

## FRANCHISE DISCLOSURE DOCUMENT



Kahala Franchising, L.L.C.  
an Arizona limited liability company  
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Scottsdale, Arizona 85258  
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We offer *Taco Time*® franchises and area representative agreements. As a franchisee, you will operate a restaurant called *Taco Time*, preparing and serving specialized freshly prepared Mexican fast food and related menu items. As an area representative (if applicable), you will operate as a *Taco Time* franchise broker and service representative for us within a defined geographic area.

The total investment necessary to begin operation of a *Taco Time* franchise ranges from \$663,400 to \$1,339,550 for a traditional franchise unit constructed as a free-standing restaurant; from \$323,400 to \$659,550 for a traditional franchise unit located within a shopping mall, strip center, or similar venue; and from \$139,900 to \$480,050 for a non-traditional franchise unit. This includes \$15,250 to \$358,250 for a traditional location and \$5,250 to \$220,750 for a non-traditional location that must be paid to the franchisor or its affiliate. The minimum total investment necessary to begin operation as an Area Representative under an ARA ranges from \$27,000 to \$172,000 which is calculated by using the minimum Initial Development Fee. This includes a minimum of \$3,000 that must be paid to franchisor or its affiliate. The Initial Development Fee is calculated as the greater of: (i) the estimated population in the ARA Territory multiplied by \$.10; or (ii) the estimated population in the ARA Territory multiplied by \$.03 plus 4 times the royalty payments we received in the last 12 months on existing stores within the ARA Territory.

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

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

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

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

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

Issuance Date: August 8, 2012

## STATE COVER PAGE

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

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

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

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

1. THE FRANCHISE AGREEMENT REQUIRES YOU TO RESOLVE DISPUTES WITH US BY LITIGATION ONLY IN ARIZONA. OUT-OF-STATE LITIGATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST YOU MORE TO SUE WITH US IN ARIZONA THAN IN YOUR OWN STATE.
2. THE FRANCHISE AGREEMENT STATES THAT ARIZONA LAW GOVERNS THE AGREEMENT, AND THIS LAW MAY NOT PROVIDE THE SAME PROTECTIONS AND BENEFITS AS LOCAL LAW. YOU MAY WANT TO COMPARE THESE LAWS.
3. THE FRANCHISEE'S SPOUSE AND AREA REPRESENTATIVE'S SPOUSE MUST SIGN A SPOUSAL CONSENT AGREEING TO BE BOUND BY THE TERMS OF THE AGREEMENT, MAKING SUCH SPOUSE JOINTLY AND SEVERALLY LIABLE FOR ALL OBLIGATIONS UNDER THE AGREEMENT, AND PLACING THE SPOUSE'S PERSONAL ASSETS AT RISK.
4. AS OF JUNE 30, 2012, 90% OF KAHALA FRANCHISING, L.L.C.'S TOTAL ASSETS ARE INTANGIBLE. YOU MAY WANT TO CONSIDER THIS WHEN MAKING A DECISION TO PURCHASE THIS FRANCHISE OPPORTUNITY.
5. THE AUDITED FINANCIAL STATEMENTS REPORT THAT THE FRANCHISOR'S ONGOING OPERATIONS ARE DEPENDENT UPON THE SUPPORT OF ITS PARENT COMPANY AND ITS AFFILIATES. THE PARENT COMPANY HAS NOT GUARANTEED THE FRANCHISOR'S OBLIGATIONS UNDER THE AGREEMENTS. THE PARENT COMPANY'S FINANCIAL STATEMENTS ARE NOT CONTAINED IN THE FRANCHISE DISCLOSURE DOCUMENT AND WILL NOT BE PROVIDED TO FRANCHISEES.
6. MUCH OF THE SUPPORT, TRAINING, AND PRE AND POST OPENING OBLIGATIONS TO FRANCHISEES, AND MARKETING AND ADVERTISING SUPPORT SERVICES WILL BE PROVIDED BY AN AFFILIATE OF THE FRANCHISOR, KAHALA MANAGEMENT, L.L.C. THE FINANCIAL STATEMENTS OF KAHALA MANAGEMENT, L.L.C. ARE NOT CONTAINED IN THE FRANCHISE DISCLOSURE DOCUMENT AND WILL NOT BE PROVIDED TO FRANCHISEES.
7. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

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

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

## STATE EFFECTIVE DATES

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

The Franchise Disclosure Document is registered, on file or exempt from registration in the following states having franchise registration and disclosure laws, with the following effective dates:

California	December 7, 2011
Illinois	August 8, 2012
Indiana	August 17, 2012
Michigan	July 19, 2012
Minnesota	August 21, 2012
New York	August 15, 2012
North Dakota	August 17, 2012
Rhode Island	September 6, 2012
Virginia	August 27, 2012
Washington	August 13, 2012

In all the other states, the effective date of this Franchise Disclosure Document is the issuance date of August 8, 2012.

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### EXHIBITS:

- A State Addenda to Franchise Disclosure Document
- B Directory of State Agencies and Administrators
- C Franchisor's Agent for Service of Process

D	Purchase and Sale Agreement (For Sale of a Corporate Store to a Franchisee) with Promissory Note and Security Agreement (if applicable) and State Addenda
E	Form of Franchise Agreement and State Addenda
F	Form of Addendum to the Franchise Agreement for SBA Loans
G	Form of Required Lease Terms
H	Form of Lease Guaranty Acknowledgment
I	Form of Lease Negotiation Acknowledgment
J	Form of Lease Procurement Acknowledgment
K	Pre-Authorized Electronic Funds Transfer Form
L	Form of Release and Consent Agreement to Assignment of Franchised Business
M	Table of Contents – Confidential Operations Manual
N	List of Franchise Owners
O	Form of Area Representative Agreement, State Addenda and General Release
P	Table of Contents – Confidential AR Operations Manual (For Area Representatives)
Q	List of Area Representatives
R	Financial Statements
S	Form of Addendum for Sale of Company-Affiliated Owned Stores
T	Receipts

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

The franchisor is Kahala Franchising, L.L.C. To simplify the language in this "Disclosure Document," Kahala Franchising, L.L.C. may be referred to as "Kahala Franchising," "We," "Us," "Our" and the "Franchisor." "You" and "Your" mean the person(s), partnership, corporation, limited liability company, or other entity that buys the *Taco Time* franchise. If "you" are a business entity, "you" includes the owners of the business to the extent the owners of the business guaranty or otherwise agree to perform or be bound by the obligations of the business entity.

We have written this Disclosure Document in "plain English" in order to comply with legal requirements. Any differences in the language in this Disclosure Document describing the terms, conditions, or obligations under the Franchise Agreement or any other agreement is not intended to alter in any way your or our rights or obligations under the particular agreement.

Kahala Franchising is an Arizona limited liability company which was formed on December 29, 2008 for the purpose of owning all of the intellectual property assets and franchising business of Kahala Franchise Corp., a wholly-owned subsidiary of Kahala Corp. (the "Parent Company" and "Kahala"), and Cold Stone Creamery, Inc., which is an indirect and wholly owned subsidiary of Kahala. As of August 2010, Kahala Franchising is the franchisor of the below listed quick service restaurant brands: Blimpie, Cold Stone Creamery, Cereality, Frullati Cafe & Bakery, Great Steak & Potato Company, Johnnie's New York Pizzeria, NrGize Lifestyle Cafe, Ranch One Grilled Chicken, Rollerz, Samurai Sam's Teriyaki Grill, Surf City Squeeze, and Taco Time. The predecessor franchisor for each of the above-referenced brands was Kahala Franchise Corp., which is an affiliate of Kahala Franchising. As of November 2011, Kahala Franchising is also the franchisor of the America's Taco Shop, Pizza Fresh Take•N•Bake ("Pizza Fresh"), and Kahala Coffee Traders quick service restaurant brands. Kahala Franchising is in the business of franchising to others the right to own and operate a quick service restaurant using the applicable trademarks for the particular brand and according to the terms, conditions, methods, and system standards indicated in the Franchise Agreement and corresponding operations manual.

Kahala Franchising is a wholly owned subsidiary of Kahala Corp., a Florida corporation. Kahala Management, L.L.C. ("Kahala Management"), an affiliate of Kahala Franchising and also a wholly owned subsidiary of Kahala, is an Arizona limited liability company that provides administrative, legal, accounting, sales, real estate and marketing support services to Kahala Franchising. Kahala Management and Kahala shall be collectively referred to as "KAHA." On October 1, 2009, Kahala Franchise Corp. contributed all of its respective rights and interests in the Samurai Sam's, Taco Time, and Great Steak & Potato Company trademarks, service marks, trade dress and other intellectual property, and its respective interests in all existing franchise, license, area representative, area developer and related agreements to which it was a party, to Kahala Franchising through an assignment and instrument of transfer. Kahala Franchise Corp. and Kahala Franchising entered into a license agreement on October 1, 2009 that permitted Kahala Franchise Corp. to continue to franchise the Samurai Sam's, Taco Time, and Great Steak & Potato Company brands until March 31, 2010. In January 2011, Kahala Franchise Corp. contributed all of its respective rights and interests in the Surf City Squeeze, Frullati Cafe & Bakery, NrGize Lifestyle Cafe, Rollerz, Ranch One, Johnnie's New York Pizzeria and Wafflō trademarks, service marks, trade dress and other intellectual property, and its respective interests in all existing franchise, license, area representative, area developer and related agreements to which it was a party, to Kahala Franchising through a separate assignment and instrument of transfer. Kahala Franchise Corp. stopped franchising the Wafflō brand in December 2007.

SP Franchising, Inc., Malibu Smoothie Franchise Corp., Surf City Squeeze Franchise Corporation, Taco Time International, Inc., Ranch \*1 Group, Inc., Frullati Franchise Systems, Inc.,

Nicar Franchising, Inc., and Rollerz Franchise Systems, L.L.C. (collectively, the “Franchising Subsidiaries”) are indirect and wholly owned subsidiaries of Kahala and affiliates of Kahala Franchising. The Franchising Subsidiaries are also predecessor franchisors of Kahala Franchising.

One of our Franchising Subsidiaries and predecessors, Taco Time International, Inc. (“TTI”), entered into a master franchisor agreement with Taco Time Canada, Inc. dated March 13, 1978. On October 31, 2008, Taco Time Canada, Inc. assigned the master franchisor agreement, all of its rights and obligations under the master franchisor agreement, and all of its Franchise Agreements to MTY TIKI MING Enterprises Inc. (“MTY”). Under this master franchisor agreement, MTY operates as the master franchisor of the Taco Time brand for the entire country of Canada. Neither Taco Time Canada, Inc. nor MTY are affiliates of Kahala Franchising or any of its affiliates. As of December 31, 2011, there were 122 Taco Time franchises in operation in Canada. As of the date of this Disclosure Document, this master franchisor agreement is still in effect. TTI also entered into a Western Washington Area Franchise Agreement with Accord, Inc. dated April 30, 1979, as amended May 2, 1996 (the “Western Washington Agreement”). Under the Western Washington Agreement, TTI assigned its rights to franchise Taco Time in the following counties in the state of Washington to Accord, Inc.: Chelan, Clallam, Cowlitz, Grays Harbor, Island, Jefferson, Pacific, Pierce, San Juan, Skagit, Snohomish, King, Kitsap, Lewis, Mason, Thurston, Wahkiakum, Whatcom, Skamania and Grant; plus the cities of Wenatchee, East Wenatchee and Moses Lake. Accord, Inc. is not an affiliate of Kahala Franchising or any of its affiliates. As of December 31, 2011, there were 71 Taco Time licensed restaurants in operation in Accord, Inc.’s territory in Washington. As of the date of this Disclosure Document, the Western Washington Agreement is still in effect. TTI did not enter into any other master franchisor agreements.

Another one of our predecessors, Blimpie International, Inc., entered into a trademark distribution agreement with Blimpie of California, Inc. dated July 18, 1984, which was amended on April 30, 1992 and further amended on October 28, 1993. Under this trademark distribution agreement, Blimpie of California, Inc. operates as a subfranchisor for the Blimpie brand in that part of California lying, approximately, south of an imaginary line drawn at 36°10' north latitude (the applicable territory to be referred to as “Southern California”). Blimpie of California, Inc. is not an affiliate of Kahala Franchising or any of its affiliates. As of December 31, 2011, there were 16 Blimpie franchises in operation in Blimpie of California, Inc.’s territory in California. As of the date of this Disclosure Document, this trademark distribution agreement is still in effect. Blimpie International, Inc. did not enter into any other trademark distribution agreements that are currently in effect. However, they did jointly own the Blimpie trademarks with Metropolitan Blimpie, Inc (See Item 1 below regarding the purchase of the Blimpie Assets and the BA Blimpie Assets by affiliates of KAHA). We are not offering any Blimpie franchises under this Disclosure Document.

In April 2004, Kahala Franchise Corp. and The O Zon, Inc., a Delaware corporation (the “Licensor”), entered into a Trademark License Agreement (“O Zon License Agreement”) in which the Licensor licensed to Kahala Franchise Corp. the right to use the Wafflō trademark and Wafflō Maker equipment to make and sell Wafflōs (i.e. ice cream-filled waffle sandwiches with various toppings) at retail locations identified as “Wafflō.” Restaurants owned by Kahala Holdings, L.L.C., an Arizona limited liability company and affiliate of Kahala Franchising, or by Kahala Franchise Corp.’s third party franchisees or licensees may make and sell Wafflōs at retail locations. The term of the License Agreement is for twenty (20) years (the “Initial Term”), and the term shall be automatically extended to cover the full term, including any renewal terms, of all Wafflō Franchise Agreements signed by franchisees with Kahala Franchise Corp. prior to the expiration of the Initial Term. Under the terms of the License Agreement, restaurants owned by Licensor or franchised to third parties by Licensor may also make and sell Wafflōs at retail locations identified as “Ozon” or “The O Zone Store.” In December 2007, Kahala Franchise Corp. ceased offering Wafflō franchises.

In October 2005, Kahala Franchise Corp. and Progressive Pizza Trends, a California corporation (“Progressive Pizza”), entered into an Intellectual Property and Franchising Rights

Purchase Agreement (“Johnnie’s Franchising Rights Agreement”) in which Kahala Franchise Corp. purchased from Progressive Pizza the exclusive ownership of and the exclusive rights to utilize, license and franchise the Johnnie’s New York Pizzeria restaurant brand. Additionally, through the foreclosure of certain secured debt owed by Progressive Pizza to affiliates of ours, Kahala Holdings, L.L.C. became the sole owner of Progressive Pizza’s three Los Angeles, California area corporate-owned Johnnie’s New York Pizzeria restaurants in December 2005. We are not offering any Johnnie’s New York Pizzeria franchises under this Disclosure Document.

In January 2006, KBI Holdings, L.L.C., an Arizona limited liability company (“KBI”), a wholly-owned subsidiary of Kahala, purchased certain assets from Blimpie International, Inc. (“BI”) that comprised BI’s entire Blimpie restaurant brand and associated franchising system (collectively, the “Blimpie Assets”). The Blimpie Assets included, but were not limited to, all of the following owned by BI: (i) all Blimpie intellectual property (i.e., all trademarks, trade names, trade dress, tag lines, logos, designs, the Blimpie name, and all proprietary information, know-how, methods, and recipes); (ii) all Blimpie Franchise Agreements, Area Representative Agreements, Area Development Agreements, License Agreements, and any other agreements relating to any aspect of the Blimpie brand and franchise system; and (iii) nine Blimpie corporate restaurants.

Also in January 2006, immediately after KBI’s acquisition of the Blimpie Assets from BI, KBI entered into a Trademark and Service Mark License Agreement with Kahala Franchise Corp. dated January 23, 2006, whereby Kahala Franchise Corp. was granted: (i) the non-exclusive right to use and license to third parties in the United States and foreign countries the trademarks and/or service marks owned by KBI for use in the operation of franchised and licensed “Blimpie” restaurants (both traditional and non-traditional) and the sale of other related menu items; and (ii) the non-exclusive right to use and license to third parties in the United States and foreign countries the trademarks and/or service marks owned by KBI for use by area representatives and area developers in accordance with the terms and conditions under the Area Representative Agreements (the “Blimpie License Agreement”). The Blimpie License Agreement was terminated on August 6, 2010 by KBI, and KBI simultaneously entered into a new license agreement with Kahala Franchising (the “2010 Blimpie License Agreement”) which granted the exact same rights listed above to Kahala Franchising. In January 2011, KBI Holdings, L.L.C., an Arizona limited liability company, and Kahala Franchise Corp. contributed all of their respective interests in the Blimpie trademarks, service marks, trade dress and other intellectual property, and their respective interests in all existing franchise, license, area representative, area developer and related agreements to which they were a party, to Kahala Franchising through an assignment and instrument of transfer. We are not offering any Blimpie franchises under this Disclosure Document.

In May 2007, KAHA Acquisition V, L.L.C. (“KAHA Acquisition V”), a wholly-owned subsidiary of Kahala, purchased 100% of the stock in Cold Stone Creamery, Inc. (“Cold Stone”), and certain entities affiliated with Cold Stone including Cold Stone Creamery Restaurants, LLC (“CSC Restaurants”), Cold Stone Creamery Leasing Company, Inc. (“CSC Leasing”), Cold Stone Creamery International, LLC (“CSC International”), and BTB One, LLC (“BTB”) (the “Cold Stone Transaction”). Cold Stone, CSC Restaurants, CSC Leasing, and CSC International are collectively referred to as the “Cold Stone Entities.”

From its acquisition in May 2007 through March 2008, Cold Stone continued its franchising operations completely independent of Kahala Franchise Corp.’s franchising activities, operating as a wholly owned subsidiary of Kahala Corp. Cold Stone entered into a Trademark and Service Mark License Agreement with Kahala Franchise Corp. effective as of April 1, 2008, whereby Kahala Franchise Corp. was granted: (i) the non-exclusive right to use and license to third parties in the United States and foreign countries the Cold Stone Creamery trademarks and/or service marks owned by Cold Stone for use in the operation of franchised and licensed “Cold Stone Creamery” restaurants (for traditional and non-traditional locations) and the sale of other related menu items; and (ii) the non-exclusive right to use and license to third parties in the United States and foreign



countries the trademarks and/or service marks owned by Cold Stone for use by area developers in accordance with the terms and conditions under the area developer agreements (the "Cold Stone License Agreement"). The Cold Stone License Agreement was terminated on August 6, 2010 by Cold Stone Creamery, Inc. and Cold Stone Creamery, Inc. simultaneously entered into a new license agreement with Kahala Franchising (the "2010 Cold Stone Agreement") which granted the exact same rights listed above to Kahala Franchising. We are not offering any Cold Stone Creamery franchises under this Disclosure Document.

Also in May 2007, KAHA Acquisition VI, L.L.C. ("KAHA Acquisition VI"), a wholly-owned subsidiary of Kahala, purchased certain Blimpie assets from Metropolitan Blimpie, Inc. ("Metropolitan Blimpie"), Blimpie Associates, Ltd. ("Blimpie Associates"), and Blimpie Marketing Productions, Inc. (collectively, "BA") that comprised BA's entire Blimpie restaurant brand and associated franchising system (the "BA Blimpie Assets"). The BA Blimpie Assets included, but were not limited to, all of the following owned by BA: (i) all Blimpie intellectual property rights owned by BA (i.e., all trademarks, trade names, trade dress, tag lines, logos, designs, the Blimpie name, and all proprietary information, know-how, methods, and recipes), including BA's exclusive Blimpie territory comprised of Delaware, Maryland, Virginia, Washington, D.C., portions of New Jersey, portions of New York, and portions of Pennsylvania (collectively, the "BA Territory"); and (ii) all Blimpie Franchise Agreements, Area Representative Agreements, Area Development Agreements, License Agreements, and any other agreements relating to any aspect of the Blimpie brand and franchise system.

Immediately after KAHA Acquisition VI's acquisition of the BA Blimpie Assets from BA, KAHA Acquisition VI entered into a Trademark and Service Mark License Agreement with Kahala Franchise Corp. dated May 14, 2007, whereby Kahala Franchise Corp. was granted: (i) the non-exclusive right to use and license to third parties in the United States and foreign countries the Blimpie trademarks and/or service marks owned by KAHA Acquisition VI for use in the operation of franchised and licensed "Blimpie" restaurants (for traditional and special locations and non-traditional locations) and the sale of other related menu items; and (ii) the non-exclusive right to use and license to third parties in the United States and foreign countries the trademarks and/or service marks owned by KAHA Acquisition VI for use by area representatives and area developers in accordance with the terms and conditions under the Area Representative Agreements (the "BA Blimpie License Agreement"). On January 1, 2008, KAHA Acquisition VI entered into an Assignment and Instrument of Transfer in which it transferred all of its ownership interest, title and rights in and to the BA Blimpie Assets, including the Trademark and Service Mark License Agreement, to KBI.

In July 2007, KAHA Acquisition VII, L.L.C. ("KAHA Acquisition VII"), an Arizona limited liability company and wholly-owned subsidiary of Kahala, purchased certain assets from Cereality Franchising Corp. and Cereality Operators, Inc. (collectively, "CFC") that comprised CFC's entire Cereality restaurant brand and associated franchising system (the "Cereality Assets"). The Cereality Assets included, but were not limited to, all of the following owned by CFC: (i) all Cereality intellectual property rights owned by CFC (i.e., all trademarks, trade names, trade dress, tag lines, logos, designs, domain names, patent applications, the Cereality name, and all proprietary information, know-how, methods, and recipes); and (ii) all Cereality Franchise Agreements, Area Development Agreements, License Agreements, and any other agreements relating to any aspect of the Cereality brand and franchise system. The corporately owned and operated Cereality restaurants were not included in the Cereality Assets purchased.

Also in July 2007, immediately after KAHA Acquisition VII's acquisition of the Cereality Assets from CFC, KAHA Acquisition VII entered into a Trademark and Service Mark License Agreement with Kahala Franchise Corp. whereby Kahala Franchise Corp. was granted: (i) the non-exclusive right to use and license to third parties in the United States and foreign countries the

Cereality trademarks and/or service marks owned by KAHA Acquisition VII for use in the operation of franchised and licensed “Cereality” restaurants (for traditional and special locations and non-traditional locations) and the sale of other related menu items; and (ii) the non-exclusive right to use and license to third parties in the United States and foreign countries the trademarks and/or service marks owned by KAHA Acquisition VII for use by area representatives and area developers in accordance with the terms and conditions under the Area Representative Agreements (the “Cereality License Agreement”). In January 2011, KAHA Acquisition VII and Kahala Franchise Corp. contributed all of their respective rights and interests in the Cereality trademarks, service marks, trade dress and other intellectual property, and its respective interests in all existing franchise, license, area representative, area developer and related agreements to which it was a party, to Kahala Franchising through an assignment and instrument of transfer. We are not offering any Cereality franchises under this Disclosure Document.

In February 2011, Kahala Corp. purchased certain assets from America Corrales, Terry Bortin, Dos Amores L.L.C. and Tres Amores, LLC (collectively, “Amores”) that comprised Amores’ entire *America’s Taco Shop* restaurant brand (the “ATS Assets”). The ATS Assets included, but were not limited to, all of the following owned by Amores: all *America’s Taco Shop* intellectual property; including, but not limited to, all trademarks, trade names, trade dress, tag lines, logos, designs, the *America’s Taco Shop* name, and all proprietary information, know-how, methods, and recipes. *America’s Taco Shop* restaurants were not being franchised by Amores. Kahala Franchising began franchising *America’s Taco Shop* in November 2011.

Immediately after Kahala Corp.’s acquisition of the ATS Assets from Amores, Kahala Corp. assigned all of its rights under any trade name, service mark, trademark, trade dress, private brand name, patent, patent application, and/or copyright, whether registered or unregistered, and any trademark applications, including, without limitation, all rights to the “America’s Taco Shop” name and goodwill, to Kahala Franchising through a Trademark Assignment Agreement dated February 11, 2011 (the “ATS Assignment”). We are not offering any America’s Taco Shop franchises under this Disclosure Document.

In 2011, Kahala Corp. purchased certain assets from Robert Knox and Karen Knox (collectively, “Knox”) that comprised Knox’s entire Kahala Coffee Traders restaurant brand (the “KCT Assets”). The KCT Assets included, but were not limited to, all of the following owned by Knox: all Kahala Coffee Traders intellectual property; including, but not limited to, all trademarks, trade names, trade dress, tag lines, logos, designs, the Kahala Coffee Traders name, and all proprietary information, know-how, methods, and recipes. Kahala Coffee Traders restaurants were not being franchised by Knox. Kahala Franchising began franchising Kahala Coffee Traders in November 2011.

Immediately after Kahala Corp.’s acquisition of the KCT Assets from Knox, Kahala Corp. assigned all of its rights under any trade name, service mark, trademark, trade dress, private brand name, patent, patent application, and/or copyright, whether registered or unregistered, and any trademark applications, including, without limitation, all rights to the “Kahala Coffee Traders” name and goodwill, to Kahala Franchising through a Trademark Assignment Agreement in 2011 (the “KCT Assignment”). We are not offering any Kahala Coffee Traders franchises under this Disclosure Document.

The name and principal business address of any predecessors for *Taco Time* during the 10-year period immediately before the close of Kahala Franchising’s most recent fiscal year is: Kahala Franchise Corp., 9311 E. Via De Ventura, Scottsdale, Arizona 85258. Our predecessor, Kahala Franchise Corp., did not conduct the type of business the franchisee will operate, but its affiliate, Kahala Holdings, L.L.C., an Arizona limited liability company (“Kahala Holdings”), did conduct the type of business the franchisee will operate by operating corporate *Taco Time* restaurants since

2003, and another affiliate, Kahala Restaurants, L.L.C., an Arizona limited liability company (“Kahala Restaurants”), has been conducting the type of business the franchise will operate by operating any corporate *Taco Time* restaurants since January 2010. Kahala Franchise Corp. offered franchises providing the type of business the franchisee will operate from 2003 until March 2010. The name and principal business address of another predecessor for *Taco Time* during the 10-year period immediately before the close of Kahala Franchising’s most recent fiscal year is: Taco Time International, Inc., 3880 W. 11<sup>th</sup> Avenue, Eugene, Oregon 97402. Predecessor, Taco Time International, Inc., conducted the type of business the franchisee will operate from January 1960 until July 1971 under the name “National Taco Company,” and from July 1971 (when it changed its name) until 2003 under the name “Taco Time International, Inc.” Predecessor, Taco Time International, Inc., offered traditional franchises providing the type of business the franchisee will operate from October 1961 until our affiliate’s purchase of Taco Time International, Inc.’s assets in 2003, and offered non-traditional franchises from August 1993 until our affiliate’s purchase of Taco Time International, Inc.’s assets in 2003. Taco Time International, Inc. had no predecessors. Taco Time International, Inc. had offered franchises in another line of business called “The Gourmet Nutcracker”. Kahala Franchise Corp. offered franchises under the following names, which are now being offered by Kahala Franchising as of August 2010: Surf City Squeeze, Rollerz, Frullati Cafe & Bakery, Ranch One Grilled Chicken, Samurai Sam’s Teriyaki Grill, Blimpie, the Great Steak & Potato Company, NrGize Lifestyle Cafe, Cold Stone Creamery, Johnnie’s New York Pizzeria, and Cereality.

