Franchisor may modify in its sole discretion at any time.

f. For purposes of this Section 3, "Competing Business" means a business which is primarily engaged in the sale of smoothies, and all variations thereof within a geographical area consisting of: (1) for as long as Franchisee is a party to any Franchise Agreement with Franchisor, anywhere including the location of the Franchised Business; and (2) after expiration or termination of the last franchise agreement between Franchisee and Franchisor, within a ten (10) mile radius from the location of the Franchised Business or location of any *Surf City Squeeze* restaurant of Franchisor, Franchisor's third-party licensees or Franchisor's third-party franchisees. The term "*Surf City Squeeze* restaurant" includes not only the restaurants now in existence, but also those established at a later date. The term of this covenant will be extended by any time consumed in litigation to enforce it in both trial and appellate courts. If a court of competent jurisdiction determines that the restrictions in this paragraph are excessive in time, geographic scope, or otherwise, the court may reduce the restriction to the level that provides the maximum restriction allowed by law.

g. For purposes of this *Section 3*, “Confidential Manual” refers collectively to all of the confidential operations manuals, recipe manuals, operations guides and other instructions loaned or delivered to the Franchisee during the term of the Franchise Agreement, which may be memorialized in written or electronic format, now existing and hereinafter developed, and which may be modified periodically to reflect changes in the *Surf City Squeeze System*.

4. **Interference.**

The undersigned agrees not to, directly or indirectly, for himself or herself or on behalf of any other person: divert, or attempt to divert, any business or customer of any *Surf City Squeeze* restaurant to any competitor by direct or indirect inducement or perform any act which directly or indirectly could, or may, injure or prejudice the goodwill and reputation of *Surf City Squeeze* Intellectual Property or *Surf City Squeeze System*.

5. **Irreparable Harm to Franchisor.**

The undersigned understands and agrees that if the undersigned breaches or threatens to breach any of his or her obligations under this Agreement, Franchisor will be irreparably harmed and an award of monetary damages alone would be inadequate. Therefore, the undersigned agrees that Franchisor shall be entitled to seek equitable relief, including, without limitation, temporary, preliminary and permanent injunctive relief and specific performance for any actual or threatened breach by the undersigned, his or her affiliates or their respective officers, directors, shareholders, employees or agents. The remedies provided under this *Section 5* shall be in addition to and not exclusive of any other right or remedy available to Franchisor under this Agreement or otherwise, including, without limitation, an award of attorneys’ fees, expert witness fees and costs incurred by Franchisor or its affiliates in connection with any dispute arising from or related to this Agreement.

6. **Validity; Conformity With Applicable Law.**

Wherever possible, each provision of this Agreement shall be interpreted in a manner as to be valid under applicable law, but if any provision of this Agreement shall be invalid or prohibited thereunder, the provision shall be ineffective only to the extent of the prohibition or invalidity without invalidating the remainder of this Agreement.

7. **Miscellaneous.**

a. *Waiver.* Any waiver granted to the undersigned by Franchisor excusing or reducing any obligation or restriction imposed under this Agreement shall be evidenced by a writing executed by Franchisor in order to be effective and shall only be effective to the extent specifically allowed in such writing. No waiver granted by Franchisor shall constitute a continuing waiver. Any waiver granted by Franchisor shall be without prejudice to any other rights Franchisor may have. The rights and remedies granted to Franchisor are cumulative. No delay on the part of Franchisor in exercising any right or remedy shall preclude Franchisor from fully exercising such right or remedy or any other right or remedy.

b. *Entire Agreement; Amendment.* This Agreement sets forth the entire agreement made by the undersigned pertaining to the subject matter hereof, fully superseding any and all prior agreements or understandings that may exist between the undersigned and the Franchisor pertaining to such subject matter. No amendment, change, modification or variance to or from the

terms and conditions set forth in this Agreement shall be binding on the undersigned unless it is set forth in writing and duly executed by the undersigned and Franchisor.

c. This Agreement shall be binding on the undersigned's heirs, executors, successors and assigns as though originally executed by such persons.

d. *Notices.* All notices permitted or required under this Agreement shall be in writing and shall be delivered by personal delivery, courier, such as FedEx® or UPS®, or by U.S. Mail, sent certified or registered mail, return receipt requested, to the address set forth in the first paragraph of this Agreement, with a courtesy copy sent via email (to the address set forth on the signature page below) for the respective Party to be noticed, which address may be amended from time to time pursuant to the terms of this *Section 7.d*. Notices provided under this *Section 7.d* shall be deemed received upon personal delivery or delivery by courier and within five (5) days after deposit in the U.S. Mail.

e. *Governing Law and Venue.* This Agreement shall be governed by and construed in accordance with the laws of the state where the Franchised Business is located without reference to conflict of laws principles. Except for actions seeking injunctive relief (which may be brought in any appropriate jurisdiction) suit under this Agreement shall only be brought in the state or federal courts in the county and state where the Franchised Business is located. This choice of jurisdiction and venue is intended by the Parties to be mandatory and not permissive in nature, and to preclude the possibility of litigation between the Parties with respect to, or arising out of, this Agreement in any jurisdiction other than as specified in this *Section 7.e*. Each Party waives any right it may have to assert the doctrine of forum non conveniens or similar doctrine or to object to the jurisdiction and venue with respect to any proceeding brought in accordance with this *Section 7.e*.

f. *No Assignment.* The undersigned shall not assign or transfer any rights or obligations under this Agreement without Franchisor's prior written consent, which may be withheld in Franchisor's sole discretion. Any assignment made in violation of this *Section 7.f* shall be void.

g. *Counterparts; Facsimile Signatures.* This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original document as against the Party whose signature appears thereon, and all of which shall together constitute one and the same Agreement. The signatures required for execution may be transmitted to the other Party via facsimile or email and such signature shall be deemed a duplicate original, shall be effective upon receipt by the other Party, may be admitted in evidence and shall fully bind the Party and person making such signature.

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement by their duly authorized representatives with full rights, power and authority to enter into and bind the respective Party and to perform all obligations under this Agreement.

[NAME]

By: \_\_\_\_\_  
[Name], an individual

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

Address: [Street Address]  
[City, State Zip]

Phone: (xxx) xxx-xxxx

Email: xxxxxxxx@xxxx.xxx

**EXHIBIT G**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Collateral Assignment and Irrevocable Special Power of Attorney**



**COLLATERAL ASSIGNMENT AND**  
**IRREVOCABLE SPECIAL POWER OF ATTORNEY**

This COLLATERAL ASSIGNMENT AND IRREVOCABLE SPECIAL POWER OF ATTORNEY ("Assignment") is entered into on \_\_\_\_\_ ("Effective Date") in accordance with the terms of that certain Franchise Agreement dated \_\_\_\_\_ [, as amended] ("Franchise Agreement") by and between \_\_\_\_\_, a(n) \_\_\_\_\_ ("Franchisee") and KAHALA FRANCHISING, L.L.C., an Arizona limited liability company ("Franchisor"), executed concurrently with this Assignment and under which Franchisor granted Franchisee the right to own and operate a Surf City Squeeze restaurant located at \_\_\_\_\_ ("Restaurant").

FOR VALUE RECEIVED, Franchisee hereby assigns to Franchisor, its affiliates, subsidiaries, successors and assigns, all of Franchisee's right, title and interest in and to: (i) the "Telephone Numbers and Listings" which include those certain telephone numbers and regular, yellow-pages, special, classified or other telephone directory listings used at any time in connection with the operation of the Restaurant; (ii) any website page or social media addresses and accounts, including, but not limited to, a Facebook® page or X/Twitter® account that contains any term or any mark confusingly similar to a trademark or other intellectual property owned or licensed by Franchisor; and (iii) any corporation, limited liability company, partnership, or other entity name or trade name filed or formed by Franchisee that contains any trademark or other intellectual property owned or licensed by Franchisor (each an "Entity Name"). This Assignment is for collateral purposes only, and except as specified herein, Franchisor shall have no liability or obligation of any kind whatsoever arising from or in connection with this Assignment unless Franchisor shall notify the (i) telephone company and/or the listing agencies with which Franchisee has placed telephone directory listings (all such entities are collectively referred to herein as the "Telephone Company"); (ii) webmaster/webhost for the website or social media account; and (iii) Secretary of State, Corporation Commission or other state government agency that handles the filing of entity formation documents, to effectuate the assignment pursuant to the terms hereof.

Franchisee hereby appoints Franchisor as his/her/its attorney-of-fact and grants Franchisor an irrevocable Special Power of Attorney, coupled with an interest, with full power and authority for the purpose of executing documents or taking such action as necessary or appropriate as Franchisee might or could do if personally present, hereby ratifying all that Franchisor, as Franchisee's attorney-in-fact, shall lawfully do or cause to be done by virtue of this Special Power of Attorney to obtain, protect, maintain or enforce Franchisor's intellectual property rights if Franchisor is, for any reason, unable to obtain Franchisee's cooperation or assistance. The Special Power of Attorney granted by this Assignment, shall survive the dissolution, death, incompetence or disability of Franchisee and the termination or expiration of the Franchise Agreement or this Assignment.

Upon (i) termination of the Franchise Agreement for any reason, or (ii) expiration of the Franchise Agreement without renewal or extension, Franchisor shall have the right and is hereby empowered to effectuate the assignment of the Telephone Numbers and Listings, website and/or social media account, and Entity Name. In such event Franchisee shall have no further right, title or interest in the Telephone Numbers and Listings or the website and/or social media account, and shall remain liable to the Telephone Company for all past due fees and charges owing to the Telephone Company on or before the effective date of the assignment hereunder.

Franchisee agrees and acknowledges that as between Franchisor and Franchisee, Franchisor shall have the sole right to and interest in the Telephone Numbers and Listings,

website and/or social media accounts and Entity Name upon termination or expiration of the Franchise Agreement. Franchisee appoints Franchisor as Franchisee's true and lawful attorney-in-fact to direct the Telephone Company, webmaster/webhost, and state government agency to assign same to Franchisor and execute such documents and take such actions as may be necessary to effectuate the assignment. Upon such event Franchisee shall immediately instruct the (i) Telephone Company to assign the Telephone Numbers and Listings to Franchisor; (ii) the webmaster/webhost to assign the website and/or social media account to Franchisor; and (iii) state government agency to allow Franchisor to file the necessary documents to change the Entity Name. If Franchisee fails to promptly direct the (i) Telephone Company to assign the Telephone Numbers and Listings to Franchisor; (ii) webmaster/webhost to assign the website or social media account(s) to Franchisor; and/or (iii) file the necessary documents with the appropriate state government agency to remove Franchisor's trademarks or other intellectual property from the Franchisee's Entity Name, Franchisor shall direct the appropriate parties to effectuate the assignment contemplated hereunder to Franchisor.

The parties agree that the Telephone Company, webmaster/webhost, and appropriate state government agency may accept Franchisor's written direction, the Franchise Agreement or this Assignment as conclusive proof of Franchisor's exclusive rights in and to the Telephone Numbers and Listings, website and/or social media accounts, and Franchisor's authority to file the necessary documents to remove Franchisor's trademark or other intellectual property from the Entity Name and that such assignment shall be made automatically and effective immediately upon Telephone Company's, webmaster's/webhost's or state government agency's receipt of such notice from Franchisor or Franchisee. The parties further agree that if the Telephone Company, webmaster/webhost, or state government agency requires that the parties execute an assignment form or other documentation at the time of termination or expiration of the Franchise Agreement Franchisor's execution of such forms or documentation on behalf of Franchisee shall effectuate Franchisee's consent and agreement to the assignment. The parties agree that at any time after the date hereof they will perform such acts and execute and deliver such documents as may be necessary to assist in or accomplish the assignment described herein upon termination or expiration of the Franchise Agreement.

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party, without further consent or approval of any kind, has duly executed and delivered this Assignment as of the Effective Date.

**ASSIGNOR (Franchisee):**

\_\_\_\_\_, a(n) \_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]

State of \_\_\_\_\_  
County of \_\_\_\_\_

On \_\_\_\_\_ before me, personally appeared \_\_\_\_\_ known to me (or proved to me on the oath of \_\_\_\_\_ or through \_\_\_\_\_) to be the person whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her/their authorized

capacity, and that by his/her signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of \_\_\_\_\_ that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

\_\_\_\_\_  
(Signature of Notary Public)

(Seal)

Acknowledged by:

**ASSIGNEE (Franchisor):**

KAHALA FRANCHISING, L.L.C., an Arizona  
limited liability company

By: \_\_\_\_\_  
[Name, Title]

**EXHIBIT H**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Amendment to Franchise Agreement**

(for non-traditional locations excluding those co-branded with another  
affiliated brand)

## [FIRST] AMENDMENT TO FRANCHISE AGREEMENT

[for non-traditional locations excluding those co-branded with another affiliated brand]

This [FIRST] AMENDMENT TO FRANCHISE AGREEMENT (“[First] Amendment”) dated \_\_\_\_\_, 20\_\_\_\_ (“[First] Amendment Effective Date”), to the Franchise Agreement dated \_\_\_\_\_, 20\_\_\_\_ (collectively the “Agreement”) for the non-traditional *Surf City Squeeze* location at \_\_\_\_\_ (“Location”) by and between KAHALA FRANCHISING, L.L.C., an Arizona limited liability company (“Franchisor”) and \_\_\_\_\_ (“Franchisee”), is entered into by such parties to amend the Agreement as set forth in this [First] Amendment. To the extent this [First] Amendment contains terms and conditions that differ from those contained in the Agreement, this [First] Amendment shall control. The parties agree that a concept or principle covered in this [First] Amendment shall apply and be incorporated into all other provisions of the Agreement in which the concept or principle is also applicable, notwithstanding the absence of any specific cross-reference thereto. All capitalized terms not otherwise defined in this [First] Amendment will have the same meanings ascribed to such terms in the Agreement.

1. The last sentence of the second unnumbered paragraph in Section **1.2**, “**Location of the Franchised Business; No Exclusive Territory or Other Rights**,” is hereby deleted and replaced with the following: “This Agreement is limited to the operation of one non-traditional restaurant, unless otherwise amended, and does not grant you the right to buy, own or operate additional restaurants.”

2. Section **4.1**, “**Training Program**,” is hereby amended to add the following after the last sentence in Section 4.1: “Notwithstanding the foregoing, for non-traditional locations, the total number of days of In-Store training will be three (3) days.”

3. The first sentence in Section **5.1**, “**Initial Franchise Fee**,” is hereby deleted and replaced with the following: “The initial franchise fee is Seven Thousand Five Hundred Dollars (\$7,500) (“Initial Franchise Fee”).”

4. The first sentence in the first paragraph in Section **5.2**, “**Royalty Fee and Surcharge**,” is hereby deleted in its entirety and replaced with the following:

For the period of time commencing on the later of the Effective Date or the date the Franchised Business opens to the public, and for the duration of the Term, you must pay to us a weekly royalty fee equal to six percent (6%) of total Gross Sales (as defined below) (“Royalty Fee”).

5. Paragraph b. of Section **5.13**, “**Transfer Franchise Fee**,” is hereby deleted and replaced with the following:

b. A Potential Transferee (as defined in *Section 12.1c.*) receiving this Agreement, as may be amended, in connection with a Full Transfer (as defined in *Section 12.1a.1.*), must pay to us a transfer franchise fee of Five Thousand Dollars (\$5,000) (“Transfer Franchise Fee”).

6. The first sentence in Section **5.24**, “**Grand Opening Marketing**,” is hereby deleted and replaced with the following:

Five Thousand Dollars (\$5,000) (“Grand Opening Marketing”) is payable to us on the earlier of: (i) prior to you executing a lease for the premises where the Franchised Business will be located; or (ii) prior to construction commencing at the premises where the Franchised Business will be located.

7. Except as set forth in this [First] Amendment, the terms and provisions of the Agreement shall remain in full force and effect.

***[SIGNATURE PAGE FOLLOWS]***

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, has duly executed and delivered this [First] Amendment as of the [First] Amendment Effective Date.

**FRANCHISOR:** KAHALA FRANCHISING, L.L.C., an Arizona limited liability company

By: \_\_\_\_\_  
[Name, Title]

**FRANCHISEE:** \_\_\_\_\_, a(n) \_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]

By: \_\_\_\_\_  
[Name, Title]

**EXHIBIT I**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Amendment to Franchise Agreement  
(for co-branded non-traditional locations)**

## [FIRST] AMENDMENT TO FRANCHISE AGREEMENT

[for non-traditional locations co-branded with an affiliated brand]

This [FIRST] AMENDMENT TO FRANCHISE AGREEMENT ("[First] Amendment") dated \_\_\_\_\_ ("[First] Amendment Effective Date"), to the Franchise Agreement dated \_\_\_\_\_, 20\_\_\_\_ ("Agreement") for the non-traditional *Surf City Squeeze* restaurant being co-branded in the *[name of original brand]* restaurant located at \_\_\_\_\_ by and between KAHALA FRANCHISING, L.L.C., an Arizona limited liability company ("Franchisor") and \_\_\_\_\_ ("Franchisee"), is entered into by such parties to amend the Agreement as set forth in this [First] Amendment. To the extent this [First] Amendment contains terms and conditions that differ from those contained in the Agreement, this [First] Amendment shall control. The parties agree that a concept or principle covered in this [First] Amendment shall apply and be incorporated into all other provisions of the Agreement in which the concept or principle is also applicable, notwithstanding the absence of any specific cross reference thereto. All capitalized terms not otherwise defined in this [First] Amendment will have the same meanings ascribed to such terms in the Agreement.

1. Franchisee agrees that Franchisee shall enter into this Agreement under the same Franchisee name as the \_\_\_\_\_ *[name of original brand]* franchise agreement.

2. Franchisee hereby represents that it has reviewed the underlying lease agreement for the Location to ensure the lease agreement does not contain any provisions that prevent or restrict Franchisee from serving smoothies, fruit drinks, functional drinks, nutritional supplements, and other beverage, food and other *Surf City Squeeze* menu items at the Location. Franchisee shall be responsible for all costs and expenses, fees, penalties, attorneys' fees, claims, demands and damages incurred relating to Franchisee offering *Surf City Squeeze* menu items at the Location.

3. Franchisee agrees that the Agreement may only be transferred in conjunction with a transfer of the *[name of original brand]* franchise agreement.

4. The last sentence of the second unnumbered paragraph in Section **1.2, "Location of the Franchised Business; No Exclusive Territory or Other Rights,"** is hereby deleted and replaced with the following: "This Agreement is limited to the operation of one non-traditional restaurant, unless otherwise amended, and does not grant you the right to buy, own or operate additional restaurants."

5. Section **1.3, "Term of Agreement,"** is hereby deleted in its entirety and replaced with the following:

### **1.3 Term of Agreement.**

The term of this Agreement will commence on the Effective Date and expire concurrently with the term of the franchise agreement of the traditional brand in which this store is co-branded, unless terminated earlier in accordance with *Article 14* or any other provisions of this Agreement, renewed in accordance with *Article 13*, or transferred in accordance with *Article 12* ("Term").

6. Section **4.1, "Training Program,"** is hereby amended to add the following after



the last sentence in Section 4.1: "Notwithstanding the foregoing, for non-traditional, co-branded restaurants, the total number of days of In-Store training will be three (3) days."

7. Section **4.6, "Computer Systems; Debit and Credit Card Processing,"** is hereby deleted in its entirety and replaced with the following:

**4.6 Computer Systems; Debit and Credit Card Processing.**

You hereby agree to use the same POS System for the Franchised Business under the same terms and conditions as provided in the [name of original brand] franchise agreement.

8. The first sentence of Section **5.1 "Initial Franchise Fee,"** is hereby deleted and replaced with the following: "The initial franchise fee for this non-traditional, co-brand location is Seven Thousand Five Hundred Dollars (\$7,500) ("Initial Franchise Fee")."

9. The first sentence in the first paragraph in Section **5.2, "Royalty Fee and Surcharge,"** is hereby deleted in its entirety and replaced with the following:

For the period of time commencing on the later of the Effective Date or the date the Franchised Business opens to the public, and for the duration of the Term, you must pay to us a weekly royalty fee equal to six percent (6%) of total Gross Sales (as defined below) ("Royalty Fee").

10. Franchisee agrees that the Gross Sales for this *Surf City Squeeze* restaurant shall be reported separately from the gross sales reported under the [name of original brand] franchise agreement. Franchisee further agrees that the Royalty Fee and Advertising Fee for this *Surf City Squeeze* restaurant shall be paid separately from the royalty fee and advertising fee payable under the [name of original brand] franchise agreement.

11. Section **5.6, "Depository Account; Payment Procedures,"** is hereby deleted in its entirety and replaced with the following:

**5.6 Depository Account; Payment Procedures.**

You hereby agree to use the same Depository Account for the Franchised Business under the same terms and conditions as provided in the [name of original brand] franchise agreement.

12. Section **5.7, "Lease Review Fee,"** is hereby deleted in its entirety and replaced with the following: "**5.7 Not Applicable.**"

13. Section **5.8, "Lease Guarantee Fee,"** is hereby deleted in its entirety and replaced with the following: "**5.8 Not Applicable .**"

14. Section **5.13 “Transfer Franchise Fee,”** is hereby deleted in its entirety and replaced with the following:

**5.13 Transfer Franchise Fee.**

A Potential Transferee (as defined in *Section 12.1c.*) receiving this Agreement, as may be amended, in connection with a Full Transfer (as defined in *Section 12.1a.1.*), must pay us a transfer franchise fee of Five Thousand Dollars (\$5,000) (“Transfer Franchise Fee”).

15. Section **5.16, “Annual Meeting Registration Fee,”** is hereby deleted in its entirety and replaced with the following: “**5.16 Not Applicable.**”

16. Section **5.19, “Data Fees,”** is hereby deleted in its entirety and replaced with the following: “**5.19 Not Applicable.**”

17. Section **5.20, “POS Help Desk Phone Support Maintenance Service Fee,”** is hereby deleted in its entirety and replaced with the following: “**5.20 Not Applicable.**”

18. The first sentence in Section **5.24, “Grand Opening Marketing,”** is hereby deleted and replaced with the following:

Five Thousand Dollars (\$5,000) (“Grand Opening Marketing”) is payable to us on the earlier of: (i) prior to you executing a lease for the premises where the Franchised Business will be located; or (ii) prior to construction commencing at the premises where the Franchised Business will be located.

19. Except as set forth in this [First] Amendment, the terms and provisions of the Agreement shall remain in full force and effect.

***[SIGNATURE PAGE FOLLOWS]***

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, has duly executed and delivered this [First] Amendment as of the [First] Amendment Effective Date.

**FRANCHISOR:**

KAHALA FRANCHISING, L.L.C., an Arizona  
limited liability company

By: \_\_\_\_\_  
[Name, Title]

**FRANCHISEE:**

\_\_\_\_\_, a(n) \_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]

By: \_\_\_\_\_  
[Name, Title]

**EXHIBIT J**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**In-Store Training Release and Waiver of Liability Agreement**

## In-Store Training Release and Waiver of Liability

**READ THIS INSTRUMENT FULLY AND CAREFULLY PRIOR TO SIGNING. THIS IS A LEGALLY VALID AND BINDING OBLIGATION TO RELEASE A PARTY FROM ALL KNOWN AND UNKNOWN OBLIGATIONS. THIS DOCUMENT MUST BE SIGNED BEFORE TRAINING CAN BEGIN.**

This In-Store Training Release and Waiver of Liability ("Release") executed on this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_ ("Effective Date") by \_\_\_\_\_ ("Trainee") is in favor of \_\_\_\_\_, ☐ a corporation, ☐ a Limited Liability company, or ☐ as individual(s), and their respective directors, officers, members, partners, managers, employees, agents, insurers, successors, assigns, representatives, executors and heirs (individually and collectively the "Franchisee") and KAHALA FRANCHISING, L.L.C., an Arizona limited liability company, and its affiliates and each of their respective parents, subsidiaries, directors, officers, members, managers, employees, agents, successors, assigns and insurers (individually and collectively the "Franchisor"). Franchisor and Franchisee shall collectively be referred to herein as the "Hosts."

The Trainee desires to participate in a training program provided by the Hosts, which program involves engaging in activities related to being a restaurant worker ("Activities"), for the purpose of learning to operate a similar business. The Trainee understands that the Activities may take place at various restaurant facilities owned, operated or managed by Franchisor and/or Franchisee, and may include various restaurant activities, including, but not limited to, cooking, cleaning, lifting and climbing, all of which may take place in a facility where there is increased risk of bodily harm or personal injury, including but not limited to, slips, falls, burns, lacerations, exposure to hazardous materials, as well as many other risks. Trainee understands and agrees that no compensation shall be earned by or paid to Trainee in connection with Trainee's participation in the training program. In consideration of the training being provided to Trainee, in the Hosts' location, Trainee agrees that such training constitutes good and valuable consideration and hereby freely, voluntarily, and without duress executes this Release under the following terms:

Release and Waiver. Trainee does hereby release and forever discharge and hold harmless and promise to indemnify and not sue Hosts, both jointly and severally, from any and all liability, claims, actions, damages, judgments, obligations, expenses, including, without limitation, attorneys' fees, expert witness fees and costs, and demands of whatever kind or nature, either in law or in equity, which arise or may hereafter arise, in whole or in part, from Trainee's Activities with Hosts. Trainee understands that this Release discharges Hosts from any liability or claim that the Trainee may have against Hosts with respect to any bodily injury, personal injury, illness, death, or property damage that may result from Trainee's Activities with Hosts, whether caused by the negligence of Trainee or Hosts. Trainee also understands and hereby agrees that it is NOT an employee of Hosts and that Hosts do not assume any responsibility for or obligation to provide financial assistance or other assistance, including, but not limited to, medical, life, health, or disability, or workers' compensation insurance in the event of injury or illness.

Medical Treatment. Trainee does hereby release and forever discharge Hosts from any claim whatsoever which arises or may hereafter arise on account of any first aid, treatment, or service rendered in connection with the Trainee's Activities with Hosts.

Insurance. Trainee understands that, except as otherwise agreed to by Hosts in writing, Hosts do not carry or maintain health, medical, life, workers' compensation, or disability insurance coverage for any Trainee. Each Trainee is expected and encouraged to obtain his or her own medical, health, life, disability and workers' compensation insurance for his or her protection while conducting any Activities with Hosts.

Photographic Release. In consideration of the training provided to Trainee and without further compensation or royalties, Trainee hereby authorizes Hosts to capture and use in any form, format or media, whether now known or later developed for marketing, advertising and other business purposes, Trainee's name, image, likeness, voice and other personal information and hereby grants and conveys unto Hosts all right, title and interest in any and all photographic images and video or audio recordings captured or made by Hosts during the Trainee's Activities with Hosts, including but not limited to, any claims, damages, royalties, proceeds, or other benefits derived from such photographs or recordings.

Prohibition on Hiring. Trainee understands and agrees that during its Activities with Hosts, it will be afforded an opportunity to meet and work with experienced employees of Hosts, who could be of value to Trainee should they be employed by Trainee. Trainee hereby agrees that for a period of two (2) years following the Effective Date of this Release, Trainee shall NOT, directly or indirectly, recruit, solicit, offer, hire, or otherwise entice any employee or agent of Hosts to become a Trainee employee or to otherwise sever his or her employment with Hosts.

Other. Trainee expressly agrees that this Release is intended to be as broad and inclusive as permitted by the laws of the State of Arizona, and that this Release shall be governed by and interpreted in accordance with the laws of the State of Arizona. Trainee agrees for himself/herself and his or her heirs, executors and representatives, that the representations in this Release are contractually binding, and are not mere recitals, and that should Trainee or his/her heirs, executors or representatives assert a claim contrary to what Trainee has agreed to in this Release, the claiming party shall be liable for the expenses (including, without limitation attorneys' fees and costs) incurred by Hosts in defending the claims. This Release may not be modified orally, and a waiver or modification of any provision shall not be construed as a waiver or modification of any other provision herein or as consent to any subsequent waiver or modification. Trainee consents to the release by any third party to Hosts and their insurance carriers of Trainee's name and medical information that may relate solely to any injury or death he or she may suffer arising from the Activities. Trainee agrees that in the event that any clause or provision of this Release shall be held to be invalid by any court of competent jurisdiction, the invalidity of such clause or provision shall not otherwise affect the remaining provisions of this Release which shall continue to be enforceable and Hosts and Trainee agree to promptly negotiate the terms of a substitute clause or provision to replace the severed or unenforceable clause or provision, consistent with the parties' original intent and then-current law.

IN WITNESS WHEREOF, I certify that I am 18 years of age or older. I have carefully read, understand and have freely executed this Release as of the Effective Date.

**Trainee Signature**\_\_\_\_\_

**Printed Name**\_\_\_\_\_

**Address**\_\_\_\_\_

*street*

*city*

*state*

*zip*

**Home Phone**\_\_\_\_\_ **Work Phone**\_\_\_\_\_

**Witness Signature (must be 18 years of age or older)** \_\_\_\_\_

**Printed Name**\_\_\_\_\_

**EXHIBIT K**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Addendum to the Franchise Agreement for SBA Loans**

## INSTRUCTIONS FOR USE OF SBA FORM 2462

### ADDENDUM TO FRANCHISE AGREEMENT

SBA has issued a revised version of the Addendum to Franchise Agreement (SBA Form 2462) which became effective January 1, 2018. SBA's Standard Operating Procedure (SOP) 50 10 5(J) explains updates made to the franchise review process for the 7(a) and 504 loan programs. By executing this Addendum, the franchisor agrees that any terms in its franchise agreement or any other document the franchisor requires the franchisee to sign that are related to control by the franchisor or its franchisees (resulting in a determination by SBA of affiliation between the Franchisor and its franchisees, as defined in 13 CFR part 121 and SBA's Standard Operating Procedure 50 10) will not be enforced against the franchisee during the life of the SBA-guaranteed loan.

SBA Form 2462 has **three** locations with drop down menu options at the beginning of the form (see example below). Once a drop down option is chosen (i.e. #1 "Franchise" #2 "Franchisor" and #3 "Franchisee"), the user must hit the "tab" key to automatically populate the appropriate term in all fields.

#### Example of Drop-Down Options

The image shows a portion of SBA Form 2462. At the top left is the SBA logo. The title is "ADDENDUM TO Franchise AGREEMENT". A red box labeled "1" points to a drop-down menu currently showing "Franchise". Below the title, the text reads: "THIS ADDENDUM ("Addendum") is made \_\_\_\_\_, 20\_\_\_\_, by and between \_\_\_\_\_ ("Franchisor"), located at \_\_\_\_\_, and \_\_\_\_\_ ("Franchisee"), located at \_\_\_\_\_." Red boxes labeled "2" and "3" point to the drop-down menus for "Franchisor" and "Franchisee" respectively.

Once the drop down options have populated in all three locations, the remaining fillable fields must be completed manually (see example below). These fields will either be blank or contain the language "(Enter type of)" or "(type of agreement)." In each of these fields, enter the type of agreement, e.g., franchise, license, dealer, membership, etc. When completing SBA Form 2462, the text may not be altered except to insert the information required to complete the form.

#### Example of Fillable Fields to be Completed Manually

##### FORCED SALE OF ASSETS

- If Franchisor \_\_\_\_\_ has the option to purchase the business personal assets upon default or termination of the Franchise \_\_\_\_\_ Agreement and the parties are unable to agree on the value of the assets, the value will be determined by an appraiser chosen by both parties. If the Franchisee \_\_\_\_\_ owns the real estate where the franchisee \_\_\_\_\_ location is operating, Franchisee \_\_\_\_\_ will not be required to sell the real estate upon default or termination, but Franchisee \_\_\_\_\_ may be required to lease the real estate for the remainder of the (enter type of) \_\_\_\_\_ term (excluding additional renewals) for fair market value.

**Note to Parties:** This Addendum only addresses "affiliation" between the Franchisor \_\_\_\_\_ and Franchisee \_\_\_\_\_. Additionally, the applicant Franchisee \_\_\_\_\_ and the (type of agreement) \_\_\_\_\_ system must meet all SBA eligibility requirements.





## ADDENDUM TO FRANCHISE

## <sup>1</sup> AGREEMENT

THIS ADDENDUM (“Addendum”) is made and entered into on \_\_\_\_\_, 20\_\_\_\_, by and between \_\_\_\_\_ (“Licensor”), located at \_\_\_\_\_, and \_\_\_\_\_ (“Licensee”), located at \_\_\_\_\_.

\_\_\_\_\_Franchisor\_\_\_\_\_ and \_\_\_\_\_Licensee\_\_\_\_\_ entered into a \_\_\_\_\_Franchise\_\_\_\_\_ Agreement on \_\_\_\_\_, 20\_\_\_\_, (such Agreement, together with any amendments, the “Franchise Agreement”). \_\_\_\_\_Licensee\_\_\_\_\_ is applying for financing(s) from a lender in which funding is provided with the assistance of the U. S. Small Business Administration (“SBA”). SBA requires the execution of this Addendum as a condition for obtaining SBA-assisted financing.

In consideration of the mutual promises below and for good and valuable consideration, the receipt and sufficiency of which the parties acknowledge the parties agree that notwithstanding any other terms in the \_\_\_\_\_Franchise\_\_\_\_\_ Agreement or any other document \_\_\_\_\_Franchisor\_\_\_\_\_ requires \_\_\_\_\_Licensee\_\_\_\_\_ to sign:

### CHANGE OF OWNERSHIP

- If \_\_\_\_\_Licensee\_\_\_\_\_ is proposing to transfer a partial interest in \_\_\_\_\_Licensee\_\_\_\_\_ and \_\_\_\_\_Franchisor\_\_\_\_\_ has an option to purchase or a right of first refusal with respect to that partial interest, \_\_\_\_\_Franchisor\_\_\_\_\_ may exercise such option or right only if the proposed transferee is not a current owner or family member of a current owner of \_\_\_\_\_Licensee\_\_\_\_\_. If the \_\_\_\_\_Franchisor\_\_\_\_\_’s consent is required for any transfer (full or partial), \_\_\_\_\_Franchisor\_\_\_\_\_ will not unreasonably withhold such consent. In the event of an approved transfer of the \_\_\_\_\_(Enter type of)\_\_\_\_\_ interest or any portion thereof, the transferor will not be liable for the actions of the transferee \_\_\_\_\_Licensee\_\_\_\_\_.

### FORCED SALE OF ASSETS

- If \_\_\_\_\_Franchisor\_\_\_\_\_ has the option to purchase the business personal assets upon default or termination of the \_\_\_\_\_Franchise\_\_\_\_\_ Agreement and the parties are unable to agree on the value of the assets, the value will be determined by an appraiser chosen by both parties. If the \_\_\_\_\_Licensee\_\_\_\_\_ owns the real estate where the \_\_\_\_\_licensee\_\_\_\_\_ location is operating, \_\_\_\_\_Licensee\_\_\_\_\_ will not be required to sell the real estate upon default or termination, but \_\_\_\_\_Licensee\_\_\_\_\_ may be required to lease the real estate for the remainder of the \_\_\_\_\_(enter type of)\_\_\_\_\_ term (excluding additional renewals) for fair market value.

<sup>1</sup> While relationships established under license, jobber, dealer and similar agreements are not generally described as “franchise” relationships, if such relationships meet the Federal Trade Commission’s (FTC’s) definition of a franchise (see 16 CFR § 436), they are treated by SBA as franchise relationships for franchise affiliation determinations per 13 CFR § 121.301(f)(5).

## COVENANTS

- If the Licensee owns the real estate where the licensee location is operating, Franchisor has not and will not during the term of the Franchise Agreement record against the real estate any restrictions on the use of the property, including any restrictive covenants, branding covenants or environmental use restrictions. If any such restrictions are currently recorded against the Licensee's real estate, they must be removed in order for the Licensee to obtain SBA-assisted financing.

## EMPLOYMENT

- Franchisor will not directly control (hire, fire or schedule) Licensee's employees. For temporary personnel franchises, the temporary employees will be employed by the Licensee not the Franchisor.

As to the referenced Franchise Agreement, this Addendum automatically terminates when SBA no longer has any interest in any SBA-assisted financing provided to the Licensee.

Except as amended by this Addendum, the Franchise Agreement remains in full force and effect according to its terms.

Franchisor and Licensee acknowledge that submission of false information to SBA, or the withholding of material information from SBA, can result in criminal prosecution under 18 U.S.C. 1001 and other provisions, including liability for treble damages under the False Claims Act, 31 U.S.C. §§ 3729 - 3733.

**Authorized Representative of FRANCHISOR:**

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

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

Title: \_\_\_\_\_

**Authorized Representative of LICENSEE:**

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

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

Title: \_\_\_\_\_

**Note to Parties:** This Addendum only addresses "affiliation" between the Franchisor and Licensee. Additionally, the applicant Licensee and the (type of agreement) system must meet all SBA eligibility requirements.

**EXHIBIT L**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Required Lease Terms  
(Lease Addendum to Lease Agreement)**

## **REQUIRED LEASE TERMS**

**The Terms and Conditions in the attached Lease Addendum to Lease Agreement (“Lease Addendum”) must be included in the Franchisee’s Lease for the location of the Franchised Business via execution of the attached Lease Addendum or through modifications to the actual Lease**

## LEASE ADDENDUM TO LEASE AGREEMENT

("Lease Addendum")

Dated: \_\_\_\_\_, 20\_\_\_\_

between

\_\_\_\_\_ and \_\_\_\_\_  
(Landlord Name) (Tenant Name)

\_\_\_\_\_  
(Address of "Premises")

### 1. Use of Premises.

During the term of the Lease, the Premises may be used only for the operation of a quick service restaurant under the *Surf City Squeeze* system, trademarks, trade names, and logos, which specialize in the sale of smoothies, fruit drinks, functional drinks, nutritional supplements, and other beverage, food and any other items sold under the *Surf City Squeeze* system. Landlord consents to Tenant's use of such trademarks, trade names, logos, tag lines, signs, décor items, color schemes, and related components of the *Surf City Squeeze* franchise system as Kahala Franchising, L.L.C., franchisor of the *Surf City Squeeze* brand ("Franchisor"), or any of its affiliates, may prescribe for *Surf City Squeeze* franchisees and which may be altered or changed by Franchisor from time to time.

### 2. Assignment and Notices.

a. Notwithstanding anything to the contrary in the Lease, Tenant shall have the right to assign the Lease and all amendments thereto, as applicable, including this Lease Addendum (collectively, "Lease"), and all rights hereunder to Franchisor or any of its affiliates, or to a third-party *Surf City Squeeze* franchisee approved by Franchisor upon the expiration or termination of the current franchise agreement by and between Franchisor and Tenant ("Franchise Agreement"), without obtaining Landlord's consent and without the imposition of any assignment fee or similar charge. Landlord shall not accelerate the rent owed hereunder in connection with such assignment(s), so long as Franchisor, its affiliate(s) or its third-party franchisee(s) assumes in writing the obligations of Tenant under the Lease. Nothing in this Section 2.a shall serve to extend the term of the Lease or provide Franchisor any occupancy rights, options to renew or other rights not expressly set forth to Tenant in the Lease.

b. Landlord agrees to furnish Franchisor with copies of any and all letters and notices to Tenant pertaining to the Lease and the Premises at the same time that such letters and notices are sent to Tenant. Landlord further agrees that, if it intends to terminate the Lease, the Landlord will give Franchisor the same advance written notice of such intent as provided to Tenant, specifying in such notice all defaults that are the cause of the proposed termination. Franchisor shall have the right to cure, at its sole option, any such default within the time periods granted to Tenant under the Lease. If neither Tenant nor Franchisor cures all such defaults within said time periods (or such longer cure periods as may be specifically permitted by the Lease), then the Landlord may terminate the Lease, re-enter the Premises and/or exercise all other rights as set forth in the Lease.

c. Prior to the expiration or termination of the Lease, Franchisor shall have the right to enter the Premises to make any reasonable modifications or reasonable alterations necessary to protect Franchisor's interest in the *Surf City Squeeze* brand and its trademarks, trade names, logos, tag lines, signs, décor items, color schemes, and related components of the *Surf City Squeeze* franchise system, or to cure any default under the Lease, and Landlord and Tenant agree that Franchisor shall not be liable for trespass or any other crimes or tort.

### 3. Notices.

All notices and demands required to be given hereunder shall be in writing and shall be sent by personal delivery, expedited delivery service, certified or registered mail, return receipt requested, first-class postage prepaid, email or facsimile (provided that the sender confirm the facsimile by sending an original confirmation copy by certified transmission), to the respective parties at the following addresses unless and until a different address has been designated by written notice to the other parties.

If directed to Tenant, the notice shall be addressed to:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Attn: \_\_\_\_\_  
Facsimile: \_\_\_\_\_  
Email: \_\_\_\_\_

If directed to Landlord, the notice shall be addressed to:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Attn: \_\_\_\_\_  
Facsimile: \_\_\_\_\_  
Email: \_\_\_\_\_

If directed to Franchisor, the notice shall be addressed to:

Kahala Franchising, L.L.C.  
9311 E. Via De Ventura  
Scottsdale, AZ 85258  
Attn: Real Estate Department  
Facsimile: (480) 362-4792  
Email: [us.leases@mtygroup.com](mailto:us.leases@mtygroup.com)

Any notices sent by personal delivery shall be deemed given upon receipt. Any notices given by email or facsimile shall be deemed given on the business day of transmission, provided confirmation is made as provided above. Any notice sent by expedited delivery service or registered or certified mail shall be deemed given three (3) business days after the time of mailing. Any change in the foregoing addresses shall be effected by giving fifteen (15) days written notice of such change to the other parties.

4. **Amendments.**

Landlord and Tenant will not amend, renew, extend or otherwise modify the Lease in any manner which would materially affect any of the provisions in this Lease Addendum without Franchisor's prior written consent.

5. **Right of First Refusal.**

Landlord and Tenant agree that should Landlord and Tenant desire to terminate the Lease prior to the scheduled expiration date, Landlord will notify Franchisor of the proposed termination not less than thirty (30) days in advance of the proposed termination date. Franchisor shall have a right of first refusal to assume the Lease whereby Tenant will assign the Lease to Franchisor and Franchisor will assume all rights and obligations of Tenant under the Lease

6. **Miscellaneous.**

The terms and conditions of this Lease Addendum will supersede any conflicting terms of the Lease. Any capitalized term not specifically defined in this Lease Addendum shall have the meaning ascribed to such term in the Lease.

IN WITNESS WHEREOF, the parties hereto, by and through their respective representatives authorized to enter into and bind each respective party without further consent or authorization, have duly executed and delivered this Lease Addendum in duplicate as of the date set forth above.

**LANDLORD:**

\_\_\_\_\_, a(n) \_\_\_\_\_  
\_\_\_\_\_

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

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**TENANT:**

\_\_\_\_\_, a(n) \_\_\_\_\_

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

Name: \_\_\_\_\_

Title: \_\_\_\_\_

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

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**EXHIBIT M**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Lease Guaranty Acknowledgment**



### **Lease Guaranty Acknowledgment**

You have informed Kahala Franchising, L.L.C. (the "Company") that the landlord of the location which you have selected for the operation of your Franchised Business requires, as a condition for you to obtain a lease agreement, that you obtain a lease guaranty from the Company or any affiliate of the Company of your obligations under the lease. You have requested that the Company or any affiliate of the Company execute and deliver a lease guaranty in favor of the premises landlord for the location you have selected or are considering for your Franchised Business. You acknowledge that neither the Company nor any of its affiliates is required to serve as guarantor of your lease for the site of your Franchised Business and that a decision whether to serve as guarantor is within the sole and absolute discretion of the Company.

We are willing to undertake to assist you in obtaining a lease by agreeing to execute and deliver a lease guaranty, in form and substance satisfactory to the Company and its counsel. In consideration for the execution and delivery of a lease guaranty, you hereby acknowledge that you have agreed to pay a lease guaranty fee to the Company in an amount equal to the lesser of (i) ten percent (10%) of the total amount of the rental obligations to be guaranteed under the lease during its term, and any renewal term (inclusive of any charges for real estate taxes, common area maintenance, insurance), or (ii) Ten Thousand (\$10,000) Dollars (the "Lease Guaranty Fee"). The Lease Guaranty Fee will be due and payable to the Company upon the Company's (or any affiliate of the Company) execution of the applicable lease guaranty agreement with the landlord.

Any capitalized terms not specifically defined in this Lease Guaranty Acknowledgment shall have the meaning ascribed to such terms in your *Surf City Squeeze* Franchise Agreement dated \_\_\_\_\_.

The undersigned understands and acknowledges that: (i) notwithstanding the agreement of the Company to execute and deliver a lease guaranty, the execution and delivery of such guaranty and any participation of the Company and/or its agents or employees, including, without limitation, its Area Representatives, and/or brand presidents in the negotiation of an LOI or a lease, and analyzing and/or approving site(s) for the Location of the Franchised Business, you are solely responsible for conducting a review of the proposed site, the LOI and lease terms, and for final Location selection and approval based upon your review, your business plan and model; (ii) you have not relied upon the assistance of the Company in procuring, or in the approval of, an LOI or lease for the Franchised Business, or in its decision to select any proposed site; (iii) each potential site for the Franchised Business is unique and provides different risks and benefits, which may impact the performance of the Franchised Business; and, (iv) as part of analyzing the proposed site, it is your responsibility to meet with the local officials to determine, among other things whether any street, highway, interchange, city, or other changes are planned in the area or access to the proposed site that could negatively affect the performance of the Franchised Business.

Acknowledged and accepted:

Corporation or Entity: \_\_\_\_\_

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

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

Brand Concept: \_\_\_\_\_

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

**EXHIBIT N**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Lease Review and/or Negotiation Agreement and Release  
and State Addenda**

## **LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE**

You have requested that the real estate department of Kahala Management, L.L.C. ("Company") assist you in the review of the Lease for your Franchised Business ("Location"), which may include participation in the negotiation of the business terms of a lease with the landlord and/or broker/agent of the landlord for the Location ("Lease Assistance"). You have agreed to pay the Company a fee of Two Thousand Five Hundred Dollars (\$2,500) for Lease Assistance. The Company is willing to undertake to assist you in the review and related negotiations.

Any capitalized terms not specifically defined in this LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE shall have the meaning ascribed to such terms in your *Surf City Squeeze* Franchise Agreement dated \_\_\_\_\_, 20\_\_ for store number \_\_\_\_\_.

Although, Company must review your selection of a Location and the Lease to confirm it meets our minimum site requirements, the provisions, final approval and execution of the Lease remain your sole responsibility. You may require or elect to seek additional information or guidance of others, including, without limitation, independent business and legal advisors of your own choosing, other than what is provided by Company. This would be your sole responsibility. The services provided by the Company's real estate department will include only those certain services as detailed in your Franchise Agreement.

