

## FRANCHISE DISCLOSURE DOCUMENT

**MENCHIE'S GROUP, INC.**  
16027 Ventura Boulevard, Suite 301  
Encino, CA 91436  
818-708-0316  
[www.menchies.com](http://www.menchies.com)



We grant you the right to operate a MENCHIE'S Store. Your Store will offer for sale soft-serve frozen yogurt, ice cream, desserts and beverage items and other related products.

The total initial investment necessary to begin operation of your Store is from \$170,000 to \$574,792. This includes \$43,114 that must be paid to us.

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 Naz Moin at 16027 Ventura Boulevard, Suite 301, Encino, CA 91436; telephone 818-708-0316.

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: April 29, 2011.

### STATE COVER PAGE

## STATE COVER PAGE

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

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

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

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

1. THE FRANCHISE AGREEMENT AND MULTI UNIT AGREEMENT REQUIRE YOU TO RESOLVE DISPUTES WITH US BY LITIGATION/ARBITRATION/MEDIATION ONLY IN CALIFORNIA; OUT-OF-STATE LITIGATION/ARBITRATION/MEDIATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST YOU MORE TO LITIGATE/ARBITRATE/MEDIATE WITH US IN CALIFORNIA THAN IN YOUR OWN STATE.
2. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

Registration States Effective Dates: See following page.

MENCHIE'S

Franchise Disclosure Document Effective Dates

California	June 7, 2011
Hawaii	
Indiana	May 3, 2011
Maryland	See Separate FDD
Michigan	May 2, 2011
Minnesota	June 6, 2011
North Dakota	June 8, 2011
Rhode Island	May 27, 2011
South Dakota	May 2, 2011
Virginia	July 19, 2011
Wisconsin	May 2, 2011
FTC	April 29, 2011

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## **EXHIBITS**

Exhibit A	Agents for Service of Process
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## Item 1

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

The franchisor is “Menchie’s Group, Inc.” For ease of reference, we will be referred to as “Menchie’s,” “we,” or “us” in this Disclosure Document. The person or entity who buys the franchise will be referred to as “you” and “your” throughout this Disclosure Document. If you are a corporation or limited liability company, your owners must sign our “Guaranty and Assumption of Obligations,” which means that all of our Franchise Agreement’s provisions also will apply to your owners.

#### The Franchisor

We are a California corporation incorporated on January 2, 2008. Our principal business address is 16027 Ventura Boulevard, Suite 301, Encino, California 91436. We began offering franchises in March 2008. We have never operated a business similar to the business being franchised. We do not offer and have not offered franchises in any line of business.

We operate under the name “MENCHIE’S” and the other marks described in Item 13 (the “Marks”).

#### Agent for Service of Process

Our agents for service of process are disclosed in Exhibit A.

#### Parents, Predecessors and Affiliates

We do not have any parents or predecessors. We have five affiliates, Frozen Yogurt of Valley Village, Inc., Frozen Yogurt of Culver City, Inc., Frozen Yogurt of West Hills, Inc., Frozen Yogurt of Valencia, Inc., and BSD USA, LLC (collectively, “Affiliates”).

Frozen Yogurt of Valley Village, Inc. (formerly known as Menchie’s, Inc.) is a California corporation and is located at 4849 Laurel Canyon Boulevard, Valley Village, California 91607. Frozen Yogurt of Valley Village, Inc. (formerly, Menchie’s, Inc.) has operated a MENCHIE’S Store since May 2007.

Frozen Yogurt of Culver City, Inc. (formerly known as Menchie’s Culver City, Inc.) is a California corporation and is located at 5622 Sawtelle Boulevard, Culver City, California 90230. Frozen Yogurt of Culver City, Inc. (formerly, Menchie’s Culver City, Inc.) has operated a MENCHIE’S Store since June 2009.

Frozen Yogurt of West Hills, Inc. (formerly known as Menchie’s Fallbrook, Inc.) is a California corporation and is located at 6731½ Fallbrook Avenue, West Hills, California 91307. Frozen Yogurt of West Hills, Inc. (formerly, Menchie’s Fallbrook, Inc.) has operated a MENCHIE’S Store since November 2008.

Frozen Yogurt of Valencia, Inc. is a California corporation and is located at 24201 West Valencia Boulevard, Space 2450, Valencia, California 91355. Frozen Yogurt of Valencia, Inc. has operated a MENCHIE'S Store since January 2010.

The stores operated by Frozen Yogurt of Valley Village, Inc., Frozen Yogurt of Culver City Inc., Frozen Yogurt of West Hills, Inc. and Frozen Yogurt of Valencia, Inc. are substantially similar to the MENCHIE'S Store you will operate. Frozen Yogurt of Valley Village, Inc., Frozen Yogurt of Culver City, Inc., Frozen Yogurt of West Hills, Inc., and Frozen Yogurt of Valencia, Inc. do not operate any other business and have never offered franchises in any line of business.

BSD USA, LLC ("BSD") is a Delaware limited liability company and is located at 16027 Ventura Boulevard, Suite 301, Encino, California 91436. BSD is a subfranchisor of Menchie's Group, Inc. and, pursuant to a Master Franchise Agreement between BSD and us dated March 20, 2009, BSD grants MENCHIE'S franchises in certain states. As of the date of this Disclosure Document, BSD has seventy-one subfranchisees. BSD's subfranchisees operate a business substantially similar to the business offered under this Disclosure Document. BSD does not operate any other business and has never offered franchises in any other line of business. Other than Frozen Yogurt of Valley Village, Inc., Frozen Yogurt of Culver City, Inc., Frozen Yogurt of West Hills, Inc., Frozen Yogurt of Valencia, Inc. and BSD, we do not have any other affiliates.

### The Franchise Offered

We grant you the right to operate a store under the "MENCHIE'S" trademark and other Marks (the "Store"). We also offer qualified franchisees the right to develop multiple MENCHIE'S stores under the terms of a Multi Unit Agreement (the "Multi Unit Agreement"). If you sign a Multi Unit Agreement, you will sign a separate Franchise Agreement for each Store developed under your Multi Unit Agreement.

Your Store will offer premium frozen yogurt, ice cream, dessert items, beverages, and other products (the "Menu Items") for retail sale to the public. Menu Items are prepared according to specified recipes and procedures and use high-quality ingredients, including our specially formulated and specially produced proprietary lines of frozen yogurt and other food products. Each Store will operate under the name MENCHIE'S and other Marks we designate.

You must operate your Store under the MENCHIE'S System (the "System"). The System is characterized by a distinctive layout, service style, design, signs, décor, furnishings, recipes, procedures and techniques all of which we may change. MENCHIE'S stores range in size from 1,000 to 2,000 square feet depending on the location of your Store. You must adhere to the System regardless of the size of your Store.

### Market and Competition

Your Store will offer products and services to the general public throughout the year and compete with other frozen dessert chains (local, regional, and national), restaurants, grocery stores, and food service businesses. The market for your type of products and services generally

is developed and very competitive. Because sales of frozen desserts generally increase in warmer weather, your sales may be seasonal.

### Industry-Specific Regulations

We know of no trade or license regulations which specifically affect the frozen yogurt industry. Laws exist in every state that govern the food-service industry (including health, sanitation, and safety regulations regarding food storage, preparation and safety). You must comply with all local, state, and federal laws that apply to your store's operation, including health, sanitation, EEOC, OSHA, discrimination, employment, and sexual harassment laws. The Americans with Disability Act of 1990 requires readily accessible accommodation for disabled persons and therefore may affect your building construction. You must obtain real estate permits (such as zoning permits), real estate licenses and operational licenses.

There are also regulations that pertain to sanitation, labeling, food preparation, food handling, and food service. You will be required to comply with all applicable federal, state, and local laws and regulations during the operation of your Store. You should consult with an attorney concerning those and other local laws and ordinances that may effect to your Store's operation.

## **Item 2**

### **BUSINESS EXPERIENCE**

#### **Chief Executive Officer: Amit Y. Kleinberger**

Mr. Kleinberger has served as Chief Executive Officer of Menchie's since August 2008. From May 2006 to September 2008, Mr. Kleinberger served as President of Everlasting Springs, Inc., located in Ventura, California, a company involved in owning and operating multiple senior care facilities. From January 2005 to September 2007, he served as President of US Energy Windows, Inc., located in Tarzana, California, a company involved in vinyl and aluminum windows.

#### **Chairman of the Board, Director of Business Development: Elie Balas**

Mr. Balas has been the Chairman of the Board and Director of Business Development for Menchie's since March 2008. In addition to his duties with Menchie's, Mr. Balas has served as Executive Director of Ami Adini & Associates, Inc., located in Los Angeles, California, from January 2004 to the present.

#### **Chief Operations Officer: Adam Caldwell**

Mr. Caldwell has been the Chief Operations Officer of Menchie's since January 2008. Since June 2006, Mr. Caldwell also served as Vice President and Director of Operations for Frozen Yogurt of Valley Village, Inc., (formerly, Menchie's, Inc.) located in Valley Village, California.



From May 2006 to August 2007, Mr. Caldwell was involved in customer support, product development, and project management for Ami Adini & Associates, Inc., located in Los Angeles, California. From March 2006 to May 2006, he served as an Accounting and Operations Consultant for OML Consultants, Inc., located in Los Angeles, California.

**Vice President of Operations: Tom Regev**

Mr. Regev has served as our Vice President of Operations since March 2009. From December 2006 to March 2009, Mr. Regev served as the Deputy Controller for the Israeli Economic Mission to the United States located in New York, New York. From January 2005 to December 2006, Mr. Regev served as an Economist and Deputy Manager of the Loans and Deposit Department for the General Accountant Department of the Israeli Ministry of Finance in Jerusalem.

**Senior Vice President of Franchise Development: Joe Matthews**

Mr. Matthews joined Menchie's as Senior Vice President of Franchise Development in January 2010. In 2002 Mr. Matthews founded the Franchise Performance Group located in Litchfield, Connecticut, and maintains an active involvement with this company as of the date of this Disclosure Document.

**Vice President of Franchise Development: Brian Melaney**

Mr. Melaney has served as our Vice President of Franchise Development since September 2008. He was elected Mayor of West Haven City, Utah, in 2005 and was re-elected in November 2009 to serve an additional four-year term. In 1986, Mr. Melaney founded Melaney Marketing, a sports marketing company for which he still serves as its president.

**President: Danna Caldwell**

Mrs. Caldwell has been President of Menchie's since March 2008. Mrs. Caldwell also has been President of Frozen Yogurt of Valley Village, Inc. (formerly, Menchie's, Inc.) since 2006. From October 2005 to April 2006, she was an executive marketing assistant for Amp'd Mobile located in Los Angeles, California.

**Director of Research & Development: Karyn Pinsky Cohen**

Mrs. Cohen joined Menchie's in March 2010 to assist with product development and was promoted to Director of Research & Development in August 2010. From May 2009 to February 2010 Mrs. Cohen worked for Aniata Cheese Co. Building Wholesale accounts located in Vista, California. From January 2007 to April 2009 Mrs. Cohen served as Food & Beverage Manager for Le Pain Quotidien, located in Los Angeles, California. From September 2006 to December 2006 Mrs. Cohen took personal time off. From January 2004 to August 2006, Mrs. Cohen served as a private chef for Promises Treatment Center located in Malibu, California.

**Vice President of Marketing: Elizabeth Berry**

Ms. Berry has served as Vice President of Marketing for Menchie's since August 2009. From March 2007 to July 2009, Ms. Berry was the Director of Marketing and Public Relations for Red Mango, Inc. located in Sherman Oaks, California. From June 2006 to March 2008, Ms. Berry was an Account Executive at Bragman, Nyman and Cafarelli located in Los Angeles, California. From September 2005 to June 2006, she was a Senior Account Executive at Popculture Public Relations located in Canoga Park, California.

**Director of Marketing: Amete Balas**

Mr. Balas has been the Director of Marketing for Menchie's since December 2009. From June 2007 to December 2009 Mr. Balas was part of the global marketing team at SAP, a business software company located in Manhattan, New York. From June 2005 to July 2007, Mr. Balas produced freelance television commercials for companies located in New York and California.

**Franchise Development Manager: Frank M. Morrison**

Mr. Morrison has served as our Franchise Development Manager since May 2010. In November 2006 Mr. Morrison founded New Path Business Consulting, LLC located in Miami, Florida, and continues to operate this business to date. Since April 1999 Mr. Morrison has served as a business coach and franchise consultant for The Entrepreneur's Source located in Miami, Florida.

**Franchise Development Manager: Michael Mudd**

Mr. Mudd joined Menchie's as a Franchise Development Manager in May 2010. From November 2009 to May 2010 Michael served as a Sr. Consultant for Franchise Performance Group and worked under contract as the Director of Franchise Development for HART Health Franchise located in Seattle, Washington. From June 2006 to November 2009, Mr. Mudd served as Director of Franchise Development for Relax The Back located in La Palma, California. From November 2004 to June 2006, Mr. Mudd served as Director of Franchise Development for Nu Image MedSpa located in Irvine, California.

**Franchise Development Manager: Paul Martell**

Mr. Martell joined Menchie's as a Franchise Development Manager in August 2010. From October 2007 to July 2010 Mr. Martell served as the Director of Franchise Recruitment for DoodyCalls Franchising, LLC located in Charlottesville, Virginia. From December 2005 to October 2007 Mr. Martell was a franchise recruiter for CertaPro Painters located in Oaks, Pennsylvania.

**Franchise Development Manager: Angela Shaw-Long**

Mrs. Angela Shaw-Long Joined Menchie's in January 2011 as a Franchise Development Manager. From 2001 to 2010 Mrs. Shaw-Long was a franchise owner of Shaw Consulting LLC, d/b/a The Entrepreneur's Source, located in New York, New York.

**Franchise Development Manager: Naz Moin**

Ms. Moin joined Menchie's in March 2010 as the Franchise Development Manager. From August 2006 to March 2010 Ms. Moin was the Administrative Director at Kalia Modern Eco Living located in Sherman Oaks, California. From December 2005 to July 2006 Ms. Moin served as a Staffing Executive for the Technology Division at Robert Half International located in Westwood, California.

**Senior Bookkeeper: Diana Vasquez**

Ms. Vasquez joined Menchie's in April 2009 as a Bookkeeper. From January 2009 to March 2009, Ms. Vasquez worked as a freelance bookkeeper for HI-Tech Recon in Norwalk, California. From December 2006 to December 2008 Ms. Vasquez was the Bookkeeper/Office Manager for Rody Air, Inc. located in Pacoima, California. From April 2006 to November 2006 Ms. Vasquez worked with various employment agencies completing temporary bookkeeping assignments.

**Item 3**

**LITIGATION**

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

#### Franchise Fee

The Franchise Fee for a single franchise is Forty Thousand Dollars (\$40,000.00), which will be paid in full at the time you sign the Franchise Agreement. The Franchise Fee is earned upon receipt and except as noted below is non-refundable.

#### Uniforms, Merchandise, Equipments and Supplies

You will be required to purchase from us uniforms, merchandise, equipment and store supplies costing approximately \$3,000.00 for each Store you agree to open. This amount is earned upon receipt and is non-refundable.

#### Multi Unit Fee

If you enter into a Multi Unit Agreement, the Initial Franchise Fee for each Store will depend on the number of Stores you agree to open. If you agree to open three Stores, the Initial Franchise Fee for each Store will be \$32,000. If you agree to open five Stores, the Initial Franchise Fee for each Store will be \$25,000.

If you sign a Multi Unit Agreement, you must pay us a "Multi Unit Fee" based upon the number of Stores you agree to develop and operate. If you agree to open three Stores, your Multi Unit Fee will be \$96,000 (\$32,000 x 3). If you agree to open five Stores, your Multi Unit Fee will be \$125,000 (\$25,000 x 5). You will pay the Multi Unit Fee as follows: (i) one-half of the total Multi Unit Fee upon the signing of the Multi Unit Agreement; or (ii) the total Multi Unit Fee upon the signing of the Multi Unit Agreement. The Multi Unit Fee is fully earned by us upon receipt and is non-refundable.

If you pay one-half of the total Multi Unit Fee upon the signing of the Multi Unit Agreement, the portion of the Multi Unit Fee paid that is attributable to each Store you agree to develop under the terms of the Multi Unit Agreement will be credited against the Initial Franchise Fee due for each Store upon the signing of each individual Franchise Agreement. The remaining balance of the Initial Franchise Fee for each Store will be due when you sign a

Franchise Agreement for the Store. Under this option you will develop and open each Store before beginning the development of the next Store.

If you choose to pay the total Multi Unit Fee upon signing the Multi Unit Agreement, you also will sign a Franchise Agreement and Addendum to Franchise Agreement (attached as Schedule G to the Franchise Agreement) for each Store you agree to open when you sign the Multi Unit Agreement. The Addendum to Franchise Agreement will modify the time you will have to develop and open each Store – two years if you agree to open three Stores, and three years if you agree to open five Stores.

Technology Fee

You must pay us a monthly Technology Fee in the amount of \$114 per month. The Technology Fee will cover our expenses associated with furnishing one user with our franchise management software, creating email accounts, email marketing, and providing technology administration and maintenance according to our then current guidelines and procedures, which may change from time to time. The monthly Technology Fee is non-refundable and you will begin paying the Technology Fee 30 days after the effective date of the Franchise Agreement. The monthly Technology Fee will be paid to us via electronic transfer. We reserve the right to increase or decrease the monthly Technology Fee each calendar year in an amount not to exceed 5%. We will provide you with written notice of any change to the Technology Fee 14 days prior to any change.

The range of initial fees we collected during our last fiscal year are as follows:

- Franchise Fee: \$30,000 - \$40,000
- Uniforms, Merchandise, Equipment and Supplies: \$3,000 - \$8,000
- Multi Unit Fee: \$96,000 - \$125,000
- Technology Fee: \$0 - \$81

**Item 6**

**OTHER FEES**

<b>Type of Fee (1)</b>	<b>Amount</b>	<b>Due Date</b>	<b>Remarks</b>
Royalty fee (2)	6% of Gross Sales (3)	Weekly	Weekly payment (Tuesday) to us, via electronic banking.
Marketing Fee (4)	2% of Gross Sales (3)	Weekly	Weekly payment (Tuesday) to us, via electronic banking.

<b>Type of Fee (1)</b>	<b>Amount</b>	<b>Due Date</b>	<b>Remarks</b>
Local Advertising Fee	\$4,000	Yearly	See Item 11 for more information.
Franchisee Ad Co-op Fee (5)	To be determined by the Co-op	To be determined by the Co-op	If we designate a local cooperative, you must participate in the cooperative.
Audit fee	Cost of audit. Precise estimate is unknown as of the date of this Disclosure Document.	5 days after notice of amount due	You will pay us the costs of an audit to be performed if you fail to provide monthly financial statements, which are required by the Franchise Agreement in excess of three (3) times per calendar year or if a random audit shows an understatement of gross sales in excess of two percent (2%).
Real Estate Broker Fee	\$3,950 (Single Franchise) \$2,950 per Store (3 Stores) \$1,975 per Store (5 Stores)	50% paid when Franchisee signs the Franchisee Service Agreement for the Store, balance paid when a site for your Store is secured	You are required to use our required vendor, currently Javelin Solutions, LLC, in connection with locating and securing a site for your Store. A copy of the Franchisee Service Agreement, which outlines the site selection services you will receive from Javelin Solutions, is attached to this Disclosure Document as Exhibit E.

Type of Fee (1)	Amount	Due Date	Remarks
Late fee	Ten percent (10%) of the amount due	Within 5 days of the date of Menchie's statement for amount due	You will pay us a late fee in the amount of ten percent (10%) if you fail to pay the Royalty and Advertising and Marketing Fee within ten (10) days of the due date. You also will be required to pay us a late fee on any other overdue amount beginning with the date payment is due until you pay the arrearage.
Interest on late payments	One and One-half percent (1 ½%) per month	Within 5 days of date of Menchie's statement for amount due	You will pay us interest on any Royalty or Advertising and Marketing Fee or other fees due us, in the amount of one and one-half percent (1½%) per month. You also will be required to pay us interest on any other overdue amount beginning with the date payment is due until you pay the arrearage.
Additional training fee	To be determined by us, but not to exceed \$500.00 per person per day.	Prior to commencement of the training program	You will pay us a non-refundable fee if you ask for special assistance or we determine that additional training is warranted after your initial training period.

Type of Fee (1)	Amount	Due Date	Remarks
Computer System maintenance	To be determined by the vendor currently estimated at \$1,500 annually	To be determined by the vendor	You will need to have your technology information systems maintained and updated.
Operations Manual	\$500.00	As incurred	In the event an Operations Manual is lost, stolen, or otherwise unavailable to you, you must pay us \$500.00 for a replacement copy.
Alternative supplier evaluation fees	Various amounts to be determined by the amount of time and money necessary to evaluate the alternative supplier and/or the alternative product. Precise estimate is unknown as of the date of this Disclosure Document, but this amount will include our costs and expenses associated with any testing, including travel and lodging expenses incurred by us to visit a supplier's facilities.	As incurred	If you seek approval of a new supplier or product, we may charge you a fee for conducting the evaluation or you may have to pay some third party to evaluate your item or proposal.
Upgrade of business premises	Various amounts, not to exceed \$90,000 during the initial term of the Franchise Agreement.	As incurred	You may be required during the term of the franchise agreement to update your business premises. The monies spent will go to various contractors and may not be refundable.



<b>Type of Fee (1)</b>	<b>Amount</b>	<b>Due Date</b>	<b>Remarks</b>
Renewal fee	10% of our then current franchise fee	Prior to the signing of the renewal franchise agreement	Payable to us, if you wish to renew your franchise agreement.
Alternative dispute fee	To be determined by the American Arbitration Association	At commencement of dispute resolution	Fee for participating in any dispute-resolution process.
Transfer fee	Fifty percent (50%) of our then current franchise fee	Due at time Transferee signs Franchise Agreement	Either you or transferee must pay us the transfer fee.
Seminar and convention fees	No charge for attending seminars or conventions. Fees for travel, food, and lodging will depend on distance traveled and accommodations which one chooses.	As incurred	Fees for travel, food, and lodging to attend seminars and conventions. Paid to various vendors. Certain expenses may be refundable under various circumstances.
Licenses and permits	Various amounts	Prior to commencement of business operations	Due to various local government entities for operating a business.
Costs and attorneys' fees	Will vary under circumstances	As incurred	Payable to us, to reimburse us for fees incurred by us in obtaining injunctive or legal relief for the enforcement of any item of the Franchise Agreement or for costs incurred for arbitration proceedings.
Indemnification	Will vary under circumstances	As incurred	You must reimburse us if we are held liable for any claims arising from your business.

<b>Type of Fee (1)</b>	<b>Amount</b>	<b>Due Date</b>	<b>Remarks</b>
Insurance (6)	Will vary according to coverage and area	As incurred	You must be fully covered in all area of operating a business.
Costs for modification of the System	Various Amounts. Precise estimate is unknown as of the date of this Disclosure Document.	As incurred	You may have to pay for costs involved in changing products, equipment, or procedures.
Proprietary Software	Various Amounts	As incurred	If we develop a proprietary software, you must use it.
Grand Opening Marketing Campaign	\$1,500	As incurred	You must spend at least \$1,500 on grand opening marketing and promotion during the first month your Store is open. Your grand opening marketing expenditures will count towards your yearly local advertising requirements. (See Item 11 for more information)
Inspection Fee	Our costs and expenses in conducting any subsequent pre-opening Store inspection. We estimate that this amount will not exceed \$1,500.00.	Upon demand	We will inspect your Store prior to opening. If your Store does not pass initial inspection, you will be charged for all costs and expenses we incur in conducting any subsequent inspections.

Notes:

- (1) You will pay all fees to us unless otherwise noted. All fees are non-refundable unless otherwise noted.
- (2) The amount of the Royalty Fee for any renewal term will be as provided in the franchise agreement executed for such renewal.
- (3) Gross Sales means the total revenues and receipts from the sale of all products, services and merchandise sold in your Store, whether under any of the Marks or otherwise, including any catering or delivery services, cover charges or fees in your Store or on its premises, and all revenues derived from any type of authorized vending machines. Gross Sales excludes sales taxes.
- (4) The Advertising and Marketing Fee is paid to us for deposit in a Marketing Fund. Any expenses for local marketing must be paid by you directly to the vendors.
- (5) As further described in Item 11, we may designate a local advertising cooperative and require you to contribute to and participate in the cooperative. Each Store, including any company- or affiliate-owned stores (except Special Sites) will be a member of the cooperative. Each Store will have one vote per Store. If the majority of the stores in a local marketing cooperative are company- or affiliate-owned, we will have majority voting power.
- (6) Insurance includes all risk or all peril coverage, business interruption insurance, comprehensive general liability insurance and other forms of insurance we require. You pay insurance merchandise directly to our required third party insurer. You must deliver to us upon commencing construction of your Store, and thereafter annually or at our request, a proper certificate evidencing the existence of the required insurance coverage. See Item 8 for more information on insurance.

**Item 7**

**ESTIMATED INITIAL INVESTMENT**

**YOUR ESTIMATED INITIAL INVESTMENT**

<b>Type of Expenditure</b>	<b>Amount</b>	<b>Method of Payment</b>	<b>When Due</b>	<b>To Whom Payment Is to be Made</b>
Franchise Fee (1)	\$40,000	Certified funds	At time of signing of Franchise Agreement	Us
Training Expenses(2)	\$500-\$1,000	Check, cash, or credit card	As incurred	Paid to various vendors

<b>Type of Expenditure</b>	<b>Amount</b>	<b>Method of Payment</b>	<b>When Due</b>	<b>To Whom Payment Is to be Made</b>
Real Estate Broker Fee (3)	\$1,975-\$3,950	As agreed to	50% paid when Franchisee Service Agreement signed, remaining balance due when Store location secured	Required vendor
Real estate/rent and deposit (4)	\$2,000-\$12,000	As agreed to	As incurred	Landlord
Leasehold improvements (5)	\$60,000-\$220,000	As agreed to	As incurred	Paid to various providers
Furniture, fixtures, and equipment (6)	\$100,000-\$190,000	As agreed to	As incurred	Paid to various required suppliers
Computer (POS) System (7)	\$10,000-\$16,000	As agreed	As incurred	Vendor
Signage (8)	\$5,000-\$15,000	As agreed to	As incurred	Vendor
Technology Fee (9)	\$342	As agreed to	As incurred	Us
Opening inventory (10)	\$4,000-\$10,000	As agreed to	As incurred	Designated and approved suppliers
Uniforms, Merchandise, Equipment and Sales (11)	\$3,000	Certified funds	As incurred	Us
Advertising (12)	\$4,000-\$10,000	As agreed to	As incurred	Vendors
Utility deposits, security deposits, business licenses, etc. (13)	\$1,500-\$3,500	As agreed to	As incurred	Various govt. entities, utility companies
Additional funds—3 months (14)	\$10,000-\$50,000	As agreed to	As incurred	Various vendors
<b>Total (15)</b>	<b>\$170,000-\$574,792</b>			

Notes:

\*We do not offer direct or indirect financing to franchisees for any items. Except where otherwise noted, all amounts that you pay to us are non-refundable. Third party suppliers will decide if payments to them are refundable.

(1) Franchise Fee. The Initial Franchise Fee is \$40,000.00 for an individual franchise. If you sign a Multi Unit Agreement, the Initial Franchise Fee you will pay will depend on the number of Stores you agree to open. If you agree to open three Stores, your Franchise Fee will be \$32,000 for each Store. If you agree to open five Stores, your Franchise Fee will be \$25,000 for each Store. As outlined further in Item 5, you can either pay one-half of the total Initial Franchise Fees for the Stores you agree to open at the time you sign the Multi Unit Agreement or pay the total Initial Franchise Fees for the Stores you agree to open at the time you sign the Multi Unit Agreement.

(2) Training Expenses. We will not charge you a fee for you and one additional person to attend our initial training program. See Item 11 for more information on training. You, however, are responsible for all hotel, transportation and other costs and expenses for the people you designate to attend our initial training program. The amount in the table represents the estimated costs and expenses you will incur for you and one additional person to attend our initial training program. These amounts are not refundable

(3) Real Estate Broker Fee. You are required to use our required vendor, currently Javelin Solutions, LLC, in connection with locating and securing a site for your Store. As outlined further in Item 6 above, the Real Estate Broker Fee you will be required to pay will depend on the number of Stores you agree to open. If you open one Store, the Real Estate Broker Fee will be \$3,950. If you agree to open three Stores, the Real Estate Broker Fee will be \$2,950 per Store. If you agree to open five Stores, the Real Estate Broker Fee will be \$1,975 per Store. You will sign a Franchisee Service Agreement for each Store you agree to open, which agreement outlines the site selection services you will receive from Javelin Solutions. A copy of the Franchisee Service Agreement is attached as Exhibit E.

(4) Real Estate. A MENCHIE'S Store occupies about 1,000 to 2,000 square feet of space. Rent depends on geographic location, size, local rental rates, businesses in the area, site profile, and other factors and could be considerably higher in large metropolitan areas than in more suburban or small town areas. Stores can be located in strip shopping centers, shopping malls, free-standing units, and other venues in downtown commercial areas and in residential areas. We anticipate that you will rent the Store's premises. It is possible, however, that you will choose to buy, rather than rent, real estate on which a building suitable for the Store already is constructed or could be constructed. The rental security deposit may be refundable depending on your agreement with your landlord.

(5) Leasehold Improvements. Leasehold improvement costs, including floor coverings, wall treatments, counters, ceilings, painting, window coverings, electrical, carpentry, and similar work, and architect's and contractor's fees depend on the site's condition, location, and size; the demand for the site among prospective lessees; the site's previous use; the build-out

required to conform the site for your Store; and any construction or other allowances the landlord grants. The lower figure assumes that you have a unique real estate model; the higher figure assumes a high square footage model. These monies are not refundable after they have been expended.

(6) Equipment. These amounts include the frozen yogurt-making machines that you must purchase from our required supplier. This amount also includes the cost for refrigerators, freezers, and other equipment, such as office equipment and furniture and a telephone system. These amounts are not refundable, but the machines may be sold.

(7) Computer (POS) System. You must purchase a Computer System that meets our specifications and requirements.

(8) Signage. This includes inside and outside signage. The monies are usually not refundable after they have been expended.

(9) Technology Fee. You must pay us a monthly Technology Fee in the amount of \$114 per month. The estimate in the table above reflects your Technology Fee for the first three months of operation. See Item 5 for more information on the Technology Fee.

(10) Inventory. This includes food and beverage products, paper products, cleaning supplies, and printing uniforms, promotional material and other supplies. Monies spent on these items are not refundable, but the unused items may be sold.

(11) Uniforms, Merchandise, Equipment and Supplies. As noted in Item 5, you must purchase your uniforms, merchandise, and certain equipment and supplies from us.

(12) Advertising. Monies to be included in initial marketing for the first 3 months of operation. This includes funds to be used for your “Grand Opening Marketing Campaign” as described more fully in Item 11. These monies are not refundable.

(13) Business Licenses. You must obtain business licenses as dictated by local regulations. You will need to provide monies for deposits for utilities and insurance. Insurance costs depend on policy limits, types of policies, nature and value of physical assets, gross revenue, number of employees, square footage, location, business contents, and other factors bearing on risk exposure. The estimate contemplates insurance costs for 3 months. These monies are not refundable.

(14) Additional Funds. This item estimates your expenses during the initial period (first three (3) months) of operation of your MENCHIE’S Store (other than the items identified separately in the table). This estimate includes payroll costs. These figures are estimates, and 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 recommended methods and procedures; your management skill, experience, and business acumen; local economic conditions; the local market for your products and services; the prevailing wage rate;

competition; and the sales level reached during the initial period of operation of your Store. This amount does not end your initial investment obligation.

(15) Total. We relied on our Affiliates' years of experience operating a MENCHIE'S store to compile these estimates. You should review these figures carefully with a business advisor before deciding to acquire the franchise.

You are cautioned to allow for inflation, discretionary expenditures, fluctuating interest rates and other costs of financing, and local market conditions, which can be highly variable and can result in substantial, rapid and unpredictable increases in costs. You must bear any deviation or escalation in costs from the estimates in this Item 7 or estimates that we give during any phase of the development process.

ESTIMATED INITIAL INVESTMENT FOR MULTI UNIT AGREEMENT. If you sign a Multi Unit Agreement, your initial investment for your first Store will be the same as disclosed in the Item 7 chart. You also will pay a Multi Unit Fee as described in Item 5. This is the only additional initial investment for the Multi Unit Agreement. The Initial Franchise Fee for each subsequent Store is set forth in Item 5. You also should be aware that your initial investment for your second and subsequent Stores likely will be higher than the above estimates for your first Store due to inflation and other economic factors that may vary over time.

## **Item 8**

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

In order to ensure a uniform image and uniform quality of products and services throughout the MENCHIE'S System, you must maintain and comply with our quality standards. Although you are not required to purchase or lease real estate from us, we must accept the location of your Store (see Item 11). You must use our required vendor, currently Javelin Solutions, LLC, in connection with selecting and securing a site for your Store. You must execute our standard form of Lease Addendum in connection with any lease for the location, a copy of which is attached to the Franchise Agreement as Schedule C. You must construct and equip your Store in accordance with our then current approved design, specifications and standards. In addition, it is your responsibility to ensure that your building plans comply with the Americans with Disabilities Act and all other federal, state and local laws. You also must use equipment (including hardware and software for your Computer System), signage, fixtures, furnishings, products, ingredients, supplies and advertising materials that meet our specifications and standards.

#### Designated Sources

You must purchase certain equipment, products, merchandise and supplies only from us or our required suppliers as noted in this Item 8. From time to time we, an affiliate or a third party vendor or supplier may be the only approved supplier for certain products. For example, as of the date of this Disclosure Document, you must purchase all trademarked retail items, products and supplies, including apparel and accessories, toys, bags and mugs, from us.

Additionally, you must purchase your uniforms, and certain merchandise, supplies, equipment and other materials, including cabinets and gift bags from us. You will pay the then-current price in effect for all purchases you make from us, our affiliate or any third party vendor we designate.

Approved Supplies and Suppliers

We provide you with a list of approved manufacturers, suppliers and distributors (“Approved Suppliers List”) and approved inventory products, fixtures, furniture, equipment, signs, stationery, supplies and other items or services necessary to operate the Store (“Approved Supplies List”). The Approved Supplies List may specify a required manufacturer or supplier of a specific product or piece of equipment. We reserve the right to designate a required source of supply for certain products and supplies, and we or an affiliate may be a required source. For example, we currently require our franchisees to use the following source for a particular product, service or piece of equipment:

<b>Required Source</b>	<b>Required Item or Service</b>
Javelin Solutions	Site Selection
Present Value Properties	Site Selection
Neptune Design Group	Architecture
Stoelting Model F231-x8 I2-YG2MNCH Custom Slim Line Soft Serve Freezer	Soft-serve machinery
Micros	Point of Sales Computer
Brixey	Furniture
Cape Furniture	Furniture
FPN	Credit Card Processing System
Retail Radio	In-Store Music
FranConnect	Franchise Management Software
Gaspar Insurance	Franchise Insurance

The lists also may include other specific products without reference to a particular manufacturer or supplier, or they may set forth the specifications and/or standards for other approved products. For example, as noted below, you must obtain insurance that meets our standards and requirements. We may revise the Approved Suppliers List and Approved Supplies List. We give you the approved lists as we deem advisable. We generally do not give these lists



to approved suppliers. We will set up your menu and provide contact information for your distributors and/or manufacturers of all products offered at the Store.

Except where we identify a sole single source, if you propose to use in the operation of your Store any product, supply, material, furnishing or equipment which has not yet been approved by us as conforming to our specifications and quality standards and/or from a supplier not yet approved in writing by us, you must first notify us in writing and must submit to us, upon request, sufficient information, specifications, and samples so that we can determine whether the item or service complies with System standards or the supplier meets our supplier criteria. We will provide you with written approval or disapproval within a reasonable time period (typically 30 days). You may not use any product, supply, material, furnishing or equipment that we have not approved.

Supplier approval will depend on product quality, delivery frequency and reliability, service standards, financial capability, customer relations, concentration of purchases with limited suppliers to obtain better prices and service, and/or a supplier's willingness to pay us or our affiliates for the right to do business with our System. We may inspect or re-inspect the facilities and products of any approved supplier and revoke our approval if the supplier fails to continue to meet our criteria and specifications. As a condition of approval, you and/or any supplier must reimburse us for all costs and expenses incurred by us associated with any testing, including travel and lodging expenses incurred where we deem it necessary to visit a supplier's facilities.

Nothing contained in this Disclosure Document or in Franchise Agreement requires us to approve an inordinate number of suppliers of a given item or approve suppliers, which, in our reasonable judgment, would result in higher costs to our franchisees or prevent, in our sole judgment, our effective and economical supervision of suppliers.

Because we supply the trademarked merchandise to our franchisees, each of our officers owns an interest in one of our suppliers (the Franchisor). No officer owns an interest in any other supplier.

You must carry insurance policies protecting you, us and our affiliates. The insurance policy or policies shall be written in accordance with the standards and specifications (including minimum coverage amounts) set forth in writing by us from time to time, and, at a minimum, shall include the following (except as different coverages and policy limits may be specified for all franchisees from time to time in writing): (i) "special" causes of loss coverage forms (sometimes called "All Risk coverage" or "All Peril coverage") on the Store, store improvements, furniture, fixtures, equipment, supplies and other property used in the operation of the Store, for full repair and replacement value, except that an appropriate deductible clause is permitted; (ii) business interruption insurance covering a minimum 12 months loss of income, including coverage for our Royalty Fees (for example, in the event of a fire or destruction of the premises, the insurance must cover our average royalty payments (based on the previous 12 month timeframe, or if a shorter timeframe, the total operating timeframe for the store) during the rebuilding process); (iii) comprehensive general liability insurance, including product liability insurance and contractual liability insurance; (iv) workers' compensation covering all of

your employees; (v) motor vehicle insurance; (vi) umbrella liability insurance which also includes employers liability; (vii) “Per Location” aggregate limits when multiple store locations are insured under one comprehensive general liability and umbrella liability policy(cies); (viii) Menchie’s Group, Inc. named as an additional insured on all liability policies required by this subparagraph; (ix) severability of interests or separation of insureds provisions must be included in the liability policies and all policies must be primary and non-contributing with any insurance policy carried by Menchie’s Group, Inc.; and (x) any other such insurance coverages or amounts as required by law or other agreement related to the Store. We may from time to time modify the required minimum limits (including an increase to the umbrella policy referenced in (vi) above) and require additional insurance coverages by providing written notice to you, as conditions require, to reflect changes in relevant circumstances, industry standards, experiences in the MENCHIE’S System, standards of liability and higher damage awards. Although we do not do so as of the date of this Disclosure Document, we reserve the right to designate a single source from which you must purchase or renew insurance.

The insurance coverages referenced above must commence as of the date you sign a lease or purchase agreement for the Authorized Location (as defined in Item 12).

You must deliver to us upon execution of the lease or purchase agreement for the Authorized Location, but before commencing construction of your Store, and thereafter annually or at our request a proper certificate evidencing the existence of such insurance coverage and your compliance with the provisions of this subparagraph. The insurance certificate must show our status as an additional insured (as noted in (viii) above) and provide that we will be given 30 days’ prior written notice of material change in or termination or cancellation of the policy. If you do not procure and maintain the required insurance coverage (including any modifications referenced in the preceding sentence), we have the right, but not the obligation, to procure insurance coverage and to charge the costs to you, together with a reasonable fee for the expenses we incur in doing so. You must pay these amounts to us immediately upon written notice.

Although we require certain insurance coverage and have recommended other coverages, we do not guarantee that the required or recommended insurance will be adequate to fully protect your assets. You should therefore consult with an insurance professional to determine what coverage, in addition to the minimum required coverage, may be needed for you and your Store.

We and our affiliates reserve the right to receive rebates or other consideration from suppliers in connection with your purchase of trademarked merchandise, goods, products and services as described in this Item 8, as well as in connection with any future purchase of any goods, products or services. Most of these payments are calculated on an amount based on products sold. We will retain and use such payments as we deem appropriate or as required by the vendor. Except for those items you purchase from us directly, we currently do not receive any rebates or other consideration from any of our required or approved suppliers based upon your purchases. We do derive revenue from items we sell directly to you by charging you more than our cost. During our last fiscal year, we derived revenue from your purchases from us in the amount of \$611,649, which amount represents 14.23% of our total revenue of \$4,299,344.