KAHALA FRANCHISING IS ONLY OFFERING A *TACO TIME* FRANCHISE UNDER THIS DISCLOSURE DOCUMENT, AND IS NOT OFFERING FRANCHISE(S) FOR ITS OTHER BRANDS DETAILED BELOW UNDER THIS DISCLOSURE DOCUMENT. EACH OF THE FRANCHISES DETAILED BELOW ARE OFFERED BY KAHALA FRANCHISING UNDER SEPARATE DISCLOSURE DOCUMENTS FOR EACH BRAND.

Kahala Franchising currently offers franchises, under separate Disclosure Documents, for its other quick service restaurant brands detailed above. The following summarizes these other quick service restaurant brands as of December 31, 2011, including the type of restaurant business, number of franchised units in operation as of December 31, 2011, and the date Kahala Franchising, through the applicable Franchising Subsidiaries (for the applicable brands), began offering franchises in those brands: (i) Frullati Cafe & Bakery (restaurants serving sandwiches, salads, smoothies and baked goods), 34 franchises (29 franchises within the United States plus 5 international franchises), franchises have been offered by us from 1999 until 2004 under the name of Frullati Franchise Systems, Inc., from 2004 until March 2010 under the name of Kahala Franchise Corp., and since August 2010 under the name of Kahala Franchising; (ii) Rollerz (restaurants serving gourmet rolled sandwiches, salads, soups and baked goods), 4 franchises, franchises have been offered by us from 2000 until 2004 under the name of Rollerz Franchise Systems, L.L.C., from 2004 until March 2010 under the name of Kahala Franchise Corp., and since August 2010 under the name of Kahala Franchising; (iii) Ranch One (restaurants specializing in grilled and crispy breaded chicken sandwiches and Ranch One famous fries), 19 franchises (14 franchises within the United States plus 5 international franchises), franchises have been offered by us from 2001 until 2004 under the name of Ranch \*1 Group, Inc., from 2004 until March 2010 under the name of Kahala Franchise Corp., and since August 2010 under the name of Kahala Franchising; (iv) Samurai Sam’s Teriyaki Grill (restaurants serving Japanese food), 42 franchises (37 franchises in the United States plus 5 international franchises) (plus 2 company-owned outlets), franchises have been offered by us from 2003 until 2004 under the name of SP Franchising, Inc., from 2004 until March 2010 under the name of Kahala Franchise Corp., and since August 2010 under the name of Kahala Franchising; (v) Blimpie (restaurants serving submarine sandwiches and salads), 733 franchises (plus 1 licensed and 6 company-owned outlets), franchises have been offered by us from 2006 until March 2010 under the name of Kahala Franchise Corp. and since August 2010 under the name of Kahala Franchising; (vi) The Great Steak & Potato Company (restaurants serving Philadelphia cheesesteak (and chicken) sandwiches and French fries), 134

franchises (122 franchises within the United States plus 12 international franchises) (plus 1 company-owned outlet), franchises have been offered by us from 2004 until March 2010 under the name of Kahala Franchise Corp. and since August 2010 under the name of Kahala Franchising; (vii) Johnnie's New York Pizzeria (restaurants serving New York style pizza, calzones, salads, and related Italian cuisine menu items), 14 franchises (plus 1 company-owned outlet), franchises have been offered by us from 2006 until March 2010 under the name of Kahala Franchise Corp. and since August 2010 under the name of Kahala Franchising; (viii) Surf City Squeeze (juice bars), 129 franchises (122 franchises within the United States plus 7 international franchises) (plus 5 licensed and 3 company-owned outlets), franchises offered by us from 1994 until 2004 under the name of Malibu Smoothie Franchise Corp. and Surf City Squeeze Franchise Corp., from 2004 until March 2010 under the name of Kahala Franchise Corp., and since August 2010 under the name of Kahala Franchising; (ix) NrGize Lifestyle Cafe (cafes serving smoothies, fruit drinks and nutritional supplements); 99 franchises (plus 4 company-owned outlets); franchises have been offered by us from 2006 until March 2010 under the name of Kahala Franchise Corp. and since August 2010 under the name of Kahala Franchising; (x) Cereality (restaurants serving hot and cold cereals and cereal blends with toppings, oatmeal, and parfaits), 3 franchises, franchises have been offered by us from July 2007 until March 2010 under the name of Kahala Franchise Corp. and since August 2010 under the name of Kahala Franchising; (xi) Cold Stone Creamery (restaurants serving super-premium fresh made ice cream, frozen yogurt, cakes, pies, smoothies, shakes, and other frozen dessert products), 1,423 franchises (1,049 franchises in the United States plus 374 international franchises) (plus 37 company-owned outlets), franchises have been offered by us from May 2007 until April 2008 under the name Cold Stone Creamery, Inc., from April 2008 until March 2010 under the name of Kahala Franchise Corp., and since August 2010 under the name of Kahala Franchising; (xii) America's Taco Shop (restaurants serving freshly prepared Mexican food including tacos, tortas, burritos, and quesadillas), 0 franchises (plus 3 licensed and 1 company-owned outlet), we began offering franchises in November 2011 under the name Kahala Franchising; (xiii) Pizza Fresh (restaurants serving take 'n bake pizza), 0 franchises (plus 2 company-owned outlets), we began offering franchises in November 2011; and (xiv) Kahala Coffee Traders (restaurants serving coffee and espresso, tea, baked goods, parfaits, sandwiches and merchandise) 0 franchises (plus 2 licensed outlets), we began offering franchises in November 2011.

As of December 31, 2011, there were 281 *Taco Time* franchises and subfranchises (153 franchises within the United States and 128 international restaurants), plus 71 licensed and 11 company-owned outlets. We have been offering *Taco Time* franchises from 2003 until 2004 under the name of *Taco Time International, Inc.*, from 2004 until March 2010 under the name of Kahala Franchise Corp., and since August 2010 under the name of Kahala Franchising. Kahala Franchising does not operate businesses of the type being franchised, but rather, Kahala Holdings and Kahala Restaurants, affiliates of Kahala Franchising, operate many of our corporate-owned restaurants, including businesses of the type being franchised. Any corporate-owned *Taco Time* restaurants may compete with franchised restaurants in its vicinity. In addition, the licensed restaurants may compete with franchised restaurants in their vicinity.

Kona Coast Products, L.L.C., an Arizona limited liability company ("Kona Coast"), is an approved distributor of certain proprietary *Taco Time* products, including uniforms, printed materials, and other logo items for Kahala Franchising's brands, excluding Blimpie, and is an affiliate of Kahala Franchising. Kahala Holdings and Kahala Restaurants are affiliates of Kahala Franchising that own and operate any Blimpie, Frullati Cafe & Bakery, Surf City Squeeze, Rollerz, Ranch One, Samurai Sam's, *Taco Time*, The Great Steak & Potato Company, NrGize Lifestyle Cafe, Cereality, and Johnnie's New York Pizzeria company-owned outlets detailed above. *Taco Time* Spokane Management, L.L.C., an Arizona limited liability company ("TTSM"), is an affiliate of Kahala Franchising that also owns and operates *Taco Time* company-owned outlets. Blimpie OS1, L.L.C., a Georgia limited liability company ("Blimpie OS1"), and Blimpie OS2, L.L.C., a Georgia limited liability company ("Blimpie OS2"), are affiliates of Kahala Franchising that used to own and

operate the Blimpie company-owned outlets but no longer do so. CSC Restaurants, an Arizona limited liability company, is an affiliate of Kahala Franchising that, along with Kahala Holdings and Kahala Restaurants, owns and operates the Cold Stone Creamery company-owned outlets referred to in this Item 1. KBI is an affiliate of Kahala Franchising that licenses its rights in the Blimpie trademarks and/or service marks to Kahala Franchising for use in the operation of franchised and licensed Blimpie restaurants. Kahala Advertising, LLC, an Arizona limited liability company (“Kahala Advertising”), is an affiliate of Kahala Franchising that began administering the national advertising funds for each of the brands and the regional cooperatives in 2008. Vires Media, LLC, an Arizona limited liability company (“Vires”), is an affiliate of Kahala Franchising that was formed for the purpose of buying media for all of Kahala Franchising’s brands. Neptune Equipment Services, LLC, an Arizona limited liability company (“Neptune Equipment”), is an affiliate of Kahala Franchising that is an approved retailer of equipment that sells, distributes, and coordinates logistics of equipment, menu boards, interior and exterior signage, and smallwares to Kahala Franchising franchisees and licensees. KGC, LLC, a Colorado limited liability company (“KGC”), is an affiliate of Kahala Franchising that provides gift card and loyalty card services to franchisees and to our affiliates that operate the corporate-owned restaurants.

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

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

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

Kahala, through a wholly-owned subsidiary, Tahi Mana, L.L.C., an Arizona limited liability company, previously offered franchises for a juice bar concept called “Tahi Mana.” Kahala’s wholly owned subsidiary began franchising Tahi Mana in December 2000 and stopped offering Tahi Mana franchises in 2002. During that time period, there were five (5) Tahi Mana franchises sold, all of which have permanently closed. There are no Tahi Mana franchise locations currently in operation. Additionally, Taco Time International, Inc., one of the Franchising Subsidiaries detailed above, previously offered franchises for kiosk-style retail nut and candy shops called “The Gourmet Nutcracker.” Taco Time International, Inc. began franchising The Gourmet Nutcracker in January 1988 and ceased selling these “The Gourmet Nutcracker” franchises in 1991. There was one of “The Gourmet Nutcracker” franchises sold, and it permanently closed in June 1991. There are no “The Gourmet Nutcracker” franchise locations currently in operation. Prior to KBI’s acquisition of the Blimpie Assets, BI previously offered franchises for a restaurant called “Pasta Central” which offered pasta dishes for in-store and takeout consumption and other Italian-style food products, including grocery items like pasta and sauces. BI began franchising Pasta Central in 1999 and stopped offering Pasta Central franchises in 2003. During that time period, there were 98 Pasta Central franchises sold, all of which have permanently closed. There are currently no Pasta Central

franchise locations in operation. Maui Tacos International, Inc., a majority owned subsidiary of BI, offers a concept called “Maui Tacos” which offers burritos, tacos, taco salads, wraps, tostadas, quesadillas, enchiladas, nachos, and other Mexican-style food products, including grocery items like salsas and chips. Maui Tacos International, Inc. began granting Maui Tacos domestic franchises, area representative territories and international Maui Tacos master license and Franchise Agreements in 1998 and began offering Maui Tacos area development grants in 2003. As of March 31, 2012, there were 12 domestic Maui Tacos franchised restaurants. Maui Taco International, Inc. was not included in the Blimpie Assets purchased by KBI, and thus BI or its parent company continues to operate Maui Taco International, Inc., including offering Maui Taco franchises. Another franchise offered by Maui Taco International, Inc. was a juice bar concept called “Smoothie Island” which offered yogurt-based smoothie fruit drinks and other food and beverage items along with branded clothing. As of June 30, 2008, there were 25 Smoothie Island domestic franchised businesses and no Smoothie Island international franchised businesses, and by December 31, 2011, all 25 of the Smoothie Island stores that were open on June 30, 2008 had closed. The Pasta Central, Maui Tacos, and Smoothie Island franchising concepts offered by BI itself or through its subsidiary, Maui Taco International, Inc., were not included in the Blimpie Assets purchased by KBI, and thus, we have no affiliation with any of these three franchises or brands.

Kahala Franchise Corp. previously offered franchises for a kiosk-style ice cream dessert concept called “Wafflō.” It began franchising Wafflō in 2005 and ceased offering Wafflō franchises in December 2007. During that time period, there were twenty-one (21) Wafflō franchises sold. As of December 31, 2011, there were five (5) Wafflō restaurants opened; one (1) is in the United States and four (4) are international. Additionally, Kahala Franchise Corp. previously offered franchises for a premium soft serve frozen dessert product called “Tango.” It began offering Tango franchises in May 2007 and ceased selling Tango franchises in November 2007. During that time, there were no Tango franchises sold, and there are no Tango franchise locations currently in operation.

Except as described above, neither we nor any of our affiliates, including the Franchising Subsidiaries, Cold Stone Entities, and Leasing Affiliates, have offered any other franchises in any other line of business.

The principal place of business of Kahala Franchising, its predecessors and affiliates, including the Leasing Affiliates, Kahala Management, Kahala Advertising, KBI, KRES, TTSM, Blimpie OS1, Blimpie OS2, KAHA Acquisition V, KAHA Acquisition VI, KAHA Acquisition VII, Kahala Holdings, Kahala Restaurants, Cold Stone, CSC Holdings, CSC Restaurants, CSC Leasing, CSC International, BTB, CSC Real Estate, KGC, Neptune Equipment, and the Parent Company is 9311 E. Via De Ventura, Scottsdale, Arizona 85258. The principal place of business of Kona Coast and Vires is 9048 E. Bahia Drive, Scottsdale, Arizona 85260. The identity and principal business address of Kahala Franchising’s agent for service of process is listed in Exhibit C to this Disclosure Document.

### The Franchise

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

The business the franchisee will operate is a single traditional or non-traditional *Taco Time* restaurant specializing in freshly prepared Mexican quick service food and beverage products, at a specific location approved by us, and using the trademarks, trade names, service marks, logotypes, and other commercial symbols we adopt and authorize. A “traditional” *Taco Time* restaurant is any *Taco Time* location offering the full *Taco Time* menu. A “non-traditional” *Taco Time* restaurant is a *Taco Time* that generally offers a limited version of the full *Taco Time* menu in existence at

traditional *Taco Time* restaurants, at non-traditional locations such as an airport, shopping mall, department store, stadium, entertainment pavilion, amusement park, sports or entertainment venue, train station, travel plaza, cafeteria, retail store, military base, hospital, hotel, casino or high school or college campus. All restaurants, whether traditional or non-traditional, must be developed and operated to our specifications and standards, and sell only those products that we authorize. A *Taco Time* restaurant, whether traditional or non-traditional, is also referred to as the “Franchised Business.”

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

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

#### Area Representative Agreement

We also offer qualified parties (individuals or entities who have been approved to become Area Representatives) the rights to purchase a defined geographic area (the “ARA Territory”) and become a development services representative for the *Taco Time* brand within the ARA Territory. An Area Representative is not required to own or operate a *Taco Time* restaurant in order to be approved as an Area Representative. The person who purchases the defined geographic area is called an “Area Representative” and is an independent contractor of Kahala Franchising. Area Representatives’ services and support obligations in the ARA Territory may include: (i) identification of new potential third party franchisees; (ii) assistance with franchise sales; (iii) advice and guidance regarding location selection and lease negotiations; (iv) assistance in opening new *Taco Time* locations; (v) assistance with store training; (vi) assistance with marketing advice; (vii) Quality Service Cleanliness and Experience (“QSCE”) evaluations; and (viii) assistance with collection of the various sums due us from franchisees. Area Representatives and their owners and employees are not agents of Kahala Franchising and may not contractually bind us without our express written authorization. Area Representatives do not offer franchises for sale, but rather, operate as a franchise broker and contract service representative for Kahala Franchising. Therefore, the Area Representative does not have its own uniform franchise disclosure document, but instead, will have this Disclosure Document delivered to a prospective franchisee located within their ARA Territory. The Area Representatives’ personal five (5) year employment history disclosure and contact information are disclosed in Exhibit Q of this Disclosure Document. Area Representatives may not offer franchises for sale in a registration state unless Kahala Franchising has an effective registration in that state (See the Supplement State Cover Page for the list of State Effective Dates in the registration states). Kahala Franchising is responsible for all costs related to the production of documents and registration of this Disclosure Document. If your state requires that you, as an Area Representative, must register as a broker or seller of franchises, you must register as a broker in that state and pay all associated fees. Kahala Franchising, and not the Area Representative, will enter into the Franchise Agreement with the franchisee for the *Taco Time* restaurant located within the Area Representative’s ARA Territory. If you are purchasing an ARA

Territory, you will sign our “Area Representative Agreement” or “ARA” which is attached to this Disclosure Document as Exhibit O. The total number of *Taco Time* restaurants which you will be obligated to assist us in developing under the Area Representative Agreement and the timetable for developing them is negotiable on a case-by-case basis and will be inserted in the Area Representative Agreement before you sign it. Your defined ARA Territory will also be negotiated before you sign the ARA.

## **ITEM 2: BUSINESS EXPERIENCE**

### CEO, Chairman of the Board and Director: Kevin A. Blackwell

Mr. Blackwell has been Chairman of the Board and Director of KAHA from March 1999 to present. Mr. Blackwell was also CEO of KAHA from March 1999 until May 9, 2007 and from September 14, 2007 to the present.

### President and Director: David Guarino

Mr. Guarino has been a Director of KAHA since January 2004. Mr. Guarino served as President of Kahala Franchise Corp. from October 2003 until April 2008 and from August 2008 to the present. From October 1999 until December 2003, Mr. Guarino was Vice President – Chief Financial Officer, Treasurer, and Director of KAHA.

### Executive Vice President, and General Counsel: Michael J. Reagan

Mr. Reagan has been Executive Vice President and General Counsel of KAHA since January, 2004.

### Executive Vice President and Chief Financial Officer: Walt Schultz

From January 2004 to the present, Mr. Schultz has been Executive Vice President and Chief Financial Officer of KAHA.

### Executive Vice President – Franchise Development & Licensing: Chris Henry

Mr. Henry has been the Executive Vice President of Franchise Development & Licensing since November 2008. From July 2004 through November 2008, Mr. Henry was an Executive Vice President and Chief Operating Officer of KAHA.

### Chief Operating Officer and Blimpie Brand President: Jeff Smit

Mr. Smit became the Blimpie Brand President in November 2007 and became the Chief Operating Officer in June 2009. In October 2008, Mr. Smit also began to oversee the Great Steak & Potato, Surf City Squeeze, and Frullati brands. Prior to this, Mr. Smit was the Director of Operations for Cold Stone Creamery, Inc. in Scottsdale, Arizona, from February 2005 until November 2007.

### Taco Time Brand President: Kevin Gingrich

Mr. Gingrich has served as the Brand President of the Taco Time brand since February 2005. Mr. Gingrich also served as the Surf City Squeeze Brand President and Johnnie’s New York Pizzeria Brand President from March 2007 through October 2007. Mr. Gingrich is also a Taco Time franchisee.



Senior Vice President and Assistant General Counsel: Joel Schweidel

Mr. Schweidel had been the Assistant General Counsel of KAHA since May 2007 and was promoted to Senior Vice President in June 2009. From November 1999 until May 2007, Mr. Schweidel served as the Director of Legal Affairs and General Counsel of Blimpie Associates, Ltd. in New York, New York.

Senior Vice President – Non-Traditional Development: Quentin Smith, Jr.

Mr. Smith joined the KAHA team as the Senior Vice President – Non-Traditional Development in October 2008. Mr. Smith has been serving as the President of Cadre Business Advisors LLC in Phoenix, Arizona, since April 1996.

Senior Director of Strategic Development: Ernesto Salazar

Mr. Salazar joined the KAHA team as the Senior Director of Strategic Development in June 2010. From June 2007 until June 2010, Mr. Salazar was the Director of Vehicle Sales for Auto Safety House, LLC in Phoenix, Arizona. Prior to that, Mr. Salazar served as the President of The Salazar Company in Phoenix, Arizona, from September 2006 until June 2007.

Senior Vice President of Operations Services: Kevin Burnett

Mr. Burnett became the Vice President of Operations Services for KAHA in November 2008 and was promoted to Senior Vice President of Operations Services in August 2011. Prior to that, Mr. Burnett was the Senior Director of Operations for Cold Stone Creamery, Inc. in Scottsdale, Arizona, since August 2004.

Senior Vice President of Restaurant Operations, Johnnie's New York Pizzeria and Kahala Coffee Traders Brand President: Anthony Crosby

Mr. Crosby joined the KAHA team in October 2009 as the Vice President of Restaurant Operations. In addition, in January 2010, Mr. Crosby also became the Johnnie's New York Pizzeria Brand President. In August 2011, Mr. Crosby became the Senior Vice President of Restaurant Operations and the Brand President for Kahala Coffee Traders. From November 2005 until October 2009, Mr. Crosby was an Area Director for Mac Acquisition LLC in Dallas, Texas.

Vice President of Franchise Development: Jay Goldstein

Mr. Goldstein has worked with the Cold Stone Creamery brand since joining Cold Stone Creamery in Scottsdale, Arizona October 2005. In June 2006, Mr. Goldstein became the Director of Development and Real Estate of Cold Stone Creamery. In January 2008, Mr. Goldstein became the Senior Director of Development of KAHA, and from January 2008 until November 2008, Mr. Goldstein was the Senior Director of Operations for KAHA. Mr. Goldstein was promoted to Vice President of Franchise Development in May 2009.

Director of Non-Traditional Development (all brands) and Director of Development for Blimpie: Jillian Clothier

Ms. Clothier has been the Director of Non-Traditional Development for KAHA since March 2007. In addition, Ms. Clothier became the Director of Development for the Blimpie brand in November 2010. Prior to that, Ms. Clothier served as the Director of Operations of the NrGize Lifestyle Cafe brand from January 2006 through March 2007. Ms. Clothier also served as the Director of Operations of the Surf City Squeeze brand from May 2005 through March 2007, and served as the Director of Operations of the Rollerz, and Wafflō brands from May 2005 through January 2006.

Director of Strategic Alliances: Patric Knapp

Mr. Knapp became an Area Director for the Atlantic Cold Stone Creamery region of KAHA in May 2007 and was promoted to the Director of Strategic Alliances in March 2009. As the Director of Strategic Alliances, Mr. Knapp is involved in the sales of all of our brands. Prior to that, Mr. Knapp was a Senior Operations Manager for Cold Stone Creamery in Scottsdale, Arizona, from March 2003 until May 2007.

Vice President of Real Estate: Jeremy Cook

Mr. Cook has served as the Vice President of Real Estate of KAHA since April 2008. From January 2007 until his promotion in April 2008, Mr. Cook was the Director of Real Estate for KAHA. Beginning in March 2011, as part of his duties as Vice President of Real Estate, Mr. Cook is also involved in the sales of all of our brands.

Vice President of Operations Services: Kerry Jaccard

Ms. Jaccard became an Operational Excellence Consultant for Cold Stone Creamery, Inc. in Scottsdale, Arizona in October 2004 and was promoted to Senior Operational Excellence Manager. In May 2007, Ms. Jaccard became the Director of Project Management for KAHA and was promoted to Director of Operations Services. In August 2011, Ms. Jaccard was promoted to Vice President of Operations Services where she manages the Training Program for the Kahala Training & Education Center (KTEC) for KAHA in Scottsdale, Arizona.

Senior Director of Franchise Relations & Ombudsman: Carolyn Stock

Ms. Stock was a Project Coordinator, Program Manager, and Director of Franchise Relations & Ombudsman for Cold Stone Creamery, Inc. in Scottsdale, Arizona, from March 2003 through June 2007. In June 2007, Ms. Stock became the Director of Franchise Relations & Ombudsman for KAHA, and in June 2008, Ms. Stock was promoted to Senior Director of Franchise Relations & Ombudsman.

Vice President of Franchise Transfers and Renewals: Ammie Litton-Cooper

Ms. Litton-Cooper joined KAHA in August 2004 and became an Executive Assistant in February 2005. In April 2006, Ms. Litton-Cooper was promoted to Director of Franchise Transfers and joined the KAHA's sales team. In January 2008, Ms. Litton-Cooper also became the Director of Franchise Renewals. In October 2008, Ms. Litton-Cooper was promoted to Vice President of Franchise Transfers and Renewals.

Vice President of Marketing: Steven Evans

Mr. Evans joined the KAHA marketing team in October 2007 as a National Marketing Manager for the Blimpie brand. In October 2009, Mr. Evans also became the Director of Marketing for the NrGize Lifestyle Cafe and Surf City Squeeze brands, and in January 2010, Mr. Evans also became the Director of Marketing for the Taco Time brand. In March 2011, Mr. Evans was promoted to Senior Director of Marketing, and in August 2011, Mr. Evans became the Vice President of Marketing. From November 2004 through October 2007, Mr. Evans was a Regional Manager for BFG Communications in Scottsdale, Arizona.

## Franchise Sales

### Director of Franchise Development: Dana Mead

Ms. Mead joined KAHA's sales team in March 2011. From October 2007 through August 2009, Ms. Mead was the Regional Vice President of Franchise Sales for Focus Brands in Atlanta, Georgia. Prior to that, Ms. Mead was the Senior Director of Franchise Sales and Marketing for Raving Brands in Atlanta, Georgia from June 2006 until September 2007.

### Vice President of Franchise Development: Nicole J. Rayborn

Ms. Rayborn joined KAHA's sales team in March 1999 as the Director of Franchising. In addition to being a Franchise Sales Representative, from September 2007 through January 2008, Ms. Rayborn was the Director of Development - Western Region and became a Vice President of Franchise Development in November 2008. Prior to that, Ms. Rayborn was the Executive Vice President – Franchise Sales of KAHA from January 2004 until September 2007.

### Franchise Sales Representative: Charles Randazzo

Mr. Randazzo joined KAHA's franchise sales team in April 2003. Mr. Randazzo has also served as the NrGize Lifestyle Cafe Brand President since March 2007.

### Franchise Sales Representative: Kyle Chung

Mr. Chung has been a Franchise Sales Representative for KAHA since June 2005.

## **ITEM 3: LITIGATION**

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

Gaurang and Leena Parikh and Ranch 1 of Sunrise Mall, LLC v. Ranch \*1 Group, Inc., Ranch One/Kahala Brands of NY/Conn., LLC, Kahala Franchising, LLC, Kahala Corp., Malibu Smoothie Franchise Corporation, Petroff, Furst & Associates, Receivables Management Services, AWA Collections, and SFR Funding, Inc.: New York Supreme Court, Nassau County, Commercial Division, Case No. 601397/2011. On or about December 12, 2011 Gaurang and Leena Parikh and Ranch 1 of Sunrise Mall, LLC (collectively, "Plaintiffs") filed a Complaint for Declaratory Judgment and Other Relief against Kahala Franchising, LLC, et al. ("Defendants") alleging deceptive business practices under General Business Law § 349, libel, racketeering activity under 18 U.S.C §1961, et seq., and unfair practice by a debt collector under 15 U.S.C.A. § 1692 et seq. Leena Parikh, under her company name Ranch 1 of Sunrise Mall, LLC, was a former Ranch \*1 and Surf City Squeeze franchisee, and Gaurang Parikh is her spouse. Plaintiffs seek a judgment declaring Plaintiffs owe no monies under their franchise agreements, compelling Defendants to take all necessary action to clear Plaintiffs' credit reports of any negative credit history relating to the franchise agreement, treble damages, \$3,000, attorneys' fees, costs of the suit, and such other relief which the court deems equitable and just. Defendants Kahala Franchising, LLC, Kahala Corp., and Malibu Smoothie Franchise Corporation deny all allegations and will vigorously defend the claims against them. The parties are in the process of negotiating a settlement.