The undersigned understands and acknowledges that: (i) notwithstanding any provision by Company and/or its subsidiaries, parent, or affiliated companies, agents or employees, including, without limitation, its Area Representatives, Brand Presidents or Vice President of Operations, in the Lease Assistance for the location of the Franchised Business, you are solely responsible for conducting a review of the proposed site, the Letter Of Intent ("LOI") and Lease terms, and for final site selection based upon your review, your individual business plan and model; (ii) you have not relied solely upon the Lease Assistance of Company in reviewing, negotiating, or approving if an LOI or Lease for the Franchised Business, or in your decision to select any proposed site; (iii) each site for the Franchised Business is unique and provides different risks and benefits, which may impact the performance of the Franchised Business; and (iv) as part of your analysis of the proposed site for the operation of the Franchised Business, it is your sole responsibility to conduct such due diligence reviews of the geographic area and the shopping center in which the Franchised Business is to be located as you, in your sole discretion, deem necessary and advisable, including, without limitation, meeting with the local officials to determine, among other things, whether any street, highway, interchange, city, or other changes are planned in the area or access to the proposed site that could negatively affect the performance of the Franchised Business.

In consideration of the agreement of Company to provide Lease Assistance to you, the undersigned hereby fully releases, discharges, and acquits Kahala Franchising, L.L.C., Company, and its respective predecessors, successors and assigns, parents, subsidiaries and

affiliated corporations, their respective officers, directors, agents, employees and representatives, past and present, of any and all of such corporations (collectively "Franchisor Parties"), and/or their Area Representatives, Brand Presidents and/or Vice President of Operations, from and against any and all claims, demands and causes of action (whether now existing or hereafter arising, known or unknown) that he/she/it, or any of his/her/its parent, affiliate, or subsidiary companies, agents, representatives, members, officers, directors, or employees, may now or in the future have against Franchisor Parties, and/or their Area Representatives, Brand Presidents and/or Vice President of Operations (or any of them), including, without limitation, claims, demands and causes of action that resulted, result or may result from, arise out of or relate to, in whole or in part, directly or indirectly, the Lease Assistance.

Acknowledged and accepted:

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

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

Corporation or Entity: \_\_\_\_\_

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

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

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

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

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

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

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

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

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

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

**ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE**  
(FOR THE STATE OF CALIFORNIA)

This ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE (FOR THE STATE OF CALIFORNIA) ("Addendum") hereby amends the Lease Review and/or Negotiation Agreement and Release dated \_\_\_\_\_, 20\_\_\_\_ ("Lease Review Agreement") from the undersigned to Franchisor Parties. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Lease Review Agreement. The Lease Review Agreement is hereby amended by the addition of the following language, which shall be considered an integral part of the Lease Review Agreement:

1. A general release is incorporated in the Lease Review Agreement. California Corporations Code §31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code §§31000 through 31516).

2. Business and Professions Code §20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code §§20000 through 20043).

3. Except as set forth in this Addendum, the terms and provisions of the Lease Review Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned, by and through its respective representative with full rights, power and authority to enter into and bind the undersigned without further consent or approval of any kind, has duly executed and delivered this Addendum on \_\_\_\_\_, 20\_\_\_\_.

\_\_\_\_\_, a(n) \_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]

**ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE**  
(FOR THE STATE OF HAWAII)

This ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE (FOR THE STATE OF HAWAII) ("Addendum") hereby amends the Lease Review and/or Negotiation Agreement and Release dated \_\_\_\_\_, 20\_\_\_\_ ("Lease Review Agreement") from the undersigned to Franchisor Parties. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Lease Review Agreement. The Lease Review Agreement is hereby amended by the addition of the following language, which shall be considered an integral part of the Lease Review Agreement:

1. A general release is incorporated in the Lease Review Agreement. If the Franchisee is required to execute a release of claims, such release shall exclude claims arising under the Hawaii Franchise Investment Law. Any condition, stipulation or provision binding the Franchisee to waive compliance with any provision of Section 482E-6 of the Hawaii Franchise Investment Law shall be void.

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

3. Except as set forth in this Addendum, the terms and provisions of the Lease Review Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned, by and through its respective representative with full rights, power and authority to enter into and bind the undersigned without further consent or approval of any kind, have duly executed and delivered this Addendum on \_\_\_\_\_, 20\_\_\_\_.

\_\_\_\_\_, a(n) \_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]

**ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE**  
(FOR THE STATE OF ILLINOIS)

This ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE (FOR THE STATE OF ILLINOIS) ("Addendum") hereby amends the Lease Review and/or Negotiation Agreement and Release dated \_\_\_\_\_, 20\_\_\_\_ ("Lease Review Agreement") from the undersigned to Franchisor Parties. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Lease Review Agreement. The Lease Review Agreement is hereby amended by the addition of the following language, which shall be considered an integral part of the General Release:

1. A general release is incorporated in the Lease Review Agreement. If the Franchisee is required to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action that would violate the Illinois Franchise Disclosure Act of 1987, 815 ILCS 705/20, or a rule of order under the Act, such release shall exclude claims arising under the Illinois Franchise Disclosure Act, and such acknowledgements shall be void with respect to claims under the Act.

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

3. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Illinois Franchise Disclosure Act, with respect to each such provision, are met independent of this Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met.

4. Except as set forth in this Addendum, the terms and provisions of the Lease Review Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned, by and through its respective representative with full rights, power and authority to enter into and bind the undersigned without further consent or approval of any kind, has duly executed and delivered this Addendum on \_\_\_\_\_, 20\_\_\_\_.

\_\_\_\_\_, a(n) \_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]



**ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE**  
(FOR THE STATE OF INDIANA)

This ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE (FOR THE STATE OF INDIANA) ("Addendum") hereby amends the Lease Review and/or Negotiation Agreement and Release dated \_\_\_\_\_, 20\_\_\_\_ ("Lease Review Agreement") from the undersigned to Franchisor Parties. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Lease Review Agreement. The Lease Review Agreement is hereby amended by the addition of the following language, which shall be considered an integral part of the Lease Review Agreement:

1. A general release is incorporated in the Lease Review Agreement. If the Franchisee is required to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action that would violate the Act, or a rule of order under the Act, such release shall exclude claims arising under the Indiana Franchises Act, Ind. Code Ann. §§ 23-2-2.5 and the Indiana Deceptive Franchise Practices Act, Ind. Code Ann. § 23-2-2.7-1, and such acknowledgements shall be void with respect to claims under the Act.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Indiana Deceptive Practices Act and the Indiana Franchises Act, with respect to each such provision, are met independent of this Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met.

3. Except as set forth in this Addendum, the terms and provisions of the Lease Review Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned, by and through its respective representative with full rights, power and authority to enter into and bind the undersigned without further consent or approval of any kind, has duly executed and delivered this Addendum on \_\_\_\_\_, 20\_\_\_\_.

\_\_\_\_\_, a(n) \_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]

**ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE**  
(FOR THE STATE OF MARYLAND)

This ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE (FOR THE STATE OF MARYLAND) ("Addendum") hereby amends the Lease Review and/or Negotiation Agreement and Release dated \_\_\_\_\_, 20\_\_\_\_ ("Lease Review Agreement") from the undersigned to Franchisor Parties. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Lease Review Agreement. The Lease Review Agreement is hereby amended by the addition of the following language, which shall be considered an integral part of the Lease Review Agreement:

1. A general release is incorporated in the Lease Review Agreement. The general release required as a condition of renewal shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.

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

3. Except as set forth in this Addendum, the terms and provisions of the Lease Review Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned, by and through its respective representative with full rights, power and authority to enter into and bind the undersigned without further consent or approval of any kind, has duly executed and delivered this Addendum on \_\_\_\_\_, 20\_\_\_\_.

\_\_\_\_\_, a(n) \_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]

**ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE**  
(FOR THE STATE OF MICHIGAN)

This ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE (FOR THE STATE OF MICHIGAN) ("Addendum") hereby amends the Lease Review and/or Negotiation Agreement and Release dated \_\_\_\_\_, 20\_\_\_\_ ("Lease Review Agreement") from the undersigned to Franchisor Parties. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Lease Review Agreement. The Lease Review Agreement is hereby amended by the addition of the following language, which shall be considered an integral part of the Lease Review Agreement:

1. A general release is incorporated in the Lease Review Agreement. The following provision is void and unenforceable under the Michigan Franchise Investment Law § 445.1527 if contained in any documents relating to a franchise: A requirement that a franchisee assent to a release, assignment, novation, waiver, or estoppel which deprives franchisee of rights and protections provided in the Act. This shall not preclude a franchisee, after entering into a franchise agreement, from settling any and all claims.

2. Except as set forth in this Addendum, the terms and provisions of the Lease Review Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned, by and through its respective representative with full rights, power and authority to enter into and bind the undersigned without further consent or approval of any kind, has duly executed and delivered this Addendum on \_\_\_\_\_, 20\_\_\_\_.

\_\_\_\_\_, a(n) \_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]

**ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE**  
(FOR THE STATE OF MINNESOTA)

This ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE (FOR THE STATE OF MINNESOTA) ("Addendum") hereby amends the Lease Review and/or Negotiation Agreement and Release dated \_\_\_\_\_, 20\_\_\_\_ ("Lease Review Agreement") from the undersigned to Franchisor Parties. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Lease Review Agreement. The Lease Review Agreement is hereby amended by the addition of the following language, which shall be considered an integral part of the Lease Review Agreement:

1. A general release is incorporated in the Lease Review Agreement. Minnesota Rules 2860.4400.D prohibits a franchisor from requiring a franchisee to assent to a release, assignment, novation, or waiver that would relieve any person from liability imposed by Minnesota Statutes 1973 Supplement, sections 80C.01 to 80C.22; provided, that this part shall not bar the voluntary settlement of disputes.

2. Any condition, stipulation or provision, including any choice of law provision, purporting to bind any person who, at the time of acquiring a franchise is a resident of this state, or, in the case of a partnership or corporation, organized or incorporated under the laws of this state, or purporting to bind a person acquiring any franchise to be operated in this state to waive compliance or which has the effect of waiving compliance with any provision of sections 80C.01 to 80C.22 or any rule or order thereunder is void under the Minnesota Franchise Act, Minn. Stat. § 80C.21.

3. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Minnesota law applicable to the provision are met independent of this Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met.

4. Except as set forth in this Addendum, the terms and provisions of the Lease Review Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned, by and through its respective representative with full rights, power and authority to enter into and bind the undersigned without further consent or approval of any kind, has duly executed and delivered this Addendum on \_\_\_\_\_, 20\_\_\_\_.

\_\_\_\_\_, a(n) \_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]

**ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE**  
**(FOR THE STATE OF NORTH DAKOTA)**

This ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE (FOR THE STATE OF NORTH DAKOTA) ("Addendum") hereby amends the Lease Review and/or Negotiation Agreement and Release dated \_\_\_\_\_, 20\_\_\_\_ ("Lease Review Agreement") from the undersigned to Franchisor Parties. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Lease Review Agreement. The Lease Review Agreement is hereby amended by the addition of the following language, which shall be considered an integral part of the Lease Review Agreement:

1. A general release is incorporated in the Lease Review Agreement. Under North Dakota Franchise Investment Law, North Dakota Century Code Annotated Chapter 51-19-16, any condition, stipulation, or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of this chapter or any rule order hereunder is void.

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

a. General Release: Franchise Agreements that require the franchisee to sign a general release upon renewal of the franchise agreement.

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

4. Except as set forth in this Addendum, the terms and provisions of the Lease Review Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned, by and through its respective representative with full rights, power and authority to enter into and bind the undersigned without further consent or approval of any kind, has duly executed and delivered this Addendum on \_\_\_\_\_, 20\_\_\_\_.

\_\_\_\_\_, a(n) \_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]

**ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE**  
(FOR THE STATE OF NEW YORK)

This ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE (FOR THE STATE OF NEW YORK) ("Addendum") hereby amends the Lease Review and/or Negotiation Agreement and Release dated \_\_\_\_\_, 20\_\_\_\_ ("Lease Review Agreement") from the undersigned to Franchisor Parties. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Lease Review Agreement. The Lease Review Agreement is hereby amended by the addition of the following language, which shall be considered an integral part of the Lease Review Agreement:

1. A general release is incorporated in the Lease Review Agreement. Under New York General Business Law, Article 33, Section 687, it is unlawful to require a franchisee to assent to a release, assignment, novation, waiver or estoppel which would relieve a person from any duty or liability imposed by this Article.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of New York General Business Law, with respect to each such provision are met.

3. Except as set forth in this Addendum, the terms and provisions of the Lease Review Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned, by and through its respective representative with full rights, power and authority to enter into and bind the undersigned without further consent or approval of any kind, has duly executed and delivered this Addendum on \_\_\_\_\_, 20\_\_\_\_.

\_\_\_\_\_, a(n) \_\_\_\_\_

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

[Name, Title]

**ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE**  
(FOR THE STATE OF RHODE ISLAND)

This ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE (FOR THE STATE OF RHODE ISLAND) ("Addendum") hereby amends the Lease Review and/or Negotiation Agreement and Release dated \_\_\_\_\_, 20\_\_\_\_ ("Lease Review Agreement") from the undersigned to Franchisor Parties. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Lease Review Agreement. The Lease Review Agreement is hereby amended by the addition of the following language, which shall be considered an integral part of the Lease Review Agreement:

1. A general release is incorporated in the Lease Review Agreement. Under the Franchise Investment Act, R.I. Gen. Law. ch. 395 Sec. 19-28.1-15, a condition, stipulation or provision requiring a franchisee to waive compliance with or relieving a person of a duty of liability imposed by or a right provided by this act or a rule or order under this act is void. An acknowledgement provision, disclaimer or integration clause or a provision having a similar effect in a franchise agreement does not negate or act to remove from judicial review any statement, misrepresentations or action that would violate this act or a rule or order under this act. This section shall not affect the settlement of disputes, claims or civil lawsuits arising or brought under this act.

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

3. Except as set forth in this Addendum, the terms and provisions of the Lease Review Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned, by and through its respective representative with full rights, power and authority to enter into and bind the undersigned without further consent or approval of any kind, has duly executed and delivered this Addendum on \_\_\_\_\_, 20\_\_\_\_.

\_\_\_\_\_, a(n) \_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]

**ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE**  
**(FOR THE STATE OF SOUTH DAKOTA)**

This ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE (FOR THE STATE OF SOUTH DAKOTA) ("Addendum") hereby amends the Lease Review and/or Negotiation Agreement and Release dated \_\_\_\_\_, 20\_\_\_\_ ("Lease Review Agreement") from the undersigned to Franchisor Parties. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Lease Review Agreement. The Lease Review Agreement is hereby amended by the addition of the following language, which shall be considered an integral part of the Lease Review Agreement:

1. A general release is incorporated in the Lease Review Agreement. Under the South Dakota Franchise Investment Law, South Dakota Codified Laws, Title 37, Chapter 37-5B, Sections 37-5B-26, No person may, directly or indirectly, in connection with the offer or sale of a franchise: (8) Disclaim or require a prospective franchisee to waive reliance on any representation made in the disclosure document or in its exhibits or amendments. However, this provision is not intended to prevent a prospective franchisee from voluntarily waiving specific contractual terms and conditions set forth in his or her disclosure document during the course of franchise sale negotiations.

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

3. Except as set forth in this Addendum, the terms and provisions of the Lease Review Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned, by and through its respective representative with full rights, power and authority to enter into and bind the undersigned without further consent or approval of any kind, has duly executed and delivered this Addendum on \_\_\_\_\_, 20\_\_\_\_.

\_\_\_\_\_, a(n) \_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]



**ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE**  
(FOR THE STATE OF VIRGINIA)

This ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE (FOR THE STATE OF VIRGINIA) ("Addendum") hereby amends the Lease Review and/or Negotiation Agreement and Release dated \_\_\_\_\_, 20\_\_\_\_ ("Lease Review Agreement") from the undersigned to Franchisor Parties. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Lease Review Agreement. The Lease Review Agreement is hereby amended by the addition of the following language, which shall be considered an integral part of the Lease Review Agreement:

1. A general release is incorporated in the Lease Review Agreement. Under the Virginia Retail Franchising Act, VA. Code Ann. §13.1-571(c), Any condition, stipulation or provision binding any person to waive compliance with any provision of this chapter or of any rule or order thereunder shall be void; provided, however, that nothing contained herein shall bar the right of a franchisor and franchisee to agree to binding arbitration of disputes consistent with the provisions of this chapter.

2. Except as set forth in this Addendum, the terms and provisions of the Lease Review Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned, by and through its respective representative with full rights, power and authority to enter into and bind the undersigned without further consent or approval of any kind, has duly executed and delivered this Addendum on \_\_\_\_\_, 20\_\_\_\_.

\_\_\_\_\_, a(n) \_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]

**ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE**  
(FOR THE STATE OF WASHINGTON)

This ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE (FOR THE STATE OF WASHINGTON) ("Addendum") hereby amends the Lease Review and/or Negotiation Agreement and Release dated \_\_\_\_\_, 20\_\_\_\_ ("Lease Review and Agreement") from the undersigned to Franchisor Parties. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Lease Review Agreement. The Lease Review Agreement is hereby amended by the addition of the following language, which shall be considered an integral part of the Lease Review Agreement:

1. A general release is incorporated in the Lease Review Agreement. The state of Washington has a statute, RCW 19.100.180, which may supersede the Franchise Agreement in your relationship with the Franchisor, including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the Franchise Agreement in your relationship with the Franchisor, including the areas of termination and renewal of your Franchise.

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

3. Except as set forth in this Addendum, the terms and provisions of the Lease Review Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned, by and through its respective representative with full rights, power and authority to enter into and bind the undersigned without further consent or approval of any kind, has duly executed and delivered this Addendum on \_\_\_\_\_, 20\_\_\_\_.

**FRANCHISEE**

\_\_\_\_\_, a(n) \_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]

**ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE**  
(FOR THE STATE OF WISCONSIN)

This ADDENDUM TO LEASE REVIEW AND/OR NEGOTIATION AGREEMENT AND RELEASE (FOR THE STATE OF WISCONSIN) ("Addendum") hereby amends the Lease Review and/or Negotiation Agreement and Release dated \_\_\_\_\_, 20\_\_\_\_ ("Lease Review Agreement") from the undersigned to Franchisor Parties. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Lease Review Agreement. The Lease Review Agreement is hereby amended by the addition of the following language, which shall be considered an integral part of the Lease Review Agreement:

1. A general release is incorporated in the Lease Review Agreement. Under the Wisconsin Franchise Investment Law, Wis. Stat. Ann. § 553.76, Any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of this chapter or any rule or order under this chapter is void. This section does not affect the settlement of disputes, claims or civil lawsuits arising or brought under this chapter.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Wisconsin law applicable to the provision are met independent of this Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met.

3. Except as set forth in this Addendum, the terms and provisions of the Lease Review Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned, by and through its respective representative with full rights, power and authority to enter into and bind the undersigned without further consent or approval of any kind, have duly executed and delivered this Addendum on \_\_\_\_\_, 20\_\_\_\_.

\_\_\_\_\_, a(n) \_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]

**EXHIBIT O**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Sublease and Guaranty of Sublease**

Store No. \_\_\_\_\_

## SUBLEASE

This SUBLEASE ("Sublease") is effective as of the date set forth in Exhibit A attached hereto and incorporated herein by reference ("Effective Date"), executed by [LEASING ENTITY], \_\_\_\_\_, a[n] \_\_\_\_\_ ("Sublessor"), and the sublessee identified in Exhibit A to this Sublease ("Sublessee").

WHEREAS, Sublessor, as tenant, previously entered into, or intends to enter into, that certain lease ("Lease") in the form of Exhibit B attached hereto and incorporated herein by reference, as may be amended from time to time, pursuant to which Sublessor leases certain premises ("Premises") as described in the Lease from the landlord under such Lease ("Landlord");

[WHEREAS, Sublessor and Sublessee are parties to a sublease dated \_\_\_\_\_, as amended (collectively the "Prior Sublease"). Sublessee agrees and acknowledges that it remains liable under the Prior Sublease up through the date immediately preceding the Effective Date. Sublessor and Sublessee further acknowledge and agree that the Prior Sublease is deemed terminated as of and after the Effective Date.]

WHEREAS, Sublessee has entered into that certain Franchise Agreement, as amended, for a[n] Brand Store No. \_\_\_\_\_ (collectively the "Franchise Agreement") with \_\_\_\_\_, a[n] \_\_\_\_\_ ("Franchisor");

WHEREAS, pursuant to the Franchise Agreement, the parties and Franchisor intend that Sublessee will establish and operate a [n] Brand restaurant at the location identified in the Franchise Agreement;

WHEREAS, Sublessee may only use and occupy the Premises as a Brand restaurant selling Brand - authorized products pursuant to the terms of the Franchise Agreement, and for no other purpose. Sublessee may not sell any other items at the Premises unless first authorized in writing by the Sublessor;

WHEREAS, Sublessee has selected the Premises for the location of the Brand restaurant to be established and operated by Sublessee;

WHEREAS, in accordance with the Franchise Agreement, Sublessor desires to sublease to Sublessee, and Sublessee desires to sublease from Sublessor, the Premises and Sublessor's rights in the Premises pursuant to the Lease, upon the terms and conditions contained herein;

NOW, THEREFORE, in consideration of the foregoing premises, and the terms, conditions and covenants set forth in this Sublease, the parties hereby agree as follows:

1. Agreement to Sublease. Sublessor hereby demises and sublets to Sublessee the Premises, and Sublessor grants Sublessee all of its respective rights, privileges and appurtenances related to the Premises, and Sublessee takes from Sublessor, the Premises and all of Sublessor's respective rights, privileges and appurtenances related to the Premises, for the Term (as defined in Section 2.1).

1.1. Assumption. As of the Effective Date, Sublessee assumes, and agrees to abide by, all terms and conditions of the Lease with respect to the Premises, and will faithfully perform all obligations required thereunder to be performed by Sublessor during the Term and any obligations to be performed by Sublessor under the Lease prior to, as of and after the Commencement Date of the Lease (as defined in Exhibit A attached hereto) to the extent the same have not been fully performed by Sublessor as of the Effective Date hereof (including without limitation, any initial construction obligations).

1.2. Compliance with Lease. Notwithstanding anything to the contrary contained herein, the terms of this Sublease and Sublessee's use, occupancy, maintenance, repair and restoration of the Premises are subject and subordinate to the terms, covenants, conditions, agreements and requirements of the Lease. Sublessee will not commit or permit to be committed on the Premises any act or omission which will violate any term or condition of the Lease. To enforce the rights of Sublessor hereunder, Sublessor may exercise any and all remedies available to Landlord under the Lease, in addition to any other remedies provided hereunder or available at law or in equity.

## 2. Term; Renewal Options.

2.1. Term. This Sublease will be effective as of the Effective Date and will continue for the full term of the Lease ("Term"), as the same may be amended, earlier terminated, or renewed or extended from time to time pursuant to Section 2.2 below, minus one day.

2.2. Renewal Options. If the Lease, as may be amended by Sublessor from time to time, contains renewal options, Sublessee may exercise such options in accordance with this Section 2.2, provided that as of the time of the giving of the Renewal Notice (as defined below), no event of default exists or would exist hereunder or under the Lease but for the passage of time or the giving of notice, or both. ***To exercise a renewal option, Sublessee must notify Sublessor in writing in accordance with Section 17 herein of Sublessee's intent to exercise such option ("Renewal Notice") not more than 90 days, or less than 60 days, before the date that Sublessor is required to notify Landlord pursuant to the Lease of its intention to exercise such option. Time is of the essence.*** Notwithstanding the foregoing, Sublessee acknowledges and agrees that the decision to exercise any renewal option in connection with the Lease is solely at the discretion of Sublessor.

2.3. Failure to Timely Deliver Renewal Notice. If Sublessee does not deliver the Renewal Notice within the time period set forth above, Sublessee's right to exercise the renewal option pursuant to this Section 2 will automatically become null and void and of no further force or effect. Sublessee's exercise of a renewal option, as evidenced by the Renewal Notice, will be irrevocable in all events. Upon receipt of an effective Renewal Notice, Sublessor will undertake to renew the Lease for the applicable renewal term and Sublessee will indemnify, defend, and hold Sublessor and the Indemnified Parties (as defined in Section 11) harmless with respect to the exercise of the renewal option. Notwithstanding the foregoing, Sublessee acknowledges and agrees that the decision to exercise any renewal option in connection with the Lease is solely at the discretion of Sublessor.

## 3. Rent, Taxes and Insurance.

3.1. Payment of Rent. As of the Effective Date, and at Sublessor's sole and absolute discretion, Sublessor shall either have the right to: (a) directly debit from Sublessee the Rent (as defined in Section 3.1.1.1) due and owing under the Lease pursuant to Section 3.1.1 below; or (b) direct Sublessee to pay the Rent due and owing under the Lease directly to the Landlord pursuant to Section 3.1.2 below. Upon Sublessor's thirty (30) day prior written notice (email is sufficient), Sublessor shall have the absolute right to change the means of the payment of Rent and may either begin debiting Rent directly from Sublessee or require Sublessee to pay Rent directly to the Landlord, each to become applicable for the immediate following month after such 30-day notice to Sublessee. Concurrently with Sublessee's execution hereof, or at any time thereafter if required by Sublessor, Sublessee shall sign a pre-authorization enabling Sublessor to draw against Sublessee's bank account for the partial or full amount of the Rent and any other amounts due hereunder as and when the same become due. To ensure all Rent and other payments are timely made to the Landlord, Sublessor has the absolute right to draw against Sublessee's bank account such amounts due and owing, or at Sublessor's election in its sole discretion, Sublessor shall direct Sublessee to pay such amounts to such address as Sublessor may specify from time to time by written notice delivered in accordance herewith and Sublessee shall comply with such direction.

### 3.1.1. Rent Payments paid directly to Sublessor.

- 3.1.1.1. The first month's Base Rent (as defined in this Section 3.1.1.1), the Sublease Security Deposit (as defined in Section 4.1 and set forth on Exhibit A) and the first monthly installment of estimated Operating Expenses (as defined in this Section 3.1.1.1) will be due and payable on the Effective Date. Sublessee promises to pay to Sublessor in advance, without demand, deduction or set-off, regular installments of: (a) all base, minimum or fixed rent payable under the Lease ("Base Rent"); (b) any percentage rent or other rent based upon sales in, at, or from the Premises ("Percentage Rent"); and (c) any other payments payable under the Lease for operating expenses, common area expenses, utilities, marketing funds, merchants associations, sprinkler fees and any other costs and expenses, including any annual reconciliation(s) of the same, as applicable (collectively, "Operating Expenses"), together with all sales, rental and privilege taxes due thereon. The foregoing payments under (a), (b), and (c) are collectively referred to as "Rent."
- 3.1.1.2. From and after the Effective Date and through the Term hereof, Sublessee will pay to Sublessor on the earlier of: (i) the 25<sup>th</sup> day of the month; or (ii) the fourth (4<sup>th</sup>) Friday of the month; or (iii) on a day reasonably set by Sublessor to ensure timely payment of Rent under the Lease (as applicable, "Due Date"), an amount equal to 1/12<sup>th</sup> of the annual Base Rent and 1/12<sup>th</sup> of the estimated Operating Expenses and all applicable taxes thereon, as applicable, for the following month (i.e., Sublessee's first Base Rent and estimated Operating Expense payments payable under this Section 3.1.1 will be applied to the second month of the Term, so that Base Rent and Operating Expenses will always be paid one month in advance). To the extent Sublessee has paid Base Rent and estimated Operating Expenses in advance, Sublessee will not be obligated to pay the same on the Due Date of the last month of the Term. If any of Sublessee's Base Rent and Operating Expenses payments are returned for non-sufficient funds, Sublessor has the option, at its sole discretion, to collect the Base Rent and Operating Expenses payments on a weekly basis one month in advance without prior notice to Sublessee. If Sublessor exercises this option, Sublessee will pay to Sublessor on each Friday for the remainder of the Term an amount equal to 1/52<sup>nd</sup> of the annual Base Rent and 1/52<sup>nd</sup> of the estimated Operating Expenses and all applicable taxes thereon, at least four (4) weeks in advance of the first of the month for which it is paid by Sublessor to Landlord.
- 3.1.1.3. In addition to Base Rent and estimated Operating Expenses paid in accordance with Section 3.1.1.1 above, commencing on the Effective Date of this Sublease, Sublessee will pay Percentage Rent and any other amounts due hereunder or under the Lease in the amounts and the same number of installments due from Sublessor, as tenant, to Landlord under the Lease, which payment will be made by Sublessee to Sublessor at least ten (10) days before the same is due to Landlord under the Lease; provided, however, at Sublessor's election in its sole discretion, Percentage Rent will be paid by Sublessee in arrears on a weekly basis, in which event Sublessee will also submit along with each payment of Percentage Rent, a sales report of Lease Gross Sales (as defined below) for the previous week in the form described in Section 3.3 below.

### 3.1.2. Rent Payments paid directly to Landlord.

- 3.1.2.1. The first month's Rent and the Sublease Security Deposit will be due and payable on the Effective Date. Sublessee promises to timely pay to Landlord, without

demand, deduction or set-off, regular installments of all Rent, together with all sales, rental and privilege taxes due thereon, as required under the Lease.

3.2. Payment of Taxes and Insurance. Sublessee promises to timely pay any and all taxes and insurance covering or incurred during the Term of this Sublease and due as required under the Lease or in connection with the Premises, when billed or invoiced from the respective taxing authority or insurance company, whether addressed to Sublessor or its affiliate or Sublessee, without demand, deduction or set-off, including any annual reconciliation(s), as applicable. Sublessee agrees and acknowledges that taxes and insurance may be collected by Sublessor either pursuant to Section 3.1.1.1 above (or in such a manner reasonably determined by Sublessor to ensure timely payment of any and all taxes and insurance due under the Lease or in connection with the Premises to the requisite taxing authorities or insurance companies) or shall pay such amounts timely and directly to the Landlord.

3.3. Sales Reports. Not later than the tenth (10<sup>th</sup>) day after the end of each calendar month in the Term and the fifteenth (15<sup>th</sup>) day after the end of each calendar year in the Term (including the last year in the Term), or such sooner periods as may be set forth in the Lease, Sublessee will submit to Sublessor (and Landlord, if the Lease requires the delivery of sales reports) an itemized and accurate written statement signed by Sublessee or its duly authorized officer, setting forth in reasonable detail the full amount of Lease Gross Sales (as defined below) made during the preceding calendar month or year, as applicable, and certifying to Sublessor and Landlord that the same is true and correct. If the total amount of Percentage Rent paid by Sublessee for any week, month, or calendar year during the Term (including the last calendar year of the Term) shall be less than the actual amount due from Sublessee for such period, Sublessee will pay to Sublessor or Landlord, as applicable, the difference between the amount paid by Sublessee and the actual amount due upon demand, but, notwithstanding anything contrary in the Lease, in no event later than fifteen (15) days after the end of such calendar year; and if the total amount of Percentage Rent paid by Sublessee for any such week, month, or year shall exceed such actual amount due from Sublessee for such period, then, if Sublessor collected such amounts directly from Sublessee, such excess will be credited against the next installment(s) of Rent due from Sublessee to Sublessor under this Sublease, or promptly refunded to Sublessee if this Sublease has expired or otherwise terminated and Sublessee is not then in default hereunder; or, if paid by Sublessee directly to the Landlord, such excess will be credited to Sublessee by Landlord directly pursuant to the terms of the Lease. Upon three (3) days' notice to Sublessee, Sublessor or its representatives will have the right to conduct an audit of Sublessee's books and records relating to Lease Gross Sales at the Premises at any time during the Term. If such audit reveals that Sublessee understated Lease Gross Sales, then Sublessee will pay to Sublessor the costs and expenses of the audit, together with Interest (as defined in Section 3.5 below) from the date Percentage Rent should have been paid hereunder and any interest, late fees, or other penalties incurred by Sublessor under the Lease as a result of such underpayment. Sublessee will maintain all books and records relating to sales at the Premises for a minimum of three (3) years. The obligations under this Section 3.3 will survive the expiration or sooner termination of this Sublease.

3.4. Lease Gross Sales. As used herein, the term "Lease Gross Sales" will mean the total gross sales in, on, from, or originating within the Premises on which percentage rent, if any, is payable under the terms of the Lease or, if not defined therein, will mean Gross Sales (as defined in the Franchise Agreement).

3.5. Late Charge. Sublessee acknowledges that late payment by Sublessee to Sublessor or Landlord, as applicable, of any Rent or other payment due to Sublessor or Landlord, as applicable, hereunder will cause Sublessor to incur costs not contemplated by this Sublease, the exact amount of such costs being extremely difficult and impractical to determine. Therefore, if Sublessee is delinquent in any installment of Rent or other sums due and payable hereunder or the Lease for more than three (3) days, Sublessee will pay to Sublessor on demand a late charge equal to five percent (5%) of such delinquent sum, *plus* any late charges and interest incurred by Sublessor under the Lease as a result



of such late payment. The parties agree that such late charge represents a fair and reasonable estimate of the costs that Sublessor will incur by reason of such late payment by Sublessee. The provision for such late charge will be in addition to all of Sublessor's other rights and remedies hereunder or at law or equity and will not be construed as a penalty. In addition to the foregoing late charge, if Sublessee is delinquent in any installment of Rent or other payments due hereunder for more than ten (10) days, then such delinquent sum will bear interest at the rate of eighteen percent (18%) per annum or the highest rate permitted by law, whichever is less ("Interest"), from the due date until paid in full.

#### 4. Sublease Security Deposit.

4.1. Cash Deposit. Contemporaneously with Sublessee's execution hereof, Sublessee will deposit with Sublessor a sublease security deposit, which shall not be less than one month's gross Rent, in the amount set forth on Exhibit A ("Sublease Security Deposit"). The Sublease Security Deposit will be held by Sublessor as security for the performance of Sublessee's obligations under this Sublease, Sublessee's Franchise Agreement with Franchisor, and any other agreement between Sublessee or its affiliates and Sublessor, Franchisor, or their affiliates. The Sublease Security Deposit is not an advance rental deposit or a measure of Sublessor's damages in case of Sublessee's default. Upon each occurrence of an Event of Default hereunder (as defined in Section 15 below), or monies owed to Sublessor, Sublessor or Franchisor or their affiliates may use all or part of the Sublease Security Deposit to pay delinquent payments due under this Sublease, the Franchise Agreement, and/or any other agreement between Sublessee or its affiliates and Sublessor, Franchisor, or their affiliates, and the cost of any damage, injury, expense or liability caused by such default, without prejudice to any other remedy provided herein or provided by law. Sublessee will pay Sublessor on demand, or Sublessor may draw on Sublessee's bank account, the amount that will restore the Sublease Security Deposit to its original amount. Sublessor's obligation respecting the Sublease Security Deposit is that of a debtor, not a trustee; no interest will accrue thereon unless otherwise required by law. The Sublease Security Deposit will be the property of Sublessee, but will be refunded to Sublessee when Sublessee's obligations under this Sublease, the Franchise Agreement, and any other agreement between Sublessee or its affiliates and Sublessor, Franchisor, or their affiliates have been completely fulfilled. Sublessee agrees and acknowledges that the Sublease Security Deposit is separate and distinct from the security deposit held by the Landlord in the amount set forth on Exhibit A ("Lease Security Deposit"). In addition to the Sublease Security Deposit Sublessee will be required to deposit with Sublessor, Sublessee may also be required to reimburse to, and deposit with, Sublessor for the Lease Security Deposit.

4.2. Security Agreement. Sublessee hereby grants Sublessor a security interest, and this Sublease constitutes a security agreement within the meaning of and pursuant to the Uniform Commercial Code of the state in which the Premises is located, in and to all of Sublessee's property situated in, or upon, or used in connection with the Premises (except merchandise sold in the ordinary course of business) (collectively, "Collateral") as security for all of Sublessee's obligations hereunder, including, without limitation, the obligation to pay Rent and other monetary amounts hereunder. Such property thus encumbered includes specifically all trade fixtures and any other fixtures removable by Sublessor, as tenant, pursuant to the Lease, inventory, equipment, signage, small wares, furniture, contract rights, accounts receivable and the proceeds thereof. Sublessee hereby irrevocably authorizes Sublessor to file such financing statements and other Uniform Commercial Code filings as Sublessor deems appropriate in order to perfect such security interest. Sublessee further agrees to execute such other financing statements as reasonably requested by Sublessor to further secure Sublessor's interest under this Section 4.2 as often as Sublessor in its discretion shall require.

5. Utilities. Sublessee will arrange for and pay for, prior to delinquency, the cost of any and all electricity, water, gas, sewer, telephone and other utilities consumed in the Premises commencing on the date Sublessee is permitted to access the Premises and continuing during the Term hereof (collectively, "Utilities"), unless Landlord expressly pays for the same pursuant to the Lease or the cost

thereof is paid by Sublessee as Operating Expenses. Such payments will be made directly to the utility provider unless the Lease provides otherwise. Notwithstanding the foregoing, Sublessor may elect to arrange for and/or pay the cost of such Utilities directly to the utility provider. If Sublessor so elects, then Sublessee will pay to Sublessor any and all amounts due for such Utilities upon demand. As may be applicable, Sublessor may draw against Sublessee's bank account from time to time for the full amount of the cost of such Utilities or Sublessee's reasonable estimate of the costs thereof. Any failure to pay the cost of Utilities to Sublessor or any utility provider, as applicable, when due will be deemed a failure to pay Rent hereunder and will entitle Sublessor to exercise its remedies hereunder.

6. Use. Sublessee will use the Premises solely for the operation of a[n] Brand restaurant in accordance with the terms and conditions of the Lease, this Sublease, and all applicable federal, state, and local laws, and for no other purpose whatsoever.

7. Sublessor's Obligations. Subject to the terms of this Sublease, Sublessor is conveying to Sublessee only those rights to the Premises that it has acquired by virtue of the Lease respectively. Sublessee acknowledges that the Lease sets forth certain Landlord obligations, which, as between Sublessor and Sublessee, Sublessor is not obligated to perform. Sublessee waives and releases Sublessor from any and all claims Sublessee may now or hereafter have against Sublessor with respect to any and all such obligations and/or the contents of the Lease or any provision thereof, all of which have been read and approved by Sublessee. If Landlord fails to perform its obligations under the Lease, Sublessee will promptly send Sublessor written notice specifically describing the default in detail. Upon receipt of such notice, Sublessor will promptly notify Landlord of the alleged default. Sublessor will not be obligated to bring or defend any claim or action against Landlord and, if it declines to do so, Sublessee, at Sublessee's sole expense, will have the right to do so, in which event Sublessee will indemnify, defend, and hold harmless the Indemnified Parties (as defined in Section 11 below) against the same.

8. Maintenance, Repair, and Alterations. Without limiting the generality of Section 1.1 herein, Sublessee will maintain the Premises in good condition and repair and will perform all of "Tenant's" (as defined in Exhibit A) maintenance, repair, and replacement obligations under the Lease. Sublessee acknowledges that Sublessor will have no repair or maintenance obligations with respect to the Premises or the shopping center/development ("Project") in which the Premises is located. Sublessee will not perform any construction or make any alterations, additions, or changes to the Premises without Sublessor's prior written consent and, if required by the Lease, Landlord's written approval. Upon the expiration of the Term or the sooner termination of this Sublease, Sublessee will surrender the Premises in good condition and repair, in as good a condition or better than required at the time of Sublessor's surrender under the Lease.

9. Assignment and Subletting. Without the prior written consent of Sublessor, which consent may be withheld in Sublessor's sole and absolute discretion: (a) Sublessee will not assign, transfer, convey, pledge, or mortgage this Sublease or any interest therein, whether by operation of law or otherwise; (b) no interest in Sublessee may be assigned, transferred, conveyed, pledged, or mortgaged, whether by operation of law or otherwise, including without limitation, a merger or consolidation of Sublessee with another entity or the dissolution of Sublessee; and (c) Sublessee will not sublet all or any part of the Premises. Sublessor's consent to the assignment of this Sublease or subletting of the Premises will not in any way relieve Sublessee of its obligations under this Sublease. Any assignment, transfer, conveyance, pledge, mortgage, or subletting in violation of this Section 9 will be voidable at the sole option of Sublessor. Sublessee acknowledges that any assignment or subletting to which Sublessor may consent will be conditioned upon Landlord's consent thereto, if Landlord's consent is required under the Lease. Any assignment of this Lease or subletting of the Premises by Sublessee will be subject to the provisions of Section 6 above.

10. Risk of Loss. Except to the extent caused by the intentional misconduct of Sublessor and to the fullest extent permitted by law, (a) Sublessee assumes all risk of loss of or damage to Sublessee's property located within the Premises or the Project, including any loss or damage caused by water leakage, fire, windstorm, explosion, theft, vandalism, earthquake, act of God or act of any other tenant or third party; and (b) Sublessee waives any claim, demand, and/or action against Sublessor for injury, death, or property damage occurring in or around the Premises or Project during the Term.

11. Indemnification. To the fullest extent permitted by law, Sublessee hereby agrees to indemnify, defend (with counsel acceptable to Sublessor), release, and hold harmless Sublessor and Sublessor's affiliates, and each of their respective officers, directors, contractors, agents, attorneys, and employees (collectively, "Indemnified Parties"), against all claims, demands, damages, losses, causes of action, and actions of any kind or nature whatsoever, and all related costs and expenses (including reasonable attorneys' fees): (a) for injury, death, disability, or illness of any person, or damage to property, occurring in or around the Premises or Project or arising out of Sublessee's use of the Premises or Project; (b) in connection with or arising from the terms, conditions, requirements, and/or provisions of the Lease (or Sublessor's negotiation or documentation thereof) and this Sublease; and (c) in connection with or arising from any mechanics' or materialmen's lien or claim filed against the Premises for work performed or materials furnished by or on behalf of Sublessee, except to the extent caused by the intentional misconduct of Sublessor. It is expressly agreed that Sublessee's obligations under this Section 11 will survive the expiration or earlier termination of this Sublease for any reason.

12. Insurance. Sublessee will provide such commercial general liability, property, and other insurance coverages as Sublessor may reasonably request with respect to the operation of Sublessee's business in the Premises, but in no event less than the insurance coverage required to be carried by "Tenant" pursuant to the Lease (including, but not limited to, loss of rent insurance). The insurance will be with companies reasonably acceptable to Sublessor, written on an occurrence basis, provide primary coverage, and name Sublessor (and Sublessor's area representative, if any), and Landlord as additional insureds or loss payees as their interests may appear, as applicable and as otherwise required of the "Tenant" under the Lease. The liability policy will contain a contractual liability endorsement. Sublessee will deliver certificates evidencing the insurance required by this Section 12, which provide that the insurance may not be cancelled or materially changed in the scope or amount of coverage unless thirty (30) days advance written notice is given to Sublessor and Landlord.

13. Right to Inspect. Sublessor, and its agents, employees, and representatives, will have the right to inspect the Premises at any time during business hours to determine Sublessee's compliance with the terms of this Sublease and the Lease.

14. Acceptance of Premises; Sublessee's Representations. Upon the date that Landlord delivers possession of the Premises to Sublessor and Sublessor delivers possession of the Premises to Sublessee (which may occur simultaneously), Sublessee agrees to accept the Premises in an "AS IS" condition, without any representations or warranties. Sublessee represents and confirms to Sublessor that Sublessee has selected the Premises for the location of a[n] Brand restaurant to be established and operated by Sublessee and that: (a) no representative, agent, attorney or employee of Sublessor made any representations, inducements, or promises about the Premises, the Lease or the entry into this Sublease; (b) no representative, agent, attorney or employee of Sublessor made any representations, inducements or promises about the characteristics or conditions regarding or pertaining to the Premises or the shopping center/development in which the Premises are located; (c) Sublessee has independently investigated the potential for the success of its operations in the Premises and has not relied upon any representations, inducements or promises by Sublessor's representatives, agents, attorney or employees, or any area representative; (d) Sublessee has concluded that the Premises has a reasonable opportunity for success as a[n] Brand restaurant; (e) Sublessee has inspected the Premises and finds the same in acceptable condition; (f) Sublessor has made no representation or warranty as to the suitability of the Premises for the conduct of Sublessor's business;

(g) Sublessee waives any implied warranty that the Premises are suitable for Sublessee's intended purposes; (h) Sublessee accepts full responsibility for the consequences of Sublessee's decision to operate a[n] Brand restaurant at the Premises in accordance with the terms of this Sublease, the Lease, and the Franchise Agreement; and (i) Sublessee has thoroughly reviewed the Lease and this Sublease and has been advised by its legal counsel regarding the Lease and this Sublease, or Sublessee has made a reasoned and fully informed decision not to be so represented by counsel and understands and acknowledges the significance and consequences of such decision, and Sublessee is fully knowledgeable about and is fully satisfied with the terms and provisions of the Lease and this Sublease, and assumes all of its obligations as tenant under, the Lease and this Sublease. Sublessee acknowledges that the foregoing representations by Sublessee are a material inducement to Sublessor's execution of this Sublease.

15. Default.

15.1. An "Event of Default" will occur if at any time during the Term: (a) Sublessee defaults in the payment of Rent or other payment due hereunder and the same is not cured within three (3) days after written notice thereof; provided, however, Sublessor will be obligated to give only two (2) such notices in any calendar year, with any subsequent payment default to be an Event of Default if such failure to pay continues for a period of three (3) days or more from the date such payment is due (even without any notice given by Sublessor); (b) Sublessee defaults in any other obligation under this Sublease, including, but not limited to, causing or permitting the occurrence of any event which, but for the passage of time or the giving of notice, or both, would constitute a default under the Lease, and the same is not cured within ten (10) days after written notice thereof or such shorter cure period as may be set forth in the Lease; (c) Sublessee defaults in any obligation under the Franchise Agreement or any other agreement between Sublessor (or its affiliates) and Sublessee (or its affiliates), and the same is not cured within ten (10) days after written notice thereof; (d) any proceeding is begun by or against Sublessee to subject the assets of Sublessee to any bankruptcy or insolvency law or for an appointment of a receiver of Sublessee or for any of Sublessee's assets; or (e) Sublessee makes a general assignment of Sublessee's assets for the benefit of its creditors.

15.2. Upon an Event of Default, Sublessor may at any time thereafter at its election: (a) terminate this Sublease; (b) terminate Sublessee's right of possession in the Premises; (c) cure any such default and receive from Sublessee, as additional rent, all costs incurred in doing so, plus interest at the lesser of fifteen percent (15%) per annum or the highest rate permitted by law; (d) exercise any remedy available to Landlord under the Lease; and/or (e) pursue any other remedies available at law or in equity. All Sublessor remedies provided herein will be cumulative and non-exclusive. Upon the termination of this Sublease or termination of Sublessee's right of possession, it will be lawful for Sublessor, without formal demand or notice of any kind, to re-enter the Premises, by summary dispossession proceedings or otherwise, and to remove Sublessee and all persons and property therefrom. If Sublessor re-enters the Premises following an Event of Default, Sublessor will have the right to keep in place and use, or remove and store, all of the furniture, fixtures, equipment, signage, inventory, and other items covered by Sublessor's lien pursuant to Section 4.2 hereof. No action taken by Sublessor pursuant to this Section 15 will relieve Sublessee of its obligations under this Sublease or will be deemed an act terminating this Sublease or declaring the Term hereof ended unless notice is served upon Sublessee by Sublessor expressly setting forth therein that Sublessor elects to terminate this Sublease or declare the Term ended.