We may negotiate prices for numerous products for the benefit of the System but not on behalf of individual franchisees. Currently, there is no purchasing or distribution cooperative but we reserve the right to create a cooperative and require you to participate. We may receive volume discounts for the System which we will pass through to our franchisees. Beyond these discounts, we do not provide material benefits to you because of your use of approved suppliers.

You can expect items purchased or leased in accordance with our specifications will represent approximately 90% of total purchases you will make to begin operations of the business and 70% of the ongoing costs to operate the business.

## Item 9

### FRANCHISEE'S OBLIGATIONS

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

Obligation	Section in Agreement*	Item in Disclosure Document
(a) Site selection and acquisition/lease	Sections 2A and 5A; Multi Unit Agreement Section 4 and Appendix C	Items 7 and 11
(b) Pre-opening purchases/leases	Sections 5A, 6A, 6E and 9B	Items 5, 6, 7 and 8
(c) Site development and other pre-opening requirements	Sections 5A and 5B; Multi Unit Agreement Sections 2 and 4	Items 7, 8 and 11
(d) Initial and ongoing training	Sections 7B and 7C; Multi Unit Agreement Section 6	Items 6 and 11
(e) Opening	Sections 2B and 5A; Multi Unit Agreement Section 4 and Appendix C	Items 5 and 11
(f) Fees	Sections 9A-9F; Multi Unit Agreement Section 3 and Appendix A	Items 5, 6 and 7
(g) Compliance with standards and policies/operations manual	Sections 6A and 6O; Multi Unit Agreement Sections 4 and 6A	Items 6, 7, 8, 11, 14 and 16
(h) Trademarks and proprietary information	Sections 3A-3E and 6J; Multi Unit Agreement	Items 13 and 14

<b>Obligation</b>	<b>Section in Agreement*</b>	<b>Item in Disclosure Document</b>
	Section 6B	
(i) Restrictions on products/services offered	Sections 2D-2E and 6A-6C	Items 6, 7, 8, 11 and 16
(j) Warranty and customer service requirements	Sections 2E and 6K	Items 6 and 11
(k) Territorial development	Sections 2B and 2D; Multi Unit Agreement Section 4 and Appendix B and C	Item 12
(l) Ongoing product/services, purchases	Sections 6A-6C	Items 6, 7 and 8
(m) Maintenance appearance and remodeling requirements	Sections 5B-5F	Items 8 and 11
(n) Insurance	Section 10C	Items 6, 7 and 8
(o) Advertising	Sections 8A-8E and 9D	Items 6, 7 and 11
(p) Indemnification	Section 10B	Not Applicable
(q) Owner's participation/management/staffing	Sections 7A-7F	Items 11 and 15
(r) Records and reports	Sections 9G, 9J and 9K	Item 11
(s) Inspections/audits	Sections 5A-5C, 6G and 9I	Items 6 and 11
(t) Transfer	Sections 11A-11G; Multi Unit Agreement Section 9	Items 6 and 17
(u) Renewal	Section 4B	Items 6 and 17
(v) Post-termination obligations	Sections 14A-14C; Multi Unit Agreement Sections 8A-8F	Item 17
(w) Non-competition covenants	Section 10D	Item 17
(x) Dispute resolution	Sections 12A-12B; Multi Unit Agreement Sections 10H and 10N	Item 17
(y) Other	Not Applicable	Not Applicable

\*Unless otherwise noted, Section references are to the Franchise Agreement.

## Item 10

### FINANCING

Neither we nor any of our affiliates offer any direct or indirect financing. We do not guarantee your notes, leases, or any obligation. We are unable to estimate if you will be able to obtain financing from third parties and, if so, the terms and conditions of financing.

Direct Connect Ventures, LLC, (“DCV”) is a recommended service provider for new and existing franchisees that will assist and guide you with obtaining the necessary funding options for startup and expansion financing that include and are not limited to the standard Small Business Administration (“SBA”) 7(a) loan program. Through funding management with DCV this type of program and others may enable those who qualify with the opportunity to obtain financing in an expeditious and more predictable fashion. We have not entered into any agreements with DCV in connection with any funding or financing programs that may be available to you. We will not receive any compensation for placement of this debt and may compensate the funding management company in some manner.

We do not have any past or present practice, or intention, to sell, assign or discount any third party note, contract or other instrument that you may sign. We do not guarantee any financing obligations on your behalf.

We encourage that you seek financial funding management services from Direct Connect Ventures, LLC, a California Limited Liability Company whose mailing address is 3835 Thousand Oaks Boulevard, Suite 206, Westlake Village, CA 91362, whose phone number is 805.449.2411 and whose website is [www.DirectConnectVentures.com](http://www.DirectConnectVentures.com).

## Item 11

### FRANCHISOR’S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS, AND TRAINING

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

#### Pre-Opening Assistance

Before you open the Store, we will:

1. Provide you with our site selection criteria and general building and design requirements for your Store. (Franchise Agreement—Sections 5A and 5B.)
2. Provide you with the Approved Supplies and Approved Suppliers Lists. (Franchise Agreement—Section 6C.)

3. Loan you either a written copy or electronic copy of the Operations Manual, the current table of contents of which is in Exhibit G. As of the date of this Disclosure Document, the Operations Manual contains 43 pages. (Franchise Agreement—Section 6I.)

4. Provide the initial training program and opening assistance described below. (Franchise Agreement—Sections 7B and 7C.)

5. Inspect your Store prior to opening and provide a Menchie's Certificate of Opening. A Certificate of Opening may be obtained only after all local permits, certificates and codes have been met and a certificate of occupancy has been granted. Upon franchisee's request for Menchie's inspector, there will be a ten (10) day moratorium prior to inspector's arrival to franchisee's store location. If you do not pass your initial inspection, you will be charged for all costs and expenses incurred by us in sending an inspector to re-inspect your Store. We estimate that this amount will not exceed \$1,500.00. (Franchise Agreement – Section 5A.)

### Post-Opening Assistance

During your operation of the Store, we will:

1. Maintain the Marketing Fund. (Franchise Agreement—Section 8A.)
2. Provide updates to the Approved Supplies and Approved Suppliers Lists. (Franchise Agreement—Section 6C.)
3. Make periodic visits to your Store as we reasonably determine necessary to provide consultation and guidance. We will advise you of any problems arising out of the operation of your Store as disclosed by the report or by our inspection. (Franchise Agreement—Section 6G.)
4. Periodically offer refresher training courses as we determine necessary and require you to attend. (Franchise Agreement—Section 7C.)

### Our Obligations Under the Multi Unit Agreement

A developer signs the initial Franchise Agreement in the Development Schedule at the time the Multi Unit Agreement is signed. Our obligations under the Franchise Agreement apply to a developer. Each time a developer signs another Franchise Agreement, our obligations are activated for the new Store established. We do not have any separate obligations under the Multi Unit Agreement.

### Time of Opening

We estimate that it will be 120 to 365 days after you sign the Franchise Agreement before you open the Store, but this assumes that you already have a site for the Store or find one shortly after signing the Franchise Agreement. You must sign a lease for an acceptable site within 180 days after the Franchise Agreement's Effective Date. We may terminate the Franchise

Agreement if you fail to sign a lease within the 365-day period. If you sign a Multi Unit Agreement and choose to pay the total Multi Unit Fee at the time you sign the Multi Unit Agreement (see Item 5), you will have two years to open three Stores or three years to open five Stores. The specific timetable for opening depends on the site's condition; the Store's construction schedule; the extent to which you must upgrade or remodel an existing location; the delivery schedule for equipment and supplies; the completion of training; and your compliance with local laws and regulations. You may not open the Store until (1) we inspect your Store and provide you with a Certificate of Opening; (2) you complete pre-opening training to our satisfaction; (3) you pay the initial franchise fee and other amounts then due to us; and (4) you give us certificates for all required insurance policies and present copies of required licenses.

### Advertising

As of the date of this Disclosure Document, you pay a Marketing Fee of 2% of your Gross Sales to a marketing and development fund (the "Fund") established by us.

We administer the Fund. The Fund is not a trust or escrow account, and we do not have any fiduciary obligations with respect to the Fund. If all of the Marketing Fees are not spent in the fiscal year in which they accrue, the remaining amounts are retained in the Fund for use in the following years. We may use the Fund for various purposes, including, but not limited to: (1) salaries, benefits and any other payments made to employees or any other individual or entity providing services to the Fund; (2) broadcast or print advertising; (3) the creation, development and production of advertising and promotional materials (*i.e.*, print ads, radio, film and television commercials, videotapes, direct mail pieces, and other print advertising); (4) any marketing or related research and development; (5) advertising and marketing expenses, including product and food research and development, services provided by advertising agencies, public relations firms or other marketing, research or consulting firms or agencies, menu designs, customer incentive programs, sponsorships, marketing meetings and sales incentives, development of our website and intranet system, Internet access provider costs, subscriptions to industry newsletters or magazines, and administrative costs and salaries for marketing support personnel; and (6) costs and expenses incurred by us relating to any franchise convention we hold or sponsor.

We determine the use of the monies in the Fund. We are not required to spend any particular amount on marketing, advertising or promotion in the area in which your Store is located. We oversee the advertising program and use the Fund to create marketing materials and conduct national, regional or local advertising as we determine appropriate. We will contribute to the Fund amounts equal to your required percentage for each similarly situated company-owned and affiliate-owned stores in the same local marketing area, except those stores located at "Special Sites" (see Item 12). From time to time we may contribute to the Fund some amounts paid to us by outside suppliers. We will prepare an annual unaudited accounting of the Fund and will make it available for your review upon your written request. We have our own in-house marketing and advertising production capabilities, but also may use an outside national, regional, or local agency. We may be reimbursed for administrative costs and overhead incurred in administering the Fund. We will not use any of the advertising funds for the solicitation of franchise sales.

During our last fiscal year ending December 2010, Fund income was spent in the following approximate amounts: 16% on administration, 1% on supplies, 38% on payroll, 7% on design fees, and 38% on marketing firm fees.

In addition to the Marketing Fee, you also must spend at least \$4,000 per year on local marketing and promotion. You may only use your own marketing material if we have approved it before its use. We will notify you of our approval within 30 days after the marketing material is submitted. If we do not notify you of our approval within 30 days of the marketing material being submitted then the marketing material will be deemed unapproved.

You also must engage in certain grand opening marketing events and activities during the first month your Store is open. Specifically, you must spend at least \$1,500 on grand opening marketing and promotion during the first month your Store is open (the “Grand Opening Marketing Campaign”). Your grand opening marketing expenditures will count towards your yearly local advertising requirements.

You must maintain a business phone and advertise continuously in the yellow pages or classified section of a local telephone directory (no display ads are required currently), the cost of which will count toward your local marketing requirement. You must obtain our written approval of all promotional and marketing materials prior to their use.

Although we do not currently do so, we reserve the right to require advertising or marketing cooperatives to be formed, changed, dissolved or merged.

### Computer System

You must obtain and use in your Store a computer-based point-of-sale cash register system and software and a “back-of-office” IBM-compatible computer (the “Computer System”). You must record all sales on the Computer System. The Computer System will generate reports on the sales and expenses of the Store, and it currently costs about \$10,000.00 to \$16,000.00. You must obtain your Computer System from our required supplier, currently Micros. You will be solely responsible for the acquisition, operation, maintenance, and upgrading of the Computer System. Neither we, nor any affiliate or third party, is obligated to provide ongoing maintenance, repairs, upgrades, or updates for the Computer System. We currently do not require that you purchase a maintenance, repair, upgrade, or update service contract for the Computer System, but we reserve the right to do so in the future. The current annual cost of a service contract is about \$1,500.00.

Our current Computer System requirements are identified in Exhibit F. We reserve the right to change the point-of-sale cash register system and back-of-office computer at any time, but will not require you to replace these items more than three times during the initial term of the Franchise Agreement. We reserve the right to change the software each calendar year. At such time as we designate the change or enhancement to the Computer System you may be required to make certain payments to us or our designated suppliers. You will have 30 days to install and commence using the changed or enhanced Computer System. You must acquire the right to use hardware, software, peripheral equipment and accessories, and arrange for installation,



maintenance and support services of the initial, changed or enhanced Computer System all at your cost. There are no contractual limitations on the frequency and cost of this obligation.

The Computer System we develop may include proprietary software. You may be required to license the proprietary software from us, an affiliate or a third party, and you also may be required to pay a software licensing or use fee in connection with your use of the proprietary software. All right, title and interest in the software will remain with the licensor of the software.

We may access the Computer System and retrieve, analyze, download and use all software, data and files stored or used on the Computer System. We may access the Computer System through our intranet, in your Store or from other locations. You must store all data and information that we designate and report data and information in the manner we specify, including through our intranet or other online communications. You also must maintain a phone line and a separate modem dedicated for the sole use of allowing our computer system to interface and communicate with your Computer System and you may need to purchase software designated by us for this to occur. You also must have your Store connected to the Internet using a connection method we approve, currently DSL or Cable modem. You must have a permanent Internet email account. Your e-mail account may not exceed 50 megabytes.

You understand that the data storage, phone line, modem, communication software, Internet access, Internet email account and all additional hardware and software needed to implement and maintain these services is at your cost.

### Site Selection

You select the site for the Store with site selection guidelines we provide. You must use our designated vendor, currently Javelin Solutions, LLC, in connection with selecting and securing a site for your Store. We do not select your site. However, upon your submission of all required information, we will notify you whether or not we have any objections to the site you proposed. You may not proceed to develop a Store on the site unless we have provided you with our acceptance of the site. Further, we must approve your plans and specifications for the Store prior to the time you commence construction. Our identification or acceptance of a site does not constitute a guarantee, recommendation or assurance as to the success of the site or your Store. The site selection factors considered by us in deciding whether or not to object to the location may include the following: (a) demographics; (b) traffic patterns; (c) parking and visibility; (d) business mix and competition; (e) ability to reflect image to be portrayed by MENCHIE'S businesses; and (f) size, appearance and other physical characteristics of the site.

If you have not selected a site at the time the Franchise Agreement is signed you have 365 days to do so. If the site selection cannot be agreed upon within this timeframe, we reserve the right to terminate the Franchise Agreement.

## Training

Before you open your Store, we will train you (or your Operating Partner as defined in Item 15) and one of your manager-level employees to operate a MENCHIE'S Store. We will provide seven (7) days of training (although the specific number of days depends on our opinion of your experience and needs) at our training facility in Los Angeles, California, or another location we designate.

Additional people beyond the first two may attend initial training if you pay our then-current training charge for each additional person. (See Item 6) You also must pay for all travel and living expenses that you and your employees incur and for your employees' wages and workers' compensation insurance while they attend our initial training program.

Training will occur after you sign the Franchise Agreement and while you are developing the Store. Your attendees must complete training before you may open your Store. We plan to be flexible in scheduling training to accommodate our personnel, you, and your personnel. As of the date of this Disclosure Document, we provide the following training:

### **TRAINING PROGRAM**

SUBJECT	HOURS OF CLASSROOM TRAINING	HOURS OF ON THE JOB TRAINING	LOCATION
WELCOME & GENERAL ORIENTATION	2	0	Company-Affiliated Location or Franchised Location
AREA DEVELOPMENT PROGRAM	2	0	Company-Affiliated Location or Franchised Location
SETTING UP THE BUSINESS	3	2	Company-Affiliated Location or Franchised Location

SUBJECT	HOURS OF CLASSROOM TRAINING	HOURS OF ON THE JOB TRAINING	LOCATION
MENCHIE'S SALES SYSTEM	1	1	Company-Affiliated Location or Franchised Location
SITE SURVEY/PROPOSAL	2	2	Company-Affiliated Location or Franchised Location
ACTUAL SITE VISIT	0	2	Company-Affiliated Location or Franchised Location
DRAFT MKTG. PLAN FOR STORE	1	1	Company-Affiliated Location or Franchised Location
MARKETING MANAGEMENT	1	0	Company-Affiliated Location or Franchised Location
FOOD AND SAFETY STORAGE	1	0	Company-Affiliated Location or Franchised Location
INVENTORY MANAGEMENT	1	0	Company-Affiliated Location or Franchised Location
EQUIPMENT SET-UP AND REVIEW	3	0	Company-Affiliated Location or Franchised Location

SUBJECT	HOURS OF CLASSROOM TRAINING	HOURS OF ON THE JOB TRAINING	LOCATION
LABOR COST MANAGEMENT	1	0	Company-Affiliated Location or Franchised Location
CUSTOMER SERVICE FUNDAMENTALS	1	0	Company-Affiliated Location or Franchised Location
MENU GUIDELINES	1	0	Company-Affiliated Location or Franchised Location
GENERAL BUSINESS BUILDING	2	0	Company-Affiliated Location or Franchised Location
BRANDING STRATEGY	1	0	Company-Affiliated Location or Franchised Location
CONSULTING SERVICES OFFERED BY MENCHIE'S	0.5	0	Company-Affiliated Location or Franchised Location
FOOD DESIGN	0.5	0	Company-Affiliated Location or Franchised Location
TIME MANAGEMENT	0.5	0	Company-Affiliated Location or Franchised Location

SUBJECT	HOURS OF CLASSROOM TRAINING	HOURS OF ON THE JOB TRAINING	LOCATION
TRADE MANAGEMENT	0.5	0	Company-Affiliated Location or Franchised Location
VENDOR RELATIONSHIPS	1	0	Company-Affiliated Location or Franchised Location
INDUSTRY/OPERATOR KNOWLEDGE	1	0	Company-Affiliated Location or Franchised Location
OPERATOR SUPPORT	2	0	Company-Affiliated Location or Franchised Location
HANDS-ON WORK AT RESTAURANTS		8	Company-Affiliated Location or Franchised Location
OPENING STRATEGY	2	2	Company-Affiliated Location or Franchised Location
MONTHLY OPERATOR SUPPORT SYSTEM	1	2	Company-Affiliated Location or Franchised Location
FOOD PREPARATION	2	0	Company-Affiliated Location or Franchised Location

SUBJECT		HOURS OF CLASSROOM TRAINING	HOURS OF ON THE JOB TRAINING	LOCATION
AREA	DEVELOPER	2	0	Company-Affiliated Location or Franchised Location
TEST				
TASTING AND FOOD QUALITY PROGRAM		2	0	Company-Affiliated Location or Franchised Location
COMMUNITY OUTREACH		2	0	Company-Affiliated Location or Franchised Location
<b>TOTAL</b>		40	20	

Tom Regev, our Vice President of Operations, oversees all training. Mr. Regev has served as our Vice President of Operations since March 2009. Other staff members, who are listed in Item 2 may oversee and assist with training. The Operations Manual will be used as the principal instructional material.

When your Store is ready to open, we will, at our cost, send one of our representatives to your Store for 3 days to work on the final aspect of the training and to assist with your Store opening. You also must successfully complete this phase of training.

You (or your Operating Partner) and/or other previously trained and experienced employees must attend and satisfactorily complete various training courses that we periodically provide at the times and locations we designate. Besides attending these courses, you must attend an annual meeting of all franchisees at a location we designate. We will not require attendance at the annual meeting for more than 3 days during any calendar year. You are responsible for all related travel and living expenses and wages. As of the date of this Disclosure Document, the location, duration, frequency and content of any additional training program we may require is unknown. Generally, this additional training will be available on an “as needed” basis depending on new product and services introduction, and the availability of training locations.

We may require Store managers to satisfactorily complete initial and ongoing training programs.

We may charge you a fee for training managers. (See Item 6) You are responsible for all related travel and living expenses and wages.

## Operations Manual

The Table of Contents of the Operations Manual, together with the number of pages in each Article and the total number of pages, is stated in Exhibit G. You must treat the Operations Manual, and other written materials created for or approved for use in the operation of the Store, and the information contained in them, as confidential. The Operations Manual will remain our sole property. We may, from time to time, revise the contents of the Operations Manual and you must comply with each new or changed standard.

### **Item 12**

#### **TERRITORY**

You will operate the Store at a specific location that we first must approve (the “Authorized Location”). We will not during the term of your franchise operate or grant others the right to operate a MENCHIE’S Store within a specified geographic area (the “Designated Territory”), except as generally described in this Item 12 and more fully stated in the Franchise Agreement.

Generally, your Designated Territory will include a radius of no less than 1 mile around your Store measured from the main entrance of your Store. Your Designated Territory will not overlap with another franchisee’s designated territory. As a result, we will not locate another MENCHIE’S Store, whether operated by another franchisee, us or one of our Affiliates, any closer than 2 miles from the main entrance of your Store. The boundaries of your Designated Territory may depend upon any major topographical features which clearly define a contiguous area, like rivers, major freeways, etc.

You may operate the Store only at the Authorized Location and may not relocate the premises without our approval. We will allow relocation if circumstances dictate that it is in your and our best interests.

We retain all rights that are not expressly granted to you under the Franchise Agreement. The license granted to you under the Franchise Agreement does not include (i) any right to sell products and Menu Items at any location outside the Designated Territory, except for any catering or delivery services we permit, (ii) any right to use alternative channels of distribution, (iii) any right to sell products and Menu Items to any person or entity for resale or further distribution, except as we may establish from time to time, or (iv) any right to exclude, control or impose conditions on our development of future franchised, company- or affiliate-owned stores at any time or at any location regardless of the proximity to your Designated Territory.

Further, we may, among other things, on any terms and conditions we deem advisable, without paying compensation to any franchisee, and without granting you any rights therein:

- (i) establish and/or license others to establish franchised or company-owned Stores at any location outside your Designated Territory

regardless of the proximity of such stores to your Designated Territory;

- (ii) merge with, acquire or become associated with (“Merger/Acquisition Activity”) any businesses or stores of any kind under other systems and/or other marks, which businesses and stores may convert to or operate under the Marks and may offer or sell menu items, products and services that are the same as or similar to the Menu Items offered at or from the store, and which stores may be located anywhere inside or outside of your Designated Territory; and
- (iii) offer, sell and distribute for ourselves and/or license others to offer, sell and distribute through franchised businesses or any other method of distribution, both inside and outside your Designated Territory, menu items the same as or different from the Menu Items offered under the System, and which are offered and distributed under the Marks or marks different than the Marks through any distribution channels or methods. The distribution channels or methods include, without limitation, grocery stores, club stores, convenience stores, wholesale, business or industry locations (e.g. manufacturing site, office building), military installations, military commissaries or the Internet (or any other existing or future form of electronic commerce).

Special Sites will also be excluded from your Designated Territory and we have the right to develop or franchise the following Special Site locations: (1) military bases; (2) public transportation facilities; (3) sports facilities, including race tracks; (4) student unions or other similar buildings on college or university campuses; (5) amusement and theme parks; (6) malls and (7) special events (“Special Sites”).

You must not offer catering and delivery services unless we authorize in writing.

Continuation of your franchise rights and Designated Territory do not depend on the achievement of a certain sales volume, market penetration or other contingency. You do not receive the right to acquire additional franchises unless you sign another franchise agreement with us.

We do not place any restrictions on the customers you may solicit. You do not, however, have the right to use other channels of distribution to make sales.

### Multi Unit Agreement

The rights described above regarding what we and our affiliates can do for a single Store are generally the same if you sign a Multi Unit Agreement. In addition, we may terminate the Multi Unit Agreement if you (i) fail to exercise options to enter into Franchise Agreements with





us within any period on the Development Schedule; (ii) fail to comply with any other terms and conditions of the Multi Unit Agreement; (iii) make or attempt to make a transfer or assignment in violation of the Multi Unit Agreement; or (iv) fail to comply with the terms and conditions of any individual Franchise Agreement or of any other agreement to which you and we or our affiliates are parties.

### Item 13

#### TRADEMARKS

Under the Franchise Agreement, we grant you the non-exclusive right to use the Marks in connection with the operation of your Store.

The following Marks are registered upon the principle registry of the United States Patent and Trademark Office:

Mark	Registration No.	Date of Registration
MENCHIE'S	3,519,334	October 21,2008
Menchie's (Design) 	3,733,426	January 5, 2010
Menchie's Guy (Design) 	3,704,602	November 3, 2009

The following Marks have been applied for registration upon the principle registry of the United States Patent and Trademark Office:

Mark	Application Number	Application Date
COME SMILE WITH US	85/289,517	April 7, 2011
MIX WEIGH PAY	85/289,525	April 7, 2011
MY SMILEAGE	85/289,492	April 7, 2011
SMILEAGE	85/289,501	April 7, 2011
WE MAKE YOU SMILE	85/289,507	April 7, 2011
WHAT'S YOUR MIX	85/289,512	April 7, 2011

We claim common law trademark rights for all of the Marks. We have filed or intend to file all required affidavits and renewals for the Marks noted above.

You must follow our rules when you use the Marks, including giving proper notices of trademark and service mark registration and obtaining fictitious or assumed name registrations required by law. You may not use any Mark in your corporate or legal business name; with

modifying words, terms, designs, or symbols (except for those we license to you); in selling any unauthorized services or products; or as part of any domain name, homepage, electronic address, or otherwise in connection with a Web site.

Schedule B to your Franchise Agreement identifies the Marks that you are licensed to use. We have the right to change Schedule B from time to time. Your use of the Marks and any goodwill is to our exclusive benefit, and you retain no rights in the Marks. You also retain no rights in the Marks upon expiration or termination of your Franchise Agreement. You are not permitted to make any changes or substitutions of any kind in or to the use of the Marks unless we direct in writing. We may change the System presently identified by the Marks, including the adoption of new Marks, new Menu Items, new products, new equipment, or new techniques, and you must adopt the changes in the System as if they were part of the Franchise Agreement at the time of its execution. You must comply within a reasonable time, at your expense, if we notify you to discontinue or modify your use of any Mark. We will have no liability or obligation as to your modification or discontinuance of any Mark, except that we will reimburse you for your out-of-pocket expenses, including letterhead, in an amount not to exceed \$250.

There are currently no material determinations of the U.S. Patent and Trademark Office, the Trademark Trial and Appeal Board, or any state trademark administrator or court; or any pending infringement, opposition, or cancellation proceedings involving the principal Marks. There is no pending material federal or state court litigation regarding our use or ownership rights in any trademark.

There are no currently effective agreements that significantly limit our rights to use or license the use of these trademarks.

We will protect your right to use the Marks against claims of infringement or unfair competition arising out of your proper use of the Marks. You must notify us of the use of, or claim of rights to, a trademark identical or confusingly similar to our Marks. We have the right to determine whether or not we will take affirmative action when notified of these uses or claims and the right to exclusively control any litigation or proceedings. You are required to assist us in the prosecution of such litigation or proceedings. We will reimburse you for all actual damages (other than loss of income) and out-of-pocket expenses incurred by you in connection with any claim by any third party for infringement or unfair competition arising out of your use of the Marks; however, our obligations to reimburse you will exist only if you have used the name or Mark that is the subject of the controversy in strict accordance with the provisions of this Agreement and our rules, regulations, procedures, requirements, and instructions, and have notified us of the challenge as stated above and have otherwise fully cooperated with us in the defense of any action.

We know of no superior prior rights or infringing uses that could materially affect your use of the trademarks in the state where your franchise business will be located.

## Item 14

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

As of the date of this Disclosure Document, we do not own any rights in or to any patents, patent applications or copyrights that are material to the franchise. We claim copyright protection for our Operations Manual and other publications and promotional materials, although we have not registered any of the materials with the U.S. Copyright Office. These materials are considered proprietary and confidential and are considered our property and may be used by you only as provided in the Franchise Agreement, Operations Manual, and other communications that we provide to you. We reserve the right to register any of our copyrighted materials at any time we deem appropriate.

There currently are no effective determinations of the Copyright Office (Library of Congress), United States Patent & Trademark Office, Board of Patent Appeals & Interferences, or any court, or any pending infringement, opposition or cancellation proceedings or any pending material litigation involving any patents or copyrights.

There are no agreements in effect that significantly limit our right to use or license the copyrighted materials. We are not required by any agreement to protect or defend any patent, trademark, or copyright.

We know of no superior prior rights or infringing uses that could materially affect your use of the copyrights in the state where your franchise business will be located.

Our Operations Manual and other materials contain our confidential information (some of which constitutes trade secrets under applicable law). This information includes site selection criteria; recipes; training and operations materials; methods, formats, specifications, standards, systems, procedures, food preparation techniques, sales and marketing techniques, knowledge, and experience used in developing and operating MENCHIE'S Stores; marketing and advertising programs for MENCHIE'S Stores; any computer software or similar technology that is proprietary to us or the system; knowledge of specifications for and suppliers of Approved Suppliers and other products and supplies; knowledge of the operating results and financial performance of MENCHIE'S Stores other than your Store; and graphic designs and related intellectual property.

All ideas, concepts, techniques, or materials concerning a MENCHIE'S store, whether or not protectable intellectual property and whether created by or for you or your owners or employees, must be promptly disclosed to us and will be deemed to be our sole and exclusive property, part of the system, and works made-for-hire for us. To the extent any item does not qualify as a "work made-for-hire" for us, you assign ownership of that item, and all related rights to that item, to us and must take whatever action (including signing assignment or other documents) we request to show our ownership or to help us obtain intellectual property rights in the item.

You may not use our confidential information in an unauthorized manner. You must take reasonable steps to prevent improper disclosure to others and use non-disclosure and non-

competition agreements with those having access. We may regulate the form of agreement that you use and will be a third-party beneficiary of that agreement with independent enforcement rights.

## **Item 15**

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

The day-to-day operations of your MENCHIE'S business must be managed at all times by you (or your Operating Partner as defined below) or a "General Manager" who has satisfactorily completed our training program. Your General Manager need not have an equity interest in the business but must agree in writing not to compete against us and to preserve confidential information to which they have access and not to compete with you, us, and other franchisees. We may regulate the form of agreement that you use and be a third-party beneficiary of that agreement with independent enforcement rights. Certain other employees may also be required to enter into an agreement not to compete against MENCHIE'S in similar businesses of other systems while employed by you, and for 12 months thereafter, and an agreement not to reveal confidential information obtained during the course of their employment with you.

You are required to inform us immediately of a change of the Operating Partner or General Manager of your business operation.

You must attend any annual meeting, convention or conference of franchisees and all meetings related to new products or product preparation procedures, new operational procedures or programs, training, management, sales or sales promotion or similar topics that we offer, at your own expense. As of the date of this Disclosure Document, we do not anticipate requiring franchisees to attend meetings for more than 10 days during any calendar year. You are responsible for all related travel and living expenses associated with attending any additional meetings, conventions or conferences. As of the date of this Disclosure Document, the location, duration, frequency and content of any additional meetings, conventions or conferences we require you to attend is unknown and will depend on the frequency with which new products or services are introduced to the System.

If you are, or at any time during the term become, a business corporation, partnership, limited liability company, or other legal entity, you must designate an "Operating Partner." Your Operating Partner must be an individual who (a) owns and controls not less than 5% of the equity and voting rights; (b) has completed our initial training program; and (c) has the power and authority to bind you in all dealings with us. If you are a corporation, limited liability company, or partnership, your owners must personally guarantee your obligations under the Franchise Agreement and agree to be bound personally by every contractual provision, whether containing monetary or non-monetary obligations, including the covenant not to compete. This "Guaranty and Assumption of Obligations" is included with your Franchise Agreement.

**Item 16**

**RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL**

You must offer and sell all Menu Items and perform all services that we require for MENCHIE’S Stores. You may not offer or sell any products or perform any services that we have not authorized. We have the unlimited right to change the required and/or authorized products and services you may offer.

You may not offer any delivery service or engage in any catering services without our prior written approval. You also may not offer for sale any Menu Items or other products through the Internet or other online programming or marketing. You are not otherwise limited in the customers to whom you may sell products or services.

**Item 17**

**RENEWAL, TERMINATION, TRANSFER, AND DISPUTE RESOLUTION**

**THE FRANCHISE RELATIONSHIP**

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

	<b>Provision</b>	<b>Section in Agreement*</b>	<b>Summary</b>
a.	Length of the term of the franchise	Section 4A  Sections 2 and 4 and Appendix B to the Multi Unit Agreement	Term is 10 years.  Term depends on the number of Stores to be developed under the Multi Unit Agreement as specifically set forth in Appendix B.
b.	Renewal or extension of the term	Section 4B	Renewal for two additional term (s) of 10 years each.  No renewal rights under the Multi Unit Agreement.
c.	Requirements for you to renew or extend	Section 4B	You give us written notice of your decision to renew at least 6 months but not more than 12 months before the end of the expiring term; you sign our then current form of franchise agreement; you have complied with the modernization requirements for your Store; you are not in default and have satisfied

	<b>Provision</b>	<b>Section in Agreement*</b>	<b>Summary</b>
			<p>your obligations on a timely basis; if leasing, you have written proof of your ability to remain in possession of the Store premises throughout the renewal term; you comply with our training requirements; you pay us a renewal fee; and you sign a release.</p> <p>If you seek to renew your franchise at the expiration of the initial term or any renewal term, you may be asked to sign a new franchise agreement that contains terms and conditions materially different from those in your previous franchise agreement, such as different fee requirements and territorial rights.</p>
d.	Termination by you	Section 13C	You may terminate the Franchise Agreement only for a material breach by us, provided you give us written notice of the breach and allow 30 days to cure such breach.
e.	Termination by us without cause	Sections 2A and 13B	If you fail to locate a site for your Store within 180 days after signing the Franchise Agreement or you fail to complete our training program within 180 days after commencement, we may terminate the Franchise Agreement.
f.	Termination by us with cause	Sections 13A and 13B  Section 7B of the Multi Unit Agreement	We can terminate the Franchise Agreement and Multi Unit Agreement only if you default or fail to comply with your obligations.
g.	“Cause” defined - defaults which can be cured	Sections 13A and 13B  Section 7B of the Multi Unit Agreement	<p>You have 10 days to cure the non-submission of reports and non-payment of amounts due and owing; and 30 days to cure defaults for the failure to abide by our standards and requirements in connection with the operation of your business, or failure to meet any requirements or specifications established by us, and any other default not listed in (h) below.</p> <p>You have 30 days to cure defaults not listed in (h) below.</p>

	<b>Provision</b>	<b>Section in Agreement*</b>	<b>Summary</b>
h.	“Cause” defined – defaults which cannot be cured	<p>Sections 2A, 5A, 5B, 5D, 9I, 13A, 13B and 15P</p> <p>Section 4C, 7B and 10N of the Multi Unit Agreement</p>	<p>Non-curable defaults include: any material misrepresentation or omission in your application for a franchise, abandonment, loss of lease, the failure to timely cure a default under the lease, the loss of your right of possession or failure to relocate, closing of the Store, the closing of the Store by the authorities for health or public safety reasons, unauthorized use of confidential information, your insolvency, unapproved assignments or transfers, defaults that materially impair the goodwill associated with any of the Marks, criminal convictions, intentionally (or unintentionally in two or more occasions) understating or underreporting Gross Sales or other fees, multiple defaults, you employ or seek to employ, directly or indirectly, any person who is at the time or was at any time during the prior 6 months employed in any type of managerial position by us, our affiliates, or by any franchisee in the system, or failure to cure within 24 hours of notice a default which violates any health, safety or sanitation law or regulation or any system standard as to food handling, cleanliness, health or sanitation.</p> <p>Non-curable defaults include: insolvency or general assignment for the benefit of creditors, appointment of a receiver of your property, a final judgment remains unsatisfied of record for 30 days or longer, execution is levied against your business or property, suit to foreclose any lien or mortgage against your premises or equipment is instituted against you and is not dismissed or in the process of being dismissed within 30 days, failure to meet the Development Schedule, you employ or seek to employ, directly or indirectly, any person who is at the time or was at any time during the prior 6 months employed in any type of managerial position by us, our affiliates, or by any franchisee in the system, or notice of termination of a Franchise Agreement.</p>

	<b>Provision</b>	<b>Section in Agreement*</b>	<b>Summary</b>
i.	Your obligations on termination/non-renewal	Section 14A-14C  Sections 8A-G of the Multi Unit Agreement	Obligations include complete de-identification and payment of amounts due, assignment of lease and telephone numbers upon our demand, return of Operations Manual and confidential information, proprietary materials and related writings, and right to purchase assets of the Store (also see (o) and (r) below).  You lose all remaining rights to develop Stores. Other obligations include those obligations noted above if existing Franchise Agreements also are terminated. We also may have the right to purchase assets of the Stores (see (o) below).
j.	Assignment of contract by us	Section 11G  Section 9A of the Multi Unit Agreement	No restriction on our right to assign.
k.	“Transfer” by you – defined	Section 11A  Section 9B of the Multi Unit Agreement	Includes any transfer of your interest in the Franchise Agreement or in the business or any ownership change listed in Section 11A of the Franchise Agreement and Section 9B of the Multi Unit Agreement.
l.	Our approval of transfer by you	Section 11B  Section 9B of the Multi Unit Agreement	We have the right to approve all transfers but will not unreasonably withhold approval.
m.	Conditions for our approval of transfer	Sections 11B-11D	Transferee meets all of our then-current requirements for new franchisees, transfer fee and any applicable training fee paid, all amounts owed by prior franchisee paid, required modernization is completed, training completed, transferee executes then current form of franchise agreement (modified to reflect that agreement relates to a transfer), required guarantees signed, necessary financial reports and other data on franchise business is prepared, release signed by you, full compliance of your obligations under all Franchise Agreements executed between you and us, and other conditions that we may reasonably require from time to time as part of our transfer policies (also see (r) below).



	<b>Provision</b>	<b>Section in Agreement*</b>	<b>Summary</b>
		Section 9B of the Area Development Agreement	You cannot transfer rights under the Multi Unit Agreement unless you transfer all of your rights and interests under all Franchise Agreements.
n.	Our right of first refusal to acquire your business	Section 11F	We can match any offer for your Stores assets and, in the case of a proposed stock sale, we can purchase your Store assets at a price determined by an appraiser, unless you and we agree otherwise.
o.	Our option to purchase your business	Section 14B	Upon termination, we have the right (but not the obligation) to purchase or designate a third party that will purchase all or any portion of the assets of your Store, including the land, building, equipment, fixtures, signs, furnishings, supplies, leasehold improvements, and inventory. Qualified appraiser(s) will determine price as set forth in the Franchise Agreement.
p.	Your death or disability	Section 11E	You can transfer your franchise rights to your heir or successor in interest like any other transfer, provided the person satisfies our training requirements and other transfer conditions, but if assignee is your spouse or child, no transfer fee is required.
q.	Non-competition covenants during the term of the franchise	Section 10D	Except as we otherwise agree to in writing, no direct or indirect involvement in the operation of any Competing Business (defined in (r) below) other than the one authorized in the Franchise Agreement.
r.	Non-competition covenants after the franchise is terminated or expires	Section 10D	No direct or indirect involvement in a Competing Business for 2 years (i) at the premises of the former Store (ii) within 25 miles of the former Store or (iii) within 25 miles of any other business or Store using the System. A Competing Business for purposes of the post-term non-compete includes any business where 10% or more of its sales includes the sale of soft-serve frozen yogurt or ice cream.
s.	Modification of the Agreement	Section 15B Section 10C of the Multi Unit Agreement	No modifications generally, but we have the right to change the Operations Manual, list of authorized Marks and Menu Items.
t.	Integration/merger clause	Section 15B Section 10D of the Multi Unit Agreement	Only the terms of the Franchise Agreement are binding (subject to federal law). Any statements or promises not in the Franchise Agreement or this Disclosure Document should not be relied upon and may not be enforceable.

	<b>Provision</b>	<b>Section in Agreement*</b>	<b>Summary</b>
u.	Dispute resolution by arbitration or mediation	Section 12  Section 10M of the Multi Unit Agreement	Except for certain claims, all disputes must be mediated or arbitrated in the city closest to where our headquarters are located (currently, Los Angeles, California) (subject to state law).
v.	Choice of forum	Section 15I  Section 10G of the Multi Unit Agreement	Litigation must be in the applicable federal or state court where our headquarters are located (currently, California) (subject to state law).
w.	Choice of law	Section 15H  Section 10G.1 of the Multi Unit Agreement	Except for claims under federal trademark law, and the parties' rights under the Federal Arbitration Act, the law of the state where the Franchisee's Store is located with govern (subject to state law).

### **Item 18**

#### **PUBLIC FIGURES**

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

### **Item 19**

#### **FINANCIAL PERFORMANCE REPRESENTATIONS**

The FTC's Franchise Rule permits a franchisor to provide information about the actual or potential financial performance of its franchised and 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.

Except as noted below, this financial performance representation contains average franchisee net sales information for our franchisees that were in operation for the entire 12-month period of January 1, 2010 through December 31, 2010 (the "Measurement Period"). As of December 31, 2010, we had 56 franchised- and sub-franchised locations operating under the MENCHIE'S trademarks. Of these 56 locations, 20 were open and operating for the entire Measurement Period. The remaining 36 locations that were not open and operating for the entire Measurement Period are not included in this Item 19.