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

None.

Franchisor-Initiated Lawsuits Filed by Franchisor Kahala Franchising, L.L.C. Against Franchisees During Calendar Year 2011:

*Royalty and Advertising Fee Collection Suits:*

Kahala Franchising, L.L.C. v. Ji Eun Ham and Philip Ham: Superior Court of Los Angeles County, California, Case No. BC55775.

Kahala Franchising, L.L.C. v. Morgan Holdings, Inc., Keith Morgan, and Jane Doe Morgan: Superior Court of Maricopa County, Arizona, Case No. CV2011-098866.

*Trademark Infringement*

Kahala Franchising, L.L.C. v. Chicken Soup, Inc.: United States District Court, Southern District of New York, Case No. 11 CIV 6561.

Kahala Franchising, L.L.C. v. Morgan Holdings, Inc., Keith Morgan, and Jane Doe Morgan: Superior Court of Maricopa County, Arizona, Case No. CV2011-098866.

LITIGATION INVOLVING PREDECESSORS AND AFFILIATES

Pending Arbitration and Litigation Involving Predecessor Kahala Franchise Corp.

None

Concluded Arbitration and Litigation Involving Predecessor Kahala Franchise Corp.

None

Franchisor-Initiated Lawsuits Filed by Predecessor Kahala Franchise Corp. Against Franchisees During Calendar Year 2011:

*Royalty, Advertising and Turnkey Fee Collection Suit:*

Kahala Franchise Corp. v. Tamara Garnett: Superior Court of Maricopa County, Arizona, Case No. CV2011-051159.

*Trademark Infringement, Royalty Fee, Advertising Fee, and Rent Collection Suit:*

Kahala Franchise Corp., KBI Holdings, L.L.C., and KRES – GA, LLC v. TK Food Enterprises, Inc. and Tae Kwon Hong: United States District Court, Northern District of Georgia, Atlanta Division, Case No. 1:11-cv-00022-CAP.

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

Cecil Rolle v. Cold Stone Creamery, Inc. et al; Eighth Judicial Circuit Court, Alachua County, Florida, Case No. 2011-CA-5004. On or about September 30, 2011, Cecil Rolle, a former Cold Stone Creamery franchisee (“Plaintiff”) filed a Complaint and Demand for Jury Trial against Cold Stone Creamery, Inc., Kahala Corp. (collectively “Cold Stone”), Cold Stone Franchisee National Advisory Board, LLC, Robert Zarco, Esq., and Zarco Einhorn Salkowski & Brito, P.A. (collectively “Defendants”). The complaint alleges defamation per se and defamation per quod. Plaintiff seeks an award in an unspecified amount for all damages, including interest, costs and any other relief the Court deems proper. Defendants Cold Stone denied all allegations and vigorously defended the

claims against them. Plaintiff filed an Amended Complaint on or about January 17, 2012 also alleging conspiracy to defame and including additional defendants. Defendants deny all allegations and have vigorously defended the claims against them. The Cold Stone National Advisory Board, LLC was not named as a defendant in the Amended Complaint. A Clerk's default has been entered against defendant Dan Beem. A motion has been filed to vacate the default. At the beginning of 2012, Cold Stone filed a Motion to Dismiss and Motion for Sanctions, and NIACCF, Inc., Robert Zarco, Esq., and Zarco Einhorn Salkowski & Brito, P.A. filed a Motion to Dismiss and to Transfer Venue. The Motion to Transfer Venue to Dade County, Florida was granted by the court on April 12, 2012, and the Motion to Dismiss was denied. Cold Stone's Motion to Dismiss has not been ruled upon, and the Plaintiff has filed an Appeal of the order granting the Motion to Change Venue.

O & O Enterprises, LLC, v. Cold Stone Creamery Leasing Company, Inc.; Andraya Clermont; and Does 1 through 10, inclusive; Andraya Clermont v. O & O Enterprises, LLC; Cold Stone Creamery Leasing Company, Inc. a/k/a Cold Stone Creamery, Inc. a/k/a Kahala Corp.; and Does and Roes 1-10; District Court, Clark County, Nevada, Case No. A-10-616-924-C. In May 2010, O & O Enterprises, LLC ("Plaintiff") filed a Complaint for Damages against Cold Stone Creamery Leasing Company, Inc. and Andraya Clermont ("Defendants") alleging Defendants breached the lease agreement with Plaintiff. Plaintiffs seek no less than \$19,461.03 in addition to legal fees and costs. Defendant Clermont counterclaimed against Plaintiff alleging there is a justifiable controversy regarding the alleged breach of the lease; and cross-claimed against Cold Stone Creamery Leasing Company, Inc., a/k/a Cold Stone Creamery, Inc. a/k/a Kahala Corp. (collectively "Kahala") alleging Kahala previously relieved Defendant Clermont from any obligation or liability regarding the lease. On November 3, 2010, Clermont filed an Amended Third-Party Complaint asserting a Third-Party Claim against Kahala Corp. for breach of contract, tortious breach of implied covenant of good faith and fair dealing, fraud/fraudulent inducement, and breach of duty of loyalty and fiduciary duty. Counterclaimant/Crossclaimant/Third-Party Plaintiff Clermont seeks damages in excess of \$20,000.00, treble damages. Defendants Cold Stone Creamery Leasing Company, Inc., Cold Stone Creamery, Inc., and Kahala Corp. deny all allegations and will vigorously defend the claims against them.

Cindy Kilman, Joseph "Buck" Kilman, and BCEK, LLC v. Cold Stone Creamery, Inc. (AAA Case No. 76 114 Y 00252 09 LGB ). On or about August 17, 2009, Cindy Kilman, Joseph "Buck" Kilman, and BCEK, LLC (collectively, the "Claimants"), former Cold Stone Creamery franchisees, filed a Demand for Arbitration with the American Arbitration Association against Cold Stone Creamery, Inc. (the "Cold Stone" or the "Respondent") alleging intentional fraud/fraudulent inducement; negligent misrepresentations and omissions; wrongful termination of four Franchise Agreements and Subleases; breach of implied covenant of good faith and fair dealing; breach of contract; violations of Federal Anti-Trust law including "illegal tying" claims and "exclusive arrangements" under the Sherman Act and Clayton Act; violations of the Arizona Uniform State Antitrust Act, A.R.S. §§ 44-1401, *et seq.*; violations of the Texas Free Enterprise and Antitrust Act of 1983, Tex. Bus. & Com. Code Ann. §§15.01 – 15.26 (TFEAA); violations of Arizona's Consumer Fraud Act, A.R.S. §§ 44-1521, *et seq.*; and violations of Texas' Deceptive Trade Practices-Consumer Protection Act, Texas Bus. & Comm. Code Ann. §§17.41, *et seq.* Claimants were seeking damages in excess of \$1,100,000.00, which included their investment, future profits, and future earnings; interest; costs and expenses of the arbitration proceeding, attorneys' fees; rescission of their four franchise agreements and subleases; and declaratory relief that "None of the Kilmans (BCEK, LLC, Cindy Kilman or Joseph "Buck" Kilman), shall be responsible to Cold Stone Creamery, Inc. for contribution, or otherwise, relating to any rent or additional rent which Cold Stone Creamery, Inc. (or any of its affiliates) may owe or may have been adjudged to owe to any landlord in connection with any of the premises from which the Kilmans (or any one of them) operated their Cold Stone Franchises." Cold Stone Creamery, Inc. denied all allegations and vigorously defended the claims against it. Claimants filed an Amended Demand for Arbitration on or about February 9, 2010 stating with more specificity the allegations of each alleged misrepresentation. Respondent filed a Response to the Amended Demand for Arbitration and

Counterclaim in which it alleged breach of contract and sought a dismissal of all claims raised by Claimants with prejudice and damages in the amount of \$85,000 plus reasonable attorneys' fees and costs. The arbitration occurred in March 2011 with the American Arbitration Association. The arbitrator awarded Claimants \$349,542.07 on or about May 6, 2011. On or about May 20, 2011, Respondent filed a Notice of Appeal with the American Arbitration Association. On or about June 15, 2011, the American Arbitration Association asked to set up a conference call to initiate the appeal. When, as of June 17, 2011, Counsel for the Claimants had not indicated any availability for or an agreement to participate in the conference call, Respondent appealed the decision to the Arizona District Court by filing a Complaint, Case No. 2:11-cv-01192, alleging breach of contract. Respondent/Plaintiff sought an order compelling the Claimants/Defendants to submit to AAA jurisdiction for an appeal of the award, reasonable attorneys' fees and costs, and any other relief the court deemed proper. On August 5, 2011, Respondent/Plaintiff filed a Petition to Vacate and Modify Arbitration Award in which it sought an order amending the arbitration award in favor of Respondent/Plaintiff in the amount of \$85,000.00 plus pre- and post-judgment interest, or alternatively, an order vacating the arbitration award, and reasonable attorneys' fees and costs incurred and such other relief as the court deemed just and proper. On or about September 6, 2011, Claimants/Defendants filed a Motion for Temporary Restraining Order and Preliminary Injunction seeking the court to disallow Cold Stone from any further activity in the appeal of the arbitration award and to disallow Cold Stone from enforcing the appeal of arbitration provision in the franchise agreement, and filed an Answer and Counterclaims seeking an Order confirming the final arbitration award, a declaration that the appeal provision in the franchise agreement is unconscionable, and injunctive relief. Cold Stone filed a Motion to Stay on or about September 16, 2011. The Court filed an Order on or about October 26, 2011 granting Defendants injunctive relief, confirming the arbitration award and denying Cold Stone's Motion to Stay and request to vacate or modify the arbitration award. Cold Stone has appealed this case to the United States District Court in Arizona. The Claimant also filed a Motion for Attorneys' Fees and Non-Taxable Expenses in the amount of \$160,000. On or about May 30, 2012 the Court ordered Plaintiff to pay Defendants attorneys' fees in the amount of \$70,000. While the appeal is pending, the parties continue to explore settlement discussions.

Franchisor-Initiated Lawsuits Filed by Predecessor Cold Stone Creamery, Inc. Against Franchisees During Calendar Year 2011:

*Breach of Contract:*

Cold Stone Creamery, Inc. v. Colonial Creamery, Inc., Edward Reesman and Cynthia Reesman (AAA Case No. 76-114-0183-11).

*Lease Related Fees Collection:*

Cold Stone Creamery, Inc. v. Sean Buckley, Aurora Vazquez, and Edmond, LLC: Superior Court of Maricopa County, Arizona, Case No. CV2011-051158.

Cold Stone Creamery, Inc. and Cold Stone Creamery Leasing Company, Inc. v. Karren Antonyan, Elizabeth Antonyan, and Four23, LLC: Superior Court of Los Angeles County, California, Northwest Division, Case No. LC092534.

Cold Stone Creamery, Inc. and Cold Stone Creamery Leasing Company, Inc. v. David Pages and Edward Pages: Superior Court of Los Angeles County, California, Southwest Division, Case No. YC064091.

Cold Stone Creamery, Inc. v. Nicholas S. Hahn: Northern District Court of Illinois, Eastern Division, Case No. 2011-CV-7764.

Cold Stone Creamery, Inc. v. Spencer Bank, Susan Bank, Brandywine Creamery, Ltd.: US District Court, Eastern District of Pennsylvania, Case No. 2:11-cv-05019-NS.

Cold Stone Creamery, Inc. v. Richard Golden and Lisa Golden: US District Court, Eastern District of Pennsylvania, Case No. 2:11-cv-05018-NS.

Cold stone Creamery, Inc. and Kahala Franchising, L.L.C. v. Stephanie and Richard Lucarelli et seq.: US District Court, District of Connecticut, Case No. 3:11-cv-01469-JBA.

*Royalty, Advertising, Gift Card and/or Lease Related Fees Collection:*

Cold Stone Creamery, Inc. v. Shannon N. Leon, Natheis Heard, and NHSL, LLC: Superior Court of Maricopa County, Arizona, Case No. CV2011-051008.

Cold Stone Creamery, Inc. v. Howard J. Moore, Roxanne M. Moore, Roxmoore, LLC, Sweet Things Ice Cream & Desserts, LLC: Northern District Court of Illinois, Eastern Division, Case No. 2011-CV-6552.

Cold Stone Creamery, Inc. v. Constantino, Taccogna, Bitritto Enterprises, Inc., CS 1920 W. North, LLC, and CS 2187 N. Clybourn, LLC: Northern District Court of Illinois, Eastern Division, Case No. 2011-CV-6783.

Pending Arbitration and Litigation Involving Predecessor Frullati Franchise Systems, Inc.

Dung Nguyen and Phuong Nguyen v. JKML, LLC and Frullati Franchise Systems, Inc. and Kahala Corp.; Circuit Court of St. Louis County, Missouri, Case No. 09SL-CC01633. In April 2011, Dung Nguyen and Phuong Nguyen (collectively, the "Plaintiffs"), former franchisees, filed a Complaint against JKML, LLC ("JKML"), Frullati Franchise Systems, Inc. ("Frullati") and Kahala Corp. ("Kahala") (collectively, the "Defendants"). In the Complaint, Plaintiffs allege a breach of duty of good faith and fair dealing by Frullati. Plaintiffs also allege that JKML, the former franchisee of the franchised business and party not affiliated with Frullati or Kahala, engaged in fraudulent misrepresentation. Plaintiffs further allege that Frullati acted negligently and failed to use reasonable care by missing deadlines relating to the lease and/or failing to provide notification to Plaintiffs regarding the deadlines. The Plaintiffs did not state any causes of action against Kahala. The Plaintiffs pray for judgment against Defendants jointly and severally for actual and punitive damages in excess of \$25,000 as reasonable under the circumstances as pled, plus their costs, and for such other and further relief the court may deem proper. Defendants Frullati and Kahala deny all allegations of the claims and will vigorously defend the claims against them. In May 2011, Kahala filed a motion to dismiss Kahala Corp. from the lawsuit. On April 24, 2012, the Court granted Kahala's Motion to Dismiss and a dismissal with prejudice was entered. The case against Frullati is still pending.

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

Afsana Alekozai v. Cold Stone Creamery Leasing Company, Inc.; United States District Court for the Northern District of California, San Francisco Division, Case No. CV-10 1254. In March 2010, Afsana Alekozai ("Plaintiff"), a former Cold Stone Creamery franchisee, filed a Complaint against Cold Stone Creamery Leasing Company, Inc. ("Defendant") alleging violation of the California Franchise Relations Act (Cal Bus & P C §§2000-20043) for allegedly terminating the Plaintiff's Franchise Agreement without providing Plaintiff with an opportunity to cure; violation of the California Franchise Investment Law (California Corporations Code §§31000-31516); deceit (as

defined in California Civil Code §§1709-1710); violation of the California Unfair Competition Law (Bus & P C §§17200-17210); fraud; breach of an express contract provision; breach of fiduciary duty; and breach of the implied covenant of good faith and fair dealing. Plaintiff is seeking monetary and punitive damages in an unspecified amount and restitution. Cold Stone Creamery Leasing Company, Inc. denied all allegations and vigorously defended the claims against it. Defendant filed a motion to dismiss and to stay proceedings pending arbitration. On June 25, 2010, the United States District Court entered an Order Granting Defendant's Motion to Dismiss and to Stay Pending Arbitration, which dismissed with prejudice the Plaintiff's causes of action regarding violation of the California Franchise Relations Act and California Franchise Investment Law. The remaining claims against Defendant are stayed pending arbitration of the dispute in Arizona. On or around August 13, 2010, Cold Stone Creamery Leasing Company, Inc. and Cold Stone Creamery, Inc. (collectively, "Petitioner") filed a Petition to Compel Arbitration, in the United States District Court for the District of Arizona, Case No. CV 10-1762-PHX-JAT, against Afsana Alekozai ("Respondent"). On December 21, 2010, the Court entered an Order Granting Petitioner's Motion for Default Judgment, and further Order Granting the Petition to Compel Arbitration. The parties have consented to mediation to settle this dispute.

Afsana Alekozai v. Cold Stone Creamery; American Arbitration Association; Case #76-114-J00048-12 02 NOLG-R. On March 12, 2012, Afsana Alekozai ("Claimant"), a former Cold Stone Creamery franchisee, filed a Demand for Arbitration with the American Arbitration Association against Cold Stone Creamery ("Respondent") alleging that Claimant's Franchise Agreement was wrongfully terminated in 2009. In the demand, Claimant failed to properly identify any existing Cold Stone entity against which relief is sought. It is also not determinable from the demand whether the Arbitration was filed pursuant to the Order Granting the Petition to Compel Arbitration issued by the United States District Court for the District of Arizona, Case No. CV 10-1762-PHX-JAT. In the Arbitration, Claimant is seeking damages in the amount of \$830,000.00, plus attorneys' fees, interest, arbitration costs, punitive/exemplary damages, and lost wages. Although it is indeterminable from the demand which Cold Stone entity Claimant seeks relief from, Cold Stone Creamery denies all allegations and will vigorously defend the claims against it. Cold Stone filed a counterclaim in the Arbitration proceeding seeking recovery of \$12,000 in landlord fees paid by Cold Stone Creamery Leasing Company, Inc. The Respondent named in the Arbitration demand is not an existing Cold Stone Creamery entity and, accordingly Cold Stone will pursue clarification. In a good faith attempt to resolve any and all disputes between Cold Stone and the Claimant, both parties have agreed to a pre-arbitration mediation in an attempt to resolve the claims brought through the current arbitration as well as those remaining from Case No: CV 10-1762 PHX-JAT.

#### Concluded Arbitration and Litigation Involving Parent Company Kahala Corp.

Ronald Williams and Jennifer Clayton v. Kahala Corp.; Third Judicial Circuit Court, Madison County, Illinois, Case No. 2010 L 000166. In February 2010, Ronald Williams and Jennifer Clayton, individually and on behalf of all others similarly situated (collectively, the "Plaintiffs") filed a Class Action Complaint against Kahala Corp. ("Defendant"), incorrectly naming Kahala Corp. as the franchisor of the Blimpie brand. In the Complaint, Plaintiffs allege violation of the Illinois Consumer Fraud and Deceptive Business Practices Act arising from a claim that the Blimpie restaurants in the state of Illinois do not put double the meat in the Super Stacked sandwiches. The Plaintiffs seek certification of the class, designation of Plaintiffs as representatives of the class and counsel as class counsel, damages to be determined at trial, but in no event greater than \$75,000 per person, plus reasonable attorneys' fees and allowable costs, including reasonable fees and expenses of any necessary expert witnesses, a permanent injunction enjoining Defendant from advertising that its Super Stacked sandwiches contain double portions of meat without including double portions of meat in such sandwiches, and any other relief the Court deems appropriate. Defendant denied all



allegations. In May, 2010, the parties reached a settlement whereby Defendant agreed to donate \$5,000.00 to a local food bank in exchange for Plaintiffs' dismissal of all claims against Defendant.

#### Concluded Arbitration and Litigation Involving Predecessor Kahala Franchise Corp.

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

Bay Area Cereal, LLC, Larry Schaadt and Laila Fields v. Kahala Franchise Corp.; Santa Clara County Superior Court, California, Case No. 109CV136483. In March 2009, Bay Area Cereal, LLC, Larry Schaadt and Laila Fields (collectively, the "Plaintiffs"), Cereality area representatives and franchisees, filed a lawsuit against Kahala Franchise Corp. (the "Defendant") alleging fraud, negligent misrepresentation, violation of Corporations Code § 3121 *et seq.*, and breach of contract (both Franchise Agreement and Area Representative Agreement). Specifically, Plaintiffs alleged that Defendant misrepresented the maturity of the Cereality brand, the expansion of the brand, and the success of franchised restaurants. Plaintiffs sought monetary damages in excess of \$500,000, special, punitive and exemplary damages, pre-judgment interest, attorneys' fees and costs, and rescission of the Franchise Agreement, Area Representative Agreement and guaranties. The action was removed on April 7, 2009 to the United State District Court for the Northern District of California, Case No. CV 09 1516 RS, at which time Kahala Franchise Corp. filed a counter-claim. The parties entered into a Settlement Agreement on January 12, 2010 whereby Kahala Franchise Corp. paid Plaintiffs the sum of \$250,000 and the Franchise Agreement and Area Representative Agreements were terminated.

Tulsi One, LLC v. Kahala Franchise Corp.; American Arbitration Association, New York, New York, Case No. 18 114 00047 07. On January 5, 2007, Tulsi One, LLC (the "Claimant") filed an arbitration proceeding against Kahala Franchise Corp. ("Kahala") alleging wrongful termination of two Franchise Agreements, unjust enrichment and breach of contract. Claimant sought damages in the amount of \$450,000 and arbitration costs. Kahala denied all allegations. Following an evidentiary hearing, an arbitration award was rendered on November 28, 2007 awarding Claimant \$12,000, along with prejudgment interest at the rate of 9% from January 1, 2006. In January, 2008, Claimant accepted \$12,000 from Kahala in exchange for providing Kahala with a full release, including full satisfaction of the above arbitration award.

CBR Enterprises, LLC, CBR Enterprises South, LLC, and Blimpie of North Bend, on behalf of themselves and other similarly situated v. Blimpie International, Inc., Kahala Corporation, Kahala Franchise Corporation, and KBI Holdings, LLC; American Arbitration Association, New York, New York, Case No. 11 114 00886 06. On April 19, 2006, the named claimants purporting to represent all Blimpie franchisees, filed an arbitration demand against Blimpie International, Inc. ("BI") and Kahala Corp., Kahala Franchise Corp. and KBI Holdings, LLC (collectively "Kahala"), seeking class action status. Claimants alleged that BI/Kahala was in breach of its Franchise Agreements and violated antitrust laws, state deceptive trade practices laws, state franchise laws and the implied covenant of good faith and fair dealing by changes to BI's approved manufacturers and suppliers. Claimants also alleged that BI/Kahala tortuously interfered with franchisees' relationships with previously-authorized manufacturers by BI/Kahala's exercise of its right of disapproval. Claimants also alleged that a portion of the Advertising Fee ("AF") and Blimpie Brand Building Fund, Inc. ("BBBF") monies were used for unauthorized purposes. Claimants sought preliminary and permanent injunctive relief, including a declaratory judgment that BI/Kahala's manufacturer agreements are unlawful and a declaration that BI/Kahala may not take action against Claimants in the form of default notices and similar action, an injunction against future manufacturer agreements by which BI/Kahala receives payments from manufacturers, and restraint of BI/Kahala's enforcement of its franchisees' obligations under their Franchise Agreements to purchase required products. Claimants also sought an accounting and damages of: (i) disgorgement of all monies claimed to have been unlawfully paid to BI/Kahala by 3<sup>rd</sup>-party suppliers since January 1, 2002; (ii) the cost increases franchisees sustained as a result of BI/Kahala's recent manufacturer agreements; (iii) all amounts claimed to have been diverted from the AF and BBBF, and consequential or incidental damages incurred by Claimants or the BBBF; (iv) multiple damages as provided by statute; and (v) attorneys' fees, costs, and disbursements associated with the arbitration. This case was dismissed with prejudice in accordance with the settlement agreement between the parties in the arbitration entitled C.P. Ferrell, Inc., et al. v. Blimpie International, Inc. Case No. 13 114 03098 02 (the "Ferrell Settlement Agreement") (See below in this Item 3). The terms of the Ferrell Settlement Agreement included: (i) a \$437,500 payment by Blimpie to the BBBF (payable in \$12,500 installments for 35 months), an \$87,500 payment towards C.P. Ferrell, Inc., Charles Ferrell, Inc., Chris McGirt, Knee Deep, Inc., Tracar, LLC, Lynn Hennings, Nordstrom Oil Company, George Poulos, Mid-American Systems, Inc., Patricia Lewick, Gary Lundy, BATV, Inc., Brian Taylor, Babb, LLC, Kevin Stanfield, Bradlynn & Associates, Inc., Mark White, WTI Restaurants, Inc., Ted E. Wilcox, Tred's Inc., Robert L. Weitzel, Siesta Ices, Inc., Gibson Pryor and Pryor Management, LLC (collectively, the "Ferrell Claimants") expenses, and a \$350,000 payment towards Ferrell Claimants' attorneys' fees; (ii) certification of a non-opt out settlement class by the Arbitrator consisting of all current Blimpie franchisees, a settlement fairness hearing before the Arbitrator as a class settlement, and confirmation of the settlement/consent award by a court of competent jurisdiction; (iii) agreement by parties to adhere to the current Blimpie vendor approval process and administration of the BBBF according to the current BBBF By-Laws; (iv) releases of Respondents (Blimpie International, Inc. and Jeffrey Endervelt) by class members of all vendor related claims; (v) dismissal with prejudice of the arbitration entitled CRB Enterprises, et al. v. Blimpie International, et al., Case No. 11 114 00886 06.

Golden Big Dipper, L.L.C. v. Nicar Management, Inc., et al., Superior Court of New Jersey, Chancery Division, Essex County, Docket No. ESX-C-226-04. In August 2004, Golden Big Dipper, L.L.C. ("Plaintiff"), a former Great Steak & Potato Company franchisee, filed a lawsuit against Nicar Management, Inc., Kahala Corporation, Kahala Holdings, L.L.C., HJ Duch, LLC, The Port Authority of New York and New Jersey d/b/a BAA Newark, Inc., Kahala Franchise Corp., Hee Joo Duch, Nicar Holding Corp., and Unison Maximus, Inc. (collectively, the "Defendants") alleging (i) breach of contract of the Sublease agreement; (ii) conversion; (iii) fraud; and (iv) tortuous interference relating to the Great Steak & Potato Company franchise located in Newark Airport. Plaintiff seeks compensatory damages in the amount of \$1,000,000. Nicar Management, Inc., Kahala Corporation, Kahala Holdings, L.L.C. (collectively, the "Kahala Defendants") denied all of Plaintiff's claims. The discovery phase is concluded. Kahala Franchise Corp. and certain of the other

defendants filed a Motion for Summary Judgment and in a February 2007 ruling on the Motion, the Judge ruled the following: (i) the breach of contract claim is only viable against Nicar Management, Inc.; (ii) the conversion and fraud claims are only viable against Kahala Franchise Corp.; and (iii) all other defendants and causes of action were dismissed (the "Summary Judgment Ruling"). The case settled in July 2007 with no admission of fault by either party and total payments of \$175,000 by the Kahala Defendants.