15.3. If, following an Event of Default, Sublessor terminates this Sublease, Sublessor may recover from Sublessee the sum of: (a) all Rent and all other amounts accrued hereunder to the date of such termination; (b) the cost of reletting the whole or any part of the Premises, including without limitation brokerage fees and/or leasing commissions incurred by Sublessor, and costs of removing, and storing Sublessee's or any other occupant's property, and repairing, altering, remodeling, or otherwise putting the Premises into a condition acceptable to a new tenant or tenants and the Landlord;

(c) all reasonable expenses incurred by Sublessor in pursuing its remedies, including, but not limited to, reasonable attorneys' fees and court costs; and (d) an amount in cash equal to the then present value of the Rent and other amounts payable by Sublessee under this Sublease as would otherwise have been required to be paid by Sublessee to Sublessor during the period following the termination of this Sublease measured from the date of such termination to the expiration date stated in this Sublease. Such present value will be calculated at a discount rate equal to the 90-day U.S. Treasury Bill Rate at the date of such termination.

15.4. If, following an Event of Default, Sublessor terminates Sublessee's right of possession of the Premises (but not this Sublease), Sublessor may, but will be under no obligation to, relet the Premises for the account of Sublessee for such rent and upon such terms as shall be satisfactory to Sublessor without thereby releasing Sublessee from any liability hereunder and without demand or notice of any kind to Sublessee. If the Premises are not relet, then Sublessee will pay to Sublessor as damages a sum equal to the cost of recovering possession of the Premises (including attorneys' fees and costs of legal action), the unpaid Rent (resulting from any prior default and those amounts due and owing through the end of the Term), and other amounts accrued hereunder at the time of repossession, and the costs incurred in any attempt by Sublessor to relet the Premises. If the Premises are relet and a sufficient sum shall not be realized from such reletting (after first deducting therefrom, for retention by Sublessor, the unpaid Rent and other amounts accrued hereunder at the time of reletting, the cost of recovering possession, including attorneys' fees and costs of suit, all of the costs and expense of repairs, changes, alterations, and additions, the expense of such reletting, including without limitation brokerage fees and leasing commissions, and the cost of collection of the rent accruing therefrom) to satisfy the rent provided for in this Sublease to be paid, then Sublessee will immediately satisfy and pay any such deficiency. Any such payments due to Sublessor will be made upon demand therefor from time to time and Sublessee agrees that Sublessor may file legal action to recover any and all sums due and owing under the Sublease and through the Term thereof. Notwithstanding any such reletting without termination, Sublessor may at any time thereafter elect in writing to terminate this Sublease for such previous breach.

16. Brokerage. Sublessee represents and warrants that it has dealt with no broker, agent or other person in connection with this transaction and that no broker, agent or other person brought about this transaction. Without limiting the foregoing, Sublessee will pay to any broker, agent or other person all commissions and other compensation that may be due as a result of Sublessee's dealings with such broker, agent or other person in connection with this leasing transaction and will indemnify, defend, and hold Sublessor harmless from and against any claims by any such broker, agent or other person claiming a commission or other form of compensation by virtue of actually or allegedly having dealt with Sublessee with regard to this leasing transaction.

17. Notices. All communications or notices required or permitted to be given or served under this Sublease must be in writing and must be: (a) delivered in person or by courier (including by Federal Express or other courier); or (b) deposited in the United States mail, postage prepaid, for mailing by certified or registered mail, return receipt requested;, and addressed as follows:

If to Sublessor: [LEASING ENTITY]  
Attention: Real Estate Department  
9311 E. Via de Ventura  
Scottsdale, Arizona 85258

with a mandatory copy to: FRANCHISOR ENTITY  
Attention: Legal Department  
9311 E. Via de Ventura  
Scottsdale Arizona 85258

If to Sublessee: At the Premises or as designated  
in the notice provision(s) of the  
Franchise Agreement

All communications and notices will be effective upon delivery in person or by courier (with proof of delivery) in the manner set forth above. Any party may change his, her, or its address by giving notice in writing, stating his, her, or its new address, to the other party to this Sublease as provided in the foregoing manner.

18. Personal Property Taxes. Sublessee will comply with all legal requirements for filing a personal property tax return for, and paying all taxes assessed against, all personal property, equipment, and fixtures located within the Premises during the Term hereof, with such payment to be made by Sublessee directly to the taxing authority on or before the due date thereof.

19. Quiet Enjoyment. So long as Sublessee pays all amounts due hereunder and performs all other covenants and agreements herein set forth, and so long as no Event of Default exists, Sublessee will peaceably and quietly have, hold, and enjoy the Premises for the Term without hindrance from Sublessor subject to the terms and provisions of this Sublease. As this is a Sublease, Sublessee agrees to take the Premises subject to the terms of the Lease and all matters of record.

20. Governing Law. This Sublease and all questions relating to its validity, interpretation, performance, and enforcement will be governed by and construed, interpreted and enforced in accordance with the laws of the state where the Premises are located.

21. Attorneys' Fees. If either party should prevail in any litigation or other legal proceeding instituted by or against the other related to this Sublease, the final prevailing party, as determined by the court or the like, will receive from the non-prevailing party all costs and reasonable attorneys' fees (payable at standard hourly rates) incurred in such litigation or other legal proceeding, including costs on appeal, as determined by the court or the like. Sublessee will also pay to Sublessor, as additional rent, Sublessor's reasonable attorneys' fees incurred as a result of any breach or default by Sublessee under this Sublease.

22. Successors and Assigns. Subject to Section 9 of this Sublease, which restricts Sublessee's rights to assign this Sublease and its rights hereunder, this Sublease will be binding upon and inure to the benefit of the parties and their respective assigns, legal representatives, executors, heirs, and successors. Any attempt by Sublessee to assign this Sublease, or any of its rights hereunder, or to delegate its obligations hereunder, without strict compliance with the terms of Section 9 will be void. Notwithstanding anything contained in this Sublease to the contrary, Sublessor may assign this Sublease, or any of its rights hereunder, or delegate any of its obligations hereunder, without the consent of Sublessee or any other person.

23. Joint and Several Liability. If Sublessee consists of more than one person or entity, the obligations hereunder will be joint and several.

24. Entire Agreement. This Sublease, including the exhibits hereto contains the entire understanding and agreement of the parties with respect to the subject matter hereof and supersedes, replaces, and extinguishes all prior agreements and understandings between the parties with respect to that subject matter. Each of the exhibits hereto and such other agreements (whether between the current parties or a former sublessee) are hereby incorporated in this Sublease by this reference and constitute a part of this Sublease. This Sublease supersedes all prior and/or contemporaneous

subleases and agreements of intent to sublet between the parties (or their respective affiliates) with respect to the Premises.

25. Counterparts. This Sublease may be executed (including by electronic signature) in two or more counterparts, each of which will be considered one and the same agreement and will become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties.

26. Time is of the Essence. Time is of the essence as to the performance of the parties' obligations under this Sublease.

27. Waiver of Right to Jury Trial, Class Action and Certain Damages. IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE, BETWEEN SUBLESSOR AND SUBLESSEE ARISING OUT OF THIS SUBLEASE OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED IN CONNECTION HERewith OR THE TRANSACTIONS RELATED HERETO, SUBLESSEE HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW: (A) THE RIGHT TO A JURY TRIAL OR TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE; (B) THE RIGHT TO INITIATE OR PARTICIPATE IN A CLASS ACTION IN ANY FORUM, INCLUDING ARBITRATION; AND (C) THE RIGHT TO SEEK OR COLLECT PUNITIVE, CONSEQUENTIAL AND/OR SPECIAL DAMAGES IN ANY FORUM, INCLUDING ARBITRATION.

28. Personal Guaranty. If Sublessee is an individual and married, the obligations and liabilities of Sublessee under this Sublease shall be personally guaranteed by the Sublessee's spouse, in the form of guaranty attached hereto as Exhibit D and incorporated herein by reference. If the Sublessee is a corporation, limited liability company, or other business entity, the obligations and liabilities of Sublessee shall be personally guaranteed by each of the Sublessee's shareholders, members, or other owners, direct or indirect (and their respective spouses, if married) in the form of a guaranty attached hereto as Exhibit D and incorporated herein by reference. In the event any person who has not previously signed said guaranty becomes Sublessee's spouse or Sublessee's shareholder, member, or other owner, direct or indirect, or a spouse of such owner, at any time after the execution of this Sublease, Sublessee must cause such person(s) to immediately execute and deliver said guaranty of the Sublease to Sublessor.

29. Plurals, Possessives and Captions. Words in the singular number include the plural when the context requires (and vice-versa), and defined terms include the possessive when the context requires (and vice-versa).

***[SIGNATURE PAGE FOLLOWS]***

Store No. \_\_\_\_\_

**IN WITNESS WHEREOF**, Sublessee and Sublessor have entered into this Sublease as of the Effective Date.

SUBLESSEE: \_\_\_\_\_, a(n) \_\_\_\_\_

By: \_\_\_\_\_  
Name, Title

By: \_\_\_\_\_  
Name, Title

SUBLESSOR: LEASING ENTITY, a/an \_\_\_\_\_

By: \_\_\_\_\_  
Kimberly A. Lane, Authorized Representative



Store No. \_\_\_\_\_

**Exhibit A  
to  
Sublease**

|                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Effective Date of Sublease:                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Name of Sublessee:                                                     | _____, a(n) _____                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Lease:                                                                 | By and between LEASING ENTITY (" <u>Tenant</u> ") and LANDLORD (" <u>Landlord</u> ")                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Premises:                                                              | [mall / shopping center name]<br>Address<br>City, State Zip                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Commencement Date of Lease:                                            | [date]                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Expiration Date of Lease:                                              | [date]                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| How many option(s) to extend the Lease are remaining and Option Terms: | ___ ( ) ___ ( )-year option(s) remaining [or N/A]                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Lease Security Deposit currently held by Landlord:                     | <p>\$X,XXX.XX - Amount set forth in Lease [verified by] [but not verified by] Landlord [or N/A]</p> <p><b>OR</b></p> <p>Any security deposit held by the Landlord remains the sole property of Sublessor/Tenant and Sublessee shall have no right or interest in or to such security deposit.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Sublease Security Deposit:                                             | \$X,XXX.XX [or N/A]                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Exercise Renewal Option(s) Notice Date to Landlord:                    | <p>[IF RENEWAL OPTIONS REMAIN] No earlier than _____, 20____, [note: for leases with no remaining renewal options, use 365 days before lease expiration date] no later than _____, 20____] OR [IF NO RENEWAL OPTIONS REMAIN] As of the Effective Date, no renewal options remain under the Lease. If Sublessee is interested in exploring extending the subtenancy after the Lease expiration date, Sublessee is required to notify Sublessor of its desire to extend the tenancy no earlier than _____, 20____, no later than _____, 20____. IF SUBLESSEE NEEDS TO GET OWN LEASE AFTER CURRENT TERM] As of the Effective Date, no renewal options remain under the Lease. If Sublessee is interested in remaining at the Premises after the expiration of the Term, Sublessee shall be required to secure its own new lease directly with the Landlord with such term to commence on or before _____.</p> |

**Exhibit B  
to  
Sublease**

**LEASE AGREEMENT**

**Exhibit C  
to  
Sublease**

**Lease Verification Checklist**

By initialing below, Sublessee hereby acknowledges reviewing and understanding the attached Lease for the Premises, including all amendments and addendums thereto, (attached as Exhibit B), and accepts to be bound by all the terms contained therein:

Sublessee acknowledges and agrees to be bound by all of the terms of the Lease, including, but not limited to, the following:

INITIALS:

Current monthly rental payment amounts (Sublessee acknowledges are subject to periodic increases as detailed in the Lease), including CAM, NNN, taxes, and related fees

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

Lease term, including any renewal options

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

**Exhibit D  
to  
Sublease**

**GUARANTY OF SUBLEASE**

## GUARANTY OF SUBLEASE

In order to induce \_\_\_\_\_, a[n] \_\_\_\_\_  
("Franchisor") to enter into that certain Franchise Agreement dated \_\_\_\_\_, as amended (collectively the "Franchise Agreement") with \_\_\_\_\_ ("Franchisee"), and to induce [LEASING ENTITY], an affiliate company of Franchisor ("Sublessor") to enter into that certain sublease ("Sublease") dated \_\_\_\_\_ with Franchisee, as "Sublessee", covering the Brand store located at: \_\_\_\_\_, the undersigned ([individually and collectively, "Guarantor"]), hereby personally guarantees the payment and performance of, and agrees to pay and perform as a primary obligor, all liabilities, obligations, and duties (including, but not limited to, payment of rent) imposed upon Franchisee as Sublessee under the terms of the Sublease, as if Guarantor had executed the Sublease as Sublessee thereunder.

### Recitals

- A. Guarantor is a shareholder, partner, member, or other person or entity interested in effecting the execution of the Sublease and the grant of rights thereunder.
- B. Without this Guaranty of Sublease ("Guaranty"), Sublessor cannot be assured that there are sufficient assets to operate the Brand store or to protect Sublessor in the event of a default by Sublessee.
- C. Sublessor is willing to enter into the Sublease only if Guarantor personally guarantees faithful performance of all the terms of the Sublease.
- D. Guarantor acknowledges Guarantor received and read the Sublease, and all exhibits thereto, and agrees to be bound to the obligations in this Guaranty with regard to the Sublease.

### Agreement

- 1. In consideration of the above recitals, Guarantor personally guarantees, for the benefit of Sublessor, its parent, subsidiaries, affiliates, and successors and assigns, the prompt and complete performance of all the covenants and conditions contained in the Sublease.
- 2. This Guaranty is effective until all terms of the Sublease have been fully and completely performed by Sublessee and shall continue through the entire term of the Sublease as the same may be renewed or extended. No release of Sublessee or discharge of Sublessee under bankruptcy law, or any other law, shall impair or effect the obligations of Guarantor to Sublessor hereunder.
- 3. Sublessor is not required to proceed first against the Sublessee, but may proceed first against Guarantor alone or concurrent with proceeding against Sublessee. The obligations of Guarantor hereunder are absolute and unconditional.
- 4. Sublessee and Sublessor may from time to time alter or modify the Sublease between themselves, possibly changing or increasing the extent of Guarantor's obligation under this Guaranty. Guarantor consents to any and all modifications or amendments of the Sublease and related documents, without requiring notice to Guarantor or Guarantor's consent.
- 5. Guarantor agrees specifically to be bound by any confidentiality requirements in the Sublease.

6. Guarantor waives any requirement that Sublessor may have, if any, to provide notice of acceptance of this Guaranty and/or notice of non-performance or non-payment by Sublessee of any of its obligations or liabilities under the Sublease.

7. Guarantor agrees to pay all attorneys' fees, costs, and expenses incurred by Sublessor in enforcing this Guaranty, whether or not suit or action is filed, and if suit or action is filed, then through trial and all appeals, and also in any proceedings or matter in Bankruptcy Court. Guarantor assumes all liability for all losses, costs, attorney's fees, and expenses that Sublessor incurs as a result of a default by Sublessee, including those fees and expenses incurred in a bankruptcy proceeding involving Sublessee.

8. Guarantor hereby agrees that upon notice of default or upon an uncured default of the Sublease or any other agreement between Guarantor (or a legal entity thereof) and Sublessor or its affiliates, and with no prior notice, Guarantor consents to Sublessor's (or its affiliates' or third-party contractors') acquisition and use of non-business consumer credit reports on Guarantor in order to evaluate as necessary the financial condition of Guarantor as principal, member, manager, franchisee, and/or guarantor in connection with the collection of monetary obligations as contemplated by the Franchise Agreement, the Sublease, this Guaranty, a promissory note, or any other agreements between Guarantor (or a legal entity thereof) and Sublessor or its affiliates. Guarantor hereby knowingly consents to the use of such credit reports consistent with the Federal Fair Credit Reporting Act as contained in 15 U.S.C. § 1681 et seq.

9. This Guaranty is personal to Guarantor and the obligations and duties imposed herein may not be delegated or assigned; provided, however, that this Guaranty shall be binding upon the successors, assigns, and personal representatives of Guarantor. This Guaranty shall inure to the benefit of Sublessor, its affiliates, successors, and assigns.

10. [The undersigned \_\_\_\_\_ include name(s) here of each of the undersigned who is not married] each represents that he or she is not married as of the first date set forth above.]

11. In the event that any one or more provisions contained herein shall for any reason be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof and this Guaranty shall be construed to bind Guarantor to the maximum extent permitted by law that is subsumed within the terms of such provision as though it were separately articulated herein.

12. This Guaranty shall be interpreted and construed under the laws of the state where the Premises are located. Any appropriate state or federal court located in the county and state where the Premises are located has exclusive jurisdiction over any case or controversy arising under or in connection with this Guaranty and is the proper forum in which to adjudicate the case or controversy, and the parties hereto irrevocably submit to the jurisdiction of any such court. THE PARTIES AGREE THAT ALL DISPUTES ADMITTED TO THE COURT PURSUANT TO THIS SECTION 12 SHALL BE TRIED TO THE COURT SITTING WITHOUT A JURY, NOTWITHSTANDING ANY STATE OR FEDERAL CONSTITUTIONAL OR STATUTORY RIGHTS OR PROVISIONS.

13. If Guarantor consists of two (2) or more persons, then each person will be jointly and severally liable under the provisions of this Guaranty.

14. Guarantor acknowledges (i) that it is a condition to the granting of the Sublease to Sublessee that Guarantor shall execute and deliver this Guaranty to Sublessor, (ii) that Sublessor has entered into the Sublease in reliance upon the agreement of Guarantor to do so, and (iii) that, as owners of the Sublessee, if applicable, Guarantor has received adequate consideration to

support its execution of this Guaranty. This Guaranty does not grant or create in the undersigned any interests, rights or privileges in any franchise or the Franchise Agreement.

GUARANTOR:

---

Name, an individual

---

Name, an individual

**EXHIBIT P**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Pre-Authorized Electronic Funds Transfer Form**



## ELECTRONIC FUNDS TRANSFER (EFT) AUTHORIZATION

### FRANCHISEE INFORMATION

|                                                                  |                                             |                      |
|------------------------------------------------------------------|---------------------------------------------|----------------------|
| Franchisee Name                                                  | Store No.                                   | Franchisee Phone No. |
| Franchisee Mailing Address (street, city, state, zip)            |                                             |                      |
| Contact Name, Address and Phone number (if different than above) |                                             |                      |
| Employer Identification Number (if applicable)                   | Principal's Name and Social Security Number |                      |

### BANK ACCOUNT INFORMATION

|                                                 |                     |                                                                                                                   |
|-------------------------------------------------|---------------------|-------------------------------------------------------------------------------------------------------------------|
| Bank Name                                       | Bank Account Number | Bank Routing Number<br><div style="text-align: center; font-size: small;">[:            [:<br/>9 Characters</div> |
| Bank Mailing Address (street, city, state, zip) |                     |                                                                                                                   |
| Bank Phone Number                               |                     |                                                                                                                   |

### PAYMENT AUTHORIZATION

Franchisee hereby authorizes Kahala Franchising, L.L.C., its affiliates or agents ("Payee"), to initiate withdrawals from the Bank Account indicated on this form, and hereby authorizes the Bank to honor and debit the Bank Account for electronic funds transfers or drafts drawn on the Bank Account and payable to Payee. The amount of such charge shall be set forth in a notice from the Payee presented to the Bank on the day(s) of the week set forth in Franchisee's franchise agreement, promissory note and security agreement, gift card participation agreement (or similar agreement for the gift card program), and any other agreement Franchisee signs that authorizes Payee, its affiliate or agent to debit Franchisee's account for the fees, which may be modified by Kahala Franchising, L.L.C., its affiliates or agents, for the payment of royalty fees, advertising fees, POS support fees, gift card and e-gifting program fees and funds flow, and any other fees, charges and other amounts payable to Payee, its affiliates or agents for any services Payee, its affiliates or agents provide or facilitate. Franchisee agrees to execute such additional documents as may be reasonably requested by Payee or the Bank to evidence the interest of this EFT Authorization. This authority shall remain in full force and effect until Payee has received written notification from Franchisee in such time and manner as to afford Payee and the Bank to act on such notice. Franchisee understands that the termination of this authorization does not relieve Franchisee of its obligations to make payments to Payee. Payee may assign its rights and obligations under this EFT Authorization to Payee's affiliates or agents. Payee may change its designated affiliates or agents at Payee's discretion.

|            |       |
|------------|-------|
| Signature: | Date: |
|------------|-------|

**NOTE: FRANCHISEE MUST ATTACH A VOIDED OR COMPLETED CHECK RELATING TO THE BANK ACCOUNT.**

**ATTACH VOIDED OR COMPLETED CHECK HERE**

# ELECTRONIC FUNDS TRANSFER (EFT) AUTHORIZATION

## Voided Check Requirements

Starter checks may not be used.

### DBA or Legal Name

The DBA name or legal name of the business must be preprinted, included on the check and match the merchant account.

### Check Number

Check number must be present on the top right and bottom of the check.

The diagram shows a check with the word "VOID" written across it. Callouts point to various fields: "Your Name" (1234 Oak, Anytown, USA), "Check Number" (1001), "PAY TO THE ORDER OF", "ACH R/T" (123456789), "ABA Check Routing Number" (123456789), "Account Number" (000123456789), "Check Number" (1001), and "ACH Routing/ Transit Number" (123456789).

## Bank Letter Requirements

### Bank Letter Requirements

#### DBA or Legal Name

The DBA name or legal name of the business must be included on the letter and match the merchant account.

#### Banker Signature

The banker must sign the letter.

#### Contact Information

The bank officer name and phone number should be included in the letter.

#### Generic Bank & Trust

#### Bank Letterhead

The letter must be printed on official bank letterhead.

#### Routing & Account #

Ensure complete ABA (routing #) and DDA (account #) is included.

Regarding: Bobby Bankrate  
123 Bankrate Boulevard  
New York, NY 10001

To whom it may concern:

The letter is to verify that the business named above has a business checking account with Generic Bank and Trust. The account number is 999999999999 and the ABA number is 888888888. It was opened on 01/01/2017. If you need any additional information on this account, please contact me at the number below.

Thank you,

*Tim Teller*

Tim Teller

Senior Banker  
Generic Bank and Trust  
123 Trust Avenue  
New York, NY 10001  
555-555-5555

**EXHIBIT Q**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**General Release for Renewal of Franchise Agreement**

**GENERAL RELEASE  
FOR RENEWAL OF FRANCHISE AGREEMENT**

("General Release")

In exchange for Kahala Franchising, L.L.C., an Arizona limited liability company ("Franchisor") agreeing to renew the franchise agreement dated \_\_\_\_\_ by and between \_\_\_\_\_, a(n) \_\_\_\_\_ ("Franchisee") and Franchisor (including any amendments or modifications thereto) for *Surf City Squeeze* Store No. \_\_\_\_\_ ("Franchise Agreement"), Franchisee and each of its current, past and future predecessors, successors and assigns, and each of its and the foregoing entities' respective parents, subsidiaries, shareholders, members, managers, owners, partners, directors, officers, employees, representatives, agents, successors, assigns, guarantors, insurers, spouses, heirs, executors, trustees and estates, if any, of any and all such entities (collectively with Franchisee, "Franchisee Releasers"), hereby irrevocably and unconditionally release, remise and forever discharge Franchisor and each of its current, past and future predecessors, successors and assigns, and of its and the foregoing entities respective parents, subsidiaries, shareholders, members, managers, owners, partners, directors, officers, employees, representatives, agents, successors, assigns, guarantors, insurers, spouses, heirs, executors, trustees, and estates, if any, of any and all such entities (collectively with Franchisor "Franchisor Releasees"), from any and all claims, demands, causes of action suits, debts, duties, accounts, covenants, contracts, agreements, promises, damages, judgments, taxes, liabilities and obligations, both contingent and fixed, known and unknown, now existing or hereafter, of every kind and nature whatsoever, in law or equity, or otherwise, under local state, or federal law including, without limitation the Americans with Disabilities Act ("ADA"), or the law, rule, or ordinance of any other applicable jurisdiction, that any of the Franchisee Releasers have against any of the Franchisor Releasees, including, without limitation, those arising from, in connection with or relating to: (i) the Franchise Agreement ("Store"); (ii) the development, operation, leasing or subleasing of the Store; and (iii) the offering and sale of the franchise for the Store; arising from an act, omission, conduct or activity occurring before and including the signature date(s) below (collectively, the "Released Claims").

If the store is located in California or if a Franchisee Releasing Party is a resident of California, then the following shall apply:

**It is expressly acknowledged by each of the undersigned that any and all rights or benefits granted under Section 1542 of the California Civil Code are hereby expressly waived.**

**Such statute reads as follows:**

"Section 1542.

**A general release does not extend to claims that the creditor or releasing party does not know or suspect to exist in his or her favor at the time of executing the release, and that if known by him or her would have materially affected his or her settlement with the debtor or released party."**

The Franchisee Releasors acknowledge and represent that they have consulted with legal counsel, or had the opportunity to consult with legal counsel, before executing this General Release, and that they understand its meaning, including the effect of Section 1542 of the California Civil Code, and expressly consent that this General Release shall be given full force and effect according to each and all of its express terms and provisions, including, without limitation, those relating to the General Release of unknown and unsuspected claims, demands, and causes of action.

If any of the provisions of this General Release are held invalid for any reasons, the remainder of this General Release will not be affected and will remain in full force and effect.

***[SIGNATURE PAGE FOLLOWS]***

**FRANCHISEE RELEASORS:**

FRANCHISEE ENTITY,  
a/an \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

**EXHIBIT R-1**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Consent to Transfer and Release Agreement without Sublease**

## CONSENT TO TRANSFER AND RELEASE AGREEMENT

(Store #; City, State)

This CONSENT TO TRANSFER AND RELEASE AGREEMENT ("Agreement") is entered into on \_\_\_\_\_ ("Effective Date") by and between \_\_\_\_\_, a(n) \_\_\_\_\_ ("Assignor"), and \_\_\_\_\_, a(n) \_\_\_\_\_ ("Assignee"), and KAHALA FRANCHISING, L.L.C., an Arizona limited liability company [, as ultimate assignee of \_\_\_\_\_] ("Franchisor"). All capitalized terms not defined expressly in this Agreement shall have the meaning assigned to such terms in the Franchise Agreement (as defined in Recital A. below).

### Recitals

A. Franchisor and Assignor are parties to a Franchise Agreement dated \_\_\_\_\_, 20\_\_\_\_[, as amended], ("[collectively, the] Franchise Agreement") for the *Surf City Squeeze* restaurant located at \_\_\_\_\_ ("Franchised Business").

B. Assignor desires to assign the Franchised Business to Assignee, and Assignee desires to accept the assignment. [Assignor and Assignee hereby represent and warrant to Franchisor that the assignment of the Franchised Business is supported by a purchase agreement entered into by Assignor and Assignee and hereby agree that, consistent with their indemnification obligations provided for below, they have sole responsibility for any disputes related to the accuracy and content of such purchase agreement].

C. Assignee and Assignor each acknowledges that upon assignment, Assignee must execute Franchisor's current form of franchise agreement, which includes its current royalty fees and advertising contributions that may be greater than the amount of such corresponding fees in Assignor's Franchise Agreement. The Franchise Agreement shall be deemed expired as of and after the effective date of Assignee's current form of franchise agreement executed concurrently with this Agreement.

D. Franchisor agrees to consent to the assignment of the Franchised Business from Assignor to Assignee, subject to the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the mutual promises, covenants, conditions and terms contained in this Agreement, the parties agree as follows:

### Agreement

1. The foregoing Recitals are hereby incorporated in and made a part of this Agreement.

2. Pursuant to the terms and conditions of the Franchise Agreement, Assignor requested Franchisor's prior written consent to assign the Franchised Business from Assignor to Assignee. Franchisor hereby consents to the transfer of the Franchised Business to Assignee subject to the terms and conditions of this Agreement being fully met by both Assignor and Assignee.

3. Assignor agrees to transfer the Franchised Business to Assignee pursuant to the transfer provisions in Assignor's Franchise Agreement, and Assignee accepts the transfer of the Franchised Business pursuant to the transfer provisions in Assignor's Franchise Agreement, including, but not limited to, the payment of the applicable transfer fees.



4. Subject to Section 12 below, Assignor hereby agrees to continue to be bound by the terms and conditions set forth in the Franchise Agreement until the date immediately preceding the Effective Date.

5. Assignee hereby agrees to execute Franchisor's current form of franchise agreement with Franchisor, and to be bound by the terms and conditions set forth in the current form of franchise agreement.

6. *[USE WHEN **BUYER** IS PAYING THE TRANSFER [FRANCHISE] FEE]* Pursuant to the terms of the Franchise Agreement, Franchisor is owed a Transfer [Franchise] Fee in the amount of \_\_\_\_\_ Thousand \_\_\_\_\_ Hundred and 00/100 Dollars (\$XX,X00.00). Assignor, Assignee and Franchisor hereby agree that the Transfer [Franchise] Fee will be paid by Assignee to Franchisor, contemporaneous with the execution of this Agreement, on behalf of Assignor. Assignor shall be liable to Franchisor for the Transfer [Franchise] Fee if Assignee fails to pay the Transfer [Franchise] Fee in full.

*[OR USE WHEN **SELLER** IS PAYING THE TRANSFER [FRANCHISE] FEE]* Pursuant to the terms of the Franchise Agreement, Franchisor is owed, contemporaneous with the execution of this Agreement, a Transfer [Franchise] Fee in the amount of \_\_\_\_\_ Thousand \_\_\_\_\_ Hundred and 00/100 Dollars (\$XX,X00.00).

7. *[USE IF **BUYER** IS PAYING THE [TRANSFER] TRAINING FEE]* Pursuant to the terms of the Franchise Agreement, Franchisor is owed a [Transfer] Training Fee in the amount of \_\_\_\_\_ Thousand \_\_\_\_\_ Hundred and 00/100 Dollars (\$X,X00.00). Assignor, Assignee and Franchisor hereby agree that the [Transfer] Training Fee will be paid by Assignee to Franchisor, contemporaneous with the execution of this Agreement, on behalf of Assignor. Assignor shall be liable to Franchisor for the [Transfer] Training Fee if Assignee fails to pay the [Transfer] Training Fee in full.

*[OR USE IF **SELLER** IS PAYING THE [TRANSFER] TRAINING FEE]* Pursuant to the terms of the Franchise Agreement, Franchisor is owed, contemporaneous with the execution of this Agreement, a [Transfer] Training Fee in the amount of \_\_\_\_\_ Thousand \_\_\_\_\_ Hundred and 00/100 Dollars (\$X,X00.00).

8. Assignor shall cure any and all monetary defaults due and payable under Assignor's phone service agreement, complete and sign a letter of agency, letter of authorization or equivalent form, and provide the form to Assignee at least one week prior to the transfer of the Franchised Business to allow Assignee to retain the telephone number of the Franchised Business.

9. Assignee will provide the letter of agency, letter of authorization or equivalent form to Assignee's phone service provider in an effort to retain the telephone number of the Franchised Business.

10. Assignor shall cure any and all defaults, debts, and/or charges of any monetary consideration due and payable to Franchisor (or its affiliates) prior to the execution of this Agreement, including, without limitation, any and all past due fees under the Franchise Agreement, including, without limitation, current royalty fees, and advertising contributions, through the date immediately preceding the Effective Date, along with any accruing interest, late fees or other penalties as allowed under the Franchise Agreement and/or applicable law. Notwithstanding the foregoing, in the event Assignor fails to cure and fully satisfy such debts and/or charges/expenses as required herein, Franchisor has the sole and absolute discretion to move forward with the transfer as contemplated by this Agreement but without waiving any amounts due and owing to

Franchisor and/or their respective affiliates with reservation of any and all rights and remedies to pursue such defaults, debts and charges against Assignor at a later time.

11. Assignor represents and warrants that it fully disclosed to Franchisor all terms of the transfer along with any information, which, if known by Franchisor, might provide grounds for Franchisor to reasonably withhold its consent to this Agreement.

12. Assignor ratifies and reaffirms any and all provisions and/or agreements with Franchisor intended to survive the assignment and/or termination of the Franchise Agreement and agrees to remain bound by them, including but not limited to any provisions pertaining to confidential information and covenant against competition.

13. Assignor agrees that it has no rights in any of Franchisor's trademarks, trade names, service marks, and/or the like (collectively, the "Trademarks"), except in connection with other *Surf City Squeeze* franchises owned by Assignor, if any. Assignor further agrees and acknowledges that such Trademarks are the sole property of Franchisor and that Assignor has no rights in them, except as authorized by Franchisor in connection with other *Surf City Squeeze* franchises owned by Assignor, if any. Assignor quitclaims to Franchisor any and all rights in Franchisor's Trademarks in the event Assignor has any such rights, except those rights acquired through other *Surf City Squeeze* franchises authorized by Franchisor and owned by Assignor, if any.

14. Assignee acknowledges that Franchisor has not made any express or implied verbal or written representations or promises whatsoever that:

- a. future assignments will be approved;
- b. Assignee will have financial success operating the Franchised Business;
- c. the consideration, if any, paid for the Franchised Business represents the true value of the Franchised Business; or
- d. Assignor is not in default under the terms of the Franchise Agreement.

15. Assignee acknowledges that Franchisor has made no representations whatsoever concerning the value of the Franchised Business.

16. All notices required or permitted under this Agreement shall be in writing and shall be delivered by personal delivery, courier, such as FedEx® or UPS®, or by U.S. Mail sent via certified or registered mail, return receipt requested, to the address set forth below, which address may be amended from time to time pursuant to the terms of this Section. You have an obligation to promptly notify us pursuant to this Section whenever your mailing address, and/or phone number change. Notices shall be provided to the parties at the address specified below:

If to Assignee:                      [Name]  
                                                 [Attn:]  
                                                 [Address]  
                                                 [City, State, Zip]  
                                                 Telephone Number:

If to Assignor:                      [Name]  
                                                 [Attn:]  
                                                 [Address]  
                                                 [City, State, Zip]

store #  
doc #

Telephone Number:

If to Franchisor:

KAHALA FRANCHISING, L.L.C.  
Attn: Legal Department  
9311 E Via de Ventura  
Scottsdale, Arizona 85258  
Telephone Number: (480) 362-4800

17. Franchisor hereby consents to the transfer of the Franchised Business to Assignee subject to the terms and conditions of this Agreement being fully met by both Assignor and Assignee.

18. Assignor and Assignee understand the Effective Date is the closing date indicated on the escrow statement/closing statement.

19. IN CONSIDERATION OF FRANCHISOR'S AGREEMENTS SET FORTH IN THIS AGREEMENT, ASSIGNOR REPRESENTS THAT FRANCHISOR HAS NOT FAILED TO PERFORM, AND IS NOT IN ANY RESPECT IN DEFAULT IN THE PERFORMANCE OF, ANY OF ITS OBLIGATIONS UNDER THE FRANCHISE AGREEMENT, AND ASSIGNOR AND EACH OF ITS CURRENT, PAST AND FUTURE PREDECESSORS, SUCCESSORS AND ASSIGNS, AND EACH OF ITS AND THE FOREGOING ENTITIES RESPECTIVE PARENTS, SUBSIDIARIES, SHAREHOLDERS, MEMBERS, MANAGERS, OWNERS, PARTNERS, DIRECTORS, OFFICERS, EMPLOYEES, REPRESENTATIVES, AGENTS, SUCCESSORS, ASSIGNS, GUARANTORS, INSURERS, SPOUSES, HEIRS, EXECUTORS, TRUSTEES, AND ESTATES, IF ANY, OF ANY AND ALL SUCH ENTITIES (COLLECTIVELY WITH ASSIGNOR, "ASSIGNOR AFFILIATES") HEREBY IRREVOCABLY AND UNCONDITIONALLY RELEASE, REMISE AND FOREVER DISCHARGE FRANCHISOR AND EACH OF ITS CURRENT, PAST AND FUTURE PREDECESSORS, SUCCESSORS AND ASSIGNS, AND EACH OF ITS AND THE FOREGOING ENTITIES RESPECTIVE PARENTS, SUBSIDIARIES, SHAREHOLDERS, MEMBERS, MANAGERS, OWNERS, PARTNERS, DIRECTORS, OFFICERS, EMPLOYEES, REPRESENTATIVES, AGENTS, SUCCESSORS, ASSIGNS, GUARANTORS, INSURERS, SPOUSES, HEIRS, EXECUTORS, TRUSTEES, AND ESTATES, IF ANY, OF ANY AND ALL SUCH ENTITIES (COLLECTIVELY WITH FRANCHISOR, "FRANCHISOR AFFILIATES"), FROM ANY AND ALL CLAIMS, DEMANDS, CAUSES OF ACTION, SUITS, DEBTS, DUTIES, ACCOUNTS, COVENANTS, CONTRACTS, AGREEMENTS, PROMISES, DAMAGES, JUDGMENTS, TAXES, LIABILITIES AND OBLIGATIONS, BOTH CONTINGENT AND FIXED, KNOWN AND UNKNOWN, NOW EXISTING OR HEREAFTER, OF EVERY KIND AND NATURE WHATSOEVER, IN LAW OR EQUITY, OR OTHERWISE, UNDER LOCAL STATE, OR FEDERAL LAW OR THE LAW OF ANY OTHER APPLICABLE JURISDICTION, THAT ANY OF THE ASSIGNOR AFFILIATES HAVE AGAINST ANY OF THE FRANCHISOR AFFILIATES, INCLUDING, WITHOUT LIMITATION, THOSE ARISING FROM, IN CONNECTION WITH OR RELATING TO: (I) THE FRANCHISEE AGREEMENT (INCLUDING ANY AMENDMENTS OR MODIFICATIONS THERETO); (II) THE OPERATION OF THE FRANCHISED BUSINESS, INCLUDING ANY LEASING OR SUBLEASING RELATED THERETO; AND (III) THE OFFERING AND SALE OF THE FRANCHISED BUSINESS; ARISING FROM AN ACT, OMISSION, CONDUCT OR ACTIVITY OCCURRING BEFORE AND INCLUDING THE EFFECTIVE DATE.

IT IS UNDERSTOOD BY ASSIGNOR THAT IF THE FACTS OR LAW WITH RESPECT TO THE FOREGOING RELEASE HEREAFTER TURN OUT TO BE DIFFERENT FROM THE FACTS OR LAW KNOWN TO BE OR BELIEVED BY ASSIGNOR TO BE TRUE AS OF THE EFFECTIVE DATE HEREOF, THEN ASSIGNOR EXPRESSLY ASSUMES THE RISK OF THE FACTS OR LAW TURNING OUT TO BE SO DIFFERENT, AND AGREES THAT THE FOREGOING RELEASE

SHALL BE IN ALL RESPECTS EFFECTIVE AND NOT SUBJECT TO TERMINATION OR RESCISSION IN WHOLE OR IN PART BASED UPON SUCH DIFFERENCES. WHERE THE FRANCHISED BUSINESS IS LOCATED IN THE STATE OF CALIFORNIA OR ASSIGNOR IS A RESIDENT OF THE STATE OF CALIFORNIA, ASSIGNOR KNOWINGLY WAIVES ALL RIGHTS AND PROTECTIONS, IF ANY, UNDER SECTION 1542 OF THE CIVIL CODE OF THE STATE OF CALIFORNIA, OR ANY SIMILAR LAW OF ANY STATE OR TERRITORY OF THE UNITED STATES OF AMERICA. SECTION 1542 PROVIDES AS FOLLOWS:

1542 GENERAL RELEASE; EXTENT. A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, AND THAT IF KNOWN BY HIM OR HER, WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY.

ASSIGNOR ACKNOWLEDGES AND WARRANTS THAT ASSIGNOR EITHER CONSULTED WITH LEGAL COUNSEL, OR HAD THE OPPORTUNITY TO CONSULT WITH LEGAL COUNSEL, BEFORE EXECUTING THIS AGREEMENT. ASSIGNOR UNDERSTANDS ITS MEANING, INCLUDING THE EFFECT OF SECTION 1542 OF THE CALIFORNIA CIVIL CODE, AND EXPRESSLY CONSENTS THAT THIS AGREEMENT SHALL BE GIVEN FULL FORCE AND EFFECT ACCORDING TO EACH AND EVERY EXPRESS TERM AND PROVISION, INCLUDING, WITHOUT LIMITATION, TERMS RELATING TO THE AGREEMENT OF UNKNOWN AND UNSUSPECTED CLAIMS, DEMANDS, AND CAUSES OF ACTION.

IF ANY OF THE PROVISIONS OF THIS AGREEMENT ARE HELD INVALID FOR ANY REASONS, THE REMAINDER OF THIS AGREEMENT WILL NOT BE AFFECTED AND WILL REMAIN IN FULL FORCE AND EFFECT.

20. Assignor and Assignee hereby agree to protect, defend and indemnify each of the Franchisor Affiliates and hold them harmless from and against any and all costs and expenses actually incurred by them or for which they are liable, including, without limitation, attorney's fees, court costs, expert witness fees and costs, losses, liabilities, damages, claims and demands of every kind or nature, and including those incurred pursuant to a settlement entered into in good faith, arising out of or in connection with the Franchised Business, including specifically without limitation any claim or controversy arising out of (i) this Agreement, (ii) the Franchise Agreement, (iii) any transfer of the Franchised Business by Assignee or Assignor, (iv) acts or omissions of Assignee and/or Assignor which are not in strict compliance with this Agreement, the Franchise Agreement, and/or the Operations Manual in respect of use or display of the Proprietary Marks, or (v) acts or omissions of Assignee and/or Assignor which tend to create an impression that the relationship between the parties hereto is other than one of Franchisor and Franchisee. Franchisor Affiliates, at their sole discretion, may hire legal counsel to defend any actions brought against any Franchisor Affiliates which arise out of Assignor's obligations under all agreements entered into between Assignor and any of the Franchisor Affiliates, including, without limitation, this Agreement, and Assignee's obligations herein. Assignor and Assignee hereby agree to pay any and all attorneys' fees, expert costs, and any other fees and costs incurred by Franchisor Affiliates to said selected counsel upon the request of Franchisor Affiliates. Assignor and Assignee will, if requested by any Franchisor Affiliates, defend any suits at the sole cost and expense of Assignor and Assignee through the use of attorneys determined by Franchisor Affiliates. For purposes of this provision, requests shall be made pursuant to the notice provisions set forth in this Agreement. Notwithstanding the other provisions of this Section to the contrary, if any, except as otherwise specified in this Agreement, Assignor shall not be responsible for any of the acts or omissions of Assignee after the Effective Date.

21. Assignor agrees for itself and its successors and assigns that it will not disparage, denigrate or, defame the Franchisor Affiliates, or any of their business dealings, financial condition, pending litigation and arbitrations, officers, directors, employees, agents, representatives or attorneys, either publicly or privately, by any means whatsoever (including electronic means) (collectively, "Non Disparagement Provision"). In the event such a communication is made to anyone, including, but not limited to, third party legal counsel adverse to Franchisor Affiliates in any fashion, former employees of Franchisor Affiliates, former shareholders of Franchisor Affiliates, current or former vendors, franchisees, licensees, or area representatives of Franchisor Affiliates' quick service restaurant brands, media government agencies, public interest groups, and publishing companies, it will be considered a material breach of the terms of this Agreement and Franchisor Affiliates shall be entitled to bring a legal action for appropriate equitable relief as well as damages. In addition to any other rights or remedies available at law, in equity, or by statute, Assignor consents to the specific enforcement of this Non Disparagement Provision through an injunction or restraining order issued by an appropriate court, without the requirement of posting a bond. Notwithstanding the above, nothing in this provision shall prevent or prohibit Assignor from testifying in any legal proceeding, including a deposition, hearing or trial, from cooperating in good faith in any governmental investigation or action, or from making any report required by law.

22. Each individual executing this Agreement on behalf of a partnership, limited liability company or corporation represents and warrants that he or she is duly authorized to execute and deliver this Agreement on behalf of the partnership, limited liability company, or corporation, and agrees to deliver evidence of his or her authority to Franchisor upon request by Franchisor.

23. The provisions of this Agreement are severable, and if any one or more provisions may be determined to be unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable. If the provision found to be unenforceable was material to this Agreement, the parties agree to promptly negotiate the terms of a substitute provision to replace the severed provision consistent with the then-current law and the parties' original intent.

24. This Agreement shall be construed under and according to the laws of the state where the Franchised Business is located, without regard to conflict of laws principles.

25. ANY AND ALL COURT PROCEEDINGS ARISING FROM THIS AGREEMENT SHALL BE BROUGHT IN, AND ONLY IN, A COURT OF COMPETENT JURISDICTION IN THE COUNTY AND STATE WHERE THE FRANCHISED BUSINESS IS LOCATED. THE PARTIES CONSENT TO THE EXERCISE OF SUBJECT MATTER AND PERSONAL JURISDICTION BY SUCH COURTS AND HEREBY WAIVE ANY OBJECTIONS OR DEFENSE THERETO.

26. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. The signatures required for execution may be transmitted to the other party via facsimile or a scanned .pdf file sent via email and such signature shall be deemed a duplicate original, shall be effective upon receipt by the other party, may be admitted in evidence and shall fully bind the party and person making such signature.

27. No amendment, addendum, modification, supplement or waiver of this Agreement or any of its provisions shall be binding on the parties unless made in writing and duly executed by an authorized representative of Franchisor and Assignor and Assignee. A failure of any party to enforce at any time any of the provisions of this Agreement or to require at any time performance by another party or any provision of this Agreement, shall in no way be construed as a continuing waiver of those provisions or of any other rights under this Agreement.

28. Except as otherwise specified in this Agreement, this Agreement shall not be construed in any way as modifying, waiving, or affecting any of the terms, covenants, conditions, or agreements contained in the Franchise Agreement executed by Assignor, or the current form of franchise agreement to be executed by Assignee.

29. This Agreement shall inure to the benefit of and shall be binding upon each of the parties hereto and their respective successors and assigns.

**[SIGNATURE PAGE FOLLOWS]**

IN WITNESS WHEREOF, each party, by and through its duly authorized representative with full rights, power and authority, execute this Agreement to enter into and bind his, her, or its respective party, without further consent or approval of any kind, as of the Effective Date of this Agreement.