Additionally, one location that was open and operating during the Measurement Period is not included in this Item 19 due to operational issues and its inability to follow the MENCHIE'S System. All of the franchisee information contained in this Item 19 was provided to us by our franchisees in response to our request.

### **Average Franchisee Net Sales Information.**

The average net sales generated by our 19 MENCHIE'S franchisees during the Measurement Period is \$647,115.65. Of the 19 locations included in this average net sales, 8 (42%) attained or exceeded the stated average. Additionally, of the 19 locations included in this financial performance representation 7 (37%) exceeded \$700,000 in total net sales for the Measurement Period and 3 (16%) exceeded \$800,000 in total net sales for the Measurement Period.

#### Notes:

We do not represent that you can expect to attain these same results. In addition, these figures do not reflect whether you will have a net profit or loss. Your financial results are likely to differ from the results stated in this Item 19. There is no assurance that you will achieve the same figures detailed in the above chart. If you rely on our figures, you must accept the risk of not doing as well. You must bear in mind that a newly opened business should not be expected to achieve sales volumes similar to that of an established business. A new franchisee's individual financial results may differ from the results stated in this financial performance representation.

We have not audited or independently verified the franchisee information included in this Item 19.

You are likely to achieve results that are different, possibly significantly and adversely, from the results shown above. Many factors, including location of your Store, management capabilities, local market conditions, and other factors, are unique to each MENCHIE'S store and may significantly impact the financial performance of your business.

We do not make any promises or representations of any kind that you will achieve any particular results or level of sales or profitability or even achieve break-even results in any particular year of operation.

You are responsible for developing your own business plan for your MENCHIE'S Store, including capital budgets, financial statements, projections, and other elements appropriate to your particular circumstances. As part of your planning, you need to take into account the expenses you will incur including labor and other operational expenses. Additional expenses that you may incur include, but are not limited to, royalty and marketing fees (see Item 6 of this Disclosure Document), interest on debt service, insurance and legal and accounting fees. We encourage you to consult with your own accounting, business, and legal advisors to assist you in identifying the expenses you likely will incur in connection with your MENCHIE'S Store, to prepare your budgets, and to assess the likely or potential financial performance of your

MENCHIE'S Store. Franchisees and former franchisees listed in this Disclosure document may be one source of information.

The financial performance figures do not reflect the costs of sales, operating expenses, or other costs or expenses that must be deducted from net revenue or net sales figures to obtain your net income or profit. You should conduct an independent investigation of the costs and expenses you will incur in operating your MENCHIE'S Store. Franchisees and former franchisees listed in this Disclosure Document may be one source of this information

We have not suggested, and certainly cannot guarantee, that you will succeed in the operation of your MENCHIE'S Store, because the most important factors in the success of any business, including the one to be operated by you, are your personal business acumen, marketing, management, judgment and other skills and your willingness to work hard and follow the MENCHIE'S System.

In developing the business plan for your MENCHIE'S Store, you are cautioned to make necessary allowance for changes in financial results to income, expenses, or both that may result from operating your MENCHIE'S Store during periods of, or in geographic areas suffering from, economic downturns, inflation, unemployment, or other negative economic influences.

The information in this Item 19 is unaudited and no assurance can be offered that the data does not contain inaccuracies that an audit might disclose. Actual results will vary from business to business, area to area, and market to market. We cannot estimate or project the results of any particular MENCHIE'S store. Written substantiation for the financial performance representation will be made available to the prospective franchisee upon reasonable request.

Other than the preceding financial performance representation, we do not make any financial performance representations. 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 Naz Moin at 16027 Ventura Boulevard, Suite 301, Encino, CA 91436; telephone 818-708-0316, the Federal Trade Commission, and the appropriate state regulatory agencies.

**Item 20**

**OUTLETS AND FRANCHISEE INFORMATION**

**Table No. 1  
Systemwide Outlet Summary  
For Years 2008–2010**

<b>Outlet Type</b>	<b>Year</b>	<b>Outlets at the Start of the Year</b>	<b>Outlets at the End of the Year</b>	<b>Net Change</b>
Franchised Outlets	2008	0	1	+1
	2009	1	14	+13
	2010	14	30	+17
Company-Owned	2008	1	2	+1
	2009	2	3	+1
	2010	3	4	+1
Total Outlets	2008	1	3	+2
	2009	3	17	+14
	2010	17	34	+18

**Subfranchisor (BSD) Outlet Summary  
For Years 2008–2010**

<b>Outlet Type</b>	<b>Year</b>	<b>Outlets at the Start of the Year</b>	<b>Outlets at the End of the Year</b>	<b>Net Change</b>
Franchised Outlets	2008	0	0	0
	2009	0	7	+7
	2010	7	26	+19
Company-Owned	2008	0	0	0
	2009	0	1	+1
	2010	1	0	-1
Total Outlets	2008	0	0	0
	2009	0	8	+8
	2010	8	26	+19

**Table No. 2**  
**Transfers of Outlets from Franchisees to New Owners**  
**(Other than the Franchisor)**  
**For Years 2008-2010**

State	Year	Number of Transfers
Tennessee	2008	0
	2009	1
	2010	0
<b>TOTAL</b>	2008	0
	2009	1
	2010	0

**BSD Transfers of Outlets from Subfranchisees to New Owners**  
**(Other than the Subfranchisor)**  
**For Years 2008-2010**

State	Year	Number of Transfers
<b>TOTAL</b>	2008	0
	2009	0
	2010	0

**Table No. 3**  
**Status of Franchised Outlets Less Subfranchised Outlets**  
**For Years 2008–2010**

State	Year	Outlet at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations for Other Reasons	Outlets at the End of the Year
California	2008	0	0	0	0	0	0	0
	2009	0	10	0	0	0	0	10
	2010	10	9	0	0	0	1	18
Colorado	2008	0	0	0	0	0	0	0
	2009	0	0	0	0	0	0	0
	2010	0	1	0	0	0	0	1
Hawaii	2008	0	1	0	0	0	0	1
	2009	1	2	0	0	0	0	3
	2010	3	0	0	0	0	0	3
South Carolina	2008	0	0	0	0	0	0	0
	2009	0	0	0	0	0	0	0
	2010	0	1	0	0	0	0	1
Maryland	2008	0	0	0	0	0	0	0
	2009	0	0	0	0	0	0	0
	2010	0	0	0	0	0	0	0
Tennessee	2008	0	0	0	0	0	0	0
	2009	0	1	0	0	0	0	1
	2010	1	2	0	0	0	0	3

State	Year	Outlet at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations for Other Reasons	Outlets at the End of the Year
Utah	2008	0	0	0	0	0	0	0
	2009	0	0	0	0	0	0	0
	2010	0	3	0	0	0	0	3
Total	2008	0	1	0	0	0	0	1
	2009	1	13	0	0	0	0	14
	2010	14	17	0	0	0	1	30

**BSD Status of Subfranchised Outlets  
For Years 2008–2010**

State	Year	Outlet at Start of Year	Outlets Opened	Termination	Non-Renewals	Reacquired by Franchisor	Ceased Operations for Other Reasons	Outlets at the End of the Year
Arizona	2008	0	0	0	0	0	0	0
	2009	0	0	0	0	0	0	0
	2010	0	1	0	0	0	0	1
Florida	2008	0	0	0	0	0	0	0
	2009	0	2	0	0	0	0	2
	2010	2	3	0	0	0	0	5
Georgia	2008	0	0	0	0	0	0	0
	2009	0	0	0	0	0	0	0
	2010	0	8	0	0	0	0	8
Louisiana	2008	0	0	0	0	0	0	0
	2009	0	3	0	0	0	0	3
	2010	3	1	0	0	0	0	4
Nevada	2008	0	0	0	0	0	0	0
	2009	0	1	0	0	0	0	1
	2010	1	1	0	0	0	0	2
Ohio	2008	0	0	0	0	0	0	0
	2009	0	0	0	0	0	0	0
	2010	0	1	0	0	0	0	1
Texas	2008	0	0	0	0	0	0	0
	2009	0	1	0	0	0	0	1
	2010	1	1	0	0	0	0	2
Washington	2008	0	0	0	0	0	0	0
	2009	0	0	0	0	0	0	0
	2010	0	3	0	0	0	0	3
Total	2008	0	0	0	0	0	0	0
	2009	0	7	0	0	0	0	7
	2010	7	19	0	0	0	0	26

**Table No. 4  
Status of Company-Owned Outlets  
For Years 2008-2010**

State	Year	Outlets at Start of the Year	Outlets Opened	Outlets Reacquired from Franchisee	Outlets Closed	Outlets Sold to Franchisee	Outlets at End of the Year
California	2008	1	1	0	0	0	2
	2009	2	1	0	0	0	3
	2010	3	1	0	0	0	4
Totals	2008	1	1	0	0	0	2
	2009	2	1	0	0	0	3
	2010	3	1	0	0	0	4

**Status of Subfranchisor (BSD) Company-Owned Outlets  
For Years 2008–2010**

State	Year	Outlets at Start of the Year	Outlets Opened	Outlets Reacquired from Subfranchisee	Outlets Closed	Outlets Sold to Subfranchisee	Outlets at End of the Year
Texas	2008	0	0	0	0	0	0
	2009	0	1	0	0	0	1
	2010	1	0	0	1	0	0
Total	2008	0	0	0	0	0	0
	2009	0	1	0	0	0	1
	2010	1	0	0	0	0	0

**Table No. 5  
Projected Openings as of December 31, 2010**

State	Franchise Agreements Signed but Stores not Opened	Projected Franchised New Stores in the Next Fiscal Year	Projected Company-Owned Openings in Next Fiscal Year
Alabama	1	5	0
Alaska	0	3	0
California	11	15	1
Colorado	4	10	0
Hawaii	0	1	0
Indiana	0	2	0
Kentucky	2	5	0
Iowa	0	1	0



<b>State</b>	<b>Franchise Agreements Signed but Stores not Opened</b>	<b>Projected Franchised New Stores in the Next Fiscal Year</b>	<b>Projected Company-Owned Openings in Next Fiscal Year</b>
Maryland	0	5	0
Minnesota	1	2	0
Mississippi	1	3	0
New Mexico	1	2	0
New Jersey	0	2	0
North Carolina	2	5	0
Oklahoma	2	4	0
Oregon	0	3	0
Pennsylvania	1	2	0
South Carolina	0	5	0
Tennessee	2	6	0
Utah	1	4	0
Virginia	2	5	0
Wyoming	1	1	0
<b>Total</b>	33	90	1

**Projected Openings of Subfranchisor (BSD) as of December 31, 2010**

<b>State</b>	<b>Franchise Agreements Signed but Facilities not Opened</b>	<b>Projected Franchised New Facilities in the Next Fiscal Year</b>	<b>Projected Company-Owned Openings in Next Fiscal Year</b>
Arizona	1	2	0
Florida	30	25	0
Georgia	3	13	0
Illinois	1	3	0
Louisiana	0	3	0
Nevada	0	1	0

<b>State</b>	<b>Franchise Agreements Signed but Facilities not Opened</b>	<b>Projected Franchised New Facilities in the Next Fiscal Year</b>	<b>Projected Company-Owned Openings in Next Fiscal Year</b>
New York	1	2	0
Ohio	2	7	0
Texas	2	7	0
Washington	5	7	0
<b>Total</b>	45	70	0

Attached as Exhibit J is a list of our current franchisees and subfranchisees. Exhibit J also includes a list of the Franchisees and Subfranchisees who have ceased to do business under the Franchise Agreement or Subfranchise Agreement or had an outlet terminated, canceled, not renewed within the last fiscal year or who have not communicated with us, within the last ten (10) weeks. If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

During the last three fiscal years, some of our franchisees have signed confidentiality clauses. In some instances, current and former franchisees sign provisions restricting their ability to speak openly about their experience with the MENCHIE's 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. We have not created, sponsored or endorsed any trademark-specific franchisee associations.

## **Item 21**

### **FINANCIAL STATEMENTS**

Attached and identified as Exhibit B are the audited financial statements of Menchie's Group, Inc., for the years ending December 31, 2008, December 31, 2009 and December 31, 2010.

**Item 22**

**CONTRACTS**

The following documents are attached as exhibits to this Disclosure Document.

Exhibit C Franchise Agreement with Schedules

Exhibit D Multi Unit Agreement

Exhibit E Franchisee Service Agreement

Exhibit H State Addenda

Exhibit I General Release

**Item 23**

**RECEIPTS**

Attached to this Disclosure Document as Exhibit K is a detachable acknowledgment of receipt.

**Exhibit A**

LIST OF AGENTS FOR SERVICE OF PROCESS

**CALIFORNIA**

California Commissioner of Corporations  
Department of Corporations  
State of California  
320 West 4<sup>th</sup> Street, Suite 750  
Los Angeles, California 90013-1105  
Telephone: 1-866-275-2677

**HAWAII**

Commissioner of Securities of the State of  
Hawaii  
335 Merchant Street  
Room 203  
Honolulu, HI 96813

**ILLINOIS**

Attorney General State of Illinois  
500 South Second Street  
Springfield, Illinois 62706

**INDIANA**

Agent for Service of Process  
Indiana Secretary of State  
201 State House  
200 West Washington Street  
Indianapolis, Indiana 46204

State Administrator

Securities Commissioner  
Indiana Securities Division  
302 West Washington, Room E-111  
Indianapolis, Indiana 46204

**MARYLAND**

Agent to Receive Process  
Securities Commissioner  
Division of Securities  
200 St. Paul Place  
Baltimore, Maryland 21202-2020

State Authority

Office of the Attorney General  
Securities Division  
200 St. Paul Place  
Baltimore, Maryland 21202

**MICHIGAN**

Consumer Protection Division  
Attn.: Franchise  
670 Williams Building  
Lansing, Michigan 48913

**MINNESOTA**

Commissioner of Commerce  
Minnesota Department of Commerce  
85 7<sup>th</sup> Place East  
Suite 500  
St. Paul, Minnesota 55101

**NEW YORK**

Agent to Receive Process  
Secretary of State  
State of New York  
162 Washington Avenue  
Albany, New York 12231

State Administrator

New York State Department of Law  
Bureau of Investor Protection and Securities  
120 Broadway, 23rd Floor  
New York, New York 10271

**NORTH DAKOTA**

North Dakota Securities Department  
600 East Boulevard Avenue  
State Capital Fifth Floor  
Department 414  
Bismarck, North Dakota 58505  
Telephone: (701) 328-4712

**RHODE ISLAND**

Rhode Island Department of Business  
Regulation  
Securities Section  
1511 Pontiac Avenue  
John O. Pastore Center  
Building 69-1  
Cranston, RI 02920

**SOUTH DAKOTA**

Division of Securities  
State of South Dakota  
445 E. Capitol Avenue  
Pierre, SD 57501

**VIRGINIA**

Agent to Receive Process  
Clerk of the State Corporation Commission  
1300 East Main Street, 1<sup>st</sup> Floor  
Richmond, Virginia 23219

State Administrator

State Corporation Commission  
Division of Securities and Retail Franchise  
1300 East Main Street, 9<sup>th</sup> Floor  
Richmond, Virginia 23219

**WASHINGTON**

Director  
Department of Financial Institutions  
Securities Division  
P.O. Box 9033  
Olympia, Washington 98507

**WISCONSIN**

Division of Securities  
Department of Financial Institutions  
345 W. Washington Avenue, 4th Floor  
Madison, Wisconsin 53703

**Exhibit B**  
FINANCIAL STATEMENTS

***MENCHIE'S GROUP, INC.***

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2010**

# SHER, SHERR, GELB & COMPANY

AN ACCOUNTANCY CORPORATION

MICHAEL S. SHER, CPA, CA (SA)  
BILLY GELB, CPA, CA (SA)  
KEITH M. SHERR, CPA/ABV, CVA  
JONATHAN A. SHER, CPA

CERTIFIED PUBLIC ACCOUNTANTS  
15060 VENTURA BOULEVARD, SUITE 300  
SHERMAN OAKS, CALIFORNIA 91403  
TELEPHONE: (818) 783-6028  
TELEFAX: (818) 783-1031  
EMAIL: [ssg@ssgcpa.com](mailto:ssg@ssgcpa.com)

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders  
of Menchie's Group, Inc.

We have audited the accompanying balance sheet of Menchie's Group, Inc. as of December 31, 2010, and the related statements of income and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit of the financial statements provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of Menchie's Group, Inc. as of December 31, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discuss in Note 8 to the financial statements, the Company changed its method of accounting for franchise fee income.



Sher, Sherr, Gelb & Company  
An Accountancy Corporation

April 25, 2011



**MENCHIE'S GROUP, INC.**  
**BALANCE SHEET**  
**December 31, 2010**

**ASSETS**

**CURRENT ASSETS**

Cash	\$ 561,986
Accounts receivable	279,779
Inventory	283,304
Prepays and other assets	130,662
Notes receivable-affiliates	<u>98,708</u>
TOTAL CURRENT ASSETS	1,354,439

**FIXED ASSETS**

Property and equipment, net	115,059
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**OTHER ASSETS**

Deferred franchise costs	288,531
Trademarks	77,647
Deposits-store equipment	83,144
Notes receivable-affiliates, noncurrent	<u>658,004</u>
	<u>\$ 2,576,824</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**CURRENT LIABILITIES**

Accounts payable	\$ 120,646
Credit cards payable	12,712
Franchisee deposits	1,698,303
Loan payable-shareholder	10,677
Payroll payable	64,310
Payroll taxes payable	9,283
Sales tax payable	5,095
Income taxes payable	66,600
Other current liabilities	<u>15,753</u>
TOTAL CURRENT LIABILITIES	2,003,379

**LONG-TERM LIABILITIES**

Notes payable-shareholders	<u>395,813</u>
TOTAL LIABILITIES	<u>2,399,192</u>

**STOCKHOLDERS' EQUITY**

Common stock, no par value; 100,000 shares authorized; 2,000 shares issued and outstanding	14,100
Retained earnings	<u>163,532</u>
	<u>\$ 2,576,824</u>

See accompanying notes to financial statements

**MENCHIE'S GROUP, INC.**  
**STATEMENT OF INCOME AND RETAINED EARNINGS**  
**For the Year Ended December 31, 2010**

INCOME	\$ 4,299,344
COST OF SALES	<u>539,743</u>
GROSS PROFIT	3,759,601
EXPENSES (INCOME)	
Automobile expenses	22,812
Bad debts	2,102
Bank service charges	2,350
Construction rollouts	1,265
Contributions	1,000
Depreciation	17,675
Dues & subscriptions	4,821
Employee benefits	59,868
Insurance	37,078
Internet expense	7,451
Legal fees	250,136
Marketing	608,704
Miscellaneous	13,565
Office supplies & expenses	82,329
Outside services	5,533
Parking	31,887
Payroll taxes	115,034
Postage	25,827
Printing & reproduction	5,111
Professional fees	718,208
Promotion	6,995
Recruitment	4,260
Rent	72,293
Salaries & wages-office	951,372
Salaries & wages-officer	471,654
Taxes	20,181
Telephone	35,557
Travel & entertainment	25,151
(Interest income)	<u>(17,443)</u>
Total Operating Expenses	<u>3,582,776</u>

See accompanying notes to financial statements

**MENCHIE'S GROUP, INC.**  
**STATEMENT OF INCOME AND RETAINED EARNINGS (continued)**  
**For the Year Ended December 31, 2010**

Income before provision for income taxes		176,825
Provision for income taxes		<u>66,600</u>
Net Income		110,225
Retained earnings, beginning of year, as previously stated	89,784	
Less: Decrease due to change in accounting principle (see Note 8)	<u>(36,477)</u>	
Retained earnings, beginning of year, as restated		<u>53,307</u>
Retained earnings, end of year		<u>\$ 163,532</u>

See accompanying notes to financial statements

**MENCHIE'S GROUP, INC.**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2010**

CASH FLOWS FROM OPERATING ACTIVITIES	
Net Income	\$ 110,225
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation expense	17,675
Adjustments to retained earnings for prior periods	(36,477)
(Increase) Decrease in:	
Accounts receivable	(103,963)
Inventory	(111,066)
Prepays and other assets	(81,935)
Deferred franchise costs	(288,531)
Trademarks	(26,767)
Deposits-store equipment	(83,144)
(Decrease) Increase in:	
Accounts payable	101,812
Accrued expenses	(20,000)
Credit cards payable	(38,835)
Loan payable-affiliate	(6,698)
Franchisee deposits	938,303
Payroll payable	34,900
Payroll taxes payable	5,768
Sales tax payable	(3,119)
Income taxes payable	21,645
Other current liabilities	<u>(8,402)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	421,391
CASH FLOWS FROM INVESTING ACTIVITIES	
Property & equipment	<u>(55,206)</u>
NET CASH (USED) BY INVESTING ACTIVITIES	(55,206)
CASH FLOWS FROM FINANCING ACTIVITIES	
Notes receivable-affiliates	93,026
Loan payable-shareholder	341
Notes payable-shareholders	<u>20,000</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>113,367</u>
NET INCREASE IN CASH	479,552
CASH BALANCE AT BEGINNING OF YEAR	<u>82,434</u>
CASH BALANCE AT END OF YEAR	<u>\$ 561,986</u>

See accompanying notes to financial statements

**MENCHIE'S GROUP, INC.**  
**STATEMENT OF CASH FLOWS (continued)**  
**For the Year Ended December 31, 2010**

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for:

Interest	\$	0
Income taxes	\$	15,017

See accompanying notes to financial statements

**MENCHIE'S GROUP, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2010**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of Menchie's Group, Inc. (the "Company") is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Nature of Operations

Menchie's Group, Inc is a franchisor of retail soft serve frozen desserts. The Company provides initial and ongoing support to its franchisees and recruits, consults and trains qualified franchisees to develop and open Menchie's frozen yogurt locations based on the guidelines and criteria of the franchisor Menchie's Group Inc. business practices and standards. The Company was incorporated on January 2, 2008, in the state of California.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

Inventory

Inventory is stated at the lower of cost, using the average cost method, or net realizable value (market). Inventory consists of cups, company specific apparel, and sundry items.

Depreciation

The company's property and equipment are depreciated using primarily the straight-line method over the estimated useful lives of the assets of 5 to 7 years. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items of property or equipment are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

Income Taxes

The provision for taxes on income is based on income reported for financial statement purposes. Certain expense items are reported in different periods for financial reporting and for tax purposes. The tax effects of these timing differences are not material to the accompanying financial statements. Provision for federal and state taxes on income consist of:

Federal	\$	51,000
State		15,600
	\$	<u>66,600</u>

The Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement 109* ("FIN 48"). FIN48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. The adoption of FIN 48 did not have a material effect on the Company.

**MENCHIE'S GROUP, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2010**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Subsequent Events

Management has evaluated subsequent events through April 25, 2011, the date the financial statements were available to be issued.

**NOTE 2 - PROPERTY AND EQUIPMENT**

Property and equipment consists of the following:

Furniture and equipment	\$	59,893
Vehicles		26,978
Leasehold improvements		32,424
Other property		21,677
		<u>140,972</u>
Less: Accumulated depreciation		(25,913)
	\$	<u>115,059</u>

**NOTE 3 – RELATED PARTY TRANSACTIONS**

As of December 31, 2010, the Company had several notes payable totaling \$395,813 to its shareholders. These loans are unsecured, bear interest at 4.5% per annum, and are due and payable at various dates through 11/1/2015.

In addition the Company has notes receivable from affiliated companies in the total amount of \$756,712. Of this amount, \$402,734 represents loans to a related company, Menchies Inc. These loans receivable are unsecured, bear interest at 4.5% per annum, and are due at various dates through February 2020. Notes receivable current and noncurrent portions at 12/31/10:

Notes receivable-affiliates	\$	756,712
Less: current portion		(98,708)
	\$	<u>658,004</u>

**NOTE 4 – TRADEMARKS**

In accordance with Statement of Financial Accounting Standards No. 142 (FAS 142), *Goodwill and Other Intangible Assets*, purchased intangible assets other than goodwill will be amortized over their useful lives unless these lives are determined to be indefinite. Certain trademarks have been assigned an indefinite life as it is currently anticipated that these trademarks will contribute cash flows to the Company indefinitely. Indefinite-lived intangible assets are not amortized, but are evaluated at each reporting period to determine whether the indefinite useful life is appropriate. Management believes that at December 31, 2010, no impairment in value of the trademarks had occurred and that the indefinite useful life is appropriate.

**NOTE 5 – LONG-TERM DEBT**

The Company incurred long-term debt to one of the shareholders in the amount of \$375,813 (see Note 3). The original terms of the promissory notes required monthly repayments on this debt. However, loan repayments have not been made. At this time, the Company is unsure when repayments will begin. As such the total debt of \$375,813 has been classified as long-term.

**MENCHIE'S GROUP, INC.**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**December 31, 2010**

**NOTE 6 – LEASE COMMITMENTS**

The Company leases its office space under an operating lease expiring in December 2011 with a monthly lease payment of approximately \$12,949. The lease agreement requires the Company to pay for a portion of maintenance and utilities. The lease agreement also includes an allotment of parking spaces.

At December 31, 2010, the future minimum lease payments required under the operating lease with initial or remaining terms in excess of one year is as follows:

<u>Years Ending December 31,</u>	
2011	\$ 146,179
2012	0
2013	0
2014	0
2015	0
Thereafter	0
	<u>\$ 146,179</u>

Total rent expense for the year ended December 31, 2010 was \$72,293.

**NOTE 7 – FRANCHISEE DEPOSITS/REVENUE RECOGNITION**

Statement of Financial Accounting Standards No. 45 (FAS45), *Accounting for Franchise Fee Revenue*, establishes specialized accounting and reporting standards for franchisors. The standards require that franchise fee revenue from individual and area franchise sales be recognized only when material services have been substantially performed or satisfied by the franchisor. Of the total income earned during 2010, the Company received \$1,395,407 in franchise fees. Based on management's representation and guidance from FAS45, management determined that franchise fees should be recognized over a ten year term in the following percentages:

<u>Accounting Year</u>	<u>Percentage of franchise fee recognized</u>
Year 1 (year fees received)	16%
Years 2 through 9	9.33%
Year 10	9.36

At December 31, 2010, the amount of franchisee deposits (deferred franchise revenue) was \$1,698,303. Associated expenses of \$288,531 relating to the deferred franchise fee revenue have also been included on the balance sheet as deferred franchise costs.



**MENCHIE'S GROUP, INC.**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**December 31, 2010**

**NOTE 8 – CHANGE IN ACCOUNTING PRINCIPLE**

Under Statement of Financial Accounting Standards No. 154 (FAS154), *Accounting Changes*, the adoption of a new principle requires the Company to retrospectively restate all prior periods as if the newly adopted accounting principle had always been used. The retained earnings of the entity are restated as of the beginning of the earliest period presented.

During 2010, the Company changed its method of accounting for franchise fee income. The Company believes that the new method more accurately reflects periodic results of operations. The effect of the change was to increase franchise fee income by \$91,674 and income from continuing operations and net income for 2010 by \$91,674. Retained earnings has been decreased accordingly in the amount of \$36,477 as of the beginning of 2010 for the effect of retroactive application of the new method.

***MENCHIE'S GROUP, INC.***

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2009**

# SHER, SHERR, GELB & COMPANY

AN ACCOUNTANCY CORPORATION

WALTER R. SHERR, C.P.A.  
MICHAEL S. SHER, C.P.A., C.A. (S.A.)  
BILLIE GELB, C.P.A., C.A. (S.A.)

CERTIFIED PUBLIC ACCOUNTANTS  
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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders  
of Menchie's Group, Inc.

We have audited the accompanying balance sheet of Menchie's Group, Inc. as of December 31, 2009, and the related statements of income and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit of the financial statements provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of Menchie's Group, Inc. as of December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

  
Sher, Sherr, Gelb & Company  
An Accountancy Corporation

March 17, 2010

**MENCHIE'S GROUP, INC.**  
**BALANCE SHEET**  
**December 31, 2009**

**ASSETS**

**CURRENT ASSETS**

Cash	\$ 82,434
Accounts receivable	175,816
Inventory	172,238
Prepays and other assets	48,727
Loans receivable-affiliates	<u>849,738</u>
TOTAL CURRENT ASSETS	1,328,953

**FIXED ASSETS**

Property and equipment, net	77,527
-----------------------------	--------

**OTHER ASSETS**

Trademarks	<u>50,880</u>
	<u>\$ 1,457,360</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**CURRENT LIABILITIES**

Accounts payable	\$ 18,834
Accrued expenses	20,000
Credit cards payable	51,547
Loan payable-affiliate	6,698
Franchisee deposits	760,000
Loan from shareholder	10,335
Payroll payable	29,410
Payroll taxes payable	3,515
Sales tax payable	8,214
Income taxes payable	44,955
Other current liabilities	<u>24,155</u>
TOTAL CURRENT LIABILITIES	977,663

**LONG-TERM LIABILITIES**

Note payable	<u>375,813</u>
TOTAL LIABILITIES	1,353,476

**STOCKHOLDERS' EQUITY**

Common stock, no par value; 100,000 shares authorized; 2,000 shares issued and outstanding	14,100
Retained earnings	<u>89,784</u>
	<u>\$ 1,457,360</u>

See accompanying notes to financial statements

**MENCHIE'S GROUP, INC.**  
**STATEMENT OF INCOME AND RETAINED EARNINGS**  
**For the Year Ended December 31, 2009**

INCOME	\$ 1,590,154
COST OF SALES	<u>418,568</u>
GROSS PROFIT	1,171,586
EXPENSES (INCOME)	
Advertising	24,951
Automobile expenses	27,663
Bank service charges	1,016
Commissions	54,539
Depreciation	7,696
Dues & subscriptions	3,689
Education	4,735
Employee benefits	1,203
Franchise registration	4,150
Gift cards	982
Insurance	12,684
Interest	8,284
Internet expense	5,155
Janitorial	1,187
Legal & professional fees	309,770
Miscellaneous	1,210
Office supplies & expenses	44,474
Outside services	3,985
Payroll taxes	31,973
Postage	5,390
Printing & reproduction	12,006
Refunds	8,423
Rent	43,667
Repairs & maintenance	2,959
Salaries & wages-office	227,059
Salaries & wages-officer	117,538
Shipping	1,458
Storage	1,860
Sublease expenses	1,900
Taxes	15,600
Telephone	15,890
Trade shows	579

See accompanying notes to financial statements

**MENCHIE'S GROUP, INC.**  
**STATEMENT OF INCOME AND RETAINED EARNINGS (continued)**  
**For the Year Ended December 31, 2009**

Travel & entertainment	49,943
(Dividend income)	(4)
(Interest income)	<u>(11,011)</u>
Total Operating Expenses	<u>1,042,603</u>
Income before provision for income taxes	128,983
Provision for income taxes	<u>44,955</u>
Net Income	84,028
Retained earnings, beginning of year	<u>5,756</u>
Retained earnings, end of year	<u>\$ 89,784</u>

See accompanying notes to financial statements

**MENCHIE'S GROUP, INC.**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2009**

CASH FLOWS FROM OPERATING ACTIVITIES	
Net Income	\$ 84,028
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation expense	7,696
(Increase) Decrease in:	
Accounts receivable	(144,565)
Inventory	(107,799)
Prepays and other assets	(19,717)
Trademarks	(50,880)
(Decrease) Increase in:	
Accounts payable	10,123
Accrued expenses	5,255
Credit cards payable	46,424
Loan payable-affiliate	6,698
Franchisee deposits	615,000
Payroll payable	29,410
Payroll taxes payable	(280)
Sales tax payable	8,214
Income taxes payable	43,055
Other current liabilities	24,155
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>556,817</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Property & equipment	<u>(79,271)</u>
NET CASH (USED) BY INVESTING ACTIVITIES	(79,271)
CASH FLOWS FROM FINANCING ACTIVITIES	
Loans receivable-affiliates	(500,779)
Loans from shareholders	(236,965)
Note payable	<u>375,813</u>
NET CASH (USED) BY FINANCING ACTIVITIES	<u>(361,931)</u>
NET INCREASE IN CASH	115,615
CASH BALANCE AT BEGINNING OF YEAR	<u>(33,181)</u>
CASH BALANCE AT END OF YEAR	<u>\$ 82,434</u>

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Cash paid during the period for:

Interest	\$ 8,284
Income taxes	\$ 15,600

See accompanying notes to financial statements

**MENCHIE'S GROUP, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2009**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of Menchie's Group, Inc. (the "Company") is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Nature of Operations

Menchie's Group, Inc is a franchisor of soft serve frozen yogurt. The Company recruits, consults and trains qualified franchisees to open locations based on the guidelines and criteria of Menchie's Group's business practices and standards. The Company was incorporated on January 2, 2008, in the state of California.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

Inventory

Inventory is stated at the lower of cost, using the average cost method, or net realizable value (market). Inventory consists of cups, company specific apparel, and sundry items.

Depreciation

The company's property and equipment are depreciated using primarily the straight-line method over the estimated useful lives of the assets of 5 to 7 years. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items of property or equipment are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

Income Taxes

The provision for taxes on income is based on income reported for financial statement purposes. Certain expense items are reported in different periods for financial reporting and for tax purposes. The tax effects of these timing differences are not material to the accompanying financial statements. Provision for federal and state taxes on income consist of:

Federal	\$	33,553
State		11,402
	\$	<u>44,955</u>

Subsequent Events

Management has evaluated subsequent events through March 17, 2010, the date the financial statements were available to be issued.



**MENCHIE'S GROUP, INC.**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**December 31, 2009**

**NOTE 2 - PROPERTY AND EQUIPMENT**

Property and equipment consists of the following:

Furniture and equipment	\$	28,334
Vehicles		26,978
Leasehold improvements		19,007
Equipment for rent		11,446
		<u>85,765</u>
Less: Accumulated depreciation		(8,238)
	\$	<u>77,527</u>

**NOTE 3 – RELATED PARTY TRANSACTIONS**

As of December 31, 2009, the Company had a note payable of \$375,812 to one of the shareholders. This amount consists of two separate loans which are unsecured, bear interest at 4.5%-6.0% per annum, and are due and payable at various dates through 11/1/2015. In addition the Company has net loans receivable from affiliated companies in the total amount of \$843,040. Of this amount, \$435,978 represents loans to a related company, Menchies Inc. These loans receivable are unsecured, bear interest at 4.5%-6.0% per annum, and are due at various dates through August 2015.

**NOTE 4 – TRADEMARKS**

In accordance with Statement of Financial Accounting Standards No. 142 (FAS 142) "Goodwill and Other Intangible Assets," purchased intangible assets other than goodwill will be amortized over their useful lives unless these lives are determined to be indefinite. Certain trademarks have been assigned an indefinite life as it is currently anticipated that these trademarks will contribute cash flows to the Company indefinitely. Indefinite-lived intangible assets are not amortized, but are evaluated at each reporting period to determine whether the indefinite useful life is appropriate. Management believes that at December 31, 2009, no impairment in value of the trademarks had occurred and that the indefinite useful life is appropriate.

**NOTE 5 – LONG-TERM DEBT**

During 2009, the Company incurred total long-term debt to one of the shareholders in the amount of \$375,812 (see Note 3). The original terms of the promissory notes required monthly repayments on this debt. However, loan repayments have not been made. At this time, the Company is unsure when repayments will begin. As such the total debt of \$375,812 has been classified as long-term.

**MENCHIE'S GROUP, INC.**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**December 31, 2009**

**NOTE 6 – LEASE COMMITMENTS**

The Company leases its office space under an operating lease expiring in January 2011 with a monthly lease payment of approximately \$6,621. The lease agreement requires the Company to pay for a portion of maintenance and utilities. The lease agreement also includes an allotment of parking spaces.

At December 31, 2009, the future minimum lease payments required under the operating lease with initial or remaining terms in excess of one year is as follows:

<u>Years Ending December 31,</u>	
2010	\$ 79,455
2011	6,621
2012	0
2013	0
2014	0
Thereafter	0
	<u>\$ 86,076</u>

Total rent expense for the year ended December 31, 2009 was \$43,667.

**NOTE 7 – FRANCHISEE DEPOSITS/REVENUE RECOGNITION**

Franchisee deposits represent a portion of the franchisee's upfront fees. Fees received from a new franchisee are regarded 100% as a liability until a store opens at which time the amount for that store is converted into income.

# SHER, SHERR, GELB & COMPANY

AN ACCOUNTANCY CORPORATION

WALTER H. SHERR, C.P.A.  
MICHAEL S. SHER, C.F.A., C.A. (S.A.)  
PILIE GELB, C.P.A., C.A. (S.A.)

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders  
of Menchie's Group, Inc.

We have audited the accompanying balance sheet of Menchie's Group, Inc. as of December 31, 2008, and the related statements of income and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit of the financial statements provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of Menchie's Group, Inc. as of December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.



Sher, Sherr, Gelb & Company  
An Accountancy Corporation

June 23, 2009

**MENCHIE'S GROUP, INC.**  
**BALANCE SHEET**  
**December 31, 2008**

**ASSETS**

**CURRENT ASSETS**

Cash	\$ (33,181)
Accounts receivable	31,251
Inventory	64,439
Prepaid asset	25,000
Loans receivable-affiliates	348,959
Other	4,010
<b>TOTAL CURRENT ASSETS</b>	<u>440,478</u>

**FIXED ASSETS**

Property and equipment, net	<u>5,952</u>
	<u>\$ 446,430</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**CURRENT LIABILITIES**

Accounts payable	\$ 8,711
Accrued expenses	14,745
Credit cards payable	5,123
Franchisee deposits	145,000
Loans from shareholder	247,300
Payroll taxes payable	3,795
Income tax payable-state	1,900
<b>TOTAL CURRENT LIABILITIES</b>	<u>426,574</u>

**STOCKHOLDERS' EQUITY**

Common stock, no par value; 100,000 shares authorized; 2,000 shares issued and outstanding	14,100
Retained earnings	5,756
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u>19,856</u>

\$ 446,430

**MENCHIE'S GROUP, INC.**  
**STATEMENT OF INCOME AND RETAINED EARNINGS**  
**For the Year Ended December 31, 2008**

INCOME	\$ 237,145
COST OF SALES	<u>19,876</u>
GROSS PROFIT	217,269
EXPENSES (INCOME)	
Advertising	325
Automobile expenses	3,233
Bank service charges	380
Depreciation	542
Franchise registration	2,338
Insurance	536
Interest	889
Internet expense	1,087
Legal & professional fees	53,362
Miscellaneous	176
Office supplies & expenses	9,300
Organization costs	50,963
Outside services	4,760
Payroll tax	4,670
Postage	1,269
Printing & reproduction	4,094
Rent	22,390
Salaries & wages-office	17,692
Salaries & wages-officer	27,308
Telephone	5,444
Travel & entertainment	6,179
(Dividend income)	(1,026)
(Interest income)	<u>(6,298)</u>
Total Operating Expenses	<u>209,613</u>
Income before provision for income taxes	7,656
Provision for income taxes	<u>1,900</u>
Net Income	5,756
Retained earnings, beginning of year	<u>0</u>
Retained earnings, end of year	<u>\$ 5,756</u>

**MENCHIE'S GROUP, INC.**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2008**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Net Income	\$ 5,756
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation expense	542
(Increase) Decrease in:	
Accounts receivable	(31,251)
Inventory	(64,439)
Prepaid asset	(25,000)
Other	(4,010)
(Decrease) Increase in:	
Accounts payable	8,711
Accrued expenses	14,745
Credit cards payable	5,123
Franchisee deposits	145,000
Payroll taxes payable	3,795
Income taxes payable	1,900
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>60,872</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Property & equipment	(6,494)
<b>NET CASH (USED) BY INVESTING ACTIVITIES</b>	<u>(6,494)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Loans receivable-affiliates	(348,959)
Loans from shareholders	247,300
Common stock	14,100
<b>NET CASH (USED) BY FINANCING ACTIVITIES</b>	<u>(87,559)</u>
<b>NET (DECREASE) IN CASH</b>	(33,181)
<b>CASH BALANCE AT BEGINNING OF YEAR</b>	<u>0</u>
<b>CASH BALANCE AT END OF YEAR</b>	<u>\$ (33,181)</u>

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Cash paid during the period for:

Interest	\$ 889
Income taxes	\$ 0

**MENCHIE'S GROUP, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2008**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of Menchie's Group, Inc. (the "Company") is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Nature of Operations

Menchie's Group, Inc is a franchisor of soft serve frozen yogurt. The Company recruits, consults and trains qualified franchisees to open locations based on the guidelines and criteria of Menchie's Group's business practices and standards. The Company was incorporated on January 2, 2008, in the State of California.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

Inventory

Inventory is stated at the lower of cost, using the average cost method, or net realizable value (market). Inventory consists of cups, company specific apparel, and sundry items.