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

Cold Stone Creamery, Inc. v. Jason Pinnock, Jack Pinnock, and Pin Knox, Inc., (AAA Case No. 76-114-00366-08 LGB). On or about October 31, 2008, Cold Stone Creamery, Inc. (the "Claimant") filed a Demand for Arbitration with the American Arbitration Association against Jason Pinnock, Jack Pinnock, and Pin Knox, Inc. (collectively, the "Respondents"), former Cold Stone Creamery franchisees, alleging breach of contracts (Franchise Agreement and Sublease) for two restaurants. Cold Stone Creamery, Inc. sought \$252,434 in damages. Respondents filed an answer and counterclaim on or about December 5, 2008 alleging improperly disclosed kickbacks; fraud; breach of implied covenant of good faith and fair dealing; breach of contract; negligent misrepresentations; violations of the Federal Anti-Trust law including "illegal tying" claims and "exclusive arrangement" claims under Section 1 of the Sherman Act, 15 U.S.C. § 1 and Section 3 of the Clayton Act, 15 U.S.C. § 15; violation of Arizona's Uniform State Antitrust Act, A.R.S. §§ 44-1401, *et seq.*; violation of Arizona's Consumer Fraud Act, A.R.S. §§ 44-1521, *et seq.*; and violation of Pennsylvania's Unfair Trade Practices and Consumer Protection Law, Pa. State. Ann. Title 73, §§ 201-1 *et seq.* Respondents sought damages of approximately \$1,925,000 plus interest; attorneys' fees; arbitration costs and expenses; rescission of their three Franchise Agreements; and dismissal of Cold Stone Creamery, Inc.'s claims against Respondent. In November, 2010, the parties submitted to two-week arbitration with the American Arbitration Association. On December 20, 2010, the arbitrator entered an Interim Award in favor of Claimant Cold Stone Creamery Inc. against Respondents Jason Pinnock, Jack Pinnock, and Pin Knox Inc., jointly and severally, on Claimant's breach of contract claim in the amount of \$477,544.07. The Arbitrator also awarded Claimant its attorneys' fees and costs. Arbitrator also entered an Interim Award in favor of Claimant and against Respondents on the counterclaims filed by the Respondents. Respondents filed for relief under the Federal Bankruptcy laws. Claimant has filed a Proof of Claim with respect to the Interim Award and its legal fees.

Cold Stone Creamery, Inc. v. Colonial Creamery, Inc., Edward Reesman and Cynthia Reesman (AAA Case No. 76-114-0183-11). On or about July 19, 2011, Cold Stone Creamery, Inc. ("Claimant") filed a Demand for Arbitration with the American Arbitration Association against Cold Stone Creamery franchisees Colonial Creamery, Inc., Edward Reesman and Cynthia Reesman (collectively, the "Respondents"), alleging breach of contract (franchise agreement and sublease) and breach of guaranty in which Edward Reesman and Cynthia Reesman personally guaranteed the obligations of Colonial Creamery, Inc. Claimant is seeking damages in the amount of \$92,328.59 plus interest accruing at a rate of eighteen percent per annum from March 17, 2011 until paid in full, plus reasonable attorneys' fees and costs. Around September 2011, Respondents filed Respondents' Answer to Demand, Affirmative Defenses, and Counterclaim alleging fraudulent inducement and misrepresentation; breach of contract and wrongful termination; and breach of lease guaranty. Respondents/Counter-Claimant seek specific performance and/or award damages, attorneys' fees, and any such further relief as the Panel deems just and proper. Parties have reached a negotiated settlement in which all claims in the Arbitration Demand and in the Counter-Claim are resolved.

Aaron and Karin Tzamarot, Debtors; Aaron Tzamarot, Karin Tzamarot, It's A Mishmash-Creamery Inc., Simply Moving Systems Inc. v. Cold Stone Creamery Inc., Cold Stone Creamery Leasing Company Inc., Kahala Corp., Axis Capital NY LLC, Leaf Funding Inc., Resource America Inc., Craig Gruber, and Salamon, Gruber, Newman & Blaymore P.C.; United States Bankruptcy

Court Southern District of New York, Chapter 11 Case No.: 09-24277 (RDD), Adv. Pro. No. 11-08362-rdd. In November 2011, Aaron and Karin Tzamarot, individually and on behalf of It's A Mishmash-Creamery Inc. and Simply Moving Systems Inc. as shareholders (collectively "Plaintiffs"), filed a Complaint against Cold Stone Creamery Inc., Cold Stone Creamery Leasing Company Inc., Kahala Corp. (collectively "Cold Stone"), Axis Capital NY LLC, Leaf Funding Inc., Resource America Inc., Craig Gruber, and Salamon, Gruber, Newman & Blaymore P.C. (collectively "Defendants"). The complaint alleges fraud, negligent misrepresentation, breach of contract, breach of the implied covenant of good faith and fair dealing, conversion, breach of implied contractual term, tortious interference with prospective economic advantage, and breach of fiduciary duty of Cold Stone. Plaintiffs ask for damages in an amount to be determined at trial and such further relief as the Court deems just and proper. Defendants Cold Stone deny all allegations and will vigorously defend the claims against them. Cold Stone filed the Answer with the Court on or about December 5, 2011. Cold Stone also filed a Motion for an Order Dismissing the Complaint or, in the Alternative, Compelling Arbitration on or about February 6, 2012, to which Plaintiffs filed a Motion of Opposition on March 20, 2012. The Court Order, dated May 7, 2012, ruled that: the Tzamarot's May 15, 2005 agreement amended all prior agreements regarding the subject matter between the Plaintiffs and Cold Stone; the current proceeding is not subject to the arbitration provision of the Plaintiffs' and Cold Stone's prior agreement; the two year statute of limitations clause governs all the disputes between Plaintiffs It's A Mishmash Creamery, Inc. and Simply Moving Systems, Inc. and their claims against Cold Stone are barred due to the two year statute of limitations clause; claims set forth by Simply Moving Systems, Inc. against Cold Stone fails to state a claim; and that any and all claims set forth by It's A Mishmash Creamery, Inc. and Simply Moving Systems, Inc. are dismissed with prejudice.

Cold Stone Creamery, Inc. v. Reid & Andrew, Inc., Tate & Petey, Inc., Gil Schmitt, Ruthann Schmitt, Does 1-10; Superior Court of Maricopa County, Arizona, Case No. CV2010-00348. In January 2010, Cold Stone Creamery, Inc. ("Plaintiff") filed a Complaint against Reid & Andrew, Inc. and Tate & Petey, Inc. (Cold Stone Creamery franchisees) and Gil Schmitt and Ruthann Schmitt (guarantors) (collectively, the "Defendants"). Plaintiff alleged breach of two Franchise Agreements for two Cold Stone Creamery restaurants, and violation of the Arizona Trade Secrets Act, A.R.S. §§44-401 through 44-407. Plaintiffs sought a preliminary injunction and permanent injunction requiring Defendants to cease and desist using Plaintiff's confidential and proprietary information, operating their current ice cream restaurant or otherwise competing with Plaintiff for a period of two years; and manufacturing frozen dessert products at a non-Cold Stone Creamery location. Plaintiffs also sought equitable relief and damages in an undisclosed amount plus attorneys' fees and costs. Defendant Tate & Petey, Inc. asserted a counterclaim against Plaintiff alleging breach of contract and tortious interference with contractual relations. Plaintiff's application for a Preliminary Injunction was denied after a hearing in March 2010. Plaintiff denied all allegations of the counterclaim. In November 2011, the parties reached an agreement on the terms of the settlement and entered into a Settlement Agreement and Mutual Release of all Claims whereby Plaintiff agreed to pay the Defendants the sum of \$70,000 to dismiss all claims and counterclaims in the lawsuit with prejudice. The settlement payment has been made in full and the case has been dismissed with prejudice.

Mix It Up, Inc. v. Cold Stone Creamery, Inc. (AAA Case No.: 76-114-E-00228-10 LGB). On or about June 29, 2010, Mix It Up, Inc. (the "Claimant"), a former Cold Stone Creamery franchisee, filed a Demand for Arbitration with the American Arbitration Association against Cold Stone Creamery, Inc. (the "Respondent") that alleged breach of the Franchise Agreement. Claimant sought damages in the amount of \$32,000 plus attorneys' fees, costs, interest, and such other relief as the Arbitrator deemed necessary. Respondent denied all allegations of the claim. In January 2011, the parties reached an agreement on the terms of the settlement and entered into a Settlement Agreement and Release of Claims whereby Respondent agreed to pay the Claimant the sum of \$7,500 to dismiss the arbitration with prejudice. The settlement payment has been made in full and the arbitration has been discontinued.

Grosvenor Urban Retail, LP v. Benjamin DeMeo, et al. v. Cold Stone Creamery, Inc. d/b/a Cold Stone Creamery Leasing Company, Lower Management, LLC, Leroy Lowery, III, Modestine Lowery, and Marc Lowery; Superior Court of the District of Columbia, Civil Division, Case No. 0005951-09. On or about April 2, 2010, Benjamin DeMeo ("DeMeo" and "Third Party Plaintiff"), a previous Cold Stone Creamery franchisee, filed a Summons and Complaint Against Third Party Defendant naming Cold Stone Creamery, Inc., d/b/a Cold Stone Creamery Leasing Company ("Cold Stone") and Lowery Management, LLC, Leroy Lowery, III, Modestine Lowery, and Marc Lowery (collectively, "Lowery") as Third Party Defendants. Grosvenor Urban Retail, LP filed a Complaint for Possession of Real Estate in March 2009 in the Superior Court of the District of Columbia against Cold Stone Creamery Leasing Co. and Benjamin DeMeo under case No. 008961-09 (Grosvenor Urban Retail, LP v. Cold Stone Creamery Leasing Co. and Benjamin DeMeo). In April 2009, the Court entered a judgment in the amount of \$71, 838.12 plus 4% per annum in favor of Grosvenor Urban Retail. DeMeo was a guarantor on a lease for a Cold Stone Creamery restaurant, which he sold to Lowery. Grosvenor Urban Retail, LP was the landlord of the restaurant. DeMeo alleges breach of contract against Lowery indicating that when he sold the Cold Stone Creamery restaurant, he was to be removed as a guarantor of the lease, and also alleges breach of implied covenant of good faith and fair dealing against Lowery. In addition, DeMeo alleges common law indemnification and breach of implied covenant of good faith and fair dealing against Cold Stone and seeks indemnification from Cold Stone and Lowery in the amount of any judgment that may be entered against him in the case, including alleged unpaid rent, pre-judgment and post-judgment interest, and attorneys' fees and costs. Cold Stone denies all allegations and will vigorously defend the claims against it. Cold Stone filed a Motion to Dismiss the DeMeo claims asserted in the third party complaint. In August, 2010, the Court dismissed the DeMeo Third Party Complaint, with prejudice. In November, 2010, Grosvenor Urban Retail, LP accepted \$70,000 from Cold Stone Creamery, Inc. and Cold Stone Creamery Leasing Company, Inc. (collectively "Cold Stone") in exchange for providing Cold Stone with a full release, including full satisfaction of the above arbitration award.

Fredy Buraye, Elizabeth Buraye, Eddie Buraye, and Buraye Group, Inc. v. Cold Stone Creamery, Inc., Cold Stone Creamery Leasing Company, Inc., R & C Global, Inc., Miae Chung, and Conehead Investments, LLC (Superior Court of California, County of Los Angeles-North Valley District, Case No. PC043905). On October 23, 2008, Fredy Buraye, Elizabeth Buraye, Eddie Buraye and Buraye Group, Inc. (collectively, the "Plaintiffs") filed a lawsuit in the Superior Court of California against Cold Stone Creamery, Inc. and Cold Stone Creamery Leasing Company, Inc. (collectively, "Cold Stone"), as well as Conehead Investments, LLC, Cold Stone Creamery, Inc.'s Area Developer in Southern California. The lawsuit stems from Cold Stone Creamery, Inc.'s termination of the Plaintiffs' Franchise Agreements. Plaintiffs allege that the termination was unlawful and that Cold Stone Creamery, Inc. made inaccurate and improper representations to the Plaintiffs in order to induce them to enter into the Franchise Agreements with Cold Stone Creamery, Inc. Plaintiffs allege intentional fraud; breach of contract; violation of the California Franchise Investment Law, Corporations Code §§ 31201 and 31303; violation of the California Franchise Relations Act, Business & Professions Code §§ 20020, 20021 and 20040.5; Violation of the California Unfair Competition Law; and for Accounting. Cold Stone filed a motion for demurrer on several causes of action which the Judge granted with leave to amend and Plaintiffs filed an amended complaint on or about February 17, 2009. Plaintiffs seek compensatory damages in excess of \$1,300,000 plus interest, punitive damages, reasonable attorneys' fees, costs of the lawsuit, and a complete accounting. A trial date has not been set and the case is currently in the discovery phase. Cold Stone Creamery, Inc. and Cold Stone Creamery Leasing Company, Inc. deny all allegations and will vigorously defend the claims against them. In September, 2010, the parties reached agreement on the terms of settlement and entered into a Mutual Release and Settlement Agreement whereby the Cold Stone defendants agreed to pay the Plaintiff the sum of \$420,000, in exchange for the dismissal of all of Plaintiff's claims against the Cold Stone

Defendants, with prejudice. The settlement payment has been made in full and the case has been dismissed with prejudice.

Phoenix Partners Development Ltd., adv. Kahala Corp. and Cold Stone Creamery, Inc.; AAA Case 76 181 Y 00313 07 DEAR. On October 30, 2007, Phoenix Partners Development Ltd. ("PPD") filed a Demand for Arbitration with the American Arbitration Association alleging breach of contract and tortious interference with contract. Cold Stone Creamery, Inc. answered the Demand for Arbitration and filed counterclaims for breach of contract and breach of promissory notes. Kahala Corp. was dismissed from the arbitration. The arbitration arose from Cold Stone's termination of PPD's Area Developer Agreement for breach of their PPD's Area Developer Agreement based upon PPD's failure to pay several debts to Cold Stone when they came due. PPD's Demand for Arbitration alleges that Cold Stone breached the Area Developer Agreement through its Proactive Store initiative, for not repurchasing the Area Developer territory, and for agreeing to an amount that PPD owed Cold Stone and later refusing to abide by the agreement PPD alleges was reached. PPD seeks in excess of \$4,900,000 in monetary damages. Cold Stone Creamery, Inc.'s counterclaims were based upon PPD's failure to timely pay its debts to Cold Stone when they came due. Specifically, PPD had promissory notes to Cold Stone based upon its acquisition of its Area Developer territories that were due on October 1, 2007 that it did not timely satisfy. Cold Stone Creamery, Inc. also alleged that PPD breached the Area Developer Agreement by not meeting its obligations to its franchisees in its Area Developer territory. The parties entered into a settlement agreement dated February 13, 2010 that provided for no payments to either party and all claims covered by the arbitration were dismissed with prejudice.

Cold Stone Creamery, Inc. and Cold Stone Creamery Leasing Company, Inc. v. Paige Creamery, Inc., P&C Creamery, Inc., Gerard P. Spezio and Sandra Spezio; United States District Court of Massachusetts, Case No. 09-10903-JLT. In June 2009, Cold Stone Creamery, Inc. and Cold Stone Creamery Leasing Company, Inc. (collectively, the "Plaintiffs") filed a Verified Complaint for Injunctive Relief, Declaratory Judgment, Trademark Infringement, Trademark Dilution, Ejectment and Breach of Contract against Paige Creamery, Inc., P&C Creamery, Inc., Gerard P. Spezio and Sandra Spezio (collectively, the "Defendants"), former franchisees of Cold Stone Creamery, Inc. and sublessees of Cold Stone Creamery Leasing Company, Inc. Plaintiffs alleged violation of the Lanham Act, breach of non-competition covenant, breach of two Sublease agreements (for payments of amounts due under the lease and agreement for judgment), breach of guaranty agreements, breach of Franchise Agreement and Subleases, ejectment, and declaratory judgment. Plaintiffs sought preliminarily and permanently restraining and enjoining of Defendants from marketing or promoting their ice cream business using the Cold Stone Creamery trademarks; an accounting of all profits Plaintiffs received as a result of marketing its business since the termination of their Franchise Agreement; preliminarily and permanently restraining and enjoining Plaintiffs from engaging in a business that manufactures, produces, markets or sells ice cream, frozen yogurt or other frozen dessert products within a 10-mile radius of any Cold Stone Creamery restaurant; judgment in the amount due and owing Massachusetts General Hospital and the landlord of the Landmark Cold Stone Creamery restaurant location; amounts due and owing under the Plaintiffs' Franchise Agreements and Subleases; eviction from the landmark location; and compensatory damages, treble damages, attorneys' fees and costs, prejudgment interest and further relief as the Court deems just and proper. Defendants subsequently filed a petition for Chapter 11 Bankruptcy relief (United States Bankruptcy Court for the District of Massachusetts, Case No. 09-15180-JNF), which stayed the United States District Court action. The District Court dismissed the Plaintiff's action, subject to Plaintiffs' right to re-open following conclusion of bankruptcy proceedings. Plaintiffs filed adversary proceedings in the Bankruptcy Court which resulted in Cold Stone Creamery, Inc. and Cold Stone Creamery Leasing Company, Inc. obtaining injunctive relief. Plaintiffs' case in the Bankruptcy Court has been closed.

Ice Cream Dreams, LLC v. The Islands Ice Cream Company I LLC, et al. (Circuit Court of the First Circuit, State of Hawaii, 07-1, -0028-01 VSM; American Arbitration Association Case No. 76 114 Y 00010 07 TNM). On January 10, 2007, Ice Cream Dreams, LLC, a Hawaii franchisee ("Plaintiff") filed both a lawsuit and a demand for arbitration against The Islands Ice Cream Company I LLC, Cold Stone Creamery, Inc.'s area developer, and Cold Stone Creamery, Inc. arising out of the purchase of a Cold Stone Creamery restaurant by the franchisee in 2005. The lawsuit seeks to invalidate the provision of the franchisee agreement requiring the arbitration to occur in Phoenix, Arizona and requests that the arbitration be held in Hawaii. The underlying claim involves alleged misrepresentations made by The Islands Ice Cream Company I LLC in connection with the purchase of the Cold Stone Creamery restaurant. The Plaintiff alleges that while Cold Stone Creamery, Inc. was not a party to the sale, it approved the sale of the restaurant. The Plaintiff claims that the price of the restaurant was inflated and is seeking to rescind the purchase. Cold Stone Creamery, Inc denied the allegations. The lawsuit was dismissed on or about May 30, 2007. On or about January 5, 2007, Ice Cream Dreams, LLC filed a Demand for Arbitration with the American Arbitration Association, File No. 76 114 Y 00010 07 TNM. On or about June 14, 2007, Ice Cream Dreams, LLC also filed a Notice of Appeal to the Intermediate Court of Appeals for the State of Hawaii. A settlement agreement was entered into between the parties and the insurance companies in June 2008. Cold Stone Creamery was not required to pay any monies to Ice Cream Dreams; however, The Islands Ice Cream Company I LLC was required to pay \$26,168.20, which was paid through its insurance companies. Cold Stone Creamery, Inc. was named as an additional insured on the Area Representative's insurance.

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

Lesa Myers, LESA LLC v. Conehead Investments, Inc., George B.B. Huggins, Greg Ferrell, Cold Stone Creamery, Inc., Cold Stone Creamery Leasing Company, Inc., Douglas Ducey, Jim Flaum, David Andow and Donald Sutherland, (Superior Court of California in and for the County of Los Angeles, Case No. BC358836). On September 19, 2006, Lesa Myers and LESA LLC (the "Plaintiff"), a former Cold Stone Creamery franchisee, filed a lawsuit against Conehead Investments, Inc., Cold Stone Creamery, Inc.'s area developer in southern California, and its principals (collectively, "Conehead"). On September 29, 2006, the Plaintiff amended her complaint to add Cold Stone Creamery, Inc., Cold Stone Leasing and certain officers and directors of Cold Stone Creamery, Inc. and Cold Stone Leasing Company, Inc. as Defendants. The Plaintiff alleged that Conehead misled her into purchasing a Cold Stone Creamery franchise from a then-current franchisee by misrepresenting the remaining term of the lease. The Plaintiff claimed that the Defendants made false or misleading statements in violation of the California Franchise Investment Law, as well as claims of intentional misrepresentation, negligent misrepresentation, fraudulent suppression of fact, unfair business practices and breach of contract. The Plaintiff

alleged that the misrepresentations were material to her decision to purchase the franchise from the then-current franchisee and that the Plaintiff relied upon them in making her decision to purchase the franchise. The Plaintiff sought in excess of \$2 million in damages. The lawsuit was settled while an interlocutory appeal of the trial court's decision to not compel arbitration was pending. Under the settlement agreement dated May 2008, Cold Stone paid Plaintiff \$650,000 and a dismissal of appeal and action with prejudice was filed with the Court.

Praveen Prasad, et al. v. Cold Stone Creamery, Inc., Cold Stone Creamery Leasing Company, Inc., Phoenix Partners Development Ltd., et al. (United States District Court for the District of New Jersey, 06-cv-00648-MLC-JJH) On February 11, 2006, New Jersey franchisees who own two restaurants and the development rights to two others filed suit challenging Cold Stone Creamery, Inc.'s termination of their Franchise Agreements. The termination was based on various breaches of the Franchise Agreements by the franchisees, including the failure to obey applicable tax laws and infringing upon the Cold Stone Creamery trademarks by displaying Cold Stone Creamery, Inc.'s logos and selling Cold Stone Creamery products at an unauthorized location. The claims that the franchisees have filed against Cold Stone Creamery, Inc. and Cold Stone Creamery Leasing Company, Inc. (collectively, "Cold Stone") in the original and amended complaints alleged that there was no basis for the terminations and that Cold Stone Creamery, Inc. interfered with their attempts to sell their locations to prospective purchasers. Cold Stone filed a complaint seeking to enforce the terminations and the cases have now been consolidated. The franchisees sought an unspecified amount of monetary damages and an order from the court preventing the termination of the Franchise Agreements. Cold Stone sought to amend its counterclaim to supplement the bases of the termination of the Plaintiff's Franchise Agreements for additional breaches of the Franchise Agreements by the franchisees, including failure to comply with the operational standards and failure to pay rent at a franchised location. The Plaintiffs filed a petition for Chapter 13 Bankruptcy relief (United States Bankruptcy Court for the District of Trenton, New Jersey, Case No. 07-25974), which stayed the United States District Court action. The Plaintiffs also filed Pro Se' Adversary Proceedings titled Neal K. Prasad and Kimberly A. Prasad v. Cold Stone Creamery, Inc., Franchisor, et al. (United States Bankruptcy Court for the District of Trenton, New Jersey, Case No. 07-2775) in December 2007 alleging violations of the Sherman Act Title 15 § 1 et seq., fraud, violation of the New Jersey Franchise Practices Act N.J.S.A. 56; 10-1 et seq., collateral negligence, breach of contract, and negligence, and failure to abide by the automatic stay under the bankruptcy case. The Plaintiffs sought \$14 million plus \$6 million punitive damages plus all court costs, post judgment interest and reasonable attorneys' fees and an injunction to maintain the status quo of all prior contracts to maintain the Cold Stone Creamery restaurant during the Plaintiffs' Chapter 13 proceeding. The parties have resolved the lawsuits. The lawsuits have been dismissed and each party was granted a full release regarding any former or current issues. In July 2008, a settlement agreement was entered into whereby Cold Stone Creamery, Inc. will reduce the royalty rate for the Brick restaurant to 3% and pay \$1,500 per month towards the monthly rent for a period of twelve months, and if franchisees remain in compliance with their Franchise Agreement, the reduced royalty rate of 3% will be renewed for additional twelve-month periods, expiring on October 29, 2012. In addition, if franchisees remain in compliance with their Franchise Agreement, Cold Stone Creamery, Inc. will renew the \$1,500 per month payment towards monthly rent for only one additional twelve-month period. However, if Cold Stone Creamery Leasing Company, Inc. or Cold Stone Creamery, Inc. is required to satisfy any judgment or pay any settlement in connection with the Subleases for the Wall or Toms River restaurants, then the \$1,500 payment for the Brick restaurant will not be renewed for a second twelve-month period.

Ameet Bhatia v. Cold Stone Creamery, Inc. and Cold Stone Creamery Leasing Company, Inc., (Superior Court of California, County of San Diego, Case No. GIC 971681). On August 23, 2006, Ameet Bhatia, a Cold Stone Creamery franchisee, filed suit against Cold Stone Creamery, Inc. and Cold Stone Leasing alleging breach of his Sublease, interference with contractual relations, breach of the implied covenant of good faith and fair dealing, intentional misrepresentation and



negligent misrepresentation in connection with Cold Stone Leasing's signing an amendment to the lease for Mr. Bhatia's Cold Stone Creamery restaurant premises. Cold Stone Leasing denied that the execution of the amendment caused any damages to Plaintiff. Cold Stone Leasing also alleged that any error in regard to the lease amendment was caused by third-party counsel who had drafted the amendment. Plaintiff sought damages in excess of \$700,000 from the Cold Stone entities. The lawsuit settled during mediation on April 6, 2007 between the parties where Cold Stone agreed to pay Plaintiff a total \$350,000. Outside counsel, who had drafted the amendment, contributed \$150,000 to the settlement payment.

Cold Stone Creamery, Inc. and Cold Stone Creamery Leasing Company, Inc. v. Culbreath, (American Arbitration Association Case No. 76 114 00935 05). In August 2005, Cold Stone Creamery, Inc. and Cold Stone Creamery Leasing Company, Inc. (collectively, the "Claimant") filed a Demand for Arbitration seeking to terminate Culbreath's three Franchise Agreements. Claimant alleged that Culbreath had failed to comply with the required operating standards and had failed to meet certain financial obligations. Culbreath filed a counterclaim alleging that Claimant failed to provide promised assistance and consulting, failed to provide tenant improvement monies and interfered with Culbreath's attempt to open his third restaurant. Culbreath sought unspecified damages. On December 28, 2006, the arbitrator entered an interim award upholding Claimant's termination of Culbreath's franchises, deeming us the prevailing party. The arbitrator awarded Culbreath the amount of \$193.70 for undelivered equipment. Claimant's application for attorneys' fees was granted.

The Hickman Group v. Cold Stone Creamery, Inc. (Maricopa County (Arizona) Superior Court, Case No. CV2001-018257). On October 18, 2001, the Hickman Group ("Plaintiff"), a franchisee, filed suit against Cold Stone Creamery, Inc. ("Defendant") for intentional interference with contract, seeking damages in excess of \$500,000. The Hickman Group alleged that the Balelos (one of Defendant's area developers) persuaded a prospective purchaser not to purchase one of the Hickman Group's Cold Stone Creamery restaurants and, as the Balelos' principal, Defendant should be liable for that conduct. Defendant answered that Balelos did not interfere with that transaction and, therefore, that it is not liable for any damages. Defendant asserted that the sale did not proceed due to the unit's poor performance and/or the alleged prospective purchaser's inability to finance the transaction. (Defendant learned that the alleged prospective purchaser filed a petition in bankruptcy shortly after deciding not to purchase the Hickman Group's Cold Stone Creamery restaurant.) On November 15, 2002, Defendant and the Hickman Group entered into a Mutual Release and Settlement Agreement, in which the parties agreed to dismiss the litigation, the Hickman Group was given the right to sell their Cold Stone Creamery restaurant for a limited period of time, the Franchise Agreement would be terminated and Cold Stone Creamery, Inc. would pay the Hickman Group \$35,000. Balelos indemnified Defendant in the litigation and the settlement and reimbursed Cold Stone Creamery, Inc. in that amount. The lawsuit was dismissed on November 26, 2002.