**ASSIGNOR:**

**ASSIGNEE:**

\_\_\_\_\_

\_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]

By: \_\_\_\_\_  
[Name, Title]

By: \_\_\_\_\_  
[Name, Title]

By: \_\_\_\_\_  
[Name, Title]

**FRANCHISOR:**

KAHALA FRANCHISING, L.L.C., an Arizona  
limited liability company

By: \_\_\_\_\_  
[Name, Title]

**EXHIBIT R-2**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Consent to Transfer and Release Agreement with Sublease**



## CONSENT TO TRANSFER AND RELEASE AGREEMENT

(Store #; City, State)

This CONSENT TO TRANSFER AND RELEASE AGREEMENT ("Agreement") is entered into on \_\_\_\_\_ ("Effective Date") by and between \_\_\_\_\_, a(n) \_\_\_\_\_ ("Assignor"), and \_\_\_\_\_, a(n) \_\_\_\_\_ ("Assignee"), and KAHALA FRANCHISING, L.L.C., an Arizona limited liability company[, as ultimate assignee of \_\_\_\_\_] ("Franchisor") and \_\_\_\_\_, a(n) \_\_\_\_\_ ("Sublessor") (Franchisor and Sublessor may collectively be referred to in this Agreement as "Company"). All capitalized terms not defined expressly in this Agreement shall have the meaning assigned to such terms in the Franchise Agreement (as defined in Recital A. below) or the Sublease (as defined in Recital B. below).

### Recitals

A. Franchisor and Assignor are parties to a Franchise Agreement dated \_\_\_\_\_[, as amended], ([collectively the ]"Franchise Agreement") for the *Surf City Squeeze* restaurant located at \_\_\_\_\_ ("Franchised Business").

B. Sublessor and Assignor are parties to a Sublease Agreement dated \_\_\_\_\_[, as amended], (collectively the "Sublease") for the Franchised Business.

C. Assignor desires to assign the Franchised Business to Assignee, and Assignee desires to accept the assignment. [Assignor and Assignee hereby represent and warrant to Company that the assignment of the Franchised Business is supported by a purchase agreement entered into by Assignor and Assignee and hereby agree that, consistent with their indemnification obligations provided for below, they have sole responsibility for any disputes related to the accuracy and content of such purchase agreement.

D. Assignee acknowledges that upon assignment, Assignee must execute Franchisor's current form of franchise agreement, which includes its current royalty fees and advertising contributions that may be greater than the amount of such corresponding fees in Assignor's Franchise Agreement. The Franchise Agreement shall be deemed expired as of and after the effective date of Assignee's current form of franchise agreement executed concurrently with this Agreement.

E. Assignee acknowledges that upon assignment, Assignee must execute Sublessor's current form of sublease. The Sublease shall be deemed expired as of and after the effective date of Assignee's current form of sublease executed concurrently with this Agreement.

F. Franchisor agrees to consent to the assignment of the Franchised Business from Assignor to Assignee, subject to the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the mutual promises, covenants, conditions and terms contained in this Agreement, the parties agree as follows:

### Agreement

1. The foregoing Recitals are hereby incorporated in and made a part of this Agreement.

2. Pursuant to the terms and conditions of the Franchise Agreement, Assignor requested Franchisor's prior written consent to assign the Franchised Business from Assignor to

Assignee. Franchisor hereby consents to the transfer of the Franchised Business to Assignee subject to the terms and conditions of this Agreement being fully met by both Assignor and Assignee.

3. Assignor agrees to transfer the Franchised Business to Assignee pursuant to the transfer provisions in Assignor's Franchise Agreement, and Assignee accepts the transfer of the Franchised Business, pursuant to the transfer provisions in Assignor's Franchise Agreement, including, but not limited to, the payment of the applicable transfer fees.

4. Subject to Section \_\_\_\_ below, Assignor hereby agrees to continue to be bound by the terms and conditions set forth in the Franchise Agreement until the date immediately preceding the Effective Date.

5. Assignee hereby agrees to execute Franchisor's current form of franchise agreement with Franchisor, and to be bound by the terms and conditions set forth in the current form of franchise agreement.

6. [USE WHEN **BUYER** IS PAYING THE TRANSFER [FRANCHISE] FEE] Pursuant to the terms of the Franchise Agreement, Franchisor is owed a Transfer [Franchise] Fee in the amount of \_\_\_\_\_ Thousand \_\_\_\_\_ Hundred and 00/100 Dollars (\$XX,X00.00). Assignor, Assignee and Franchisor hereby agree that the Transfer [Franchise] Fee will be paid by Assignee to Franchisor, contemporaneous with the execution of this Agreement, on behalf of Assignor. Assignor shall be liable to Franchisor for the Transfer [Franchise] Fee if Assignee fails to pay the Transfer [Franchise] Fee in full.

[OR USE WHEN **SELLER** IS PAYING THE TRANSFER [FRANCHISE] FEE] Pursuant to the terms of the Franchise Agreement, Franchisor is owed, contemporaneous with execution of this Agreement, a Transfer [Franchise] Fee in the amount of \_\_\_\_\_ Thousand \_\_\_\_\_ Hundred and 00/100 Dollars (\$XX,X00.00).

7. [USE IF **BUYER** IS PAYING THE [TRANSFER] TRAINING FEE] Pursuant to the terms of the Franchise Agreement, Franchisor is owed a [Transfer] Training Fee in the amount of \_\_\_\_\_ Thousand \_\_\_\_\_ Hundred and 00/100 Dollars (\$X,X00.00). Assignor, Assignee and Franchisor hereby agree that the [Transfer] Training Fee will be paid by Assignee to Franchisor, contemporaneous with the execution of this Agreement, on behalf of Assignor. Assignor shall be liable to Franchisor for the [Transfer] Training Fee if Assignee fails to pay the [Transfer] Training Fee in full.

[OR USE IF **SELLER** IS PAYING THE [TRANSFER] TRAINING FEE] Pursuant to the terms of the Franchise Agreement, Franchisor is owed, contemporaneous with the execution of this Agreement, a [Transfer] Training Fee in the amount of \_\_\_\_\_ Thousand \_\_\_\_\_ Hundred and 00/100 Dollars (\$X,X00.00).

8. Assignor agrees to the assignment of Assignor's interest in and to the lease security deposit, if any, currently held by the Landlord to the Assignee.

9. Subject to Section 16 below, Assignor hereby agrees to continue to be bound by the terms and conditions set forth in the Sublease through the date immediately preceding the Effective Date.

10. [IF ASSIGNEE IS SIGNING A NEW SUBLEASE] Assignee hereby agrees to execute Sublessor's current form of sublease, and to be bound by the terms and conditions set forth in the current form of sublease.

[OR IF ASSIGNEE IS NOT SIGNING A NEW SUBLEASE] Assignee hereby agrees to be bound by the terms and conditions set forth in the Sublease.

11. Assignor shall cure any and all monetary defaults due and payable under Assignor's phone service agreement, complete and sign a letter of agency, letter of authorization or equivalent form, and provide the form to Assignee at least one week prior to the transfer of the Franchised Business to allow Assignee to retain the telephone number of the Franchised Business.

12. Assignee will provide the letter of agency, letter of authorization or equivalent form to Assignee's phone service provider in an effort to retain the telephone number of the Franchised Business.

13. Assignor shall cure any and all defaults, debts, and/or charges of any monetary consideration due and payable to Franchisor (or its affiliates) prior to the execution of this Agreement, including, without limitation, any and all past due fees under the Franchise Agreement and Sublease, as applicable, including, without limitation, current royalty fees, advertising contributions, and rental and other occupancy expenses/charges through the date immediately preceding the Effective Date, along with any accruing interest, late fees or other penalties as allowed under the Franchise Agreement, Sublease and/or applicable law. Notwithstanding the foregoing, in the event Assignor fails to cure and fully satisfy such debts and/or charges/expenses as required herein, Franchisor has the sole and absolute discretion to move forward with the transfer as contemplated by this Agreement but without waiving any amounts due and owing to Company and/or their respective affiliates with reservation of any and all rights and remedies to pursue such defaults, debts and charges against Assignor at a later time.

14. Assignor and Assignee hereby understand and agree that there may be additional charges and/or credits under the Lease and/or Sublease for rent including, without limitation, common area and maintenance charges/reconciliations, insurance, and/or taxes, related to the Franchised Business. Assignor and Assignee further hereby agree that Assignee shall be entitled to receive the credits and/or pay the actual charges incurred to the Landlord or Sublessor, as directed by Sublessor, within ten (10) days from receipt of Sublessor's notice of such charges and/or credits to Assignee. Assignor and Assignee hereby represent and warrant to Sublessor that Assignor and Assignee have taken such actions as necessary to account for such charges and/or credits in the purchase price for the Franchised Business.

15. Assignor represents and warrants that it fully disclosed to Company all terms of the transfer along with any information, which, if known by Company, might provide grounds for Company to reasonably withhold its consent to this Agreement.

16. Assignor ratifies and reaffirms any and all provisions and/or agreements with Company intended to survive the assignment and/or termination of the Franchise Agreement and Sublease and agrees to remain bound by them, including but not limited to any provisions pertaining to confidential information and covenant against competition.

17. Assignor agrees that it has no rights in any of Franchisor's trademarks, trade names, service marks, and/or the like (collectively, the "Trademarks"), except in connection with other *Surf City Squeeze* franchises owned by Assignor, if any. Assignor further agrees and acknowledges that such Trademarks are the sole property of Franchisor and that Assignor has no rights in them, except as authorized by Franchisor in connection with other *Surf City Squeeze* franchises owned by Assignor, if any. Assignor quitclaims to Franchisor any and all rights in Franchisor's Trademarks in the event Assignor has any such rights, except those rights acquired through other *Surf City Squeeze* franchises authorized by Franchisor and owned by Assignor, if any.

18. Assignee acknowledges that Company has not made any express or implied verbal or written representations or promises whatsoever that:

- a. future assignments will be approved;
- b. Assignee will have financial success operating the Franchised Business;
- c. the landlord will grant an extension of the Master Lease where the Franchised Business is located and operates;
- d. the consideration, if any, paid for the Franchised Business represents the true value of the Franchised Business; or
- e. Assignor is not in default under the terms of the Franchise Agreement and/or the Sublease.

19. Assignee acknowledges that Company has made no representations whatsoever concerning the value of the Franchised Business.

20. All notices required or permitted under this Agreement shall be in writing and shall be delivered by personal delivery, courier, such as FedEx® or UPS®, or by U.S. Mail sent via certified or registered mail, return receipt requested, to the address set forth below, which address may be amended from time to time pursuant to the terms of this Section. You have an obligation to promptly notify us pursuant to this Section whenever your mailing address, and/or phone number change. Notices shall be provided to the parties at the address specified below:

If to Assignee:                      [Name]  
                                              [Attn:]  
                                              [Address]  
                                              [City, State, Zip]  
                                              Telephone Number:

If to Assignor:                      [Name]  
                                              [Attn:]  
                                              [Address]  
                                              [City, State, Zip]  
                                              Telephone Number:

If to Franchisor:                    KAHALA FRANCHISING, L.L.C.  
                                              Attn: Legal Department  
                                              9311 E Via de Ventura  
                                              Scottsdale, Arizona 85258  
                                              Telephone Number: (480) 362-4800

If to Sublessor:                    [NAME OF SUBLESSOR]  
                                              Attn: Real Estate Department  
                                              9311 E Via de Ventura  
                                              Scottsdale, Arizona 85258  
                                              Telephone Number: (480) 362-4800

21. Franchisor hereby consents to the transfer of the Franchised Business to Assignee subject to the terms and conditions of this Agreement being fully met by both Assignor and Assignee.

store #  
doc #

22. Assignor and Assignee understand the Effective Date is the closing date indicated on the escrow statement/closing statement.

23. IN CONSIDERATION OF COMPANY'S AGREEMENTS SET FORTH IN THIS AGREEMENT, ASSIGNOR REPRESENTS THAT COMPANY HAS NOT FAILED TO PERFORM, AND IS NOT IN ANY RESPECT IN DEFAULT IN THE PERFORMANCE OF, ANY OF ITS OBLIGATIONS UNDER THE SUBLEASE AND/OR THE FRANCHISE AGREEMENT, AND ASSIGNOR AND EACH OF ITS CURRENT, PAST AND FUTURE PREDECESSORS, SUCCESSORS AND ASSIGNS, AND EACH OF ITS AND THE FOREGOING ENTITIES RESPECTIVE PARENTS, SUBSIDIARIES, SHAREHOLDERS, MEMBERS, MANAGERS, OWNERS, PARTNERS, DIRECTORS, OFFICERS, EMPLOYEES, REPRESENTATIVES, AGENTS, SUCCESSORS, ASSIGNS, GUARANTORS, INSURERS, SPOUSES, HEIRS, EXECUTORS, TRUSTEES, AND ESTATES, IF ANY, OF ANY AND ALL SUCH ENTITIES (COLLECTIVELY WITH ASSIGNOR, "ASSIGNOR AFFILIATES") HEREBY IRREVOCABLY AND UNCONDITIONALLY RELEASE, REMISE AND FOREVER DISCHARGE COMPANY AND EACH ITS CURRENT, PAST AND FUTURE PREDECESSORS, SUCCESSORS AND ASSIGNS, AND EACH OF ITS AND THE FOREGOING ENTITIES RESPECTIVE PARENTS, SUBSIDIARIES, SHAREHOLDERS, MEMBERS, MANAGERS, OWNERS, PARTNERS, DIRECTORS, OFFICERS, EMPLOYEES, REPRESENTATIVES, AGENTS, SUCCESSORS, ASSIGNS, GUARANTORS, INSURERS, SPOUSES, HEIRS, EXECUTORS, TRUSTEES, AND ESTATES, IF ANY, OF ANY AND ALL SUCH ENTITIES (COLLECTIVELY WITH COMPANY "FRANCHISOR AFFILIATES"), FROM ANY AND ALL CLAIMS, DEMANDS, CAUSES OF ACTION, SUITS, DEBTS, DUTIES, ACCOUNTS, COVENANTS, CONTRACTS, AGREEMENTS, PROMISES, DAMAGES, JUDGMENTS, TAXES, LIABILITIES AND OBLIGATIONS, BOTH CONTINGENT AND FIXED, KNOWN AND UNKNOWN, NOW EXISTING OR HEREAFTER, OF EVERY KIND AND NATURE WHATSOEVER, IN LAW OR EQUITY, OR OTHERWISE, UNDER LOCAL STATE, OR FEDERAL LAW OR THE LAW OF ANY OTHER APPLICABLE JURISDICTION, THAT ANY OF THE ASSIGNOR AFFILIATES HAVE AGAINST ANY OF THE FRANCHISOR AFFILIATES, INCLUDING, WITHOUT LIMITATION, THOSE ARISING FROM, IN CONNECTION WITH OR RELATING TO: (I) THE SUBLEASE AND/OR FRANCHISE AGREEMENT (INCLUDING ANY AMENDMENTS OR MODIFICATIONS THERETO); (II) THE OPERATION OF THE FRANCHISED BUSINESS, INCLUDING ANY LEASING OR SUBLEASING RELATED THERETO; AND (III) THE OFFERING AND SALE OF THE FRANCHISED BUSINESS; ARISING FROM AN ACT, OMISSION, CONDUCT OR ACTIVITY OCCURRING BEFORE AND INCLUDING THE EFFECTIVE DATE.

IT IS UNDERSTOOD BY ASSIGNOR THAT IF THE FACTS OR LAW WITH RESPECT TO THE FOREGOING RELEASE HEREAFTER TURN OUT TO BE DIFFERENT FROM THE FACTS OR LAW KNOWN TO BE OR BELIEVED BY ASSIGNOR TO BE TRUE AS OF THE EFFECTIVE DATE HEREOF, THEN ASSIGNOR EXPRESSLY ASSUMES THE RISK OF THE FACTS OR LAW TURNING OUT TO BE SO DIFFERENT, AND AGREES THAT THE FOREGOING RELEASE SHALL BE IN ALL RESPECTS EFFECTIVE AND NOT SUBJECT TO TERMINATION OR RESCISSION IN WHOLE OR IN PART BASED UPON SUCH DIFFERENCES. WHERE THE FRANCHISED BUSINESS IS LOCATED IN THE STATE OF CALIFORNIA OR ASSIGNOR IS A RESIDENT OF THE STATE OF CALIFORNIA, ASSIGNOR KNOWINGLY WAIVES ALL RIGHTS AND PROTECTIONS, IF ANY, UNDER SECTION 1542 OF THE CIVIL CODE OF THE STATE OF CALIFORNIA, OR ANY SIMILAR LAW OF ANY STATE OR TERRITORY OF THE UNITED STATES OF AMERICA. SECTION 1542 PROVIDES AS FOLLOWS:

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ASSIGNOR ACKNOWLEDGES AND WARRANTS THAT ASSIGNOR EITHER CONSULTED WITH LEGAL COUNSEL, OR HAD THE OPPORTUNITY TO CONSULT WITH LEGAL COUNSEL, BEFORE EXECUTING THIS AGREEMENT. ASSIGNOR UNDERSTANDS ITS MEANING, INCLUDING THE EFFECT OF SECTION 1542 OF THE CALIFORNIA CIVIL CODE, AND EXPRESSLY CONSENTS THAT THIS AGREEMENT SHALL BE GIVEN FULL FORCE AND EFFECT ACCORDING TO EACH AND EVERY EXPRESS TERM AND PROVISION, INCLUDING, WITHOUT LIMITATION, TERMS RELATING TO THE AGREEMENT OF UNKNOWN AND UNSUSPECTED CLAIMS, DEMANDS, AND CAUSES OF ACTION.

IF ANY OF THE PROVISIONS OF THIS AGREEMENT ARE HELD INVALID FOR ANY REASONS, THE REMAINDER OF THIS AGREEMENT WILL NOT BE AFFECTED AND WILL REMAIN IN FULL FORCE AND EFFECT.

24. Assignor and Assignee hereby agree to protect, defend and indemnify each of the Franchisor Affiliates and hold them harmless from and against any and all costs and expenses actually incurred by them or for which they are liable, including, without limitation, attorney's fees, court costs, expert witness fees and costs, losses, liabilities, damages, claims and demands of every kind or nature, and including those incurred pursuant to a settlement entered into in good faith, arising out of or in connection with the Franchised Business, including specifically without limitation any claim or controversy arising out of (i) this Agreement, (ii) the Franchise Agreement, (iii) Sublease and/or Master Lease, (iv) any transfer of the Franchised Business by Assignee or Assignor, (v) acts or omissions of Assignee and/or Assignor which are not in strict compliance with this Agreement, the Franchise Agreement, Sublease and/or the Operations Manual in respect of use or display of the Proprietary Marks, or (vi) acts or omissions of Assignee and/or Assignor which tend to create an impression that the relationship between the parties hereto is other than one of Franchisor and Franchisee. Franchisor Affiliates, at their sole discretion, may hire legal counsel to defend any actions brought against any Franchisor Affiliates which arise out of Assignor's obligations under all agreements entered into between Assignor and any of the Franchisor Affiliates, including, without limitation, this Agreement, and Assignee's obligations herein. Assignor and Assignee hereby agree to pay any and all attorneys' fees, expert costs, and any other fees and costs incurred by any Franchisor Affiliates to said selected counsel upon the request of any Franchisor Affiliates. Assignor and Assignee will, if requested by any Franchisor Affiliates, defend any suits at the sole cost and expense of Assignor and Assignee through the use of attorneys determined by Franchisor Affiliates. For purposes of this provision, requests shall be made pursuant to the notice provisions set forth in this Agreement. Notwithstanding the other provisions of this Section to the contrary, if any, except as otherwise specified in this Agreement, Assignor shall not be responsible for any of the acts or omissions of Assignee after the Effective Date.

25. Assignor agrees for itself and its successors and assigns that it will not disparage, denigrate or, defame the Franchisor Affiliates, or any of their business dealings, financial condition, pending litigation and arbitrations, officers, directors, employees, agents, representatives or attorneys, either publicly or privately, by any means whatsoever (including electronic means) (collectively, "Non Disparagement Provision"). In the event such a communication is made to anyone, including, but not limited to, third party legal counsel adverse to Franchisor Affiliates in any fashion, former employees of Franchisor Affiliates, former shareholders of Franchisor Affiliates, current or former vendors, franchisees, licensees, or area representatives of Franchisor Affiliates' quick service restaurant brands, media government agencies, public interest groups, and publishing companies, it will be considered a material breach of the terms of this Agreement and Franchisor Affiliates shall be entitled to bring a legal action for appropriate equitable relief as well as damages. In addition to any other rights or remedies available at law, in equity, or by statute, Assignor consents to the specific enforcement of this Non Disparagement Provision through an injunction or restraining order issued by an appropriate court, without the requirement of posting a bond.

Notwithstanding the above, nothing in this provision shall prevent or prohibit Assignor from testifying in any legal proceeding, including a deposition, hearing or trial, from cooperating in good faith in any governmental investigation or action, or from making any report required by law.

26. Each individual executing this Agreement on behalf of a partnership, limited liability company or corporation represents and warrants that he or she is duly authorized to execute and deliver this Agreement on behalf of the partnership, limited liability company, or corporation, and agrees to deliver evidence of his or her authority to Company upon request by Company.

27. The provisions of this Agreement are severable, and if any one or more provisions may be determined to be unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable. If the provision found to be unenforceable was material to this Agreement, the parties agree to promptly negotiate the terms of a substitute provision to replace the severed provision consistent with the then-current law and the parties' original intent.

28. This Agreement shall be construed under and according to the laws of the state where the Franchised Business is located, without regard to conflict of laws principles.

29. ANY AND ALL COURT PROCEEDINGS ARISING FROM THIS AGREEMENT SHALL BE BROUGHT IN, AND ONLY IN, A COURT OF COMPETENT JURISDICTION IN THE COUNTY AND STATE WHERE THE FRANCHISED BUSINESS IS LOCATED. THE PARTIES CONSENT TO THE EXERCISE OF SUBJECT MATTER AND PERSONAL JURISDICTION BY SUCH COURTS AND HEREBY WAIVE ANY OBJECTIONS OR DEFENSE THERETO.

30. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. The signatures required for execution may be transmitted to the other party via facsimile or a scanned .pdf file sent via email and such signature shall be deemed a duplicate original, shall be effective upon receipt by the other party, may be admitted in evidence and shall fully bind the party and person making such signature.

31. No amendment, addendum, modification, supplement or waiver of this Agreement or any of its provisions shall be binding on the parties unless made in writing and duly executed by an authorized representative of Company and Assignor and Assignee. A failure of any party to enforce at any time any of the provisions of this Agreement or to require at any time performance by another party or any provision of this Agreement, shall in no way be construed as a continuing waiver of those provisions or of any other rights under this Agreement.

32. Except as otherwise specified in this Agreement, this Agreement shall not be construed in any way as modifying, waiving, or affecting any of the terms, covenants, conditions, or agreements contained in the Franchise Agreement and Sublease executed by Assignor, or the current form of franchise agreement or sublease to be executed by Assignee.

33. This Agreement shall inure to the benefit of and shall be binding upon each of the parties hereto and their respective successors and assigns.

**[SIGNATURE PAGE FOLLOWS]**

IN WITNESS WHEREOF, each party, by and through its duly authorized representative with full rights, power and authority, execute this Agreement to enter into and bind his, her, or its respective party, without further consent or approval of any kind, as of the Effective Date of this Agreement.

**ASSIGNOR:**

\_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]

By: \_\_\_\_\_  
[Name, Title]

**ASSIGNEE:**

\_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]

By: \_\_\_\_\_  
[Name, Title]

**FRANCHISOR:**

KAHALA FRANCHISING, L.L.C., an Arizona  
limited liability company

By: \_\_\_\_\_  
[Name, Title]

**SUBLESSOR:**

\_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]



**EXHIBIT S**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**State Addenda to Franchise Documents**

**ADDENDUM TO FRANCHISE DOCUMENTS**  
(FOR THE STATE OF CALIFORNIA)

This ADDENDUM TO FRANCHISE DOCUMENTS (FOR THE STATE OF CALIFORNIA) ("Addendum") dated \_\_\_\_\_ ("Addendum Effective Date") to the [Franchise Agreement[, as amended], [Consent to Transfer and Release Agreement,] [General Release,] [Promissory Note and Security Agreement] [Sublease] [each] dated \_\_\_\_\_, and including any and all exhibits attached thereto (individually and collectively, "Franchise Documents") between \_\_\_\_\_ ("Franchisee") and KAHALA FRANCHISING, L.L.C., an Arizona limited liability company ("Franchisor") [and LEASING ENTITY, a[n] \_\_\_\_\_ ("Sublessor")] hereby amends the Franchise Documents by the addition of the following language, which shall be considered an integral part of the Agreement. To the extent this Addendum contains terms and conditions that differ from those contained in the Franchise Documents, this Addendum shall control. The parties agree that a concept or principle covered in this Addendum shall apply and be incorporated into all other provisions of the Franchise Documents in which the concept or principle is also applicable, notwithstanding the absence of any specific cross-reference thereto. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Franchise Documents.

**1. CALIFORNIA LAW MODIFICATIONS**

- A. The California Franchise Investment Law requires that a copy of all proposed agreements relating to the sale of the franchise be delivered together with the Disclosure Document.
- B. The Franchise Agreement provides for termination upon bankruptcy. This provision may not be enforceable under Federal Bankruptcy Law. (11 U.S.C.A. Sec. 101 et seq.).
- C. The Franchise Agreement contains a covenant not to compete which extends beyond the termination of the franchise. This provision may not be enforceable under California Law.
- D. Section 31125 of the California Corporations Code requires us to give you a Disclosure Document, in a form containing the information that the Commissioner may by rule or order require, before a solicitation of a proposed material modification of an existing franchise.
- E. California Corporations Code §31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code §§31000 through 31516). Business and Professions Code §20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code §§20000 through 20043).
- F. The Franchise Agreement requires binding arbitration with *all of the costs of the arbitration, including the fees of the arbitrator and the reasonable attorney's fees of the prevailing party* to be paid by the party that did not prevail. Prospective franchisees are encouraged to consult private legal counsel to determine the applicability of California and federal laws (such as Business and Professions Code Section 20040.5, Code of Civil Procedure Section 1281, and the Federal Arbitration Act) to any provisions of a franchise agreement restricting venue to a forum outside the State of California.

- G. California Business and Professions Code Sections 20000 through 20043 provide rights to the franchisee concerning transfer, termination or non-renewal of a franchise. If the Franchise Agreement contains a provision that is inconsistent with the law, the law will control.
- H. If the franchisee resides in the State of California or the franchised business is located within the State of California, the venue for any dispute may be within the State of California. Business and Professions Code Section 20040.5 voids restricting a venue to a forum outside California with respect to any claim arising under or relating to a franchise involving a franchise business operating in California.
- I. 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.
- J. **OUR WEBSITE HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT. ANY COMPLAINTS CONCERNING THE CONTENTS OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT at [www.dbo.ca.gov](http://www.dbo.ca.gov).**

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the California law applicable to the provision are met independent of this Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met. Except as set forth in this Addendum, the terms and provisions of the Franchise Documents shall remain in full force and effect.

***[SIGNATURE PAGE FOLLOWS]***

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, have duly executed and delivered this Addendum as of the Addendum Effective Date.

**FRANCHISOR:**

KAHALA FRANCHISING, L.L.C., an Arizona  
limited liability company

By: \_\_\_\_\_  
[Name, Title]

**FRANCHISEE:**

\_\_\_\_\_,  
\_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]

By: \_\_\_\_\_  
[Name, Title]

**[SUBLESSOR:**

\_\_\_\_\_,  
\_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]

**ADDENDUM TO FRANCHISE DOCUMENTS**  
(FOR THE STATE OF HAWAII)

This ADDENDUM TO FRANCHISE DOCUMENTS (FOR THE STATE OF HAWAII) ("Addendum") dated \_\_\_\_\_ ("Addendum Effective Date") to the [Franchise Agreement[, as amended], [Consent to Transfer and Release Agreement,] [General Release,] [Promissory Note and Security Agreement] [Sublease] [each] dated \_\_\_\_\_, and including any and all exhibits attached thereto (individually and collectively, "Franchise Documents") between \_\_\_\_\_ ("Franchisee") and KAHALA FRANCHISING, L.L.C., an Arizona limited liability company ("Franchisor") [and LEASING ENTITY, a[n] \_\_\_\_\_ ("Sublessor")] hereby amends the Franchise Documents by the addition of the following language, which shall be considered an integral part of the Agreement. To the extent this Addendum contains terms and conditions that differ from those contained in the Franchise Documents, this Addendum shall control. The parties agree that a concept or principle covered in this Addendum shall apply and be incorporated into all other provisions of the Franchise Documents in which the concept or principle is also applicable, notwithstanding the absence of any specific cross-reference thereto. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Franchise Documents.

1. The Director of the Hawaii Department of Commerce and Consumer Affairs requires that certain provisions contained in franchise documents be amended to be consistent with Hawaii law, including the Hawaii Franchise Investment Law, Hawaii Revised Statutes, Title 26, Chapter 482E-1 through 482E-12 (1988). To the extent that the Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

- a. The Hawaii Franchise Investment Law provides rights to you concerning non-renewal, termination and transfer of the Franchise Agreement. If the Franchise Agreement contains a provision that is inconsistent with the Law, the Law will control. Among those rights, the law may require that upon termination or non-renewal Franchisor purchase for fair market value Franchisee's inventory, supplies, equipment and furnishings purchased from Franchisor or a supplier designated by Franchisor; provided that personalized materials which have no value to Franchisor need not be compensated for. If the non-renewal or termination is for the purpose of converting the Franchisee's business to one owned and operated by Franchisor, Franchisor may, additionally, be obligated to compensate the Franchisee for loss of goodwill. Franchisor may deduct all amounts due from Franchisee and any costs related to the transportation or disposition of items purchased against any payment for those items. If the parties cannot agree on fair market value, fair market value shall be determined in the manner set forth in the Franchise Agreement. If the Franchise Agreement does not provide for determination of fair market value of assets for purchase by Franchisor, such amount will be determined by an independent appraiser approved by both parties, and the costs of the appraisal shall be shared equally by the parties.
- b. If the Franchisee is required in the Franchise Documents to execute a release of claims, such release shall exclude claims arising under the Hawaii Franchise Investment Law. Any condition, stipulation or provision binding the Franchisee to waive compliance with any provision of Section 482E-6 of the Hawaii Franchise Investment Law shall be void.

- c. The requirement of a franchisee to purchase or lease goods or services of the franchisor or from designated sources may not be enforceable under Hawaii Franchise Investment law unless it is reasonably necessary for a lawful purpose, and does not substantially affect competition.
- d. The Hawaii Franchise Investment Law prohibits the Franchisor from establishing a similar business or granting a franchise for the establishment of a similar business to that of the Franchisee's within the Franchisee's exclusive territory. To the extent the Franchise Documents contain a provision that is inconsistent with the Act, the Act will control.
- e. 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.

2. Section 482E-3(a) of the Hawaii Franchise Investment Law requires us to give you a copy of the Franchise Disclosure Document at least 7 calendar days prior to signing the Agreement.

3. The Franchise Documents permits us to terminate the Agreement upon your bankruptcy. This provision may not be enforceable under Federal Bankruptcy Law. (11 U.S.C. §101, et seq.).

4. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Hawaii Franchise Investment Law applicable to the provision are met independent of this Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met. Except as set forth in this Addendum, the terms and provisions of the Agreement shall remain in full force and effect.

***[SIGNATURE PAGE FOLLOWS]***

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, have duly executed and delivered this Addendum as of the Addendum Effective Date.

**FRANCHISOR:**

KAHALA FRANCHISING, L.L.C., an Arizona  
limited liability company

By: \_\_\_\_\_  
[Name, Title]

**[SUBLESSOR:**

\_\_\_\_\_,  
\_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]]

**FRANCHISEE:**

\_\_\_\_\_,  
\_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]

By: \_\_\_\_\_  
[Name, Title]

**ADDENDUM TO FRANCHISE DOCUMENTS**  
(FOR THE STATE OF ILLINOIS)

This ADDENDUM TO FRANCHISE DOCUMENTS (FOR THE STATE OF ILLINOIS) ("Addendum") dated \_\_\_\_\_ ("Addendum Effective Date") to the [Franchise Agreement[, as amended], [Consent to Transfer and Release Agreement,] [General Release,] [Promissory Note and Security Agreement] [Sublease] [each] dated \_\_\_\_\_, and including any and all exhibits attached thereto (individually and collectively, "Franchise Documents") between \_\_\_\_\_ ("Franchisee") and KAHALA FRANCHISING, L.L.C., an Arizona limited liability company ("Franchisor") [and LEASING ENTITY, a[n] \_\_\_\_\_ "Sublessor"] hereby amends the Franchise Documents by the addition of the following language, which shall be considered an integral part of the Agreement. To the extent this Addendum contains terms and conditions that differ from those contained in the Franchise Documents, this Addendum shall control. The parties agree that a concept or principle covered in this Addendum shall apply and be incorporated into all other provisions of the Franchise Documents in which the concept or principle is also applicable, notwithstanding the absence of any specific cross-reference thereto. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Franchise Documents.

**ILLINOIS LAW MODIFICATIONS**

1. The Illinois Attorney General's Office requires that certain provisions contained in franchise documents be amended to be consistent with Illinois law, including the Franchise Disclosure Act of 1987, Ill. Comp. Stat. Ch. 815 para. 705/1 –705/44 (1994). To the extent that the Franchise Documents contain provisions that are inconsistent with the following, such provisions are hereby amended:

- a. Illinois Franchise Disclosure Act Sections 19 and 20 provide rights to the Franchisee concerning non-renewal and termination of the Franchise Agreement. If the Franchise Agreement contains a provision that is inconsistent with the Act, the Act will control.
- b. If the Franchisee is required in the Franchise Documents to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action that would violate the Act, or a rule of order under the Act, such release shall exclude claims arising under the Illinois Franchise Disclosure Act, and such acknowledgements shall be void with respect to claims under the Act.
- c. If the Franchise Documents designate jurisdiction or venue in a forum other than the State of Illinois, the requirement is void under the Illinois Franchise Disclosure Act except that the Franchise Documents may provide for arbitration in a forum outside the State of Illinois.
- d. If the Franchise Documents requires that it be governed by a state's law, other than the State of Illinois, to the extent that such law conflicts with the Illinois Franchise Disclosure Act, the Act will control.



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

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Illinois Franchise Disclosure Act, with respect to each such provision, are met independent of this Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met. Except as set forth in this Addendum, the terms and provisions of the Franchise Documents shall remain in full force and effect.

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, have duly executed and delivered this Addendum as of the Addendum Effective Date.

**FRANCHISOR:**

KAHALA FRANCHISING, L.L.C., an Arizona  
limited liability company

By: \_\_\_\_\_  
[Name, Title]

**[SUBLESSOR:**

\_\_\_\_\_,  
\_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]]

**FRANCHISEE:**

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

By: \_\_\_\_\_  
[Name, Title]

By: \_\_\_\_\_  
[Name, Title]

**ADDENDUM TO FRANCHISE DOCUMENTS**  
(FOR THE STATE OF INDIANA)

This ADDENDUM TO FRANCHISE DOCUMENTS (FOR THE STATE OF INDIANA) ("Addendum") dated \_\_\_\_\_ ("Addendum Effective Date") to the [Franchise Agreement[, as amended], [Consent to Transfer and Release Agreement,] [General Release,] [Promissory Note and Security Agreement] [Sublease] [each] dated \_\_\_\_\_, and including any and all exhibits attached thereto (individually and collectively, "Franchise Documents") between \_\_\_\_\_ ("Franchisee") and KAHALA FRANCHISING, L.L.C., an Arizona limited liability company ("Franchisor") [and LEASING ENTITY, a[n] \_\_\_\_\_ "Sublessor"] hereby amends the Franchise Documents by the addition of the following language, which shall be considered an integral part of the Agreement. To the extent this Addendum contains terms and conditions that differ from those contained in the Franchise Documents, this Addendum shall control. The parties agree that a concept or principle covered in this Addendum shall apply and be incorporated into all other provisions of the Franchise Documents in which the concept or principle is also applicable, notwithstanding the absence of any specific cross-reference thereto. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Franchise Documents.

**INDIANA LAW MODIFICATIONS**

1. The Indiana Securities Commissioner requires that certain provisions contained in franchise documents be amended to be consistent with Indiana law, including the Indiana Franchises Act, Ind. Code Ann. §§ 1-51 (1994) and the Indiana Deceptive Franchise Practices Act, Ind. Code Ann. § 23-27 (1985). To the extent that the Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

- a. The Indiana Deceptive Franchise Practices Act provides rights to Franchisee concerning non-renewal and termination of the Franchise Agreement. To the extent the Franchise Agreement contains a provision that is inconsistent with the Act, the Act will control.
- b. If the Franchisee is required in the Franchise Documents to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action that would violate the Act, or a rule of order under the Act, such release shall exclude claims arising under the Indiana Deceptive Franchise Practices Act and the Indiana Franchises Act, and such acknowledgements shall be void with respect to claims under the Act.
- c. If the Franchise Agreement contains covenants not to compete upon expiration or termination of the Franchise Agreement that are inconsistent with the Indiana Deceptive Franchise Practices Act, the requirements of the Act will control.
- d. The Indiana Deceptive Franchise Practices Act provides that substantial modification of the Agreement by Franchisor requires written consent of

the Franchisee. If the Agreement contains provisions that are inconsistent with this requirement, the Act will control.

- e. If the Franchise Documents requires litigation/arbitration to be conducted in a forum other than the State of Indiana, the requirement may be unenforceable as a limitation on litigation under the Indiana Deceptive Franchise Practices Act §§ 23-2.2.7(10).
- f. If the Franchise Documents requires that it be governed by a state's law, other than the State of Indiana, to the extent that such law conflicts with the Indiana Deceptive Franchise Practices Act and the Indiana Franchises Act, the Acts will control.
- g. The Indiana Deceptive Franchise Practices Act provides rights to Franchisee concerning the waiver of claims or rights. To the extent the Franchise Documents contains a provision that is inconsistent with the Act, the Act will control.
- h. The Indiana Deceptive Franchise Practices Act provides rights to Franchisee concerning the time period to bring an action against the Franchisor. To the extent the Agreement contains a provision that is inconsistent with the Act, the Act will control.
- i. The Indiana Deceptive Franchise Practices Act prohibits the Franchisor from operating a substantially identical business to that of the Franchisee's within the Franchisee's territory, regardless of trade name. To the extent the Agreement contains a provision that is inconsistent with the Act, the Act will control.
- j. The Indiana Deceptive Franchise Practice Act excludes any indemnification for liability caused by the Franchisee's proper reliance on or use of procedures or materials provided by the Franchisor. To the extent the Agreement contains a provision that is inconsistent with the Act, the Act will control.
- k. If the Franchise Agreement requires goods, supplies, inventories, or services to be purchased exclusively from the franchisor or sources designated by the franchisor where such goods, supplies, inventories or services of comparable quality are available from sources other than those designated by the franchisor, to the extent that such law conflicts with the Indiana Deceptive Franchise Practices Act and the Indiana Franchises Act, the Acts will control. Providing a list of approved suppliers to comply with specifications and standards prescribed by Franchisor does not constitute designation of a source under the Indiana Deceptive Franchise Practices Act.
- l. 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.

- m. If the Franchise Documents require Franchisee to participate in any advertising campaign or contest, promotional campaign, promotional materials, or display decorations or materials, then the maximum amount the Franchisee may be required to pay is \$35,000 per calendar year, and if the Franchisee's participation in any advertising campaign or contest, promotional campaign, promotional materials, or display decorations or materials would require the Franchisee to pay in excess of that amount, such participation by the Franchisee will be optional for the remainder of that calendar year.

2. Indiana Code § 23-2-2.5-9(2) requires us to give you a copy of the Franchise Disclosure Document at the earlier of: (i) 10 days prior to signing the Agreement; or (ii) 10 days prior to our receipt of any consideration.

3. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Indiana Deceptive Practices Act and the Indiana Franchises Act, with respect to each such provision, are met independent of this Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met. Except as set forth in this Addendum, the terms and provisions of the Franchise Documents shall remain in full force and effect.

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, has duly executed and delivered this Addendum as of the Addendum Effective Date.

**FRANCHISOR:**

KAHALA FRANCHISING, L.L.C., an Arizona  
limited liability company

By: \_\_\_\_\_  
[Name, Title]

**FRANCHISEE:**

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

By: \_\_\_\_\_  
[Name, Title]

**[SUBLESSOR:**

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

By: \_\_\_\_\_  
[Name, Title]

By: \_\_\_\_\_  
[Name, Title]]

**ADDENDUM TO FRANCHISE DOCUMENTS**  
(FOR THE STATE OF MARYLAND)

This ADDENDUM TO FRANCHISE DOCUMENTS (FOR THE STATE OF MARYLAND) ("Addendum") dated \_\_\_\_\_ ("Addendum Effective Date") to the [New, Renewal or Transfer Franchise Agreement[, as amended], [Consent to Transfer and Release Agreement,] [General Release,] [Promissory Note and Security Agreement] [Sublease] [each] dated \_\_\_\_\_, and including any and all exhibits attached thereto (individually and collectively, "Franchise Documents") between \_\_\_\_\_ ("Franchisee") and KAHALA FRANCHISING, L.L.C., an Arizona limited liability company ("Franchisor") [and LEASING ENTITY, a[n] \_\_\_\_\_ "Sublessor"] hereby amends the Franchise Documents by the addition of the following language, which shall be considered an integral part of the Agreement. To the extent this Addendum contains terms and conditions that differ from those contained in the Franchise Documents, this Addendum shall control. The parties agree that a concept or principle covered in this Addendum shall apply and be incorporated into all other provisions of the Franchise Documents in which the concept or principle is also applicable, notwithstanding the absence of any specific cross-reference thereto. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Franchise Documents.

**MARYLAND LAW MODIFICATIONS**

1. Article 17 of the Franchise Agreement has been deleted in its entirety and replaced with: "Reserved."
2. The Maryland Securities Division requires that certain provisions contained in franchise documents be amended to be consistent with Maryland law, including the Maryland Franchise Registration and Disclosure Law. To the extent that the Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:
  - a. The general release required as a condition of assignment/transfer shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.
  - b. The general release required as a condition of renewal shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.
  - c. The Franchise Documents are amended to state that the requirement for litigation to be conducted in a forum other than the State of Maryland shall not be interpreted to limit any rights Franchisee may have to bring suit in the state of Maryland. A Franchisee may file a civil lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law. Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within three years after the grant of the franchise.

- d. The Franchise Documents provide that certain disputes are resolved through arbitration. A Maryland franchise regulation states that it is an unfair or deceptive practice to require a franchisee to waive its right to file a lawsuit in Maryland claiming a violation of the Maryland Franchise Law. In light of the Federal Arbitration Act, there is some dispute as to whether this forum selection requirement is legally enforceable.
- e. Based upon the Franchisor's financial condition, the Maryland Securities Commissioner has required a financial assurance. Therefore, all initial fees and payments owed by franchisees shall be deferred until the Franchisor completes its pre-opening obligations under the Franchise Documents.
- f. All representations requiring prospective franchisees to assent to a release, estoppel or waiver of liability are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.
- g. 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.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Maryland Franchise Registration and Disclosure Law, with respect to each such provision, are met independent of this Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met. Except as set forth in this Addendum, the terms and provisions of the Franchise Documents shall remain in full force and effect.

***[SIGNATURE PAGE FOLLOWS]***

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, have duly executed and delivered this Addendum as of the Addendum Effective Date.

**FRANCHISOR:**

KAHALA FRANCHISING, L.L.C., an Arizona  
limited liability company

By: \_\_\_\_\_  
[Name, Title]

**[SUBLESSOR:**

\_\_\_\_\_,  
\_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]]

**FRANCHISEE:**

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

By: \_\_\_\_\_  
[Name, Title]

By: \_\_\_\_\_  
[Name, Title]

**ADDENDUM TO FRANCHISE DOCUMENTS**  
**(FOR THE STATE OF MICHIGAN)**

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

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

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



(ii) The fact that the proposed transferee is a competitor of the franchisor or subfranchisor.

(iii) The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.

(iv) The failure of the franchisee or proposed transferee to pay any sums owing to the franchisor or to cure any default in the franchise agreement existing at the time of the proposed transfer.

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

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

(j) 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.

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

Any questions regarding this Notice shall be directed to:

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

**ADDENDUM TO FRANCHISE DOCUMENTS**  
(FOR THE STATE OF MINNESOTA)

This ADDENDUM TO FRANCHISE DOCUMENTS (FOR THE STATE OF MINNESOTA) ("Addendum") dated \_\_\_\_\_ ("Addendum Effective Date") to the [Franchise Agreement], as amended, [Consent to Transfer and Release Agreement], [General Release], [Promissory Note and Security Agreement] [Sublease] [each] dated \_\_\_\_\_, and including any and all exhibits attached thereto (individually and collectively, "Franchise Documents") between \_\_\_\_\_ ("Franchisee") and KAHALA FRANCHISING, L.L.C., an Arizona limited liability company ("Franchisor") [and LEASING ENTITY, a[n] \_\_\_\_\_ "Sublessor"] hereby amends the Franchise Documents by the addition of the following language, which shall be considered an integral part of the Agreement. To the extent this Addendum contains terms and conditions that differ from those contained in the Franchise Documents, this Addendum shall control. The parties agree that a concept or principle covered in this Addendum shall apply and be incorporated into all other provisions of the Franchise Documents in which the concept or principle is also applicable, notwithstanding the absence of any specific cross-reference thereto. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Franchise Documents.

**MINNESOTA LAW MODIFICATIONS**

1. The Commissioner of Commerce for the State of Minnesota requires that certain provisions contained in franchise documents be amended to be consistent with Minnesota Franchise Act, Minn. Stat. Section 80.01 et seq., and of the Rules and Regulations promulgated under the Act (collectively "Franchise Act"). To the extent that the Franchise Documents and Disclosure Document contain provisions that are inconsistent with the following, such provisions are hereby amended:

- a. Minnesota Statutes, Section 80C.21 and Minnesota Rules 2860.4400(J) prohibit the franchisor from requiring litigation to be conducted outside Minnesota, requiring waiver of a jury trial, or requiring the franchisee to consent to liquidated damages, termination penalties or judgment notes. In addition, nothing in the Franchise Disclosure Document or agreement(s) can abrogate or reduce (1) any of the franchisee's rights as provided for in Minnesota Statutes, Chapter 80C or (2) franchisee's rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction. Any condition, stipulation or provision, including any choice of law provision, purporting to bind any person who, at the time of acquiring a franchise is a resident of this state, or, in the case of a partnership or corporation, organized or incorporated under the laws of this state, or purporting to bind a person acquiring any franchise to be operated in this state to waive compliance or which has the effect of waiving compliance with any provision of sections 80C.01 to 80C.22 or any rule or order thereunder is void under the Minnesota Franchise Act, Minn. Stat. § 80C.21.
- b. With respect to franchises governed by Minnesota law, the franchisor will comply with Minnesota Statutes, Section 80C.14, Subd. 3-5, which require (except in certain specified cases) (1) that a franchisee be given 90 days' notice of termination (with 60 days to cure) and 180 days' notice for non-renewal of the franchise agreement and (2)

that consent to the transfer of the franchise will not be unreasonably withheld.