Depreciation

The company's property and equipment are depreciated using primarily the straight-line method over the estimated useful lives of the assets of 5 to 7 years. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items of property or equipment are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

Income Taxes

The provision for taxes on income is based on income reported for financial statement purposes. Certain expense items are reported in different periods for financial reporting and for tax purposes. The tax effects of these timing differences are not material to the accompanying financial statements. Provision for federal and state taxes on income consist of:

Federal	\$	1,100
State		<u>800</u>
	\$	<u>1,900</u>

**MENCHIE'S GROUP, INC.**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**December 31, 2008**

**NOTE 2 - PROPERTY AND EQUIPMENT**

Property and equipment consists of the following:

Furniture and equipment	\$	6,494
Accumulated depreciation		<u>(542)</u>
	\$	<u>5,952</u>

**NOTE 3 - RELATED PARTY TRANSACTIONS**

As of December 31, 2008, the company had an amount of \$247,300 due to one of the Company shareholders. This amount is unsecured, bears interest at 6.0% per annum, and is due and payable by 11/1/2015. In addition the Company has loans receivable from affiliated companies in the total amount of \$348,959. Of this amount, \$319,308 represents loans to a related company, Menchies Inc. These loans receivable are unsecured, bear interest at 6.0% per annum, and are due at various dates through August 2015.

**NOTE 4 - LEASE COMMITMENTS**

The Company leases its office space under an operating lease expiring in July 2011 with a monthly lease payment of approximately \$3,199. The lease agreement requires the Company to pay for a portion of maintenance and utilities. The lease agreement also includes an allotment of parking spaces.

At December 31, 2008, the future minimum lease payments required under the operating lease with initial or remaining terms in excess of one year is as follows:

<u>Years Ending December 31,</u>		
2009	\$	38,382
2010		38,382
2011		22,390
2012		0
2013		0
Thereafter		<u>0</u>
	\$	<u>99,154</u>

Total rent expense for the year ended December 31, 2008 was \$22,390.

**NOTE 5 - FRANCHISEE DEPOSITS**

Franchisee deposits represent 50% of the franchisee's upfront fees. The franchise agreements provide for 50% return of initial fees should the franchisee cancel the agreement and not build their store.



**Exhibit C**

FRANCHISE AGREEMENT

MENCHIE'S® Franchise Agreement

Menchie's Group, Inc.  
16027 Ventura Boulevard, Suite 301  
Encino, California 91436

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MENCHIE’S® FRANCHISE AGREEMENT

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SCHEDULES

- A. Data Sheet
- B. Trademarks
- C. Addendum to Lease
- D. Electronic Transfer of Funds Authorization
- E. Telephone Assignment Agreement
- F. Personal Guarantee
- G. Addendum to Franchise Agreement
- H. Acknowledgment Addendum

MENCHIE’S® FRANCHISE AGREEMENT

This Franchise Agreement is made this \_\_\_\_ day of \_\_\_\_\_, 20\_\_ between Menchie’s Group, Inc., a California corporation with its principal business located at 16027 Ventura Boulevard, Suite 301, Encino, California 91436 (“we” or “us”), and “Franchisee” or “you” as identified on the Data Sheet attached as Schedule A (the “Data Sheet”). If the franchisee is a corporation, partnership, limited liability company or other legal entity, certain provisions to this Agreement also apply to its owners.

RECITALS

- A. We have developed a unique system for the establishment and operation of a soft-serve frozen yogurt and ice cream store which also features desserts and beverage items for retail sale to the public;
- B. We own the MENCHIE’S Trademark and other trademarks used in connection with the operation of a MENCHIE’S store;
- C. You desire to develop and operate a MENCHIE’S store; and
- D. We have agreed to grant you a franchise subject to the terms and conditions of this Agreement.

In consideration of the foregoing and the mutual covenants and consideration below, you and we agree as follows:

DEFINITIONS

- 1. For purposes of this Agreement, the terms below have the following definitions:
  - A. “Gross Sales” includes the total revenues and receipts from the sale of all products, services and merchandise sold in your Store, whether under any of the Trademarks or otherwise, including any catering or delivery services, cover charges or fees, in your Store or on its premises and all revenues derived from any type of authorized vending machines. Gross Sales excludes sales taxes.
  - B. “Menu Items” means the soft-serve frozen yogurt, ice cream, desserts, beverages, and other products prepared according to our specified recipes and procedures, as we may modify and change from time to time.
  - C. “Manual” or “Operations Manual” means any collection of written, video, audio and/or software media (including materials distributed electronically), regardless of title and consisting of various subparts and separate components, all of which we or our agents produce and which contain specifications, standards, policies, procedures and recommendations for your MENCHIE’S Store, all of which we may change from time to time.
  - D. “Operating Partner” means the person designated by Franchisee (if Franchisee is a legal entity) who: (i) owns at least a 5% ownership interest in Franchisee, (ii) has completed our initial training program and (iii) has the authority to bind Franchisee in all dealings with us. If the Franchisee is one or more individuals, each individual is an Operating Partner of the franchisee.

Your Operating Partner(s) are identified on the Data Sheet. Every time there is a change in the persons who are your Operating Partners, you must, within 10 days from the date of each such change, update the Data Sheet. As used in this Agreement, any reference to Operating Partner includes all Operating Partners.

E. “Store” means the MENCHIE’S Store you develop and operate pursuant to this Agreement.

F. “System” means the MENCHIE’S System, which consists of distinctive food and beverage products prepared according to special and confidential recipes and formulas with unique storage, preparation, service and delivery procedures and techniques, offered in a setting of distinctive exterior and interior layout, design and color scheme, signage, furnishings and materials and using certain distinctive types of facilities, equipment, supplies, ingredients, business forms, training materials, Manuals, sales techniques, methods and procedures, all of which we may modify and change from time to time.

G. “Trademarks” means the MENCHIE’S Trademarks that have been registered in the United States and elsewhere and the trademarks, service marks and trade names set forth on Schedule B, as we may modify and change from time to time, and the trade dress and other commercial symbols used in the Store. Trade dress includes the designs, color schemes and image we authorize you to use in the operation of the Store from time to time.

#### GRANT OF LICENSE

2. The following provisions control with respect to the license granted hereunder:

A. Authorized Location. We grant to you the right and license to establish and operate a retail Store identified by the MENCHIE’S Trademarks or such other marks as we may direct, at the location identified on the Data Sheet, which location must be designated within 365 days from the date of this Agreement (the “Authorized Location”). When a location has been designated by you and approved by us, it will become part of this subparagraph 2.A as if originally stated. If an Authorized Location is not designated by you and approved by us within 365 days from the date of this Agreement, we may terminate this Agreement. You accept the license and undertake the obligation to operate the Store at the Authorized Location using the Trademarks and the System in compliance with the terms and conditions of this Agreement.

B. Opening. You agree that the Store will be open and operating in accordance with the requirements of subparagraph 5.A within 120 to 365 days from the date of this Agreement, unless we authorize in writing an extension of time. Before you open your Store for business, we will inspect your Store and provide you with a Certificate of Opening.

C. Designated Territory. The license is limited to the right to develop and operate one Store at the Authorized Location within the Designated Territory as defined on the Data Sheet (the “Designated Territory”).

During the term of this Agreement and provided you are in compliance with the terms and conditions of this Agreement, we will not: (i) modify the Designated Territory, (ii) establish a company-owned or franchised MENCHIE’S Store within the Designated Territory, or (iii) establish a company-owned or franchised Store in the Designated Territory that offers the same products and

services as your MENCHIE'S Store, except for any Merger/Acquisition Activity (as described and defined below).

D. Nonexclusivity; Our Reservation of Rights. The license is limited to the right to develop and operate one Store at the Authorized Location.

The license granted to you does not provide you with any right to: (i) sell products and Menu Items identified by the Trademarks at any location outside the Designated Territory, except for authorized catering or delivery services as noted in subparagraph 1.E, (ii) any right to sell products or menu Items through any other channels or methods of distribution, including the Internet (or any other existing or future form of electronic commerce), (iii) any right to sell products and Menu Items identified by the Trademarks to any person or entity for resale or further distribution, except as we may designate in writing, or (iv) any right to exclude, control or impose conditions on our development of future franchised or company-owned stores at any time or at any location regardless of the proximity to your Designated Territory. You acknowledge that the consumer trade area or service area of another MENCHIE'S Store may overlap with your Designated Territory.

We retain all rights that are not expressly granted to you under this Agreement. Further, we may, among other things, on any terms and conditions we deem advisable, without compensation to any franchisee, and without granting you any rights therein:

(i) establish and/or license others to establish franchised or company-owned Stores at any location outside your Designated Territory regardless of the proximity of such stores to your Designated Territory;

(ii) merge with, acquire or become associated with ("Merger/Acquisition Activity") any businesses or stores of any kind under other systems and/or marks, which businesses and stores may convert to or operate under the Trademarks and may offer or sell menu items, products and services that are the same as or similar to the Menu Items offered at or from the Store, and which stores may be located anywhere inside or outside of your Designated Territory; and

(iii) offer, sell and distribute for ourselves and/or license others to offer, sell and distribute through franchised businesses or any other method of distribution, both inside and outside your Designated Territory, menu items the same as or different from the Menu Items offered under the System and which are offered and distributed under the Trademarks or marks different from the Trademarks through any distribution channels or methods without compensation to any franchisee. The distribution channels or methods include, without limitation, grocery stores, club stores, convenience stores, wholesale, business or industry locations (e.g. manufacturing site, office building), military installations, military commissaries or the Internet (or any other existing or future form of electronic commerce).

You acknowledge and agree that certain locations are by their nature unique and separate in character from sites generally developed as MENCHIE'S Stores. As a result, you agree that we have the right to develop or franchise the following locations ("Special Sites") regardless of whether these locations are located inside your Designated Territory: (1) military bases; (2) public transportation facilities; (3) sports facilities, including race tracks; (4) student unions or other similar buildings on college or university campuses; (5) amusement and theme parks; (6) malls; and (7) special events.

E. Catering and Delivery. You may not engage in catering and delivery services unless we authorize you in writing, as further described in subparagraph 6.K.

### TRADEMARK STANDARDS AND REQUIREMENTS

3. You acknowledge and agree that the Trademarks are our property and we have licensed the use of the Trademarks to you and others. You further acknowledge that your right to use the Trademarks is specifically conditioned upon the following:

A. Trademark Ownership. The Trademarks are our valuable property, and we own all right, title and interest in and to the Trademarks and all past, present or future goodwill of the Store and of the business conducted at the Authorized Location that is associated with or attributable to the Trademarks. Your use of the Trademarks will inure to our benefit. You may not, during or after the term of this Agreement, engage in any conduct directly or indirectly that would infringe upon, harm or contest our rights in any of the Trademarks or the goodwill associated with the Trademarks, including any use of the Trademarks in a derogatory, negative, or other inappropriate manner in any media, including but not limited to print or electronic media.

B. Trademark Use. You may not use, or permit the use of, any trademarks, trade names or service marks in connection with the Store except those set forth in Schedule B or except as we otherwise direct in writing. You may use the Trademarks only in connection with such products and services as we specify and only in the form and manner we prescribe in writing. You must comply with all trademark, trade name and service mark notice marking requirements. You may use the Trademarks only in association with products and services approved by us and that meet our standards or requirements with respect to quality, mode and condition of storage, production, preparation and sale, and portion and packaging.

C. Store Identification. You must use the name MENCHIE'S as the trade name of the Store and you may not use any other mark or words to identify the Store without our prior written consent. You may not, however, use the word "Menchie's" or any of the other Trademarks as part of the legal name of your corporation, partnership, limited liability company or other similar entity. You may use the Trademarks on various materials, such as business cards, stationery and checks, provided you (i) accurately depict the Trademarks on the materials as we prescribe, (ii) include a statement on the materials indicating that the business is independently owned and operated by you, (iii) do not use the Trademarks in connection with any other trademarks, trade names or service marks unless we specifically approve in writing prior to such use, and (iv) make available to us, upon our request, a copy of any materials depicting the Trademarks. You must post a prominent sign in the Store identifying you as a MENCHIE'S franchisee in a format we deem reasonably acceptable, including an acknowledgment that you independently own and operate the Store and that the MENCHIE'S Trademark is owned by us and your use is under a license we have issued to you. All your internal and external signs must comply at all times with our guidelines, requirements and practices, as they are modified from time to time.

D. Litigation. In the event any person or entity improperly uses or infringes the Trademarks or challenges your use or our use or ownership of the Trademarks, we will control all litigation and we have the right to determine whether suit will be instituted, prosecuted or settled, the terms of settlement and whether any other action will be taken. You must promptly notify us of any such use or infringement of which you are aware or any challenge or claim arising out of your use of any Trademark. You must take reasonable steps, without compensation, to assist us with any action we undertake. We will be responsible for our fees and expenses with any such action, unless the

challenge or claim results from your misuse of the Trademarks in violation of this Agreement, in which case you must reimburse us for our fees and expenses.

E. Changes. You may not make any changes or substitutions to the Trademarks unless we direct in writing. We reserve the right to change the Trademarks at any time. Upon receipt of our notice to change the Trademarks, you must cease using the former Trademarks and commence using the changed Trademarks. We will reimburse you for any out-of-pocket expenses you incur in connection with any change to the Trademarks on your letterhead; provided, however, that our reimbursement obligation during the Term of this Agreement will not exceed \$250.

F. Creative Works. All ideas, concepts, techniques, or materials concerning the MENCHIE'S Store, whether or not protectable intellectual property and whether created by or for you or one of your owners or employees, must be promptly disclosed to us and will be deemed to be our sole and exclusive property, part of the System, and works made-for-hire for us. To the extent any item does not qualify as a "work made-for-hire" for us, you must assign ownership of that item, and all related rights to that item, to us and must take whatever action (including signing an assignment agreement or other documents) we request to show our ownership or to help us obtain intellectual property rights in the item.

#### TERM AND RENEWAL

4. The following provisions control with respect to the term and renewal of this Agreement:

A. Term. The initial term of this Agreement is 10 years, unless this Agreement is sooner terminated in accordance with Paragraph 13. The initial term commences upon the Effective Date (as defined in subparagraph 15.Q) of this Agreement. We may extend this initial term in writing for a limited period of time not to exceed 6 months to take into account the term of any applicable lease for the Authorized Location.

B. Renewal Term and Conditions of Renewal. You may renew your license for two renewal terms of 10 years each, provided that with respect to each renewal: (i) you have given us written notice of your decision to renew at least 6 months but not more than 12 months prior to the end of the expiring term; (ii) you sign our then-current form of franchise agreement (modified to reflect any additional renewal term(s) upon expiration and other modifications to reflect that the agreement relates to the grant of a renewal), the terms of which may differ from this Agreement, including higher fees; (iii) you have complied with the provisions of subparagraph 5.E regarding modernization and you perform any further items of modernization and/or replacement of the building, premises, trade dress, equipment and grounds as may be necessary for your Store to conform to the standards then applicable to new MENCHIE'S stores, regardless of the cost of such modernizations and/or replacements; (iv) you are not in default of this Agreement or any other agreement pertaining to the franchise granted, have satisfied all monetary and material obligations on a timely basis during the term and are in good standing; (v) if leasing the Store premises, you have renewed the lease and have provided written proof of your ability to remain in possession of the premises throughout the renewal period; (vi) you comply with our then-current training requirements; (vii) you pay us, at least 30 days prior to the end of the expiring term, a renewal fee in the amount of ten percent (10%) of our then-current initial franchise fee; and (viii) you and your Operating Partner (s) and guarantors execute a general release of claims in a form we prescribe.

C. Interim Period. If you do not exercise your right to renew this Franchise Agreement prior to the expiration of this Agreement and continue to accept the benefits of this



Agreement after the expiration of this Agreement, then at our option, this Agreement may be treated either as (i) expired as of the date of expiration with you then operating a franchise without the right to do so and in violation of our rights; or (ii) continued on a month-to-month basis (“Interim Period”) until one party provides the other with written notice of such party’s intent to terminate the Interim Period, in which case the Interim Period will terminate thirty (30) days after receipt of the notice to terminate the Interim Period. In the latter case, all of your obligations shall remain in full force and effect during the Interim Period as if this Agreement had not expired, and all obligations and restrictions imposed on you upon expiration of this Agreement will be deemed to take effect upon termination of the Interim Period.

## FACILITY STANDARDS AND MAINTENANCE

5. You acknowledge and agree that we have the right to establish, from time to time, quality standards regarding the business operations of MENCHIE’S stores to protect the distinction, goodwill and uniformity symbolized by the Trademarks and the System. Accordingly, you agree to maintain and comply with our quality standards and agree to the following terms and conditions:

A. Store Facility; Site Under Control. You are responsible for purchasing or leasing a site that meets our site selection guidelines. You must use our designated vendor in connection with selecting and securing a site for your Store. We must consent to the site in writing. You may not use the Store premises or Authorized Location for any purpose other than the operation of a MENCHIE’S Store during the term of this Agreement or any Interim Period. We make no guarantees concerning the success of the Store located on any site to which we consent.

You may not open your Store for business until we inspect your Store and provide you with a Certificate of Opening and we have consented to your opening date. A Certificate of Opening may be obtained only after all local permits, certificates and codes have been met and a certificate of occupancy has been granted. If you do not pass your initial inspection, you will be charged for all costs and expenses incurred by us in sending an inspector to re-inspect your Store. We are not responsible or liable for any of your pre-opening obligations, losses or expenses you might incur for your failure to comply with these obligations or your failure to open by a particular date. We also are entitled to injunctive relief or specific performance under subparagraph 12.C for your failure to comply with your obligations.

In the event that you plan to enter into any type of lease for the Store premises, you and your landlord must sign the Lease Addendum attached as Schedule C. We recommend you submit the Lease Addendum to the landlord at the beginning of your lease review and negotiation, although the terms of the Lease Addendum may not be negotiated without our prior approval. If the landlord requires us to negotiate the Lease Addendum, we reserve the right to charge you a fee, which will not exceed our actual costs associated with the negotiation. You must provide us a copy of the executed lease and Lease Addendum within 5 days of its execution. We have no responsibility for the lease; it is your sole responsibility to evaluate, negotiate and enter into the lease for the Store premises.

You must execute, and provide us an executed copy of your lease (including an executed copy of the Lease Addendum) or the purchase agreement for the selected and approved site for your Store within 365 days from the date of execution of this Agreement. If you fail to have your “site under control” (execute the lease or the purchase agreement within the timeframe set forth in

this subparagraph), we will have the right to terminate this Agreement without opportunity to cure pursuant to subparagraph 13.B.2.

B. Construction; Future Alteration. You must construct and equip the Store in strict accordance with our current approved specifications and standards pertaining to equipment, inventory, signage, fixtures, furnishings, and design and layout of the building. You may not commence construction of the Store until you have received our written consent to your building plans.

Without limiting the generality of the prior paragraph, you must promptly and in no event more than sixty (60) days after obtaining possession of the site for the Store: (i) have prepared and submitted for our approval a site survey and basic architectural plans and specifications consistent with our general atmosphere, image, color scheme and décor requirements as set forth from time to time in the manuals for a MENCHIE'S Store (including requirements for dimensions, exterior design, materials, interior design and layout, equipment, fixtures, furniture, signs and decorating); (ii) purchase or lease and then, in the construction of the Store, use only the approved building materials, equipment, fixtures, furniture and signs; (iii) complete the construction and/or remodeling, equipment, fixtures, furniture and sign installation and decorating of the Store in full and strict compliance with plans and specifications we approve and all applicable ordinances, building codes and permit requirements without any unauthorized alterations; (iv) obtain all customary contractors' sworn statements and partial and final waivers, obtain all necessary permits, licenses and architectural seals and comply with applicable legal requirements relating to the building, signs, equipment and premises, including, but not limited to, the Americans With Disabilities Act; and (v) obtain and maintain all required zoning changes, building, utility, health, sanitation, and sign permits and licenses and any other required permits and licenses. It is your responsibility to comply with the foregoing conditions.

Any change to the building plans or any replacement, reconstruction, addition or modification in the building, interior or exterior decor or image, equipment or signage of the Store to be made after our consent is granted for initial plans, whether at the request of you or of us, must be made in accordance with specifications that have received our prior written consent. You may not commence such replacement, reconstruction, addition or modification until you have received our written consent to your revised plans.

C. Maintenance. The building, equipment, fixtures, furnishings, signage and trade dress (including the interior and exterior appearance) employed in the operation of your Store must be maintained and refreshed in accordance with our requirements established periodically and any of our reasonable schedules prepared based upon periodic evaluations of the premises by our representatives. Within a period of 30-60 days (as we determine depending on the work needed) after the receipt of any particular report prepared following such an evaluation, you must effect the items of maintenance we designate, including the repair of defective items and/or the replacement of irreparable or obsolete items of equipment and interior signage. If, however, any condition presents a threat to customers or public health or safety, you must effect the items of maintenance immediately, as further described in subparagraph 6.G.

D. Relocation. If you need to relocate because of condemnation, destruction, or expiration or cancellation of your lease for reasons other than your breach, we will grant you authority to do so at a site acceptable to us; provided that the new Store is open and operating within 180 days after construction commences, all in accordance with our then-current standards. If you voluntarily decide to relocate the Store, your right to relocate the Store will be void and your interest

in this Agreement will be voluntarily abandoned, unless you have given us notice of your intent to relocate not less than 60 days prior to closing the Store, have procured a site that we accept within 60 days after closing the prior Store, have opened the new Store for business within 180 days of such closure and complied with any other conditions that we reasonably require. You must pay us a \$5,000 relocation fee to cover our costs associated with the relocation.

In the event your Store is destroyed or damaged and you repair the Store at the Authorized Location (rather than relocate the Store), you must repair and reopen the Store at the Authorized Location in accordance with our then-current standards for the destroyed or damaged area within 180 days of the date of occurrence of the destruction or damage.

You do not have the right to relocate in the event you lose the right to occupy the Store premises because of the cancellation of your lease due to your breach. The termination or cancellation of your lease due to your breach is grounds for immediate termination under subparagraph 13.B.2.

E. Modernization or Replacement. From time to time as we require, you must effect items of modernization and/or replacement of the building, premises, trade dress, equipment and grounds as may be necessary for your Store to conform to the standards for similarly situated new MENCHIE'S stores. Furthermore, in addition to performing general continued maintenance and refreshing of the Store premises whenever necessary as set forth in subparagraph 5.C, you must effect any required expenditures for equipment or leasehold improvements necessary to prepare new menu items or products. We will not require you to spend more than \$90,000 on Store modernization and replacement during the initial term of this Agreement.

Each and every transfer of any interest in this Agreement or your business governed by Paragraph 11 or any renewal covered by Paragraph 4 is expressly conditioned upon your compliance with these modernization or replacement requirements at the time of transfer or renewal.

You acknowledge and agree that the requirements of this subparagraph 5.E are both reasonable and necessary to ensure continued public acceptance and patronage of MENCHIE'S stores and to avoid deterioration or obsolescence in connection with the operation of the Store. If you fail to make any improvement as required by this subparagraph or perform the maintenance described in subparagraph 5.C, we may, in addition to our other rights in this Agreement, effect such improvement or maintenance and you must reimburse us for the costs we incur.

F. Signage. The outdoor signage at your Store must comply with our then current specifications, which we may modify and change from time to time due to modifications to the System, including changes to the Trademarks. You must make such changes to the outdoor signage as we require.

#### PRODUCTS AND OPERATIONS STANDARDS AND REQUIREMENTS

6. You must implement and abide by our requirements and recommendations directed to enhancing substantial System uniformity. The following provisions control with respect to products and operations:

A. Authorized Menu. Your business must be confined to the preparation and sale of only such Menu Items and other food and beverage products as we designate and approve in writing from time to time for sale by your Store. You must offer for sale from the Store all items and only

those items listed as Menu Items and other approved food and beverage products. We have the right to make modifications to these items from time to time, and you agree to comply with any modifications. You may not offer or sell any other product or service at the Authorized Location without our prior written consent.

B. Authorized Products and Ingredients. You must use in the operation of the Store and in the preparation of Menu Items and other food and beverage products only the proprietary and non-proprietary ingredients, recipes, formulas, techniques, processes and supplies we designate, and prepare and serve the Menu Items and products in such portions, sizes, appearance, taste and packaging, all as we specify in our Operations Manual or otherwise in writing. You acknowledge and agree that we may change these periodically and that you are obligated to conform to the requirements. All supplies, including containers, cups, plates, wrappings, eating utensils, and napkins, and all other customer service materials of all descriptions and types must meet our standards of uniformity and quality. You acknowledge that the Store must at all times maintain an inventory of ingredients, food and beverage products and other products, materials and supplies that will permit operation of the Store at maximum capacity.

C. Approved Supplies and Suppliers. We will furnish to you from time to time lists of approved supplies or approved suppliers. You must only use approved products, services, inventory, equipment, fixtures, furnishings, signs, advertising materials, trademarked items and novelties, and other items or services (collectively, "Approved Supplies") in connection with the design, construction and operation of the Store as set forth in the Approved Supplies lists, as we may amend from time to time. Although we do not do so for every item, we have the right to approve the manufacturer, distributor and/or supplier of Approved Supplies (an "Approved Supplier"). You acknowledge and agree that certain Approved Supplies may only be available from one required Approved Supplier source, and we may be that source. For example, you must purchase all trademarked retail items, and certain products, supplies, equipment and materials from us or our designated supplier. You will pay the then-current price in effect for Approved Supplies purchased from us. All inventory, products, materials and other items and supplies used in the operation of the Store that are not included in the Approved Supplies or Approved Suppliers lists must conform to the specifications and standards we establish from time to time. **ALTHOUGH APPROVED OR DESIGNATED BY US, WE MAKE NO WARRANTY AND EXPRESSLY DISCLAIM ALL WARRANTIES, INCLUDING WARRANTIES OF MERCHANTABILITY AND FITNESS FOR ANY PARTICULAR PURPOSE, WITH RESPECT TO SERVICES, PRODUCTS, EQUIPMENT (INCLUDING, WITHOUT LIMITATION, ANY REQUIRED COMPUTER SYSTEMS), SUPPLIES, FIXTURES, FURNISHINGS OR OTHER APPROVED ITEMS. IN ADDITION, WE DISCLAIM ANY LIABILITY ARISING OUT OF OR IN CONNECTION WITH THE SERVICES RENDERED OR PRODUCTS FURNISHED BY ANY SUPPLIER APPROVED OR DESIGNATED BY US. OUR APPROVAL OR CONSENT TO ANY SERVICES, GOODS, SUPPLIERS, OR ANY OTHER INDIVIDUAL, ENTITY OR ANY ITEM SHALL NOT CREATE ANY LIABILITY TO US.**

D. POS System. You must purchase a POS system from our required supplier, currently Micros, including all future updates, supplements and modifications (the "POS System"). The POS System may include all hardware and software used in the operation of the Store, including electronic point-of-sale cash registers and any software we may designate to record and analyze sales, labor, inventory, product usage, employee information and tax information. The POS System also will include any credit card processing system we designate. The computer software package developed for use in the Store may include proprietary software. You may be required to license the proprietary software from us or a third party and you also may be required to pay a

software licensing or user fee in connection with your use of the proprietary software. All right, title and interest in the software will remain with the licensor of the software. You shall not use or download any software on your computer unless it has been authorized by us in writing. In the event that you use or download any unauthorized software, you shall be liable for all damages and problems caused by the unauthorized software in addition to the other remedies provided under this Agreement. You acknowledge and agree that we will have full and complete access to the information and data entered and produced by the POS System. You must, at all times, have at the Authorized Location Internet access with a form of high speed connection as we require and you must maintain an email account for the Store. Your email account may not exceed 50 megabytes.

E. Serving and Promotional Items. All sales promotion material, customer goodwill items, cartons, containers, wrappers and paper goods, eating and serving utensils and other items, and customer convenience items used in the sales promotion, sale and distribution of products covered by this Agreement are subject to our approval and must, where practicable, contain one or more of the Trademarks. You must purchase these items from our Approved Suppliers.

F. Health and Sanitation. Your Store must be operated and maintained at all times in compliance with any and all applicable health and sanitary standards prescribed by governmental authority. You also must comply with any standards that we prescribe. In addition to complying with such standards, if the Store is subject to any sanitary or health inspection by any governmental authorities under which it may be rated in one or more than one classification, it must be maintained and operated so as to be rated in the highest available health and sanitary classification with respect to each governmental agency inspecting the same. In the event you fail to be rated in the highest classification or receive any notice that you are not in compliance with all applicable health and sanitary standards, you must immediately notify us of such failure or noncompliance.

G. Evaluations. We or our authorized representative have the right to enter your Store at all reasonable times during the business day for the purpose of making periodic evaluations and to ascertain if the provisions of this Agreement are being observed by you, to inspect and evaluate your building, land and equipment, and to test, sample, inspect and evaluate your supplies, ingredients and products, as well as the storage, preparation and formulation and the conditions of sanitation and cleanliness in the storage, production, handling and serving. Any failure of an inspection is a default under Section 13.A of this Agreement. Further, if we determine that any condition in the Store presents a threat to customers or public health or safety, we may take whatever measures we deem necessary, including requiring you to immediately close the Store until the situation is remedied to our satisfaction. Our inspections and evaluations may include a “mystery shopper” program from time to time throughout the term of this Agreement. If you fail an evaluation by us or by a mystery shopper or if we receive a specific customer complaint, you must pay the costs and expenses of subsequent “mystery shopper” visits.

H. Period of Operation. Subject to any contrary requirements of local law, your Store must be opened to the public and operated during the days and times set forth in the Operations Manual. You acknowledge and agree that if your Store is closed for a period of 2 consecutive days or 5 or more days in any 12-month period without our prior written consent, such closure constitutes your voluntary abandonment of the franchise and business and we have the right, in addition to other remedies provided for herein, to terminate this Agreement. Acts of force majeure, as defined in subparagraph 16.M, that prevent you from complying with the foregoing will not constitute an abandonment of the franchise business as noted in this Section 6.H.

I. Operating Procedures. You must adopt and use as your continuing operational routine the required standards, service style, procedures, techniques and management systems described in our Operations Manual or other written materials relating to product preparation, menu, storage, uniforms, financial management, equipment, facility and sanitation. We will revise the Operations Manual and these standards, procedures, techniques and management systems periodically to meet changing conditions of retail operation in the best interest of stores operating under the Trademarks. Any required standards exist to protect our interests in the System and the Trademarks and not for the purpose of establishing any control or duty to take control over those matters that are reserved to you. You must use your best efforts to promote and increase the sales and service of Menu Items and to effect the widest and best possible distribution throughout the Designated Area.

You acknowledge having received one copy of the Operations Manual on loan from us for the term of this Agreement. The Operations Manual is at all times our sole property. You must at all times treat the Operations Manual, and the information it contains, as secret and confidential, and must use all reasonable efforts to maintain such information as secret and confidential. We may from time to time revise the contents of the Operations Manual and you expressly agree to comply with each new or changed requirement. You must at all times ensure that your copy of the Operations Manual is kept current and up to date, and in the event of any dispute as to the contents of said Operations Manual, the terms of the master copy of the Operations Manual that we maintain are controlling. You acknowledge and agree that in the future the Operations Manual and other system communications may only be available on the Internet or other online or computer communications.

J. Confidential Information. You, the Operating Partners, and your manager may not, during the term of this Agreement or thereafter, disclose, copy, reproduce, sell or use for the benefit of any other person or entity Confidential Information, except to such employees that must have access to it to operate the Store. For purposes of this Agreement, "Confidential Information" means the whole or any portion of know-how, knowledge, methods, specifications, processes, procedures and/or improvements regarding the business that is valuable and secret in the sense that it is not generally known to our competitors and any proprietary information contained in the Operations Manual or otherwise communicated to you in writing, verbally or through the Internet or other online or computer communications, and any other knowledge or know-how concerning the methods of operation of the Store, as well as the content of this Agreement and any other document executed in connection with this Agreement. Any and all Confidential Information, including, without limitation, proprietary ingredients, secret formulas and recipes, methods, procedures, suggested pricing, specifications, processes, materials, techniques and other data, may not be used for any purpose other than operating the Store. We may require that you obtain nondisclosure and confidentiality agreements in a form satisfactory to us from any persons owning a minority interest in the franchisee, the Operating Partners, your manager and other key employees. You must provide executed copies of these agreements to us upon our request. Notwithstanding the foregoing, you are authorized to disclose the terms of this Agreement to any lender providing you financing for the Store as well as to your landlord.

K. Catering and Delivery Services. If you want to offer catering or delivery service to customers, you must obtain our prior written approval. Any catering or delivery services must meet our written standards. You also must charge the same price for products offered by the Store whether delivered or catered by or sold in the Store. Any income from catering or delivery services must be included in Gross Sales for purposes of your Royalty Fee and Marketing Fee.

L. Compliance with Law; Licenses and Permits. You must at all times maintain your premises and conduct your Store operations in compliance with all applicable laws, regulations, codes and ordinances. You must secure and maintain in force all required licenses, permits and certificates relating to your Store.

You acknowledge that you are an independent business and responsible for control and management of your Store, including, but not limited to, the hiring and discharging of your employees and setting and paying wages and benefits of your employees. You acknowledge that we have no power, responsibility or liability in respect to the hiring, discharging, setting and paying of wages or related matters.

You must immediately notify us in writing of any claim, litigation or proceeding that arises from or affects the operation or financial condition of your MENCHIE'S business or Store, including any notices of health code violations.

M. Participation in Internet Websites or Other Online Communications. We may require you, at your expense, to participate in our MENCHIE'S website on the Internet, our intranet system or extranet system or other online communications as we may require. We have the right to determine the content and use of our website and intranet or extranet system and will establish the rules under which franchisees may or must participate. You may not separately register any domain name containing any of the Trademarks, participate in any website or social media platform that markets goods and services similar to a MENCHIE'S store, or operate a website for your Store that does not link to our website. We retain all rights relating to our website and intranet system and may alter or terminate our website, extranet system or intranet system. Your general conduct on our website and intranet and extranet systems or other online communications and specifically your use of the Trademarks or any advertising is subject to the provisions of this Agreement. You acknowledge that certain information related to your participation in our website or intranet system may be considered Confidential Information, including access codes and identification codes. Your right to participate in our website and intranet or extranet system, or otherwise use the Trademarks or System on the Internet or other online communications, will terminate when this Agreement expires or terminates.

N. System Modifications. You acknowledge and agree that we have the right to modify, add to or rescind any requirement, standard or specification that we prescribe under this Agreement to adapt the System to changing conditions competitive circumstances, business strategies, business practices and technological innovations and other changes as we deem appropriate. You must comply with these modifications, additions or rescissions at your expense, subject to any express limitations set forth in this Agreement.

O. Suggested Pricing Policies. You generally have the right to establish prices for the Menu Items and other products and services you sell. We may, from time to time, suggest prices for the Menu Items and other products and services you sell. We do, however, have the right to modify the Menu Items or System to give us the right to establish prices, both minimum and maximum. Any such modification will be in writing. Unless we so modify the Menu Items or our System, any list or schedule of prices we furnish to you is a recommendation only and any decision you make to accept or reject the suggestion will not in any way affect the relationship between you and us.

## PERSONNEL AND SUPERVISION STANDARDS

7. The following provisions and conditions control with respect to personnel, training and supervision:

A. Supervision. You (if Franchisee is an individual) or one of your owners (if Franchisee is a legal agent) must devote full time and best efforts to the management and operation of your Store. You may hire a manager to assist you in managing the day-to-day operations of the Store. Any manager or replacement manager(s) you hire must complete our training as described in subparagraphs 7.B – 7.E. Any manager(s) or replacement manager(s) you hire must be trained by us. Any manager you may hire need not have any interest in Franchisee. The use of a manager in no way relieves you of your obligations to comply with this Agreement and to ensure that the Store is properly operated.

B. Training. You must comply with all of the training requirements we prescribe for the Store to be developed under this Agreement. You (or if Franchisee is a legal entity your Operating Partner) must complete our initial training program to our satisfaction.

We will provide our initial training program to you (or your Operating Partner) and 1 additional person without charging you a fee. You, however, are responsible for paying all costs and daily living expenses, including hotel and transportation costs, for these individuals to attend our training program. If you would like us to train more than the 2 people noted above, or if it becomes necessary to retrain a certain individual, we will charge you our then-current training fee, which fee will not exceed \$500 per person per day. You will be responsible for paying all costs and other daily expenses for any additional person who attends our initial training program.

We also will provide you with up to 3 days of on-site assistance. Specifically, when your Store is ready to open, we will, at our cost, send one of our representatives to your Store to provide opening assistance and support.

The training requirements may vary depending on your experience and the experience of any manager you hire or other factors specific to the Store. In the event you are given notice of default as set forth in subparagraphs 13.A and B, and the default relates, in whole or in part, to your failure to meet any operational standards, we have the right to require as a condition of curing the default that you and your manager, at your expense, comply with the additional training requirements we prescribe. Any new manager you hire must comply with our training requirements within a reasonable time as we specify. The training of new managers generally occurs at one of our corporate stores, but we may schedule your training at another site. Under no circumstances may you permit the management of the Store's operation on a regular basis by a person who has not successfully completed to our reasonable satisfaction all applicable training we require.

If you request additional training or if we determine that it is necessary to provide you with more training, we may require you to pay to us for each additional training day at our then-current daily training fee.

C. Ongoing Training. We may require you, your manager and other key employees of the Store to attend, at your expense, ongoing training at our training facility, the Authorized Location or other location we designate. If you request training in addition to the initial training program identified above, you must pay to us our then-current daily training fee plus expenses.



D. Staffing. You will employ a sufficient number of competent and trained employees to ensure efficient service to your customers. No employee of yours will be deemed to be an employee of ours for any purpose whatsoever.

E. Attendance at Meetings. You must attend, at your expense, any annual franchise conventions we may hold or sponsor and all meetings relating to new products or product preparation procedures, new operational procedures or programs, training, store management, sales or sales promotion, or similar topics. If you are not able to attend a meeting or convention, you must notify us prior to the meeting and must have a substitute person acceptable to us attend the meeting.

### ADVERTISING

8. You agree to actively promote your Store, to abide by all of our advertising requirements and to comply with the following provisions:

A. Marketing Fund. You must pay to us a Marketing Fee as set forth in subparagraph 9.F. All Marketing Fees will be placed in a Marketing Fund that we own and manage. On behalf of our company-owned stores, we will pay the same Marketing Fee as similarly situated franchised stores (based on age and type of location) in the same local marketing area, except for Special Sites. The Marketing Fund is not a trust or escrow account, and we have no fiduciary obligation to franchisees with respect to the Marketing Fund; provided, however, we will make a good faith effort to expend such fees in a manner that we determine is in the general best interests of the System. We have the right to determine the expenditures of the amounts collected and the methods of marketing, advertising, media employed and contents, terms and conditions of marketing campaigns and promotional programs. Because of the methods used, we are not required to spend a prorated amount on each store or in each advertising market. We have the right to make disbursements from the Marketing Fund for expenses incurred in connection with the cost of formulating, developing and implementing marketing, advertising and promotional campaigns. The disbursements may include payments to us for the expense of administering the Marketing Fund, including accounting expenses and salaries and benefits paid to our employees engaged in the advertising functions. If requested, we will provide you an annual unaudited statement of the financial condition of the Marketing Fund.

B. Required Local Expenditures. You must use your best efforts to promote and advertise the Store and participate in any local marketing and promotional programs we establish from time to time. In addition to any Marketing Fee we may collect, you are required to spend \$4,000 per year on approved local marketing and promotion in your own market. Upon our request, you must provide us with itemization and proof of marketing and an accounting of the monies that you have spent for approved local marketing. If you fail to make the required expenditure, we have the right to collect and contribute the deficiency to the Marketing Fund.

C. Grand Opening Marketing. You must spend at least \$1,500 on grand opening marketing and promotion during the first month your Store is open (the "Grand Opening Marketing Campaign"). All grand opening marketing and promotion must be approved by us. Your Grand Opening Marketing Campaign expenditures will count towards your first year local advertising requirements.