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

Emfore Corp., v. Blimpie Associates, Ltd., Peter DeCarlo and Louis Gioia.- Supreme Court of The State of New York, County of New York, Index No. 601400/04. On May 10, 2004, Emfore Corp., a Blimpie Associates franchisee filed suit against Blimpie Associates alleging breach of contract, common law fraud and violations of the New York General Business Law. Also named as defendants in the lawsuit is Peter DeCarlo, one of Blimpie Associates' founders and Louis Gioia, Blimpie Associates' Franchise Sales Director. Blimpie Associates, Ltd., Peter DeCarlo and Louis Gioia are collectively referred to as the "Defendants." Specifically, the complaint alleges various material misrepresentations and false earnings claims, and a failure to furnish required training services. The Plaintiff sought monetary damages in excess of \$180,000, attorneys' fees and rescission. Blimpie Associates denied all of Respondent's claims. An order granting Summary

Judgment dismissing the Plaintiff's complaint in its entirety was awarded by the NYS Supreme Court on September 18, 2006. On May 6, 2008, the Appellate court affirmed the Supreme Court's dismissal of Plaintiff's common law fraud claims and breach of contract claims and reinstated Emfore's statutory claims. Defendants filed a motion for leave to appeal to the New York Court of Appeals which was denied. On or about May 20, 2009, a Stipulation of Settlement was entered into between the parties and the action was discontinued with prejudice. Under the terms of the settlement, Defendants are to pay Emfore Corp. \$150,000 as follows: \$100,000 on or before June 20, 2009 and the remaining \$50,000 on or before December 1, 2009. Defendants do not admit or acknowledge any liability, breach of contract, misrepresentation, fraud, or any other wrongdoing alleged by plaintiff. In the event of a default of the settlement payments, Plaintiff may enter judgment in the amount of \$250,000 less payments made by Defendants to Plaintiff. The settlement payments required to be paid are the sole obligation of the predecessor Blimpie Associates, Ltd.

Sutphin Hero Sandwich, Inc. and Pascual Valencia v. Blimpie Associates, Ltd. and Walter Izurieta. - Supreme Court of the State of New York, Queens County, Index No. 9837/01. In April 2001, Plaintiff Pascual Valencia, an individual unknown to Blimpie Associates, filed this action against Blimpie Associates, and Walter Izurieta, principal of Sutphin Hero Sandwich, Inc. a former Blimpie Associates franchisee. Mr. Valencia claims that he is a half owner of the stock of Sutphin Hero Sandwich, Inc. In the Complaint, Mr. Valencia alleges various acts of fraud and violations of the New York Franchise Act and seeks an accounting and the recovery of monetary damages. Blimpie Associates denies that it has committed any inappropriate acts alleged by Mr. Valencia and denies that it has committed any violation of the New York State Franchise Sales Act. Blimpie Associates has filed an answer to the Plaintiff's complaint denying all of its charges, and has asserted a cross-complaint against co-defendant, Walter Izurieta. Since the inception, the lawsuit has been dormant.

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

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

Frank L. Butterworth, III and Hunter, Inc. v. Paul Rogozinski, Speck Enterprises, Inc., Blimpie International, Inc. and Second Indiana Blimpie Leasing Corp.; Superior Court of Hamilton County, Indiana, Case No. 29D03 0412 PL 1052. On December 1, 2004, Frank L. Butterworth, III, the principal shareholder of Hunter, Inc., a corporate franchisee who formerly operated a Blimpie franchised restaurant in Muncie, Indiana ("Plaintiffs") sued Speck Enterprises, Inc, an Indiana area representative ("Speck"), Paul Rogozinski, Speck's President ("Rogozinski"), Second Indiana Blimpie Leasing Corp., one of BI's leasing affiliates ("SIBLC") (which was acquired by KBI Holdings in the purchase of the Blimpie Assets) and BI, alleging fraud, misrepresentation, violation of the Indiana Franchise Act, disclosure and earnings claim violations in connection with Plaintiffs' acquisition of a Blimpie franchise. Plaintiffs sought rescission of the franchise and Sublease

agreements, damages of \$125,000, prejudgment interest, punitive damages, costs and attorneys' fees. BI denied all claims against it. BI and SIBLC filed a Motion to Compel Arbitration and Stay Proceedings that was granted on March 9, 2005. On June 30, 2005, Plaintiffs agreed to postpone arbitration against BI and SIBLC until after trial on the merits against Speck and Rogozinski. On April 24, 2008, after a two-day trial, a jury rendered a verdict in favor of Speck and Rogozinski on all of Plaintiffs' claims, and the Court entered judgment on the jury's verdict. Plaintiffs have not given any indication of whether they intend to appeal from the judgment or file an arbitration proceeding against the Company in light of the trial results.

Armen International, Inc. et al. v. Blimpie International, Inc., et al., District Court of Clark County, Nevada, Case No. A489147. On July 21, 2004, Armen International, Inc. ("Claimant"), a former Blimpie franchisee, and Armen Manoukian, the principal of Claimant, filed suit against BI, Yoko Hatcher, the alleged purchaser of Claimant's 2 franchises ("Hatcher"), Reeser Enterprises, one of BI's Area Representatives, and its principal William Reeser ("Reeser"), alleging that Reeser failed to report Claimant's purchase of the Blimpie franchises to BI, that Reeser kept the franchise fees paid by Claimant, that BI failed to recognize Claimant's Franchise Agreements, and that Hatcher failed to pay Claimant amounts owed under a buy-sell agreement. Claimant is seeking a declaratory judgment to resume operation of the franchises, damages in excess of \$10,000, attorneys' fees and costs. BI denies all claims against it. BI filed a Motion to Compel Arbitration and Stay Proceedings that was granted on January 7, 2005. Plaintiffs have not yet pursued arbitration against BI.

Tina Choi and 8TA.Choi Corp. v. Paul Rogozinski, Speck Enterprises, Inc., Blimpie International, Inc., and Blimpie Pershing Indiana Ventures, Inc.; Hamilton County Superior Court, Indiana, Case No. 29D03-0211. On December 2, 2002, Plaintiffs 8TA.Choi Corp. and Tina Choi, respectively a corporate franchisee who formerly operated a Blimpie franchised restaurant in Mooresville, Indiana and its principal shareholder, sued Speck Enterprises, Inc., a Blimpie subfranchisor in the Indianapolis area ("Speck"), and Speck's president, Paul Rogozinski ("Rogozinski"), BI, and Blimpie Pershing Indiana Ventures, Inc., BI's Leasing Affiliate ("Pershing"), alleging fraud, including violation of the antifraud provisions of Indiana's Franchise Act and common law fraud, disclosure violations, misrepresentation, and earnings claims in connection with plaintiffs' purchase of their Blimpie franchise, and breach of the Franchise Agreement by failure to provide training. The complaint seeks rescission of the franchise and Sublease agreements, damages in an amount not less than \$125,000, prejudgment interest, punitive damages, costs, and attorneys' fees. BI and Pershing denied the allegations in their entirety and filed a motion to stay the case pending arbitration, which was denied. BI sought reconsideration of the court's decision. The appellate court reversed, and the trial court was instructed to enter a stay pending arbitration. On June 30, 2005, Plaintiffs agreed to postpone arbitration against BI and Pershing until after trial on the merits against Speck and Rogozinski. On March 23, 2007, after a three-day trial, the court entered judgment at the close of the evidence in favor of Rogozinski and against Plaintiffs on all of their claims against Rogozinski, and entered judgment on the jury's verdict in favor of Speck and against Plaintiffs on all of their claims against Speck. No appeal was filed by Plaintiffs. Plaintiffs have not given any indication of whether they intend to file an arbitration proceeding against the Company in light of the trial results.

Bixy, Inc. f/k/a Blimpie International, Inc. and X2Y1, Inc. v. KBI Holdings, LLC and Kahala Corp.; United States District Court, Northern District of Georgia, Atlanta Division, Civil Action File No. 1:07-CV-0780. On March 2, 2007, X2Y1 and Bixy ("Plaintiffs") filed a lawsuit against KBI Holdings, LLC and Kahala Corp. ("Defendants") arising out of the Asset Purchase Agreement between X2Y1 and KBI for the purchase of certain assets of Blimpie International and the assumption of certain liabilities. The lawsuit seeks several types of relief. It includes allegations of breach of the Asset Purchase Agreement for a) failing to pay the full purchase price; b) breach of contract and indemnification regarding allegations that KBI has failed to pay certain alleged assumed liabilities under the Asset Purchase Agreement; c) breach of contract alleging that KBI

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

C. P. Ferrell, Inc., et al. v. Blimpie International, Inc., et al.; American Arbitration Association, New York, New York, Case No. 13 114 03098 02. On August 27, 2002, the Association of Blimpie Franchisees, Inc. purporting to represent all Blimpie franchisees, filed an arbitration demand against BI. On July 23, 2004, an amended petition was filed by C.P. Ferrell, Inc., Charles Ferrell, Inc., Chris McGirt, Knee Deep, Inc., Tracar, LLC, Lynn Hennings, Nordstrom Oil Company, George Poulos, Mid-American Systems, Inc., Patricia Lewick, Gary Lundy, BATV, Inc., Brian Taylor, Babb, LLC, Kevin Stanfield, Bradlynn & Associates, Inc., Mark White, WTI Restaurants, Inc., Ted E. Wilcox, Tred's Inc., Robert L. Weitzel, Siesta Ices, Inc., Gibson Pryor and Pryor Management, LLC (collectively "Claimants"), on a class action basis by 24 of BI's franchisees, and added Jeffrey Endervelt, BI's Chairman of the Board, President and Chief Executive Officer ("Endervelt"), as an individual respondent. Claimants alleged that BI was in breach of its Franchise Agreements and violated antitrust laws, state deceptive trade practices laws, state franchise laws and the implied covenant of good faith and fair dealing by changes to BI's approved manufacturers and suppliers, and that Endervelt used the changes to enrich himself. Claimants also alleged that BI tortuously interfered with franchisees' relationships with previously authorized manufacturers by BI's exercise of its right of disapproval. Claimants also allege that a portion of the Advertising Fee ("AF") and Blimpie Brand Building Fund, Inc. ("BBBF") monies were used for unauthorized purposes. Claimants seek preliminary and permanent injunctive relief, including a declaratory judgment that BI's manufacturer agreements are unlawful and a declaration that BI may not take action against Claimants in the form of default notices and similar action, an injunction against future manufacturer agreements by which BI receives payments from manufacturers, and restraint of BI's enforcement of its franchisees' obligations under their Franchise Agreements to purchase required products. Claimant also sought an accounting and damages of: (i) disgorgement of all monies claimed to have been unlawfully paid to BI by 3<sup>rd</sup>-party suppliers since January 1, 2002; (ii) the cost increases franchisees sustained as a result of BI's recent manufacturer agreements; (iii) all amounts claimed to have been diverted from the AF and BBBF, and consequential or incidental damages incurred by Claimants or the BBBF; (iv) multiple damages as provided by statute; and (v) attorneys' fees, costs, and disbursements associated with the arbitration. A settlement was reached between the parties in November 2006. The terms included: (i) a \$437,500 payment by Blimpie to the BBBF (payable in \$12,500 installments for 35 months), an \$87,500 payment towards Claimants' expenses, and a \$350,000 payment towards Claimants' attorneys' fees; (ii) certification of a non-opt out settlement class by the Arbitrator consisting of all current Blimpie franchisees, a settlement fairness hearing before the Arbitrator as a class settlement, and confirmation of the settlement/consent award by a court of competent jurisdiction; (iii) agreement by parties to adhere to the current Blimpie vendor

approval process and administration of the BBBF in accordance with the current BBBF By-Laws; (iv) releases of Respondents by class members of all vendor related claims; (v) dismissal with prejudice of the arbitration entitled CRB Enterprises, et al. v. Blimpie International, et al., Case No. 11 114 00886 06. A final consent award was rendered by the Arbitrator on November 7, 2007, memorializing the terms of the settlement, and a consent award was confirmed by the Court and judgment was entered thereon on December 10, 2007.

Blimpie of Western Michigan, Inc., et al. v. Blimpie International, Inc., U.S. District Court, Connecticut, Case No. 3:05-cv-01457-RNC. By reading an Associated Press story dated September 23, 2005, BI learned that Blimpie of Western Michigan, Inc., Northern Lakes Blimpie, LC, JRB Enterprises, Southern Oregon Blimpie, Inc., B&C Blimpie, LLC, Blimpie of Long Island, Inc., Blimpie of Northern Indiana, Inc., Finna, L.P., Blimpie of Phoenix, Inc., JTD Enterprises, Inc., Blimpie Treasure Coast, Inc., Connecticut Blimpie Associates, Blimpie of Omaha, Inc., Blimpie of the Dakota's, Inc., Blimpie of Michigan, Inc., SFH Blimpie, Inc., Blimpie of Heartland Development, LLC, Frogg Management, Inc., Americon, Inc., Theatre Confections, Inc., Blimpie Pacific, Inc., Blimpie of South Florida, Ltd., Blimpie of the Keys, Blimpie of Columbus Ohio, Inc., Southwest Blimpie, LC, Llewellyn Distributors, Inc., L&M Blimpie, Inc., Northwest Blimpie, Inc., Blimpie Advantage Development Corp., Southeastern Blimpie Development Corporation, Blimpie of Montana, LLC, Speck Enterprises, Inc., MISAL Development Corp., Sunrise Management, Inc., LJMJ, Inc., Blimpie of Florida's West Coast, Inc., Blimpie of Florida's West Coast Down South, LC, BFWC-North, LLC, BLS, LC, JM Development, LLC, Blimpie-ESC, Inc., Bectom, Inc., TenKen Blimpie Development, LLC, Rocky Mountain Blimpie, Inc. and Blimpie Central, Inc. (collectively "Plaintiffs"), owners of 55 of BI's current or former area representative territories, filed suit on September 15, 2005, seeking declaratory and preliminary injunctive relief against BI. Plaintiffs alleged that BI was in breach of their agreements by (i) modifying BI's Manuals to alter their rights and obligations; (ii) affecting their ability to meet development schedules by BI's delivery of sales and marketing materials and copies of BI's UFOC, and the process by which BI approved or disapproved Plaintiffs' candidates; (iii) BI's handling of advertising monies; and (iv) changes in approved suppliers. Plaintiffs also alleged that BI had (i) breached the covenant of good faith and fair dealing in BI's handling of advertising monies; (ii) damaged them by BI's use of rebates paid to BBBF by suppliers; and (iii) misrepresented BI's intentions with regard to Plaintiffs' obligations in meeting development schedules. Plaintiffs sought to have the Court declare that BI violated the terms of their agreements and to issue preliminary and permanent injunction prohibiting BI from declaring their agreements in default or terminating their agreements. Plaintiffs also sought reasonable attorneys' fees and costs. In connection with BI's payment to Plaintiffs' share of royalty fee collections, Plaintiffs agreed to dismiss their claims and on April 16, 2007, the Court entered an order dismissing the case without prejudice to its being re-filed on or before May 16, 2007. Plaintiffs have not re-filed their case.

Blimpie of Western Michigan, Inc., et al. v. Blimpie International, Inc., American Arbitration Association, New York, New York, Case No. 13114Y0177704. On July 20, 2004, Blimpie of Western Michigan, Inc., Northern Lakes Blimpie, LC, JRB Enterprises, Southern Oregon Blimpie, Inc., S&C Blimpie, LLC, Midwest Central, Inc., Blimpie of Long Island, Inc., Blimpie of Northern Indiana, Inc., Blimpie of Phoenix, Inc., JTD Enterprises, Inc., Blimpie Treasure Coast, Inc., Connecticut Blimpie Associates, Blimpie of Omaha, Inc., Blimpie of the Dakota's, Inc., Blimpie of Michigan, Inc., SFH Blimpie, Inc., Blimpie of Heartland Development, LLC, Frogg Management, Inc., Americon, Inc., Theatre Confections, Inc., Blimpie Pacific, Inc., Blimpie of South Florida, Ltd., Blimpie of the Keys, Blimpie of Columbus, Ohio, Southwest Blimpie, LC, Llewellyn Distributors, Inc., L&M Blimpie, Inc., Northwest Blimpie, Inc., Blimpie Advantage Development Corp., Southeastern Blimpie Development Corporation, Blimpie of Montana, LLC, Speck Enterprises, Inc., MISAL Development Corp., Sunrise Management, Inc., LJMJ, Inc., Blimpie of Florida's West Coast, Blimpie of Florida's West Coast Down South, LC, BFWC-North, LLC, BLS, LC, JM Development, LLC, Blimpie-ESC, Inc., Bectom, Inc., TenKen Blimpie Development, LLC, Rocky Mountain Blimpie, Inc. and Blimpie Central, Inc. (collectively "Claimants"), owners of 56 of BI's former area

representative territories, filed an arbitration demand against BI. Claimants alleged that BI was in breach of their agreements by (i) implementation of a Wal-Mart program; (ii) modifying BI's Manuals to alter their rights and obligations; (iii) affecting their ability to meet development schedules by BI's delivery of sales and marketing materials and copies of BI's UFOC, and the process by which BI approved or disapproved Claimants' candidates; (iv) BI's handling of advertising monies; and (v) changes in approved suppliers. Claimants also alleged that BI had (i) breached the covenant of good faith and fair dealing in BI's handling of advertising monies; (ii) damaged them by BI's use of rebates paid to BBBF by suppliers; and (iii) misrepresented BI's intentions with regard to Claimants' obligations in meeting development schedules. The third-party beneficiary claim based upon vendor payments was dismissed with prejudice on or about October 9, 2007 in accordance with the settlement agreement between the parties in the arbitration entitled C.P. Ferrell, Inc., et al. v. Blimpie International, Inc. Case No. 13 114 03098 002. At the same time, the case was administratively closed by the American Arbitration Association. On or about April 15, 2008, KBI entered into a settlement agreement with Claimants under which Claimants agreed to release all claims in exchange for certain payments to be made by an affiliate of KBI to two associations of which Claimants and other Blimpie area representatives are members.

Grupo de Alimentos Zoal S.A. de C.V. and Operadora Bafore S.A. de C.V. v. Blimpie International, Inc., American Arbitration Association, New York, New York, Case No. 50 114 T 00376 05. On September 16, 2005, Claimants, owners of current or former BI and Pasta Central area representative territories in Mexico, filed an arbitration demand against BI. Claimants alleged that BI was in breach of their agreements by (i) failing to provide initial training programs; advice, assistance and training in standards, procedures, techniques and methods comprising the franchise systems; training materials, Franchise Operations and Construction Manuals, Licensee Advisory Manuals, or technical specifications; (ii) BI's handling of advertising monies and/or failure to solicit same from distributors, manufacturers and suppliers; and (iii) BI's abandonment of the franchise systems in Mexico. Claimants sought damages of up to \$2,900,000, plus interest and costs and attorneys' fees. BI denied all of the allegations. The case settled in June 2007 with no admission of fault by either party and the payment of \$600,000 by KBI and its insurers.

James E. and Julie K. Morgan v. Blimpie International, Inc., BI Concept Systems, Inc., and Does 1-40, Superior Court, San Diego County, California, Case No. GIC858152. On December 9, 2005, Plaintiffs, who are Blimpie franchisees, filed suit against BI and BI Concept Systems, Inc. (collectively, the "Defendants"). Plaintiffs alleged violations of the California Franchise Investment Law, breach of contract, fraud in the inducement, negligent misrepresentation, and conversion, alleging that the Defendants, through their agents, misrepresented the time it would take to have the franchise restaurant open for business. Plaintiffs sought monetary damages and injunctive and declaratory relief, rescission of their Franchise Agreement, return of all money paid to BI, and general and special damages, in an amount not less than \$275,000.00, plus unspecified punitive damages. Defendants filed an Answer to this lawsuit. The case settled in June 2007 with no admission of fault by either party and the payment of \$235,000 by Defendants and their insurers.

Blimpie of Las Vegas Regional Development, Inc. and William Reeser v. Blimpie International, Inc.; American Arbitration Association, Las Vegas, Nevada, Case No. 791140007404MAVI. On June 15, 2004, Blimpie of Las Vegas Regional Development, Inc. ("BLV") and William Reeser ("Reeser"), one of BI's area representatives (collectively "Claimant"), filed an arbitration demand that alleged intentional misrepresentation and negligent misrepresentation to induce Claimant to enter into a Subfranchise Agreement in May 1999, breach of contract in the performance of BI's responsibilities in enforcing Franchise Agreements in Claimant's area and breach of the implied covenant of good faith and fair dealing in connection with BI's actions in terminating the Subfranchise Agreement on June 19, 2003. Claimant sought damages of \$300,000 and attorneys' fees. On August 30, 2004, BI filed a counterclaim alleging Claimant's breach of contract by failing to develop and manage the territory, failing to inspect franchisees, failing to

properly process franchise sales, opening unauthorized restaurants, failing to remit fees to BI and failing to meet the development schedule, as well as trademark infringement. In its counterclaim, BI sought damages not to exceed \$300,000. In May 2006, a settlement agreement was executed by the parties providing, among other terms, for the payment of \$2,500 to BLV in the event KBI grants exclusive rights to a third party for the development of Blimpie restaurants in any part of the Northern Counties of Nevada prior to June 1, 2016, and for the payment of \$4,000 to BLV in the event KBI grants exclusive rights to a third party for the development of Blimpie restaurants in any portion of Clark County prior to June 1, 2016.

Blimpie International, Inc. v. Blimpie Central, Inc. and John Drudi; American Arbitration Association, New York, New York, Case No. 13 114 00058 04. On January 2, 2004, BI filed an arbitration demand against Blimpie Central, Inc. (“BCI”) and John Drudi (“Drudi”), Blimpie Area Representatives in Michigan, seeking declaratory judgment that BI’s termination of Respondents’ three Subfranchise Agreements in November 2003 was in compliance with the requirements of the Subfranchise Agreements and all applicable laws. On January 16, 2004, BCI, Drudi, and Renae Ruddle, alleged to be the assignee of Drudi’s interests in the Subfranchise Agreements and the principal of BCI, filed counterclaims against BI alleging Blimpie’s termination of the Subfranchise Agreements was wrongful and in breach of said Agreements and in violation of the Michigan Franchise Investment Act, on the basis of pretext, discriminatory enforcement, waiver, and absence of good cause, and seeking damages of \$4,000,000. A hearing was held in January 2005, and an award issued on May 17, 2005. The arbitrator found that BI’s termination of Respondents’ development rights was proper; found that termination of Respondents’ rights as to compensation for its service obligations was improper, awarding Respondents’ \$249,465, and found that the Subfranchise Agreements were terminated. The action was dismissed.

Metropolitan Blimpie, Inc. v. Blimpie International, Inc., QWT Corp., and Blimpie of California, Inc.; American Arbitration Association, New York, New York, Case No. 13 133 02586 02. On October 30, 2002, Metropolitan Blimpie, Inc. (the “Claimant”) filed an arbitration demand alleging the default and termination of a license agreement dated July 18, 1984 (the “1984 Agreement”) between Claimant and BI by which Claimant granted BI exclusive right to license and sublicense the Blimpie Marks in southern California, a territory where Claimant previously had the exclusive right to license and sublicense the Blimpie Marks. In addition, Claimant alleged the default and termination of a sublicense agreement for southern California, also dated July 18, 1984, between BI and Blimpie of California, Inc. (“BOC”) (the “1984 Sublicense Agreement”). The demand included claims against BI for breach of contract, violation of the implied covenant of good faith and fair dealing, unjust enrichment, tort, and breach of fiduciary obligations. The demand included claims against BOC for specific performance of a restrictive covenant contained in the 1984 Sublicense Agreement, unjust enrichment, tort, and breach of fiduciary obligations. Claimant sought a declaratory judgment as to the default and termination of the 1984 Agreement and the 1984 Sublicense Agreement, or alternatively, rescission of the agreements, compensatory damages in the sum of \$100,000, and punitive damages. A hearing was held in August 2003 and the arbitrator rendered a decision on November 10, 2003, which was transmitted to BI’s counsel on March 1, 2004. The arbitrator found that the Claimant was required to give notice and allow for cure before a default for non-payment could be declared. All of Claimant’s claims were denied, although BI and BOC were directed to pay any payments that are more than 30 days overdue within 15 days of the date of the decision, and to pay interest for 13 months of late payments, also within 15 days of the date of the decision.

JM Development LLC, Julie Voorhies, and Mike Layton v. Blimpie International, Inc.; United States District Court for the District of Wyoming, Civil Action No. 02CV1077-D. On December 5, 2002, plaintiffs, a corporate Blimpie/Pasta Central franchisee and current area representative that opened in Casper, Wyoming in 2001 until its closure in October 2002, and two individual principals (collectively the “Plaintiffs”) filed a lawsuit against BI alleging, with respect to Plaintiffs’ Pasta Central franchise, breach of contract, violation of the implied covenant of good faith and fair dealing,

anticipatory repudiation, and breach of fiduciary duty. The claims also included a third party claim of the individual Plaintiffs for damages arising from their personal obligations under a loan guaranty they executed in connection with their restaurant, and a claim for declaratory judgment of unenforceability of the arbitration, venue, and choice of law provisions of their Franchise Agreement. Plaintiffs sought monetary damages in excess of \$200,000. The litigation was stayed pending arbitration by court order dated April 18, 2003. BI then filed an arbitration proceeding for declaratory judgment in New York, in response to which Plaintiff filed counterclaims identical to its claims in this case. In December 2003, a settlement agreement was executed by the parties providing, among other terms, for the payment \$170,000 to Plaintiffs.

Blimpie International, Inc. v. JM Development, Inc.; American Arbitration Association, New York, New York, Case No. 13 114 01038 03. Following the grant of BI's motion to stay pending arbitration in the matter JM Development LLC, Julie Voorhies, and Mike Layton v. Blimpie International, Inc. described above (the "JM Lawsuit"), on or about April 24, 2003, BI filed an arbitration demand seeking declarations: (i) that BI did not breach its Franchise Agreements with JM Development, Inc. ("JM"); (ii) that BI did not anticipatorily repudiate its Franchise Agreements with JM; (iii) that BI did not breach the implied covenant of good faith and fair dealing; (iv) that BI did not breach any fiduciary duty owed to JM; and an (v) award of BI's attorneys' fees, costs, and expenses. On May 19, 2003, JM filed counterclaims in this arbitration restating the claims of the complaint in the JM Lawsuit. In December 2003, a settlement agreement was executed by the parties providing, among other terms, for the payment \$170,000 to JM.