- c. Minnesota considers it unfair to not protect the franchisee's right to use the trademarks. Refer to Minnesota Statutes, Section 80C.12, Subd. 1(g). The franchisor will protect the franchisee's rights to use the trademarks, service marks, trade names, logotypes or other commercial symbols or indemnify the franchisee from any loss, costs or expenses arising out of any claim, suit or demand regarding the use of the name.
- d. Minnesota Rules 2860.4400(D) prohibits a franchisor from requiring a franchisee to assent to a general release, assignment, novation, or waiver that would relieve any person from liability imposed by Minnesota Statutes 1973 Supplement, sections 80C.01 to 80C.22; provided, that this part shall not bar the voluntary settlement of disputes.
- e. The franchisee cannot consent to the franchisor obtaining injunctive relief. The franchisor may seek injunctive relief. See Minn. Rules 2860.4400J. Also, a court will determine if a bond is required.
- f. The Limitations of Claims section must comply with Minnesota Statutes, Section 80C.17, Subd. 5.
- g. Minnesota limits a service charge not to exceed \$30 for any dishonored check by the payee or holder of the check. See Minn. Rules 604.113.
- h. 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.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Minnesota law applicable to the provision are met independent of this Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met. Except as set forth in this Addendum, the terms and provisions of the Franchise Documents shall remain in full force and effect.

***[SIGNATURE PAGE FOLLOWS]***

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, have duly executed and delivered this Addendum as of the Addendum Effective Date.

**FRANCHISOR:**

KAHALA FRANCHISING, L.L.C., an Arizona  
limited liability company

By: \_\_\_\_\_  
[Name, Title]

**[SUBLESSOR:**

\_\_\_\_\_,  
\_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]

**FRANCHISEE:**

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

By: \_\_\_\_\_  
[Name, Title]

By: \_\_\_\_\_  
[Name, Title]

**ADDENDUM TO FRANCHISE DOCUMENTS**  
(FOR THE STATE OF NORTH DAKOTA)

This ADDENDUM TO FRANCHISE DOCUMENTS (FOR THE STATE OF NORTH DAKOTA) ("Addendum") dated \_\_\_\_\_ ("Addendum Effective Date") to the [Franchise Agreement[, as amended], [Consent to Transfer and Release Agreement,] [General Release,] [Promissory Note and Security Agreement] [Sublease] [each] dated \_\_\_\_\_, and including any and all exhibits attached thereto (individually and collectively, "Franchise Documents") between \_\_\_\_\_ ("Franchisee") and KAHALA FRANCHISING, L.L.C., an Arizona limited liability company ("Franchisor") [and LEASING ENTITY, a[n] \_\_\_\_\_ ("Sublessor")] hereby amends the Franchise Documents by the addition of the following language, which shall be considered an integral part of the Agreement. To the extent this Addendum contains terms and conditions that differ from those contained in the Franchise Documents, this Addendum shall control. The parties agree that a concept or principle covered in this Addendum shall apply and be incorporated into all other provisions of the Franchise Documents in which the concept or principle is also applicable, notwithstanding the absence of any specific cross-reference thereto. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Franchise Documents.

**NORTH DAKOTA LAW MODIFICATIONS**

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

- a. If the Franchisee is required in the Franchise Documents to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action that would violate the Law, or a rule or order under the Law, such release shall exclude claims arising under the North Dakota Franchise Investment Law, and such acknowledgements shall be void with respect to claims under the Law.
- b. Covenants not to compete during the term and upon termination or expiration of the Franchise Agreement are enforceable only under certain conditions according to North Dakota Law. If the Agreement contains a covenant not to compete which is inconsistent with North Dakota Law, the covenant may be unenforceable.
- c. If the Franchise Documents require litigation to be conducted in a forum other than the State of North Dakota, the requirement is void with respect to claims under the North Dakota Franchise Investment Law.
- d. If the Franchise Documents require that it be governed by a state's law, other than the State of North Dakota, to the extent that such law conflicts

with the North Dakota Franchise Investment Law, the North Dakota Franchise Investment Law will control.

- e. If the Franchise Documents require mediation or arbitration to be conducted in a forum other than the State of North Dakota, the requirement may be unenforceable under the North Dakota Franchise Investment Law. Arbitration involving a franchise purchased in the State of North Dakota must be held either in a location mutually agreed upon prior to the arbitration or if the parties cannot agree on a location, the location will be determined by the arbitrator.
- f. If the Franchise Agreement requires payment of a termination penalty, the requirement may be unenforceable under the North Dakota Franchise Investment Law.
- g. Section 51-19-08 of the North Dakota Franchise Investment Law requires Franchisor to give you a copy of the Franchise Disclosure Document at the earlier of: (i) seven days prior to signing the Franchise Agreement; or (ii) seven days prior to Franchisor's receipt of any consideration.
- h. 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.

2. **THE INSURANCE COMMISSIONER HAS HELD THE FOLLOWING TO BE UNFAIR, UNJUST OR INEQUITABLE TO NORTH DAKOTA FRANCHISEES (NDCC SECTION 51-19-09):**

- A. Restrictive Covenants: Franchise disclosure documents which disclose the existence of covenants restricting competition contrary to NDCC Section 9-08-06, without further disclosing that such covenants will be subject to the statute.
- B. Situs of Arbitration Proceedings: Franchise agreements providing that the parties must agree to the arbitration of disputes at a location that is remote from the site of the franchisee's business.
- C. Restrictions on Forum: Requiring North Dakota franchisees to consent to the jurisdiction of courts outside of North Dakota.
- D. Liquidated Damages and Termination Penalties: Requiring North Dakota franchisees to consent to liquidated damages or termination penalties.

- E. Applicable Laws: Franchise agreements which specify that they are to be governed by the laws of a state other than North Dakota.
- F. Waiver of Trial by Jury: Requiring North Dakota Franchises to consent to the waiver of a trial by jury.
- G. Waiver of Exemplary & Punitive Damages: Requiring North Dakota Franchisees to consent to a waiver of exemplary and punitive damage.
- H. General Release: Franchise Agreements that require the franchisee to sign a general release upon renewal of the franchise agreement.
- I. Limitation of Claims: Franchise Agreements that require the franchisee to consent to a limitation of claims. The statute of limitations under North Dakota law applies.
- J. Enforcement of Agreement: Franchise Agreements that require the franchisee to pay all costs and expenses incurred by the franchisor in enforcing the agreement. The prevailing party in any enforcement action is entitled to recover all costs and expenses including attorney's fees.

3. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the North Dakota Franchise Investment Law, with respect to each such provision, are met independent of this Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met. Except as set forth in this Addendum, the terms and provisions of the Franchise Documents shall remain in full force and effect.

***[SIGNATURE PAGE FOLLOWS]***

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, have duly executed and delivered this Addendum as of the Addendum Effective Date.

**FRANCHISOR:**

KAHALA FRANCHISING, L.L.C., an Arizona  
limited liability company

By: \_\_\_\_\_  
[Name, Title]

**[SUBLESSOR:**

\_\_\_\_\_,  
\_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]]

**FRANCHISEE:**

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

By: \_\_\_\_\_  
[Name, Title]

By: \_\_\_\_\_  
[Name, Title]



**ADDENDUM TO FRANCHISE DOCUMENTS**  
(FOR THE STATE OF NEW YORK)

This ADDENDUM TO FRANCHISE DOCUMENTS (FOR THE STATE OF NEW YORK) ("Addendum") dated \_\_\_\_\_ ("Addendum Effective Date") to the [Franchise Agreement[, as amended], [Consent to Transfer and Release Agreement,] [General Release,] [Promissory Note and Security Agreement] [Sublease] [each] dated \_\_\_\_\_, and including any and all exhibits attached thereto (individually and collectively, "Franchise Documents") between \_\_\_\_\_ ("Franchisee") and KAHALA FRANCHISING, L.L.C., an Arizona limited liability company ("Franchisor") [and LEASING ENTITY, a[n] \_\_\_\_\_ ("Sublessor")] hereby amends the Franchise Documents by the addition of the following language, which shall be considered an integral part of the Agreement. To the extent this Addendum contains terms and conditions that differ from those contained in the Franchise Documents, this Addendum shall control. The parties agree that a concept or principle covered in this Addendum shall apply and be incorporated into all other provisions of the Franchise Documents in which the concept or principle is also applicable, notwithstanding the absence of any specific cross-reference thereto. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Franchise Documents

**NEW YORK LAW MODIFICATIONS**

1. The New York Department of Law requires that certain provisions contained in franchise documents be amended to be consistent with New York law, including the General Business Law, Article 33, Section 680 through 695 (1989). To the extent that the Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

- a. If the Franchisee is required in the Franchise Documents to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action that would violate the General Business Law, regulation, rule or order under the Law, such release shall exclude claims arising under the New York General Business Law, Article 33, Section 680 through 695 and the regulations promulgated thereunder, and such acknowledgements shall be void. It is the intent of this provision that non-waiver provisions of Sections 687.4 and 687.5 of the General Business Law be satisfied.
- b. If the Franchise Documents requires that it be governed by a state's law, other than the State of New York, the choice of law provision shall not be considered to waive any rights conferred upon the Franchisee under the New York General Business Law, Article 33, Sections 680 through 695.
- c. If the Franchisee is required in the Franchise Documents to waive compliance with General Business Law or rule under the Law, such condition, stipulation or provision shall be void.

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.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of New York General Business Law, with respect to each such provision are met.

3. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the New York law applicable to the provision are met independent of this Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met. Except as set forth above, the terms and provisions of the Franchise Documents shall remain in full force and effect.

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, have duly executed and delivered this Addendum as of the Addendum Effective Date.

**FRANCHISOR:**

KAHALA FRANCHISING, L.L.C., an Arizona  
limited liability company

By: \_\_\_\_\_  
[Name, Title]

**[SUBLESSOR:**

\_\_\_\_\_,  
\_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]]

**FRANCHISEE:**

\_\_\_\_\_,  
\_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]

By: \_\_\_\_\_  
[Name, Title]

**ADDENDUM TO FRANCHISE DOCUMENTS**  
**(FOR THE STATE OF RHODE ISLAND)**

This ADDENDUM TO FRANCHISE DOCUMENTS (FOR THE STATE OF RHODE ISLAND) ("Addendum") dated \_\_\_\_\_ ("Addendum Effective Date") to the [Franchise Agreement[, as amended], [Consent to Transfer and Release Agreement,] [General Release,] [Promissory Note and Security Agreement] [Sublease] [each] dated \_\_\_\_\_, and including any and all exhibits attached thereto (individually and collectively, "Franchise Documents") between \_\_\_\_\_ ("Franchisee") and KAHALA FRANCHISING, L.L.C., an Arizona limited liability company ("Franchisor") [and LEASING ENTITY, a[n] \_\_\_\_\_ "Sublessor"] hereby amends the Franchise Documents by the addition of the following language, which shall be considered an integral part of the Agreement. To the extent this Addendum contains terms and conditions that differ from those contained in the Franchise Documents, this Addendum shall control. The parties agree that a concept or principle covered in this Addendum shall apply and be incorporated into all other provisions of the Franchise Documents in which the concept or principle is also applicable, notwithstanding the absence of any specific cross-reference thereto. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Franchise Documents.

**RHODE ISLAND LAW MODIFICATIONS**

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

- a. If the Franchise Documents restricts jurisdiction or venue to a forum other than the State of Rhode Island, the requirement is void under Rhode Island Franchise Investment Act Sec. 19-28.1-14.
- b. If the Franchise Documents requires that it be governed by a state's law, other than the State of Rhode Island, to the extent that such law conflicts with Rhode Island Franchise Investment Act it is void under Sec. 19-28.1-14.
- c. If the Franchisee is required in the Franchise Documents to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action that would violate the Act, or a rule or order under the Act, such release shall exclude claims arising under the Rhode Island Franchise Investment Act, and such acknowledgements shall be void with respect to claims under the Act.
- d. 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.

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

3. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Rhode Island Franchise Investment Act applicable to the provision are met independent of this Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met. Except as set forth in this Addendum, the terms and provisions of the Franchise Documents shall remain in full force and effect.

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, have duly executed and delivered this Addendum as of the Addendum Effective Date.

**FRANCHISOR:**

KAHALA FRANCHISING, L.L.C., an Arizona  
limited liability company

By: \_\_\_\_\_  
[Name, Title]

**FRANCHISEE:**

\_\_\_\_\_,  
\_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]

By: \_\_\_\_\_  
[Name, Title]

**[SUBLESSOR:**

\_\_\_\_\_,  
a[n]  
\_\_\_\_\_

By: \_\_\_\_\_]  
[Name, Title]]

## **ADDENDUM TO FRANCHISE DOCUMENTS**

### **(FOR THE STATE OF SOUTH DAKOTA)**

This ADDENDUM TO FRANCHISE DOCUMENTS (FOR THE STATE OF SOUTH DAKOTA) ("Addendum") dated \_\_\_\_\_ ("Addendum Effective Date") to the [Franchise Agreement[, as amended], [Consent to Transfer and Release Agreement,] [General Release,] [Promissory Note and Security Agreement] [Sublease] [each] dated \_\_\_\_\_, and including any and all exhibits attached thereto (individually and collectively, "Franchise Documents") between \_\_\_\_\_ ("Franchisee") and KAHALA FRANCHISING, L.L.C., an Arizona limited liability company ("Franchisor") [and LEASING ENTITY, a[n] \_\_\_\_\_ "Sublessor"] hereby amends the Franchise Documents by the addition of the following language, which shall be considered an integral part of the Agreement. To the extent this Addendum contains terms and conditions that differ from those contained in the Franchise Documents, this Addendum shall control. The parties agree that a concept or principle covered in this Addendum shall apply and be incorporated into all other provisions of the Franchise Documents in which the concept or principle is also applicable, notwithstanding the absence of any specific cross-reference thereto. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Franchise Documents.

### **SOUTH DAKOTA LAW MODIFICATIONS**

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

- a. If the Franchisee is required in the Franchise Documents to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action that would violate the Law, or a rule or order under the Law, such release shall exclude claims arising under the South Dakota Franchise Investment Law, and such acknowledgements shall be void with respect to claims under the Law.
- b. Covenants not to compete upon termination or expiration of the Franchise Agreement are generally unenforceable in the state of South Dakota, except in certain limited instances as provided by law. If the Agreement contains a covenant not to compete which is inconsistent with South Dakota Law, the covenant may be unenforceable.
- c. Regardless of the terms of the Franchise Agreement concerning termination, if Franchisee fails to meet performance and quality standards or fails to make any royalty payments under the Franchise Agreement, Franchisee will be afforded thirty (30) days' written notice with an opportunity to cure the default before termination.
- d. If the Franchise Documents require payment of liquidated damages that are inconsistent with South Dakota law, the liquidated damage clause may be void under SDCL 53-9-5.

- e. If the Franchise Documents require litigation to be conducted in a forum other than the State of South Dakota, the requirement is void with respect to any cause of action otherwise enforceable under South Dakota Law.
- f. If the Franchise Documents require that it be governed by a state's law, other than the State of South Dakota, matters regarding franchise registration, employment, covenants not to compete, and other matters of local concern will be governed by the laws of the State of South Dakota; but as to contractual and all other matters, the Agreement and all provisions of this Addendum will be and remain subject to the application, construction, enforcement, interpretation under the governing law set forth in the Agreement.
- g. If the Franchise Documents require that disputed between Franchisor and Franchisee be mediated/arbitrated at a location that is outside the State of South Dakota, the mediation/arbitration will be conducted at a location mutually agreed upon by the parties. If the parties cannot agree on location for the mediation/arbitration, the location shall be determined by the mediator/arbitrator selected.
- h. Any condition, stipulation or provision in the Franchise Documents requiring Franchisee to waive compliance of a provision under the South Dakota Franchise Investment Law may be void.
- i. 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.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the South Dakota Franchise Investment Law, with respect to each such provision, are met independent of this Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met. Except as set forth in this Addendum, the terms and provisions of the Franchise Documents shall remain in full force and effect.

***[SIGNATURE PAGE FOLLOWS]***

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, have duly executed and delivered this Addendum as of the Addendum Effective Date.

**FRANCHISOR:**

KAHALA FRANCHISING, L.L.C., an Arizona  
limited liability company

By: \_\_\_\_\_  
[Name, Title]

**FRANCHISEE:**

\_\_\_\_\_,  
\_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]

By: \_\_\_\_\_  
[Name, Title]

**[SUBLESSOR:**

\_\_\_\_\_,  
a[n]  
\_\_\_\_\_

By: \_\_\_\_\_]  
[Name, Title]]

**ADDENDUM TO FRANCHISE DOCUMENTS**  
(FOR THE STATE OF VIRGINIA)

This ADDENDUM TO FRANCHISE DOCUMENTS (FOR THE STATE OF VIRGINIA ("Addendum") dated \_\_\_\_\_ ("Addendum Effective Date") to the [Franchise Agreement[, as amended], [Consent to Transfer and Release Agreement,] [General Release,] [Promissory Note and Security Agreement] [Sublease] [each] dated \_\_\_\_\_, and including any and all exhibits attached thereto (individually and collectively, "Franchise Documents") between \_\_\_\_\_ ("Franchisee") and KAHALA FRANCHISING, L.L.C., an Arizona limited liability company ("Franchisor") [and LEASING ENTITY, a[n] \_\_\_\_\_ "Sublessor"] hereby amends the Franchise Documents by the addition of the following language, which shall be considered an integral part of the Agreement. To the extent this Addendum contains terms and conditions that differ from those contained in the Franchise Documents, this Addendum shall control. The parties agree that a concept or principle covered in this Addendum shall apply and be incorporated into all other provisions of the Franchise Documents in which the concept or principle is also applicable, notwithstanding the absence of any specific cross-reference thereto. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Franchise Documents.

1. Pursuant to Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a franchisor to cancel a franchise without reasonable cause. If any grounds for default or termination stated in the Franchise Agreement does not constitute "reasonable cause," as that term may be defined in the Virginia Retail Franchising Act or the laws of Virginia, that provision may not be enforceable.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Virginia Retail Franchising Act applicable to the provision are met independent of this Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met. Except as set forth in this Addendum, the terms and provisions of the Franchise Documents shall remain in full force and effect.

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

**[SIGNATURE PAGE FOLLOWS]**



IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, have duly executed and delivered this Addendum as of the Addendum Effective Date.

**FRANCHISOR:**

KAHALA FRANCHISING, L.L.C., an Arizona  
limited liability company

By: \_\_\_\_\_  
[Name, Title]

**FRANCHISEE:**

\_\_\_\_\_,  
\_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]

By: \_\_\_\_\_  
[Name, Title]

**[SUBLESSOR:**

\_\_\_\_\_,  
a[n]  
\_\_\_\_\_

By: \_\_\_\_\_]  
[Name, Title]]

## WASHINGTON ADDENDUM TO THE FRANCHISE DISCLOSURE DOCUMENT, THE FRANCHISE AGREEMENT, AND ALL RELATED AGREEMENTS

The provisions of this Addendum form an integral part of, are incorporated into, and modify the Franchise Disclosure Document, the franchise agreement, and all related agreements regardless of anything to the contrary contained therein. This addendum applies if: (a) the offer to sell a franchise is accepted in Washington; (b) the purchaser of the franchise is a resident of Washington; and/or (c) the franchised business that is the subject of the sale is to be located or operated, wholly or partly, in Washington.

1. **Conflict of Laws.** In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, chapter 19.100 RCW will prevail.
2. **Franchisee Bill of Rights.** RCW 19.100.180 may supersede provisions in the franchise agreement or related agreements concerning your relationship with the franchisor, including in the areas of termination and renewal of your franchise. There may also be court decisions that supersede the franchise agreement or related agreements concerning your relationship with the franchisor. Franchise agreement provisions, including those summarized in Item 17 of the Franchise Disclosure Document, are subject to state law.
3. **Site of Arbitration, Mediation, and/or Litigation.** In any arbitration or mediation involving a franchise purchased in Washington, the arbitration or mediation site will be either in the state of Washington, or in a place mutually agreed upon at the time of the arbitration or mediation, or as determined by the arbitrator or mediator at the time of arbitration or mediation. In addition, if litigation is not precluded by the franchise agreement, a franchisee may bring an action or proceeding arising out of or in connection with the sale of franchises, or a violation of the Washington Franchise Investment Protection Act, in Washington.
4. **General Release.** A release or waiver of rights in the franchise agreement or related agreements purporting to bind the franchisee to waive compliance with any provision under the Washington Franchise Investment Protection Act or any rules or orders thereunder is void except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel, in accordance with RCW 19.100.220(2). In addition, any such release or waiver executed in connection with a renewal or transfer of a franchise is likewise void except as provided for in RCW 19.100.220(2).
5. **Statute of Limitations and Waiver of Jury Trial.** Provisions contained in the franchise agreement or related agreements that unreasonably restrict or limit the statute of limitations period for claims under the Washington Franchise Investment Protection Act, or rights or remedies under the Act such as a right to a jury trial, may not be enforceable.
6. **Transfer Fees.** Transfer fees are collectable only to the extent that they reflect the franchisor's reasonable estimated or actual costs in effecting a transfer.
7. **Termination by Franchisee.** The franchisee may terminate the franchise agreement under any grounds permitted under state law.

8. **Certain Buy-Back Provisions.** Provisions in franchise agreements or related agreements that permit the franchisor to repurchase the franchisee's business for any reason during the term of the franchise agreement without the franchisee's consent are unlawful pursuant to RCW 19.100.180(2)(j), unless the franchise is terminated for good cause.
9. **Fair and Reasonable Pricing.** Any provision in the franchise agreement or related agreements that requires the franchisee to purchase or rent any product or service for more than a fair and reasonable price is unlawful under RCW 19.100.180(2)(d).
10. **Waiver of Exemplary & Punitive Damages.** RCW 19.100.190 permits franchisees to seek treble damages under certain circumstances. Accordingly, provisions contained in the franchise agreement or elsewhere requiring franchisees to waive exemplary, punitive, or similar damages are void, except when executed pursuant to a negotiated settlement after the agreement is in effect and where the parties are represented by independent counsel, in accordance with RCW 19.100.220(2).
11. **Franchisor's Business Judgement.** Provisions in the franchise agreement or related agreements stating that the franchisor may exercise its discretion on the basis of its reasonable business judgment may be limited or superseded by RCW 19.100.180(1), which requires the parties to deal with each other in good faith.
12. **Indemnification.** Any provision in the franchise agreement or related agreements requiring the franchisee to indemnify, reimburse, defend, or hold harmless the franchisor or other parties is hereby modified such that the franchisee has no obligation to indemnify, reimburse, defend, or hold harmless the franchisor or any other indemnified party for losses or liabilities to the extent that they are caused by the indemnified party's negligence, willful misconduct, strict liability, or fraud.
13. **Attorneys' Fees.** If the franchise agreement or related agreements require a franchisee to reimburse the franchisor for court costs or expenses, including attorneys' fees, such provision applies only if the franchisor is the prevailing party in any judicial or arbitration proceeding.
14. **Noncompetition Covenants.** Pursuant to RCW 49.62.020, a noncompetition covenant is void and unenforceable against an employee, including an employee of a franchisee, unless the employee's earnings from the party seeking enforcement, when annualized, exceed \$100,000 per year (an amount that will be adjusted annually for inflation). In addition, a noncompetition covenant is void and unenforceable against an independent contractor of a franchisee under RCW 49.62.030 unless the independent contractor's earnings from the party seeking enforcement, when annualized, exceed \$250,000 per year (an amount that will be adjusted annually for inflation). As a result, any provision contained in the franchise agreement or elsewhere that conflicts with these limitations is void and unenforceable in Washington.
15. **Nonsolicitation Agreements.** RCW 49.62.060 prohibits a franchisor from restricting, restraining, or prohibiting a franchisee from (i) soliciting or hiring any employee of a franchisee of the same franchisor or (ii) soliciting or hiring any employee of the franchisor. As a result, any such provisions contained in the franchise agreement or elsewhere are void and unenforceable in Washington.
16. **Questionnaires and Acknowledgements.** No statement, questionnaire, or acknowledgment signed or agreed to by a franchisee in connection with the

commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

17. **Prohibitions on Communicating with Regulators.** Any provision in the franchise agreement or related agreements that prohibits the franchisee from communicating with or complaining to regulators is inconsistent with the express instructions in the Franchise Disclosure Document and is unlawful under RCW 19.100.180(2)(h).
18. **Advisory Regarding Franchise Brokers.** Under the Washington Franchise Investment Protection Act, a “franchise broker” is defined as a person that engages in the business of the offer or sale of franchises. A franchise broker represents the franchisor and is paid a fee for referring prospects to the franchisor and/or selling the franchise. If a franchisee is working with a franchise broker, franchisees are advised to carefully evaluate any information provided by the franchise broker about a franchise.

The undersigned parties do hereby acknowledge receipt of this Addendum.

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 20\_\_\_\_.

**FRANCHISOR:**

KAHALA FRANCHISING, L.L.C., an Arizona  
limited liability company

By: \_\_\_\_\_  
[Name, Title]

**[SUBLESSOR:**

\_\_\_\_\_,  
a[n]

By: \_\_\_\_\_]  
[Name, Title]]

**FRANCHISEE:**

\_\_\_\_\_,  
\_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]

By: \_\_\_\_\_  
[Name, Title]

## **ADDENDUM TO FRANCHISE DOCUMENTS**

### **(FOR THE STATE OF WISCONSIN)**

This ADDENDUM TO FRANCHISE DOCUMENTS (FOR THE STATE OF WISCONSIN) ("Addendum") dated \_\_\_\_\_ ("Addendum Effective Date") to the [Franchise Agreement[, as amended], [Consent to Transfer and Release Agreement,] [General Release,] [Promissory Note and Security Agreement] [Sublease] [each] dated \_\_\_\_\_, and including any and all exhibits attached thereto (individually and collectively, "Franchise Documents") between \_\_\_\_\_ ("Franchisee") and KAHALA FRANCHISING, L.L.C., an Arizona limited liability company ("Franchisor") [and LEASING ENTITY, a[n] \_\_\_\_\_ "Sublessor"] hereby amends the Franchise Documents by the addition of the following language, which shall be considered an integral part of the Agreement. To the extent this Addendum contains terms and conditions that differ from those contained in the Franchise Documents, this Addendum shall control. The parties agree that a concept or principle covered in this Addendum shall apply and be incorporated into all other provisions of the Franchise Documents in which the concept or principle is also applicable, notwithstanding the absence of any specific cross-reference thereto. All capitalized terms not otherwise defined in this Addendum will have the same meanings ascribed to such terms in the Franchise Documents.

### **WISCONSIN LAW MODIFICATIONS**

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

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

- d. Any condition, stipulation or provision in the Franchise Documents requiring Franchisee to waive compliance with any provision under the Wisconsin Franchise Investment law may be void.
- e. 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.

2. Each provision of this Addendum shall be effective only to the extent that the jurisdictional requirements of the Wisconsin law applicable to the provision are met independent of this Addendum. This Addendum shall have no force or effect if such jurisdictional requirements are not met. Except as set forth in this Addendum, the terms and provisions of the Franchise Documents shall remain in full force and effect.

IN WITNESS WHEREOF, each party hereto, by and through its respective representative with full rights, power and authority to enter into and bind his or her respective party without further consent or approval of any kind, have duly executed and delivered this Addendum as of the Addendum Effective Date.

**FRANCHISOR:**

KAHALA FRANCHISING, L.L.C., an Arizona  
limited liability company

By: \_\_\_\_\_  
[Name, Title]

**FRANCHISEE:**

\_\_\_\_\_,  
\_\_\_\_\_

By: \_\_\_\_\_  
[Name, Title]

By: \_\_\_\_\_  
[Name, Title]

**[SUBLESSOR:**

\_\_\_\_\_,  
a[n]

By: \_\_\_\_\_]  
[Name, Title]]

**EXHIBIT T**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

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# Operations Manual

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**EXHIBIT U**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**List of Franchise Owners**

**Surf City Squeeze Franchise List as of November 30, 2025**

The name of the franchisee, store address and telephone numbers of the stores are listed below:

| <b>Franchise Company</b>                    | <b>Owners</b>                       | <b>Address</b>                           | <b>City</b>      | <b>State</b> | <b>Zip</b> | <b>Phone</b> |
|---------------------------------------------|-------------------------------------|------------------------------------------|------------------|--------------|------------|--------------|
| Suzie Choie                                 | Suzie Choie                         | 2525 El Camino Real                      | Carlsbad         | CA           | 92008      | 760-720-0163 |
| Hope 365, Inc.                              | Bok Hee Im                          | 3030 Plaza Bonita Road                   | National City    | CA           | 91950      | 619-475-6636 |
| Easter & MG CA Inc                          | Hyonji Yim                          | 2465 Stoneridge Mall Road                | Pleasanton       | CA           | 94588      | 925-225-0221 |
| North County Refreshment, Inc.              | Sung Ho Cho, Hui Suk Cho            | 200 E. Via Rancho Parkway                | Escondido        | CA           | 92025      | 760-747-7650 |
| 2C Corporation                              | Kwang Koo Kim                       | 282 Sun Valley Mall                      | Concord          | CA           | 94520      | 925-825-3390 |
| Charles & Hyung Ryu                         | Charles Ryu, David and              | 40820 Winchester Road                    | Temecula         | CA           | 92591      | 951-296-0364 |
| Tammy Myung                                 | Tammy Myung                         | 1233 W. Rancho Vista Boulevard           | Palmdale         | CA           | 93551      | 661-947-4626 |
| Sang Young Whang                            | Sang (Helen) Whang                  | 500 Inland Center Drive                  | San Bernardino   | CA           | 92408      | 909-383-1434 |
| KANWOOD, INC.                               | Hyuk Ki Kan, Jung Suk Lim           | 250 Santa Rosa Plaza                     | Santa Rosa       | CA           | 95401      | 707-326-3691 |
| Angelwish Inc                               | Sunhye Oh                           | 2800 N. Main Street                      | Santa Ana        | CA           | 92705      | 714-794-8481 |
| BHC Smoothies, Inc.                         | Helen Chang                         | 3650 W. Martin Luther King Jr. Boulevard | Los Angeles      | CA           | 90008      | 949-784-9600 |
| Suzie Choie                                 | Young Kim, Suzie Choie              | 931 Parkway Plaza                        | El Cajon         | CA           | 92020      | 619-588-1888 |
| JMK Victory, Inc.                           | Mike Ji                             | 1299 Galleria At Tyler                   | Riverside        | CA           | 92503      | 951-509-4873 |
| Lee, Sangeun                                | Sang Eun Lee                        | 2701 Ming Avenue                         | Bakersfield      | CA           | 93304      | 661-832-7712 |
| Suzie Choie                                 | Suzie Choie                         | 3451 S. Dogwood Road                     | El Centro        | CA           | 92243      | 760-337-8670 |
| Lee, Sangeun                                | Sang Eun Lee                        | 527 E Shaw Avenue                        | Fresno           | CA           | 93710      | 559-226-2802 |
| Ahmad, Shahab                               | Shahab Ahmad                        | 4950 Pacific Avenue                      | Stockton         | CA           | 95207      | 209-954-0206 |
| MARESP Corporation                          | Esperanza Ochoa, Marlan Cooper      | 3730 S. Figueroa Street                  | Los Angeles      | CA           | 90007      | 213-747-2744 |
| MEGHA INVESTMENTS, LLC                      | Purvi Megha, Jay Megha              | 2260 Callagan Highway                    | San Diego        | CA           | 92136      | 619-487-9064 |
| CALIFORNIA DESERT BUSINESS INVESTMENTS, LLC | Usman Aziz, Sarah Aziz, Arshad Abid | 6485 Adobe Road                          | Twentynine Palms | CA           | 92277      | 760-361-7777 |

|                                     |                                              |                                           |                  |    |            |              |
|-------------------------------------|----------------------------------------------|-------------------------------------------|------------------|----|------------|--------------|
| Easter & MG CA Inc                  | Hyonji Yim                                   | 1 Southland Mall Drive                    | Hayward          | CA | 94545      | 510-600-0012 |
| Easter & MG CA Inc                  | Hyonji Yim                                   | 2200 Eastridge Loop                       | San Jose         | CA | 95122      |              |
| L.R. Company, LLC                   | Trea Latimer-Stilinovich                     | 6940 W Overland Road                      | Boise            | ID | 83709      | 208-376-3621 |
| SCR Northland, Inc.                 | Trea Latimer-Stilinovich                     | 7965 W Fairview Avenue                    | Boise            | ID | 83704      | 208-376-3281 |
| SCR Northland, Inc.                 | Trea Latimer-Stilinovich                     | 405 S. Vista Avenue                       | Boise            | ID | 83705      | 208-343-0932 |
| SCR Northland, Inc.                 | Trea Latimer-Stilinovich                     | 2605 Blaine Street                        | Caldwell         | ID | 83605      | 208-459-0211 |
| SCR Northland, Inc.                 | Trea Latimer-Stilinovich                     | 304 10th Avenue South                     | Nampa            | ID | 83651      | 208-466-7761 |
| JEOC Strategy, Inc.                 | Richard Osorio                               | E117 Woodfield Mall                       | Schaumburg       | IL | 60173      | 847-240-1496 |
| 5JJB24 LLC                          | Carmelo Velazquez                            | 140 Fox Valley Center Drive               | Aurora           | IL | 60504      | 630-820-3862 |
| N & L Group, LLC                    | Nidal "Nick" Al-Farah                        | 27286 Novi Road                           | Novi             | MI | 48377      | 248-938-1906 |
| Choe, Young Pae and Kyung Soon Choe | Kyung Soon Choe, Young Pae Choe              | 3700 Rivertown Parkway SW                 | Grandville       | MI | 49418      | 616-532-3664 |
| Rose Okemos Inc.                    | YiLin "Rose" Guo                             | 1982 W. Grand River Avenue                | Okemos           | MI | 48864      | 517-721-1050 |
| HONGJOO CORP.                       | Sang Eun Lee                                 | 17460 Hall Road                           | Clinton Township | MI | 48038      | 586-286-8866 |
| Hahn Fast Foods Inc.                | Jerry Hahn                                   | 520 Main Avenue, Building C, P.O. Box 836 | Gaylord          | MN | 55334      | 507-237-2556 |
| Rick's Subs & Salads LLC            | Enrique Monroy                               | 186 W Market Street                       | Newark           | NJ | 07103      | 973-621-6054 |
| Busy Maria's Food Inc.              | Oscar Gomez, Flor Gomez                      | 130 Market Street                         | Paterson         | NJ | 07505      | 973-742-0121 |
| CALVAM LIMITED LIABILITY COMPANY    | Carlos Mendoza                               | 558-560 Newark Avenue                     | Jersey City      | NJ | 07306      | 201-721-6572 |
| Patel, Atul                         | Atul Patel                                   | 1330 Main Avenue                          | Clifton          | NJ | 07011      | 973-772-2388 |
| Sai Jala Inc                        | Neelkumar.Bidja, Satis h.Bidja               | 1348 Teaneck Road                         | Teaneck          | NJ | 07666      | 201-292-3836 |
| BDSONG CORPORATION                  | Byung don Song, Kathleen Song                | 4300 Meadows Lane                         | Las Vegas        | NV | 89107      | 702-893-4300 |
| Ermani Corporation                  | Nicole Castro, Maria Castro, Nicholas Castro | 7620 Las Vegas Boulevard South            | Las Vegas        | NV | 89123      | 702-871-7267 |
| Singh, Jitin                        | Jitin Singh (formerly Choudhry)              | 2375 Hempstead Turnpike                   | East Meadow      | NY | 11554-2027 | 516-796-1295 |
| J.R. & SONS, INC                    | Mario Juarez, Rosa Maria Rojas, Javier Rojas | 21300 SW Langer Farms Parkway             | Sherwood         | OR | 97140      | 503-925-8226 |

|                              |                                            |                            |                |    |       |              |
|------------------------------|--------------------------------------------|----------------------------|----------------|----|-------|--------------|
| Ashraf LLC                   | Ashraf Abozaid                             | 9455 SW Barbur Boulevard   | Portland       | OR | 97219 | 503-246-1869 |
| Ashroma Corporation          | Ashraf Abozaid                             | 503 Molalla Avenue         | Oregon City    | OR | 97045 | 503-305-8596 |
| Ashroma Corporation          | Ashraf Abozaid                             | 18225 SE Stark Street      | Portland       | OR | 97233 | 503-465-9220 |
| Alhy Corporation             | Ashraf Abozaid                             | 12300 S. Santiam Highway   | Lebanon        | OR | 97355 | 541-258-7377 |
| Sun Smoothie Inc             | Jung Yang, Tae Yang                        | 1206 Walnut Street         | Philadelphia   | PA | 19107 | 267-951-2019 |
| Shady Acres Development, LLC | Diana Gingerich, Danna Engleman            | 780 E. Main Street         | Green River    | UT | 84525 | 435-564-8209 |
| Karmina, Inc.                | Marco Metry                                | 3102 Plank Road            | Fredericksburg | VA | 22407 | 540-548-2269 |
| Macarius, Inc.               | Michael Metry, Martin Mekhael, Marco Metry | 11800 W. Broad Street      | Richmond       | VA | 23233 | 804-360-0366 |
| BRG Management Inc.          | Bradley Garduno                            | 375 Uinta Drive            | Green River    | WY | 82935 | 307-875-2257 |
| BRG Management Inc.          | Bradley Garduno                            | 2700 Dewar Drive           | Rock Springs   | WY | 82901 | 307-362-1634 |
| BRG Management Inc.          | Bradley Garduno                            | 1639 Elk Street            | Rock Springs   | WY | 82901 | 307-382-3501 |
| HAN CORP                     | Janet Han, Warren Han                      | 1411 Pale San Vitores Road | Tamuning       |    | 96913 | 671-647-0104 |
| HAN CORP                     | Warren Han, Janet Han                      | 720 Pale San Vitores Road  | Tamuning       |    | 96913 | 671-647-5761 |
| HAN CORP                     | Janet Han, Warren Han                      | 1088 W. Marine Corp. Drive | Dededo         |    | 96931 | 671-633-5761 |
| HAN CORP                     | Janet Han                                  | 1088 W. Marine Corps Drive | Dededo         |    | 98929 | 671-647-5761 |
| HAN CORP                     | Janet Han                                  | 414 W. Soledad Ave #102    | Hagatna        |    | 96910 | 671-647-5761 |

Surf City Squeeze Franchisees who have signed Franchise Agreements but whose stores were not open as of November 30, 2025:

| Franchise Company       | Owners                      | Address                      | City            | State | Zip   | Phone        | Owner Emails                                          |
|-------------------------|-----------------------------|------------------------------|-----------------|-------|-------|--------------|-------------------------------------------------------|
| Sherpa Lamu Inc         | Ninim Lama, Dali Sherpa     |                              | Berkeley        | CA    |       |              | ninimlama_2011@yahoo.com, panchen2017@gmail.com       |
| Sukman Baba Investments | Sukhi Sandhu, Ranjit Sandhu | 2050 E. Pleasant Valley Road | Oxnard          | CA    | 93033 | 805-529-5826 | sukhissandhu@yahoo.com, ranjits14@yahoo.com           |
| GR Smoothies LLC        | Sumi Song, Ted Choe         | 3195 28th Street SE          | Grand Rapids    | MI    | 49512 | 312-523-5215 | jssmlove3535@hotmail.com, SurfcitysqueezeGR@gmail.com |
| Hamro LLC               | Bijeta Rajbhandari, Kyajes  | 1350 Highway 96 East         | White Bear Lake | MN    | 55110 |              | rbbijeta@gmail.com, bijetallic@gmail.com              |

|                     |                                              |                                       |           |    |       |  |                                             |
|---------------------|----------------------------------------------|---------------------------------------|-----------|----|-------|--|---------------------------------------------|
|                     | Shakya                                       |                                       |           |    |       |  |                                             |
| GOOD QSR<br>NH, LLC | Charles<br>Esposito,<br>Jennifer<br>Esposito | 86<br>Premium<br>Outlets<br>Boulevard | Merrimack | NH | 03054 |  | goodqsrlc@gmail.com,<br>nifer75@charter.net |

**EXHIBIT V**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Financial Statements**

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# Consolidated financial statements of MTY Franchising USA, Inc.

For the years ended November 30, 2025 and 2024

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## **Report of Independent Auditors**

To the Management and the Board of Directors of MTY Franchising USA, Inc.

### ***Opinion***

We have audited the accompanying consolidated financial statements of MTY Franchising USA, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of November 30, 2025 and 2024, and the related consolidated statements of operations and comprehensive (loss) income, of changes in stockholder's equity and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of November 30, 2025 and 2024, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

PricewaterhouseCoopers LLP  
1250 René-Lévesque Boulevard West, Suite 2500, Montréal, Quebec, Canada H3B 4Y1  
T.: +1 514 205 5000, F.: +1 514 876 1502, Fax to mail: ca\_montreal\_main\_fax@pwc.com

\*PwC\* refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



### ***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 US GAAS 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 consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 the Company'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company'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.

*PricewaterhouseCoopers LLP<sup>1</sup>*

Montréal, Canada  
February 5, 2026

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<sup>1</sup> CPA auditor, public accountancy permit No. A125677

**MTY Franchising USA, Inc.****Consolidated statements of operations and comprehensive income (loss)**

Years ended November 30, 2025 and 2024

(In thousands of US dollars)

|                                                                          | Notes    | 2025<br>\$     | 2024<br>\$      |
|--------------------------------------------------------------------------|----------|----------------|-----------------|
| <b>Revenue</b>                                                           | 16       | <b>604,239</b> | <b>597,538</b>  |
| <b>Costs and expenses</b>                                                |          |                |                 |
| Operating expenses                                                       | 17       | <b>481,496</b> | 490,300         |
| Depreciation – property, plant and equipment                             | 6        | <b>12,469</b>  | 13,469          |
| Amortization – intangible assets                                         | 7        | <b>17,523</b>  | 15,765          |
| Impairment charge – property, plant and equipment                        | 6 & 9    | <b>3,813</b>   | 6,150           |
| Impairment charge – operating lease right-of-use assets                  | 5        | <b>130</b>     | 849             |
| Impairment charge – intangible assets and goodwill                       | 7, 8 & 9 | <b>1,261</b>   | 37,452          |
| Interest expense                                                         | 19       | <b>54,884</b>  | 53,768          |
| Management fees charged by parent company                                | 22       | <b>2,319</b>   | 2,101           |
|                                                                          |          | <b>573,895</b> | <b>619,854</b>  |
| <b>Other income (expenses)</b>                                           |          |                |                 |
| Interest income                                                          |          | <b>8,122</b>   | 12,145          |
| Loss on disposal of property, plant and equipment and intangible assets  |          | <b>(699)</b>   | (376)           |
| Restructuring                                                            | 18       | <b>—</b>       | (1,342)         |
| Gain on extinguishment of debt                                           |          | <b>—</b>       | 97              |
| Loss on de-recognition/lease modification of operating lease liabilities | 5        | <b>(387)</b>   | (41)            |
|                                                                          |          | <b>7,036</b>   | <b>10,483</b>   |
| <b>Income (loss) before income taxes</b>                                 |          | <b>37,380</b>  | <b>(11,833)</b> |
| <b>Income tax expense (recovery)</b>                                     | 20       |                |                 |
| Current                                                                  |          | <b>11,724</b>  | 9,918           |
| Deferred                                                                 |          | <b>(5,021)</b> | (9,195)         |
|                                                                          |          | <b>6,703</b>   | <b>723</b>      |
| <b>Net income (loss) and comprehensive income (loss)</b>                 |          | <b>30,677</b>  | <b>(12,556)</b> |

**MTY Franchising USA, Inc.****Consolidated statements of changes in stockholder's equity**

Years ended November 30, 2025 and 2024

(In thousands of US dollars, except number of common stock issued)

|                                     | <b>Common<br/>stock issued</b> | <b>Common<br/>stock value</b> | <b>Retained<br/>earnings</b> | <b>Total<br/>stockholder's<br/>equity</b> |
|-------------------------------------|--------------------------------|-------------------------------|------------------------------|-------------------------------------------|
|                                     |                                | \$                            | \$                           | \$                                        |
| Balance as at November 30, 2023     | 15                             | 179,154                       | 73,782                       | 252,936                                   |
| Net loss and comprehensive loss     | —                              | —                             | (12,556)                     | (12,556)                                  |
| Balance as at November 30, 2024     | <b>15</b>                      | <b>179,154</b>                | <b>61,226</b>                | <b>240,380</b>                            |
| Net income and comprehensive income | —                              | —                             | 30,677                       | 30,677                                    |
| Balance as at November 30, 2025     | <b>15</b>                      | <b>179,154</b>                | <b>91,903</b>                | <b>271,057</b>                            |

**MTY Franchising USA, Inc.**  
**Consolidated balance sheets**

As at November 30, 2025 and 2024  
(In thousands of US dollars)

|                                                     | Notes    | 2025<br>\$       | 2024<br>\$       |
|-----------------------------------------------------|----------|------------------|------------------|
| <b>Assets</b>                                       |          |                  |                  |
| Current assets                                      |          |                  |                  |
| Cash                                                |          | 21,840           | 12,834           |
| Restricted cash                                     | 2        | 104              | 250              |
| Accounts receivable                                 | 3        | 28,436           | 28,755           |
| Inventories                                         |          | 5,244            | 7,182            |
| Assets held for sale                                | 4, 6 & 7 | 830              | 3,116            |
| Current portion of loans receivable                 |          | 189              | 384              |
| Receivables from ultimate parent and parent company | 12 & 22  | 233,800          | 204,389          |
| Prepaid expenses and deposits                       |          | 7,790            | 8,039            |
| Other current assets                                |          | 4,704            | 4,834            |
| Income taxes receivable                             | 20       | 6,356            | 4,402            |
|                                                     |          | <b>309,293</b>   | <b>274,185</b>   |
| Non-current assets                                  |          |                  |                  |
| Loans receivable                                    |          | 34               | 66               |
| Contract cost asset                                 |          | 4,643            | 4,277            |
| Other assets                                        |          | 2,565            | 2,106            |
| Property, plant and equipment                       | 6        | 42,751           | 53,675           |
| Operating lease right-of-use assets                 | 5        | 181,327          | 190,303          |
| Intangible assets                                   | 7        | 559,967          | 577,327          |
| Goodwill                                            | 8        | 346,490          | 346,490          |
|                                                     |          | <b>1,447,070</b> | <b>1,448,429</b> |
| <b>Liabilities</b>                                  |          |                  |                  |
| Current liabilities                                 |          |                  |                  |
| Accounts payable                                    |          | 6,939            | 14,808           |
| Accrued liabilities                                 |          | 30,080           | 26,837           |
| Gift card liability                                 | 10       | 93,010           | 109,252          |
| Promotional funds payable                           |          | 8,152            | 10,523           |
| Current portion of operating lease liabilities      | 5        | 36,983           | 38,340           |
| Current portion of deferred revenue and deposits    | 11       | 7,037            | 8,093            |
| Advances from parent company                        | 12 & 22  | 2,540            | 4,417            |
| Short-term loan from parent                         | 13       | 13,793           | —                |
|                                                     |          | <b>198,534</b>   | <b>212,270</b>   |

**MTY Franchising USA, Inc.**  
**Consolidated balance sheets (continued)**

As at November 30, 2025

(In thousands of US dollars)

|                                                                                                       |          | <b>2025</b>      | <b>2024</b> |
|-------------------------------------------------------------------------------------------------------|----------|------------------|-------------|
|                                                                                                       | Notes    | \$               | \$          |
| <b>Liabilities (continued)</b>                                                                        |          |                  |             |
| Non-current liabilities                                                                               |          |                  |             |
| Long-term loan from parent and ultimate parent                                                        | 13       | <b>701,795</b>   | 708,363     |
| Liabilities held for sale                                                                             | 4, 6 & 7 | <b>441</b>       | 2,116       |
| Operating lease liabilities                                                                           | 5        | <b>149,724</b>   | 156,073     |
| Deferred revenue and deposits                                                                         | 11       | <b>29,483</b>    | 28,170      |
| Deferred income taxes                                                                                 | 20       | <b>96,036</b>    | 101,057     |
|                                                                                                       |          | <b>1,176,013</b> | 1,208,049   |
| <b>Stockholder's equity</b>                                                                           |          |                  |             |
| Common stock; 15 (2024 - 15) shares issued and authorized at \$11,943.6 (2024 - \$11,943.6) per share |          | <b>179,154</b>   | 179,154     |
| Retained earnings                                                                                     |          | <b>91,903</b>    | 61,226      |
|                                                                                                       |          | <b>271,057</b>   | 240,380     |
|                                                                                                       |          | <b>1,447,070</b> | 1,448,429   |

Approved by the Board on February 5, 2026

\_\_\_\_\_, Director

**MTY Franchising USA, Inc.**  
**Consolidated statements of cash flows**

Years ended November 30, 2025 and 2024  
(In thousands of US dollars)

|                                                                          |       | <b>2025</b>     | <b>2024</b> |
|--------------------------------------------------------------------------|-------|-----------------|-------------|
|                                                                          | Notes | \$              | \$          |
| <b>Operating activities</b>                                              |       |                 |             |
| Net income (loss) and comprehensive income (loss)                        |       | <b>30,677</b>   | (12,556)    |
| Items not affecting cash:                                                |       |                 |             |
| Depreciation – property, plant and equipment                             | 6     | <b>12,469</b>   | 13,469      |
| Amortization – intangible assets                                         | 7     | <b>17,523</b>   | 15,765      |
| Interest expense                                                         | 19    | <b>54,884</b>   | 53,768      |
| Loss on disposal of property, plant and equipment and intangible assets  |       | <b>699</b>      | 376         |
| Impairment charge – property, plant and equipment                        | 6 & 9 | <b>3,813</b>    | 6,150       |
| Impairment charge – operating lease right-of-use assets                  | 5     | <b>130</b>      | 849         |
| Impairment charge – intangible assets and goodwill                       | 7 & 9 | <b>1,261</b>    | 37,452      |
| Loss on de-recognition/lease modification of operating lease liabilities | 5     | <b>387</b>      | 41          |
| Deferred income tax recovery                                             |       | <b>(5,021)</b>  | (9,195)     |
|                                                                          |       | <b>116,822</b>  | 106,119     |
| Interest paid                                                            |       | <b>(51,376)</b> | (53,768)    |
| Changes in non-cash working capital items                                |       |                 |             |
| Accounts receivable                                                      |       | <b>319</b>      | 558         |
| Inventories                                                              |       | <b>2,032</b>    | (925)       |
| Prepaid expenses and deposits                                            |       | <b>(89)</b>     | (278)       |
| Loans receivable                                                         |       | <b>227</b>      | (27)        |
| Other current assets                                                     |       | <b>130</b>      | (1,502)     |
| Income taxes                                                             |       | <b>(2,775)</b>  | (303)       |
| Accounts payable                                                         |       | <b>(8,753)</b>  | (1,070)     |
| Accrued liabilities                                                      |       | <b>3,128</b>    | (1,817)     |
| Promotional funds payable                                                |       | <b>(2,371)</b>  | (4,166)     |
| Gift card liability                                                      |       | <b>(16,286)</b> | 4,546       |
| Deferred revenue and deposits                                            |       | <b>257</b>      | 3,735       |
| Other                                                                    |       | <b>3,752</b>    | 713         |
| Net cash provided from operating activities                              |       | <b>45,017</b>   | 51,815      |



**MTY Franchising USA, Inc.****Consolidated statements of cash flows (continued)**

Years ended November 30, 2025 and 2024

(In thousands of US dollars)

|                                                                         | Notes   | 2025<br>\$    | 2024<br>\$    |
|-------------------------------------------------------------------------|---------|---------------|---------------|
| <b>Investing activities</b>                                             |         |               |               |
| Additions to property, plant and equipment                              | 6       | (7,050)       | (10,963)      |
| Additions to intangible assets                                          | 7       | (27)          | (318)         |
| Proceeds on disposal of intangible assets                               | 6       | —             | 230           |
| Proceeds on disposal of property, plant and equipment                   |         | 1,322         | 692           |
| Proceeds on disposal of assets held for sale                            |         | —             | 1,614         |
| Net cash used in investing activities                                   |         | (5,755)       | (8,745)       |
| <b>Financing activities</b>                                             |         |               |               |
| Receivables from ultimate parent and parent company                     | 12      | (29,411)      | (53,246)      |
| Advances from parent company                                            | 12 & 22 | (991)         | —             |
| (Repayment) issuance of loans payable to companies under common control |         | —             | 2,638         |
| Repayment of holdback payable                                           |         | —             | (787)         |
| Net cash used in financing activities                                   |         | (30,402)      | (51,395)      |
| Net increase (decrease) in cash and restricted cash                     |         | 8,860         | (8,325)       |
| Cash and restricted cash, beginning of year                             |         | 13,084        | 21,409        |
| <b>Cash and restricted cash, end of year</b>                            |         | <b>21,944</b> | <b>13,084</b> |

Supplemental cash flow information

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The accompanying notes are an integral part of the consolidated financial statements.