D. Approved Materials. You must use only such marketing materials (including any print, radio, television, electronic, social media, or other media forms that may become available in the future) as we furnish, approve or make available, and the materials must be used only in a

manner that we prescribe. Furthermore, any promotional activities you conduct in the Store or on its premises are subject to our approval. We will not unreasonably withhold approval of any sales promotion materials or media and activities; provided that they are current, in good condition, in good taste and accurately depict the Trademarks.

E. Advertising Cooperatives. We have the right to designate local advertising markets and if designated, you must participate in and contribute to the cooperative advertising and marketing programs in your designated local advertising market. If established, you must direct your local advertising expenditure to the advertising cooperative. Each MENCHIE'S store, including those operated by us, within a designated local advertising area is a member of the local advertising cooperative and each store has one vote on all matters requiring a vote. Each advertising cooperative will be required to adopt governing bylaws that meet our approval. You must obtain our written approval of all promotional and advertising materials, creative execution and media schedules prior to their implementation. Each advertising cooperative will be required to prepare annual financial statements, which must be made available to all members of the cooperative and to us upon request. Also, each advertising cooperative must submit to us its meeting minutes upon our request. We have the right to require advertising cooperatives to be formed, changed, dissolved or merged.

F. Telephone Directory Listing. You must place a separate listing, or participate in a joint listing, in the primary yellow page directory serving the geographic area in which your Store is located. The listing must meet our standards. The cost of the listing must be paid by you or, in the case of a joint listing, by you and other participating MENCHIE'S stores. Your cost to advertise in the yellow pages as we direct will be included as part of your local advertising requirements under subparagraph 8.B. We will not specify an unreasonably expensive listing; we may, however, require you to advertise in more than one local telephone directory.

G. Gift Cards, Certificates and Checks. You must use and honor only system-wide gift cards, certificates and checks that we designate and you must obtain all certificates, cards or checks from an Approved Supplier.

#### FEES, REPORTING AND AUDIT RIGHTS

9. You must pay the fees described below and comply with the following provisions:

A. Initial Franchise Fee. You must pay to us an Initial Franchise Fee of \$40,000. If you are signing this Agreement in connection with your rights and obligations under a Multi Unit Agreement, the Initial Franchise Fee you will pay under this Agreement will be set forth in the Multi Unit Agreement. The Initial Franchise Fee must be paid at the time you sign this Agreement, is fully earned upon receipt, and except as noted below, is nonrefundable.

B. Uniforms, Merchandise and Store Supplies. Prior to the opening of your Store, you must pay us \$3,000 for uniforms, merchandise and store supplies.

C. Real Estate Broker Fee. You must use our required vendor in connection with selecting and securing a site for your Store. You will pay our required vendor a fee for providing these real estate selection services to you (the "Real Estate Broker Fee"). The amount of the Real Estate Broker Fee will depend on the number of Stores you agree to open. If you open one Store, the Real Estate Broker Fee will be \$3,950. If you agree to open three Stores, the Real Estate Broker Fee

will be \$2,950 per Store. If you agree to open five Stores, the Real Estate Broker Fee will be \$1,975 per Stores.

The Real Estate Broker Fee will be paid in two installments. 50% of the Real Estate Broker Fee must be paid at the time you enter into a services agreement with our designated vendor, and the remaining balance must be paid when a site for your Store is secured.

D. Technology Fee. You must pay us a monthly Technology Fee in the amount of \$114 per month. The Technology Fee will cover our expenses associated with furnishing one user with our franchise management software, creating email accounts, email marketing, and providing technology administration and maintenance according to our then current guidelines and procedures, which may change from time to time. The monthly Technology Fee is non-refundable and you will begin paying the Technology Fee 30 days after the Effective Date of this Agreement. We reserve the right to increase or decrease the monthly Technology Fee each calendar year in an amount not to exceed 5%. We will provide you with written notice of any change to the Technology Fee 14 days prior to any change.

E. Royalty Fee. In addition to the Initial Franchise Fee, during the full term of this Agreement, or any Interim Period, and in consideration of the rights granted to you, you must pay to us a weekly Royalty Fee equal to 6% of Gross Sales.

F. Marketing Fee. You must pay to us a weekly Marketing Fee in an amount equal to 2% of Gross Sales. These fees are not held by us in trust and become our property to be spent in accordance with Paragraph 8.A of this Agreement.

G. Computations and Remittances. Except for the Initial Franchise Fee, you must compute all amounts due and owing at the end of each weekly period from Sunday to Saturday and remittance for the amounts must be made to us on or before Tuesday of the following week, accompanied by the reports required by subparagraph 9.J of this Agreement. We reserve the right to change the reporting day of the week for any or all amounts. You must certify the computation of the amounts in the manner and form we specify, and you must supply to us any supporting or supplementary materials as we reasonably require to verify the accuracy of remittances. You waive any and all existing and future claims and offsets against any amounts due under this Agreement, which amounts you must pay when due. We have the right to apply or cause to be applied against amounts due to us any amounts that we may hold from time to time on your behalf or that we owe to you.

H. Electronic Transfer of Funds. You must sign an electronic transfer of funds authorization, attached as Schedule D, to authorize and direct your bank or financial institution to transfer electronically, on a weekly basis, the Royalty Fee and Marketing Fee directly to our account and to charge to your account all amounts due to us. You will pay us the Technology Fee on a monthly basis via electronic transfer. You must maintain a balance in your account sufficient to allow us to collect the amounts owed when due. You are responsible for any penalties, fines or other similar expenses associated with the transfer of funds described in this subparagraph.

I. Interest Charges; Late Fees. Any and all amounts that you owe to us will bear interest at the rate of 18% per annum or the maximum contract rate of interest permitted by governing law, whichever is less, from and after the date of accrual. In addition to interest charges on late Royalty Fee and Marketing Fee payments, you must pay to us a service charge of 10% of

the delinquent amount for each delinquent report or payment that you owe to us under this Agreement. A payment is delinquent for any of the following reasons: (i) we do not receive the payment on or before the date due; or (ii) there are insufficient funds in your bank account to collect the total payment by a transfer of funds on or after the date due. The service charge is not interest or a penalty, it is only to compensate us for increased administrative and management costs due to late payment.

J. Financial Planning and Management. You must keep books and records and submit reports as we periodically require, including but not limited to a monthly profit plan, monthly balance sheet and monthly statement of profit and loss, records of prices and special sales, check registers, purchase records, invoices, sales summaries and inventories, sales tax records and returns, payroll records, cash disbursement journals and general ledgers, all of which accurately reflect the operations and condition of your Store operations. You must compile, keep and submit to us the books, records and reports on the forms and using the methods of bookkeeping and accounting as we periodically may prescribe. The records that you are required to keep for your Store must include detailed daily sales, cost of sales, and other relevant records or information maintained in an electronic media format and methodology we approve. You must provide this information to us according to reporting formats, methodologies and time schedules that we establish from time to time. You also must preserve and retain the books, records and reports for not less than five years. You must allow us electronic and manual access to any and all records relating to your Store.

K. Reports and Audit. Within 10 days after the end of each month, you must submit to us a report of your Gross Sales with respect to the preceding month in the form and content as we periodically prescribe. The report must include, but not be limited to, the following information for the preceding month: (i) amount of Gross Sales and gross receipts of the Store, amount of sales tax and the computation of the Royalty Fee and the Marketing Fee; (ii) quantities of products purchased and the sources from which each were obtained; (iii) copies of your most recent sales tax return, sales summary and monthly balance sheet and statement of profit and loss, including a summary of your costs for utilities, labor, rent and other material cost items (iv) if requested by us to verify your Gross Sales, all such books and records as we may require under our audit policies published from time to time. You also must, at your expense, submit to us within 90 days after the end of each fiscal year a detailed balance sheet, profit and loss statement and statement of cash flows for such fiscal year. We may require that the annual financial statements be reviewed by a certified public accountant. You must certify all reports to be true and correct. You acknowledge and agree that we have the right to impose these requirements on you regardless of whether we impose the same requirement on our other franchisees.

We or our authorized representative have the right at all times during the business day to enter the premises where your books and records relative to the Store are kept and to evaluate, copy and audit such books and records. We also have the right to request information from your suppliers and vendors. In the event that any such evaluation or audit reveals any understatement of 2% or more of your Gross Sales, you must pay for the audit, and in addition to any other rights we may have, we have the right to conduct further periodic audits and evaluations of your books and records as we reasonably deem necessary for up to 3 years thereafter and any further audits and evaluations will be at your sole expense, including, without limitation, professional fees, travel, and room and board expenses directly related thereto. Furthermore, if you intentionally understate or underreport Gross Sales at any time, or if a subsequent audit or evaluation conducted within the 3-year period reveals any understatement of your Gross Sales of 2% or more, in addition to any other remedies provided for in this Agreement, at law or in equity, we have the right to terminate this Agreement immediately. In order to verify the information that you supply, we have the right to reconstruct

your sales through the inventory extension method or any other reasonable method of analyzing and reconstructing sales. You agree to accept any such reconstruction of sales unless you provide evidence in a form satisfactory to us of your sales within a period of 14 days from the date of notice of understatement or variance. You must fully cooperate with us or our representative in performing these activities and any expenses incurred by us from your lack of cooperation shall be reimbursed by you.

We will keep your financial books, records and reports confidential, unless the information is requested by tax authorities or used as part of a legal proceeding or in a manner as set forth in subparagraph 11.D.8 or where your information is grouped with similar information from other stores to produce shared results like high-low ranges or average gross sales or expenses on a system-wide or regional basis.

#### YOUR OTHER OBLIGATIONS; NONCOMPETE COVENANTS

10. You agree to comply with the following terms and conditions:

A. Payment of Debts. You agree to pay promptly when due: (i) all payments, obligations, assessments and taxes due and payable to us and our vendors, suppliers, lessors, federal, state or local governments, or creditors in connection with your business; (ii) all liens and encumbrances of every kind and character created or placed upon or against any of the property used in connection with the Store or business; and (iii) all accounts and other indebtedness of every kind incurred by you in operating the Store or business. In the event you default in making any such payment, we are authorized, but not required, to pay the same on your behalf and you agree promptly to reimburse us on demand for any such payment.

B. Indemnification. You waive all claims against us for damages to property or injuries to persons arising out of the operation of your Store. You must fully protect, indemnify and hold us and our owners, directors, officers, insurers, successors and assigns harmless from and against any and all claims, demands, damages and liabilities of any nature whatsoever arising in any manner, directly or indirectly, out of or in connection with or incidental to the operation of your Store (regardless of cause or any concurrent or contributing fault or negligence of us) or any breach by you or your failure to comply with the terms and conditions of this Agreement. We also reserve the right to select our own legal counsel to represent our interests, and you must reimburse us for all our costs and all attorneys' fees immediately upon our request as they are incurred.

We waive all claims against you for damages to property or injuries to persons arising out of the operation of our company-owned stores. We must fully protect, indemnify and defend you and your affiliates and hold you and them harmless from and against any and all claims, demands, damages and liabilities of any nature whatsoever arising in any manner, directly or indirectly, out of or in connection with or incidental to the operation of our company-owned stores (regardless of cause or any concurrent or contributing fault or negligence of you) or any breach by us or our failure to comply with the terms and conditions of this Agreement.

C. Insurance. You must purchase and maintain in full force and effect, at your expense and from a company we accept, insurance that insures both you and us, and any other persons we designate by name. The insurance policy or policies must be written in accordance with the standards and specifications (including minimum coverage amounts) set forth in writing by us from time to time, and, at a minimum, must include the following (except as different coverages and policy limits may be specified for all franchisees from time to time in writing):

(i) “special” causes of loss coverage forms (sometimes called “All Risk Coverage” or “All Peril Coverage”) on the Store, store improvements and all furniture, fixtures, equipment, supplies and other property used in the operation of the Store, for full repair and replacement value, except that an appropriate deductible clause is permitted; (ii) business interruption insurance covering a minimum of 12 months loss of income, including coverage for our Royalty Fees (for example, in the event of a fire or destruction of the premises, the insurance must cover our average royalty payments (based on the previous 12-month timeframe, or if a shorter timeframe, the total operating timeframe for the store) during the rebuilding process); (iii) comprehensive general liability insurance including product liability insurance and contractual liability insurance; (iv) workers’ compensation insurance covering all of your employees; (v) motor vehicle insurance; (vi) umbrella liability insurance which also includes employers liability; (vii) “Per Location” aggregate limits when multiple store locations are insured under one comprehensive general liability and umbrella liability policy(cies); (viii) Menchie’s Group, Inc. named as an additional insured on all liability policies required by this subparagraph; (ix) severability of interests and/or separation of insureds provisions must be included in the liability policies and all policies must be primary and non-contributing with any insurance policy carried by Menchie’s Group, Inc.; and (x) any other such insurance coverages or amounts as required by law or other agreement related to the Store.

The insurance coverages referenced above must commence as of the date you sign a lease or purchase agreement for the Authorized Location. You must deliver to us at commencement and annually or at our request a proper certificate evidencing the existence of such insurance coverage and your compliance with the provisions of this subparagraph. The insurance certificate must show our status as an additional insured and provide that we will be given 30 days’ prior written notice of a material change in or termination or cancellation of the policy. We also may request copies of all policies. We may from time to time modify the required minimum limits and require additional insurance coverages, by providing written notice to you, as conditions require, to reflect changes in relevant circumstances, industry standards, experiences in the MENCHIE’S system, standards of liability and higher damage awards. If you do not procure and maintain the required insurance coverage required by this Agreement, we have the right, but not the obligation, to procure insurance coverage and to charge the costs to you, together with a reasonable fee for the expenses we incur in doing so. You must pay these amounts to us immediately upon written notice.

D. Noncompete Covenants. You agree that you will receive valuable training, Confidential Information and goodwill that you otherwise would not receive or have access to but for the rights licensed to you under this Agreement. You therefore agree to the following noncompetition covenants:

1. Unless otherwise specified, the term “you” as used in this subparagraph 10.D includes, collectively and individually, all Operating Partners, guarantors, officers, directors, members, managers, partners, as the case may be, and holders of any ownership interest in you. We may require you to obtain from your manager and other individuals identified in the preceding sentence a signed non-compete agreement in a form satisfactory to us that contains the non-compete provisions of this subparagraph 10.D.

2. You covenant that during the term of this Agreement or during any Interim Period you will not, except as we otherwise agree to in writing, either directly or indirectly, for yourself, or through, on behalf of, or in conjunction with any person or

entity, own, manage, operate, maintain, engage in, consult with or have any interest in any Competing Business (as defined below).

3. You covenant that you will not, for a period of 2 years after the expiration or termination of this Agreement, or after the expiration of any Interim Period, regardless of the cause of termination, or within 2 years of the sale of the Store or any interest in you, either directly or indirectly, for yourself, or through, on behalf of, or in conjunction with any person or entity, own, manage, operate, maintain, engage in, consult with or have any interest in a Competing Business:

- a. At the premises of the former Store;
- b. Within 25 miles of the former Store; or
- c. Within 25 miles of any other business or store using the MENCHIE'S System, whether franchised or owned by us.

For purposes of this Section 10.D, a Competing Business includes any business where 10% or more of its sales include the sale of soft-serve frozen yogurt or ice cream.

4. You agree that the length of time in subpart (3) will be tolled for any period during which you are in breach of the covenants or any other period during which we seek to enforce this Agreement. The parties agree that each of the foregoing covenants will be construed as independent of any other covenant or provision of this Agreement.

#### TRANSFER OF FRANCHISE

11. You agree that the following provisions govern any transfer or proposed transfer:

A. Transfers. We have entered into this Agreement with specific reliance upon your financial qualifications, experience, skills and managerial qualifications as being essential to the satisfactory operation of the Store. Consequently, neither your interest in this Agreement nor in the Store may be transferred or assigned to or assumed by any other person or entity (the "assignee"), in whole or in part, unless you have first tendered to us the right of first refusal to acquire this Agreement in accordance with subparagraph 11.F, and, if we do not exercise such right, unless our prior written consent is obtained, the transfer fee provided for in subparagraph 11.C is paid, and the transfer conditions described in subparagraph 11.D are satisfied. Any sale (including installment sale), lease, pledge, management agreement, contract for deed, option agreement, assignment, bequest, gift or otherwise, or any arrangement pursuant to which you turn over all or part of the daily operation of the business to a person or entity who shares in the losses or profits of the business in a manner other than as an employee will be considered a transfer for purposes of this Agreement. Specifically, but without limiting the generality of the foregoing, the following events constitute a transfer and you must comply with the right of first refusal, consent, transfer fee, and other transfer conditions in this Paragraph 11:

1. Any change, pledge or seizure of any ownership interest in you that affects the ownership of 25% or more of you; or

2. Any change in the general partner of a franchisee that is a general, limited or other partnership entity; or

In the event of your insolvency or the filing of any petition by or against you under any provisions of any bankruptcy or insolvency law, if your legal representative, successor, receiver or trustee desires to succeed to your interest in this Agreement or the business conducted hereunder, such person first must notify us, tender the right of first refusal provided for in subparagraph 11.F, and if we do not exercise such right, must apply for and obtain our consent to the transfer, pay the transfer fee provided for in subparagraph 11.C, and satisfy the transfer conditions described in subparagraph 11.D. In addition, you or the assignee must pay the attorneys' fees and costs that we incur in any bankruptcy or insolvency proceeding pertaining to you.

You may not place in, on or upon the location of the Store, or in any communication media or any form of advertising, any information relating to the sale of the Store or the rights under this Agreement, without our prior written consent.

B. Consent to Transfer. We will not unreasonably withhold our consent to transfer, provided we determine that all of the conditions described in this Paragraph 11 have been satisfied. Application for our consent to a transfer and tender of the right of first refusal provided for in subparagraph 11.F must be made by submission of our form of application for consent to transfer, which must be accompanied by the documents (including a copy of the proposed purchase or other transfer agreement) and other required information. The application must indicate whether you or an Operating Partner proposes to retain a security interest in the property to be transferred. No security interest may be retained or created, however, without our prior written consent and except upon conditions acceptable to us. Any agreement used in connection with a transfer will be subject to our prior written approval, which approval will not be withheld unreasonably. You immediately must notify us of any proposed transfer and must submit promptly to us the application for consent to transfer. Any attempted transfer by you without our prior written consent or otherwise not in compliance with the terms of this Agreement will be void, your interest in this Agreement will be voluntarily abandoned, and it will provide us with the right to elect either to deem you in default and terminate this Agreement or to collect from you and the guarantors a transfer fee equal to two times the transfer fee provided for in subparagraph 11.C.

C. Transfer Fee. You must pay to us a transfer fee in the amount of 50% of our then-current initial franchise fee. The transfer fee is nonrefundable even if, for any reason, the proposed transfer does not occur.

D. Conditions of Transfer. We condition our consent to any proposed transfer, whether to an individual, a corporation, a partnership or any other entity upon the following:

1. Assignee Requirements. The assignee must meet all of our then-current requirements for our MENCHIE'S franchise program we are offering at the time of the proposed transfer and sign our then-current form of franchise agreement modified to reflect the term remaining under this Agreement.

2. Payment of Amounts Owed. All amounts owed by you to us or your suppliers or any landlord for the Store premises and Authorized Location, or upon which we have any contingent liability must be paid in full.



3. Reports. You must have provided all required reports to us in accordance with subparagraphs 9.J and K.

4. Modernization. You must have complied with the provisions of subparagraph 5.E.

5. Guarantee. In the case of an installment sale for which we have consented to you or any Operating Partner retaining a security interest or other financial interest in this Agreement or the business operated thereunder, you or such Operating Partner, and the guarantors, are obligated to guarantee the performance under this Agreement until the final close of the installment sale or the termination of such interest, as the case may be.

6. General Release. You, each Operating Partner and each guarantor must sign a general release of all claims arising out of or relating to this Agreement, your Store or the parties' business relationship, in the form we designate, releasing us.

7. Training. The assignee must, at your or assignee's expense, comply with the training requirements of subparagraph 7.B.

8. Financial Reports and Data. We have the right to require you to prepare and furnish to assignee and/or us such financial reports and other data relating to the Store and its operations reasonably necessary or appropriate for assignee and/or us to evaluate the Store and the proposed transfer. You agree that we have the right to confer with proposed assignees and furnish them with information concerning the Store and proposed transfer without being held liable to you, except for intentional misstatements made to an assignee. Any information furnished by us to proposed assignees is for the sole purpose of permitting the assignees to evaluate the Store and proposed transfer and must not be construed in any manner or form whatsoever as a financial performance representation or claims of success or failure.

9. Other Conditions. You must have complied with any other conditions that we reasonably require from time to time as part of our transfer policies.

E. Death, Disability or Incapacity. If any individual who is an Operating Partner dies or becomes disabled or incapacitated and the decedent's or disabled or incapacitated person's heir or successor-in-interest wishes to continue as an Operating Partner, such person or entity must apply for our consent under subparagraph 11.B, pay the applicable transfer fee under subparagraph 11.C, and satisfy the transfer conditions under subparagraph 11.D, as in any other case of a proposed transfer, all within 180 days of the death or event of disability or incapacity. During any transition period to an heir or successor-in-interest, the Store still must be operated in accordance with the terms and conditions of this Agreement. If the assignee of the decedent or disabled or incapacitated person is the spouse or child of such person, no transfer fee will be payable to us and we will not have a right of first refusal as set forth in subparagraph 11.F.

F. Right of First Refusal. If you propose to transfer or assign this Agreement or your interest herein or in you or the business, in whole or in part, to any third party, including, without limitation, any transfer contemplated by subparagraph 11.E or any transfer described in subparagraph 11.A, you first must offer to sell to us your interest under the same terms. In the event of a bona fide offer from such third party, you must obtain from the third-party offeror and deliver to us a statement in writing, signed by the offeror and by you, of the terms of the offer. In the event the proposed

transfer results from a transfer under subparagraphs 11.A.1 through 11.A.3, or your insolvency or the filing of any petition by or against you under any provisions of any bankruptcy or insolvency law, you first must offer to sell to us your interest in this Agreement and the land, building, equipment, furniture and fixtures, and any leasehold interest used in the operation of your Store. Unless otherwise agreed to in writing by us and you, the purchase price for our purchase of assets in the event of a transfer that occurs by a transfer under subparagraphs 11.A.1 through 11.A.2 or insolvency or bankruptcy filing will be established by a qualified appraiser selected by the parties and in accordance with the price determination formula established in subparagraph 14.B (the formula that includes the value of any goodwill of the business) in connection with an asset purchase upon expiration. In addition, unless otherwise agreed to in writing by us and you, the transaction documents, which we will prepare, will be those customary for this type of transaction and will include representations and warranties then customary for this type of transaction. If the parties cannot agree upon the selection of such an appraiser, a Judge of the United States District Court for the District in which the Authorized Location is located will appoint one upon petition of either party.

You or your legal representative must deliver to us a statement in writing incorporating the appraiser's report and all other information we have requested. We then have 30 days from our receipt of the statement setting forth the third-party offer or the appraiser's report and other requested information to accept the offer by delivering written notice of acceptance to you. Our acceptance of any right of first refusal will be on the same price and terms set forth in the statement delivered to us; provided, however, we have the right to substitute equivalent cash for any noncash consideration included in the offer. If we fail to accept the offer within the 30-day period, you will be free for 90 days after such period to effect the disposition described in the statement delivered to us provided such transfer is in accordance with this Paragraph 11. You may effect no other sale or assignment of you, this Agreement or the business without first offering the same to us in accordance with this subparagraph 11.F.

G. Transfer by Us. We have the right to sell or assign, in whole or in part, our interest in this Agreement. In addition, we may assign certain of our obligations or duties under this Agreement to a sub-franchisor or area developer. For example, a sub-franchisor or area developer may assist us with or provide training or ongoing supervision to our franchisees.

## DISPUTE RESOLUTION

12. The following provisions apply with respect to dispute resolution:

A. Mediation. Before any party may bring an action in court or against the other, or commence an arbitration proceeding (except as noted in Section 12.C below), the parties must first meet to mediate the dispute. The mediation will be held in the city in which our headquarters are located at the time of the mediation. Any such mediation will be non-binding and conducted by the American Arbitration Association in accordance with its then-current rules for mediation of commercial disputes.

B. Arbitration. Except as qualified below, any dispute between you and us or any of our or your affiliates arising under, out of, in connection with or in relation to this Agreement, the parties' relationship, or your Store or Authorized Location must be submitted to binding arbitration under the authority of the Federal Arbitration Act and must be determined by arbitration administered by the American Arbitration Association pursuant to its then-current commercial arbitration rules and procedures. Any arbitration must be on an individual basis and

the parties and the arbitrator will have no authority or power to proceed with any claim as a class action or otherwise to join or consolidate any claim with any other claim or any other proceeding involving third parties. In the event a court determines that this limitation on joinder of or class action certification of claims is unenforceable, then this entire commitment to arbitrate will become null and void and the parties must submit all claims to the jurisdiction of the courts. The arbitration must take place in the city where our headquarters is located at the time of the dispute. The arbitrator must follow the law and not disregard the terms of this Agreement. The arbitrator must have at least 5 years of significant experience in franchise law. A judgment may be entered upon the arbitration award by any state or federal court in the state where we maintain our headquarters or the state where your Store is located. The decision of the arbitrator will be final and binding on all parties to the dispute; however, the arbitrator may not under any circumstances: (1) stay the effectiveness of any pending termination of this Agreement; (2) assess punitive or exemplary damages; or (3) make any award which extends, modifies or suspends any lawful term of this Agreement or any reasonable standard of business performance that we set.

C. Exceptions to Arbitration. Notwithstanding Section 12.B, the parties agree that the following claims will not be subject to arbitration:

1. any action for declaratory or equitable relief, including, without limitation, seeking preliminary or permanent injunctive relief, specific performance, other relief in the nature of equity to enjoin any harm or threat of harm to such party's tangible or intangible property, brought at any time, including, without limitation, prior to or during the pendency of any arbitration proceedings initiated hereunder.

2. any action in ejectment or for possession of any interest in real or personal property.

D. Attorneys' Fees. The prevailing party in any action or proceeding arising under, out of, in connection with, or in relation to this Agreement, any lease or sublease for the Store or Authorized Location, or the business will be entitled to recover its reasonable attorneys' fees and costs.

#### DEFAULT AND TERMINATION

13. The following provisions apply with respect to default and termination:

A. Defaults. You are in default if we determine that you or any Operating Partner or guarantor has breached any of the terms of this Agreement or any other agreement between you and us, which without limiting the generality of the foregoing includes making any false report to us, intentionally understating or underreporting or failure to pay when due any amounts required to be paid to us, conviction of you, an Operating Partner, or a guarantor of (or pleading no contest to) any misdemeanor that brings or tends to bring any of the Trademarks into disrepute or impairs or tends to impair your reputation or the goodwill of any of the Trademarks or the Store, any felony, filing of tax or other liens that may affect this Agreement, voluntary or involuntary bankruptcy by or against you or any Operating Partner or guarantor, insolvency, making an assignment for the benefit of creditors or any similar voluntary or involuntary arrangement for the disposition of assets for the benefit of creditors.

B. Termination by Us. We have the right to terminate this Agreement in accordance with the following provisions:

1. Termination After Opportunity to Cure. Except as otherwise provided in this subparagraph 13.B or elsewhere in the Agreement: (i) you will have 30 days from the date of our issuance of a written notice of default to cure any default under this Agreement, other than a failure to pay amounts due or submit required reports, in which case you will have 10 days to cure those defaults; (ii) your failure to cure a default within the 30-day or 10-day period will provide us with good cause to terminate this Agreement; (iii) the termination will be accomplished by mailing or delivering to you written notice of termination that will identify the grounds for the termination; and (iv) the termination will be effective immediately upon our issuance of the written notice of termination.

2. Immediate Termination With No Opportunity to Cure. In the event any of the following defaults occurs, you will have no right or opportunity to cure the default and this Agreement will terminate effective immediately on our issuance of written notice of termination: any material misrepresentation or omission in your franchise application, your voluntary abandonment of this Agreement or the Authorized Location, the loss of your lease, the failure to timely cure a default under the lease, the loss of your right of possession or failure to reopen or relocate under subparagraph 5.D, the closing of the Store by any state or local authorities for health or public safety reasons, failure to locate a site for your Store within 365 days after signing this Agreement, failure to complete our initial training program, any unauthorized use of the Confidential Information, insolvency of you, an Operating Partner, or guarantor, you, an Operating Partner, or guarantor making an assignment or entering into any similar arrangement for the benefit of creditors, any default under this Agreement that materially impairs the goodwill associated with any of the Trademarks, conviction of you, any Operating Partners, or guarantors of (or pleading no contest to) any felony regardless of the nature of the charges, or any misdemeanor that brings or tends to bring any of the Trademarks into disrepute or impairs or tends to impair your reputation or the goodwill of the Trademarks or the Store, intentionally understating or underreporting Gross Sales, Royalty Fees or Marketing Fees or any understatement or 2% variance on a subsequent audit within a 3 year period under subparagraph 9.J, violation by you of the provisions of subparagraph 15.P, any unauthorized transfer or assignment in violation of Paragraph 11 or any default by you that is the third same or similar default within any 12-month consecutive period.

3. Immediate Termination After No More than 24 Hours to Cure. In the event that a default under this Agreement occurs that violates any health safety or sanitation law or regulation, violates any system standard as to food handling, cleanliness, health and sanitation, or if the operation of the Store presents a health or safety hazard to your customers or to the public: (i) you will have no more than 24 hours after we provide written notice of the default to cure the default; and (ii) if you fail to cure the default within the 24 hour period, this Agreement will terminate effective immediately on our issuance of written notice of termination.

4. Effect of Other Laws. The provisions of any valid, applicable law or regulation prescribing permissible grounds, cure rights or minimum periods of notice for termination of this franchise supersede any provision of this Agreement that is less favorable to you.

C. Termination by You. You may terminate this Agreement as a result of a breach by us of a material provision of this Agreement provided that: (i) you provide us with written notice of the breach that identifies the grounds for the breach; and (ii) we fail to cure the breach within 30 days

after our receipt of the written notice. If we fail to cure the breach, the termination will be effective 30 days after our receipt of your written notice of breach. Your termination of this Agreement under this Paragraph will not release or modify your Post-Term obligations under Paragraph 14 of this Agreement.

#### POST-TERM OBLIGATIONS

14. Upon the expiration or termination of this Agreement, or the expiration of any Interim Period:

A. Reversion of Rights; Discontinuation of Trademark Use. All of your rights to the use of the Trademarks and all other rights and licenses granted herein and the right and license to conduct business under the Trademarks at the Authorized Location will revert to us without further act or deed of any party. All of your right, title and interest in, to and under this Agreement will become our property. Upon our demand, you must assign to us or our assignee your remaining interest in any lease then in effect for the Store (although we will not assume any past due obligations). You must immediately comply with the post-term noncompete obligations under subparagraph 10.D, cease all use and display of the Trademarks and of any proprietary material (including the Operations Manual) and of all or any portion of point-of-sale materials furnished or approved by us, assign all right, title and interest in the telephone numbers for the Store and cancel or assign, at our option, any assumed name rights or equivalent registrations filed with authorities. You must pay all sums due to us or our designees and all sums you owe to third parties that have been guaranteed by us. You must immediately return to us, at your expense, all copies of the Operations Manual, Confidential Information, and customer lists then in your possession or control or previously disseminated to your employees and continue to comply with the confidentiality provisions of subparagraph 6.J. You must promptly at your expense and subject to subparagraph 14.B, remove or obliterate all Store signage, displays or other materials (electronic or tangible) in your possession at the Authorized Location or elsewhere that bear any of the Trademarks or names or material confusingly similar to the Trademarks and so alter the appearance of the Store as to differentiate the Store unmistakably from duly licensed stores identified by the Trademarks. If, however, you refuse to comply with the provisions of the preceding sentence within 30 days, we have the right to enter the Authorized Location and remove all Store signage, displays or other materials in your possession at the Authorized Location or elsewhere that bear any of the Trademarks or names or material confusingly similar to the Trademarks, and you must reimburse us for our costs incurred. Notwithstanding the foregoing, in the event of expiration or termination of this Agreement (or the expiration of any Interim Period), you will remain liable for your obligations pursuant to this Agreement or any other agreement between you and us that expressly or by their nature survive the expiration or termination of this Agreement.

B. Purchase Option. We have the right to purchase or designate a third party that will purchase all or any portion of the assets of your Store that are owned by you or any of your affiliates including, without limitation, the land, building, equipment, fixtures, signage, furnishings, supplies, leasehold improvements, and inventory of the Store at a price determined by a qualified appraiser (or qualified appraisers if one party believes it is better to have a real estate appraiser appraise the value of the land and building and a business appraiser appraise the Store's other assets) selected with the consent of both parties, provided we give you written notice of our preliminary intent to exercise our purchase rights under this Paragraph within 30 days after the date of the expiration or termination of this Agreement, or the expiration of any Interim Period. If the parties cannot agree upon the selection of an appraiser(s), one or both will be appointed by a Judge of the United States District Court for the District in which the Authorized Location is located upon petition of either party.

The price determined by the appraiser(s) will be the reasonable fair market value of the assets based on their continuing use in, as, and for the operation of a MENCHIE'S Store and the appraiser will designate a price for each category of asset (e.g., land, building, equipment, fixtures, etc.), but shall not include the value of any goodwill of the business, as the goodwill of the business is attributable to the Trademarks and the System.

Within 45 days after our receipt of the appraisal report, we or our designated purchaser will identify the assets, if any, that we intend to purchase at the price designated for those assets in the appraisal report. We or our designated purchaser and you will then proceed to complete and close the purchase of the identified assets, and to prepare and execute purchase and sale documents customary for the assets being purchased, in a commercially reasonable time and manner. We and you will each pay one-half of the appraiser's fees and expenses. Our interest in the assets of the Store that are owned by you or your affiliates will constitute a lien thereon and may not be impaired or terminated by the sale or other transfer of any of those assets to a third party. Upon our or our designated purchaser's exercise of the purchase option and tender of payment, you agree to sell and deliver, and cause your affiliates to sell and deliver, the purchased assets to us or our designated purchaser, free and clear of all encumbrances, and to execute and deliver, and cause your affiliates to execute and deliver, to us or our designated purchaser a bill of sale therefor and such other documents as may be commercially reasonable and customary to effectuate the sale and transfer of the assets being purchased.

If we do not exercise our option to purchase under this subparagraph, you may sell or lease the Store premises to a third party purchaser, provided that your agreement with the purchaser includes a covenant by the purchaser, which is expressly enforceable by us as a third party beneficiary, pursuant to which the purchaser agrees, for a period of 2 years after the expiration or termination of this Agreement, or the expiration of any Interim Period, not to use the premises for the operation of a store business that has a menu or method of operation similar to that employed by our company-owned or franchised stores.

C. Claims. You and your Operating Partners and guarantors may not assert any claim or cause of action against us relating to this Agreement or the MENCHIE'S business after the shorter period of the applicable statute of limitations or one year following the effective date of termination of this Agreement; provided that where the one-year limitation of time is prohibited or invalid by or under any applicable law, then and in that event no suit or action may be commenced or maintained unless commenced within the applicable statute of limitations.

#### GENERAL PROVISIONS

15. The parties agree to the following provisions:

A. Severability. Should one or more clauses of this Agreement be held void or unenforceable for any reason by any court of competent jurisdiction, such clause or clauses will be deemed to be separable in such jurisdiction and the remainder of this Agreement is valid and in full force and effect and the terms of this Agreement must be equitably adjusted so as to compensate the appropriate party for any consideration lost because of the elimination of such clause or clauses. It is the intent and expectation of each of the parties that each provision of this Agreement will be honored, carried out and enforced as written. Consequently, each of the parties agrees that any provision of this Agreement sought to be enforced in any proceeding must, at the election of the party seeking enforcement and notwithstanding the availability of an adequate remedy at law, be enforced by specific performance or any other equitable remedy.

B. Waiver/Integration. No waiver by us of any breach by you, nor any delay or failure by us to enforce any provision of this Agreement, may be deemed to be a waiver of any other or subsequent breach or be deemed an estoppel to enforce our rights with respect to that or any other or subsequent breach. Subject to our rights to modify the Schedules and/or standards and as otherwise provided herein, this Agreement may not be waived, altered or rescinded, in whole or in part, except by a writing signed by you and us.

This Agreement together with all schedules, addenda and appendices to this Agreement constitute the entire agreement between the parties and supersede any and all prior negotiations, understandings, representations and agreements. Nothing in this or in any related agreement, however, is intended to disclaim the representations we made in the Franchise Disclosure Document we furnished to you.

You acknowledge that you are entering into this Agreement as a result of your own independent investigation of our franchised business and not as a result of any representations about us made by our shareholders, officers, directors, employees, agents, representatives, independent contractors, or franchisees that are contrary to the terms set forth in this Agreement, or in any disclosure document, prospectus, or other similar document required or permitted to be given to you pursuant to applicable law.

C. Notices. Except as otherwise provided in this Agreement, any notice, demand or communication provided for herein must be in writing and signed by the party serving the same and either delivered personally or by a reputable overnight service or deposited in the United States mail, service or postage prepaid, and if such notice is a notice of default or termination, by registered or certified mail, and addressed as follows:

1. If intended for us, addressed to Menchie's Group, Inc., 16027 Ventura Boulevard, Suite 301, Encino, California 91436;
2. If intended for you, addressed to you at the address set forth on the Data Sheet or at the Authorized Location; or,

in either case, to such other address as may have been designated by written notice to the other party. Notices for purposes of this Agreement will be deemed to have been received if mailed or delivered as provided in this subparagraph.

D. Authority. Any modification, consent, approval, authorization or waiver granted hereunder required to be effective by signature will be valid only if in writing executed by you or, if on behalf of us, in writing executed by our President or one of our authorized Vice Presidents.

E. References. If the franchisee is 2 or more individuals, the individuals are jointly and severally liable, and references to you in this Agreement includes all of the individuals. Headings and captions contained herein are for convenience of reference and may not be taken into account in construing or interpreting this Agreement.

F. Guarantee. Your spouse and all persons owning any interest in Franchisee, if Franchisee is a corporation, limited liability company, partnership or other legal entity, must execute the form of undertaking and guarantee at the end of this Agreement. Any person or entity that at any time after the date of this Agreement becomes an owner pursuant to the provisions of Paragraph 11 or otherwise must execute the form of undertaking and guarantee at the end of this Agreement.

G. Successors/Assigns. Subject to the terms of Paragraph 11 hereof, this Agreement is binding upon and inures to the benefit of the administrators, executors, heirs, successors and assigns of the parties.

H. Interpretation of Rights and Obligations. The following provisions apply to and govern the interpretation of this Agreement, the parties' rights under this Agreement, and the relationship between the parties:

1. Applicable Law and Waiver. Subject to our rights under federal trademark laws and the parties' rights under the Federal Arbitration Act in accordance with Paragraph 12 of this Agreement, the parties' rights under this Agreement, and the relationship between the parties is governed by, and will be interpreted in accordance with, the laws (statutory and otherwise) of the state where your Store is located.

2. Our Rights. Whenever this Agreement provides that we have a certain right, that right is absolute and the parties intend that our exercise of that right will not be subject to any limitation or review. We have the right to operate, administrate, develop, and change the System in any manner that is not specifically precluded by the provisions of this Agreement, although this right does not modify the requirements of subparagraph 5.E and other express limitations set forth in this Agreement.

3. Our Reasonable Business Judgment. Whenever we reserve discretion in a particular area or where we agree to exercise our rights reasonably or in good faith, we will satisfy our obligations whenever we exercise Reasonable Business Judgment in making our decision or exercising our rights. Our decisions or actions will be deemed to be the result of Reasonable Business Judgment, even if other reasonable or even arguably preferable alternatives are available, if our decision or action is intended, in whole or significant part, to promote or benefit the System generally even if the decision or action also promotes our financial or other individual interest. Examples of items that will promote or benefit the System include, without limitation, enhancing the value of the Trademarks, improving customer service and satisfaction, improving product quality, improving uniformity, enhancing or encouraging modernization and improving the competitive position of the System.

I. Venue. Any cause of action, claim, suit or demand allegedly arising from or related to the terms of this Agreement or the relationship of the parties that is not subject to arbitration under Paragraph 12, must be brought in the state or federal district court located in the county or district encompassing our headquarters. Both parties hereto irrevocably submit themselves to, and consent to, the jurisdiction of said courts. The provisions of this subparagraph will survive the termination of this Agreement. You are aware of the business purposes and needs underlying the language of this subparagraph, and with a complete understanding thereof, agree to be bound in the manner set forth.

J. Jury Waiver. All parties hereby waive any and all rights to a trial by jury in connection with the enforcement or interpretation by judicial process of any provision of this Agreement, and in connection with allegations of state or federal statutory violations, fraud, misrepresentation or similar causes of action or any legal action initiated for the recovery of damages for breach of this Agreement.