The Coca Cola Company v. Blimpie International, Inc. and Blimpie Brand Building Fund, Inc. - Demand for Arbitration; American Arbitration Association, Atlanta, Georgia, Case No. 30 Y 181 00129 02. On February 4, 2002, The Coca-Cola Company ("Coca-Cola") filed a demand for arbitration against BI and Blimpie Brand Building Fund, Inc. ("BBBF") alleging breach of contract by both respondents by their alleged improper termination of the December 8, 1997, beverage supply contract among Coca-Cola, the BBBF, and BI (the "Contract"), and sought specific performance and unspecified damages. The parties filed cross motions for summary judgment as to the central issue, whether BI and BBBF had the right to terminate the Contract with Coca-Cola. By written order dated September 27, 2002, the arbitrator issued a written opinion granting BI's motion for summary judgment and denying Coca-Cola's motion, finding that BI and BBBF properly exercised its rights to terminate the Contract, thereby precluding Coca-Cola's recovery of damages arising from breach of contract. The arbitrator awarded damages of \$561,990 to Coca-Cola for unpurchased syrup and the value of certain fountain equipment. BI timely paid the damage award, concluding the proceeding.

John Calder, Janice Freed, and Martin Feinberg v. Charles Leanness, David L. Siegel, Blimpie International, Inc., and Maui Tacos International, Inc.; Supreme Court of the State of New York, Case No. 600396/2002. John Calder, Janice Freed, and Martin Feinberg (the "Plaintiffs"), together with BI, were owners of a Maui Tacos restaurant in New York City that ceased doing business. Plaintiffs filed this action against Charles Leanness, David L. Siegel, Maui Tacos International, Inc., and BI (the "Defendants"), alleging violation of disclosure requirements under New York General Business Law; statutory and common law fraud; breach of contract; and quantum meruit. Plaintiffs sought rescission of the Franchise Agreement, \$180,000 in compensatory damages, \$37,500 in unpaid management fees, punitive damages, interest, attorneys' fees, and costs. Plaintiffs also alleged that Charles Leanness was their partner and breached a fiduciary duty to Plaintiffs, and sought an accounting of profits and funds received. In September 2003, the parties settled this case by the execution of mutual releases and payment to Plaintiffs of the sum of \$200,000.

Blimpie International, Inc. v. Jamm Enterprises, Inc.; American Arbitration Association, New York, New York, Case No. 13 114 00768 00. On August 15, 2000, BI began an arbitration action against Jamm Enterprises, Inc. (the "Respondent") after BI terminated Respondent's Franchise



Agreement after Respondent failed to cure within the applicable cure period after receiving proper notice of default. BI sought declaratory judgment that BI was in full compliance with the terms of the Franchise Agreement; that BI was in full compliance with the applicable laws, rules, and regulations governing the issuance of a replacement Franchise Agreement to Respondent in connection with its purchase of an existing Blimpie Restaurant in a third party purchase and sale transaction; that termination of the Franchise Agreement was proper on Respondent's breach and failure to cure within the applicable cure period; and alternatively, that BI could rescind the Franchise Agreement on the basis of fraud in the inducement. BI sought an award of damages, and costs and expenses, including attorneys' fees, incurred in connection with the proceeding. Respondent filed a counterclaim alleging that BI failed to comply with the FTC disclosure requirements; that BI breached our obligations under the Franchise Agreement; negligent misrepresentation; fraud; and defamation. BI denied all of Respondent's allegations. A hearing was held in August 2001. On January 2, 2002, the arbitrator issued an opinion finding non-compliance with disclosure obligations and awarding Respondent rescission and damages in the sum of \$92,220, including pre-judgment interest and attorneys' fees. The arbitrator denied all the Respondent's other claims. The arbitrator denied BI's claims in their entirety.

Edward Sheskier, Jr., Diana Dinardo, Sheskidin II, Inc., and Sheskidin Enterprises, Inc. ("Claimants") v. Blimpie International, Inc.; American Arbitration Association, New York, New York, Case No. 13 114 00309 00. As a result of a stay of the legal proceeding entitled Blimpie International, Inc. v. D'Elia, et al., above, the Claimants' brought an arbitration action against BI on April 3, 2000, alleging claims similar to those in the legal proceedings. Claimants also alleged that, in 1994, a franchise salesman provided a false salesperson disclosure form that failed to disclose that he had been held liable in one or more civil actions by final judgment involving fraud, embezzlement, fraudulent conversion, or misappropriation of property, and made a number of improper misrepresentations in violation of applicable law. Claimants further alleged that BI failed to provide the assistance required under the Franchise Agreement. Claimants sought unspecified compensatory damages, attorneys' fees, and costs. BI denied the allegations. A hearing was held in January and April 2001. On October 30, 2001, the arbitration panel, without stating any reasons for its decision, awarded Claimants \$194,034.32 in damages and \$110,599.56 in pre-judgment interest, but denied Claimants' request for punitive damages and attorneys' fees.

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

KBI Holdings, LLC v. Mackly Monestime and Oscar Chavarria: Circuit Court of the Twentieth Judicial Circuit, Collier County, FL, Case No. 1004623CA. In July 2010, KBI Holdings, LLC ("Plaintiff"), the owner of the Blimpie Trademarks and certain Blimpie Assets, filed a Complaint against Mackly Monestime (a Blimpie franchisee) and Oscar Chavarria (a Blimpie franchisee) (collectively, the "Defendants") alleging breach of sublicense and breach of contract. Plaintiff seeks eviction and ejectment of Defendants, and demand for judgment for damages, attorneys' fees and costs, and such other and further relief as the Court deems just and proper. On November 18, 2010, Plaintiff filed a Motion to Stay and Compel Arbitration. The Court granted the Motion to Compel Arbitration and Stay Proceedings on or about April 21, 2011. Defendants have not yet pursued arbitration against the Plaintiff.

KBI Holdings, LLC v. D.R.G., L.L.C., Drew Gordon, and RobAnne Gordon; Third Judicial District Court, Salt Lake County, Utah, Case No. 090920297. In November 2009, KBI Holdings, LLC ("Plaintiff"), the owner of the Blimpie Trademarks and certain Blimpie Assets, filed a Complaint against D.R.G., L.L.C. (a Blimpie franchisee), Drew Gordon (a principal of D.R.G., L.L.C. and guarantor of its contractual obligations), and RobAnne Gordon (a principal of D.R.G., L.L.C. and guarantor of its contractual obligations) (collectively, the "Defendants") alleging breach of non-competition agreement due to Defendants converting their Blimpie restaurant into a Drew's Deli; breach of Franchise Agreement (against D.R.G., L.L.C.); breach of Sublease against D.R.G.,

L.L.C.); breach of guaranty (against Drew Gordon and RobAnne Gordon); interference with prospective economic relations; and common law unfair competition. Plaintiffs seek preliminary and permanent injunctive relief to enjoin Defendants from operating a competing business for two years, using the Blimpie trademarks in conjunction with the competing business, using the Blimpie system or any of its proprietary or confidential information in connection with the competing business, and soliciting Blimpie customers with the competing business; and monetary damages including royalty and advertising fees, rental obligations, and other amounts to be proven at trial, including attorneys' fees and costs plus interest. In December 2009, Defendants filed a Motion to Compel Arbitration, and Plaintiffs agreed to arbitrate the case. In February 2010, Defendants filed a petition for Chapter 7 Bankruptcy (United States Bankruptcy Court for the District of Utah, Case No. 10-21740), which stayed the District Court action.

#### Concluded Arbitration and Litigation Involving Multiple Predecessors:

Kahala Corp., Malibu Smoothie Franchise Corp., Frullati Franchise Systems, Inc., Rollerz Franchise Systems, L.L.C., Tahí Mana, L.L.C., and Ranch \*1 Group, Inc. (collectively, the "Predecessor Franchisors") v. Rilwala Group, Inc., Manu Jogani, Pravin Patel, Paresh Jani, Dinesh Gandhi, Haresh Shah, R.B. Texas Collections, Inc., Jani Foods, Inc., Snehal Jani, Rilwala Goods, Inc., and Does 1-100 (collectively, "Rilwala") (Case No. CV03-2160-PHX-JAT). On November 8, 2003, the Predecessor Franchisors filed a complaint against Rilwala and its principals in United States District Court for the District of Arizona. Rilwala and its principals were Area Developers for certain of the Predecessor Franchisors, and the Complaint was for breach of the area development agreements, the associated promissory notes and related damages. In August, 2004, Rilwala filed a cross claim against the Predecessor Franchisors and certain officers of Kahala Corp. Additionally, certain third parties have joined the litigation and filed their own cross claims against Rilwala and its principals. The cross claim filed by Rilwala against the Predecessor Franchisors alleged Breach of Contract; fraud; Breach of the Covenant of Good Faith and Fair Dealing; Tortious Interference with Existing and Prospective Contractual Relations; Breach of Fiduciary Duty; Corporate Impropropriety; Self-Dealing; Violation of Sections 607.1602 and 607.1605 of the Florida Business Corporation Act (Shareholder Right to Inspect); Negligent Misrepresentation; Violation of Section 501.201 of the Florida Deceptive and Unfair Trade Practices Act; Breach of the Illinois Franchise Disclosure Act (815 ILCS 705/6); Breach of Section 445.1505 of the Michigan Franchise Investment Law; Federal Antitrust Violation; Arizona Antitrust Violation; Civil Conspiracy; Violation of 18 U.S.C. Section 1962 (a), (c), and (d); Federal Securities Fraud Violation (Rule 10b-5 of the Securities and Exchange Act of 1934); Illinois Securities Fraud Violation (815 ILCS 5/12); Arizona Securities Fraud Violation (A.R.S. Section 44-1991); and Injunctive Relief Regarding Escrow and Accounting. Defendants sought unspecified compensatory damages, attorneys' fees and costs. In October 2005, the entire lawsuit was settled by mutual agreement of all of the parties, with none of the parties admitting to any fault. The settlement provided for the Predecessor Franchisors to pay Rilwala \$500,000.00 over a fifty-month period, beginning December 1, 2005, at the rate of \$10,000.00 per month. The entire \$500,000 has been paid.

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

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

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

#### **ITEM 4: BANKRUPTCY**

On January 13, 1997, Surf City Squeeze, Inc., an affiliate of Kahala Franchising, filed a petition to reorganize under Chapter 11 of the Federal Bankruptcy Code (United States Bankruptcy Court for the District of Arizona, Case No. 97-00451 PHX-GBN). On November 19, 1997, the first modified Joint Plan of Reorganization proposed by the debtor and the Official Committee of Unsecured Creditors was confirmed (the "Plan"). Surf City Squeeze, Inc. operated under the Plan until the Case was permanently closed on January 24, 2003. Kahala Franchising is not directly affected by the bankruptcy.

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

On June 15, 2004, Progressive Pizza filed a voluntary petition to reorganize under Chapter 11 of the Federal Bankruptcy Code (United States Bankruptcy Court for the Central District of California, Los Angeles Division; Case No. LA 04-23161 VZ). The Bankruptcy Court Judge unilaterally dismissed the entire bankruptcy proceedings without notice on October 14, 2005. In March 2005, Progressive Pizza transferred all of the day-to-day operations and control of its Johnnie's New York Pizzeria business and chain to Kahala Holdings in accordance with a Bankruptcy Court approved Management Agreement. Additionally, and after the termination of the bankruptcy proceedings, Progressive Pizza sold to Kahala Franchise Corp. all of the intellectual property of the Johnnie's New York Pizzeria restaurant concept and the exclusive ownership of, and corresponding rights to utilize, license, and franchise the Johnnie's New York Pizzeria brand restaurant in accordance with the Franchising Rights Agreement. Additionally, through the foreclosure of certain secured debt owed by Progressive Pizza to affiliates of ours, Kahala Holdings, L.L.C. became the sole owner of Progressive Pizza's three Los Angeles, California area corporate-owned Johnnie's New York Pizzeria restaurants in December 2005. Kahala Franchising and its affiliates have no current relationship with Progressive Pizza.

On February 26, 2001, Employee Solutions, Inc. filed as a debtor a petition to start an action under Chapter 7 of the United States Bankruptcy Code (United State Bankruptcy Court for the District of Arizona, Case No. 01-01993-CGC). The case was terminated on May 25, 2006. Quentin Smith, Jr. was a board member and CEO of the debtor. Mr. Smith is the Senior Vice President – Non-Traditional Development of KAHA.

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

## ITEM 5: INITIAL FEES

### Franchisees:

The initial franchise fee (“Initial Franchise Fee”) for your first and second traditional *Taco Time* restaurant location is \$30,000 each. If you have two or more traditional *Taco Time* restaurants, the Initial Franchise Fee will be reduced to \$17,500 for each subsequent traditional restaurant. The Initial Franchise Fee for your first and second non-traditional *Taco Time* restaurant location is \$7,500 each. If you have two or more non-traditional *Taco Time* restaurants, the Initial Franchise Fee will be \$5,000 for each subsequent non-traditional restaurant. If you are currently an active or active reserve member of the U.S. Armed Forces, have been honorably discharged from the U.S. Armed Forces (“Eligible Military”), or are a 501(c)(3) organization, you will receive a twenty percent (20%) discount on the Initial Franchise Fee, except for the limited time promotion for Eligible Military below in this Item 5. If the Franchise Agreement is signed in connection with a transfer, renewal or relocation, you will not pay the Initial Franchise Fee.

The range of Initial Franchise Fees for a traditional *Taco Time* restaurant is from \$14,000 to \$30,000. The range depends on whether the restaurant is the franchisee’s third or subsequent *Taco Time* restaurant (*i.e.*, \$17,500) or if the restaurant is the franchisee’s first or second *Taco Time* restaurant (*i.e.*, \$30,000). However, if you are an active or active reserve member of the U.S. Armed Forces, have been honorably discharged from the U.S. Armed Forces, or are a federally recognized 501(c)(3) organization, the Initial Franchise Fee is reduced to \$24,000 per franchise for the first two traditional franchise units, and to \$14,000 for the third and each subsequent traditional franchise unit. This does not take into account the 50% promotional discount on the Initial Franchise Fee for Eligible Military as it is a limited time offer only.

The range of Initial Franchise Fees for a non-traditional *Taco Time* franchise restaurant is from \$4,000 to \$7,500. The range depends on whether the restaurant is the franchisee’s third or subsequent *Taco Time* restaurant (*i.e.*, \$5,000) or if the restaurant is the franchisee’s first or second *Taco Time* restaurant (*i.e.*, \$7,500). However, if you are an active or active reserve member of the U.S. Armed Forces, have been honorably discharged from the U.S. Armed Forces, or are a federally recognized 501(c)(3) organization, the Initial Franchise Fee is reduced to \$6,000 for the first two non-traditional franchise units, and to \$4,000 for the third and each subsequent non-traditional franchise unit. This does not take into account the 50% promotional discount on the Initial Franchise Fee for Eligible Military as it is a limited time offer only.

We began offering a limited time promotion in November 2011 for those who are Eligible Military. The promotion is effective through December 31, 2012 and offers Eligible Military a fifty percent (50%) discount on the Initial Franchise Fee. After that time, the Initial Franchise Fee discount for Eligible Military will return to our standard twenty percent (20%) discount.

There are no refunds of Initial Franchise Fees under any circumstances. We may periodically reduce the Initial Franchise Fee in connection with limited time promotions, new concepts and/or operational programs. If you sign the Franchise Agreement in connection with a transfer or renewal, you will not pay the Initial Franchise Fee.

The initial fees to be paid to us and/or our affiliate(s) before the franchisee’s business opens are indicated on the chart below in this Item and in the notes to the chart. The initial fees to be paid to us and/or our affiliate(s) before the franchisee’s business opens are the total of the Initial Franchise Fee, Location Review Fee (as defined in the notes below), the cost of opening inventory and supplies, and the cost of equipment, POS System, interior and exterior signage, menu boards and smallwares, and ranges from \$5,250 to \$220,750 for a non-traditional location, and from \$15,250 to \$358,250 for a traditional location. These amounts do not include the optional lease guarantee fee that is variable based upon the amount of the underlying guarantee, or the optional

lease negotiation fee or optional lease procurement fee as these are fees for optional services that may be requested at the sole discretion of the franchisee, or any applicable Initial Development Fee (the “Initial Development Fee”).

We may offer you the option to purchase a license to sell additional signature products in your *Taco Time* restaurant and to use the signature products trademark(s) as signature products are developed. The signature products that would be available for *Taco Time* franchisees to sell in their restaurants are currently under development. We estimate that the fees associated with acquiring license(s) to sell additional products will be between \$2,500 and \$5,000 although these license fees may be modified from time to time.

For the 2011 fiscal year, the formula used to calculate the range of initial fees paid to us and/or our affiliate(s) before the franchisee’s business opened was: the total of the initial franchise fee, lease review fee, the cost of opening inventory and/or supplies purchased from Kona Coast (if any), and the cost of equipment, POS System, interior and exterior signage, menu boards, and/or smallwares purchased from Neptune Equipment (if any). These amounts did not include the optional lease guarantee fee that was variable based upon the amount of the underlying guarantee, or optional lease procurement fee (as these were fees for optional services that may be requested at the sole discretion of the franchisee), the Document Administration Fee (which is only required if the franchisee requests a re-draft of the Franchise Agreement), or any applicable Initial Development Fee. The factors that determined these amounts were: (i) the Initial Franchise Fee was discounted or waived; (ii) the traditional franchise was the franchisee’s first or second traditional franchise; (iii) the traditional franchise was the franchisee’s third or subsequent traditional franchise; (iv) the non-traditional franchise was the franchisee’s first or second non-traditional franchise; (v) the non-traditional franchise was the franchisee’s third or subsequent non-traditional franchise; (vi) the location review fee; (vii) the cost of opening inventory and supplies purchased from our affiliate, Kona Coast, which depended on the amount purchased; and (viii) the cost of equipment, interior and exterior signage, menu boards, and smallwares purchased from our affiliate, Neptune Equipment, which depended on the equipment purchased.

<b>CATEGORY</b>	<b>AMOUNT</b>	<b>METHOD OF PAYMENT</b>	<b>DUE DATE</b>	<b>TO WHOM PMT IS MADE</b>	<b>REFUNDABILITY</b>
Initial Franchise Fee – Traditional Location	\$30,000	Lump Sum	Signing of the Franchise Agreement	Kahala Franchising	See Note (1)
Initial Franchise Fee – Third Traditional Location and each afterward	\$17,500	Lump Sum	Signing of the Franchise Agreement	Kahala Franchising	See Note (1)
Initial Franchise Fee – Non Traditional Location (Note 2)	\$7,500	Lump Sum	Signing of the Franchise Agreement	Kahala Franchising	See Note (1)
Initial Franchise Fee – Third Non Traditional Location and each afterward	\$5,000	Lump Sum	Signing of the Franchise Agreement	Kahala Franchising	See Note (1)

CATEGORY	AMOUNT	METHOD OF PAYMENT	DUE DATE	TO WHOM PMT IS MADE	REFUNDABILITY
Lease Guarantee Fee  (optional)	10% of the total amount guaranteed, up to a maximum payment of \$10,000 (if applicable) (Note 3)	Lump Sum	Signing of the Lease Agreement (if applicable)	Kahala Franchising or its affiliate who guarantees the lease	See Note (1)
Location Review Fee	\$1,250 (Note 4)	Lump Sum	Signing of the Franchise Agreement	Kahala Franchising	See Note (1)
Lease Negotiation Fee (optional)	\$2,500 (Note 5)	Lump Sum	Upon Request to Kahala Management's Real Estate Department for the Service	Kahala Franchising	See Note (1)
Lease Procurement Fee (optional)	\$5,000 (Note 6)	Lump Sum	Upon Request to Kahala Management's Real Estate Department for the Service	Kahala Franchising	See Note (1)
Opening Inventory and Supplies	\$0 to \$7,000 (Note 7)	Lump Sum	At time the order is placed (if applicable)	Kona Coast and/or third party vendor	See Note (1)
Equipment, POS System, interior and exterior signage, menu boards, and/or smallwares	\$0 to \$320,000 (Note 7)	Lump sum	When invoiced	Neptune Equipment and/or third party vendor	See Note (1)

Notes:

(1) There are no refunds under any circumstances. Kahala Franchising does not offer any financing of the Initial Franchise Fee. We will reduce the Initial Franchise Fee, and the Initial Franchise Fee for additional traditional *Taco Time* restaurants, by twenty percent (20%) if you are currently an active or active reserve member of the U.S. Armed Forces, have been honorably discharged from the U.S. Armed Forces, or if the franchisee is a federally recognized 501(c)(3) organization. This does not take into account the 50% promotional discount on the Initial Franchise Fee for Eligible Military as it is a limited time offer only. We may periodically reduce the Initial Franchise Fee in connection with limited time promotions, new concepts and/or operational programs.

(2) A "Non-Traditional Location" is a *Taco Time* event cart, kiosk, co-branded location, or a *Taco Time* restaurant located within a health club, travel plaza, or convenience store, all of which locations generally offer a limited version of the full *Taco Time* menu in existence at traditional *Taco Time* restaurants.

(3) If, after a request by you, Kahala Franchising or any of its affiliates agree, in their sole

and absolute discretion, to guarantee your lease with the applicable third party landlord for the *Taco Time* restaurant you are developing, you will pay Kahala Franchising or its affiliate a lease guarantee fee in the amount of 10% of the total amount of the rental obligations being guaranteed under the lease upon the execution of the lease and associated guarantee with the third party landlord, up to a maximum payment of \$10,000. This fee is not refundable (See Exhibit H: Lease Guaranty Acknowledgement).

(4) You are required to pay us a \$1,250 location review fee for our services of reviewing your lease if you have entered into a lease with a landlord ("Location Review Fee"). The Location Review Fee is non-refundable and can be waived in certain situations at our sole and absolute discretion.

(5) A \$2,500 lease negotiation fee shall be paid by you to Kahala Franchising ("Lease Negotiation Fee") upon your request to Kahala Management's real estate department for assistance in negotiating a term sheet to secure a lease or negotiating the actual lease terms with the landlord or broker/agent for the landlord for the location of the *Taco Time* restaurant you are developing. This fee is not refundable. This is an optional service, with the determination of whether to utilize Kahala Management's real estate department to be made in your sole discretion. If you request to use this service and have paid the Location Review Fee, the Location Review Fee you paid will be applied towards the \$2,500 Lease Negotiation Fee. The final approval and execution of the term sheet and/or lease and the provisions therein remain the sole responsibility of the franchisee (See Exhibit I: Lease Negotiation Acknowledgment).

(6) A \$5,000 lease procurement fee shall be paid by you to Kahala Franchising upon your request to Kahala Management's real estate department to locate a site, visit the site, and negotiate the actual lease terms with the landlord or broker/agent for the landlord for the location of the *Taco Time* restaurant you are developing ("Lease Procurement Fee"). This fee is not refundable. This is an optional service, with the determination of whether to utilize Kahala Management's real estate department to be made in your sole discretion. If you request to use this service and have paid the Location Review Fee, the Location Review Fee you paid will be applied towards the \$5,000 Lease Procurement Fee. The services provided by our real estate department when the Lease Procurement Fee is paid includes all of the services as provided as part of the Lease Negotiation Fee detailed above in addition to assisting the franchisee in identifying the location (See Exhibit J: Lease Procurement Acknowledgment).

(7) The majority of your opening inventory and supplies will be purchased from approved third party vendors, which may include Kona Coast, an affiliate of Kahala Franchising. You may, but are not required, to purchase inventory and supplies from Kona Coast. In addition, the majority of your equipment, interior and exterior signage, menu boards, and smallwares will be purchased from approved third party vendors, which may include Neptune Equipment, an affiliate of Kahala Franchising. You may, but are not required, to purchase the above-referenced items from Neptune Equipment. We will provide you with one set of our confidential operations manuals and associated documents and written guidelines (collectively, the "Operations Manual(s)"). A list of approved distributors for our approved vendors is maintained by our purchasing department and will be provided to you during the pre-opening and/or construction phase for your Franchised Business. Updates will be provided to you as changes are made (i.e., additions and deletions) to the list of approved distributors for our approved vendors. We may acquire certain used equipment and signage and offer it for sale to prospective or existing franchisees at a price that we believe to be equal to or less than the fair market value of that equipment and signage. If we make that offer to you, you have the option of purchasing that equipment and signage from us or purchasing new equipment and signage from the approved third parties.

Area Representatives:

If you desire to purchase an ARA Territory and provide certain support and assistance to franchisees on behalf of us within the ARA Territory, and if you qualify, we may execute with you an Area Representative Agreement (“ARA”) permitting you to operate as a franchise broker and provide certain support services to the franchisees within your ARA Territory. The required minimum number of restaurants to be developed under the ARA shall be agreed upon between Kahala Franchising and Area Representative with no maximum number of units required. A copy of the ARA is attached as Exhibit O to this Disclosure Document. The “Initial Development Fee” required under the ARA is based on the estimated population, as determined and indicated on the U.S. Census Bureau’s website (<http://www.census.gov>), and the royalty payments we received over the last 12 months and is calculated as the greater of: (i) the estimated population in the ARA Territory multiplied by \$.10; or (ii) the estimated population in the ARA Territory multiplied by \$.03 plus 4 times the royalty payments we or our affiliates received in the last 12 months on existing restaurants within the ARA Territory. The minimum population base in a given Territory is 30,000. Based on a minimum population of 30,000, the minimum Initial Development Fee is \$3,000. We shall determine, in our sole and absolute discretion, the number of *Taco Time* restaurants that can be opened in an ARA Territory based upon the population and other relevant demographic factors. The entire Initial Development Fee is payable in full at the time of the signing of the ARA and is not refundable unless we determine, in our sole discretion, that the Area Representative has not performed satisfactorily on the franchisee Training Program exams and/or the AR Training Program exams, is not competent in performing the skills necessary to be a franchisee and/or an Area Representative, cannot speak English fluently, does not have an aptitude for being a franchisee and/or Area Representative or has failed to satisfactorily complete the franchisee Training Program and/or AR Training Program, in which case we may terminate the Area Representative Agreement according to Section 3(u)(iii) of the ARA. In that case, the Initial Development Fee will be refunded to Area Representative less a \$25,000 administrative fee that will be retained by us. For the 2011 fiscal year, the formula used to calculate the Initial Development Fee paid to Kahala Franchise Corp. before the area representative’s purchase of an ARA territory was the greater of: (i) the estimated population in the ARA Territory multiplied by \$.10; or (ii) the estimated population in the ARA Territory multiplied by \$.03 plus 4 times the royalty payments we or our affiliates received in the last 12 months on existing restaurants within the ARA Territory. Kahala Franchising did not sell any *Taco Time* ARAs during the 2011 fiscal year and did not receive any Initial Development Fees based upon the estimated population or royalty payments calculations listed above.

In addition to the Initial Development Fee, Area Representative must also file or assist in filing any and all relevant Salesperson Disclosure Forms and/or similar documentation and pay the applicable filing fee(s) to the applicable state to allow the Area Representative to assist us in the sale of *Taco Time* franchises within the ARA Territory. The filing fee(s) range from \$50 to \$150.

**ITEM 6: OTHER FEES**

<b>Column 1</b>	<b>Column 2</b>	<b>Column 3</b>	<b>Column 4</b>
<b>Type of Fee</b>	<b>Amount</b>	<b>Due Date</b>	<b>Remarks</b>
Royalty Fee and Surcharge (Note 1)	Royalty Fee is the greater of the following: (i) 6% of total weekly Gross Sales or (ii) \$400 per week. Surcharge is a maximum of \$10 per week in addition to the Royalty Fee. (Note 2)	Withdrawn electronically from your designated bank account each Thursday (Note 3)	“Gross Sales” include all revenue from the Franchised Business excluding sales tax and authorized refunds, credits and allowances.