**1. Nature of operations**

MTY Franchising USA, Inc. (the "Company" or "MTY USA") was incorporated on March 14, 2001. The Company operates, develops and franchises restaurants under a multitude of different banners in the United States of America (the "US").

**2. Significant accounting policies**

*Basis of presentation*

The accounting policies of the Company are in accordance with accounting principles generally accepted in the US ("US GAAP"). The Company uses the US dollar as its functional and reporting currency, and tabular amounts are rounded to the nearest thousand (\$000) except when otherwise indicated. MTY USA is a wholly owned subsidiary of MTY Franchising Inc. which is a subsidiary of the ultimate parent MTY Food Group Inc.

The preparation of the consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Presented below are those policies considered particularly significant:

*Basis of consolidation*

The consolidated financial statements reflect the financial position and operating results of the Company, including wholly owned subsidiaries and investees that it controls.

The principal subsidiaries of the Company are as follows:

| Principal subsidiaries           | Percentage of equity interest |
|----------------------------------|-------------------------------|
|                                  | %                             |
| BF Acquisition Holdings, LLC     | 100                           |
| BQ Concepts, LLC                 | 100                           |
| Famous Dave's of America Inc.    | 100                           |
| Kahala Franchising, LLC          | 100                           |
| La Salsa Franchise, LLC          | 100                           |
| Papa Murphy's International, LLC | 100                           |
| VI Brandco, LLC                  | 100                           |
| Wetzel's Pretzels, LLC           | 100                           |

Revenues and expenses of subsidiaries are included in the consolidated statement of operations and comprehensive income (loss) from the effective date of acquisition. The subsidiaries are consolidated from the acquisition date until the date on which the Company ceases to control them.

All intercompany transactions, balances, revenues and expenses are eliminated in full upon consolidation.

*Functional currency*

The functional currency of the Company and its subsidiaries is the US dollar. The Company translates monetary assets and liabilities that are denominated in currencies other than the US dollar at the exchange rates prevailing at the end of the reporting period; non-monetary assets denominated in foreign currencies are translated using the exchange rate prevailing at the transaction date; all revenue and expense items denominated in foreign currencies are translated at the exchange rate prevailing at the transaction date. All foreign exchange gains and losses are reported in the statement of operations.

**2. Significant accounting policies (continued)***Revenue recognition*

Revenue is recognized upon the transfer of control of promised goods or services to customer in an amount that reflects the consideration the Company expects to receive for those goods or services:

*Revenue from franchise locations*

- i) Royalties are based either on a percentage of gross sales as reported by the franchisees or on a fixed monthly fee. They are recognized on an accrual basis in accordance with the substance of the relevant agreement, as they are earned.
- ii) Promotional fund contributions are based on a percentage of gross sales as reported by the franchisees. Corresponding promotional fund transfers are presented directly on the consolidated balance sheets. The Company is not entitled to retain these promotional fund payments received and is obligated to transfer these funds to be used solely for use in promotional and marketing-related costs for specific restaurant banners. The Company sometimes charges a fee for the administration of the promotional funds.
- iii) Initial franchise fees are recognized on a straight-line basis over the term of the franchise agreement as the performance obligation relating to franchise rights is fulfilled. Amortization begins once the restaurant has opened.
- iv) Upfront fees related to master license agreements are recognized over the term of the master license agreements on a straight-line basis.
- v) Renewal fees and transfer fees are recognized on a straight-line basis over the term of the related franchise agreement.
- vi) The Company earns rent revenue on certain leases it holds; the Company's policy is described below.
- vii) Revenue from equipment sale and retail sales are recognized upon transfer of control, generally upon shipment of the equipment or goods. This revenue is recorded in resale material and retail sales.
- viii) The Company recognizes breakage income proportionately as each gift card is redeemed, based on the historical redemption patterns of the gift cards. The Company also charges various program fees to its franchisees as gift cards are redeemed.
- ix) The Company receives considerations from certain suppliers. Fees are generally earned based on the value of purchases during the period. Agreements that contain an initial upfront fee, in addition to ongoing fees, are recognized on a straight-line basis over the term of the respective agreement. Supplier contributions are recognized as revenue as they are earned and are recorded in franchising revenue.
- x) The Company earns e-commerce fees, which includes point-of-sale ("POS") support fees and transaction fees for purchase made through one of the Company's brands' e-commerce platforms. POS supports fees are received quarterly in advance and are recognized over the period they cover. Transaction fees are recognized when the food items purchased from a store are delivered or picked up by customers.

*Revenue from corporate-owned locations*

Revenue from corporate-owned locations is recorded when goods are delivered to customers.

**2. Significant accounting policies (continued)***Contract cost asset*

The Company recognizes incremental costs of obtaining a contract as an asset if they are expected to be recoverable, unless their amortization period would be less than one year, in which case they are expensed as incurred. The costs are amortized to operating expenses over the term of the related franchise agreement.

*Leasing*

In accordance with ASC 842, the Company determines if an arrangement is or contains a lease at contract inception and recognizes a right-of-use asset and a lease liability at the lease commencement date. Leases with an initial term of 12 months or less but greater than one month are not recorded on the balance sheet for select asset classes.

The lease liability is measured at the present value of future lease payments as of the lease commencement date. The right-of-use asset recognized is based on the lease liability adjusted for prepaid and deferred rent and unamortized lease incentives. An operating lease right-of-use asset is amortized on a straight-line basis over the lease term and is recognized as a single lease cost against the operating lease liability. A finance lease right-of-use asset is amortized on a straight-line basis, with interest costs reported separately, over the lesser of the useful life of the leased asset or lease term.

Operating lease expense is recognized on a straight-line basis over the lease term and is included in Operating expenses. Variable lease payments are expensed as incurred. The Company uses its incremental borrowing rates as the discount rate for its leases, which is equal to the rate of interest the Company would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms. The lease terms for all the Company's leases include the contractually obligated period of the leases, plus any additional periods covered by Company options to extend the leases that the Company is reasonably certain to exercise. Certain leases provide that the lease payments may be increased annually based on the fixed rate terms or adjustable terms such as the Consumer Price Index. Future base rent escalations that are not contractually quantifiable as of the lease commencement date are not included in the lease liability.

Lease expense is comprised of operating and finance lease costs, short-term lease costs, and variable lease costs, which primarily include common area maintenance, real estate taxes, and insurance for the Company's real estate leases.

The Company enters into leases for franchised and corporately-owned locations, offices, and equipment in the normal course of business.

The Company as lessee

The Company recognizes operating lease liabilities with corresponding operating lease right-of-use assets, except for short-term leases and leases of low value assets, which are expensed on a straight-line basis over the lease term. The Company's leases are all classified as operating leases. The amortization of the operating lease right-of-use asset and interest expense related to the operating lease liability are recorded together as the lease expense to produce a straight-line recognition effect in the consolidated statement of operations. Under ASC 842, operating lease right-of-use assets are tested for impairment in accordance with ASC 360, Property, Plant and Equipment.

The Company as lessor

When the Company enters into a sublease arrangement as an intermediate lessor, the Company accounts for the head lease and the sublease as two separate contracts. All the subleases of the Company are classified as operating subleases by reference to the operating lease right-of-use asset arising from the underlying asset. For operating subleases, the Company recognizes an operating right-of-use asset relating to the head lease and recognizes a deferred rent asset or liability in the sublease. As the intermediate lessor, the Company retains the operating lease liability on the head lease in its consolidated balance sheet. During the term of the sublease, the Company recognizes both lease income on the sublease and lease expense on the head lease.

## MTY Franchising USA, Inc.

### Notes to the consolidated financial statements

Years ended November 30, 2025 and 2024

(In thousands of US dollars)

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## 2. Significant accounting policies (continued)

### *Income taxes*

The Company accounts for income taxes pursuant to ASC 740, Income Taxes ("ASC 740"). Deferred tax assets and liabilities are recorded for differences between the financial statement and tax basis of the assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is recorded for the amount of income tax payable or refundable for the period increased or decreased by the change in deferred tax assets and liabilities during the period.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

### *Expected Credit loss*

The Company currently uses an expected credit loss ("ECL") model for its trade receivables, which permits the uses of the lifetime expected loss provision for all trade receivables and also incorporates forward-looking information. Lifetime ECL represents the ECL that will result from all probable default events over the expected life of a financial instrument.

### *Assets held for sale*

Assets are classified as held for sale when management with the appropriate authority commits to a plan to sell the assets, the assets are available for immediate sale, the assets are actively marketed at a reasonable price, the sale is probable within a year, and certain other criteria met. Assets held for sale primarily include Company-owned stores and, in some instances, associated trademarks and right-of-use assets, when the Company has committed to their sale as part of an approved plan. Assets designated as held for sale are held at the lower of the net book value or fair value less costs to sell. Depreciation is not charged against property, plant and equipment or right-of-use assets classified as assets held for sale.

### *Property, plant and equipment*

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated balance sheet at their historical costs less accumulated depreciation (buildings) and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset, including any costs directly attributable to bringing the asset to a working condition for its intended use.

Equipment, leasehold improvements, rolling stock and computer hardware are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each year, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of operations.

Depreciation is based on the following terms:

|                        |               |                      |
|------------------------|---------------|----------------------|
| Buildings              | Straight-line | 25 to 50 years       |
| Equipment              | Straight-line | Three to 10 years    |
| Leasehold improvements | Straight-line | Term of the lease    |
| Rolling stock          | Straight-line | Five to seven years  |
| Computer hardware      | Straight-line | Three to seven years |

## **2. Significant accounting policies (continued)**

### *Intangible assets*

#### Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses, if applicable. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful lives and amortization methods are reviewed at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses, if applicable.

#### Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets having a finite life acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, if applicable, on the same basis as intangible assets that are acquired separately. Intangible assets having an indefinite life are not amortized and are therefore carried at cost reduced by previous impairment losses, if applicable.

#### Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in the statement of operations when the asset is derecognized.

The Company currently carries the following intangible assets in its books:

#### *Franchise rights*

The franchise rights acquired through business combinations are recognized at the fair value of the estimated future cash inflows related to the acquisition of franchises. The franchise rights are generally amortized on a straight-line basis over the term of the agreements which typically range between 10 to 20 years.

#### *Trademarks*

Trademarks acquired through business combinations are recognized at their fair value at the time of the acquisition and are not amortized. Trademarks are determined to have an indefinite useful life based on their brand recognition and their ability to generate revenue through changing economic conditions with no foreseeable time limit.

#### *Other*

Included in other intangible assets are purchased software and liquor licences, which are being amortized over their expected useful life on a straight-line basis.

### *Impairment of long-lived assets other than goodwill*

The Company continually reviews whether events or circumstances subsequent to the acquisition of any long-lived assets, including intangible assets with finite and infinite useful lives, have occurred that indicate the remaining estimated useful lives of those assets may warrant revision or that the remaining balance of those assets may not be recoverable. If events and circumstances indicate that the long-lived assets should be reviewed for possible impairment, the Company uses projections to assess whether future cash flows on an undiscounted basis related to the assets exceed the recorded carrying amount of those assets to determine if an asset is impaired. Should an impairment be identified, a loss would be recorded to the extent that the carrying value of the impaired assets exceeds their fair values as determined by valuation techniques appropriate in the circumstances that could include the use of similar cash flow projections on a discounted basis. The indefinite intangible assets are tested at the individual brand level, which is comprised of franchise rights, trademarks and perpetual licenses.

**2. Significant accounting policies (continued)**

*Impairment of goodwill*

For the purposes of impairment testing, goodwill is allocated to the unit or group of units ("reporting unit") that are considered to represent the lowest level within the group.

As at November 30, 2025 and 2024, goodwill is allocated as follows:

|                    | <b>Goodwill unit description</b>                                                                                                                 |
|--------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| US Goodwill Unit A | A group of reporting units comprised of all the brands, excluding Papa Murphy's and the brands acquired with BBQ Holdings, Inc. ("BBQ Holdings") |
| US Goodwill Unit B | A group of reporting units comprised of the BBQ Holdings brands and the Papa Murphy's brand                                                      |

Goodwill is tested for impairment on an annual basis (September 1 for the Company) and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. Fair value<sup>1</sup> is determined using a discounted cash flow methodology with a risk adjusted weighted average cost of capital.

*Cash and restricted cash*

Cash includes cash on hand, and short-term investments, if any, with maturities upon acquisition of generally three months or less or that are redeemable at any time at full value and for which the risk of a change in value is not significant. As at November 30, 2025, cash and restricted cash included \$104 of restricted cash (2024 – \$250) that is required as part of guarantees on certain lease commitments.

*Inventories*

Inventories are measured at the lower of cost and net realizable value. Costs of inventories are determined on a first-in-first-out basis and include acquisition costs and other costs incurred to bring inventories to their present location and condition.

Market value represents the current replacement cost, provided that the cost does not exceed the net realizable value or is not less than the net realizable value reduced by a normal profit margin.

*Contingencies*

*Litigation, disputes and closed stores*

Provisions for the expected cost of litigation, disputes and the cost of settling leases for closed stores, with the exception of operating lease liabilities already recorded pursuant to ASC 842, are recognized when it becomes probable the Company will be required to settle the obligation, at management's best estimate of the expenditure required to settle the Company's obligation.

*Contingent liabilities acquired in a business combination*

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognized, and the amount initially recognized.



**2. Significant accounting policies (continued)**

*Financial instruments*

The Company's financial instruments consist of cash, restricted cash, accounts receivable, loans receivable, receivable from parent and ultimate parent, accounts payable, accrued liabilities, promotional funds payable, advance from parent company and long-term loan from parent and ultimate parent. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values for cash, restricted cash, accounts receivable, loans receivable, receivable from parent, receivable from ultimate parent, accounts payable, accrued liabilities, promotional funds payable, advance from parent company approximate their carrying values due to their immediate or short-term maturities, unless otherwise noted. The long-term loan from parent and ultimate parent are measured at fair value.

*Promotional funds*

Pursuant to the franchise agreements, franchisees must pay a fee to the promotional funds. These amounts are collected by the Company in its capacity as agent and must be used for promotional and advertising purposes, since the amounts are set aside to promote the respective banners for the franchisees' benefit. The promotional funds collected, and the related expenditures are reported on a gross basis in the consolidated statements of operations and comprehensive income. To the extent that promotional funds received exceed the related promotional expenditures, the excess contributions will be recorded in accounts payable or accrued liabilities.

Cash held pursuant to the promotional funds received are classified as unrestricted cash as there are no legal restrictions on the use of these funds; however, the Company intends to use these funds solely to support the promotional funds rather than to fund its ongoing operations. As at November 30, 2025, promotional funds were in a net liability position amounting to \$3,018 (2024 – net liability position of \$7,694).

*Subsequent events*

Subsequent events were evaluated through the date that the consolidated financial statements were issued, which was February 5, 2026.

*Estimates and assumptions*

*Goodwill and indefinite-lived intangible assets*

The fair value calculation includes estimates of revenue growth, which are based on past performance and internal projections for the intangible asset group's forecasted growth, which are adjusted for our particular facts and circumstances. The discount rate is selected based on the estimated cost of capital that reflects the risk profile of the related business. These estimates are highly subjective, the ability to achieve the forecasted cash flows used in our fair value calculations is affected by factors such as the success of strategic initiatives, changes in economic conditions, changes in our operating performance and changes in our business strategies.

*Gift card liabilities*

Management is required to make certain assumptions in both the prorated recognition based on redemption pattern and remoteness recognition of gift card breakage. The significant estimate is the breakage rate based on redemption patterns.



**MTY Franchising USA, Inc.****Notes to the consolidated financial statements**

Years ended November 30, 2025 and 2024

(In thousands of US dollars)

**3. Accounts receivable**

Details of accounts receivable are as follows:

|                                                         | 2025    | 2024    |
|---------------------------------------------------------|---------|---------|
|                                                         | \$      | \$      |
| Total accounts receivable                               | 30,269  | 30,676  |
| Less: Allowance for credit losses                       | (1,833) | (1,921) |
| Total accounts receivable, net                          | 28,436  | 28,755  |
| Of which:                                               |         |         |
| Not past due                                            | 22,953  | 23,612  |
| Past due for more than one day but no more than 30 days | 957     | 1,736   |
| Past due for more than 31 days but no more than 60 days | 985     | 695     |
| Past due for more than 61 days                          | 3,541   | 2,712   |
| Total accounts receivable, net                          | 28,436  | 28,755  |
|                                                         | 2025    | 2024    |
|                                                         | \$      | \$      |
| Allowance for credit losses, beginning of year          | (1,921) | (2,277) |
| Recovery                                                | 64      | 322     |
| Reversal of amounts previously written off              | —       | (33)    |
| Write-offs                                              | 24      | 67      |
| Allowance for credit losses, end of year                | (1,833) | (1,921) |

**4. Assets and liabilities held for sale**

Assets and liabilities held for sale as at November 30, 2025 and 2024 are stated at fair value less costs to sell. During the reporting period, the Company designated certain assets and liabilities related to a casual dining brand as held for sale. This decision reflects management's formal commitment to a plan to divest these assets, which include both Company-owned stores and associated intangible assets.

The assets reclassified as held for sale primarily consist of inventories, prepaid expenses, deposits, right-of-use assets (Note 5), property plant, and equipment (Note 6) and intangible assets (Note 7). The liabilities included in the carrying value are the gift card payable and the lease liability (Note 5). This reclassification on November 30, 2025 led to an impairment charge of nil (2024 - \$849) to right-of-use-asset, nil (2024 - \$505) to property, plant and equipment and nil (2024 - \$1,088) to trademarks in Reporting Unit A. The total carrying amount reclassified as held for sale is comprised of assets of \$830 (2024 - \$3,116) and liabilities of \$441 (2024 - \$2,116) resulting in a net amount of \$389 (2024 - \$1,000).

**MTY Franchising USA, Inc.****Notes to the consolidated financial statements**

Years ended November 30, 2025 and 2024

(In thousands of US dollars)

**5. Leases****Operating lease right-of-use assets**

The following table provides the net carrying amounts of the operating lease right-of-use assets by class of underlying asset and the changes in the years ended November 30, 2025 and 2024:

|                                    | <b>Offices and<br/>stores</b> | <b>Other</b> | <b>Total</b>    |
|------------------------------------|-------------------------------|--------------|-----------------|
|                                    | \$                            | \$           | \$              |
| Balance as at November 30, 2023    | 186,764                       | 310          | 187,074         |
| Additions                          | 12,844                        | 90           | 12,934          |
| Assets held for sale (Note 4)      | (953)                         | —            | (953)           |
| Depreciation expense               | (39,781)                      | (139)        | (39,920)        |
| Impairment charge                  | (849)                         | —            | (849)           |
| De-recognition/lease modifications | 32,047                        | (30)         | 32,017          |
| Balance as at November 30, 2024    | 190,072                       | 231          | 190,303         |
| Additions                          | <b>8,776</b>                  | —            | <b>8,776</b>    |
| Assets held for sale (Note 4)      | <b>626</b>                    | —            | <b>626</b>      |
| Depreciation expense               | <b>(41,135)</b>               | <b>(112)</b> | <b>(41,247)</b> |
| Impairment charge                  | <b>(130)</b>                  | —            | <b>(130)</b>    |
| De-recognition/lease modifications | <b>22,985</b>                 | <b>14</b>    | <b>22,999</b>   |
| Balance as at November 30, 2025    | <b>181,194</b>                | <b>133</b>   | <b>181,327</b>  |

The Company recorded sublease income from its operating lease right-of-use assets amounting to \$24,743 (2024 – \$23,431).

**MTY Franchising USA, Inc.****Notes to the consolidated financial statements**

Years ended November 30, 2025 and 2024

(In thousands of US dollars)

**5. Leases (continued)****Operating lease liabilities**

The following table provides the net carrying amounts of the operating lease liabilities and the changes in the years ended November 30, 2025 and 2024:

|                                                  | 2025     | 2024     |
|--------------------------------------------------|----------|----------|
|                                                  | \$       | \$       |
| Operating lease liabilities, beginning of year   | 194,413  | 190,493  |
| Additions                                        | 8,776    | 12,934   |
| Transfer from (to) assets held for sale (Note 4) | 1,516    | (1,848)  |
| Lease renewals and modifications                 | 26,631   | 35,264   |
| Lease terminations                               | (3,503)  | (3,316)  |
| Other adjustments                                | (497)    | (329)    |
| Interest expense                                 | 11,004   | 10,731   |
| Payments                                         | (51,633) | (49,516) |
| Operating lease liabilities, end of year         | 186,707  | 194,413  |

Recorded in the consolidated balance sheets as follows:

|                   | 2025    | 2024    |
|-------------------|---------|---------|
|                   | \$      | \$      |
| Current portion   | 36,983  | 38,340  |
| Long-term portion | 149,724 | 156,073 |
|                   | 186,707 | 194,413 |

**Maturity analysis**

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be paid after November 30, 2025:

|                                                                              | Leases         | Expected<br>sublease<br>income |
|------------------------------------------------------------------------------|----------------|--------------------------------|
|                                                                              | \$             | \$                             |
| 2026                                                                         | 48,059         | 23,063                         |
| 2027                                                                         | 41,654         | 19,093                         |
| 2028                                                                         | 35,124         | 15,314                         |
| 2029                                                                         | 28,220         | 11,083                         |
| 2030                                                                         | 20,706         | 7,498                          |
| Thereafter                                                                   | 49,981         | 13,704                         |
| <b>Total undiscounted lease payments</b>                                     | <b>223,744</b> | <b>89,755</b>                  |
| Less: Unearned finance income                                                | (37,037)       | —                              |
| <b>Total present value of lease liabilities and expected sublease income</b> | <b>186,707</b> | <b>89,755</b>                  |

**MTY Franchising USA, Inc.**
**Notes to the consolidated financial statements**

Years ended November 30, 2025 and 2024

(In thousands of US dollars)

**6. Property, plant and equipment**

| Cost                                           | Equipment      | Leasehold<br>improve-<br>ments | Rolling<br>stock | Computer<br>hardware | Land         | Building     | Total          |
|------------------------------------------------|----------------|--------------------------------|------------------|----------------------|--------------|--------------|----------------|
|                                                | \$             | \$                             | \$               | \$                   | \$           | \$           | \$             |
| Balance as at November 30, 2023                | 28,811         | 38,544                         | 16               | 4,777                | 3,220        | 3,245        | 78,613         |
| Additions                                      | 5,100          | 4,427                          | —                | 1,369                | —            | 67           | 10,963         |
| Disposals                                      | (1,088)        | (221)                          | —                | (90)                 | —            | —            | (1,399)        |
| Impairment (Note 9)                            | (2,239)        | (3,662)                        | —                | (249)                | —            | —            | (6,150)        |
| Transfer to assets held for sale               | (469)          | (323)                          | —                | (22)                 | —            | —            | (814)          |
| Balance as at November 30, 2024                | 30,115         | 38,765                         | 16               | 5,785                | 3,220        | 3,312        | 81,213         |
| Additions                                      | <b>3,782</b>   | <b>2,408</b>                   | <b>—</b>         | <b>320</b>           | <b>—</b>     | <b>540</b>   | <b>7,050</b>   |
| Disposals                                      | <b>(1,796)</b> | <b>(1,256)</b>                 | <b>(16)</b>      | <b>(1,180)</b>       | <b>—</b>     | <b>—</b>     | <b>(4,248)</b> |
| Impairment (Note 9)                            | <b>(901)</b>   | <b>(2,912)</b>                 | <b>—</b>         | <b>—</b>             | <b>—</b>     | <b>—</b>     | <b>(3,813)</b> |
| Transfer to/from assets held for sale (Note 4) | <b>66</b>      | <b>(70)</b>                    | <b>—</b>         | <b>7</b>             | <b>—</b>     | <b>—</b>     | <b>3</b>       |
| Balance as at November 30, 2025                | <b>31,266</b>  | <b>36,935</b>                  | <b>—</b>         | <b>4,932</b>         | <b>3,220</b> | <b>3,852</b> | <b>80,205</b>  |
| Accumulated depreciation                       | Equipment      | Leasehold<br>improve-<br>ments | Rolling<br>stock | Computer<br>hardware | Land         | Building     | Total          |
|                                                | \$             | \$                             | \$               | \$                   | \$           | \$           | \$             |
| Balance as at November 30, 2023                | 4,615          | 8,828                          | —                | 1,429                | —            | 142          | 15,014         |
| Transfer to assets held for sale (Note 4)      | (141)          | (98)                           | —                | (7)                  | —            | —            | (246)          |
| Depreciation                                   | 4,658          | 8,087                          | 3                | 531                  | —            | 190          | 13,469         |
| Disposals                                      | (516)          | (115)                          | —                | (68)                 | —            | —            | (699)          |
| Balance as at November 30, 2024                | 8,616          | 16,702                         | 3                | 1,885                | —            | 332          | 27,538         |
| Depreciation                                   | <b>4,527</b>   | <b>6,548</b>                   | <b>—</b>         | <b>1,259</b>         | <b>—</b>     | <b>135</b>   | <b>12,469</b>  |
| Disposals                                      | <b>(1,870)</b> | <b>(260)</b>                   | <b>(3)</b>       | <b>(279)</b>         | <b>—</b>     | <b>—</b>     | <b>(2,412)</b> |
| Transfer to/from assets held for sale (Note 4) | <b>(88)</b>    | <b>(56)</b>                    | <b>—</b>         | <b>3</b>             | <b>—</b>     | <b>—</b>     | <b>(141)</b>   |
| Balance as at November 30, 2025                | <b>11,185</b>  | <b>22,934</b>                  | <b>—</b>         | <b>2,868</b>         | <b>—</b>     | <b>467</b>   | <b>37,454</b>  |
| Carrying amounts                               | Equipment      | Leasehold<br>improve-<br>ments | Rolling<br>stock | Computer<br>hardware | Land         | Building     | Total          |
|                                                | \$             | \$                             | \$               | \$                   | \$           | \$           | \$             |
| November 30, 2024                              | 21,499         | 22,063                         | 13               | 3,900                | 3,220        | 2,980        | 53,675         |
| November 30, 2025                              | <b>20,081</b>  | <b>14,001</b>                  | <b>—</b>         | <b>2,064</b>         | <b>3,220</b> | <b>3,385</b> | <b>42,751</b>  |

# MTY Franchising USA, Inc.

## Notes to the consolidated financial statements

Years ended November 30, 2025 and 2024

(In thousands of US dollars)

### 7. Intangible assets

| Cost                                        | Franchise<br>rights | Trademarks     | Other        | Total          |
|---------------------------------------------|---------------------|----------------|--------------|----------------|
|                                             | \$                  | \$             | \$           | \$             |
| Balance as at November 30, 2023             | 214,925             | 482,196        | 5,912        | 703,033        |
| Additions                                   | 275                 | —              | 43           | 318            |
| Transfer to assets held for sale (Note 4)   | —                   | (1,222)        | (175)        | (1,397)        |
| Disposals                                   | —                   | —              | (230)        | (230)          |
| Impairment (Note 9)                         | (1,390)             | (6,191)        | (186)        | (7,767)        |
| Balance as at November 30, 2024             | 213,810             | 474,783        | 5,364        | 693,957        |
| Additions                                   | —                   | —              | 27           | 27             |
| Impairment (Note 9)                         | (344)               | (1,027)        | 110          | (1,261)        |
| Transfer from assets held for sale (Note 4) | —                   | 1,222          | 175          | 1,397          |
| Balance as at November 30, 2025             | <b>213,466</b>      | <b>474,978</b> | <b>5,676</b> | <b>694,120</b> |
| Accumulated amortization                    | Franchise<br>rights | Trademarks     | Other        | Total          |
|                                             | \$                  | \$             | \$           | \$             |
| Balance as at November 30, 2023             | 99,027              | —              | 1,838        | 100,865        |
| Amortization                                | 15,124              | —              | 641          | 15,765         |
| Balance as at November 30, 2024             | 114,151             | —              | 2,479        | 116,630        |
| Amortization                                | <b>16,818</b>       | —              | <b>705</b>   | <b>17,523</b>  |
| Balance as at November 30, 2025             | <b>130,969</b>      | —              | <b>3,184</b> | <b>134,153</b> |
| Carrying amounts                            | Franchise<br>rights | Trademarks     | Other        | Total          |
|                                             | \$                  | \$             | \$           | \$             |
| November 30, 2024                           | 99,659              | 474,783        | 2,885        | 577,327        |
| <b>November 30, 2025</b>                    | <b>82,497</b>       | <b>474,978</b> | <b>2,492</b> | <b>559,967</b> |

**MTY Franchising USA, Inc.****Notes to the consolidated financial statements**

Years ended November 30, 2025 and 2024

(In thousands of US dollars)

**8. Goodwill**

The changes in the carrying amount of goodwill are as follows:

|                                           | 2025     | 2024     |
|-------------------------------------------|----------|----------|
|                                           | \$       | \$       |
| Goodwill, beginning and end of year       | 424,828  | 424,828  |
| Accumulated impairment, beginning of year | (78,338) | (48,653) |
| Impairment (Note 9)                       | —        | (29,685) |
| Accumulated impairment, end of year       | (78,338) | (78,338) |
| Carrying amount                           | 346,490  | 346,490  |

**9. Impairment – property, plant and equipment, intangible assets and goodwill**

The Company performs quarterly impairment indicator analysis followed by its annual impairment test which is executed as at September 1, 2025. These assessments resulted in the recognition of \$1,261 of impairment losses on its intangible assets for one brand (2024 - \$6,679 for five brands). The Company did not have any impairment recognized as a result of the reclass to assets held for sale (2024 - \$1,088 for one brand) (Note 4).

As of September 1, 2024, the Company reassessed the reporting unit based on a strategic realignment and merger of business units in the US. The goodwill impairment for the reporting unit comprised of Papa Murphy's brand was subject to an impairment test prior to the strategic realignment and this resulted in an impairment of goodwill of \$29,685. There was no impact on the consolidated statements of operations and comprehensive income (loss) for the year ended November 30, 2025.

Additionally, the Company recorded \$3,813 of impairment losses on its property, plant and equipment (2024 - \$6,150), for a total of \$5,074 (2024 - \$43,602) of impairment charges on its property, plant and equipment, intangible assets and goodwill for the year ended November 30, 2025, which have been recognized in the consolidated statement of operations.

Impairment charges were based on the amount by which the carrying values of the assets exceeded the fair value, determined using expected discounted projected operating cash flows for trademarks and franchise rights.

Impairment by reporting unit for the year ended November 30, 2025:

|                  | Intangible assets                   |                     |            |       |          |       |
|------------------|-------------------------------------|---------------------|------------|-------|----------|-------|
|                  | Property,<br>plant and<br>equipment | Franchise<br>rights | Trademarks | Other | Goodwill | Total |
|                  | \$                                  | \$                  | \$         | \$    | \$       | \$    |
| Reporting Unit A | 176                                 | —                   | —          | —     | —        | 176   |
| Reporting Unit B | 3,637                               | 344                 | 1,027      | (110) | —        | 4,898 |
|                  | 3,813                               | 344                 | 1,027      | (110) | —        | 5,074 |

# MTY Franchising USA, Inc.

## Notes to the consolidated financial statements

Years ended November 30, 2025 and 2024

(In thousands of US dollars)

### 9. Impairment (continued)

Impairment by reporting unit for the year ended November 30, 2024:

|                  | Property,<br>plant and<br>equipment | Intangible assets   |            |       |          | Total  |
|------------------|-------------------------------------|---------------------|------------|-------|----------|--------|
|                  |                                     | Franchise<br>rights | Trademarks | Other | Goodwill |        |
|                  | \$                                  | \$                  | \$         |       |          | \$     |
| Reporting Unit A | 1,886                               | 205                 | 2,069      |       | —        | 4,160  |
| Reporting Unit B | 4,264                               | 1,185               | 4,122      | 186   | 29,685   | 39,442 |
|                  | 6,150                               | 1,390               | 6,191      | 186   | 29,685   | 43,602 |

The key assumptions used are those related to projected operating cash flows, as well as the discount rates. The sales forecasts for cash flows were based on the subsequent fiscal year's budgeted operating results, which were prepared by management and approved by the Board, and internal forecasts for subsequent years, which were prepared by management and developed from the budgeted operating results.

The following table presents the key assumptions used in the Company's impairment tests, as well as the recoverable amounts measured at fair value as at September 1, 2025 and 2024:

|                              | 2025                |                     | 2024                |                     |
|------------------------------|---------------------|---------------------|---------------------|---------------------|
|                              | Reporting<br>Unit A | Reporting<br>Unit B | Reporting<br>Unit A | Reporting<br>Unit B |
| (\$, except percentage data) |                     |                     |                     |                     |
| Discount rates after tax     | 9.5%                | 9.5%                | 10.0%               | 10.0%               |
| Discount rates pre-tax       | 10.3%               | 11.5%               | 12.7%               | 13.0%               |
| Recoverable amounts          | 873,628             | 531,589             | 875,925             | 604,533             |

Long-term growth rates ranging from 0% to 2% (2024 – 0% to 2%) were used in the impairment test for Reporting Unit A. A change of 100 basis points in discount rates in Reporting Unit A would result in additional impairment charges on intangible assets of one brand (2024 – four brands) representing 0.4% (2024 – 0.5%) of the total carrying value of the franchise rights and trademarks in that unit. A change of 100 basis points in discount rates in Reporting Unit A would not result in additional impairment charges on goodwill for the years ended November 30, 2025 and 2024. For Reporting Unit A, an increase of 443 basis points in the discount rate would have resulted in its recoverable amount being equal to its carrying value.

Long-term growth rates of 0% to 2% (2024 – 2%) were used in the impairment test for Reporting Unit B. A change of 100 basis points in discount rates in Reporting Unit B would result in additional impairment charges on intangible assets of one brand (2024 – one brand) representing 0.9% (2024 – 0.1%) of the total carrying value of the franchise rights and trademarks in that unit. A change of 100 basis points in discount rates in Reporting Unit B would result in additional impairment charges of \$25,520 on goodwill (2024 - nil). For Reporting Unit B, an increase of 54 basis points in the discount rate would have resulted in its recoverable amount being equal to its carrying value.

**MTY Franchising USA, Inc.****Notes to the consolidated financial statements**

Years ended November 30, 2025 and 2024

(In thousands of US dollars)

**10. Gift card liability**

The changes in the carrying amount of the gift card liability are as follows:

|                                        | 2025     | 2024                    |
|----------------------------------------|----------|-------------------------|
|                                        | \$       | \$                      |
|                                        |          | Adjusted <sup>(1)</sup> |
| Gift card liability, beginning of year | 109,252  | 104,858                 |
| Activations                            | 57,920   | 56,723                  |
| Redemptions                            | (46,467) | (46,020)                |
| Deferred program fees and other        | (719)    | (320)                   |
| Gift card breakage recorded            | (26,976) | (5,989)                 |
| Gift card liability, end of year       | 93,010   | 109,252                 |

<sup>(1)</sup> Prior year amounts have been adjusted to reflect a reclassification decreasing activations and redemptions for \$20,967.

During the year, the Company revised the estimates for its gift card breakage based on changed redemption patterns. This change in estimate resulted in an increase of gift card breakage of \$21,151.

**11. Deferred revenue and deposits**

|                                             | 2025    | 2024    |
|---------------------------------------------|---------|---------|
|                                             | \$      | \$      |
| Franchise fee deposits                      | 34,149  | 33,594  |
| Unearned rent                               | 1,842   | 1,737   |
| Supplier contributions and other allowances | 529     | 932     |
|                                             | 36,520  | 36,263  |
| Current portion                             | (7,037) | (8,093) |
|                                             | 29,483  | 28,170  |

Deferred revenues consist mostly of initial, transfer and renewal franchise fees paid by franchisees, as well as upfront fees paid by master franchisees, which are generally recognized on a straight-line basis over the term of the related agreement. Deferred revenues also include amounts paid in upfront fees received from agreements with suppliers, which are amortized over the term of the related agreement.

\$7,824 (2024 – \$8,570) of revenue recognized in the current year was included in the deferred revenue balance at the beginning of the year.

The following table provides estimated revenues expected to be recognized in future years related to performance obligations that are unsatisfied as at November 30, 2025:

| Estimate for fiscal year: | \$            |
|---------------------------|---------------|
| 2026                      | 7,037         |
| 2027                      | 4,386         |
| 2028                      | 3,508         |
| 2029                      | 3,098         |
| 2030                      | 2,487         |
| Thereafter                | 16,004        |
|                           | <u>36,520</u> |



**MTY Franchising USA, Inc.****Notes to the consolidated financial statements**

Years ended November 30, 2025 and 2024

(In thousands of US dollars)

**12. Receivables and advances from ultimate parent and parent company**

The receivables from ultimate parent and parent are primarily comprised of a renewable one-year term loan facility of \$212,834 (2024 – \$194,988) and other receivables of \$20,966 (2024 – \$9,401). The term loan is unsecured and bears interest at the rate set at the Applicable Federal Rates as issued by the US Internal Revenue Service for short-term instruments. Interest revenue of \$8,091 was recognized in Consolidated statements of operations and comprehensive income (loss) in the other revenue (2024 - \$12,119). The term loan may be repaid, in whole or in part, at any time, without premium or penalty. MTY USA may also request repayment, in whole or in part, at any time, without penalty.

The advances due to the parent company are payable on demand with no specified collection terms.

**13. Long-term loan from parent and ultimate parent**

|                                                                                                   | 2025     | 2024    |
|---------------------------------------------------------------------------------------------------|----------|---------|
|                                                                                                   | \$       | \$      |
| Interest-bearing loan at 5.5% from parent, repayable by November 27, 2026 <sup>(1)</sup>          | 13,793   | 12,700  |
| Interest-bearing loan at 9.36% from parent, repayable by December 8, 2031 <sup>(1)</sup>          | 26,108   | 20,000  |
| Interest-bearing loan at 9.26% from ultimate parent, repayable by December 8, 2029 <sup>(1)</sup> | 385,837  | 385,813 |
| Interest-bearing loan at 5.4% from ultimate parent, repayable by November 27, 2031 <sup>(1)</sup> | 289,850  | 289,850 |
|                                                                                                   | 715,588  | 708,363 |
| Less: Current portion                                                                             | (13,793) | —       |
|                                                                                                   | 701,795  | 708,363 |

<sup>(1)</sup> These loans have been made to parent and ultimate parent and may be repaid, in whole or in part, at any time, without premium or penalty. Comparative figures have been adjusted for loans from parent and ultimate parent.

**14. Contingencies**

The contingencies for litigation and disputes represent management's best estimate of the outcome of litigations and disputes that are ongoing at the date of the consolidated balance sheet. These contingencies consist of multiple items, a large part of which are insurance claims, including worker's compensation claims, at the Company's corporately owned locations. The timing of the settlement of these contingencies is unknown given their nature, as the Company does not control the litigation timelines.

|                                                                                | 2025     | 2024    |
|--------------------------------------------------------------------------------|----------|---------|
|                                                                                | \$       | \$      |
| Provision for litigations, disputes and other contingencies, beginning of year | 2,693    | 2,849   |
| Reversals                                                                      | (226)    | (790)   |
| Amounts used                                                                   | (10,546) | (9,424) |
| Additions                                                                      | 10,661   | 10,058  |
| Provision for litigations, disputes and other contingencies, end of year       | 2,582    | 2,693   |

**MTY Franchising USA, Inc.****Notes to the consolidated financial statements**

Years ended November 30, 2025 and 2024

(In thousands of US dollars)

**15. Financial instruments**

In the normal course of business, the Company uses various financial instruments which by their nature involve risk, including market risk and the credit risk of non-performance by counterparties. These financial instruments are subject to normal credit standards, financial controls, risk management as well as monitoring procedures.

*Fair value of recognized financial instruments*

The Company has determined that the fair value of its financial assets and financial liabilities with short-term maturities approximates their carrying value. These financial instruments include cash, accounts receivable, receivables from ultimate parent, deposits, loans receivable, accounts payable, accrued liabilities, promotional funds payable.

*Risk management policies*

The Company, through its financial assets and financial liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at November 30, 2025 and 2024.

*Credit risk*

The Company's credit risk is primarily attributable to its trade receivables, loans receivable and deposits. For accounts receivable and loans receivable, the amounts disclosed on the consolidated balance sheets are net of expected credit losses, estimated by the Company's management based on past experience and counterparty specific circumstances. The Company believes that the credit risk of accounts receivable is limited due to the Company's broad client base is spread mostly across the US, which limits the concentration of credit risk.

The credit risk on cash is limited because the Company invests its excess liquidity in high-quality financial instruments and with credit-worthy counterparties.

The credit risk on deposits is also limited as these are mostly with well-established and credit-worthy companies.

*Interest rate risk*

Interest rate risk is the Company's exposure to increases and decreases in financial instrument values caused by the fluctuation in interest rates. The Company has limited exposure to interest rate risk as its long-term loans from parent and ultimate parent have fixed interest rates.