K. Waiver of Punitive Damages. You and your affiliates and we agree to waive, to the fullest extent permitted by law, the right to or claim for any punitive or exemplary damages against the other and agree that in the event of any dispute between them, each will be limited to the recovery of actual damages sustained.

L. Relationship of the Parties. You and we are independent contractors. Neither party is the agent, legal representative, partner, subsidiary, joint venturer or employee of the other. Neither party may obligate the other or represent any right to do so. This Agreement does not reflect or create a fiduciary relationship or a relationship of special trust or confidence. Without limiting the generality of the foregoing, we shall have no liability in connection with or related to the products or services rendered to you by any third party, even if we required, approved or consented to the product or service or designated or approved the supplier.

M. Force Majeure. In the event of any failure of performance of this Agreement according to its terms by any party, the same will not be deemed a breach of this Agreement if it arose from a cause beyond the control of and without the negligence of said party. Such causes include, but are not limited to, strikes, wars, riots and acts of government except as may be specifically provided for elsewhere in this Agreement.

N. Adaptations and Variances. Complete and detailed uniformity under many varying conditions may not always be possible, practical, or in the best interest of the System. Accordingly, we have the right to vary the Menu Items and other standards, specifications, and requirements for any franchised store or franchisee based upon the customs or circumstances of a particular franchise or operating agreement, site or location, population density, business potential, trade area population, existing business practice, competitive circumstance or any other condition that we deem to be of importance to the operation of such store or store, franchisee's business or the System. We are not required to grant to you a like or other variation as a result of any variation from standard menus, specifications or requirements granted to any other franchisee. You acknowledge that you are aware that our other franchisees operate under a number of different forms of agreement that were entered into at different times and that, consequently, the obligations and rights of the parties to other agreements may differ materially in certain instances from your rights and obligations under this Agreement.

O. Notice of Potential Profit. We may from time to time make available to you or require you to purchase goods, products and/or services for use in your Store on the sale of which we may make a profit. Further, we may from time to time receive consideration from suppliers and/or manufacturers in respect to sales of goods, products or services to you or in consideration of services rendered or rights licensed to such persons. You agree that we are entitled to said profits and/or consideration.

P. Interference with Employment Relations. During the term of this Agreement, or during any Interim Period, neither we nor you may employ or seek to employ, directly or indirectly, any person who is at the time or was at any time during the prior 6 months employed in any type of managerial position by the other party or any of its affiliates, or by any franchisee in the system, unless the violating party compensates the former employer for all costs and expenses incurred in losing and replacing the employee up to a maximum of \$25,000, plus attorneys' fees and expenses. This subparagraph will not be violated if (i) at the time we or you employ or seek to employ the person, the former employer has given its written consent or (ii) we employ or seek to employ the person in connection with the transfer of the Store to us. The parties acknowledge and agree that any franchisee from whom an employee was hired by you in violation of this subparagraph shall be a

third-party beneficiary of this provision, but only to the extent they may seek compensation from you.

Q. Effective Date. We will designate the “Effective Date” of this Agreement in the space provided on the Data Sheet. If no Effective Date is designated on the Data Sheet, the Effective Date is the date when we sign this Agreement. However, as described in subparagraph 5.A, you do not have the right to, and may not, open and commence operation of a Store at the Authorized Location until we notify you that you have satisfied all of the pre-opening conditions set forth in this Agreement.

**IN WITNESS WHEREOF**, the parties have executed this Franchise Agreement on the dates written below.

FRANCHISEE: (For an Entity)

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

\_\_\_\_\_,  
a \_\_\_\_\_,  
(Please type or print name and type of entity)

By: \_\_\_\_\_  
(Signature of person signing on behalf of entity)

\_\_\_\_\_  
(Please type or print name of person  
signing on behalf of entity)

Its: \_\_\_\_\_  
(Please type or print title of person  
signing on behalf of entity)

Witness: \_\_\_\_\_  
(Please type or print)

Signature: \_\_\_\_\_

FRANCHISEE: (For an Individual)

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

Name: \_\_\_\_\_  
(Please type or print)

Signature: \_\_\_\_\_

Witness: \_\_\_\_\_  
(Please type or print)

Signature: \_\_\_\_\_

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

Name: \_\_\_\_\_  
(Please type or print)

Signature: \_\_\_\_\_

Witness: \_\_\_\_\_  
(Please type or print)

Signature: \_\_\_\_\_

US:

MENCHIE'S GROUP, INC.

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

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

Its: Chief Executive Officer

Schedule A to the Franchise Agreement

**Data Sheet**

1. **Franchisee:** \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. **Operating Partner.** You represent and warrant to us that the following person or entity, and only the following person or entity, will be your Operating Partner:

Name	Home Address	Percentage of Ownership

3. **Authorized Location.** As stated in subparagraph 2.A of the Franchise Agreement, the Authorized Location is: \_\_\_\_\_  
\_\_\_\_\_

4. **Designated Territory.** As stated in subparagraph 2.C of the Franchise Agreement, the Designated Territory under this Agreement shall mean: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Effective Date:** \_\_\_\_\_

**By signing below you acknowledge that the Authorized Location noted above was chosen and approved by you.**

YOU: \_\_\_\_\_

WE: MENCHIE'S GROUP, INC.

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

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

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



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

Its: Chief Executive Officer

Schedule B to the Franchise Agreement

**Trademarks**

You have the right to use the following Trademarks in accordance with the terms of the Franchise Agreement:

<b>Trademark</b>	<b>Registration/Application Number</b>	<b>Registration/Application Date</b>
MENCHIE'S	3,519,334	October 21, 2008
MENCHIE'S (Design) 	3,733,426	January 5, 2010
MENCHIE'S GUY (Design) 	3,704,602	November 3, 2009
COME SMILE WITH US	85/289,517	April 7, 2011
MIX WEIGH PAY	85/289,525	April 7, 2011
MY SMILEAGE	85/289,492	April 7, 2011
SMILEAGE	85/289,501	April 7, 2011
WE MAKE YOU SMILE	85/289,507	April 7, 2011
WHAT'S YOUR MIX	85/289,512	April 7, 2011

We may amend this Schedule B from time to time in order to make available additional Trademarks or to delete those Trademarks that become unavailable. You agree to use only those Trademarks that are then currently authorized.

The Trademarks must be used only in the manner that we specify. No deviations will be permitted.

Schedule C to the Franchise Agreement

**Addendum to Lease**

This Addendum to Lease (“Addendum”), dated \_\_\_\_\_, 20\_\_\_\_, is entered into between \_\_\_\_\_ (“Landlord”) and \_\_\_\_\_ (“Tenant”).

**R E C I T A L S**

The parties have entered into a Lease Agreement, dated \_\_\_\_\_, 20\_\_\_\_ (the “Lease”), pertaining to the premises located at \_\_\_\_\_ (the “Premises”).

The Landlord acknowledges that Tenant intends to operate a MENCHIE’S® store (“Store”) from the Premises pursuant to Tenant’s Franchise Agreement with Menchie’s Group, Inc. (“Franchisor”) dated \_\_\_\_\_ (the “Franchise Agreement”), whereby Tenant will utilize the MENCHIE’S name and the MENCHIE’S Marks as Franchisor may designate in the operation of the Store at the Premises.

Landlord further acknowledges that Franchisor has approved Tenant’s request to locate its Store on the Premises that is the subject of the Lease, provided that the conditions and agreements set forth in this Addendum are made a part of the Lease.

**A G R E E M E N T S**

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree to amend the Lease as follows:

1. Remodeling and Decor. Landlord agrees that Tenant has the right to remodel, equip, paint and decorate the interior of the Premises and to display such Marks and signs on the interior and exterior of the Premises as Tenant is reasonably required to do pursuant to the Franchise Agreement and any successor Franchise Agreement under which Tenant may operate a Store on the Premises. Any remodel of the building and/or its signs shall be subject to Landlord’s prior and reasonable approval.

2. Assignment By Tenant.

(a) Tenant does not have the right to sublease or assign the Lease to any third party without Landlord’s and Franchisor’s written approval.

(b) So long as Tenant is in good standing under the Lease, Tenant has the right to assign all of its right, title and interest in the Lease to Franchisor or its affiliates during the term of the Lease, including any extensions or renewals, without first obtaining Landlord’s consent. No assignment will be effective, however, until Franchisor or its designated affiliate gives Landlord written notice of its acceptance of the assignment. Franchisor will be responsible for the Lease obligations incurred after the effective date of the assignment.

(c) If Franchisor elects to assume the Lease, Franchisor shall not be required to begin paying rent until Landlord delivers possession of the Premises to the Franchisor. At any time until the Landlord delivers possession of the Premises, Franchisor shall have the right to rescind the election to assume by written notice to Landlord.

3. Default and Notices to Franchisor.

(a) Landlord shall send Franchisor copies of all notices of default under the Lease at the same time it provides Tenant with such notice. If Tenant fails to cure any defaults within the period specified in the Lease, Landlord shall promptly give Franchisor written notice thereof, specifying the defaults that Tenant has failed to cure. Franchisor has the right to unilaterally assume the Lease if Tenant fails to cure. Franchisor shall have 15 days from the date Franchisor receives such notice to exercise, by written notice to Landlord and Tenant, its right for Franchisor or its affiliate designee ("Franchisor Entity"), to assume the Lease. Franchisor shall have an additional 30 days from the expiration of Tenant's cure period in which to cure the default or violation.

(b) If Franchisor elects to assume the Lease, the Franchisor Entity shall not be required to cure defaults and/or to begin paying rent until Landlord delivers possession of the Premises to the Franchisor Entity. At any time until Landlord delivers possession of the Premises, Franchisor shall have the right to rescind the election to assume by written notice to Landlord.

4. Termination of Franchise Agreement; Expiration or Non-Renewal of Lease.

(a) If the Franchise Agreement is terminated for any reason during the term of the Lease or any renewal or extension thereof, and if Franchisor desires to assume the Lease, Franchisor shall promptly give Landlord written notice thereof. Within 30 days after receipt of such notice, Landlord shall give Franchisor written notice specifying any defaults of Tenant under the Lease. If Franchisor elects to assume the Lease, Franchisor must cure said defaults consistent with paragraph 3 above.

(b) If the Lease contains term renewal or extension right(s) and if Tenant allows the term to expire without exercising said right(s), Landlord shall give Franchisor written notice thereof, and a Franchisor Entity shall have the option, for 30 days after receipt of said notice, to exercise the Tenant's renewal or extension right(s) on the same terms and conditions as are contained in the Lease. If a Franchisor Entity elects to exercise such right(s), it shall so notify Landlord in writing, whereupon Landlord and the Franchisor Entity shall promptly execute and deliver an agreement whereby the Franchisor Entity assumes the Lease, effective at the commencement of the extension or renewal term.

5. Access to Premises Following Expiration or Termination of Lease. Upon the expiration or termination of the Lease, Landlord will cooperate with and assist Franchisor in gaining possession of the Premises and, if the Franchisor Entity does not elect to assume the Lease for the Premises consistent with subparagraphs 3(a) or 4(b) above, Landlord will allow Franchisor to enter the Premises, without being guilty of trespass and without incurring any liability to Landlord except for any damages caused by Franchisor's willful misconduct or gross negligence, to remove all signs and all other items identifying the Premises as a MENCHIE'S Store and to make such other modifications (such as repainting) as are reasonably necessary to protect the MENCHIE'S marks and system, and to distinguish the Premises from MENCHIE'S Stores. In the event Franchisor exercises its option to purchase assets of Tenant, Landlord must permit Franchisor to remove all such assets being purchased by Franchisor.

6. Assumption and Subsequent Assignment By Franchisor. If Franchisor elects to assume the Lease under paragraph 2, or unilaterally assumes the Lease as provided for in paragraphs 3 or 4, Landlord and Tenant agree that:

(a) Tenant will remain liable for the responsibilities and obligations, including amounts owed to Landlord, prior to the date of assignment and assumption. Further, Tenant shall be and remain liable to Landlord for all of its obligations under the Lease, notwithstanding any assignment or assumption of the Lease by Franchisor. Franchisor shall be entitled to recover from Tenant all amounts it pays to Landlord to cure Tenant's defaults under the Lease, including interest and reasonable collection costs.

(b) Franchisor, upon taking possession of the Premises, shall cure any default specified by Landlord within the timeframes noted herein and shall execute and deliver to Landlord its assumption of Tenant's rights and obligations under the Lease. Franchisor shall pay, perform and be bound by all the duties and obligations of the Lease applicable to Tenant, except that the Franchisor may elect not to assume or be bound by the terms of any Amendment to the Lease executed by Tenant without obtaining Franchisor's prior written approval, which shall not be unreasonably withheld or delayed.

(c) At or after the time Franchisor assumes Tenant's interests under the Lease, the Franchisor may, at any time, assign such interests or sublet the Premises to a MENCHIE'S franchisee. Any such assignment shall be subject to the prior written consent of the Landlord, which Landlord shall not unreasonably withhold as it relates to a creditworthy franchisee who otherwise meets Franchisor's then-current standards and requirements for franchisees and agrees to operate the Store as a MENCHIE'S Store pursuant to a Franchise Agreement with Franchisor. Upon receipt by Landlord of an assumption agreement pursuant to which the assignee agrees to assume the Lease and to observe the terms, conditions and agreements on the part of Tenant to be performed under the Lease, the Franchisor shall thereupon be released from all liability as tenant under the Lease from and after the date of assignment, without any need of a written acknowledgement of such release by Landlord.

7. Access to Premises During Lease. As provided in the Franchise Agreement, Franchisor shall have the right to access the Premises during continuance of the Lease to ensure compliance by Tenant with its obligations under the Franchise Agreement.

8. Additional Provisions.

(a) Landlord hereby acknowledges that the provisions of this Addendum to Lease are required pursuant to the Franchise Agreement under which Tenant plans to operate its business and the Tenant would not lease the Premises without this Addendum.

(b) Landlord further acknowledges that Tenant is not an agent or employee of Franchisor and the Tenant has no authority or power to act for, or to create any liability on behalf of, or to in any way bind Franchisor or any affiliate of Franchisor, and that Landlord has entered into this Addendum to Lease with full understanding that it creates no duties, obligations or liability of or against Franchisor or any affiliate of Franchisor, unless and until the Lease is assigned to, and accepted in writing by, Franchisor.



(c) All notices to Franchisor required by this Addendum must be in writing and sent by registered or certified mail, postage prepaid, to the following address:

Menchie's Group, Inc.  
16027 Ventura Boulevard, Suite 301  
Encino, California 91436

Franchisor may change its address for receiving notices by giving Landlord written notice of the new address. Landlord agrees that it will notify both Tenant and Franchisor of any change in Landlord's mailing address to which notices should be sent.

9. Sales Reports. If requested by Franchisor, Landlord will provide Franchisor with whatever information Landlord has regarding Tenant's sales from the Store.

10. Conflicts. In the event of a conflict between the terms of the Lease and the terms set forth in this Addendum, the terms set forth herein shall govern. In the event of a conflict between notices provided to Landlord by Tenant and Franchisor, the notices of Franchisor shall prevail.

11. Miscellaneous. Any waiver excusing or reducing any obligation imposed by this Addendum shall be in writing and executed by the party who is charged with making the waiver and shall be effective only to the extent specifically allowed in such writing. The language used in this Addendum shall in all cases be construed simply according to its fair meaning and not strictly for or against any party. Nothing in this Addendum is intended, nor shall it be deemed, to confer any rights or remedies upon any person or entity not a party hereto. This Addendum shall be binding upon, and shall inure to the benefit of, the successors, assigns, heirs, and personal representatives of the parties hereto. This Addendum sets forth the entire agreement with regard to the rights of Franchisor, fully superseding any and all prior agreements or understandings between the parties pertaining to the subject matter of this Addendum. This Addendum may only be amended by written agreement duly executed by each party.

[Signature page follows]

IN WITNESS WHEREOF, this Addendum is made and entered into by the undersigned parties as of \_\_\_\_\_, \_\_\_\_\_.

**LANDLORD:** \_\_\_\_\_

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

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

Title: \_\_\_\_\_

**FRANCHISEE:** \_\_\_\_\_

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

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

Title: \_\_\_\_\_

Schedule D to the Franchise Agreement

**Electronic Transfer of Funds Authorization**

Franchisee: \_\_\_\_\_

Location: \_\_\_\_\_

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

NEW	CHANGE

Attention: Bookkeeping Department

The undersigned hereby authorizes Menchie’s Group, Inc. or any affiliated entity (collectively, “Franchisor”) to initiate weekly ACH debit entries against the account of the undersigned with you in payment of amounts for Royalty Fees, Advertising Fees or other amounts that become payable by the undersigned to Franchisor. The dollar amount to be debited per payment will vary.

Subject to the provisions of this letter of authorization, you are hereby directed to honor any such ACH debit entry initiated by Franchisor.

This authorization is binding and will remain in full force and effect until 90 days prior written notice has been given to you by the undersigned. The undersigned is responsible for, and must pay on demand, all costs or charges relating to the handling of ACH debit entries pursuant to this letter of authorization.

Please honor ACH debit entries initiated in accordance with the terms of this letter of authorization, subject to there being sufficient funds in the undersigned’s account to cover such ACH debit entries.

Sincerely yours,

\*\*\* We also need a VOIDED Check \*\*\*

Account Name

\_\_\_\_\_

Bank Name

Street Address

Branch

City State Zip Code

Street Address

Telephone Number

City State Zip Code

By \_\_\_\_\_

Bank Telephone Number

Its \_\_\_\_\_

Bank’s Account Number

Date \_\_\_\_\_

Customer’s Account Number

Schedule E to the Franchise Agreement

**Telephone Assignment Agreement**

This Assignment Agreement (the "Assignment") is made, and entered into, between Menchie's Group, Inc., a California Corporation ("Menchie's") and the undersigned MENCHIE'S Franchisee ("Franchisee").

**RECITALS**

A. Menchie's has developed a unique system for the establishment and operation of a soft-serve frozen yogurt and ice cream store which also features desserts and beverage items for retail sale to the public (the "System");

B. Menchie's and Franchisee have entered into a Franchise Agreement dated \_\_\_\_\_ (the "Franchise Agreement"), pursuant to which Franchisee was granted the right to operate a MENCHIE'S Store under the System; and

C. It is the desire of and in the best interests of Menchie's and the System that in the event the Franchise Agreement terminates or expires, the telephone numbers, telephone directory listings and internet addresses used by Franchisee in connection with the operation of its MENCHIE'S Store are assigned to Menchie's

**AGREEMENT**

NOW THEREFORE, in consideration of the foregoing and Menchie's agreeing to enter into the Franchise Agreement, Menchie's and Franchisee agree as follows:

1. Franchisee hereby agrees to assign to Menchie's: (i) those certain telephone numbers and regular, classified or other telephone directory listings used by Franchisee in connection with operating the MENCHIE'S Store (collectively, the "Numbers and Listings") and (ii) those certain Internet Web Site addresses ("URLs") associated with the MENCHIE'S trademarks and service marks and used from time to time by Franchisee in connection with the operation of its MENCHIE'S Store.

2. This Assignment is for collateral purposes only and, except as specified herein, Menchie's will have no liability or obligation of any kind whatsoever arising from or in connection with Franchisee's use of the Numbers and Listings and the URLs, unless and until Menchie's notifies the telephone company and the listing agencies with which Franchisee has placed telephone directory listings (all such entities are collectively referred to herein as "Telephone Company") and Franchisee's Internet service provider ("ISP") to effectuate the assignment pursuant to the terms hereof.

3. Upon termination or expiration of the Franchise Agreement (without renewal or extension), Menchie's will have the right and is hereby empowered to effectuate the assignment of the Numbers and Listings and the URLs to itself or to any third party it designates. In the event Menchie's exercises its assignment rights Franchisee will have no further right, title or interest in the Numbers and Listings or the URLs; provided, however, Franchisee will remain liable to the Telephone Company and the ISP for any and all past due fees owing to the Telephone Company and the ISP on or before the effective date of the assignment.

4. Franchisee acknowledges and agrees that as between Menchie's and Franchisee, upon termination or expiration of the Franchise Agreement, Menchie's will have the sole right to and interest

in the Numbers and Listings and the URLs, and Franchisee appoints Menchie's as Franchisee's true and lawful attorney-in-fact to direct the Telephone Company and the ISP to assign the same to Menchie's and execute such documents and take such actions as may be necessary to effectuate the assignment. Upon such event, Franchisee will immediately notify the Telephone Company and the ISP to assign the Numbers and Listings and the URLs to Menchie's. If Franchisee fails to promptly direct the Telephone Company and the ISP to assign the Numbers and Listings and the URLs to Menchie's, Menchie's will direct the Telephone Company and the ISP to effectuate the assignment contemplated hereunder to Menchie's.

5. The parties agree that the Telephone Company and the ISP may accept Menchie's written direction, the Franchise Agreement or this Assignment as conclusive proof of Menchie's exclusive rights in and to the Numbers and Listings and the URLs upon such termination or expiration of the Franchise Agreement and that such assignment shall be made automatically and effective immediately upon Telephone Company's and ISP's receipt of such notice from Menchie's or Franchisee. The parties further agree that if the Telephone Company or the ISP requires that the parties execute the Telephone Company's or the ISP's assignment forms or other documentation at the time of termination or expiration of the Franchise Agreement, Menchie'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.

Agreed to this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

YOU: \_\_\_\_\_

WE: MENCHIE'S GROUP, INC.

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

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

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

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

Its: Chief Executive Officer

Schedule F to the Franchise Agreement

**Personal Guarantee and Agreement to be Bound**  
**Personally by the Terms and Conditions**  
**of the Franchise Agreement**

In consideration of the execution of the Franchise Agreement by Menchie's Group, Inc., and for other good and valuable consideration, the undersigned, for themselves, their heirs, successors, and assigns, do jointly, individually and severally hereby become surety and guarantor for the payment of all amounts and the performance of the covenants, terms and conditions in the Franchise Agreement, to be paid, kept and performed by the franchisee, including without limitation the arbitration and other dispute resolution provisions of the Agreement.

Further, the undersigned, individually and jointly, hereby agree to be personally bound by each and every condition and term contained in the Franchise Agreement, including but not limited to the non-compete provisions in subparagraph 10.D, and agree that this Personal Guarantee will be construed as though the undersigned and each of them executed a Franchise Agreement containing the identical terms and conditions of this Franchise Agreement.

The undersigned waives: (1) notice of demand for payment of any indebtedness or nonperformance of any obligations hereby guaranteed; (2) protest and notice of default to any party respecting the indebtedness or nonperformance of any obligations hereby guaranteed; and (3) any right he/she may have to require that an action be brought against the franchisee or any other person as a condition of liability.

In addition, the undersigned consents and agrees that: (1) the undersigned's liability will not be contingent or conditioned upon our pursuit of any remedies against the franchisee or any other person; and (2) such liability will not be diminished, relieved or otherwise affected by franchisee's insolvency, bankruptcy or reorganization, the invalidity, illegality or unenforceability of all or any part of the Franchise Agreement, or the amendment or extension of the Franchise Agreement with or without notice to the undersigned.

It is further understood and agreed by the undersigned that the provisions, covenants and conditions of this Guarantee will inure to the benefit of our successors and assigns.

FRANCHISEE: \_\_\_\_\_

PERSONAL GUARANTORS:

_____		
Individually		
_____		
Print Name		
_____		
Address		
_____	_____	_____
City	State	Zip Code
_____		
Telephone		

_____		
Individually		
_____		
Print Name		
_____		
Address		
_____	_____	_____
City	State	Zip Code
_____		
Telephone		

---

Individually

---

Print Name

---

Address

---

City                      State                      Zip Code

---

Telephone

---

Individually

---

Print Name

---

Address

---

City                      State                      Zip Code

---

Telephone

Schedule G to the Franchise Agreement

Addendum to MENCHIE'S Franchise Agreement

This Addendum to the Franchise Agreement ("Addendum"), dated \_\_\_\_\_, 20\_\_, is entered into between \_\_\_\_\_ ("Franchisee"), and Menchie's Group, Inc. ("Franchisor").

RECITALS

A. The parties have entered into \_\_\_ separate Franchise Agreements, all dated \_\_\_\_\_, 20\_\_, relating to the development and operation of \_\_\_ MENCHIE'S stores around the following locations: (1) \_\_\_\_\_ (the "\_\_\_\_\_ Agreement"), (2) \_\_\_\_\_ (the "\_\_\_\_\_ Agreement"), (3) \_\_\_\_\_ (the "\_\_\_\_\_ Agreement"); (4) \_\_\_\_\_ (the "\_\_\_\_\_ Agreement"); and (5) \_\_\_\_\_ (the "\_\_\_\_\_ Agreement").

B. The parties desire to amend Sections 2.A and 2.B of the \_\_\_\_\_ Agreement in accordance with the terms and conditions contained in this Addendum.

AGREEMENT

Franchisor and Franchisee agree that the \_\_\_\_\_ Agreement is hereby modified as follows:

1. Paragraph 2.A is deleted in its entirety and replaced with the following:

A. Authorized Location. We grant to you the right and license to establish and operate a retail Store identified by the MENCHIE'S Trademarks or such other marks as we may direct, at the location identified on the Data Sheet, which location must be designated within \_\_\_ days from the date of this Agreement (the "Authorized Location"). When a location has been designated by you and approved by us, it will become part of this subparagraph 2.A as if originally stated. If an Authorized Location is not designated by you and approved by us within \_\_\_ days from the date of this Agreement, we may terminate this Agreement. You accept the license and undertake the obligation to operate the Store at the Authorized Location using the Trademarks and the System in compliance with the terms and conditions of this Agreement.

2. Paragraph 2.B is deleted in its entirety and replaced with the following:

B. Opening. You agree that the Store will be open and operating in accordance with the requirements of subparagraph 5.A within \_\_\_ to \_\_\_ days from the date of this Agreement, unless we authorize in writing an extension of time. Before you open your Store for business, we will inspect your Store and provide you with a Certificate of Opening.

[Signatures on following page.]



**IN WITNESS WHEREOF**, the parties have executed this Franchise Agreement on the dates written below.

FRANCHISEE: (For an Entity)

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

\_\_\_\_\_,  
a \_\_\_\_\_,  
(Please type or print name and type of entity)

By: \_\_\_\_\_  
(Signature of person signing on behalf of entity)

\_\_\_\_\_  
(Please type or print name of person  
signing on behalf of entity)

Its: \_\_\_\_\_  
(Please type or print title of person  
signing on behalf of entity)

Witness: \_\_\_\_\_  
(Please type or print)

Signature: \_\_\_\_\_

FRANCHISEE: (For an Individual)

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

Name: \_\_\_\_\_  
(Please type or print)

Signature: \_\_\_\_\_

Witness: \_\_\_\_\_  
(Please type or print)

Signature: \_\_\_\_\_

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

Name: \_\_\_\_\_  
(Please type or print)

Signature: \_\_\_\_\_

Witness: \_\_\_\_\_  
(Please type or print)

Signature: \_\_\_\_\_

US: MENCHIE'S GROUP, INC.

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

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

Its: Chief Executive Officer

Schedule H to the Franchise Agreement

**Acknowledgment Addendum to MENCHIE'S Franchise Agreement**

As you know, you and we are entering into a Franchise Agreement for the operation of a MENCHIE'S franchise. The purpose of this Acknowledgment Addendum is to determine whether any statements or promises were made to you that we have not authorized or that may be untrue, inaccurate or misleading, and to be certain that you understand the limitations on claims that may be made by you by reason of the offer and sale of the franchise and operation of your business. Please review each of the following questions carefully and provide honest responses to each question.

**Acknowledgments and Representations.**

1. Did you receive a copy of our Disclosure Document (and all exhibits and attachments) at least fourteen calendar days prior to signing the Franchise Agreement? Check one:  Yes  No. If no, please comment: \_\_\_\_\_  
\_\_\_\_\_
2. Have you studied and reviewed carefully our Disclosure Document and Franchise Agreement? Check one:  Yes  No. If no, please comment: \_\_\_\_\_  
\_\_\_\_\_
3. Did you understand all the information contained in both the Disclosure Document and Franchise Agreement? Check one  Yes  No. If no, please comment \_\_\_\_\_  
\_\_\_\_\_
4. Was any oral, written or visual claim or representation made to you which contradicted the disclosures in the Disclosure Document? Check one:  No  Yes. If yes, please state in detail the oral, written or visual claim or representation: \_\_\_\_\_  
\_\_\_\_\_
5. Did any employee or other person speaking on behalf of Menchie's Group, Inc. make any oral, written or visual claim, statement, promise or representation to you that stated, suggested, predicted or projected sales, revenues, expenses, earnings, income or profit levels at any MENCHIE'S store, location or business, or the likelihood of success at your franchised business? Check one:  No  Yes. If yes, please state in detail the oral, written or visual claim or representation: \_\_\_\_\_  
\_\_\_\_\_
6. Did any employee or other person speaking on behalf of Menchie's Group, Inc. make any statement or promise regarding the costs involved in operating a franchise that is not contained in the Disclosure Document or that is contrary to, or different from, the information contained in the Disclosure Document? Check one:  Yes  No. If yes, please comment: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

7. Except as stated in Item 19, did any employee or other person speaking on behalf of Menchie's Group, Inc. make any oral, written or visual claim, statement, promise or representation to you that stated, suggested, predicted or projected sales, revenues, expenses, earnings, income or profit levels at any MENCHIE'S store, location or business, or the likelihood of success at your franchised business? Check one:  Yes  No. If yes, please state in detail the oral, written or visual claim or representation: \_\_\_\_\_  
\_\_\_\_\_
8. Do you understand that that the franchise granted is for the right to operate a Store at the Authorized Location within the Designated Territory only and that we have the right to issue franchises or operate competing businesses for or at locations outside your Designated Territory and through alternate channels of Distribution? Check one:  Yes  No. If no, please comment \_\_\_\_\_  
\_\_\_\_\_
9. Do you understand that the Franchise Agreement and Disclosure Document contain the entire agreement between you and us concerning the franchise for the Store, meaning that any prior oral or written statements not set out in the Franchise Agreement or Disclosure Document will not be binding? Check one:  Yes  No. If no, please comment: \_\_\_\_\_  
\_\_\_\_\_
10. Do you understand that the success or failure of your Store will depend in large part upon your skills and experience, your business acumen, your location, the local market for products under the MENCHIE'S trademarks, interest rates, the economy, inflation, the number of employees you hire and their compensation, competition and other economic and business factors? Further, do you understand that the economic and business factors that exist at the time you open your Store may change? Check one  Yes  No. If no, please comment: \_\_\_\_\_  
\_\_\_\_\_
11. Do you understand that you are bound by the non-compete covenants (both in-term and post-term) listed in Subparagraph 10.D and that an injunction is an appropriate remedy to protect the interest of the MENCHIE'S system if you violate the covenant(s)? Further, do you understand that the term "you" for purposes of the non-compete covenants is defined broadly in subparagraph 10.D, such that any actions in violation of the covenants by those holding any interest in the franchisee entity may result in an injunction, default and termination of the Franchise Agreement? Check one  Yes  No. If no, please comment: \_\_\_\_\_  
\_\_\_\_\_
12. On the receipt pages of your Disclosure Document you identified \_\_\_\_\_  
\_\_\_\_\_ this franchise sales process. Are the franchise sellers identified above the only franchise sellers involved with this transaction? Check one  Yes  No. If no, please identify any additional franchise sellers involved with this transaction: \_\_\_\_\_  
\_\_\_\_\_

YOU UNDERSTAND THAT YOUR ANSWERS ARE IMPORTANT TO US AND THAT WE WILL RELY ON THEM. BY SIGNING THIS ADDENDUM, YOU ARE REPRESENTING THAT YOU HAVE CONSIDERED EACH QUESTION CAREFULLY AND RESPONDED TRUTHFULLY TO THE ABOVE QUESTIONS. IF MORE SPACE IS NEEDED FOR ANY ANSWER, CONTINUE ON A SEPARATE SHEET AND ATTACH.

**NOTE: IF THE RECIPIENT IS A CORPORATION, PARTNERSHIP, LIMITED LIABILITY COMPANY OR OTHER ENTITY, EACH OF ITS OPERATING PARTNERS MUST EXECUTE THIS ACKNOWLEDGMENT.**

Signed: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Date: \_\_\_\_\_

Signed: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Date: \_\_\_\_\_

APPROVED ON BEHALF OF  
MENCHIE'S GROUP, INC.

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

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

Its: Chief Executive Officer

**Exhibit D**

MULTI UNIT AGREEMENT

MENCHIE'S® Multi Unit Agreement

Menchie's Group, Inc.  
16027 Ventura Boulevard, Suite 301  
Encino, California 91436

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APPENDICES

- A. DATA SHEET
- B. DEVELOPMENT SCHEDULE

MENCHIE'S®  
MULTI UNIT AGREEMENT

This Multi Unit Agreement is made this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_, between MENCHIE'S GROUP, INC., a California corporation with its principal business located at 16027 Ventura Boulevard, Suite 301, Encino, California 91436 ("we" or "us"), and "Developer" or "you" as identified on the Data Sheet attached as Appendix A (the "Data Sheet"). If the developer is a corporation, partnership or limited liability company, certain provisions of the Agreement also apply to your owners and will be noted.

RECITALS

- A. We have developed a unique system for the establishment and operation of a soft-serve frozen yogurt and ice cream store which also features desserts and beverage items for retail sale to the public;
- B. We own the MENCHIE'S Trademark and other trademarks used in connection with the operation of a MENCHIE'S store;
- C. You desire to develop and operate several MENCHIE'S stores; and
- D. We have agreed to grant you the right to develop several MENCHIE'S stores subject to the terms and conditions of this Agreement.

In consideration of the foregoing and the mutual covenants and consideration below, you and we agree as follows:

DEFINITIONS

- 1. For purposes of this Agreement, the terms below have the following definitions:
  - A. "Gross Sales" includes the total revenues and receipts from the sale of all products, services and merchandise sold in your Store, whether under any of the Trademarks or otherwise, including any catering or delivery services, cover charges or fees, in your Store or on its premises and all revenues derived from any type of authorized vending machines. Gross Sales excludes sales tax.
  - B. "Menu Items" means the soft-serve frozen yogurt, ice cream, desserts, beverages, and other products prepared according to our specified recipes and procedures, as we may modify from time to time.
  - C. "Manual" or "Operations Manual" means any collection of written, video, audio and/or software media (including materials distributed electronically), regardless of title and consisting of various subparts and separate components, all of which we or our agents produce and which contain specifications, standards, policies, procedures and recommendations for your MENCHIE'S Store, all of which we may change from time to time.
  - D. "Stores" means the MENCHIE'S Stores you develop and operate pursuant to this Agreement.



E. "System" means the MENCHIE'S System, which consists of distinctive food and beverage products prepared according to special and confidential recipes and formulas with unique storage, preparation, service and delivery procedures and techniques, offered in a setting of distinctive exterior and interior layout, design and color scheme, signage, furnishings and materials and using certain distinctive types of facilities, equipment, supplies, ingredients, business techniques, methods and procedures, all of which we may modify and change from time to time.

F. "Trademarks" means the MENCHIE'S Trademarks that have been registered in the United States and elsewhere and the trademarks, service marks and trade names set forth in each Franchise Agreement, as we may modify and change from time to time, and the trade dress and other commercial symbols used in the Stores. Trade dress includes the designs, color schemes and image we authorize you to use in the operation of the Stores from time to time.

### GRANT OF DEVELOPMENT RIGHTS

2. The following provisions control with respect to the rights granted hereunder:

A. We grant to you, under the terms and conditions of this Agreement, the right to develop and operate \_\_\_\_\_ (\_\_\_) MENCHIE'S stores (the "Stores").

B. You are bound by the development schedule ("Development Schedule") set forth in Appendix B. Time is of the essence for the development of each Store in accordance with the Development Schedule. Each Store must be developed and operated pursuant to a separate Franchise Agreement that you enter into with us pursuant to Section 4.B below.

C. The rights granted under this Agreement are limited to the right to develop and operate Stores and do not include (i) any right to sell products and Menu Items identified by the Trademarks at any location other than the Stores or through any other channels or methods of distribution, including the Internet (or any other existing or future form of electronic commerce), (ii) any right to sell products and Menu Items identified by the Trademarks to any person or entity for resale or further distribution, or (iii) any right to exclude, control or impose conditions on our development or operation of franchised, company or affiliate owned stores at any time or at any location. You may not use the word MENCHIE'S or any of the other Trademarks as part of the name of your corporation, partnership, limited liability company or other similar entity.

You acknowledge and agree that we have the right to operate and franchise others the right to operate stores or any other business under the Trademarks or any trademarks other than the MENCHIE'S Trademarks without paying you any compensation. We also have the right to offer, sell or distribute any products or services associated with the System (now or in the future) under the Trademarks or any other trademarks, service marks or trade names or through any distribution channel or method, all without paying you any compensation. The distribution channels or methods include, without limitation, grocery stores, club stores, convenience stores, wholesale, business or industry locations (e.g. manufacturing site, office building), military installations, military commissaries or the Internet (or any other existing or future form of electronic commerce).

You acknowledge and agree that we have the sole and exclusive right to develop or franchise MENCHIE'S stores at the following locations: (1) military bases; (2) public transportation facilities; (3) sports facilities, including race tracks; (4) student unions or other

similar buildings on college or university campuses; (5) amusement and theme parks; and (6) community and special events (“Special Sites”).

D. This Agreement is not a Franchise Agreement and you have no right to use in any manner the Trademarks by virtue of this Agreement. You have no right under this Agreement to sublicense or subfranchise others to operate a business or store or use the System or the Trademarks.

### MULTI UNIT FEE

3. You must pay a Multi Unit Fee as described below:

A. As a Developer, you will pay a lower Initial Franchise Fee for each Store you agree to develop under the terms of this Agreement. Specifically, if you agree to develop three Stores, your Initial Franchise Fee for each Store will be \$32,000. If you agree to develop five Stores, your Initial Franchise Fee for each Store will be \$25,000.

As consideration for the rights granted in this Agreement, you must pay us a “Multi Unit Fee” based upon the number of Stores you agree to develop and operate. If you agree to open three Stores, your Multi Unit Fee will be \$96,000 (\$32,000 x 3). If you agree to open five Stores, your Multi Unit Fee will be \$125,000 (\$25,000 x 5).

You will pay the Multi Unit Fee as follows: (i) one-half of the total Multi Unit Fee upon the signing of this Agreement; or (ii) the total Multi Unit Fee upon the signing of this Agreement. The Multi Unit Fee is consideration for this Agreement and not consideration for any Franchise Agreement, is fully earned by us upon receipt and is non-refundable.

If you pay one-half of the total Multi Unit Fee upon the signing of this Agreement, the portion of the Multi Unit Fee paid that is attributable to each Store you agree to develop under the terms of this Agreement will be credited against the Initial Franchise Fee due for each Store upon the signing of each individual Franchise Agreement. The remaining balance of the Initial Franchise Fee for each Store will be due when you sign a Franchise Agreement for the Store, as specified in Section 3.B. Under this option you will develop and open each Store before beginning the development of the next Store.

B. You must submit a separate application for each Store to be established by you as further described in Section 4. Upon our receipt and review of the application, a separate Franchise Agreement must be executed for each such Store, at which time the balance of the Initial Franchise Fee for that Store is due and owing. Such payment represents the balance of the appropriate Initial Franchise Fee, as described above in Section 3.A. Upon the execution of each Franchise Agreement, the terms and conditions of the Franchise Agreement control the establishment and operation of such Store.

### DEVELOPMENT SCHEDULE

4. The following provisions control with respect to your development rights and obligations:

A. You are bound by and strictly must follow the Development Schedule. By the dates set forth under the Development Schedule, you must enter into Franchise Agreements with us pursuant to this Agreement for the number of Stores described under the Development

Schedule. You also must comply with the Development Schedule requirements regarding (i) the opening date for each Store and (ii) the cumulative number of Stores to be open and continuously operating for business. If you fail to either execute a Franchise Agreement or to open a Store according to the dates set forth in the Franchise Agreement, we have the right to immediately terminate this Agreement pursuant to Section 7.B.