<b>Column 1</b>	<b>Column 2</b>	<b>Column 3</b>	<b>Column 4</b>
<b>Type of Fee</b>	<b>Amount</b>	<b>Due Date</b>	<b>Remarks</b>
Advertising Fees (Note 1)	Up to 4% of weekly Gross Sales	Same as Royalty Fee (Note 3)	Currently, Advertising Fee is 4% of weekly Gross Sales, which goes to the advertising fund (Note 4).
Additional Persons Training Fee (Note 1)	\$62.50 per person per day for the In-Store portion of the Training Program, and \$500 per person for the New Owner Training portion of the Training Program	2 weeks prior to beginning of training	We train 2 persons free of charge in the Training Program. The Additional Persons Training Fee is for any additional persons who attend the Training Program.
Annual Meeting Registration Fee (Notes 1 and 5)	\$1,000 plus incidental costs to attend	60-90 days prior to the Meeting	We will debit your Depository Account for this fee, which is non-refundable. This fee is charged to all franchisees whether or not they attend the Meeting.
Depository Account	\$3,000 (Must be replenished on a regular basis)	At signing of Franchise Agreement	(Note 3)
Data Fees (Notes 1 and 6)	Up to \$75 per month (Subject to reasonable annual and/or service enhancement increases)	Same as Royalty	Fee for collecting or polling data from your POS System.
POS Help Desk Phone Support Maintenance Contract Fee	\$540 to \$660 yearly	First year fee is included in cost of the FOCUS POS System. Subsequent years' fee is due upon renewal.	Year 2 and after is optional but it is recommended that franchisee purchase this service from Kahala Franchising or its affiliate.
Gift Card Redemption Fee	Up to 9% of the amount of the gift card redemption	On the 2 <sup>nd</sup> business day of each month	Currently, Gift Card Redemption Fee is 5% and is collected by KGC and paid to the gift card processor.
Renewal Fee (Note 1)	\$5,000	When new Franchise Agreement is signed at renewal	Applicable if you renew your Franchise Agreement.
Transfer Fee – Traditional Locations (Note 1)	\$20,000 (if transfer occurs within first 24 months of effective date of Franchise Agreement); \$7,500 (if transfer occurs more than 24 months after the effective date of the Franchise Agreement)	Prior to consummation of transfer	Applicable if you sell your franchise. No charge if franchise transferred to a corporation that you control.

<b>Column 1</b>	<b>Column 2</b>	<b>Column 3</b>	<b>Column 4</b>
<b>Type of Fee</b>	<b>Amount</b>	<b>Due Date</b>	<b>Remarks</b>
Transfer Fee – Non-Traditional Locations (Note 1)	\$5,000 for non-traditional locations	Prior to consummation of transfer	Applicable if you sell your non-traditional franchise. No charge if franchise transferred to a corporation that you control.
Relocation Fee (Note 1)	\$500	At signing of relocation amendment to Franchise Agreement	Payable if we approve the relocation of your store.
Additional Training Fee in the Event of a Transfer of the Franchise Agreement (Note 1)	\$2,500 for two (2) individuals (\$500 for each additional individual)	Prior to consummation of transfer	Payable when you sell or otherwise assign your franchise to cover Kahala Franchising's costs and expenses to train the new assignee of the Franchise Agreement.
Additional Training Fee (Note 1)	\$300 per person per day	At time of training	Payable if you request additional training after attending the Training Program.
Document Administration Fee  (if redraft is requested by franchisee)	\$500 (Note 7)	Lump Sum	Upon your request to us to redraft the Franchise Agreement.
Default Interest (Notes 1 and 8)	\$50 plus interest at 1-1/2% per month or maximum legal rate, if less ("Default Rate")	Payable upon assessment	Payable on all overdue amounts.
Late Report Fee (Note 1)	\$100 per report	Payable upon assessment	Payable if any required financial statement or report is delinquent.
Collection Costs (Note 1)	All collection costs including reasonable attorneys' fees	Payable upon assessment	Payable only if we are required to retain an attorney or collection agency to collect delinquent payments from you. We will also collect as damages any attorneys' fees and costs incurred by us in defending claims that arise due to your actions as a <i>Taco Time</i> franchisee.

<b>Column 1</b>	<b>Column 2</b>	<b>Column 3</b>	<b>Column 4</b>
<b>Type of Fee</b>	<b>Amount</b>	<b>Due Date</b>	<b>Remarks</b>
Non-Sufficient Funds Fee (Note 1)	\$50 for each electronic funds transfer returned for non-sufficient funds; \$25 for each check or draft returned for non-sufficient funds	Payable upon assessment	Payable only if your electronic funds transfer from your depository account or any check you remit to us is returned for non-sufficient funds.
Audit (Note 1)	Cost of Audit plus interest at Default Rate on underpayments or the maximum rate permissible by law (Note 9)	Payable upon assessment	Payable only if audit is caused by your failure to furnish reports or if audit reveals an understatement of fees or assessment of 5% or more.
New Supplier Approval Fee (Note 1)	A charge not to exceed the reasonable cost of the inspection and the actual cost of the test not to exceed \$5,000.	Payable upon assessment	Payable by either you or the proposed supplier if you request our approval of a new or alternative supplier.
Early Termination Fee (Note 1)	The average monthly Royalty and Advertising Fees during the preceding 12-month period multiplied by the number of months remaining in the term of the Franchise Agreement, and the product is divided by 2.	30 days prior to the early closing of the restaurant.	You must provide us with 90 days prior written notice of the termination of your Franchise Agreement.
Management Fee	Six percent (6%) of the Franchised Business' Gross Sales (in addition to the Royalty Fee and Advertising Fee) plus our direct out-of-pocket costs and expenses.	Payable with Royalty and Advertising Fee	If we assume the management of your Franchised Business for any period of time.

Notes:

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

(2) The Royalty Fee for a traditional *Taco Time* restaurant located within a school or university will be 6% of total weekly Gross Sales with no minimum royalty due to the seasonality of the location, and the Royalty Fee for a non-traditional *Taco Time* restaurant will be 6% of total weekly Gross Sales with no minimum royalty. For all other traditional *Taco Time* restaurants, the Royalty Fee will be the greater of: (i) 6% of the total weekly Gross Sales or (ii) \$400 per week. In our sole discretion, we may charge, in addition to the Royalty Fee, a Surcharge of up to \$10 per week if your Franchised Business is located in a state that imposes additional reporting requirements on a franchisor. Currently, New York is the only state that has imposed the additional reporting requirements (for example, see [http://www.tax.state.ny.us/pdf/memos/sales/m09\\_9s.pdf](http://www.tax.state.ny.us/pdf/memos/sales/m09_9s.pdf) for information franchisors are required to report to the State of New York regarding its franchisees).

(3) At the time you sign the Franchise Agreement, you will set up a depository account of \$3,000 with your local banking institution. You are required to maintain a balance of \$3,000 in this account at all times. This will mean that you must replenish the depository account to \$3,000 after Kahala Franchising makes any withdrawals. By Monday of each week, you must submit a royalty report to Kahala Franchising of certain statistical data regarding the prior week's revenues, sales and other data, which prior week shall end on the preceding Sunday. Kahala Franchising will withdraw funds electronically on each Thursday from the depository account. The withdrawals are based upon the figures you report and constitute Royalty Fees and Advertising Fees as described in Sections 5.2 and 5.3 of the Franchise Agreement (See Exhibit E). If you do not submit a report by each Monday, Kahala Franchising may withdraw the entire \$3,000 on Thursday. Kahala Franchising will return any overage to you upon receipt of your report(s). (An Electronic Funds Transfer Agreement by and payable to Kahala Franchising is attached as Exhibit K).

(4) Kahala Franchising directs that Advertising Fees be paid to us, a national advertising fund designated by us, or, in our sole discretion, to a designated approved regional advertising fund ("Regional Advertising Fund"). We encourage the formation of franchisee cooperative advertising associations (each a "Cooperative"). If a Cooperative is formed for your region, you must contribute to the Regional Advertising Fund for your Cooperative. The membership of the Cooperative is defined by us according to your market area. Currently, the *Taco Time* Cooperatives are located in the following market areas: Boise, Idaho; Idaho Falls – Pocatello, Idaho; Salt Lake City, Utah; Eugene, Oregon; Yakima, Washington; Portland, Oregon; and Spokane, Washington. All *Taco Time* franchisees located within the Cooperative market area must contribute to the Regional Advertising Fund at the same rate, which is currently 3% of your weekly Gross Sales. For each of our corporate-owned or affiliate-owned restaurants located within the Cooperative, we will make contributions to the Regional Advertising Fund on the same basis as required of the other *Taco Time* franchise owners in the same geographic market. Outlets owned by an affiliate of Kahala Franchising have the same voting power as franchisee owned outlets.

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

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

(7) The Document Administration Fee in the amount of \$500 will only be charged to you if the franchise documents must be re-drafted by us due to franchisee's request to: (i) change the franchisee's name on the franchise documents from their name as individuals to their entity name in which they are the sole owners of the entity; (ii) change the franchisee's name on the franchise documents from one entity name to another entity name in which the owners of the entities are the same individual(s); (iii) delete a franchisee's name from the franchise documents; or (iv) such other cases, other than a transfer, in which franchisee requests a name change that requires us to redraft the franchise documents, but does not constitute a transfer of the Franchise Agreement.

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

The following table applies to Area Representatives only: In addition to the Initial Development Fee, Area Representatives will be required to pay the following fees and payments as described in the following Table:

<b>Column 1</b>	<b>Column 2</b>	<b>Column 3</b>	<b>Column 4</b>
<b>Type of Fee</b>	<b>Amount</b>	<b>Due Date</b>	<b>Remarks</b>
Transfer Fee (Note 1)	The greater of: (i) 5% of the gross sales price or other consideration to be received or realized by Area Representative and his Affiliates in connection with the transfer; or (ii) \$30,000	Prior to consummation of transfer	Applicable if you sell your ARA Territory. No charge if ARA is transferred to a corporation that you control.
Renewal Fee (Note 1)	The greater of: (i) 5% of the total Fee Compensation and Royalty Fee Compensation (as defined in the ARA) earned by Area Representative and its Affiliates under the ARA during the 12-month period preceding the renewal; or (ii) \$30,000	Prior to consummation of the renewal	Applicable if you renew your ARA upon the expiration of the Initial Term of 10 years.
Costs of adapting the program to the Territory	\$0-\$15,000	As incurred	Costs of adapting the program to the Territory.
Costs of complying with franchise laws applicable to the Territory (Note 2)	\$0-\$15,000	As incurred	Costs of complying with franchise laws applicable to the Territory.
Additional persons attending Training Program	\$1,500 per person	Prior to attending training	Additional training
National advertising campaign assessment	As determined by us, your proportionate share of the cost	Within 10 days after request or invoice	National advertising campaign assessment
Collection costs	33 1/3% of costs and expenses of collecting delinquent payments from franchisees	Within 10 days after request or invoice	Collection costs

<b>Column 1</b>	<b>Column 2</b>	<b>Column 3</b>	<b>Column 4</b>
<b>Type of Fee</b>	<b>Amount</b>	<b>Due Date</b>	<b>Remarks</b>
No-show	\$500, if you fail to cancel any portion of the training program on less than 14 days' notice	Upon failure to cancel	No-show
Continuing training, annual & other meetings (Note 3)	To be determined by us	Prior to attendance	Continuing training, annual & other meetings
Interest	18% per annum on all overdue amounts and all amounts paid by us on your behalf	As incurred	Interest
Audit	Costs and expenses of the audit	Promptly upon completion if the audit reveals that you have breached any obligation or your financial statements are inaccurate by either 5% of your revenues or 2% of your net	Audit
Premiums and other amounts paid by us if you fail to purchase required insurance	Premium and other amounts paid by us, plus interest (See above)	As incurred	Premiums and other amounts paid by us if you fail to purchase required insurance.
Attorneys' fees & costs	Will vary under the circumstances	As incurred	Attorneys' fees & costs
Currency (Note 4)	Costs of conversion to U.S. Dollars	As incurred	Currency
Document late charge (Note 5)	\$100 per week or part thereof	As incurred	Document late charge
Sharing of payment made to franchisee (Note 6)	One-third of amount paid or waived by us	Promptly upon our payment to franchisee or waiver of amount due	Sharing of payment made to franchisee.
Sharing of loss or damages in connection with franchise (Note 7)	One-third or amount suffered or paid by us	Promptly upon our payment to third party or recognition of loss or damages	Sharing of loss or damages in connection with franchise.

<b>Column 1</b>	<b>Column 2</b>	<b>Column 3</b>	<b>Column 4</b>
<b>Type of Fee</b>	<b>Amount</b>	<b>Due Date</b>	<b>Remarks</b>
Indemnification of us for damages suffered or incurred for your actions or omissions	Will vary under the circumstances (proportionate liability will be conclusively determined by us)	As incurred	Indemnification of us for damages suffered or incurred for your actions or omissions.
Taxes	Sales, gross receipts and similar taxes payable by us with respect to the Initial Development Fee and other amounts payable under the Area Representative Agreement	Within 10 days of invoice	Taxes

Notes:

(1) This fee is imposed and collected by Kahala Franchising, is payable to Kahala Franchising, and is non-refundable. This fee is uniformly imposed by us; however, we, in our sole discretion, may reduce or waive the fee.

(2) Area Representatives may bear their proportionate part of these costs.

(3) Additional training programs and refresher courses may be required upon renewal and from time to time. The frequency of continuing training programs and seminars will not exceed 21 days per calendar year. We may elect, in our sole discretion, to charge a fee for additional training programs. You will be required to bear your own travel, lodging and meal expenditures in connection with attendance. In addition, you (or, if the Area Representative is a corporation, partnership, limited liability company or other entity, all equity owners) must attend, at your expense, all annual and other meetings and conference calls of Area Representatives and franchisees that we determine are mandatory for all franchisees and/or Area Representatives, or groups of franchisees and/or Area Representatives (as designated by us), such as franchisees and/or Area Representatives within a particular geographic region. We may impose a charge for your failure to attend those programs, courses, meetings and conference calls.

(4) Computation of any amounts to be paid that require conversion between currencies will be made at the selling rate for United States Dollars quoted by our primary bank on the date on which payment is made.

(5) If you fail to deliver or provide to us any statement, report or other document or information required to be delivered (for example, certificates of insurance, financial statements and evaluation and activity reports), by the applicable deadline, you will be assessed a \$100 late charge per week, or part thereof (until that statement, document or other information has been delivered or provided), which amount may be increased by us from time to time.

(6) If a franchisee's Franchise Agreement is terminated and we, in our sole discretion, agree to pay that franchisee any amount (or we waive collection of any amount to which we are entitled), or if a court of competent jurisdiction determines that we must pay that franchisee any

amount (or that we must waive collection of any amount to which it is entitled), you must promptly pay to us 33 1/3% of the amount that we so pay or waive.

(7) If we or any of our affiliates, in our sole discretion, agree to pay any person any amount or if a court of competent jurisdiction determines that we or any of our affiliates must pay any person any amount, or if we or any of our affiliates otherwise suffer a loss or damages in connection with a franchisee, you must promptly pay to us 33 1/3% of the amount of that payment, loss or damages.

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## ITEM 7: ESTIMATED INITIAL INVESTMENT

### YOUR ESTIMATED INITIAL INVESTMENT

Traditional Taco Time Restaurant - (constructed as a free-standing restaurant)

Column 1 Type of Expenditure	Column 2 Amount	Column 3 Method of Payment	Column 4 When Due	Column 5 To Whom Payment is to be Made
Initial Franchise Fee (Note 1)	\$14,000 to \$30,000 (Note 1)	Lump Sum	At Signing of Franchise Agreement	Us
Location Review Fee	\$1,250	Lump Sum	At Signing of Franchise Agreement	Us
Rent/Security Deposit (for 3 months) (Note 2)	\$6,000 to \$30,000	As Incurred	Prior to Opening	Landlord(s)
Travel and Living Expenses (2 persons) while training, not including salaries, if any, for you and your employees	\$4,000 to \$6,000	As Incurred	During Training	Airlines, Hotels, Restaurants, etc.
Real Estate	(Note 2)	(Note 2)	(Note 2)	(Note 2)
Architectural and Project Management Fees (Note 3)	\$5,000 to \$40,000	As Incurred	Prior to Opening	Designated and Approved Architect
Leasehold Improvements	\$500,000 to \$850,000 (Note 4)	As Incurred	Prior to Opening	Contractors and approved vendors (Notes 3 and 4)
Restaurant Equipment, Furniture, and Small Wares (Note 5)	\$75,000 to \$250,000	Lump Sum	Prior to Opening	Approved Vendors and Suppliers
Interior and Exterior Signage and menu panels	\$15,000 to \$35,000	As Incurred	Prior to Opening	Approved Vendors and Suppliers
Computer Hardware, Software (POS System)	\$20,000 to \$35,000	Lump Sum	Prior to Opening	Approved Suppliers
PCI Compliance Costs	\$150 to \$1,300	As billed by third party vendor	As billed by third party vendor	Approved Vendor
Opening Inventory (food and paper) (Note 6)	\$4,000 to \$7,000	As Incurred	Prior to Opening	Approved Suppliers
Business Insurance (Note 7)	\$3,000 to \$7,000	Lump Sum	Prior to Opening	Insurance Company/Agent
Miscellaneous Opening Costs (Note 8)	\$8,000 to \$19,000	As Incurred	As Incurred	Approved Suppliers, Utilities, etc.
Grand Opening	\$0 to \$5,000	Lump Sum	Prior to Opening	Suppliers (Note 9)
Depository Account (Note 10)	\$3,000	Lump Sum; Must be replenished on a regular basis	At signing of Franchise Agreement	Your bank (We have the right to withdraw from this account)
Additional Funds - 3 month initial period	\$5,000 to \$20,000 (Note 11)	As Incurred	As Incurred	Us, Employees, Various Third Parties
TOTAL (Note 12)	\$ 663,400 to \$1,339,550	<i>(Does not include real estate costs and/or rent for the business location except for the initial security deposit.)</i>		

**YOUR ESTIMATED INITIAL INVESTMENT**  
Traditional *Taco Time* Restaurant  
 (located within a Shopping Mall, Strip Center, or similar venue)

<b>Column 1</b> <b>Type of Expenditure</b>	<b>Column 2</b> <b>Amount</b>	<b>Column 3</b> <b>Method of Payment</b>	<b>Column 4</b> <b>When Due</b>	<b>Column 5</b> <b>To Whom Payment is to be Made</b>
Initial Franchise Fee (Note 1)	\$14,000 to \$30,000 (Note 1)	Lump Sum	At Signing of Franchise Agreement	Us
Location Review Fee	\$1,250	Lump Sum	At Signing of Franchise Agreement	Us
Rent/Security Deposit (for 3 months) (Note 2)	\$6,000 to \$30,000	As Incurred	Prior to Opening	Landlord(s)
Travel and Living Expenses (2 persons) while training, not including salaries, if any, for you and your employees	\$4,000 to \$6,000	As Incurred	During Training	Airlines, Hotels, Restaurants, etc.
Real Estate	(Note 2)	(Note 2)	(Note 2)	(Note 2)
Architectural and Project Management Fees (Note 3)	\$5,000 to \$20,000	As Incurred	Prior to Opening	Designated and Approved Architect
Leasehold Improvements	\$200,000 to \$300,000 (Note 4)	As Incurred	Prior to Opening	Contractors and approved vendors (Notes 3 and 4)
Restaurant Equipment, Furniture, and Small Wares (Note 5)	\$50,000 to \$150,000	Lump Sum	Prior to Opening	Approved Vendors and Suppliers
Interior and Exterior Signage and menu panels	\$8,000 to \$25,000	As Incurred	Prior to Opening	Approved Sign Company
Computer Hardware, Software (POS System)	\$12,000 to \$35,000	Lump Sum	Prior to Opening	Approved Suppliers
PCI Compliance Costs	\$150 to \$1,300	As billed by third party vendor	As billed by third party vendor	Approved Vendor
Opening Inventory (food and paper) (Note 6)	\$4,000 to \$7,000	As Incurred	Prior to Opening	Approved Suppliers
Business Insurance (Note 7)	\$3,000 to \$7,000	Lump Sum	Prior to Opening	Insurance Company/Agent
Miscellaneous Opening Costs (Note 8)	\$8,000 to \$19,000	As Incurred	As Incurred	Approved Suppliers, Utilities, etc.
Grand Opening	\$0 to \$5,000	Lump Sum	Prior to Opening	Suppliers (Note 9)
Depository Account (Note 10)	\$3,000	Lump Sum; Must be replenished on a regular basis	At signing of Franchise Agreement	Your bank (We have the right to withdraw from this account)
Additional Funds - 3 month initial period	\$5,000 to \$20,000 (Note 11)	As Incurred	As Incurred	Us, Employees, Various Third Parties
TOTAL (Note 12)	\$323,400 to \$659,550	<i>(Does not include real estate costs and/or rent for the business location except for the initial security deposit.)</i>		

## YOUR ESTIMATED INITIAL INVESTMENT

### Non-Traditional *Taco Time* Restaurant

Column 1 Type of Expenditure	Column 2 Amount	Column 3 Method of Payment	Column 4 When Due	Column 5 To Whom Payment is to be Made
Initial Franchise Fee (Note 1)	\$4,000 to \$7,500 (Note 1)	Lump Sum	At Signing of Franchise Agreement	Us
Location Review Fee	\$1,250	Lump Sum	At Signing of Franchise Agreement	Us
Rent/Security Deposit (for 3 months) (Note 2)	\$6,000 to \$30,000	As Incurred	Prior to Opening	Landlord(s)
Travel and Living Expenses (2 persons) while training, not including salaries, if any, for you and your employees	\$4,000 to \$6,000	As Incurred	During Training	Airlines, Hotels, Restaurants, etc.
Real Estate	(Note 2)	(Note 2)	(Note 2)	(Note 2)
Architectural and Project Management Fees (Note 3)	\$5,000 to \$20,000	As Incurred	Prior to Opening	Designated and Approved Architect
Leasehold Improvements	\$40,000 to \$150,000 (Note 4)	As Incurred	Prior to Opening	Contractors and approved vendors (Notes 3 and 4)
Restaurant Equipment, Furniture, and Small Wares (Note 5)	\$50,000 to \$150,000	Lump Sum	Prior to Opening	Approved Vendors and Suppliers
Interior and Exterior Signage and menu panels	\$5,000 to \$20,000	As Incurred	Prior to Opening	Approved Sign Company
Computer Hardware, Software (POS System)	\$5,000 to \$35,000	Lump Sum	Prior to Opening	Approved Suppliers
PCI Compliance Costs	\$150 to \$1,300	As billed by third party vendor	As billed by third party vendor	Approved Vendor
Opening Inventory (food and paper) (Note 6)	\$2,500 to \$7,000	As Incurred	Prior to Opening	Approved Suppliers
Business Insurance (Note 7)	\$1,000 to \$5,000	Lump Sum	Prior to Opening	Insurance Company/Agent
Miscellaneous Opening Costs (Note 8)	\$8,000 to \$19,000	As Incurred	As Incurred	Approved Suppliers, Utilities, etc.
Grand Opening	\$0 to \$5,000	Lump Sum	Prior to Opening	Suppliers (Note 9)
Depository Account (Note 10)	\$3,000	Lump Sum; Must be replenished on a regular basis	At signing of Franchise Agreement	Your bank (We have the right to withdraw from this account)
Additional Funds - 3 month initial period	\$5,000 to \$20,000 (Note 11)	As Incurred	As Incurred	Us, Employees, Various Third Parties
TOTAL (Note 12)	\$139,900 to \$480,050	<i>(Does not include real estate costs and/or rent for the business location except for the initial security deposit.)</i>		

Notes:

(1) The Initial Franchise Fee is \$30,000 for your first and second traditional *Taco Time* franchise, and is reduced to \$17,500 for your third and all subsequent traditional *Taco Time* franchises. The Initial Franchise Fee is \$7,500 for your first and second non-traditional *Taco Time* franchise, and is reduced to \$5,000 for your third and all subsequent *Taco Time* franchises. If you are currently an active or active reserve member of the U.S. Armed Forces, have been honorably discharged from the U.S. Armed Forces, or are a 501(c)(3) organization, you will receive a twenty percent (20%) discount on the Initial Franchise Fee. Therefore, if you are an active or active reserve member of the U.S. Armed Forces, have been honorably discharged from the U.S. Armed Forces, or are a federally recognized 501(c)(3) organization, the Initial Franchise Fee is \$24,000 per franchise for the first two traditional franchise units; \$14,000 for the third and each subsequent traditional franchise unit; \$6,000 for the first two non-traditional franchise units; and \$4,000 for the third and each subsequent non-traditional franchise unit. This does not take into account the 50% promotional discount on the Initial Franchise Fee for Eligible Military as it is a limited time offer only. The Initial Franchise Fee includes the training fee for two (2) individuals. The Initial Franchise Fee is non-refundable. The charge for each additional person to attend the Training Program is \$62.50 per person per day for the In-Store portion of the Training Program and \$500 per person for the New Owner Training portion of the Training Program.

(2) If you do not own a suitable premises approved by us, you must lease or purchase the premises for your *Taco Time* restaurant. If you decide to lease the premises, the landlord will generally require a security deposit, the amount of which generally ranges from one month of monthly rent to six months of monthly rent. The amount of your security deposit will vary according to your area, the type of location (enclosed mall, strip center, or free-standing building), and various other factors. A lease security deposit may be non-refundable and is paid directly to the landlord of the premises. In addition, in certain lease transactions, the landlord may require you, or if you are a corporation, partnership, limited liability company, or other legal entity, you and your owners, to personally guarantee the lease. In addition, if you decide to lease the premises for your *Taco Time* restaurant, the following fees payable to us may apply: (i) Lease Guarantee Fee - if, after a request by you, Kahala Franchising or any of its affiliates agree, in their sole and absolute discretion, to guarantee your lease with the applicable third party landlord for the *Taco Time* restaurant you are developing, you will pay Kahala Franchising or its affiliate a lease guarantee fee in the amount of 10% of the total amount of the rental obligations being guaranteed under the lease upon the execution of the lease and associated guarantee with the third party landlord, up to a maximum payment of \$10,000 (this is an optional service, with the determination of whether to utilize Kahala Management's real estate department to be made in your sole discretion, and if agreed to by Kahala Franchising or any of its affiliates, in their sole discretion); (ii) Lease Negotiation Fee - a \$2,500 Lease Negotiation Fee (less any Location Review Fee paid) shall be paid by you to Kahala Franchising upon your request to Kahala Management's real estate department for assistance in negotiating a term sheet to secure a lease or negotiating the actual lease terms with the landlord or broker/agent for the landlord for the location of the *Taco Time* restaurant you are developing (this is an optional service, with the determination of whether to utilize Kahala Management's real estate department to be made in your sole discretion); or (iii) Lease Procurement Fee - a \$5,000 Lease Procurement Fee (less any Location Review Fee paid) shall be paid by you to Kahala Franchising upon your request to Kahala Management's real estate department to locate a site, visit the site, and negotiate the actual lease terms with the landlord or broker/agent for the landlord for the location of the *Taco Time* restaurant you are developing (this is an optional service, with the determination of whether to utilize Kahala Management's real estate department to be made in your sole discretion). If you decide to purchase land and construct your own building or buy an existing building, you can expect to add the cost of the real estate to the total investment indicated in this Item 7 of the Disclosure Document. Real estate costs vary considerably depending on fair market values in your area; size, condition, and location of the premises; and municipal requirements. Construction costs also vary considerably depending on fair market values in your area; size,

condition, and location of the premises; labor costs (union versus non-union); and equipment requirements. The minimum square footage needed to establish your *Taco Time* restaurant is approximately 800 square feet for a traditional restaurant and 500 square feet for a non-traditional restaurant. There is a wide range of probable locations that a *Taco Time* restaurant could be in, and therefore, a wide range for the approximate size of the property and building. The probable locations for a *Taco Time* restaurant are urban pad sites, downtown, small towns, strip shopping malls, malls, and airports with sizes of the property and building the *Taco Time* restaurant could be located in ranging from 1,000 square feet for a stand-alone location to over one million square feet for a large regional shopping mall or airport.