**16. Revenue**

|                                                          | For the year ended |                |                |                   |                |                |
|----------------------------------------------------------|--------------------|----------------|----------------|-------------------|----------------|----------------|
|                                                          | November 30, 2025  |                |                | November 30, 2024 |                |                |
|                                                          | Franchising        | Corporate      | Total          | Franchising       | Corporate      | Total          |
|                                                          | \$                 | \$             | \$             | \$                | \$             | \$             |
| Corporate store revenues                                 | —                  | 314,875        | 314,875        | —                 | 330,599        | 330,599        |
| Royalties                                                | 124,221            | —              | 124,221        | 128,335           | —              | 128,335        |
| Franchise fees, transfer fees<br>and master license fees | 5,894              | —              | 5,894          | 5,770             | —              | 5,770          |
| Promotional funds                                        | 55,241             | —              | 55,241         | 56,563            | —              | 56,563         |
| Program allowances                                       | 29,352             | —              | 29,352         | 30,373            | —              | 30,373         |
| Breakage income                                          | 26,976             | —              | 26,976         | 5,989             | —              | 5,989          |
| Resale material and retail sales                         | 4,822              | —              | 4,822          | 4,781             | —              | 4,781          |
| Rent                                                     | 26,521             | —              | 26,521         | 25,199            | —              | 25,199         |
| Other                                                    | 16,337             | —              | 16,337         | 9,929             | —              | 9,929          |
|                                                          | <b>289,364</b>     | <b>314,875</b> | <b>604,239</b> | <b>266,939</b>    | <b>330,599</b> | <b>597,538</b> |

**MTY Franchising USA, Inc.****Notes to the consolidated financial statements**

Years ended November 30, 2025 and 2024

(In thousands of US dollars)

**17. Operating expenses**

|                                                       | For the year ended |           |         |                   |           |         |
|-------------------------------------------------------|--------------------|-----------|---------|-------------------|-----------|---------|
|                                                       | November 30, 2025  |           |         | November 30, 2024 |           |         |
|                                                       | Franchising        | Corporate | Total   | Franchising       | Corporate | Total   |
|                                                       | \$                 | \$        | \$      | \$                | \$        | \$      |
| Cost of goods sold                                    | 1,905              | 89,044    | 90,949  | 2,342             | 89,624    | 91,966  |
| Wages and benefits                                    | 52,932             | 117,584   | 170,516 | 52,855            | 118,514   | 171,369 |
| Advertising, marketing and promotion                  | 906                | 6,400     | 7,306   | 443               | 6,000     | 6,443   |
| Rent                                                  | 28,990             | 36,910    | 65,900  | 27,748            | 37,925    | 65,673  |
| Professional and consulting fees and commission       | 12,161             | 671       | 12,832  | 11,544            | 2,037     | 13,581  |
| Office, travel, meals and entertainment and utilities | 10,420             | 37,402    | 47,822  | 13,482            | 37,998    | 51,480  |
| Promotional funds                                     | 55,241             | —         | 55,241  | 56,563            | —         | 56,563  |
| Gift card program costs                               | 6,269              | —         | 6,269   | 6,499             | —         | 6,499   |
| Bad debt expense (recovery)                           | 414                | 93        | 507     | (293)             | 147       | (146)   |
| Other <sup>(1)</sup>                                  | 1,332              | 22,822    | 24,154  | 954               | 25,918    | 26,872  |
|                                                       | 170,570            | 310,926   | 481,496 | 172,137           | 318,163   | 490,300 |

(1) Other operating expenses are comprised mainly of supplies, repairs and maintenance and administration expenses.

*Franchising operations*

The franchising business mainly generates revenues from royalties, supplier contributions, franchise fees and rent.

*Corporate store operations*

Corporate stores generate revenues from the direct sale of prepared food to customers.

**18. Restructuring**

During the year ended on November 30, 2024, the Company initiated a restructuring plan as part of a strategic realignment to streamline operations and improve efficiency. During the year ended November 30, 2025, the Company recognized restructuring costs of nil (2024 - \$1,342) primarily related to employee severance costs of nil (2024 - \$832) with the reminder being in relation to the discontinuation of one of its brands. No additional expenses were incurred in the current year.

**19. Interest expense**

|                                                | 2025   | 2024   |
|------------------------------------------------|--------|--------|
|                                                | \$     | \$     |
| Interest charged by parent and ultimate parent | 54,884 | 53,768 |
| Interest expense                               | 54,884 | 53,768 |

**MTY Franchising USA, Inc.****Notes to the consolidated financial statements**

Years ended November 30, 2025 and 2024

(In thousands of US dollars)

**20. Income taxes**

The Company accounts for income taxes in accordance with ASC 740. ASC 740 prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates. The effects of future changes in tax laws or rates are not anticipated.

Under ASC 740, income taxes are recognized for the following: a) amount of tax payable for the current year and b) deferred tax liabilities and assets for future tax consequences of events that have been recognized differently in the consolidated financial statements than for tax purposes.

As at November 30, 2025, Canada has enacted the global minimum top-up income tax under Pillar Two tax legislation into domestic tax legislation. The top-up income tax relates to the Company's operations in the Canada with no impact on the Company. The Corporation has applied the exception to not recognize deferred tax assets and liabilities related to Pillar Two income taxes.

|                               | 2025    | 2024    |
|-------------------------------|---------|---------|
|                               | \$      | \$      |
| Income tax expense (recovery) |         |         |
| Current tax expense           | 11,724  | 9,918   |
| Deferred tax recovery         | (5,021) | (9,195) |
| Total tax expense             | 6,703   | 723     |

The provision for income taxes recorded in the consolidated financial statements differs from the amount which would be obtained by applying the statutory federal income tax rate of 21% (2024 – 21%) to the income for the period as follows:

|                                                         | 2025    | 2024     |
|---------------------------------------------------------|---------|----------|
|                                                         | \$      | \$       |
| Income (loss) before income taxes                       | 37,380  | (11,833) |
| Income tax expense (recovery) at federal statutory rate | 7,850   | (2,478)  |
| State and local income taxes net of federal tax benefit | 2,736   | 881      |
| State and local income taxes - deferred                 | (1,391) | —        |
| Non-deductible/non-taxable items                        | (1,941) | 5,484    |
| True-up of prior year tax provision                     | 129     | (3,950)  |
| Rate variation on deferred income tax                   | (484)   | 724      |
| Other                                                   | (196)   | 62       |
| Income tax expense                                      | 6,703   | 723      |

**MTY Franchising USA, Inc.****Notes to the consolidated financial statements**

Years ended November 30, 2025 and 2024

(In thousands of US dollars)

**21. Income taxes (continued)**

Components of the net deferred tax asset (liability):

|                                          | 2025      | 2024      |
|------------------------------------------|-----------|-----------|
|                                          | \$        | \$        |
| Inventories                              | (242)     | (275)     |
| Allowance for credit losses              | 239       | 192       |
| Deferred revenue and deposits            | 5,697     | 4,676     |
| Accrued and gift card liabilities        | 43,791    | 44,117    |
| Non-capital losses and other tax credits | 346       | 1,917     |
| Other                                    | (775)     | (1,941)   |
| Operating lease liabilities              | (525)     | 48,125    |
| Total deferred tax assets                | 48,531    | 96,811    |
| Deferred costs                           | (517)     | (600)     |
| Property, plant and equipment            | (8,360)   | (9,632)   |
| Operating lease right-of-use assets      | 74        | (47,277)  |
| Intangible assets                        | (135,357) | (140,054) |
| Holdback payable                         | (407)     | (305)     |
| Total deferred tax liabilities           | (144,567) | (197,868) |
| Net deferred tax liability               | (96,036)  | (101,057) |

**21. Supplemental cash flow information**

During the year ended November 30, 2025, the Company paid \$13,535 (2024 – \$10,348) in income taxes. Furthermore, there are non-cash items included in the proceeds on disposition of property, plant and equipment amounting to a net liability of \$186 (2024 – net liability of \$113). The non-cash items were primarily related to commitments made as part of the disposal of a portfolio of corporately-owned locations.

**22. Related party transactions**

The Company has transactions in the normal course of business with its parent company, ultimate parent and companies under common control. These transactions were in the normal course of business and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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# Consolidated financial statements of MTY Franchising USA, Inc.

For the years ended November 30, 2024 and 2023

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|                                                                       |      |
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## **Report of Independent Auditors**

**To the Management and Stockholder of MTY Franchising USA, Inc.**

### ***Opinion***

We have audited the accompanying consolidated financial statements of MTY Franchising USA, Inc. and its subsidiaries (the Company), which comprise the consolidated statements of operations and comprehensive (loss) income for the years ended November 30, 2024 and 2023, the consolidated statements of changes in stockholder's equity for the years ended November 30, 2024 and 2023, the consolidated balance sheets as of November 30, 2024 and 2023, and the consolidated statements of cash flows for the years then ended, including the related notes (collectively referred to as the consolidated financial statements).

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of November 30, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

PricewaterhouseCoopers LLP  
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T: +1 514 205 5000, F: +1 514 876 1502, Fax to mail: ca\_montreal\_main\_fax@pwc.com

\*PwC\* refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.





### ***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 US GAAS 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 consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 the Company'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company'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.

*PricewaterhouseCoopers LLP<sup>1</sup>*

**Montréal, Canada  
January 31, 2025**

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<sup>1</sup> CPA auditor, public accountancy permit No. A125677

**MTY Franchising USA, Inc.****Consolidated statements of operations and comprehensive (loss) income**

Years ended November 30, 2024 and 2023

(In thousands of US dollars)

|                                                                          | Notes     | 2024            | 2023                    |
|--------------------------------------------------------------------------|-----------|-----------------|-------------------------|
|                                                                          |           | \$              | \$                      |
|                                                                          |           |                 | Adjusted <sup>(1)</sup> |
| <b>Revenue</b>                                                           | 19        | <b>597,538</b>  | 606,617                 |
| <b>Costs and expenses</b>                                                |           |                 |                         |
| Operating expenses                                                       | 20        | <b>490,300</b>  | 498,484                 |
| Depreciation – property, plant and equipment                             | 7         | <b>13,469</b>   | 11,358                  |
| Amortization – intangible assets                                         | 8         | <b>15,765</b>   | 19,213                  |
| Impairment charge – property, plant and equipment                        | 7 & 10    | <b>6,150</b>    | 169                     |
| Impairment charge – operating lease right-of-use assets                  | 6         | <b>849</b>      | —                       |
| Impairment charge – intangible assets and goodwill                       | 8, 9 & 10 | <b>37,452</b>   | 4,063                   |
| Interest expense                                                         | 22        | <b>53,768</b>   | 53,977                  |
| Management fees charged by parent company                                | 25        | <b>2,101</b>    | 2,249                   |
|                                                                          |           | <b>619,854</b>  | 589,513                 |
| <b>Other income (expenses)</b>                                           |           |                 |                         |
| Interest income                                                          |           | <b>12,145</b>   | 2,255                   |
| Loss on disposal of property, plant and equipment and intangible assets  |           | <b>(376)</b>    | (1,843)                 |
| Restructuring                                                            | 21        | <b>(1,342)</b>  | —                       |
| Gain on extinguishment of debt                                           |           | <b>97</b>       | —                       |
| Gain on contingent consideration from a business acquisition             | 3         | <b>—</b>        | 1,600                   |
| Loss on de-recognition/lease modification of operating lease liabilities | 6         | <b>(41)</b>     | (736)                   |
|                                                                          |           | <b>10,483</b>   | 1,276                   |
| <b>(Loss) income before income taxes</b>                                 |           | <b>(11,833)</b> | 18,380                  |
| <b>Income tax expense (recovery)</b>                                     | 23        |                 |                         |
| Current                                                                  |           | <b>9,918</b>    | 7,807                   |
| Deferred                                                                 |           | <b>(9,195)</b>  | (6,405)                 |
|                                                                          |           | <b>723</b>      | 1,402                   |
| <b>Net (loss) income and comprehensive (loss) income</b>                 |           | <b>(12,556)</b> | 16,978                  |

- (1) Certain comparative figures have been reclassified to conform with current year presentation. Lease income in comparative period of \$26.3 million was reclassified from operating expense to revenue.

**MTY Franchising USA, Inc.****Consolidated statements of changes in stockholder's equity**

Years ended November 30, 2024 and 2023

(In thousands of US dollars, except number of common stock issued)

|                                     | <b>Common<br/>stock issued</b> | <b>Common<br/>stock value</b> | <b>Retained<br/>earnings</b> | <b>Total<br/>stockholder's<br/>equity</b> |
|-------------------------------------|--------------------------------|-------------------------------|------------------------------|-------------------------------------------|
|                                     |                                | \$                            | \$                           | \$                                        |
| Balance as at November 30, 2022     | 15                             | 179,154                       | 56,804                       | 235,958                                   |
| Net income and comprehensive income | —                              | —                             | 16,978                       | 16,978                                    |
| Balance as at November 30, 2023     | <b>15</b>                      | <b>179,154</b>                | <b>73,782</b>                | <b>252,936</b>                            |
| Net loss and comprehensive loss     | —                              | —                             | (12,556)                     | (12,556)                                  |
| Balance as at November 30, 2024     | <b>15</b>                      | <b>179,154</b>                | <b>61,226</b>                | <b>240,380</b>                            |

**MTY Franchising USA, Inc.**  
**Consolidated balance sheets**

As at November 30, 2024 and 2023

(In thousands of US dollars)

|                                                  |          | <b>2024</b>      | <b>2023</b> |
|--------------------------------------------------|----------|------------------|-------------|
|                                                  | Notes    | \$               | \$          |
| <b>Assets</b>                                    |          |                  |             |
| Current assets                                   |          |                  |             |
| Cash                                             |          | <b>12,834</b>    | 21,138      |
| Restricted cash                                  | 2        | <b>250</b>       | 271         |
| Accounts receivable                              | 4        | <b>28,755</b>    | 29,461      |
| Inventories                                      |          | <b>7,182</b>     | 6,414       |
| Assets held for sale                             | 5, 7 & 8 | <b>3,116</b>     | 1,668       |
| Current portion of loans receivable              |          | <b>384</b>       | 272         |
| Receivable from ultimate parent                  | 13 & 25  | <b>204,389</b>   | 148,828     |
| Prepaid expenses and deposits                    |          | <b>8,039</b>     | 8,386       |
| Other current assets                             |          | <b>4,834</b>     | 3,333       |
| Income taxes receivable                          | 23       | <b>4,402</b>     | 4,919       |
|                                                  |          | <b>274,185</b>   | 224,690     |
|                                                  |          |                  |             |
| Loans receivable                                 |          | <b>66</b>        | 151         |
| Contract cost asset                              |          | <b>4,277</b>     | 3,696       |
| Other assets                                     |          | <b>2,106</b>     | 1,896       |
| Property, plant and equipment                    | 7        | <b>53,675</b>    | 63,599      |
| Operating lease right-of-use assets              | 6        | <b>190,303</b>   | 187,074     |
| Intangible assets                                | 8        | <b>577,327</b>   | 602,168     |
| Goodwill                                         | 9        | <b>346,490</b>   | 376,175     |
|                                                  |          | <b>1,448,429</b> | 1,459,449   |
|                                                  |          |                  |             |
| <b>Liabilities</b>                               |          |                  |             |
| Current liabilities                              |          |                  |             |
| Accounts payable                                 |          | <b>14,808</b>    | 15,878      |
| Accrued liabilities                              |          | <b>26,837</b>    | 28,769      |
| Gift card liability                              | 11       | <b>109,252</b>   | 104,858     |
| Promotional funds payable                        |          | <b>10,523</b>    | 14,690      |
| Current portion of operating lease liabilities   | 6        | <b>38,340</b>    | 37,080      |
| Current portion of deferred revenue and deposits | 12       | <b>8,093</b>     | 7,775       |
| Advance from parent company                      | 13 & 25  | <b>4,417</b>     | 2,249       |
| Advances from companies under common control     | 13 & 25  | <b>—</b>         | 42          |
| Current portion of holdback payable              | 15       | <b>—</b>         | 912         |
|                                                  |          | <b>212,270</b>   | 212,253     |

**MTY Franchising USA, Inc.**  
**Consolidated balance sheets (continued)**

As at November 30, 2024 and 2023

(In thousands of US dollars)

|                                                  |          | <b>2024</b>      | <b>2023</b> |
|--------------------------------------------------|----------|------------------|-------------|
|                                                  | Notes    | \$               | \$          |
| <b>Liabilities (continued)</b>                   |          |                  |             |
| Long-term loan from company under common control | 14       | <b>708,363</b>   | 705,683     |
| Other liabilities                                |          | —                | 159         |
| Liabilities held for sale                        | 5, 7 & 8 | <b>2,116</b>     | —           |
| Operating lease liabilities                      | 6        | <b>156,073</b>   | 153,413     |
| Deferred revenue and deposits                    | 12       | <b>28,170</b>    | 24,753      |
| Deferred income taxes                            | 23       | <b>101,057</b>   | 110,252     |
|                                                  |          | <b>1,208,049</b> | 1,206,513   |
| <b>Stockholder's equity</b>                      |          |                  |             |
| Common stock                                     | 17       | <b>179,154</b>   | 179,154     |
| Retained earnings                                |          | <b>61,226</b>    | 73,782      |
|                                                  |          | <b>240,380</b>   | 252,936     |
|                                                  |          | <b>1,448,429</b> | 1,459,449   |

Approved by the Board on January 31, 2025

\_\_\_\_\_, Director

**MTY Franchising USA, Inc.**  
**Consolidated statements of cash flows**

Years ended November 30, 2024 and 2023

(In thousands of US dollars)

|                                                                          |        | <b>2024</b>     | <b>2023</b> |
|--------------------------------------------------------------------------|--------|-----------------|-------------|
|                                                                          | Notes  | \$              | \$          |
| <b>Operating activities</b>                                              |        |                 |             |
| Net (loss) income and comprehensive (loss) income                        |        | <b>(12,556)</b> | 16,978      |
| Items not affecting cash:                                                |        |                 |             |
| Depreciation – property, plant and equipment                             | 7      | <b>13,469</b>   | 11,358      |
| Amortization – intangible assets                                         | 8      | <b>15,765</b>   | 19,213      |
| Interest expense                                                         | 22     | <b>53,768</b>   | 53,977      |
| Loss on disposal of property, plant and equipment and intangible assets  |        | <b>376</b>      | 1,843       |
| Impairment charge – property, plant and equipment                        | 7 & 10 | <b>6,150</b>    | 169         |
| Impairment charge – operating lease right-of-use assets                  | 6      | <b>849</b>      | —           |
| Impairment charge – intangible assets and goodwill                       | 8 & 10 | <b>37,452</b>   | 4,063       |
| Gain on contingent consideration from a business acquisition             | 3      | <b>—</b>        | (1,600)     |
| Loss on de-recognition/lease modification of operating lease liabilities | 6      | <b>41</b>       | 736         |
| Deferred income tax recovery                                             |        | <b>(9,195)</b>  | (6,405)     |
|                                                                          |        | <b>106,119</b>  | 100,332     |
| Interest paid                                                            |        | <b>(53,768)</b> | (53,977)    |
| Changes in non-cash working capital items                                |        |                 |             |
| Accounts receivable                                                      |        | <b>2,874</b>    | (4,133)     |
| Inventories                                                              |        | <b>(925)</b>    | 198         |
| Prepaid expenses and deposits                                            |        | <b>(278)</b>    | (1,140)     |
| Loans receivable                                                         |        | <b>(27)</b>     | 1,410       |
| Other current assets                                                     |        | <b>(1,502)</b>  | (412)       |
| Income taxes                                                             |        | <b>(303)</b>    | (1,842)     |
| Accounts payable                                                         |        | <b>(1,070)</b>  | (911)       |
| Accrued liabilities                                                      |        | <b>(1,817)</b>  | (5,853)     |
| Promotional funds payable                                                |        | <b>(4,166)</b>  | (2,045)     |
| Gift card liability                                                      |        | <b>4,546</b>    | 7,521       |
| Deferred revenue and deposits                                            |        | <b>3,735</b>    | 1,088       |
| Other                                                                    |        | <b>713</b>      | 1,512       |
| Net cash provided from operating activities                              |        | <b>54,131</b>   | 41,748      |

**MTY Franchising USA, Inc.****Consolidated statements of cash flows (continued)**

Years ended November 30, 2024 and 2023

(In thousands of US dollars)

|                                                       |       | <b>2024</b>     | <b>2023</b> |
|-------------------------------------------------------|-------|-----------------|-------------|
|                                                       | Notes | \$              | \$          |
| <b>Investing activities</b>                           |       |                 |             |
| Net cash outflow on acquisitions                      | 3     | —               | (221,180)   |
| Net cash acquired through business acquisitions       | 3     | —               | 6,884       |
| Additions to property, plant and equipment            | 7     | <b>(10,963)</b> | (13,250)    |
| Additions to intangible assets                        | 8     | <b>(318)</b>    | (565)       |
| Proceeds on disposal of intangible assets             | 7     | <b>230</b>      | —           |
| Proceeds on disposal of property, plant and equipment |       | <b>692</b>      | 358         |
| Proceeds on disposal of assets held for sale          |       | <b>1,614</b>    | —           |
| Net cash used in investing activities                 |       | <b>(8,745)</b>  | (227,753)   |
| <b>Financing activities</b>                           |       |                 |             |
| Receivable from ultimate parent and parent company    | 13    | <b>(55,562)</b> | (221,985)   |
| Receivable from companies under common control        |       | <b>2,638</b>    | 405,836     |
| Repayment of holdback payable                         | 15    | <b>(787)</b>    | —           |
| Net cash (used in) provided from financing activities |       | <b>(53,711)</b> | 183,851     |
| Net decrease in cash                                  |       | <b>(8,325)</b>  | (2,154)     |
| Cash, beginning of year                               |       | <b>21,409</b>   | 23,563      |
| <b>Cash, end of year</b>                              |       | <b>13,084</b>   | 21,409      |
| Supplemental cash flow information                    | 24    |                 |             |

The accompanying notes are an integral part of the consolidated financial statements.

# MTY Franchising USA, Inc.

## Notes to the consolidated financial statements

Years ended November 30, 2024 and 2023

(In thousands of US dollars)

### 1. Nature of operations

MTY Franchising USA, Inc. (the "Company" or "MTY USA") was incorporated on March 14, 2001. The Company operates, develops and franchises restaurants under a multitude of different banners in the United States of America (the "US").

### 2. Significant accounting policies

#### *Basis of presentation*

The accounting policies of the Company are in accordance with accounting principles generally accepted in the US ("US GAAP"). The Company uses the US dollar as its functional and reporting currency, and tabular amounts are rounded to the nearest thousand (\$000) except when otherwise indicated. MTY USA is a wholly owned subsidiary of MTY Franchising Inc. which is a subsidiary of the ultimate parent of MTY Food Group Inc.

The preparation of the consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Presented below are those policies considered particularly significant:

#### *Basis of consolidation*

The consolidated financial statements reflect the financial position and operating results of the Company, including wholly owned subsidiaries and investees that we control.

The principal subsidiaries of the Company are as follows:

| Principal subsidiaries           | Percentage of equity interest |
|----------------------------------|-------------------------------|
|                                  | %                             |
| BF Acquisition Holdings, LLC     | 100                           |
| BQ Concepts, LLC                 | 100                           |
| Famous Dave's of America Inc.    | 100                           |
| Kahala Franchising, LLC          | 100                           |
| La Salsa Franchise, LLC          | 100                           |
| Papa Murphy's International, LLC | 100                           |
| VI Brandco, LLC                  | 100                           |
| Wetzel's Pretzels, LLC (Note 3)  | 100                           |

Revenues and expenses of subsidiaries are included in the consolidated statement of operations and comprehensive income (loss) from the effective date of acquisition. The subsidiaries are consolidated from the acquisition date until the date on which the Company ceases to control them.

All intercompany transactions, balances, revenues and expenses are eliminated in full upon consolidation.

#### *Business combinations*

The Company accounts for acquired businesses using the acquisition method of accounting in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 805, Business Combinations. The consideration transferred for the acquisition is the fair values of the assets transferred, the liabilities incurred, and the equity interest issued. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date.



**MTY Franchising USA, Inc.**  
**Notes to the consolidated financial statements**

Years ended November 30, 2024 and 2023

(In thousands of US dollars)

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**2. Significant accounting policies (continued)**

*Business combinations (continued)*

Goodwill is measured as the excess of the purchase price over the estimated fair values of the net assets acquired. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in the statement of operations as a bargain purchase gain.

Goodwill reflects how the acquisition will impact the Company's ability to generate future profits in excess of existing profits. The consideration paid mostly relates to combined synergies, related mainly to revenue growth. These benefits are not recognized separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Company obtains control) and the resulting gain or loss, if any, is recognized in the statement of operations. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in income and other comprehensive income are reclassified to the statement of operations where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete.

*Functional currency*

The functional currency of the Company and its subsidiaries is the US dollar. The Company translates monetary assets and liabilities that are denominated in currencies other than the US dollar at the exchange rates prevailing at the end of the reporting period; non-monetary assets denominated in foreign currencies are translated using the exchange rate prevailing at the transaction date; all revenue and expense items denominated in foreign currencies are translated at the exchange rate prevailing at the transaction date. All foreign exchange gains and losses are reported in the statement of operations.

*Revenue recognition*

Revenue is recognized upon the transfer of control of promised goods or services to customer in an amount that reflects the consideration the Company expects to receive for those goods or services:

*Revenue from franchise locations*

- i) Royalties are based either on a percentage of gross sales as reported by the franchisees or on a fixed monthly fee. They are recognized on an accrual basis in accordance with the substance of the relevant agreement, as they are earned.
- ii) Promotional fund contributions are based on a percentage of gross sales as reported by the franchisees. Corresponding promotional fund transfers are presented directly on the consolidated balance sheets. The Company is not entitled to retain these promotional fund payments received and is obligated to transfer these funds to be used solely for use in promotional and marketing-related costs for specific restaurant banners. The Company sometimes charges a fee for the administration of the promotional funds.

**MTY Franchising USA, Inc.**  
**Notes to the consolidated financial statements**

Years ended November 30, 2024 and 2023

(In thousands of US dollars)

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**2. Significant accounting policies (continued)**

*Revenue recognition (continued)*

*Revenue from franchise locations (continued)*

- iii) Initial franchise fees are recognized on a straight-line basis over the term of the franchise agreement as the performance obligation relating to franchise rights is fulfilled. Amortization begins once the restaurant has opened.
- iv) Upfront fees related to master license agreements are recognized over the term of the master license agreements on a straight-line basis.
- v) Renewal fees and transfer fees are recognized on a straight-line basis over the term of the related franchise agreement.
- vi) The Company earns rent revenue on certain leases it holds; the Company's policy is described below.
- vii) Revenue from equipment sale and retail sales are recognized upon transfer of control, generally upon shipment of the equipment or goods. This revenue is recorded in resale material and retail sales.
- viii) The Company recognizes breakage income proportionately as each gift card is redeemed, based on the historical redemption patterns of the gift cards. The Company also charges various program fees to its franchisees as gift cards are redeemed. Notably, this does not apply to gift card liabilities assumed in a business acquisition, which are accounted for at fair value at acquisition date.
- ix) The Company receives considerations from certain suppliers. Fees are generally earned based on the value of purchases during the period. Agreements that contain an initial upfront fee, in addition to ongoing fees, are recognized on a straight-line basis over the term of the respective agreement. Supplier contributions are recognized as revenue as they are earned and are recorded in franchising revenue.
- x) The Company earns e-commerce fees, which includes point-of-sale ("POS") support fees and transaction fees for purchase made through one of the Company's brands' e-commerce platforms. POS supports fees are received quarterly in advance and are recognized over the period they cover. Transaction fees are recognized when the food items purchased from a store are delivered or picked up by customers.

*Revenue from corporate-owned locations*

Revenue from corporate-owned locations is recorded when goods are delivered to customers.

*Contract cost asset*

The Company recognizes incremental costs of obtaining a contract as an asset if they are expected to be recoverable, unless their amortization period would be less than one year, in which case they are expensed as incurred. The costs are amortized to operating expenses over the term of the related franchise agreement.

*Leasing*

In accordance with ASC 842, the Company determines if an arrangement is or contains a lease at contract inception and recognizes a right-of-use asset and a lease liability at the lease commencement date. Leases with an initial term of 12 months or less but greater than one month are not recorded on the balance sheet for select asset classes.

The lease liability is measured at the present value of future lease payments as of the lease commencement date. The right-of-use asset recognized is based on the lease liability adjusted for prepaid and deferred rent and unamortized lease incentives. An operating lease right-of-use asset is amortized on a straight-line basis over the lease term and is recognized as a single lease cost against the operating lease liability. A finance lease right-of-use asset is amortized on a straight-line basis, with interest costs reported separately, over the lesser of the useful life of the leased asset or lease term.

**MTY Franchising USA, Inc.**  
**Notes to the consolidated financial statements**

Years ended November 30, 2024 and 2023

(In thousands of US dollars)

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**2. Significant accounting policies (continued)**

*Leasing (continued)*

Operating lease expense is recognized on a straight-line basis over the lease term and is included in Operating expenses. Variable lease payments are expensed as incurred. The Company uses its incremental borrowing rates as the discount rate for its leases, which is equal to the rate of interest the Company would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms. The lease terms for all the Company's leases include the contractually obligated period of the leases, plus any additional periods covered by Company options to extend the leases that the Company is reasonably certain to exercise. Certain leases provide that the lease payments may be increased annually based on the fixed rate terms or adjustable terms such as the Consumer Price Index. Future base rent escalations that are not contractually quantifiable as of the lease commencement date are not included in the lease liability.

Lease expense is comprised of operating and finance lease costs, short-term lease costs, and variable lease costs, which primarily include common area maintenance, real estate taxes, and insurance for the Company's real estate leases.

The Company enters into leases for franchised and corporately-owned locations, offices, and equipment in the normal course of business.

The Company as lessee

The Company recognizes operating lease liabilities with corresponding operating lease right-of-use assets, except for short-term leases and leases of low value assets, which are expensed on a straight-line basis over the lease term. The Company's leases are all classified as operating leases. The amortization of the operating lease right-of-use asset and interest expense related to the operating lease liability are recorded together as the lease expense to produce a straight-line recognition effect in the consolidated statement of operations. Under ASC 842, operating lease right-of-use assets are tested for impairment in accordance with ASC 360, Property, Plant and Equipment.

The Company as lessor

When the Company enters into a sublease arrangement as an intermediate lessor, the Company accounts for the head lease and the sublease as two separate contracts. All the subleases of the Company are classified as operating subleases by reference to the operating lease right-of-use asset arising from the underlying asset. For operating subleases, the Company recognizes an operating right-of-use asset relating to the head lease and recognizes a deferred rent asset or liability in the sublease. As the intermediate lessor, the Company retains the operating lease liability on the head lease in its consolidated balance sheet. During the term of the sublease, the Company recognizes both lease income on the sublease and lease expense on the head lease.

*Income taxes*

The Company accounts for income taxes pursuant to ASC 740, Income Taxes ("ASC 740"). Deferred tax assets and liabilities are recorded for differences between the financial statement and tax basis of the assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is recorded for the amount of income tax payable or refundable for the period increased or decreased by the change in deferred tax assets and liabilities during the period.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

*Expected Credit loss*

The Company currently uses an expected credit loss ("ECL") model for its trade receivables, which permits the uses of the lifetime expected loss provision for all trade receivables and also incorporates forward-looking information. Lifetime ECL represents the ECL that will result from all probable default events over the expected life of a financial instrument.

**MTY Franchising USA, Inc.**  
**Notes to the consolidated financial statements**

Years ended November 30, 2024 and 2023

(In thousands of US dollars)

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**2. Significant accounting policies (continued)**

*Assets held for sale*

Assets are classified as held for sale when management with the appropriate authority commits to a plan to sell the assets, the assets are available for immediate sale, the assets are actively marketed at a reasonable price, the sale is probable within a year, and certain other criteria met. Assets held for sale primarily include Company-owned stores and, in some instances, associated trademarks and right-of-use assets, when the Company has committed to their sale as part of an approved plan. Assets designated as held for sale are held at the lower of the net book value or fair value less costs to sell. Depreciation is not charged against property, plant and equipment or right-of-use assets classified as assets held for sale.

*Property, plant and equipment*

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated balance sheet at their historical costs less accumulated depreciation (buildings) and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset, including any costs directly attributable to bringing the asset to a working condition for its intended use.

Equipment, leasehold improvements, rolling stock and computer hardware are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each year, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of operations.

Depreciation is based on the following terms:

|                        |               |                      |
|------------------------|---------------|----------------------|
| Buildings              | Straight-line | 25 to 50 years       |
| Equipment              | Straight-line | Three to 10 years    |
| Leasehold improvements | Straight-line | Term of the lease    |
| Rolling stock          | Straight-line | Five to seven years  |
| Computer hardware      | Straight-line | Three to seven years |

*Intangible assets*

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses, if applicable. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful lives and amortization methods are reviewed at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses, if applicable.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets having a finite life acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, if applicable, on the same basis as intangible assets that are acquired separately. Intangible assets having an indefinite life are not amortized and are therefore carried at cost reduced by previous impairment losses, if applicable.

**MTY Franchising USA, Inc.**  
**Notes to the consolidated financial statements**

Years ended November 30, 2024 and 2023

(In thousands of US dollars)

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**2. Significant accounting policies (continued)**

*Intangible assets (continued)*

Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in the statement of operations when the asset is derecognized.

The Company currently carries the following intangible assets in its books:

*Franchise rights*

The franchise rights acquired through business combinations are recognized at the fair value of the estimated future cash inflows related to the acquisition of franchises. The franchise rights are generally amortized on a straight-line basis over the term of the agreements which typically range between 10 to 20 years.

*Trademarks*

Trademarks acquired through business combinations are recognized at their fair value at the time of the acquisition and are not amortized. Trademarks are determined to have an indefinite useful life based on their brand recognition and their ability to generate revenue through changing economic conditions with no foreseeable time limit.

*Other*

Included in other intangible assets are purchased software and liquor licences, which are being amortized over their expected useful life on a straight-line basis.

*Impairment of long-lived assets other than goodwill*

The Company continually reviews whether events or circumstances subsequent to the acquisition of any long-lived assets, including intangible assets with finite and infinite useful lives, have occurred that indicate the remaining estimated useful lives of those assets may warrant revision or that the remaining balance of those assets may not be recoverable. If events and circumstances indicate that the long-lived assets should be reviewed for possible impairment, the Company uses projections to assess whether future cash flows on an undiscounted basis related to the assets exceed the recorded carrying amount of those assets to determine if an asset is impaired. Should an impairment be identified, a loss would be recorded to the extent that the carrying value of the impaired assets exceeds their fair values as determined by valuation techniques appropriate in the circumstances that could include the use of similar cash flow projections on a discounted basis. The reporting units of indefinite intangible assets are individual brands, comprised of franchise rights, trademarks, and perpetual licenses.

*Impairment of goodwill*

For the purposes of impairment testing, goodwill is allocated to the unit or group of units ("reporting unit") that are considered to represent the lowest level within the group at which the goodwill is monitored for internal management purposes. As of September 1, 2024, the Company reassessed the reporting units based on a strategic realignment and merger of business units in the US. With the change in management team and the overall change in decision making and overall synergies brought from the merger of these units, it was determined that the merger US Goodwill Unit A and D would be merged and that US Goodwill Unit B and C would be merged.

**MTY Franchising USA, Inc.**  
**Notes to the consolidated financial statements**

Years ended November 30, 2024 and 2023

(In thousands of US dollars)

**2. Significant accounting policies (continued)**

*Impairment goodwill (continued)*

As at November 30, 2024, goodwill is allocated as follows:

| Goodwill unit description | 2024                                                                                                                                             | 2023                                                                                                                                             |
|---------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| US Goodwill Unit A        | A group of reporting units comprised of all the brands, excluding Papa Murphy's and the brands acquired with BBQ Holdings, Inc. ("BBQ Holdings") | A group of reporting units comprised of all the brands, excluding Papa Murphy's and the brands acquired with BBQ Holdings, Inc. ("BBQ Holdings") |
| US Goodwill Unit B        | A group of reporting units comprised of the BBQ Holdings brands and the Papa Murphy's brand                                                      | One reporting unit comprised of Papa Murphy's brand                                                                                              |
| US Goodwill Unit C        |                                                                                                                                                  | A group of reporting units comprised of the BBQ Holdings brands                                                                                  |
| US Goodwill Unit D        |                                                                                                                                                  | One reporting unit comprised of Wetzel's Pretzels brand                                                                                          |

*Impairment of goodwill (continued)*

Goodwill is tested for impairment on an annual basis (September 1 for the Company) and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. Fair value is determined using a discounted cash flow methodology with a risk adjusted weighted average cost of capital.

*Cash and restricted cash*

Cash and restricted cash include cash on hand and short-term investments, if any, with maturities upon acquisition of generally three months or less or that are redeemable at any time at full value and for which the risk of a change in value is not significant. As at November 30, 2024, cash and restricted cash included \$250 of restricted cash (2023 – \$271) that is required as part of guarantees on certain lease commitments.

*Inventories*

Inventories are measured at the lower of cost and net realizable value. Costs of inventories are determined on a first-in-first-out basis and include acquisition costs and other costs incurred to bring inventories to their present location and condition.

Market value represents the current replacement cost, provided that the cost does not exceed the net realizable value or is not less than the net realizable value reduced by a normal profit margin.

*Contingencies*

*Litigation, disputes and closed stores*

Provisions for the expected cost of litigation, disputes and the cost of settling leases for closed stores, with the exception of operating lease liabilities already recorded pursuant to ASC 842, are recognized when it becomes probable the Company will be required to settle the obligation, at management's best estimate of the expenditure required to settle the Company's obligation.

**MTY Franchising USA, Inc.**  
**Notes to the consolidated financial statements**

Years ended November 30, 2024 and 2023

(In thousands of US dollars)

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**2. Significant accounting policies (continued)**

*Contingencies (continued)*

*Contingent liabilities acquired in a business combination*

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognized, and the amount initially recognized.

*Financial instruments*

The Company's financial instruments consist of cash, restricted cash, accounts receivable, loans receivable, receivable from company under common control, receivable from ultimate parent, accounts payable, accrued liabilities, promotional funds payable, advance from parent company, advances from companies under common control, long-term loan from company under common control and holdbacks payable. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values for cash, restricted cash, accounts receivable, loans receivable, receivable from company under common control, receivable from ultimate parent, accounts payable, accrued liabilities, promotional funds payable, advance from parent company and advances from companies under common control approximate their carrying values due to their immediate or short-term maturities, unless otherwise noted. The long-term loan from company under common control, advances from ultimate parent and holdbacks payable are measured at amortized cost using the effective interest method.

*Promotional funds*

Pursuant to the franchise agreements, franchisees must pay a fee to the promotional funds. These amounts are collected by the Company in its capacity as agent and must be used for promotional and advertising purposes, since the amounts are set aside to promote the respective banners for the franchisees' benefit. The promotional funds collected, and the related expenditures are reported on a gross basis in the consolidated statements of operations and comprehensive income. To the extent that promotional funds received exceed the related promotional expenditures, the excess contributions will be recorded in accounts payable or accrued liabilities.

Cash held pursuant to the promotional funds received are classified as unrestricted cash as there are no legal restrictions on the use of these funds; however, the Company intends to use these funds solely to support the promotional funds rather than to fund its ongoing operations. As at November 30, 2024, promotional funds were in a net liability position amounting to \$7,694 (2023 – net liability position of \$11,357).

*Subsequent events*

Subsequent events were evaluated through the date that the consolidated financial statements were issued, which was January 31, 2024.

*Estimates and assumptions*

*Business combinations*

For business combinations, the Company must make assumptions and estimates to determine the purchase price accounting of the business being acquired. To do so, the Company must determine the acquisition date fair value of the identifiable assets acquired, including such intangible assets as franchise rights and master franchise rights, trademarks, step-in rights and liabilities assumed. Among other things, the determination of these fair market values involves the use of discounted cash flow analyses and future system sales growth. Goodwill is measured as the excess of the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree over the net recognized amount of the identifiable assets acquired and liabilities assumed, all measured at the acquisition date. These assumptions and estimates have an impact on the asset and liability amounts recorded in the consolidated balance sheets on the acquisition date. In addition, the estimated useful lives of the acquired amortizable assets, the identification of intangible assets and the determination of the indefinite or finite useful lives of intangible assets acquired will have an impact on the Company's future statement of operations.

**MTY Franchising USA, Inc.****Notes to the consolidated financial statements**

Years ended November 30, 2024 and 2023

(In thousands of US dollars)

**2. Significant accounting policies (continued)***Estimates and assumptions (continued)**Goodwill and indefinite-lived intangible assets*

The fair value calculation includes estimates of revenue growth, which are based on past performance and internal projections for the intangible asset group's forecasted growth, and royalty rates, which are adjusted for our particular facts and circumstances. The discount rate is selected based on the estimated cost of capital that reflects the risk profile of the related business. These estimates are highly subjective, the ability to achieve the forecasted cash flows used in our fair value calculations is affected by factors such as the success of strategic initiatives, changes in economic conditions, changes in our operating performance and changes in our business strategies.

*Contingencies*

The Company makes assumptions and estimations based on its current knowledge of future disbursements it will have to make in connection with various events that have occurred in the past and for which the amount to be disbursed and the timing of such disbursement are uncertain at the date of producing its consolidated financial statements. This includes contingencies for onerous contracts, litigations and disputes and other contingencies.

*Gift card liabilities*

Management is required to make certain assumptions in both the prorated recognition based on redemption pattern and remoteness recognition of gift card breakage. The significant estimates are breakage rate and the redemption patterns.

**3. Business acquisitions****I) Sauce Pizza and Wine (2023)**

On December 15, 2022, the Company completed the acquisition of the assets of Sauce Pizza and Wine, an operator of fast casual restaurants operating in the state of Arizona in the US. As of the date of the acquisition, Sauce Pizza and Wine was operating 13 corporate-owned restaurants. The purpose of the transaction was to diversify the Company's range of offerings in the US.

The transaction included a purchase price totaling \$11,165 and a holdback on acquisition of \$798, as detailed below. The resulting aggregate cash outflow in connection with the Sauce Pizza and Wine acquisition was \$9,927.

|                                           | <u>2023</u>   |
|-------------------------------------------|---------------|
|                                           | \$            |
| Consideration paid:                       |               |
| Purchase price                            | 11,165        |
| Working capital                           | (401)         |
| Cash                                      | 23            |
| Discount on non-interest-bearing holdback | (39)          |
| Total consideration                       | <u>10,748</u> |
| Cash                                      | (23)          |
| Holdback                                  | (798)         |
| Net consideration paid/cash outflow       | <u>9,927</u>  |



**MTY Franchising USA, Inc.**  
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Years ended November 30, 2024 and 2023

(In thousands of US dollars)

**3. Business acquisitions (continued)**

**I) Sauce Pizza and Wine (2023) (continued)**

The final purchase price allocation is as follows:

|                                                | <u>2023</u>          |
|------------------------------------------------|----------------------|
|                                                | \$                   |
| Net assets acquired:                           |                      |
| Current assets                                 |                      |
| Cash                                           | 23                   |
| Inventories                                    | 183                  |
| Prepaid expenses and deposits                  | <u>193</u>           |
|                                                | 399                  |
| Property, plant and equipment                  | 3,821                |
| Operating lease right-of-use assets            | 7,262                |
| Intangible assets – Trademark                  | 4,140                |
| Goodwill <sup>(1)</sup>                        | <u>3,658</u>         |
|                                                | 19,280               |
| Current liabilities                            |                      |
| Accrued liabilities                            | 78                   |
| Gift card liability                            | 1,086                |
| Current portion of operating lease liabilities | <u>1,218</u>         |
|                                                | 2,382                |
| Operating lease liabilities                    | <u>6,150</u>         |
|                                                | 8,532                |
| Net purchase price                             | <u><u>10,748</u></u> |

<sup>(1)</sup> Goodwill is deductible for tax purposes.

Total expenses incurred related to acquisition costs amounted to \$160.

**MTY Franchising USA, Inc.**  
**Notes to the consolidated financial statements**

Years ended November 30, 2024 and 2023

(In thousands of US dollars)

**3. Business acquisitions (continued)**

**II) Wetzel's Pretzels (2023)**

On December 8, 2022, the Company completed the acquisition of all of the issued and outstanding shares of COP WP Parent, Inc. ("Wetzel's Pretzels"), a franchisor and operator of quick service restaurants operating in the snack category across 25 states in the US, as well as in Canada and Panama. As of the date of the acquisition, Wetzel's Pretzels was operating 328 franchised and 38 corporate-owned restaurants. The purpose of the transaction was to diversify the Company's range of offerings in the US.

The transaction included a purchase price totaling \$210,189, as detailed below. The resulting aggregate cash outflow in connection with the Wetzel's Pretzels acquisition was \$203,328. The transaction consideration also includes \$3,000 held in escrow contingent on the execution of several lease contracts within 12 months of acquisitions. As of December 8, 2023, only a portion of the contracts were executed and therefore \$1,600 was released from escrow and recorded as a gain in the statement of profit and loss.

|                                     | <u>2023</u>    |
|-------------------------------------|----------------|
|                                     | \$             |
| Consideration paid:                 |                |
| Purchase price                      | <u>210,189</u> |
| Total consideration                 | <u>210,189</u> |
| Cash                                | <u>(6,861)</u> |
| Net consideration paid/cash outflow | <u>203,328</u> |

**MTY Franchising USA, Inc.**  
**Notes to the consolidated financial statements**

Years ended November 30, 2024 and 2023

(In thousands of US dollars)

**3. Business acquisitions (continued)**

**II) Wetzel's Pretzels (2023) (continued)**

The final purchase price allocation is as follows:

|                                                  | <u>2023</u>           |
|--------------------------------------------------|-----------------------|
|                                                  | \$                    |
| Net assets acquired:                             |                       |
| Current assets                                   |                       |
| Cash                                             | 6,861                 |
| Accounts receivable                              | 1,005                 |
| Inventories                                      | 265                   |
| Current portion of loans receivable              | 45                    |
| Prepaid expenses and deposits                    | 757                   |
| Income taxes receivable                          | <u>1,371</u>          |
|                                                  | 10,304                |
| Loans receivable                                 | 594                   |
| Property, plant and equipment                    | 5,082                 |
| Operating lease right-of-use assets              | 21,931                |
| Intangible assets – Franchise rights             | 35,600                |
| Intangible assets – Trademarks                   | 71,700                |
| Goodwill <sup>(1)</sup>                          | <u>118,447</u>        |
|                                                  | 263,658               |
| Current liabilities                              |                       |
| Accounts payable                                 | 911                   |
| Accrued liabilities                              | 4,979                 |
| Promotional funds payable                        | 431                   |
| Current portion of operating lease liabilities   | 936                   |
| Current portion of deferred revenue and deposits | 67                    |
| Income taxes payable                             | <u>547</u>            |
|                                                  | 7,871                 |
| Operating lease liabilities                      | 20,995                |
| Deferred revenue and deposits                    | 939                   |
| Deferred income taxes                            | <u>23,664</u>         |
|                                                  | 53,469                |
| Net purchase price                               | <u><u>210,189</u></u> |

<sup>(1)</sup> Goodwill is deductible for tax purposes.