B. You may not develop a Store unless (i) at least 45 days, but no more than 60 days, prior to the date set forth in the Development Schedule for the execution of each Franchise Agreement, you send us a notice (a) requesting that we send you our then current disclosure documents, (b) confirming your intention to develop your next Store and (c) sending us all information necessary to complete the Franchise Agreement for the particular Store, and (ii) all of the following conditions have been met (these conditions apply to each Store to be developed under the terms of this Agreement):

1. Your Submission of Information. You must furnish to us, at least 30 days prior to the earliest of (i) the date set forth in the Development Schedule by which you must execute a Franchise Agreement or (ii) the actual date in which the Franchise Agreement would be executed, a franchise application for the proposed Store, financial statements and other information regarding you, the operation of any of your other Stores and the development and operation of the proposed Store (including, without limitation, investment and financing plans for the proposed Store) as we may reasonably require.

2. Your Compliance with Our Then-Current Standards for Franchisees. You must receive written confirmation from us that you meet our then-current standards for franchisees, including financial capability criteria for the development of a new Store. You acknowledge and agree that this requirement is necessary to ensure the proper development and operation of your Stores, and preserve and enhance the reputation and goodwill of all MENCHIE'S stores and the goodwill of the Trademarks. Our confirmation that you meet our then-current standards for the development of a new Store, however, does not in any way constitute a guaranty by us as to your success.

3. Good Standing. You must not be in default of this Agreement, any Franchise Agreement entered into pursuant to this Agreement or any other agreement between you or any of your affiliates and us. You also must have satisfied on a timely basis all monetary and material obligations under the Franchise Agreements for all existing Stores.

4. Execution of Franchise Agreement. You and we must enter into our then-current form of Franchise Agreement for the proposed Store. You understand that we may modify the then-current form of Franchise Agreement from time to time and that it may be different than the current form of Franchise Agreement, including different fees and obligations. You understand and agree that any and all Franchise Agreements will be construed and exist independently of this Agreement. The continued existence of each Franchise Agreement will be determined by the terms and conditions of such Franchise Agreement. Except as specifically set forth in this Agreement, the establishment and operation of each Store must be in accordance with the terms of the applicable Franchise Agreement.

C. Upon the execution of the Franchise Agreement for the proposed Store, the terms and conditions of the Franchise Agreement regarding site selection and construction will control.

D. You must construct and equip each Store in strict accordance with our current approved specifications and standards pertaining to equipment, inventory, signage, fixtures, design and layout of the building. You may not commence construction on any Store until you have received our written consent to your building plans.

E. You acknowledge that you have conducted an independent investigation of the prospects for the establishment of the Stores and recognize that the business venture contemplated by this Agreement involves business and economic risks and that your financial and business success will be primarily dependent upon the personal efforts of you and your management and employees. We expressly disclaim the making of, and you acknowledge that you have not received, any estimates, projections, warranties or guaranties, express or implied, regarding potential gross sales, profits, earnings or the financial success of the Stores you develop.

F. You recognize and acknowledge that this Agreement requires you to open Stores in the future pursuant to the Development Schedule. You further acknowledge that the estimated expenses and investment requirements set forth in Items 6 and 7 of our Franchise Disclosure Document are subject to increase over time, and that future Stores likely will involve greater initial investment and operating capital requirements than those stated in the Franchise Disclosure Document provided to you prior to the execution of this Agreement. You are obligated to execute all the Franchise Agreements and open all the Stores on the dates set forth on the Development Schedule, regardless of (i) the requirement of a greater investment, (ii) the financial condition or performance of your prior Stores, or (iii) any other circumstances, financial or otherwise. The foregoing will not be interpreted as imposing any obligation upon us to execute the Franchise Agreements under this Agreement if you have not complied with each and every condition necessary to develop the Stores.

#### TERM

5. Unless sooner terminated in accordance with Section 7 of this Agreement and subject to the terms detailed in Section 2.C, the term of this Agreement and all rights granted to you will expire on the date that your last MENCHIE'S Store is scheduled to be opened under the Development Schedule.

#### YOUR DUTIES

6. You must perform the following obligations:

A. You must comply with all of the terms and conditions of each Franchise Agreement, including the operating requirements specified in each Franchise Agreement.

B. You and your owners, officers, directors, shareholders, partners, members and managers (if any) acknowledge that your entire knowledge of the operation of a MENCHIE'S Store and the System, including the knowledge or know-how regarding the specifications, standards and operating procedures of the services and activities, is derived from information we disclose to you and that certain information is proprietary, confidential and constitutes our trade secrets. The term "trade secrets" refers to the whole or any portion of know-how, knowledge, methods, specifications, processes, procedures and/or improvements regarding the business that is valuable and secret in the sense that it is not generally known to our competitors and any proprietary information contained in the manuals or otherwise communicated to you in writing, verbally or through the Internet or other online or computer communications, and any other knowledge or know-how concerning the methods of operation of the Stores. You and your owners, officers,

directors, shareholders, partners, members and managers (if any), jointly and severally, agree that at all times during and after the term of this Agreement, you will maintain the absolute confidentiality of all such proprietary information and will not disclose, copy, reproduce, sell or use any such information in any other business or in any manner not specifically authorized or approved in advance in writing by us. We may require that you obtain nondisclosure and confidentiality agreements in a form satisfactory to us from the individuals identified in the first sentence of this paragraph and other key employees.

C. You must comply with all requirements of federal, state and local laws, rules and regulations.

#### DEFAULT AND TERMINATION

7. The following provisions apply with respect to default and termination:

A. The rights granted to you in this Agreement have been granted in reliance on your representations and warranties, and strictly on the conditions set forth in Sections 2, 4 and 6 of this Agreement, including the condition that you comply strictly with the Development Schedule.

B. You will be deemed in default under this Agreement if you breach any of the terms of this Agreement, including the failure to meet the Development Schedule, or the terms of any Franchise Agreement or any other agreements between you or your affiliates and us. All rights granted in this Agreement immediately terminate upon written notice without opportunity to cure if: (i) you become insolvent, commit any affirmative action of insolvency or file any action or petition of insolvency, (ii) a receiver (permanent or temporary) of your property is appointed by a court of competent authority, (iii) you make a general assignment or other similar arrangement for the benefit of your creditors, (iv) a final judgment remains unsatisfied of record for 30 days or longer (unless supersedeas bond is filed), (v) execution is levied against your business or property, (vi) suit to foreclose any lien or mortgage against the premises or equipment is instituted against you and not dismissed within 30 days, or is not in the process of being dismissed, (vii) you fail to meet the development obligations set forth in the Development Schedule attached as Appendix B, (viii) you violate the provisions of Section 10.O; (ix) you fail to comply with any other provision of this Agreement and do not correct the failure within 30 days after written notice of that failure is delivered to you, or (x) we have delivered to you a notice of termination of a Franchise Agreement in accordance with its terms and conditions.

#### RIGHTS AND DUTIES OF PARTIES UPON TERMINATION OR EXPIRATION

8. Upon termination or expiration of this Agreement, all rights granted to you will automatically terminate, and:

A. All remaining rights granted to you to develop Stores under this Agreement will automatically be revoked and will be null and void. You will not be entitled to any refund of any fees. You will have no right to develop or operate any business for which a Franchise Agreement has not been executed by us.

B. You must immediately cease to operate your business under this Agreement and must not thereafter, directly or indirectly, represent to the public or hold yourself out as a present or former developer of ours.

C. You must take such action as may be necessary to cancel or assign to us or our designee, at our option, any assumed name or equivalent registration that contains the name MENCHIE'S or any other Trademark of ours, and you must furnish us with evidence satisfactory to us of compliance with this obligation within 30 days after termination or expiration of this Agreement.

D. You must assign to us or our designee all your right, title, and interest in and to your telephone numbers and must notify the telephone company and all listing agencies of the termination or expiration of your right to use any telephone number in any regular, classified or other telephone directory listing associated with the Trademarks and to authorize transfer of same at our direction.

E. You must within 30 days of the termination or expiration pay all sums owing to us, including the balance of the Initial Franchise Fees that we would have received had you developed all of the Stores set forth in the Development Schedule.

All unpaid amounts will bear interest at the rate of 18% per annum or the maximum contract rate of interest permitted by governing law, whichever is less, from and after the date of accrual. In the event of termination for any default by you, the sums due will include all damages, costs, and expenses, including reasonable attorneys' fees and expenses, incurred by us as a result of the default. You also must pay to us all damages, costs and expenses, including reasonable attorneys' fees and expenses that we incur subsequent to the termination or expiration of this Agreement in obtaining injunctive or other relief for the enforcement of any provisions of this Agreement.

F. All of our and your obligations that expressly or by their nature survive the expiration or termination of this Agreement will continue in full force and effect subsequent to and notwithstanding its expiration or termination and until they are satisfied or by their nature expire.

#### TRANSFER

9. The following provisions govern any transfer:

A. We have the right to transfer all or any part of our rights or obligations under this Agreement to any person or legal entity.

B. This Agreement is entered into by us with specific reliance upon your personal experience, skills and managerial and financial qualifications. Consequently, this Agreement, and your rights and obligations under it, are and will remain personal to you. You may only Transfer your rights and interests under this Agreement if you obtain our prior written consent and you transfer all of your rights and interests under all Franchise Agreements for Stores opened pursuant to this Agreement. Accordingly, the assignment terms and conditions of the Franchise Agreements will apply to any Transfer of your rights and interests under this Agreement. As used in this Agreement, the term "Transfer" means any sale, assignment, gift, pledge, mortgage or any other encumbrance, transfer by bankruptcy, transfer by judicial order, merger, consolidation, share exchange, transfer by operation of law or otherwise, whether direct or indirect, voluntary or involuntary, of this Agreement or any interest in it, or any rights or obligations arising under it, or of any material portion of your assets, or of any interest in you.

## MISCELLANEOUS

10. The parties agree to the following provisions:

A. You agree to indemnify, defend, and hold us and our officers, directors, shareholders and employees harmless from and against any and all claims, losses, damages and liabilities, however caused, arising directly or indirectly from, as a result of, or in connection with, the development, use and operation of your Stores, as well as the costs, including attorneys' fees, of defending against them ("Franchise Claims"). Franchise Claims include, but are not limited to, those arising from any death, personal injury or property damage (whether caused wholly or in part through our active or passive negligence), latent or other defects in any Store or your employment practices. In the event a Franchise Claim is made against us, we reserve the right in our sole judgment to select our own legal counsel to represent our interests, at your cost.

B. Should one or more clauses of this Agreement be held void or unenforceable for any reason by any court of competent jurisdiction, such clause or clauses will be deemed to be separable in such jurisdiction and the remainder of this Agreement is valid and in full force and effect and the terms of this Agreement must be equitably adjusted so as to compensate the appropriate party for any consideration lost because of the elimination of such clause or clauses.

C. No waiver by us of any breach by you, nor any delay or failure by us to enforce any provision of this Agreement, may be deemed to be a waiver of any other or subsequent breach or be deemed an estoppel to enforce our rights with respect to that or any other or subsequent breach. This Agreement may not be waived, altered or rescinded, in whole or in part, except by a writing signed by you and us.

D. This Agreement together with all schedules, addenda and appendices to this Agreement constitute the entire agreement between the parties and supersede any and all prior negotiations, understandings, representations and agreements. Nothing in this or in any related agreement, however, is intended to disclaim the representations we made in the Franchise Disclosure Document we furnished to you.

You acknowledge that you are entering into this Agreement as a result of your own independent investigation of our franchised business and not as a result of representations about us made by our shareholders, officers, directors, employees, agents, representatives, independent contractors, or franchisees that are contrary to the terms set forth in this Agreement, or in any disclosure document, prospectus, or other similar document required or permitted to be given to you pursuant to applicable law.

E. Except as otherwise provided in this Agreement, any notice, demand or communication provided for must be in writing and signed by the party serving the same and either delivered personally or by a reputable overnight service or deposited in the United States mail, service or postage prepaid and addressed as follows:

1. If intended for us, addressed to Menchie's Group, Inc., 16027 Ventura Boulevard, Suite 301, Encino, California 91436;
2. If intended for you, addressed to you at the address set forth on the Data Sheet; or,

in either case, to such other address as may have been designated by notice to the other party. Notices for purposes of this Agreement will be deemed to have been received if mailed or delivered as provided in this subparagraph.

F. Any modification, consent, approval, authorization or waiver granted in this Agreement required to be effective by signature will be valid only if in writing executed by Developer (or an owner of Developer if Developer is a legal entity) or, if on behalf of us, in writing executed by our President or one of our authorized Vice Presidents.

G. The following provisions apply to and govern the interpretation of this Agreement, the parties' rights under this Agreement, and the relationship between the parties:

1. Applicable Law and Waiver. Subject to our rights under federal trademark laws and the parties' rights under the Federal Arbitration Act in accordance with Section 10.N of this Agreement, the parties' rights under this Agreement, and the relationship between the parties, is governed by, and will be interpreted in accordance with, the laws (statutory and otherwise) of the state where you are located.

2. Our Rights. Whenever this Agreement provides that we have a certain right, that right is absolute and the parties intend that our exercise of that right will not be subject to any limitation or review. We have the right to operate, administrate, develop, and change the System in any manner that is not specifically precluded by the provisions of this Agreement, although this right does not modify the express limitations set forth in this Agreement.

3. Our Reasonable Business Judgment. Whenever we reserve discretion in a particular area or where we agree to exercise our rights reasonably or in good faith, we will satisfy our obligations whenever we exercise Reasonable Business Judgment in making our decision or exercising our rights. Our decisions or actions will be deemed to be the result of Reasonable Business Judgment, even if other reasonable or even arguably preferable alternatives are available, if our decision or action is intended, in whole or significant part, to promote or benefit the System generally even if the decision or action also promotes our financial or other individual interest. Examples of items that will promote or benefit the System include, without limitation, enhancing the value of the Trademarks, improving customer service and satisfaction, improving product quality, improving uniformity, enhancing or encouraging modernization and improving the competitive position of the System.

H. Any cause of action, claim, suit or demand allegedly arising from or related to the terms of this Agreement or the relationship of the parties that is not subject to arbitration under Section 10.N must be brought in the state or federal district court located in the county or district encompassing our headquarters. Both parties irrevocably submit themselves to, and consent to, the jurisdiction of said courts. The provisions of this Section will survive the termination of this Agreement. You are aware of the business purposes and needs underlying the language of this subparagraph, and with a complete understanding, agree to be bound in the manner set forth.

I. All parties hereby waive any and all rights to a trial by jury in connection with the enforcement or interpretation by judicial process of any provision of this Agreement, and in connection with allegations of state or federal statutory violations, fraud, misrepresentation or



similar causes of action or any legal action initiated for the recovery of damages for breach of this Agreement.

J. You and your affiliates and we agree to waive, to the fullest extent permitted by law, the right to or claim for any punitive or exemplary damages against the other and agree that in the event of any dispute between them, each will be limited to the recovery of actual damages sustained.

K. If you are a corporation, partnership, limited liability company or partnership or other legal entity, all of your owners must execute the form of undertaking and guarantee at the end of this Agreement. Any person or entity that at any time after the date of this Agreement becomes an owner must execute the form of undertaking and guarantee at the end of this Agreement.

L. You and we are independent contractors. Neither party is the agent, legal representative, partner, subsidiary, joint venturer or employee of the other. Neither party may obligate the other or represent any right to do so. This Agreement does not reflect or create a fiduciary relationship or a relationship of special trust or confidence.

M. In the event of any failure of performance of this Agreement according to its terms by any party, the same will not be deemed a breach of this Agreement if it arose from a cause beyond the control of and without the negligence of said party. Such causes include, but are not limited to, strikes, wars, riots and acts of government except as may be specifically provided for elsewhere in this Agreement.

N. Except as qualified below, any dispute between you and us or any of your affiliates arising under, out of, in connection with or in relation to this Agreement, the parties' relationship, or the business must be submitted to binding arbitration under the authority of the Federal Arbitration Act and must be determined by arbitration administered by the American Arbitration Association pursuant to its then-current commercial arbitration rules and procedures. Any arbitration must be on an individual basis, and the parties and arbitrator will have no authority or power to proceed with any claim as a class action or otherwise to join or consolidate any claim with any other claim or proceeding involving third parties. In the event a court determines that this limitation on joinder of or class action certification of claims is unenforceable, then this entire commitment to arbitrate will become null and void and the parties must submit all claims to the jurisdiction of the courts. The arbitration must take place in the city where our headquarters is located at the time of the dispute. The arbitrator must follow the law and not disregard the terms of this Agreement. The arbitrator must have at least 5 years of significant experience in franchise law. A judgment may be entered upon the arbitration award by any state or federal court in the state where we maintain our headquarters. The decision of the arbitrator will be final and binding on all parties to the dispute; however, the arbitrator may not under any circumstances: (i) stay the effectiveness of any pending termination of this Agreement; (ii) assess punitive or exemplary damages; or (iii) make any award which extends, modifies or suspends any lawful term of this Agreement or any reasonable standard of business performance that we set.

Before any party may bring an action in court or against the other, or commence an arbitration proceeding (except as noted below), the parties must first meet to mediate the dispute. The mediation will be held in the city in which our headquarters are located at the time of the mediation. Any such mediation will be non-binding and conducted by the American Arbitration Association in accordance with its then-current rules for mediation of commercial disputes.

Nothing in this Agreement bars either party's right to obtain injunctive relief against threatened conduct that will cause loss or damages, under the usual equity rules, including the applicable rules for obtaining restraining orders and preliminary injunctions. Furthermore, we have the right to commence a civil action against you or take other appropriate action for the following reasons: to collect sums of money due to us; to compel your compliance with trademark standards and requirements to protect the goodwill of the Trademarks; to compel you to compile and submit required reports to us; or to permit evaluations or audits authorized by this Agreement.

The prevailing party in any action or proceeding arising under, out of, in connection with, or in relation to this Agreement will be entitled to recover its reasonable attorneys' fees and costs.

O. During the term of this Agreement, neither we nor you may employ or seek to employ, directly or indirectly, any person who is at the time or was at any time during the prior six months employed in any type of managerial position by the other party or any of its affiliates, or by any franchisee in the System. In the event that you violate this provision, we will have the right to terminate this Agreement without opportunity to cure pursuant to subparagraph 7.B. In addition, any party who violates this provision agrees to compensate the former employer for all costs and expenses incurred in losing and replacing the employee up to a maximum of \$25,000, plus attorneys' fees and expenses. This subparagraph will not be violated if (i) at the time we or you employ or seek to employ the person, the former employer has given its written consent or (ii) we employ or seek to employ the person in connection with the transfer of the Store(s) to us. The parties acknowledge and agree that any franchisee from whom an employee was hired by you in violation of this subparagraph shall be a third-party beneficiary of this provision, but only to the extent that they may seek compensation from you.

P. We will designate the "Effective Date" of this Agreement in the space provided on the Data Sheet. If no Effective Date is designated on the Data Sheet, the Effective Date is the date when we sign this Agreement.

**IN WITNESS WHEREOF**, the parties have executed the foregoing Agreement as of the dates written below.

DEVELOPER:

FRANCHISOR

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

MENCHIE'S GROUP, INC.

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

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

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

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

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

Its: Chief Executive Officer

Witness: \_\_\_\_\_

(Please type or print)

Signature: \_\_\_\_\_

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

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

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

Witness: \_\_\_\_\_

(Please type or print)

Signature: \_\_\_\_\_

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PERSONAL GUARANTY AND AGREEMENT TO BE BOUND  
PERSONALLY BY THE TERMS AND CONDITIONS  
OF THE MULTI UNIT AGREEMENT

In consideration of the execution of the Multi Unit Agreement (the "Agreement") between MENCHIE'S GROUP, INC. ("we" or "us") and \_\_\_\_\_ (the "Developer"), dated \_\_\_\_\_, and for other good and valuable consideration, the undersigned, for themselves, their heirs, successors, and assigns, do jointly, individually and severally hereby become surety and guarantor for the payment of all amounts and the performance of the covenants, terms and conditions in the Agreement, to be paid, kept and performed by the Developer, including without limitation the arbitration and other dispute resolution provisions of the Agreement.

Further, the undersigned, individually and jointly, hereby agree to be personally bound by each and every condition and term contained in the Agreement and agree that this Personal Guaranty will be construed as though the undersigned and each of them executed an agreement containing the identical terms and conditions of the Agreement.

The undersigned waives (1) notice of demand for payment of any indebtedness or nonperformance of any obligations hereby guaranteed; (2) protest and notice of default to any party respecting the indebtedness or nonperformance of any obligations hereby guaranteed; (3) any right he/she may have to require that an action be brought against the Developer or any other person as a condition of liability; and (4) notice of any changes permitted by the terms of the Agreement or agreed to by the Developer.

In addition, the undersigned consents and agrees that: (1) the undersigned's liability will not be contingent or conditioned upon our pursuit of any remedies against the Developer or any other person; (2) such liability will not be diminished, relieved or otherwise affected by the Developer's insolvency, bankruptcy or reorganization, the invalidity, illegality or unenforceability of all or any part of the Agreement, or the amendment or extension of the Agreement with or without notice to the undersigned; and (3) this Personal Guaranty shall apply in all modifications to the Agreement of any nature agreed to by Developer with or without the undersigned receiving notice thereof.

It is further understood and agreed by the undersigned that the provisions, covenants and conditions of this Personal Guaranty will inure to the benefit of our successors and assigns.

DEVELOPER: \_\_\_\_\_

PERSONAL GUARANTORS:

\_\_\_\_\_ Individually

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

\_\_\_\_\_  
Address

\_\_\_\_\_  
City State Zip Code

\_\_\_\_\_  
Telephone

\_\_\_\_\_ Individually

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

\_\_\_\_\_  
Address

\_\_\_\_\_  
City State Zip Code

\_\_\_\_\_  
Telephone

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Individually

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Print Name

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Address

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City

State

Zip Code

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Telephone

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Individually

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Print Name

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Address

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City

State

Zip Code

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Telephone

**APPENDIX A**

**DATA SHEET**

1. **Developer:** \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. **Effective Date:** \_\_\_\_\_

YOU: \_\_\_\_\_

WE: MENCHIE'S GROUP, INC.

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

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

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

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

Its: Chief Executive Officer

**APPENDIX B**

**DEVELOPMENT SCHEDULE**

You acknowledge and agree that a material provision of the Multi Unit Agreement is that the following number of MENCHIE'S Stores must be opened and continuously operating in accordance with the following Development Schedule:

<b>Store Number</b>	<b>Date by Which Franchise Agreement Must be Signed</b>	<b>Date by Which the Store Must be Opened and Continuously Operating for Business</b>	<b>Cumulative number of Stores Required to be Open and Continuously Operating for Business as of the Date in Preceding Column</b>
1	Date of this Agreement		1
2			2

For purposes of determining compliance with the above Development Schedule, only the Stores actually open and continuously operating for business as of a given date will be counted toward the number of Stores required to be open and continuously operating for business.

We will only charge the remaining balance of the Initial Franchise Fee and ongoing fees according to the number of Stores you elect to develop and open. Should you choose to not develop additional Stores, we will not refund or charge you any additional fees for any non-opened MENCHIE'S Stores. We will charge initial and ongoing fees for any MENCHIE'S Store that you open or for which a lease is executed. These additional and ongoing fees will be charged should you elect to open additional MENCHIE'S Stores through executing additional Franchise Agreements according to our franchise policies.

DEVELOPER:  
YOU: \_\_\_\_\_  
Date: \_\_\_\_\_  
By: \_\_\_\_\_

FRANCHISOR  
WE: MENCHIE'S GROUP, INC.  
Date: \_\_\_\_\_  
By: \_\_\_\_\_

Its: Chief Executive Officer

YOU: \_\_\_\_\_  
Date: \_\_\_\_\_  
By: \_\_\_\_\_

**ACKNOWLEDGMENT ADDENDUM TO  
MENCHIE'S® MULTI UNIT AGREEMENT**

As you know, you and we are entering into a Multi Unit Agreement for the development and operation of MENCHIE'S® stores. The purpose of this Acknowledgment Addendum is to determine whether any statements or promises were made to you that we have not authorized or that may be untrue, inaccurate or misleading, and to be certain that you understand the limitations on claims that may be made by you by reason of the offer and sale of the franchise and operation of your business. Please review each of the following questions carefully and provide honest responses to each question.

**Acknowledgments and Representations\***

1. Did you receive a copy of our Disclosure Document (and all exhibits and attachments) at least 14 calendar days prior to signing the Multi Unit Agreement? Check one:  Yes  No. If no, please comment: \_\_\_\_\_  
\_\_\_\_\_
2. Have you studied and reviewed carefully our Disclosure Document and Multi Unit Agreement? Check one:  Yes  No. If no, please comment: \_\_\_\_\_  
\_\_\_\_\_
3. Did you understand all the information contained in both the Disclosure Document and Multi Unit Agreement? Check one:  Yes  No. If no, please comment: \_\_\_\_\_  
\_\_\_\_\_
4. Was any oral, written or visual claim or representation made to you that contradicted the disclosures in the Disclosure Document? Check one:  Yes  No. If yes, please state in detail the oral, written or visual claim or representation: \_\_\_\_\_  
\_\_\_\_\_
5. Except as stated in Item 19, did any employee or other person speaking on behalf of Menchie's Group, Inc. make any oral, written or visual claim, statement, promise or representation to you that stated, suggested, predicted or projected sales, revenues, expenses, earnings, income or profit levels at any MENCHIE'S location or business, or the likelihood of success at your franchised business? Check one:  Yes  No. If yes, please state in detail the oral, written or visual claim or representation: \_\_\_\_\_  
\_\_\_\_\_
6. Did any employee or other person speaking on behalf of Menchie's Group, Inc. make any statement or promise regarding the costs involved in operating a franchise that is not contained in the Disclosure Document or that is contrary to, or different from, the information contained in the Disclosure Document. Check one:  Yes  No. If yes, please comment: \_\_\_\_\_  
\_\_\_\_\_



7. Do you understand that the success or failure of the development and operation of your Stores will depend in large part upon your skills and experience, your business acumen, your location, the local market for products under the MENCHIE'S trademarks, interest rates, the economy, inflation, the number of employees you hire and their compensation, competition and other economic and business factors? Further, do you understand that the economic and business factors that exist at the time you sign your Multi Unit Agreement may change? Check one ( ) Yes ( ) No. If no, please comment:

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

YOU UNDERSTAND THAT YOUR ANSWERS ARE IMPORTANT TO US AND THAT WE WILL RELY ON THEM. BY SIGNING THIS ADDENDUM, YOU ARE REPRESENTING THAT YOU HAVE CONSIDERED EACH QUESTION CAREFULLY AND RESPONDED TRUTHFULLY TO THE ABOVE QUESTIONS. IF MORE SPACE IS NEEDED FOR ANY ANSWER, CONTINUE ON A SEPARATE SHEET AND ATTACH.

**NOTE: IF THE RECIPIENT IS A CORPORATION, PARTNERSHIP, LIMITED LIABILITY COMPANY OR OTHER ENTITY, EACH OF ITS PRINCIPAL OWNERS MUST EXECUTE THIS ACKNOWLEDGMENT.**

Signed: \_\_\_\_\_

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

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

Signed: \_\_\_\_\_

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

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

APPROVED ON BEHALF OF  
MENCHIE'S GROUP, INC.

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

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

Its: Chief Executive Officer \_\_\_\_\_

fb.us.6646212.03

**Exhibit E**

FRANCHISEE SERVICE AGREEMENT

## FRANCHISEE SERVICE AGREEMENT

This SERVICE AGREEMENT (“Agreement”) is entered into by and between **JAVELIN SOLUTIONS, LLC**, a Colorado limited liability company (“Javelin”), with its principal place of business located at 3035 E. Evans Ave. Denver, CO 80210, and **Franchise** with its principal office addresses at **Street, City, State, Zip** (“Franchisee”). This Agreement is effective on the date it is signed by the last signatory. Javelin and the Franchisee are referred to in this Agreement together as the “Parties,” “we,” “our” or “us,” or individually as a “Party.”

### RECITALS

*Whereas*, Franchisee has signed a franchise agreement with FRANCHISOR (“Franchisor”), and seeks to open a Franchise.

*Whereas*, Franchisee desires to retain the services of Javelin in the area of real estate site selection according to the terms and conditions set forth below in order to commence its franchise operation.

*Whereas* Franchisee and Javelin acknowledge that this Agreement does not bind FRANCHISOR, or any parent or affiliate company including any successors or assigns (collectively referred to as FRANCHISOR).

*Whereas* Franchisee and Javelin agree and acknowledge that any changes to this Agreement are by and between the Parties to this Agreement and have not been reviewed, endorsed, acknowledged or otherwise approved by FRANCHISOR.

*Therefore*, in consideration of the Parties’ rights and obligations set below, the Parties agree as follows:

### AGREEMENT

1. **Engagement.** Franchisee agrees to retain Javelin to perform real estate site selection services, as more fully described herein, and Javelin agrees to perform such services subject to the terms and conditions of this Agreement. Javelin shall act as an independent contractor performing services for the Franchisee according to this Agreement. Each site selection that results in a signed lease agreement will be considered one project (“Project”). Javelin and its agents are NOT attorneys nor do they replace the need for attorney representation concerning this transaction.
2. **Term.** The term of the Agreement will be the commercially reasonable time necessary to secure a site location (as evidenced by a signed lease or purchase agreement).
3. **Javelin’s Rights and Duties.** Javelin will provide the services set forth in **Attachment A** (the “Services”) in order to facilitate site selection for Franchisee with respect to each Project for which Javelin’s services are retained. Such services will commence subsequent to Franchisee executing a Franchise agreement with Franchisor.

4. No Guarantee of Success. Franchisee agrees that Javelin's assistance in no way constitutes a representation or warranty with respect to the success or viability of a property or a lease. Franchisee acknowledges that Javelin's recommendation of a site indicates only that Javelin believes that the site falls within acceptable criteria established by Franchisor. This Agreement in no way prevents Franchisee from consulting with legal and accounting professionals and doing its own reasonable due diligence in connection with matters covered by this Service Agreement. After Javelin has completed the Services with respect to a specific site, and a lease agreement has been signed by the Franchisee, Javelin does not assume any continuing responsibility to advise Franchisee on matters affecting issues other than the work it performed unless Javelin specifically agrees in writing to provide additional services.

5. Compensation and Payment. Javelin shall charge the Franchisee the amount of \$\_\_\_\_\_ per site selection (the "Site Selection Fee") to be received in two payments:

(i.) First Payment: 50% of the Site Selection Fee (\$\_\_\_\_\_) shall be due upon signing of the Franchise Services Agreement.

(ii.) Second Payment: The remaining balance of the Site Selection Fee (\$\_\_\_\_\_) will be due within 10 days of lease execution by Franchisee. Should Franchisee fail to remit payment in full within 10 days of lease execution, a 10% late fee will be assessed.

(iii.) Javelin Solutions will also collect a referral fee from the local broker engaged in the project.

6. Limits on Javelin's Liability; Indemnification. Javelin is not liable to Franchisor or Franchisee for any failure by a third party to perform any services under this Agreement. Furthermore, Javelin is not liable for any losses, including deadlines missed, caused by the Franchisor's or Franchisee's delay in approving time-critical milestones including, but not limited to, review of screened properties, response to Letters of Intent and execution of leases. Javelin agrees to indemnify, defend, and hold Franchisor harmless from any and all costs, losses, damages, expenses, or other economic harm caused to Franchisor or Franchisee as the result of Javelin's provision of the Services in accordance with the terms of this Agreement.

7. Insurance. Javelin currently holds and agrees to maintain during the term of this agreement commercial liability insurance and errors and omissions insurance with commercially reasonable levels of coverage.

8. Resolution of Disputes. To the maximum extent permitted by law, each Party has the option to arbitrate any dispute, including whether all or some of the clauses in the agreement shall be resolved through binding arbitration before a single arbitrator mutually agreed upon by the parties or from a list provided to the parties by the American Arbitration Association ("AAA"). The arbitration shall be governed by the Commercial Arbitration Rules of the AAA and shall be heard either via telephonic conference or in person in Denver. Each party shall pay one half of the up-front arbitration fees and costs. Except for actions seeking injunctive relief, if

one Party files a lawsuit against, or naming, the other Party, the named defendant shall have the option to exercise its right to seek resolution via arbitration so long as notice is given to the other party before any answer is due.

9. Attorney's Fees; Experts' Fees; Costs and Arbitration Fees. Notwithstanding anything to the contrary set forth in this Agreement, in any litigation or arbitration of any dispute, in addition to any relief, order or award, the prevailing Party will be awarded reasonable attorney's fees, expert witness fees and costs including reimbursement for any up-front arbitration and litigation costs.

10. Notices. Any notice this Agreement requires must be in writing and will be effective if hand-delivered, sent by certified U.S. mail, return receipt requested, facsimile, electronic mail, or some other recognized courier or overnight delivery service with tracking abilities to the Party entitled to receive the notice at the Party's address first stated above or at such other address as that Party may later give notice to the other Party. Notices shall be provided to the Parties as follows:

To (Franchisee):

NAME  
ADDRESS  
CITY, ST  
PHONE

To Javelin:

Ryan Cunningham  
3981 Nassau Circle West  
Englewood, CO 80113

11. Entire Agreement; Amendment; Enforceability; Interpretation. This Agreement expresses our entire understanding about its subject matter and is the only agreement, promise or understanding on which we are relying in performing the duties this Agreement describes. The only way this Agreement may be amended, changed or waived will be through a written document both Parties sign. This Agreement is enforceable by and against each Party and anyone else who has or who obtains rights under this Agreement from either Party. This Agreement will be interpreted and enforced under Colorado law. No part of this Agreement should be construed against either Party on the basis of authorship. Any unenforceable provision of this Agreement will be modified to the extent necessary to make it enforceable or, if that is not possible, will be severed from this Agreement, and the remainder of this Agreement will be enforced to the fullest extent possible.

12. Counterparts. This Agreement may be executed in several counterparts and all of such counterparts shall constitute one Agreement, binding on all the parties hereto even though all the parties are not signatories to the original or the same counterpart. Facsimile transmission of any

signed original document and the retransmission of any signed facsimile transmission shall be the same as delivery of the original signed document.

IN WITNESS OF OUR AGREEMENTS, Javelin and the Franchisor have executed this FRANCHISOR SERVICES AGREEMENT on the date(s) indicated below.

**JAVELIN SOLUTIONS, LLC:**

**FRANCHISEE:**

By: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

By: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_



The Evolution of Franchise Site Selection.

## Attachment A

- Project Kick Off Call
- Establish Search Parameters
- Establish Weekly Status Call
- Market Survey Review
- Approve RFP's
- Review Site Matrix
- Run Demographic Analysis
- Submit LOI via local broker
- Negotiate Final Business Terms
- Review the Lease
- Assemble & Submit Final Lease Revisions
- Coordinate Construction Transition

## FRANCHISEE SERVICE AGREEMENT

This SERVICE AGREEMENT (“Agreement”) is entered into by and between **Present Value Properties, Inc.**, a California corporation (“PVP”), with its principal place of business located at 150 El Camino Real, Suite 100, Tustin, California, 92780, and \_\_\_\_\_ (“Franchisee”). This Agreement is effective on the date it is signed by the last signatory. PVP and the Franchisee are referred to in this Agreement together as the “Parties,” “we,” “our” or “us,” or individually as a “Party.”

### RECITALS

*Whereas*, Franchisee has signed a franchise agreement with Menchie’s (“Franchisor”), and seeks to open a Franchise.

*Whereas*, Franchisee desires to retain the services of PVP in the area of real estate site selection according to the terms and conditions set forth below in order to commence its franchise operation.

*Whereas* Franchisee and PVP acknowledge that this Agreement does not bind Franchisor, or any parent or affiliate company including any successors or assigns.

*Whereas* Franchisee and PVP agree and acknowledge that any changes to this Agreement are by and between the Parties to this Agreement and have not been reviewed, endorsed, acknowledged or otherwise approved by Franchisor.

*Therefore*, in consideration of the Parties’ rights and obligations set below, the Parties agree as follows:

### AGREEMENT

1. Engagement. Franchisee agrees to retain PVP to perform real estate site selection services, as more fully described herein, and PVP agrees to perform such services subject to the terms and conditions of this Agreement. PVP shall act as an independent contractor performing services for the Franchisee according to this Agreement. Each site selection that results in a signed lease agreement will be considered one project (“Project”). PVP and its agents are NOT attorneys nor do they replace the need for attorney representation concerning this transaction.



2. Term. The term of the Agreement will be the commercially reasonable time necessary to secure a site location (as evidenced by a signed lease or purchase agreement).
3. PVP's Rights and Duties. PVP will provide the services set forth in *Attachment A* (the "Services") in order to facilitate site selection for Franchisee with respect to each Project for which PVP's services are retained. Such services will commence subsequent to Franchisee executing a Franchise agreement with Franchisor.
4. No Guarantee of Success. Franchisee agrees that PVP's assistance in no way constitutes a representation or warranty with respect to the success or viability of a property or a lease. Franchisee acknowledges that PVP's recommendation of a site indicates only that PVP believes that the site falls within acceptable criteria established by Franchisor. This Agreement in no way prevents Franchisee from consulting with legal and accounting professionals and doing its own reasonable due diligence in connection with matters covered by this Service Agreement. After PVP has completed the Services with respect to a specific site, and a lease agreement has been signed by the Franchisee, PVP does not assume any continuing responsibility to advise Franchisee on matters affecting issues other than the work it performed unless PVP specifically agrees in writing to provide additional services.
5. Compensation and Payment. PVP shall charge the Franchisee the amount of One Thousand, Five Hundred, and 00/100 Dollars (\$1,500) per site selection to be received in two payments:
  - (i.) First Payment: Payment in the amount of **\$750** per project for which PVP provides the Services. Payment shall be due upon signing of the Franchise Services Agreement.
  - (ii.) Second Payment: Payment in the amount of **\$750** within 10 days of lease execution by Franchisee. Should Franchisee fail to remit payment in full within 10 days of lease execution, a 10% late fee will be assessed.
  - (iii.) PVP Solutions will also collect a referral fee from the local broker engaged in the project.
6. Limits on PVP's Liability; Indemnification. PVP is not liable to Franchisor or Franchisee for any failure by a third party to perform any services under this Agreement. Furthermore, PVP is not liable for any losses, including deadlines missed, caused by the Franchisor's or Franchisee's delay in approving time-critical milestones including, but not limited to, review of screened properties, response to Letters of Intent and execution of leases. PVP agrees to indemnify, defend, and hold Franchisor harmless from any and all costs, losses, damages, expenses, or other economic harm caused to Franchisor or Franchisee as the result of PVP's provision of the Services in accordance with the terms of this Agreement.

7. Insurance. PVP currently holds and agrees to maintain during the term of this agreement commercial liability insurance and errors and omissions insurance with commercially reasonable levels of coverage.

8. Resolution of Disputes. To the maximum extent permitted by law, each Party has the option to arbitrate any dispute, including whether all or some of the clauses in the agreement shall be resolved through binding arbitration before a single arbitrator mutually agreed upon by the parties or from a list provided to the parties by the American Arbitration Association (“AAA”). The arbitration shall be governed by the Commercial Arbitration Rules of the AAA and shall be heard either via telephonic conference or in person in California. Each party shall pay one half of the up-front arbitration fees and costs. Except for actions seeking injunctive relief, if one Party files a lawsuit against, or naming, the other Party, the named defendant shall have the option to exercise its right to seek resolution via arbitration so long as notice is given to the other party before any answer is due.

9. Attorney’s Fees; Experts’ Fees; Costs and Arbitration Fees. Notwithstanding anything to the contrary set forth in this Agreement, in any litigation or arbitration of any dispute, in addition to any relief, order or award, the prevailing Party will be awarded reasonable attorney’s fees, expert witness fees and costs including reimbursement for any up-front arbitration and litigation costs.

10. Notices. Any notice this Agreement requires must be in writing and will be effective if hand-delivered, sent by certified U.S. mail, return receipt requested, facsimile, electronic mail, or some other recognized courier or overnight delivery service with tracking abilities to the Party entitled to receive the notice at the Party’s address first stated above or at such other address as that Party may later give notice to the other Party. Notices shall be provided to the Parties as follows:

To (Franchisee):

NAME  
ADDRESS  
CITY, ST  
PHONE

To PVP:

Greg Fisher  
President  
Present Value Properties, Inc.  
150 El Camino Real Suite 100  
Tustin, CA 92780

11. Entire Agreement; Amendment; Enforceability; Interpretation. This Agreement expresses our entire understanding about its subject matter and is the only agreement, promise or understanding on which we are relying in performing the duties this Agreement describes. The only way this Agreement may be amended, changed or waived will be through a written document both Parties sign. This Agreement is enforceable by and against each Party and anyone else who has or who obtains rights under this Agreement from either Party. This Agreement will be interpreted and enforced under California law. No part of this Agreement should be construed against either Party on the basis of authorship. Any unenforceable provision of this Agreement will be modified to the extent necessary to make it enforceable or, if that is not possible, will be severed from this Agreement, and the remainder of this Agreement will be enforced to the fullest extent possible.