Total expenses incurred related to acquisition costs amounted to \$320.

**MTY Franchising USA, Inc.****Notes to the consolidated financial statements**

Years ended November 30, 2024 and 2023

(In thousands of US dollars)

**4. Accounts receivable**

Details of accounts receivable are as follows:

|                                                         | 2024    | 2023    |
|---------------------------------------------------------|---------|---------|
|                                                         | \$      | \$      |
| Total accounts receivable                               | 30,676  | 31,738  |
| Less: Allowance for credit losses                       | (1,921) | (2,277) |
| Total accounts receivable, net                          | 28,755  | 29,461  |
| Of which:                                               |         |         |
| Not past due                                            | 23,612  | 25,787  |
| Past due for more than one day but no more than 30 days | 1,736   | 430     |
| Past due for more than 31 days but no more than 60 days | 695     | 208     |
| Past due for more than 61 days                          | 2,712   | 3,036   |
| Total accounts receivable, net                          | 28,755  | 29,461  |
|                                                         | 2024    | 2023    |
|                                                         | \$      | \$      |
| Allowance for credit losses, beginning of year          | (2,277) | (2,013) |
| Recovery (provision)                                    | 322     | (733)   |
| Additions through business acquisition                  | —       | (374)   |
| Reversal of amounts previously written off              | (33)    | (2)     |
| Write-offs                                              | 67      | 845     |
| Allowance for credit losses, end of year                | (1,921) | (2,277) |

**5. Assets and liabilities held for sale**

Assets and liabilities held for sale as at November 30, 2024 and 2023 are stated at fair value less costs to sell. During the reporting period, the Company designated certain assets and liabilities related to a casual dining brand as held for sale. This decision reflects management's formal commitment to a plan to divest these assets, which include both Company-owned stores and associated intangible assets.

The assets reclassified as held for sale primarily consist of inventories, prepaid expenses, deposits, right-of-use assets (Note 6), property plant, and equipment (Note 7) and intangible assets (Note 8). The liabilities included in the carrying value are the gift card payable and the lease liability (Note 6). This reclassification on November 30, 2024 led to an impairment charge of \$849 to right-of-use-asset, \$505 to property, plant and equipment and \$1,088 to trademarks in Reporting Unit A. The total carrying amount reclassified as held for sale is comprised of assets of \$3,116 and liabilities of \$2,116 resulting in a net amount of \$1,000.

In November 2023 assets held for sale comprised of one locations leasehold improvement, land and building that were transferred from property, plant and equipment (Note 7). They did not meet the definition of assets held for sale at the acquisition date of BBQ Holdings.

**MTY Franchising USA, Inc.****Notes to the consolidated financial statements**

Years ended November 30, 2024 and 2023

(In thousands of US dollars)

**6. Leases****Operating lease right-of-use assets**

The following table provides the net carrying amounts of the operating lease right-of-use assets by class of underlying asset and the changes in the years ended November 30, 2024 and 2023:

|                                                  | <b>Offices and<br/>stores</b> | <b>Other</b> | <b>Total</b>    |
|--------------------------------------------------|-------------------------------|--------------|-----------------|
|                                                  | <b>\$</b>                     | <b>\$</b>    | <b>\$</b>       |
| Balance as at November 30, 2022                  | 165,208                       | 433          | 165,641         |
| Additions                                        | 7,115                         | 160          | 7,275           |
| Additions through business acquisitions (Note 3) | 29,274                        | —            | 29,274          |
| Depreciation expense                             | (40,972)                      | (278)        | (41,250)        |
| De-recognition/lease modifications               | 26,139                        | (5)          | 26,134          |
| Balance as at November 30, 2023                  | 186,764                       | 310          | 187,074         |
| Additions                                        | <b>12,844</b>                 | <b>90</b>    | <b>12,934</b>   |
| Assets held for sale (Note 5)                    | <b>(953)</b>                  | <b>—</b>     | <b>(953)</b>    |
| Depreciation expense                             | <b>(39,781)</b>               | <b>(139)</b> | <b>(39,920)</b> |
| Impairment charge                                | <b>(849)</b>                  | <b>—</b>     | <b>(849)</b>    |
| De-recognition/lease modifications               | <b>32,047</b>                 | <b>(30)</b>  | <b>32,017</b>   |
| Balance as at November 30, 2024                  | <b>190,072</b>                | <b>231</b>   | <b>190,303</b>  |

The Company recorded sublease income from its operating lease right-of-use assets amounting to \$23,431 (2023 – \$24,789).

**MTY Franchising USA, Inc.****Notes to the consolidated financial statements**

Years ended November 30, 2024 and 2023

(In thousands of US dollars)

**6. Leases (continued)****Operating lease liabilities**

The following table provides the net carrying amounts of the operating lease liabilities and the changes in the years ended November 30, 2024 and 2023:

|                                                  | <b>2024</b>     | 2023     |
|--------------------------------------------------|-----------------|----------|
|                                                  | <b>\$</b>       | \$       |
| Operating lease liabilities, beginning of year   | <b>190,493</b>  | 167,716  |
| Additions                                        | <b>12,934</b>   | 7,284    |
| Additions through business acquisitions (Note 3) | <b>—</b>        | 29,380   |
| Transfer to assets held for sale (Note 5)        | <b>(1,848)</b>  | —        |
| Lease renewals and modifications                 | <b>35,264</b>   | 29,624   |
| Lease terminations                               | <b>(3,316)</b>  | (3,554)  |
| Other adjustments                                | <b>(329)</b>    | (201)    |
| Interest expense                                 | <b>10,731</b>   | 10,449   |
| Payments                                         | <b>(49,516)</b> | (50,205) |
| Operating lease liabilities, end of year         | <b>194,413</b>  | 190,493  |

Recorded in the consolidated balance sheets as follows:

|                   | <b>2024</b>    | 2023    |
|-------------------|----------------|---------|
|                   | <b>\$</b>      | \$      |
| Current portion   | <b>38,340</b>  | 37,080  |
| Long-term portion | <b>156,073</b> | 153,413 |
|                   | <b>194,413</b> | 190,493 |

**Maturity analysis**

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be paid after November 30, 2024:

|                                                                              | <b>Leases</b>  | <b>Expected<br/>sublease<br/>income</b> |
|------------------------------------------------------------------------------|----------------|-----------------------------------------|
|                                                                              | <b>\$</b>      | \$                                      |
| 2025                                                                         | 49,565         | 22,430                                  |
| 2026                                                                         | 43,786         | 18,679                                  |
| 2027                                                                         | 37,267         | 14,647                                  |
| 2028                                                                         | 30,325         | 10,977                                  |
| 2029                                                                         | 22,736         | 6,760                                   |
| Thereafter                                                                   | 50,978         | 10,130                                  |
| <b>Total undiscounted lease payments</b>                                     | <b>234,657</b> | <b>83,623</b>                           |
| Less: Unearned finance income                                                | (40,244)       | —                                       |
| <b>Total present value of lease liabilities and expected sublease income</b> | <b>194,413</b> | <b>83,623</b>                           |

**MTY Franchising USA, Inc.**
**Notes to the consolidated financial statements**

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**7. Property, plant and equipment**

| Cost                                               | Equipment      | Leasehold<br>improve-<br>ments | Rolling<br>stock | Computer<br>hardware | Land         | Building     | Total          |
|----------------------------------------------------|----------------|--------------------------------|------------------|----------------------|--------------|--------------|----------------|
|                                                    | \$             | \$                             | \$               | \$                   | \$           | \$           | \$             |
| Balance as at November 30,<br>2022                 | 21,299         | 26,495                         | 24               | 3,998                | 3,145        | 3,509        | 58,470         |
| Additions                                          | 6,215          | 5,978                          | —                | 1,007                | —            | 50           | 13,250         |
| Additions through business<br>acquisition (Note 3) | 2,014          | 6,242                          | (8)              | (89)                 | 75           | (314)        | 7,920          |
| Disposals                                          | (578)          | (155)                          | —                | (125)                | —            | —            | (858)          |
| Impairment (Note 10)                               | (139)          | (16)                           | —                | (14)                 | —            | —            | (169)          |
| Balance as at November 30,<br>2023                 | 28,811         | 38,544                         | 16               | 4,777                | 3,220        | 3,245        | 78,613         |
| Additions                                          | <b>5,100</b>   | <b>4,427</b>                   | —                | <b>1,369</b>         | —            | <b>67</b>    | <b>10,963</b>  |
| Disposals                                          | <b>(1,088)</b> | <b>(221)</b>                   | —                | <b>(90)</b>          | —            | —            | <b>(1,399)</b> |
| Impairment (Note 10)                               | <b>(2,239)</b> | <b>(3,662)</b>                 | —                | <b>(249)</b>         | —            | —            | <b>(6,150)</b> |
| Transfer to assets held for<br>sale (Note 5)       | <b>(469)</b>   | <b>(323)</b>                   | —                | <b>(22)</b>          | —            | —            | <b>(814)</b>   |
| Balance as at November 30,<br>2024                 | <b>30,115</b>  | <b>38,765</b>                  | <b>16</b>        | <b>5,785</b>         | <b>3,220</b> | <b>3,312</b> | <b>81,213</b>  |
| Accumulated depreciation                           | Equipment      | Leasehold<br>improve-<br>ments | Rolling<br>stock | Computer<br>hardware | Land         | Building     | Total          |
|                                                    | \$             | \$                             | \$               | \$                   | \$           | \$           | \$             |
| Balance as at November 30,<br>2022                 | 1,535          | 1,512                          | 7                | 914                  | —            | 44           | 4,012          |
| Depreciation                                       | 3,362          | 7,381                          | (7)              | 524                  | —            | 98           | 11,358         |
| Disposals                                          | (282)          | (65)                           | —                | (9)                  | —            | —            | (356)          |
| Balance as at November 30,<br>2023                 | 4,615          | 8,828                          | —                | 1,429                | —            | 142          | 15,014         |
| Depreciation                                       | <b>4,658</b>   | <b>8,087</b>                   | <b>3</b>         | <b>531</b>           | —            | <b>190</b>   | <b>13,469</b>  |
| Disposals                                          | <b>(516)</b>   | <b>(115)</b>                   | —                | <b>(68)</b>          | —            | —            | <b>(699)</b>   |
| Transfer to assets held for<br>sale (Note 5)       | <b>(141)</b>   | <b>(98)</b>                    | —                | <b>(7)</b>           | —            | —            | <b>(246)</b>   |
| Balance as at November 30,<br>2024                 | <b>8,616</b>   | <b>16,702</b>                  | <b>3</b>         | <b>1,885</b>         | —            | <b>332</b>   | <b>27,538</b>  |
| Carrying amounts                                   | Equipment      | Leasehold<br>improve-<br>ments | Rolling<br>stock | Computer<br>hardware | Land         | Building     | Total          |
|                                                    | \$             | \$                             | \$               | \$                   | \$           | \$           | \$             |
| November 30, 2023                                  | 24,196         | 29,716                         | 16               | 3,348                | 3,220        | 3,103        | 63,599         |
| November 30, 2024                                  | <b>21,499</b>  | <b>22,063</b>                  | <b>13</b>        | <b>3,900</b>         | <b>3,220</b> | <b>2,980</b> | <b>53,675</b>  |

**MTY Franchising USA, Inc.**
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**8. Intangible assets**

| Cost                                             | Franchise<br>rights | Trademarks | Other | Total   |
|--------------------------------------------------|---------------------|------------|-------|---------|
|                                                  | \$                  | \$         | \$    | \$      |
| Balance as at November 30, 2022                  | 181,224             | 417,870    | 5,007 | 604,101 |
| Additions                                        | —                   | —          | 565   | 565     |
| Additions through business acquisitions (Note 3) | 34,260              | 67,830     | 517   | 102,607 |
| Disposals                                        | —                   | —          | (177) | (177)   |
| Impairment (Note 10)                             | (559)               | (3,504)    | —     | (4,063) |
| Balance as at November 30, 2023                  | 214,925             | 482,196    | 5,912 | 703,033 |
| Additions                                        | 275                 | —          | 43    | 318     |
| Disposals                                        | —                   | —          | (230) | (230)   |
| Impairment (Note 10)                             | (1,390)             | (6,191)    | (186) | (7,767) |
| Transfer to assets held for sale (Note 5)        | —                   | (1,222)    | (175) | (1,397) |
| Balance as at November 30, 2024                  | 213,810             | 474,783    | 5,364 | 693,957 |
| Accumulated amortization                         | Franchise<br>rights | Trademarks | Other | Total   |
|                                                  | \$                  | \$         | \$    | \$      |
| Balance as at November 30, 2022                  | 80,593              | —          | 1,108 | 81,701  |
| Disposals                                        | —                   | —          | (49)  | (49)    |
| Amortization                                     | 18,434              | —          | 779   | 19,213  |
| Balance as at November 30, 2023                  | 99,027              | —          | 1,838 | 100,865 |
| Amortization                                     | 15,124              | —          | 641   | 15,765  |
| Balance as at November 30, 2024                  | 114,151             | —          | 2,479 | 116,630 |
| Carrying amounts                                 | Franchise<br>rights | Trademarks | Other | Total   |
|                                                  | \$                  | \$         | \$    | \$      |
| November 30, 2023                                | 115,898             | 482,196    | 4,074 | 602,168 |
| November 30, 2024                                | 99,659              | 474,783    | 2,885 | 577,327 |



**MTY Franchising USA, Inc.**  
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**9. Goodwill**

The changes in the carrying amount of goodwill are as follows:

|                                                       | 2024     | 2023     |
|-------------------------------------------------------|----------|----------|
|                                                       | \$       | \$       |
| Goodwill, beginning of year                           | 424,828  | 286,713  |
| Amount recognized from business acquisitions (Note 3) | —        | 138,115  |
| Goodwill, end of year                                 | 424,828  | 424,828  |
| Accumulated impairment, beginning of year             | (48,653) | (48,653) |
| Impairment (Note 10)                                  | (29,685) | —        |
| Accumulated impairment, beginning and end of year     | (78,338) | (48,653) |
| Carrying amount                                       | 346,490  | 376,175  |

**10. Impairment – property, plant and equipment, intangible assets and goodwill**

The Company performed its annual impairment test as at September 1, 2024, resulting in the recognition of \$6,679 (2023 – \$4,063) of impairment losses on its intangible assets for five of its brands (2023 – four brands). The Company also recorded an impairment of \$1,088 on one of its brands resulting from the reclass to assets held for sale (Note 5).

As of September 1, 2024, the Company reassessed the reporting unit based on a strategic realignment and merger of business units in the US. The goodwill impairment for the reporting unit comprised of Papa Murphy's brand was subject to an impairment test prior to the strategic realignment and this resulted in an impairment of goodwill of \$29,685 (2023 – \$nil).

Additionally, the Company recorded \$6,150 of impairment losses on its property, plant and equipment (2023 – \$169), for a total of \$43,602 (2023 – \$4,232) of impairment charges on its property, plant and equipment, intangible assets and goodwill for the year ended November 30, 2024, which have been recognized in the consolidated statement of operations.

Impairment charges were based on the amount by which the carrying values of the assets exceeded the fair value, determined using expected discounted projected operating cash flows for trademarks and franchise rights.

Impairment by reporting unit for the year ended November 30, 2024:

|                  | Intangible assets                   |                     |            |       |          |        |
|------------------|-------------------------------------|---------------------|------------|-------|----------|--------|
|                  | Property,<br>plant and<br>equipment | Franchise<br>rights | Trademarks | Other | Goodwill | Total  |
|                  | \$                                  | \$                  | \$         | \$    | \$       | \$     |
| Reporting Unit A | 1,886                               | 205                 | 2,069      | —     | —        | 4,160  |
| Reporting Unit B | 4,264                               | 1,185               | 4,122      | 186   | 29,685   | 39,442 |
|                  | 6,150                               | 1,390               | 6,191      | 186   | 29,685   | 43,602 |

**MTY Franchising USA, Inc.**
**Notes to the consolidated financial statements**

Years ended November 30, 2024 and 2023

(In thousands of US dollars)

**10. Impairment (continued)**

Impairment by reporting unit for the year ended November 30, 2023:

|                  | Property,<br>plant and<br>equipment | Intangible assets   |            | Total |
|------------------|-------------------------------------|---------------------|------------|-------|
|                  |                                     | Franchise<br>rights | Trademarks |       |
|                  | \$                                  | \$                  | \$         | \$    |
| Reporting Unit A | 22                                  | 559                 | 3,264      | 3,845 |
| Reporting Unit B | —                                   | —                   | —          | —     |
| Reporting Unit C | 105                                 | —                   | 240        | 345   |
| Reporting Unit D | 42                                  | —                   | —          | 42    |
|                  | 169                                 | 559                 | 3,504      | 4,232 |

The key assumptions used are those related to projected operating cash flows, as well as the discount rates. The sales forecasts for cash flows were based on the subsequent fiscal year's budgeted operating results, which were prepared by management and approved by the Board, and internal forecasts for subsequent years, which were prepared by management and developed from the budgeted operating results.

The following table presents the key assumptions used in the Company's impairment tests, as well as the recoverable amounts measured at fair value as at September 1, 2024 and 2023:

|                              | 2024                |                     | 2023                |                     |                     |                     |
|------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|                              | Reporting<br>Unit A | Reporting<br>Unit B | Reporting<br>Unit A | Reporting<br>Unit B | Reporting<br>Unit C | Reporting<br>Unit D |
| (\$, except percentage data) |                     |                     |                     |                     |                     |                     |
| Discount rates after tax     | 10.0%               | 10.0%               | 10.5%               | 10.5%               | 10.5%               | 10.5%               |
| Discount rates pre-tax       | 12.7%               | 13.0%               | 13.4%               | 13.8%               | 13.7%               | 13.6%               |
| Recoverable amounts          | 875,925             | 604,533             | 539,407             | 266,604             | 313,644             | 270,246             |

Long-term growth rates ranging from 0% to 2% (2023 – 0% to 2%) were used in the impairment test for Reporting Unit A. A change of 100 basis points in discount rates in Reporting Unit A would result in additional impairment charges on intangible assets of four brands (2023 – three brands) representing 0.5% (2023 – 0.7%) of the total carrying value of the franchise rights and trademarks in that unit. A change of 100 basis points in discount rates in Reporting Unit A would not result in additional impairment charges on goodwill for the years ended November 30, 2024 and 2023. For Reporting Unit A, an increase of 430 basis points in the discount rate would have resulted in its recoverable amount being equal to its carrying value.

Long-term growth rates of 2.0% were used in the impairment test for Reporting Unit B. A change of 100 basis points in discount rates in Reporting Unit B would result in additional impairment charges on intangible assets of one brand (2023 – nil) representing 0.1% (2023 – nil) of the total carrying value of the franchise rights and trademarks in that unit. A change of 100 basis points in discount rates in Reporting Unit B would not result in additional impairment charges on goodwill for the years ended November 30, 2024 and 2023. For Reporting Unit B, an increase of 130 basis points in the discount rate would have resulted in its recoverable amount being equal to its carrying value.

**MTY Franchising USA, Inc.**  
**Notes to the consolidated financial statements**

Years ended November 30, 2024 and 2023

(In thousands of US dollars)

**11. Gift card liability**

The changes in the carrying amount of the gift card liability are as follows:

|                                                                                 | 2024     | 2023     |
|---------------------------------------------------------------------------------|----------|----------|
|                                                                                 | \$       | \$       |
| Gift card liability, beginning of year                                          | 104,858  | 91,453   |
| Activations                                                                     | 77,690   | 52,873   |
| Redemptions                                                                     | (66,987) | (39,603) |
| Gift card liability acquired and purchase price allocation adjustments (Note 3) | —        | 5,884    |
| Deferred program fees and other                                                 | (320)    | (1,065)  |
| Gift card breakage recorded                                                     | (5,989)  | (4,684)  |
| Gift card liability, end of year                                                | 109,252  | 104,858  |

**12. Deferred revenue and deposits**

|                                             | 2024    | 2023    |
|---------------------------------------------|---------|---------|
|                                             | \$      | \$      |
| Franchise fee deposits                      | 33,594  | 28,948  |
| Unearned rent                               | 1,737   | 1,794   |
| Supplier contributions and other allowances | 932     | 1,786   |
|                                             | 36,263  | 32,528  |
| Current portion                             | (8,093) | (7,775) |
|                                             | 28,170  | 24,753  |

Deferred revenues consist mostly of initial, transfer and renewal franchise fees paid by franchisees, as well as upfront fees paid by master franchisees, which are generally recognized on a straight-line basis over the term of the related agreement. Deferred revenues also include amounts paid in upfront fees received from agreements with suppliers, which are amortized over the term of the related agreement.

\$7,329 (2023 – \$8,055) of revenue recognized in the current year was included in the deferred revenue balance at the beginning of the year.

The following table provides estimated revenues expected to be recognized in future years related to performance obligations that are unsatisfied as at November 30, 2024:

| Estimate for fiscal year: | \$     |
|---------------------------|--------|
| 2025                      | 8,093  |
| 2026                      | 4,452  |
| 2027                      | 3,660  |
| 2028                      | 2,814  |
| 2029                      | 2,411  |
| Thereafter                | 14,833 |
|                           | 36,263 |

**MTY Franchising USA, Inc.****Notes to the consolidated financial statements**

Years ended November 30, 2024 and 2023

(In thousands of US dollars)

**13. Receivables and advances from ultimate parent, parent company and companies under common control**

The receivable from ultimate parent is primarily comprised of a renewable one-year term loan facility of \$194,988 (2023 – \$148,670). The term loan is unsecured and bears interest at the rate set at the Applicable Federal Rates as issued by the US Internal Revenue Service for short-term instruments. The term loan may be repaid, in whole or in part, at any time, without premium or penalty. MTY USA may also request repayment, in whole or in part, at any time, without penalty.

The advance from ultimate parent is comprised of three loans totaling \$708,363 seen in note 14 (2023 – \$705,683). Those loans are unsecured and each tranche has a different interest rate spanning from non interest bearing to 9.26%. These loans may be repaid, in whole or in part, at any time, without premium or penalty.

The receivable from company under common control and advances from parent company and companies under common control are non-interest bearing and receivable/due on demand with no specified collection/repayment terms.

**14. Long-term loan from company under common control**

|                                                                              | 2024           | 2023           |
|------------------------------------------------------------------------------|----------------|----------------|
|                                                                              | \$             | \$             |
| Non interest-bearing loan, due on demand                                     | 2,700          | —              |
| Interest-bearing loan at 5.4%, repayable by November 27, 2026 <sup>(1)</sup> | 299,850        | 299,850        |
| Interest-bearing loan at 9.26%, repayable by December 8, 2029                | 405,813        | 405,833        |
|                                                                              | <b>708,363</b> | <b>705,683</b> |

<sup>(1)</sup> This loan is subject to a maximum debt-to-EBITDA ratio of 6.00:1.00 starting on November 27, 2019, and a minimum EBITDA interest coverage ratio of 2.00:1.00 to be calculated in conjunction with interest payments based on the past 12 months.

**15. Holdback payable**

|                                                                                                                                          | 2024 | 2023 |
|------------------------------------------------------------------------------------------------------------------------------------------|------|------|
|                                                                                                                                          | \$   | \$   |
| Non-interest-bearing holdback on acquisition of Sauce Pizza and Wine, repayable in December 2023 (Note 3)                                | —    | 837  |
| Non-interest-bearing holdback on acquisition of the assets of two restaurants located in California, repayable within the next 12 months | —    | 75   |
| Current portion of holdback payable                                                                                                      | —    | 912  |

# MTY Franchising USA, Inc.

## Notes to the consolidated financial statements

Years ended November 30, 2024 and 2023

(In thousands of US dollars)

### 16. Contingencies

The contingencies for litigation and disputes represent management's best estimate of the outcome of litigations and disputes that are ongoing at the date of the consolidated balance sheet. These contingencies consist of multiple items, a large part of which are insurance claims, including worker's compensation claims, at the Company's corporately owned locations. The timing of the settlement of these contingencies is unknown given their nature, as the Company does not control the litigation timelines.

|                                                                                | 2024    | 2023    |
|--------------------------------------------------------------------------------|---------|---------|
|                                                                                | \$      | \$      |
| Provision for litigations, disputes and other contingencies, beginning of year | 2,849   | 724     |
| Reversals                                                                      | (790)   | (304)   |
| Amounts used                                                                   | (9,424) | (8,797) |
| Additions                                                                      | 10,058  | 11,226  |
| Provision for litigations, disputes and other contingencies, end of year       | 2,693   | 2,849   |

### 17. Common stock

|                                    | 2024             |         | 2023             |         |
|------------------------------------|------------------|---------|------------------|---------|
|                                    | Shares<br>Issued | \$      | Shares<br>issued | \$      |
| Balance, beginning and end of year | 15               | 179,154 | 15               | 179,154 |

### 18. Financial instruments

In the normal course of business, the Company uses various financial instruments which by their nature involve risk, including market risk and the credit risk of non-performance by counterparties. These financial instruments are subject to normal credit standards, financial controls, risk management as well as monitoring procedures.

#### *Fair value of recognized financial instruments*

The Company has determined that the fair value of its financial assets and financial liabilities with short-term maturities approximates their carrying value. These financial instruments include cash, accounts receivable, receivable from ultimate parent, deposits loans receivable, accounts payable, accrued liabilities, promotional funds payable, advances from parent company and from companies under common control and holdbacks.

#### *Risk management policies*

The Company, through its financial assets and financial liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at November 30, 2024.

#### *Credit risk*

The Company's credit risk is primarily attributable to its trade receivables, loans receivable and deposits. For accounts receivable and loans receivable, the amounts disclosed on the consolidated balance sheets are net of allowances for bad debts, estimated by the Company's management based on past experience and counterparty specific circumstances. The Company believes that the credit risk of accounts receivable is limited for the following reasons:

- The Company's broad client base is spread mostly across the US, which limits the concentration of credit risk.
- The Company accounts for specific bad debt provisions when management considers that the expected recovery is less than the actual account receivable.

The credit risk on cash is limited because the Company invests its excess liquidity in high-quality financial instruments and with credit-worthy counterparties.

**MTY Franchising USA, Inc.****Notes to the consolidated financial statements**

Years ended November 30, 2024 and 2023

(In thousands of US dollars)

**18. Financial instruments (continued)**

The credit risk on deposits is also limited as these are mostly with well-established and credit-worthy companies.

**Interest rate risk**

Interest rate risk is the Company's exposure to increases and decreases in financial instrument values caused by the fluctuation in interest rates. The Company has limited exposure to interest rate risk as its long-term loans from company under common control and ultimate parent as well as its long-term debt have fixed interest rates

**19. Revenue**

|                                                          | For the year ended |                |                |                                    |                |                |
|----------------------------------------------------------|--------------------|----------------|----------------|------------------------------------|----------------|----------------|
|                                                          | November 30, 2024  |                |                | 11/30/2023 Adjusted <sup>(1)</sup> |                |                |
|                                                          | Franchising        | Corporate      | Total          | Franchising                        | Corporate      | Total          |
|                                                          | \$                 | \$             | \$             | \$                                 | \$             | \$             |
| Corporate store revenues                                 | —                  | 330,599        | 330,599        | —                                  | 337,937        | 337,937        |
| Royalties                                                | 128,335            | —              | 128,335        | 128,461                            | —              | 128,461        |
| Franchise fees, transfer fees<br>and master license fees | 5,770              | —              | 5,770          | 4,996                              | —              | 4,996          |
| Promotional funds                                        | 56,563             | —              | 56,563         | 56,734                             | —              | 56,734         |
| Program allowances                                       | 30,373             | —              | 30,373         | 32,499                             | —              | 32,499         |
| Breakage income                                          | 5,989              | —              | 5,989          | 4,684                              | —              | 4,684          |
| Resale material and retail sales                         | 4,781              | —              | 4,781          | 5,754                              | —              | 5,754          |
| Rent                                                     | 25,199             | —              | 25,199         | 26,337                             | —              | 26,337         |
| Other                                                    | 9,929              | —              | 9,929          | 9,215                              | —              | 9,215          |
|                                                          | <b>266,939</b>     | <b>330,599</b> | <b>597,538</b> | <b>268,680</b>                     | <b>337,937</b> | <b>606,617</b> |

- (1) Certain comparative figures have been reclassified to conform with current year presentation. Lease income in comparative period of \$26.3 million was reclassified from operating expense to revenue.

**MTY Franchising USA, Inc.**  
**Notes to the consolidated financial statements**

Years ended November 30, 2024 and 2023

(In thousands of US dollars)

**20. Operating expenses**

|                                                       | For the year ended |                |                |                                           |                |                |
|-------------------------------------------------------|--------------------|----------------|----------------|-------------------------------------------|----------------|----------------|
|                                                       | November 30, 2024  |                |                | November 30, 2023 Adjusted <sup>(2)</sup> |                |                |
|                                                       | Franchising        | Corporate      | Total          | Franchising                               | Corporate      | Total          |
|                                                       | \$                 | \$             | \$             | \$                                        | \$             | \$             |
| Cost of goods sold                                    | 2,342              | 89,624         | 91,966         | 2,284                                     | 94,465         | 96,749         |
| Wages and benefits                                    | 52,855             | 118,514        | 171,369        | 54,590                                    | 115,976        | 170,566        |
| Advertising, marketing and promotion                  | 443                | 6,000          | 6,443          | 462                                       | 5,311          | 5,773          |
| Rent                                                  | 27,748             | 37,925         | 65,673         | 31,895                                    | 34,105         | 66,000         |
| Professional and consulting fees and commission       | 11,544             | 2,037          | 13,581         | 12,054                                    | 4,394          | 16,448         |
| Office, travel, meals and entertainment and utilities | 13,482             | 37,998         | 51,480         | 13,302                                    | 37,713         | 51,015         |
| Promotional funds                                     | 56,563             | —              | 56,563         | 56,734                                    | —              | 56,734         |
| Gift card program costs                               | 6,499              | —              | 6,499          | 6,695                                     | —              | 6,695          |
| Other <sup>(1)</sup>                                  | 954                | 25,918         | 26,872         | 2,342                                     | 25,474         | 27,816         |
| Bad debt (recovery) expense                           | (293)              | 147            | (146)          | 438                                       | 250            | 688            |
|                                                       | <b>172,137</b>     | <b>318,163</b> | <b>490,300</b> | <b>180,796</b>                            | <b>317,688</b> | <b>498,484</b> |

(1) Other operating expenses are comprised mainly of other office administration expenses.

(2) Certain comparative figures have been reclassified to conform with current year presentation. Lease income in comparative period of \$26.3 million was reclassified from operating expense to revenue.

*Franchising operations*

The franchising business mainly generates revenues from royalties, supplier contributions, franchise fees and rent.

*Corporate store operations*

Corporate stores generate revenues from the direct sale of prepared food to customers.

**21. Restructuring**

During the year, the Company initiated a restructuring plan as part of a strategic realignment to streamline operations and improve efficiency. The Company recognized restructuring costs of \$1,342 primarily related to employee severance costs of \$832 with the reminder being in relation to the discontinuation of one of its brands. No additional expenses are expected to be incurred.

**22. Interest expense**

|                                                              | 2024   | 2023   |
|--------------------------------------------------------------|--------|--------|
|                                                              | \$     | \$     |
| Interest charged by companies under common control (Note 25) | 53,768 | 53,977 |
| Interest expense                                             | 53,768 | 53,977 |

**MTY Franchising USA, Inc.**  
**Notes to the consolidated financial statements**

Years ended November 30, 2024 and 2023

(In thousands of US dollars)

**23. Income taxes**

The Company accounts for income taxes in accordance with ASC 740. ASC 740 prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates. The effects of future changes in tax laws or rates are not anticipated.

Under ASC 740, income taxes are recognized for the following: a) amount of tax payable for the current year and b) deferred tax liabilities and assets for future tax consequences of events that have been recognized differently in the consolidated financial statements than for tax purposes.

|                               | 2024    | 2023    |
|-------------------------------|---------|---------|
| Income tax expense (recovery) | \$      | \$      |
| Current tax expense           | 9,918   | 7,807   |
| Deferred tax recovery         | (9,195) | (6,405) |
| Total tax expense             | 723     | 1,402   |

The provision for income taxes recorded in the consolidated financial statements differs from the amount which would be obtained by applying the statutory federal income tax rate of 21% (2023 – 21%) to the income for the period as follows:

|                                                         | 2024     | 2023    |
|---------------------------------------------------------|----------|---------|
|                                                         | \$       | \$      |
| (Loss) income before income taxes                       | (11,833) | 18,380  |
| Income tax (recovery) expense at federal statutory rate | (2,478)  | 3,860   |
| State and local income taxes net of federal tax benefit | 881      | 2,360   |
| Non-deductible/non-taxable items                        | 5,484    | (216)   |
| True-up of prior year tax provision                     | (3,950)  | (2,239) |
| Rate variation on deferred income tax                   | 724      | (102)   |
| Credits generated and used in current year              | —        | (2,371) |
| Other                                                   | 62       | 110     |
| Income tax expense                                      | 723      | 1,402   |



**MTY Franchising USA, Inc.**  
**Notes to the consolidated financial statements**

Years ended November 30, 2024 and 2023

(In thousands of US dollars)

**23. Income taxes (continued)**

Components of the net deferred tax asset (liability):

|                                          | 2024      | 2023      |
|------------------------------------------|-----------|-----------|
|                                          | \$        | \$        |
| Inventories                              | (275)     | (264)     |
| Allowance for credit losses              | 192       | 595       |
| Deferred revenue and deposits            | 4,676     | 4,725     |
| Gift card liability                      | 2,959     | 2,947     |
| Accrued liabilities                      | 41,158    | 33,567    |
| Non-capital losses and other tax credits | 1,917     | 4,570     |
| Other                                    | (1,941)   | (1,285)   |
| Operating lease liabilities              | 48,125    | 48,406    |
| Total deferred tax assets                | 96,811    | 93,261    |
| Deferred costs                           | (600)     | (948)     |
| Property, plant and equipment            | (9,632)   | (11,490)  |
| Operating lease right-of-use assets      | (47,277)  | (47,497)  |
| Intangible assets                        | (140,054) | (143,345) |
| Holdback payable                         | (305)     | (233)     |
| Total deferred tax liabilities           | (197,868) | (203,513) |
| Net deferred tax liability               | (101,057) | (110,252) |

**24. Supplemental cash flow information**

During the year ended November 30, 2024, the Company paid \$10,348 (2023 – \$8,268) in income taxes. Furthermore, there are non-cash items included in the proceeds on disposition of property, plant and equipment amounting to a net liability of \$113 (2023 – net liability of \$1,574). The non-cash items were primarily related to commitments made as part of the disposal of a portfolio of corporately-owned locations.

**25. Related party transactions**

The Company has transactions in the normal course of business with its ultimate parent, parent company and companies under common control. These transactions were in the normal course of business and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**EXHIBIT W**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Performance Guaranty**

## **GUARANTEE OF PERFORMANCE**

For value received, MTY Franchising USA, Inc., a Tennessee corporation ("Guarantor"), located at 9311 E. Via De Ventura, Scottsdale, Arizona 85258, absolutely and unconditionally guarantees to assume the duties and obligations of Kahala Franchising, L.L.C., an Arizona limited liability company, located at 9311 E. Via De Ventura, Scottsdale, Arizona 85258 ("Franchisor"), under its franchise registration in each state where the franchise is registered, and under its Franchise Agreement identified in its 2026 Franchise Disclosure Document, as it may be amended, and as that Franchise Agreement may be entered into with franchisees and amended, modified or extended from time to time. This guarantee continues until all such obligations of the Franchisor under its franchise registrations and the Franchise Agreement are satisfied or until the liability of Franchisor to its franchisees under the Franchise Agreement has been completely discharged, whichever first occurs. The Guarantor is not discharged from liability if a claim by a franchisee against the Franchisor remains outstanding. Notice of acceptance is waived. The Guarantor does not waive receipt of notice of default on the part of the Franchisor. This guarantee is binding on the Guarantor and its successors and assigns.

The Guarantor signs this guarantee at Scottsdale, Arizona on February 23, 2026.

Guarantor:

MTY Franchising USA, Inc., a Tennessee  
corporation

By:  \_\_\_\_\_  
Jenny Moody, Chief Legal Officer

**EXHIBIT X**  
**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Addendum for Sale of Company-Affiliated Owned Stores**

### Addendum for Sale of Company-Affiliated Owned Stores #1

**Below is information covering the last five fiscal years on a previously-owned franchised outlet now under the control of an affiliate of Franchisor.**

Address of Outlet for Sale: \_\_\_\_\_

Previous Franchise Owner 1:

Name: \_\_\_\_\_

City, State: \_\_\_\_\_

Telephone Number: \_\_\_\_\_

Time period outlet was controlled by previous franchise owner: \_\_\_\_\_

Reason for change in ownership: \_\_\_\_\_

Previous Franchise Owner 2 (if applicable):

Name: \_\_\_\_\_

City, State: \_\_\_\_\_

Telephone Number: \_\_\_\_\_

Time period outlet was controlled by previous franchise owner: \_\_\_\_\_

Reason for change in ownership: \_\_\_\_\_

Previous Franchise Owner 3 (if applicable):

Name: \_\_\_\_\_

City, State: \_\_\_\_\_

Telephone Number: \_\_\_\_\_

Time period outlet was controlled by previous franchise owner: \_\_\_\_\_

Reason for change in ownership: \_\_\_\_\_

Note: The telephone number of the previous franchise owner(s) listed above is the current business telephone number, or if unknown, the last home telephone number Franchisor had for the previous franchise owner.

The time period(s) when affiliate of Franchisor retained control of the outlet: \_\_\_\_\_

Date: \_\_\_\_\_  
(Do not leave blank)

\_\_\_\_\_  
Signature of Prospective Franchisee

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

Addendum for Sale of Company-Affiliated Owned Stores #1 must be signed and dated and remains in the Franchise Disclosure Document as the prospective franchisee's copy. Addendum for Sale of Company-Affiliated Owned Stores #2 must be signed and dated by the prospective franchisee and returned to Kahala Franchising, L.L.C. either by mailing it to Kahala Franchising, L.L.C. at 9311 E. Via De Ventura, Scottsdale, Arizona 85258 or faxing it to Kahala Franchising, L.L.C. at (480) 362-4792.

## Addendum for Sale of Company-Affiliated Owned Stores #2

**Below is information covering the last five fiscal years on a previously-owned franchised outlet now under the control of an affiliate of Franchisor.**

Address of Outlet for Sale: \_\_\_\_\_

Previous Franchise Owner 1:

Name: \_\_\_\_\_

City, State: \_\_\_\_\_

Telephone Number: \_\_\_\_\_

Time period outlet was controlled by previous franchise owner: \_\_\_\_\_

Reason for change in ownership: \_\_\_\_\_

Previous Franchise Owner 2 (if applicable):

Name: \_\_\_\_\_

City, State: \_\_\_\_\_

Telephone Number: \_\_\_\_\_

Time period outlet was controlled by previous franchise owner: \_\_\_\_\_

Reason for change in ownership: \_\_\_\_\_

Previous Franchise Owner 3 (if applicable):

Name: \_\_\_\_\_

City, State: \_\_\_\_\_

Telephone Number: \_\_\_\_\_

Time period outlet was controlled by previous franchise owner: \_\_\_\_\_

Reason for change in ownership: \_\_\_\_\_

Note: The telephone number of the previous franchise owner(s) listed above is the current business telephone number, or if unknown, the last home telephone number Franchisor had for the previous franchise owner.

The time period(s) when affiliate of Franchisor retained control of the outlet: \_\_\_\_\_

Date: \_\_\_\_\_  
(Do not leave blank)

\_\_\_\_\_  
Signature of Prospective Franchisee

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

Addendum for Sale of Company-Affiliated Owned Stores #1 must be signed and dated and remains in the Franchise Disclosure Document as the prospective franchisee's copy. Addendum for Sale of Company-Affiliated Owned Stores #2 must be signed and dated by the prospective franchisee and returned to Kahala Franchising, L.L.C. either by mailing it to Kahala Franchising, L.L.C. at 9311 E. Via De Ventura, Scottsdale, Arizona 85258 or faxing it to Kahala Franchising, L.L.C. at (480) 362-4792.

**EXHIBIT X-1**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**State Effective Dates**

***SURF CITY SQUEEZE***  
**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:

|              |                |
|--------------|----------------|
| California   | March 27, 2026 |
| Hawaii       | Not Registered |
| Illinois     | March 27, 2026 |
| Indiana      | March 27, 2026 |
| Maryland     | Pending        |
| Michigan     | Pending        |
| Minnesota    | Pending        |
| New York     | March 27, 2026 |
| North Dakota | Pending        |
| Rhode Island | Pending        |
| South Dakota | Not Registered |
| Virginia     | Pending        |
| Washington   | Pending        |
| Wisconsin    | Pending        |

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



**EXHIBIT Y**  
**TO THE FRANCHISE DISCLOSURE DOCUMENT**  
**Receipts**

## RECEIPT #1

This disclosure document summarizes certain provisions of the franchise agreement and other information in plain language. Read this disclosure document and all agreements carefully.

If Kahala Franchising, L.L.C. offers you a franchise, it must provide this disclosure document to you 14 calendar-days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale.

**[New York requires that we give you this disclosure document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship.]**

**[Michigan requires that we give you this disclosure document at least 10 business days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first.]**

If Kahala Franchising, L.L.C. does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, DC 20580 and the state agency listed on Exhibit B.

The franchisor is Kahala Franchising, L.L.C., located at 9311 E. Via De Ventura, Scottsdale, Arizona 85258. Its telephone number is (480) 362-4800. The franchise seller for this offering is \_\_\_\_\_, (\_\_\_\_) \_\_\_\_\_.

Issuance date: March 27, 2026.

Kahala Franchising, L.L.C. authorizes the respective state agencies identified on Exhibit C to receive service of process for it in the particular state.

I received a Surf City Squeeze Disclosure Document dated March 27, 2026, that included the following Exhibits:

|     |                                                                                                                                                   |     |                                                                         |
|-----|---------------------------------------------------------------------------------------------------------------------------------------------------|-----|-------------------------------------------------------------------------|
| A   | State Addenda to Franchise Disclosure Document                                                                                                    | M   | Lease Guaranty Acknowledgement                                          |
| B   | Directory of State Agencies and Administrators                                                                                                    | N   | Lease Review and/or Negotiation Agreement and Release and State Addenda |
| C   | Franchisor's Agent for Service of Process                                                                                                         | O   | Sublease and Guaranty of Sublease                                       |
| D   | Asset Purchase Agreement (For Sale of a Corporate Store to a Franchisee) with Promissory Note and Security Agreement and Guaranty (if applicable) | P   | Pre-Authorized Electronic Funds Transfer Form                           |
| E-1 | Franchise Agreement (New)                                                                                                                         | Q   | General Release for Renewal of Franchise Agreement                      |
| E-2 | Franchise Agreement (Renewal)                                                                                                                     | R-1 | Consent to Transfer and Release Agreement (without Sublease)            |
| E-3 | Franchise Agreement (Transfer)                                                                                                                    | R-2 | Consent to Transfer and Release Agreement (with Sublease)               |
| F-1 | Guaranty of Franchise Agreement                                                                                                                   | S   | State Specific Addenda to Franchise Documents                           |
| F-2 | Non-Disclosure and Non-Competition Agreement                                                                                                      | T   | Table of Contents – Confidential Operations Manual                      |
| G   | Collateral Assignment and Irrevocable Special Power of Attorney                                                                                   | U   | List of Franchise Owners                                                |
| H   | Amendment to Franchise Agreement (for non-traditional locations excluding those co-branded with another affiliated brand)                         | V   | Financial Statements                                                    |
| I   | Amendment to Franchise Agreement (for co-branded non-traditional locations)                                                                       | W   | Performance Guaranty                                                    |
| J   | In-Store Training Release and Waiver of Liability Agreement                                                                                       | X   | Addendum for Sale of Company-Affiliated Owned Stores                    |
| K   | Addendum to the Franchise Agreement for SBA Loans                                                                                                 | X-1 | State Effective Dates                                                   |
| L   | Required Lease Terms (Lease Addendum to Lease Agreement)                                                                                          | Y   | Receipts                                                                |
|     |                                                                                                                                                   |     |                                                                         |
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Date: \_\_\_\_\_

(Do not leave blank)

\_\_\_\_\_  
Signature of Prospective Franchisee

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

Receipt #1 must be signed and dated and remains in the Franchise Disclosure Document as the prospective franchisee's copy. Receipt #2 must be signed and dated by the prospective franchisee and returned to Kahala Franchising, L.L.C. by mailing it to Kahala Franchising, L.L.C. at 9311 E. Via De Ventura, Scottsdale, Arizona 85258.

## RECEIPT #2

This disclosure document summarizes certain provisions of the franchise agreement and other information in plain language. Read this disclosure document and all agreements carefully.

If Kahala Franchising, L.L.C. offers you a franchise, it must provide this disclosure document to you 14 calendar-days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale.

**[New York requires that we give you this disclosure document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship.]**

**[Michigan requires that we give you this disclosure document at least 10 business days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first.]**

If Kahala Franchising, L.L.C. does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, DC 20580 and the state agency listed on Exhibit B.

The franchisor is Kahala Franchising, L.L.C., located at 9311 E. Via De Ventura, Scottsdale, Arizona 85258. Its telephone number is (480) 362-4800. The franchise seller for this offering is \_\_\_\_\_, (\_\_\_\_) \_\_\_\_\_.

Issuance date: March 27, 2026.

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|-----|---------------------------------------------------------------------------------------------------------------------------------------------------|-----|-------------------------------------------------------------------------|
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| B   | Directory of State Agencies and Administrators                                                                                                    | N   | Lease Review and/or Negotiation Agreement and Release and State Addenda |
| C   | Franchisor's Agent for Service of Process                                                                                                         | O   | Sublease and Guaranty of Sublease                                       |
| D   | Asset Purchase Agreement (For Sale of a Corporate Store to a Franchisee) with Promissory Note and Security Agreement and Guaranty (if applicable) | P   | Pre-Authorized Electronic Funds Transfer Form                           |
| E-1 | Franchise Agreement (New)                                                                                                                         | Q   | General Release for Renewal of Franchise Agreement                      |
| E-2 | Franchise Agreement (Renewal)                                                                                                                     | R-1 | Consent to Transfer and Release Agreement (without Sublease)            |
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|     |                                                                                                                                                   |     |                                                                         |
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|     |                                                                                                                                                   |     |                                                                         |

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

(Do not leave blank)

\_\_\_\_\_  
Signature of Prospective Franchisee

\_\_\_\_\_  
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