12. Counterparts. This Agreement may be executed in several counterparts and all of such counterparts shall constitute one Agreement, binding on all the parties hereto even though all the parties are not signatories to the original or the same counterpart. Facsimile transmission of any signed original document and the retransmission of any signed facsimile transmission shall be the same as delivery of the original signed document.

IN WITNESS OF OUR AGREEMENTS, PVP and the Franchisee have executed this FRANCHISEE SERVICE AGREEMENT on the date(s) indicated below.

**Present Value Properties, Inc.:**

\_\_\_\_\_

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

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

Title: \_\_\_\_\_

Title: \_\_\_\_\_

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

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

## **Attachment A**

- **Project Kick Off Call**
- **Establish Search Parameters**
- **Establish Weekly Status Call**
- **Market Survey Review**
- **Approve RFP's**
- **Review Site Matrix**
- **Run Demographics Analysis**
- **Submit LOI**
- **Negotiate Final Business Terms**
- **Coordinate Construction Transition**

## **Exhibit F**

### COMPUTER AND SOFTWARE REQUIREMENTS

#### A. PC Requirements for Server

- a) Minimum
  - Intel Duo Core Processor or equivalent
  - 1GB RAM
  - 50GB Hard Drive
- b) Recommended
  - Intel Duo Core Processor or equivalent
  - 2 GB RAM
  - 100GB Hard Drive

#### B. Other Requirements

- 1 HP LaserJet 1022 or comparable printer
- 2—4GB flash drives for backups.
- DVD on server and clients for catalog data updates.
- Video resolution capable of 600 X 800
- Full time internet connection via DSL or Cable

#### C. Operating System Requirements

- Windows® XP Professional

#### D. Optional Multi-User Hardware

- Linksys Cable/ DSL router (4 port)
- 2 CAT 5E network cables

**Exhibit G**

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**Exhibit H**

STATE ADDENDA

## CALIFORNIA ADDENDUM

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.

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.

- A. 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.).
- B. 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.
- C. The franchise agreement contains a liquidated damages clause. Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable.
- D. The franchise agreement requires binding arbitration. The arbitration will occur at Los Angeles County, California with the costs being borne by the non prevailing party.
- E. The franchise agreement requires application of the laws of California law.

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.

- a) **Section 31125 of the Franchise Investment Law requires us to give to you a disclosure document approved by the Commissioner of Corporations before we ask you to consider a material modification of your franchise agreement.**
- b) **You must sign a general release of claims if you renew or transfer your franchise. California Corporations Code Section 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code Sections 31000 Through 31516). Business and Professions Code Section 20010 Voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code Sections 20000 through 20043).**



## HAWAII ADDENDUM

**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 MENCHIE'S, 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 MENCHIE'S, WHICHEVER OCCURS FIRST, A COPY OF THE FRANCHISE DISCLOSURE DOCUMENT, TOGETHER WITH A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE.**

**THIS FRANCHISE 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 FRANCHISEE.**

## MARYLAND ADDENDUM

**Item 1, Additional Disclosures.** The following statements are added to Item 1:

The general release required as a condition of renewal shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.

**Item 17, Additional Disclosures.** The following statements are added to Item 17:

The general release required as a condition of renewal shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.

The “Summary” column of Item 17(H) of the Disclosure Document, pertaining to “Cause defined – defaults that cannot be cured” is supplemented to state that any provision in the Franchise Agreement which terminates the franchise upon the bankruptcy of the Franchisee may not be enforceable under federal bankruptcy law.

Franchisee may sue in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law, provided that the Franchise Agreement may provide for arbitration in a forum outside of Maryland.

Section 14-227(e) of the Maryland Franchise Registration and Disclosure Law requires that any claims arising under that Law be brought within 3 years after the grant of the franchise.

**Item 22, Additional Disclosures.** The following statements are added to Item 22:

Item 22 of the Disclosure Document is supplemented to state that the form of general release referred to in Items 17.c. and 17.m is attached to this Disclosure Document pursuant to Maryland Franchise Registration and Disclosure Law.

**ADDENDUM TO THE FRANCHISE AGREEMENT  
REQUIRED FOR MARYLAND FRANCHISEES**

This Addendum to Franchise Agreement (“Franchise Agreement”) dated \_\_\_\_\_ between Menchie’s Group, Inc. (“Franchisor”) and \_\_\_\_\_ (“Franchisee”) is entered into simultaneously with the execution of the Franchise Agreement.

1. The provisions of this Addendum form an integral part of, and are incorporated into the Franchise Agreement. This Addendum is being executed because: (a) the offer or sale of the franchise to Franchisee was made in the State of Maryland; (b) Franchisee is a resident of the State of Maryland; and/or (c) the Franchised Business will be located or operated in the State of Maryland.
  
2. The following sentence is added to the end of Section 1:  
  
Representations in the Franchise Agreement 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.
  
3. The following sentence is added to the end of Sections 4.B and 11.D:  
  
The general release required as a condition of renewal or transfer shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.
  
4. The following sentence is added to the end of Section 15.I:  
  
Franchisee may sue in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law, provided that the Franchise Agreement may provide for arbitration in a forum outside of Maryland.
  
5. Any capitalized terms that are not defined in this Addendum shall have the meaning given them in the Franchise Agreement.
  
6. Except as expressly modified by this Addendum, the Franchise Agreement remains unmodified and in full force and effect.

**FRANCHISOR:**

**Menchie’s Group, Inc.**

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

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

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

**FRANCHISEE:**

\_\_\_\_\_

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

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

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

## MINNESOTA ADDENDUM

**Item 13, Additional Disclosure:** The following statement is added to Item 13:

We will protect your right to use the Marks or indemnify you from any loss, costs or expenses arising out of any claim, suit or demand regarding the use of the name to the extent required by Minn. Stat. Sec. 80C.12, Subd.1(g).

**Notice of Termination.** The following statement is added to Item 17:

With respect to franchises governed by Minnesota law, Franchisor will comply with Minnesota Statute § 80C.14, subdivisions 3, 4, and 5 which requires, except in certain specified cases, that you be given 90 days notice of termination (with 60 days to cure) and 180 days notice for non-renewal of the Franchise Agreement.

**Governing Law, Jurisdiction and Venue and Choice of Forum.** The following statement is added to the cover page and Item 17:

Minnesota Statutes, Section 80C.21 and Minnesota Rule 2860.4400J 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 any of franchisee's rights as provided for in Minnesota Statutes, Chapter 80C, or franchisee's rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.

**General Release.** The following statement is added to Item 17:

Minnesota Rule 2860.4400D prohibits us from requiring you to assent to a release, assignment, novation, or waiver that would relieve any person from liability imposed by Minnesota Statute §§80C.01 – 80C.22.

**ADDENDUM TO THE FRANCHISE AGREEMENT  
REQUIRED FOR MINNESOTA FRANCHISEES**

This Addendum to the Franchise Agreement (“Franchise Agreement”) dated \_\_\_\_\_ between Menchie’s Group, Inc. (“Franchisor”) and \_\_\_\_\_ (“Franchisee”) is entered into simultaneously with the execution of the Franchise Agreement.

1. The provisions of this Addendum form an integral part of, and are incorporated into the Franchise Agreement. This addendum is being executed because: (a) the offer or sale of the franchise to Franchisee was made in the State of Minnesota; (b) Franchisee is a resident of the State of Minnesota; and/or (c) the Franchised Business will be located or operated in the State of Minnesota.
  
2. The following sentence is added to the end of Section 13.B:  
  
With respect to franchises governed by Minnesota law, Franchisor will comply with Minnesota Statute § 80C.14, subdivision 3, 4, and 5 which requires, except in certain cases, that Franchisee be given 90 days notice of termination (with 60 days to cure) and 180 days notice for nonrenewal of the Franchise Agreement.
  
3. The following sentence is added to the end of Sections 4.B and 11.D:  
  
Notwithstanding the foregoing, Franchisee will not be required to assent to a release, assignment, novation, or waiver that would relieve any person from liability imposed by Minnesota Statute §§ 80C.01 – 80C.22.
  
4. Section 12.C is deleted and replaced with the following:  
  
Franchisor shall be entitled to the entry of temporary and permanent injunctions and orders of specific performance enforcing the provisions of this Agreement relating to: (1) Franchisee’s use of the Trademarks; (2) the construction and equipping of the Franchised Business; (3) the obligations of Franchisee upon termination or expiration of this Agreement; (4) a Transfer of this Agreement, any ownership interest therein or in the lease for the Franchised Business; and (5) as necessary to prohibit any act or omission by Franchisee or its employees that would constitute a violation of any applicable law, ordinance, or regulation, or which is dishonest or misleading to Franchisor and/or Franchisor’s other licensees.
  
5. The following sentences are added to the end of Sections 12.B and 15.I:  
  
Minnesota Statute § 80C.21 and Minnesota Rule 2860.4400J prohibit Franchisor from requiring arbitration or litigation to be conducted outside Minnesota. In addition, nothing in the Disclosure Document or the Franchise Agreement can abrogate or reduce any of Licensee’s rights as provided for in Minnesota Statutes, Chapter 80C, or Franchisee’s rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.
  
6. Any capitalized terms that are not defined in this Addendum shall have the meaning given them in the Franchise Agreement.

7. Except as expressly modified by this Addendum, the Franchise Agreement remains unmodified and in full force and effect.

**FRANCHISOR:**

**Menchie's Group, Inc.**

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

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

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

**FRANCHISEE:**

\_\_\_\_\_

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

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

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

## **NORTH DAKOTA ADDENDUM**

**Item 17, Additional Disclosures.** The following statements are added to Item 17:

Pursuant to the North Dakota Franchise Investment Law, any provision requiring franchisees to consent to the jurisdiction of courts outside North Dakota or to consent to the application of laws of a state other than North Dakota is void. Any mediation or arbitration will be held at a site agreeable to all parties. The laws of the State of North Dakota will govern any dispute.

Any general release the franchisee is required to assent to is not intended to nor shall it act as a release, estoppel or waiver of any liability Menchie's Group, Inc. may have incurred under the North Dakota Franchise Investment Law.

Covenants not to compete upon termination or expiration of the franchise agreement are generally not enforceable in the State of North Dakota, except in certain instances as provided by law.

The Franchise Agreement includes a waiver of exemplary and punitive damages. That requirement will not apply to North Dakota franchisees and is deemed deleted in each place it appears in the Disclosure Document and Franchise Agreement.

The Franchise Agreement stipulates that the franchisee shall pay all costs and expenses incurred by Menchie's Group, Inc. in enforcing the agreement. For North Dakota franchisees, the prevailing party is entitled to recover all costs and expenses, including attorneys' fees.

The Franchise Agreement requires the franchisee to consent to a waiver of trial by jury. That requirement will not apply to North Dakota franchisees and is deemed deleted in each place it appears in the Disclosure Document and Franchise Agreement.

The Franchise Disclosure Document, Franchise Agreement and Area Development Agreement state that franchisee must consent to the jurisdiction of courts in the state of California. That requirement will not apply to North Dakota franchisees and is deemed deleted in each place it appears in the Disclosure Document, Franchise Agreement and Area Development Agreement.

The Franchise Disclosure Document and Franchise Agreement may require franchisees to consent to termination or liquidated damages. The Commissioner has determined this to be unfair, unjust and inequitable within the intent of the North Dakota Franchise Investment Law. This requirement will not apply to North Dakota franchisees and is deemed deleted in each place it appears in the Disclosure Document and Franchise Agreement.

The Franchise Agreement requires the franchisee to consent to a limitation of claims within one year. That requirement will not apply to North Dakota franchisees and, instead the statute of limitations under North Dakota law will apply.

**ADDENDUM TO THE FRANCHISE AGREEMENT  
REQUIRED FOR NORTH DAKOTA FRANCHISEES**

This Addendum to the Franchise Agreement (“Franchise Agreement”) dated \_\_\_\_\_ between Menchie’s Group, Inc. (“Franchisor”) and \_\_\_\_\_ (“Franchisee”) is entered into simultaneously with the execution of the Franchise Agreement.

1. The provisions of this Addendum form an integral part of, and are incorporated into the Franchise Agreement. This Addendum is being executed because: (a) the offer or sale of the franchise to Franchisee was made in the State of North Dakota; (b) Franchisee is a resident of the State of North Dakota; and/or (c) the Franchised Business will be located or operated in the State of North Dakota.
2. Any release executed in connection herewith shall not apply to any claims that may arise under the North Dakota Franchise Investment Law.
3. Covenants not to compete are generally considered unenforceable in the State of North Dakota.
4. The choice of law other than the State of North Dakota may not be enforceable under the North Dakota Franchise Investment Law. The laws of the State of North Dakota will govern any dispute.
5. The waiver of punitive or exemplary damages may not be enforceable under the North Dakota Franchise Investment Law. This requirement will not apply to North Dakota franchisees and is deemed deleted in each place it appears in the Franchise Agreement.
6. The waiver of trial by jury may not be enforceable under the North Dakota Franchise Investment Law. This requirement will not apply to North Dakota franchisees and is deemed deleted in each place it appears in the Franchise Agreement.
7. The requirement that mediation or arbitration be held in California may not be enforceable under the North Dakota Franchise Investment Law. Any mediation or arbitration will be held at a site agreeable to all parties.
8. The requirement that a franchisee consent to termination or liquidated damages has been determined by the Commissioner to be unfair, unjust and inequitable within the intent of the North Dakota Franchise Investment Law. This requirement will not apply to North Dakota franchisees and is deemed deleted in each place it appears in the Franchise Agreement.
9. The Franchise Agreement states that franchisee must consent to the jurisdiction of courts in the state of California. That requirement will not apply to North Dakota franchisees and is deemed deleted in each place it appears in the Franchise Agreement.



10. The Franchise Agreement requires the franchisee to consent to a limitation of claims within one year. That requirement will not apply to North Dakota franchisees and, instead, the statute of limitations under North Dakota law will apply.
11. The Franchise Agreement stipulates that the franchisee shall pay all costs and expenses incurred by Menchie's Group, Inc. in enforcing the agreement. For North Dakota franchisees, the prevailing party is entitled to recover all costs and expenses, including attorneys' fees.

**FRANCHISOR:**

**Menchie's Group, Inc.**

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

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

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

**FRANCHISEE:**

\_\_\_\_\_

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

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

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

**ADDENDUM TO THE AREA DEVELOPMENT AGREEMENT  
REQUIRED FOR NORTH DAKOTA DEVELOPERS**

Notwithstanding anything to the contrary in the Area Development Agreement to which this Addendum is attached, the following terms and conditions shall control:

1. The Area Development Agreement states that Developer must consent to the jurisdiction of courts in the state of California. That requirement will not apply to North Dakota Developers and is deemed deleted in each place it appears in the Area Development Agreement.
  
2. The choice of law other than the State of North Dakota may not be enforceable under the North Dakota Franchise Investment Law. The laws of the State of North Dakota will govern any dispute.

MENCHIE’S GROUP, INC.

AREA DEVELOPER: \_\_\_\_\_

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

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

Title:\_\_\_\_\_

Title:\_\_\_\_\_

## **RHODE ISLAND ADDENDUM**

### **Item 17, Additional Disclosure. The following statement is added to Item 17:**

Section 19-28.1-14 of the Rhode Island Franchise Investment Act provides that: “A provision in a franchise agreement restricting jurisdiction or venue to a forum outside this state or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under this Act.”

**ADDENDUM TO THE FRANCHISE AGREEMENT  
REQUIRED FOR RHODE ISLAND FRANCHISEES**

This Addendum to the Franchise Agreement (“Franchise Agreement”) dated \_\_\_\_\_ between Menchie’s Group, Inc. (“Franchisor”) and \_\_\_\_\_ (“Franchisee”) is entered into simultaneously with the execution of the Franchise Agreement.

1. The provisions of this Addendum form an integral part of, and are incorporated into the Franchise Agreement. This Addendum is being executed because: (a) the offer or sale of the franchise to Franchisee was made in the State of Rhode Island; (b) Franchisee is a resident of the State of Rhode Island; and/or (c) the Franchised Business will be located or operated in the State of Rhode Island.
2. The following sentence is added to the end of Sections 15.I:  
  
Section 19-28.1-14 of the Rhode Island Franchise Investment Act provides that: “A provision in a franchise agreement restricting jurisdiction or venue to a forum outside this state or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under this Act.”
3. Any capitalized terms that are not defined in this Addendum shall have the meaning given them in the Franchise Agreement.
4. Except as expressly modified by this Addendum, the Franchise Agreement remains unmodified and in full force and effect.

**FRANCHISOR:**

**Menchie’s Group, Inc.**

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

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

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

**FRANCHISEE:**

\_\_\_\_\_

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

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

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

**ADDITIONAL DISCLOSURE DOCUMENT DISCLOSURES  
REQUIRED BY THE STATE OF VIRGINIA**

**Item 17, Additional Disclosure.** In recognition of the restrictions contained in Section 13.1-564 of the Virginia Retail Franchising Act, the Franchise Disclosure Document for Franchisor for use in the Commonwealth of Virginia shall be amended as follows:

“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 ground for default or termination stated in the franchise agreement does not constitute “reasonable cause,” as that term may be defined in the Virginia Retail Franchising Act or the laws of Virginia, that provision may not be enforceable.”

**Exhibit I**

**GENERAL RELEASE**

**BE IT KNOWN,** that \_\_\_\_\_ and \_\_\_\_\_, (hereafter referred to as the "Releaser(s)"), for and in consideration of the sum of Ten Dollars (US) (\$10.00), or other valuable consideration received from or on behalf of Menchie's Group, Inc. (hereafter referred to as the ("Releasee")), the receipt of which is hereby acknowledged, do(es)hereby remise, release, acquit, satisfy, and forever discharge the said Releasee, its administrators, successors and assigns, of and from all manner of action(s),cause(s) of action, suits, debts, sums of money, accounts, reckonings, bonds, bills, specialties, covenants, contracts, controversies, agreements, promises, variances, trespasses, damages, judgments, executions, claims and demands whatsoever, in law or in equity, which said Releaser(s) ever had, now has, or which any personal representative, successor, heir or assignor said Releaser(s), hereafter can, shall or may have, against said Releasee by reason of any matter, cause or thing whatsoever, arising out of the Franchise Agreement and Relationship entered into between the parties on the \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_ to the date of this instrument.

**IN WITNESS WHEREOF,** the said Releaser(s) has hereunto set his/her hand and seal this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

\_\_\_\_\_  
Releaser

\_\_\_\_\_  
Releaser

State of \_\_\_\_\_ )  
  ) ss.  
County of \_\_\_\_\_ )

The foregoing instrument was acknowledged by me this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_ by \_\_\_\_\_ and \_\_\_\_\_, who is/are personally known by me.

(SEAL) \_\_\_\_\_

Notary Public State of \_\_\_\_\_  
My Commission Expires: \_\_\_\_\_

## Exhibit J

### LIST OF FRANCHISEES AND SUBFRANCHISEES IN THE SYSTEM

State	Franchisee	Contact Person	Address	Phone No.
AL	Roberto Rodriguez	Roberto Rodriguez	Metairie, LA	504.231.6923
AZ	RAA Group LLC	Rod Ghani	15147 N. Scottsdale Road, Suite H1-100, Scottsdale, AZ 85254	480.323.8861
AZ	Origin Food Services LLC	Brian D. and Brian T. Robertson	4905 East Ray Road, Suite #106, Phoenix, AZ 85044	480.598.2955
CA	Merdad Sanjideh& Shardad Sanjideh	Merdad Sanjideh& Shardad Sanjideh	180 Promenade Way #G, Westlake Village, CA 91362	805.777.7000
CA	Grove Inc.	Susan Gralnick	7360 Shelborne Drive, Granite Bay, CA 95746	916.789.8514
CA	Alan Rutstein	Alan Rutstein	Carlsbad, California	760.510.9191
CA	Alan Rutstein	Alan Rutstein	Carlsbad, California	760.510.9191
CA	First Management Inc	Ben Kohan	9609 Santa Monica Blvd., Beverly Hills, CA 90210	310.860.1606
CA	Happiness, Inc.	Brandy and Theron Derrick	3800 Verdugo Ave. Burbank, CA 91505	818.859.7801
CA	David Lipper	David Lipper	3209 Tareco Drive LA, CA. 90068	213.446.1366
CA	Diego and Marla Halac	Diego and Marla Halac	13369 Ventura Blvd. Sherman Oaks, CA 91423	818.788.9900
CA	Edward Gartner (Ted)	Edward Gartner (Ted)	Valley Village, California	818.762.0000
CA	Mix A Lot LLC	Eric Gueffen/Gil Martinez	1201 Truman St., Ste F, San Fernando, CA 91340	818.365.6599
CA	Ernesto Pinero / Peder	Ernesto / Peder	Van Nuys, California	818.786.1559
CA	EGK Inc.	Esti Klaiman	9201 Winnetka Ave Chatsworth, CA 91311	818.717.8128
CA	Gabriel Dosdos	Gabriel Dosdos	San Jose, CA	408.768.4461
CA	Pints of Fun, INC.	Hooman Lahooti	Los Angeles, CA	805.557.0700
CA	John Spishak's Premier Marketing	John and Lisa Spishak	26865 Sierra Hwy. Newhall, CA 91321	661.250.0500
CA	John Daron	John Daron	La Canada, CA	323.855.2028
CA	LFAB Enterprises	Larry Block/Fariba Dadko	2515 Artesia Blvd. Unit E Redondo Beach, CA 90278	310.370.4888
CA	LFAB Enterprises	Larry Block/Fariba Dadko	732 Montana Ave., Santa Monica, CA 90403	310.393.4242
CA	Larwrence Martin (Lars)	Larwrence Martin (Lars)	Sherman oaks, California	626.799.2132
CA	Frozen Yogurt of Calabasas	Marsha Haina	4776 Commons Way Suite D Calabasas, CA 91302	818.222.1158
CA	Frozen Yogurt of Woodland Hills, LLC	Marsha Haina	20968 Ventura Blvd. Woodland Hills, CA 91364	818.887.1777
CA	Mila Sutton	Mila Sutton	Encino, California	818.990.1500
CA	Nikita & Lamar Houston	Nikita & Lamar Houston	336 W. 62nd Street, Los Angeles, CA 90003	323.778.1624
CA	Paul & Parvin Lewis	Paul & Parvin Lewis	9430 Culver Blvd. #102, Culver City, CA 90232	310.699.4469
CA	Philip Klaparda	Philip Klaparda	17840 Chatsworth St., Granada Hills, CA 91344	818.368.7700
CA	Richard Stefanec & Hunter Handley	Richard Stefanec & Hunter Handley	2533 Pacific Coast Hwy Torrance, CA 90505	310.376.4591
CA	Desert Techs, LLC	Robert Lillard	San Ramon, California	925.447.3300
CA	Vasken Jeknavorian	Vasken Jeknavorian	Valley Village, California	818.645.4399
CA	Yanitz Rubin	Yanitz Rubin	2700 Cahuenga E #2310 Los Angeles, CA 90068	(818) 679-3870

CO	Cake Batter, LLC	Mitch Godfrey	1150 S Ironton St, Aurora, CO 80012	801.628.8099
CO	Rich & Cyndi Hause	Rich & Cyndi Hause	7673 S. Allison Ct., Littleton CO 80128	303.434.0741
CO	Robyn Regan	Robyn Regan	8302 Northfield Blvd Ste 1560 Denver, CO 80238	303.375.1101
CO	Robyn Regan	Robyn Regan	535 W South Boulder Rd, Suite #270, Lafayette, CO 80026	303.887.0901
CO	Scott & Julie Palmer	Scott & Julie Palmer	1569 Fall River Drive Ste. 153 Loveland CO 80538	303.489.3653
FL	Gelado Company LLC	Ricardo De Azevedo	5800 Blue Lagood Dr. Ste 200 Miami, FL 33126	305.972.8966
FL	Alberto & Jose Mendez	Alberto & Jose Mendez	Homestead, Florida	407.923.4900
FL	Estaban Merlo	Christian Gabela	7050 West Palmetto Park Boca Raton FL 33433	954.629.1656
FL	Cheerful Heart FroYo	Donald E. and Laura Williams	3005 Lake Mary Blvd., Unit 113, Lake Mary FL 32746	407.314.5414
FL	Florida Froyo, Inc.	Heissam Jebailey & Brian Linden	1939 Aloma Ave Winter Park, FL 32792	407 622 6551
FL	Florida Froyo, Inc.	Heissam Jebailey & Brian Linden	1939 Aloma Ave Winter Park, FL 32792	407 622 6551
FL	Joseph & Stephanie Savas	Joseph & Stephanie Savas	406 E. Central Blvd. Orlando, FL 32801	407.620.2148
FL	Lisa & Steven Reeve	Lisa & Steven Reeve	13221 SW 39 St., Davie, FL 33330	954.309.1329
FL	Defying Grafity Enterprises	Lori & Gary Hudson	931 N. State Road 434, Altamonte Springs FL 32714	407.756.0586
FL	Pollack Associates, LLC	Paul and Cherie Pollack	6345 Naples Blvd. Suite #B-4 Naples, FL 34109	239.233.3285
FL	Pollack Associates, LLC	Paul and Cherie Pollack	6345 Naples Blvd. Suite #B-4 Naples, FL 34109	239.233.3285
FL	FroYo of Orlando, Inc	Rod Harter	Fort Collins, Colorado	407.601.7792
FL	Fro Yo of Orlando Inc.	Rod Harter	2617 W. Ocoola Parkway, #B-37 Kissimmee, FL 34741	407-201-8948
FL	Yum Productions LLC	Todd Melnik	20920-B Warner Center Lane Woodland Hills, CA 91367	954.499.4044
FL	Barrie Ellen Sugarman-Coven	Barrie Ellen Sugarman-Coven	2648 NE 26th Avenue Fort Lauderdale, FL 33306	954.551.4079
FL	Renee Suarez	Rene Suarez & Juan Manuel Lopez	Coral Walk - 1830 Pine Island Rd., NE, Unit 140, Cape Coral, FL 33909	954-802-4468
FL	Ricardo Aguirre Jr. & Ricardo Aguirre Sr.	Ricardo Aguirre Jr. & Ricardo Aguirre Sr.	Weston Lakes, Florida	(954) 478-9219
FL	Chris Hess	Chris Hess	Aventura, Florida	(305) 682-1967
FL	Shan Mehta	Shan Mehta	Colonial Town Park , Florida	(407) 288-0493
FL	Stepahno Barbosa	Stepahno Barbosa	Kendall Market Sq., Florida	305-205-9742
FL	Stepahno Barbosa	Stepahno Barbosa	Sunset Drive - 5744 Sunset Dr. S. Miami, FL 33146	305-205-9742
FL	Stepahno Barbosa	Stepahno Barbosa	Coconut Grove - 3433 Main Hwy Miami, FL 33133	305-205-9742
FL	Al Varani	Al Varani	Florida	(954) 812-8323
FL	Melissa Kushner	Melissa Kushner	Five Points, Floroida	(954) 473-0332
FL	Mohammad Karim & Nawaz Khan	Mohammad Karim & Nawaz Khan	Shops of Doral, Florida	(305) 505-4726
FL	Mohammad Karim & Nawaz Khan	Mohammad Karim & Nawaz Khan	Vista Center - 18451 NW 67th Avenue, Hialeah, FL 33015	(305) 505-4726
FL	Mohammad Karim & Nawaz Khan	Mohammad Karim & Nawaz Khan	Coral Landings II - 6290 Sample Rd. Space 101 Coral Springs, FL 33067	(305) 505-4726
FL	Christophe Chene	Christophe Chene	6209 SE Riverside Dr Vancouver, WA 98661	(360) 608-0069
FL	Oscar Lanza	Oscar Lanza	Hollywood at Young Circle - 1866 N Young Circle Ste 7 Hollywood, FL 33020	954.260.1818
FL	Yugo He	Yugo He	3029 SW 142 Ave. Mirimar, FL 33027	(954) 881-8218



FL	Rick & Debbie Dodson	Rick & Debbie Dodson	Cobblestone Plaza - 14814 Pines Blvd, Pembroke Pines, FL 33027	(954) 587-3877
FL	Charles Ladowski & Mark Sabbota	Charles Ladowski & Mark Sabbota	Wellington - 10620 Forest Hill Blvd. B3, Wellington, FL 33414	(303) 489-3653
FL	Charles Ladowski & Mark Sabbota	Charles Ladowski & Mark Sabbota	Wellington - 10620 Forest Hill Blvd. B3, Wellington, FL 33414	(303) 489-3653
FL	Jimmy Robaina	Jimmy Robaina	Cypress Village Center - 7309 Miami Lakes Dr, Miami Lakes, FL 33014	305.978.0150
FL	Bob & Valerie Wilson	Bob & Valerie Wilson	Winthrop Town Center - 6046 Winthrop Town Centre Ave. Riverview, FL 33578	813.431.2745
GA	William Keenely	William Keenely	2300 Holcomb Bridge Rd. Ste 404 Roswell, GA 30076	678.491.9522
GA	Carlos & Lynda Urrea	Carlos & Lynda Urrea	12850 Alpharetta Highway Suite #700 Alpharetta, GA 30004	404.805.6500
GA	HN Enterprises, Inc	Hunter Mays	615 Woodlake Drive Louisville, Kentucky 40245	770.992.7992
GA	Shuler Yogurt Company LLC	Steve Shuler	3350 Riverwood Parkway, Suite 220 Atlanta GA 30339	678.691.0742
GA	Shuler Yogurt Company LLC	Steve Shuler	3350 Riverwood Parkway, Suite 220 Atlanta GA 30339	678.691.0742
GA	Shuler Yogurt Company LLC	Steve Shuler	3350 Riverwood Parkway, Suite 220 Atlanta GA 30339	678.691.0742
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GA	Shuler Yogurt Company LLC	Steve Shuler	3350 Riverwood Parkway, Suite 220 Atlanta GA 30339	678.691.0742
GA	Richard & Beth Steele	Richard & Beth Steele	Georgetown Square, Georgia	(404) 427-2699
HI	Randy Hiraki	Randy Hiraki	1050 Ala Moana Blvd. Honolulu, HI 96814	808.592.9292
HI	Randy Hiraki	Randy Hiraki	4450 Kapolei Parkway Ste. 104 Kapolei, HI 96707	808.674.1320
HI	Randy Hiraki	Randy Hiraki	95-1249 Meheula Parkway #E-3 Mililani, HI 96789	808.623.7799
HI	Rowena Yago	Rowena Yago	Waipahu, HI	808.306.4163
IL	Judy Wolk	JJ Yogurt, LLC	2521 Maple Ave. Northbrook, IL 60062	847.276.0116
KY	Bluegrass Fro Yo LLC	Pat and Debbie Brookins	3801 Mall Road #135 Lexington KY 40503	859.245.2445
KY	Hogcats, LLC	Misha & Darin Roberts	12949 Shelbyville Road, Suite 101 Louisville, KY 40243	417.234.3242
LA	Savory Concepts, LLC	Jennifer Burtchfield	6401 Bluebonnet Blvd. #500 Baton Rouge, LA 70836	225.763.6244
LA	Savory Concepts, LLC	Jennifer Burtchfield	3260 Highland Rd. Suite #8 Baton Rouge, LA 70836	985.898.6362
LA	Savory Concepts, LLC	Jennifer Burtchfield	104 Lake Drive - Suite 1, Mall of Louisiana, LA 70433	985.898.6362
LA	TEE Hood, LLC	Travis Hood	140 Veterans Blvd. Denham Springs, LA 70726	985.542.4514
MN	Mace McNutt	Mace McNutt	227 2nd Street NW, Faribault, MN 55021	507.334.0634
MS	Wanchai and Wynn Suebhongsang	Wanchai and Wynn Suebhongsang	733 Lake Harbour Drive, Suite H, Ridgeland, MS 39157	601.982.2863
NC	Tara Hubara	Tara Hubara	Charleston, South Carolina	843.452.7835
NC	Thai Doan	Thai Doan	5308 Lyon Farm Drive, Durham, NC 27713	919.539.3309
NM	Angela K. Blakely	Angela K. Blakely	6500 Holly Avenue NE, Suite #A1, Albuquerque, NM, 87113	505.401.3606
NV	Hidden Hills Enterprises, Inc.	Kamran & Felicia Abdo	10120 W. Flamingo Rd 4-12, Las Vegas ND 89147	(702) 649-4887
NV	C2S5 + Associates LLC	Sheila Sumida	46-298 Kalali Street Kaneohe, HI 96744	702.834.8200

NY	Ray & Charlie	Ray & Charlie	Syosset, New York	(201) 317-4308
OH	Yogurt Treats, LLC	Ezra Stark	28699 Chagrin Boulevard, Suite 150, Woodmere, OH 44122	(216) 292-0231
OH	The Dry Stone LLC	Sandra Lees	7545 Sawmill Rd., Dublin, OH 43016	614.339.5656
OH	The Dry Stone LLC	Sandra Lees	7545 Sawmill Rd., Dublin, OH 43016	614.339.5656
OK	Frozen Yogurt of Tulsa	Brett Swearingen and Lori Malone	5355 E. 41st St., Tulsa OK 74135	918.576.6655
OK	Scott Charles & Mark Jeter	Scott Charles & Mark Jeter	7529 NW 126th Oklahoma City, OK 73142	405.708.8898
PA	Anne & Donald Avellino	Donald & Cynthia Avellino	1300 Liberty Place Westchester, PA 19382	610.453.4403
SC	Tower Capital Group of Mt. Pleasant LLC	Phillip K Haynie	644 H-2 Long Point Rd., Mt. Pleasant, SC 29464	843.654.9040
TN	PSB Ventures LLC	Alan Sims	11162 Parkside Dr. Knoxville, TN 37334	865.671.2910
TN	PSB Ventures LLC	Alan Sims	6900 Lenox Village Dr. Suite #6, Nashville, Tennessee	615-730-7855
TN	PSB Ventures LLC	Alan Sims	234 Brookview Center Way, Suite #103, Knoxville, Tennessee	615-730-7855
TN	Barry Goodman and Ron Christian	Barry Goodman and Ron Christian	440 Sam Ridley Parkway Smyrna, TN 37167	615.300.6350
TN	Jill Green & Robert Bearden	Jill Green & Robert Bearden	1063 Restoration Drive Chattanooga, TN 37421	423.618.5870
TX	Andrew Martin	Andrew Martin	10880 Louetta Road Ste. B, Houston TX 77070	832.717.4500
TX	Danny Vaswani	Danny Vaswani	655 Sunland Park Drive Ste #L6 El Paso TX 79912	954.478.4653
TX	Melodee Yee	Melodee Yee	4925 San Feliciano Dr Woodland Hills, CA 91364	310.387.7493
TX	Savory Concepts, LLC	Jennifer Burtchfield	4001 N. Lamar Blvd. Suite 550 Austin, TX 78756	512-452-9866
TX	Savory Concepts, LLC	Jennifer Burtchfield	1620 South University Drive, Suite A200 Fort Worth, Texas 76107	817.332.9866
UT	Dan & Susan Delahunty	Dan & Susan Delahunty	765 West Antelope Drive, Ste. A, Layton UT, 84041	801.416.8280
UT	Jerry & Jana Farr	Jerry & Jana Farr	691 East St. George Blvd., Suite #2, St. George, UT 84770	435.628.6464
UT	Matt and Shawna Willits	Matt and Shawna Willits	Salt Lake City, UT	801.727.2605
UT	Robert Scofield	Robert Scofield	153 N. State Street, Orem, UT 84057	801.400.3784
VA	Carry & Donna Broome	Carry & Donna Broome	5410 Hunt Camp Rd. Roanoke, VA 24108	540.814.7181
VA	Joshua & Jessica Miller	Joshua & Jessica Miller	2201 Upton Drive #904, Virginia Beach VA 23456	757.427.7050
WA	Fro Yo Ventures LLC	Chad Ericson	1154 Stocks Ave Rexburg ID 83440	253.835.2110
WA	Fro Yo Ventures LLC	Chad Ericson	1154 Stocks Ave Rexburg ID 83440	253.835.2110
WA	Fro Yo Ventures LLC	Chad Ericson	1154 Stocks Ave Rexburg ID 83440	253.835.2110
WA	Mork Companies Inc.	Ken & Brenda Mork	Vancouver, Washington	360.597.4055
WA	Julei Ogata	Julei Ogata	Uni Village 4609 NE University Village St., Space C-62, Seattle, WA 98105	(206) 949-8866
WA	Guy & Leslie Castanha	Guy & Leslie Castanha	West Seattle, Washington	206.499.6611
WA	Michael Dong	Michael Dong	Washington	(970) 403-3149
WA	Hiten Chang	Hiten Chang	Tacoma, Washington	253.740.2004
WY	Gabrielle Hansen	Gabrielle Hansen	1131 Fiske Street Palisades Palisades, Ca. 90272	(818) 397-7670

Terminations (Open Outlet)

Franchisee	Phone Number
Mike Blakey	(310) 327-6757

Terminations (Signed Agreement, but Outlet Never Opened)

Franchisee	Phone Number
Jeff Singer & Todd Kaplan	(310) 230-5828
David Fiermosca	(702) 304-9989
Jonathan Silver	(818)951-4312
AJ & Tammy Bork	(970) 218-8385
Danny Abramovitch	(818)788-8999
Sheila Khimani	(407) 529-4060
Judy Kim	(818) 257-8825
Alex Ahn	(907) 277-3022
Jim Keown	(407)876-8894

**Exhibit K**

RECEIPTS

RECEIPT

This Disclosure Document summarizes certain provisions of the Franchise Agreement and other information in plain English. Read this Disclosure Document and all agreements carefully.

If Menchie's Group, Inc. offers you a franchise, it must provide this Disclosure Document to you 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.

Iowa, New York, Oklahoma and Rhode Island require that Menchie's Group, Inc. give you this Disclosure Document at the earlier of the first personal meeting or ten business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship.

Michigan, Oregon, and Washington require that Menchie's Group, Inc. give you this Disclosure Document at least ten business days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first.

If Menchie's Group, Inc. does not deliver this Disclosure Document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and the state agency listed on Exhibit A.

The franchisor is Menchie's Group, Inc., located at 16027 Ventura Boulevard, Suite 301, Encino, California 91436. Its telephone number is (818) 708-0316.

Issuance Date: April 29, 2011.

The name, principal business address and telephone number of each franchise seller offering the franchise:

\_\_\_\_\_

Menchie's Group, Inc. authorizes the respective state agencies identified on Exhibit A to receive service of process for it in the particular state.

I have received a Disclosure Document dated April 29, 2011 (please also see the State Effective Dates Page), that included the following Exhibits: (A) Agents for Service of Process, (B) Financial Statements, (C) Franchise Agreement, (D) Multi Unit Agreement, (E) Franchisee Service Agreement, (F) Computer and Software Requirements, (G) Operations Manual Table of Contents, (H) State Addenda, (I) General Release, (J) List of Franchisees and Subfranchisees in the System, and (K) Receipts.

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

Signed: \_\_\_\_\_

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

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

City: \_\_\_\_\_ State \_\_\_\_\_

Phone ( ) \_\_\_\_\_ Zip \_\_\_\_\_

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

Signed: \_\_\_\_\_

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

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

City: \_\_\_\_\_ State \_\_\_\_\_

Phone ( ) \_\_\_\_\_ Zip \_\_\_\_\_

Prospective Franchisee's Copy

RECEIPT

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The name, principal business address and telephone number of each franchise seller offering the franchise:

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

Menchie's Group, Inc. authorizes the respective state agencies identified on Exhibit A to receive service of process for it in the particular state.

I have received a Disclosure Document dated April 29, 2011 (please also see the State Effective Dates Page), that included the following Exhibits: (A) Agents for Service of Process, (B) Financial Statements, (C) Franchise Agreement, (D) Multi Unit Agreement, (E) Franchisee Service Agreement, (F) Computer and Software Requirements, (G) Operations Manual Table of Contents, (H) State Addenda, (I) General Release, (J) List of Franchisees and Subfranchisees in the System, and (K) Receipts.

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

Signed: \_\_\_\_\_

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

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

City: \_\_\_\_\_ State \_\_\_\_\_

Phone ( ) \_\_\_\_\_ Zip \_\_\_\_\_

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

Signed: \_\_\_\_\_

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

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

City: \_\_\_\_\_ State \_\_\_\_\_

Phone ( ) \_\_\_\_\_ Zip \_\_\_\_\_

Menchie's Copy