(3) You must, at your own cost and expense, use our designated and approved third party design architect to prepare the initial design drawings for your Franchised Business.

(4) The Landlord may provide some leasehold improvements, but if not, they will be at your expense. The total amount of leasehold improvements for your *Taco Time* restaurant will vary greatly, depending on the type of premises for your restaurant (pad site with drive-thru on the high end versus modular kiosk or retrofitted existing restaurant on the low end), condition of the premises, and what improvements you require. The leasehold improvements to construct a free-standing restaurant are indicated in the above chart and range from \$500,000 to \$850,000. The cost to remodel an existing free-standing restaurant and convert it into a *Taco Time* restaurant ranges from \$120,000 to \$350,000. The leasehold improvements to construct a *Taco Time* restaurant located within a shopping mall, strip center or similar venue are indicated in the above chart and range from \$200,000 to \$300,000. The cost to remodel an existing restaurant located within a shopping mall, strip center or similar venue and convert it into a *Taco Time* restaurant ranges from \$75,000 to \$200,000.

(5) This amount includes estimated costs of furniture, furnishings, installations, equipment, trade fixtures, and certain other items on the restaurant premises, the amount and specific items of which will vary depending upon the location, size and condition of a particular restaurant. You must purchase restaurant equipment for your *Taco Time* restaurant from approved vendors and according to our specifications. A list of approved distributors for our approved vendors is maintained by our purchasing department and will be provided to you during the pre-opening and/or construction phase for your Franchised Business. Updates will be provided to you as changes are made (i.e., additions and deletions) to the list of approved distributors for our approved vendors.

(6) As with any retail business, you will purchase inventory continuously as long as you operate your *Taco Time* restaurant.

(7) You must provide public liability insurance in minimum liability limits of One Million Dollars (\$1,000,000.00) (subject to increase), combined single limit (or greater if applicable state laws or regulations require) for each occurrence and with an aggregate of not less than Two Million Dollars (\$2,000,000.00) and maintain other insurance in accordance with state law requirements. Some property owners may require higher levels of public liability insurance under their leases. Initial premiums for public liability insurance are subject to change due to market forces beyond either of our control. Failure to maintain such insurance may result in loss of your franchise. The cost of other coverages, including workers' compensation and employer liability coverage and your discretionary purchases, varies widely. You must obtain all insurance we require from an insurer having an A.M. Best's financial strength rating of "A-" or better. Such insurance must: (i) insure you; (ii) name us, our directors, officers and affiliates as additional insureds; (iii) contain a waiver by the insurance carrier of all subrogation rights against us and our affiliates for casualty losses; and (iv) provide that failure by franchisee to comply with any term, condition or provision of the contract, or other conduct by franchisee, will NOT void or otherwise affect the coverage afforded us.

The minimum insurance coverage requirements are as follows:

TYPE OF COVERAGE	LIMITS/SPECIFICATIONS
General Liability	\$1,000,000 Bodily Injury/Property Damage Per Occurrence / \$2,000,000 Aggregate
Building Improvements and Betterments	100% of Full Replacement Cost – No Coinsurance
Business Personal Property	100% of Full Replacement Cost – No Coinsurance – Special Form
Spoilage	\$10,000
Business Income	Actual Loss Sustained or at least 50% of Annual Sales
Flood, Earthquake and Volcanic Eruption	Subject to Territory Limitations – required if in a designated Flood Zone
Workers' Compensation	Statutory Requirements
Stop Gap or Employer Liability	\$1,000,000 by Disease \$1,000,000 each Accident \$1,000,000 Policy Limit
Hired and Non-Owned Automobile Liability	\$1,000,000 Combined Single Limit

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

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

Note (8): MISCELLANEOUS OPENING COSTS	ESTIMATED TYPICAL RANGE	
Pre-opening Employee Training Payroll	\$1,000	\$3,000
Utility Deposits (e.g., gas, water)	\$1,000	\$2,000
Petty Cash (including cash register "opening banks")	\$500	\$1,000
Licenses and Permits (including any required deposits)	\$500	\$3,000

Note (8): MISCELLANEOUS OPENING COSTS	ESTIMATED TYPICAL RANGE	
Miscellaneous Expenses (e.g., SERVSAFE training fees, uniforms, menus, security system, interior/exterior landscaping, sound system, business telephone deposit (phone additional), banking pre-opening costs, accountants, lawyers)	\$5,000	\$10,000
ESTIMATED TOTAL	\$8,000	\$19,000

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

(9) You may be required, depending on the location of your *Taco Time* restaurant, to conduct a grand opening advertising campaign with the opening of your restaurant. You must pay all costs of the grand opening, including publicity costs and promotional costs, plus the full cost of any price reductions or other customer inducements. If applicable, we will assist you with developing and carrying out this grand opening campaign.

(10) At the time you sign the Franchise Agreement, you will set up a depository account of \$3,000 with your local banking institution. You are required to maintain a balance of \$3,000 in this account at all times. This will mean that you must replenish the depository account to \$3,000 after Kahala Franchising makes any withdrawals. By Monday of each week, you must submit a royalty report to Kahala Franchising of certain statistical data regarding the prior week's revenues, sales and other data, which prior week shall end on the preceding Sunday. Kahala Franchising will withdraw funds electronically on each Thursday from the depository account. The withdrawals are based upon the figures you report and constitute Royalty Fees and Advertising Fees. If you do not submit a report by each Monday, Kahala Franchising may withdraw the entire \$3,000 on Thursday. Kahala Franchising will apply any overage to future Royalty Fees and Advertising Fees upon receipt of your report(s). (An Electronic Funds Transfer Agreement by and payable to Kahala Franchising is attached as Exhibit K).

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

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

**Area Representative Agreement**

**YOUR ESTIMATED INITIAL INVESTMENT**

<b>Column 1 Type of Expenditure</b>	<b>Column 2 Amount</b>	<b>Column 3 Method of Payment</b>	<b>Column 4 When Due</b>	<b>Column 5 To Whom Payment is to be Made</b>
Initial Development Fee	The greater of: (i) the estimated population in the ARA Territory multiplied by \$.10; or (ii) the estimated population in the ARA Territory multiplied by \$.03 plus 4 times the royalty payments we received in the last 12 months on existing restaurants within the ARA Territory. Minimum is \$3,000 (See Note 1)	Lump Sum	At signing of ARA	Us
Costs of adapting the franchised program to the ARA Territory	\$0 to \$15,000	Lump Sum	As incurred	Us
Costs of complying with franchise laws applicable to the ARA Territory	\$0 to \$15,000	Lump Sum	As incurred	Us or our designee
Travel and Living Expenses (2 persons) while training	\$4,000 to \$6,000	As Incurred	During Training	Airlines, Hotels, Restaurants, etc.
Real Estate	Note 2	Note 2	Note 2	Note 2
Office Equipment and Fixtures (See Note 3)	\$0 to \$20,000	As billed by vendor	As billed by vendor	Equipment vendor
Optional Advertising (See Note 4)	\$0 to \$6,000	As billed	As billed	Media
Insurance	Variable (See Note 5)	As required by insurance broker	As required by insurance broker	Insurance broker or agency
Rental, security, telephone & utility deposits	\$0 to \$7,000	Lump sum	Before commencing business	Landlord, utility companies
Additional Funds for the three month initial period	\$20,000 to \$100,000	Lump sum	As needed	As needed
Minimum Total	\$27,000 to \$172,000	<i>Includes minimum Initial Development Fee of \$3,000. Does not include real estate costs and/or insurance.</i>		



## Notes:

(1) The Initial Development Fee required under the ARA is based on the estimated population, as determined and indicated on the U.S. Census Bureau's website (<http://www.census.gov>). We shall determine, in our sole and absolute discretion, the number of *Taco Time* restaurants that can be opened in an ARA Territory based upon the population and other relevant demographic factors.

(2) If you do not own adequate office space, you must lease the land and building for your office.

(3) These costs are optional and are in your sole discretion. These costs will be determined by whether you decide to open an office and will be incurred by you as needed. If you decide to purchase office equipment and fixtures, you are not required to purchase them from an approved supplier.

(4) Any and all advertising done by you is optional.

(5) You should consult with your insurance broker and legal advisor to determine your insurance needs. The Area Representative Agreement requires you to carry insurance of the types and in the amounts contained in our Operating Manual as amended from time to time. These insurance policies must name Kahala Franchising (and any of our affiliates that we reasonably require) as an additional insured.

The insurance policies must insure you, Kahala Franchising (and any of our affiliates that we reasonably require) against any liability that either of you may incur in connection with the operation of your business. The insurance must be placed with an insurance carrier or carriers satisfactory to us and may not be subject to cancellation or any material change except after 30 days prior written notice to us. The insurance policies must provide that your failure to comply with any term, condition or provision of the contract, and any other conduct by you, will not void or otherwise affect the protection afforded to us (or any of our affiliates that we reasonably require) under the policy. Certificates of insurance with respect to the insurance policies must be provided to us for all insurance policies in effect during the term of the Area Representative Agreement. If you fail to pay any premium when due or any such policy is in default, we may, but are not obligated to, pay any such premium and/or take any action necessary to cure that default. In this event, you must immediately pay to us the amount paid by us or the amount expended by us to cure that default.

None of these expenditures, other than the Initial Development Fee, the rental security deposit, the telephone and utility deposits and the insurance premiums, are refundable. The Initial Development Fee is refundable only under the circumstances stated in Item 5 above. The rental and security deposit and telephone and utility deposits are generally refundable according to the terms fixed by the landlord, the telephone company and the utility companies, respectively. The insurance premiums may be refundable for future periods according to the terms fixed by the insurance carrier.

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

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

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

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

We provide all specifications and standards to franchisees and Area Representatives in the Operations Manual. We may modify the specifications and standards from time to time by providing

franchisees and Area Representatives with amendments or modification or supplemental inserts to the Operations Manuals, by providing notices or bulletins, or by amending the Operations Manuals.

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

We or our affiliates may also receive rebates and/or allowances, usually ranging between 1% and 5%, from certain suppliers on purchases made by you and other franchisees. The rebates and/or allowances are generally based upon a percentage of franchisee purchases, will be included in our general revenue, and may be used by us for salaries of personnel that assist franchisees increase their profitability, maintaining the customer service hotline, handling of inquiries and complaints from our franchisees' customers, tracking consumer service hotline trends, product research and development, franchisee crew training, supply chain information management systems, and a variety of ongoing programs, including education, marketing, advertising, and franchisee meetings, seminars, conventions, conferences, and events. These rebates are usually based on an amount per unit, per case, per gallon, per pound of product (*i.e.*, properly specified and approved meat, dairy products, paper products, smallwares, beverages and apparel) purchased, and generally range from \$0.01 to \$1.00 per above-referenced units. We may use rebate and allowance funds received from our suppliers to benefit the *Taco Time* System in our sole and absolute discretion. During 2011, Kahala Franchising and its affiliates recognized total consolidated revenue of \$84,523,030, of which \$16,095,433 was recognized by Kahala Franchising. Various suppliers and vendors of Kahala Franchising and its affiliates contribute marketing and other revenues to Kahala Franchising and its affiliates based upon system-wide purchases from those suppliers and vendors. During 2011, Kahala Franchising and its affiliates earned a total of \$10,708,824 from such vendors, of which \$5,120,527 was directly allocated to restaurant advertising funds, and \$5,588,297 was used for general operating purposes as stated above, which represents 6.6% of the total consolidated revenue of Kahala Franchising and its affiliates. We derived these figures from our internal financial accounting records of Kahala Franchising and its affiliates.

An affiliate of Kahala Franchising that earned revenue from purchases made by us and franchisees during 2011 is Kona Coast. Kona Coast, as a result of sales to the Surf City Squeeze, Ranch One, Rollerz, Frullati Cafe & Bakery, Samurai Sam's, Taco Time, Great Steak & Potato Company, Cold Stone Creamery, Johnnie's New York Pizzeria, NrGize and Cereality franchisees and company-owned restaurants of certain ingredients, uniforms and other logo items. We estimate your purchases from Kona Coast will be between 0% and 5% of your total annual purchases of ingredients, uniforms and other logo items.

Another affiliate of Kahala Franchising that earned revenue from purchases of equipment, menu boards, interior and exterior signage, and smallwares made by us, our franchisees, and licensees during 2011 is Neptune Equipment. Neptune Equipment provides the following services: purchases your equipment from various approved manufacturers; provides logistics services by arranging for bundled delivery to you; and assists with warranty support of the equipment purchased. Neptune Equipment charges a markup on the equipment and a handling fee for its services. We do not require our franchisees to make any purchases from Neptune Equipment. The services Neptune Equipment offers to our franchisees are completely optional; Franchisees have the option of purchasing some or all of their equipment, interior and exterior signage, menu boards and/or smallwares from Neptune Equipment and/or any non-affiliated approved supplier.

Another affiliate of Kahala Franchising that earned revenue from required POS phone support services to Cold Stone Creamery franchisees is Kahala Management. Revenue is derived

by collecting \$45 per month per Cold Stone Creamery restaurant. During 2011, Kahala Management earned a total of \$555,510, which represents 0.7% of the total consolidated revenue of Kahala Franchising and its affiliates. We derived these figures from the internal financial accounting records of Kahala Franchising and its affiliates.

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

In 2011, Vires purchased media for *Taco Time*, Cold Stone Creamery, Blimpie, Ranch One, and Samurai Sam's. All after tax profits are rebated to the National Advertising Fund or media cooperatives.

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

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

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

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

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

You are required to accept all approved debit and credit cards, along with our Stored Value Gift Cards, Loyalty Cards, Frequency Cards, and any other similar Kahala Franchising sponsored electronic card and/or payment program (collectively, the "Gift/Loyalty Card") from consumers at

your *Taco Time* restaurant. Prior to the opening of your restaurant, you will be required to acquire an approved debit, credit and Gift/Loyalty card processing system to use during the operation of your *Taco Time* restaurant. The components and specifications of this system are specifically identified in the Operations Manuals. Additionally, you must utilize our approved third party payment card processor, as identified in the Operations Manuals, for processing all such debit, credit, rewards, and Gift/Loyalty card transactions.

You must complete a food safety training program at your cost. We recommend the SERVSAFE course available through your local county health department, or we will accept your local county or state required program or any other nationally recognized food safety program. You must provide us with a copy of your certificate prior to attending our Training Program.

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

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

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

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

## **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.**

<b>Obligation</b>	<b>Article or Section in Franchise Agreement</b>	<b>Section in ARA</b>	<b>Disclosure Document Item</b>
a. Site selection and acquisition/lease	2.1 and 2.2	2 and 3	7 and 11
b. Pre-opening purchases/leases	2.2, 3.3 and 4.6	3	5, 7 and 11
c. Site development and other pre-opening requirements	2.1, 2.2, 2.3 and 2.4	3 and 5	7, 8 and 11
d. Initial and ongoing training	4.1, 4.2 and 4.3	3, 6, 13 and 14	11
e. Opening	3.1	3, 4, 8 and Exhibit C to ARA	11

<b>Obligation</b>	<b>Article or Section in Franchise Agreement</b>	<b>Section in ARA</b>	<b>Disclosure Document Item</b>
f. Fees	5	3, 7, 8, 13 and 14	5, 6, 7 and 10
g. Compliance with standards and policies/operating manual	4.5 and 9	3 and 6	8, 11 and 14
h. Trademarks and proprietary information	6 and 7	6, 9 and 12	13 and 14
i. Restrictions on products/ services offered	2.6, 3.2 and 9.2	3	8 and 16
j. Warranty and customer service requirements	No obligation imposed	3 and 4	Not applicable
k. Territorial development and sales quotas	No obligation imposed	1, 2, 3, 4 and Exhibit C to ARA	Not applicable
l. Ongoing product/service purchases	3.2 and 9.3	3	8
m. Maintenance, appearance, and remodeling requirements	2.3 and 13.	Not applicable	7 and 11
n. Insurance	9.5	3(bb)	7
o. Advertising	5.3 and 10	4	6, 7 and 11
p. Indemnification	8.2 and 8.3	11	13 and 14
q. Owner's participation/management/staffing	4.1, 4.2, 4.3, 9.1 and 9.6	Exhibit G to ARA (Agreement to be Bound and to Guarantee) and Exhibit H to ARA (Restrictive Covenant)	11 and 15
r. Records and reports	5.2 and 11.1	3 and 10	6 and 11
s. Inspections and audits	5.19, 9.7 and 11.2	10	6 and 11
t. Transfer	12	13 and 24	6, 16 and 17
u. Renewal	13	14	6, 16 and 17
v. Post-termination obligations	14.5	3, 11, 16, Exhibit G to ARA (Agreement to be Bound and to Guarantee) and Exhibit H to ARA (Restrictive Covenant)	17
w. Non-competition covenants	14.6	12, Exhibit G to ARA (Agreement to be Bound and to Guarantee) and Exhibit H to ARA (Restrictive Covenant)	15 and 17
x. Dispute resolution	16.3	31	17

Obligation	Article or Section in Franchise Agreement	Section in ARA	Disclosure Document Item
y. Other			
Consent of Spouse	Consent of Spouse	Consent of Spouse	15
Principals' Guarantee	9.8; Personal Acceptance of Sections 7.1, 14.6 and 14.8; and Exhibit 4 to Franchise Agreement (Guaranty of Contract)	3(mm) and Exhibit G to ARA (Agreement to be Bound and to Guarantee)	15

## ITEM 10: FINANCING

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

If, in order to obtain the lease agreement for the site of your *Taco Time* restaurant, the landlord requires you to obtain a third party lease guarantee, and we or one of our affiliates agrees to serve as such guarantor (with such determination to be made in our sole and absolute discretion), you will pay to us a lease guarantee fee in the amount of ten percent (10%) of the total amount of the rental obligations being guaranteed under the lease during its term up to a maximum payment of \$10,000. Once paid, the lease guarantee fee is non-refundable under all circumstances. We do not offer financing for the lease guarantee fee as it is payable in full upon the execution of the guarantee. Neither we, nor any of our affiliates, are required to serve as a guarantor of your lease for the site of your restaurant. The decision of whether to serve as a guarantor of your lease shall be made at our sole and absolute discretion.

If you purchase a corporate restaurant “as-is” that is owned and operated by one of our affiliates, we may finance up to 100% of the purchase price, at our sole discretion. When you purchase a corporate-owned restaurant from one of our affiliates, you will enter into a “Purchase and Sale Agreement” (See Exhibit D). If you finance any portion of the purchase price of the corporate-owned restaurant through Kahala Holdings or Kahala Restaurants, you will also enter into a “Promissory Note and Security Agreement,” which is an exhibit to the Purchase and Sale Agreement. The purchase price includes the initial franchise fee and all leasehold improvements including furniture, fixtures, and equipment that are contained in the restaurant at the time of purchase, along with any inventory that is in the restaurant at the time of purchase. The lender providing the financing is one of our affiliates, Kahala Holdings or Kahala Restaurants, whichever entity owns the restaurant. The annual rate of interest charged will be between 0% and 12% and will depend on the creditworthiness of the franchisee, the amount being financed, and the dollar amount being paid up-front by the franchisee. There are no finance charges associated with the Promissory Note and Security Agreement. The amount being financed will be required to be repaid in equal monthly installments and the period of repayment will be between 12 months and 60 months, depending on the amount being financed. The security interest required by us is a first

position lien on all equipment. If the franchisee is an individual, the individual franchisee must personally guarantee the debt, including his/her spouse. If the franchisee is a corporation, limited liability company, partnership, or other entity, each of the principals of the entity and their spouses must personally guarantee the debt. The Promissory Note and Security Agreement may be pre-paid in full or in part at any time and from time to time without penalty. The franchisee's potential liabilities upon default include: (i) an accelerated obligation to pay the entire amount due, including all accrued and unpaid interest, if the default is not cured within ten calendar days; and the interest rate will be increased to an annual rate of 18%; (ii) obligation to pay costs and attorneys' fees incurred in collecting the debt; (iii) termination of the franchise; and (iv) liabilities from cross defaults resulting from non-payment or from the loss of business property; on franchisee's other restaurants name in the Promissory Note and Security Agreement and granting either Kahala Holdings or Kahala Restaurants the right to take back the restaurant(s). The Promissory Note and Security Agreement requires franchisees to waive the following legal rights: demand, notice, diligence protest, presentment for payment, and notice of extension, dishonor, protest, demand and nonpayment of the promissory note; any release or discharge as a result in any change in security given or change in person or entity who may become liable for the note or any modification of the note; rights to contest or appeal our exercise of the take back rights; and not receiving compensation for the restaurant after the take back rights have been exercised. The Promissory Note and Security Agreement also bars the franchisee's right to contest the take back rights.

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

*Taco Time* is listed on the SBA's Franchise Registry. The SBA's Franchise Registry is an online listing of franchise systems whose franchisees receive the benefit of having their SBA loan application reviewed using a streamlined process. If you obtain an SBA loan, you will be required to sign the SBA loan addendum to the Franchise Agreement (See Exhibit F).

Please note, if you intend to lease the site of your restaurant, the lease must include certain required provisions (See Exhibit G: Required Lease Terms; Exhibit E: Franchise Agreement – Section 2.2 and Exhibit 2).

We do not offer any financing arrangement for the Initial Development Fee. We do not require any security interests to be given by the Area Representative as we do not offer any financing arrangement. In addition, we do not have any financing arrangement with the Area Representative and therefore, we do not intend to sell, assign or discount to a third party any financing arrangement. Because there is no financing arrangement between us and the Area Representative, there are no waiver of defenses or other legal rights executed by the Area Representative. We do not arrange financing from other sources; therefore, we do not receive direct or indirect payments from placing financing.

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

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

If your Franchised Business will be located in an area that is subject to an ARA, the Area Representative in that area may be responsible for providing to you some or all of the services required to be provided by us, other than the portion of the training program that will be conducted in the Phoenix, Arizona metropolitan area. However, Area Representatives are not authorized to



make promises or agreements on our behalf or to agree to modifications to your Franchise Agreement or other agreements relating to your Franchised Business.

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

### Site Selection

1. We may, upon your written request, assist you in selecting a site for your *Taco Time* restaurant. You will be required to lease or purchase the premises for your *Taco Time* restaurant from a third party. Generally, we do not own or lease the premises and Sublease it to you. Most restaurants are developed by franchisees who find their own locations and negotiate their own real estate interests. You must select, and we must approve, an acceptable location that you open within two (2) years after you sign the Franchise Agreement. We will notify you if we do not approve the site within thirty (30) days of receiving your site selection information. Our approval of your proposed location and lease terms does not constitute our guarantee of success of your Franchised Business at the location you have selected. We will not unreasonably withhold our approval of the location. The location must be within a geographic area identified in Section 1.1 of the Franchise Agreement. The factors that we will consider in approving your proposed location include, among other things: occupancy costs, proximity to major retail activity and other *Taco Time* restaurants, sign visibility, traffic volume and speeds, parking availability, neighborhood economic profile, population density, accessibility, competition and other tenants in the shopping center, mall, or applicable retail structure. If you cannot secure a location acceptable to us and open it within 2 years after you sign the Franchise Agreement, we may terminate your Franchise Agreement after giving you written notice (See Exhibit E: Franchise Agreement—Section 2.1).

2. If you intend to lease or purchase the location for your Franchised Business, the lease or purchase agreement will be subject to our prior approval, and you must provide us with a copy of the lease or purchase agreement at least thirty (30) days prior to execution. The success of your *Taco Time* restaurant will depend upon, among other things, the following factors: how much you follow our methods and procedures; your management skill, experience and business acumen; how much time you spend personally managing your restaurant and supervising its operations; local economic conditions; the physical size and location of the restaurant; the amount and nature of tenant improvements required; the local market for *Taco Time* products; the prevailing wage rate; and competition. The decision to establish and operate your *Taco Time* restaurant at the location will be made solely by you, without any reliance upon any information provided (if any), recommendation made (if any) or approval given (if any) by us, any Area Representative or any of our or their respective shareholders, directors, officers, employees, representatives, agents or affiliates. You must purchase or lease your business location from independent third parties. If you intend to lease your business location, the lease must include certain required provisions (See Exhibit G: Required Lease Terms; Exhibit E: Franchise Agreement—Section 2.2 and Exhibit 2).

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

4. You must hire and use, at your sole cost and expense, our designated and approved third party architect (See Exhibit E: Franchise Agreement—Section 2.3). We will provide you with a copy of the design drawings, which is the detailed plans and specifications including landscaping and parking space, if applicable, for your Franchised Business upon our approval of the plans. You are solely responsible for conforming the premises to all codes and ordinances, including the Americans with Disabilities Act (the “ADA”), and obtaining all required permits. You are solely responsible for constructing or remodeling and decorating the location to our system standards and subject to our approval. We do not provide assistance with conforming the premises to codes and

ordinances, including the ADA, obtaining permits, or constructing, remodeling or decorating your restaurant. We must approve any and all changes or revisions to the plans required for your site before you begin construction. Our approval of the plans is solely for complying with our system standards, and not for determining compliance with codes, ordinances, or the ADA.

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

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

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

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

9. If you are opening a new restaurant, we will assist you in coordinating a grand opening promotional advertising program or such other advertising program as we may specify (See Exhibit E: Franchise Agreement-Sections 5.3, 5.4, and 10.2).

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

10. The typical length of time between the earlier of the signing of the Franchise Agreement or the first payment of consideration for the franchise and the opening of the franchisee's business is 6-8 months for a traditional *Taco Time* restaurant, and 3-4 months for a non-traditional *Taco Time* restaurant. The factors that may affect this time are: lease or purchase negotiations; zoning procedures; financing applications; local ordinances and approvals; obtaining licenses and permits; construction delays; weather conditions; shortages; delayed installation of equipment, fixtures and signs; development or construction not in accordance with our requirements; labor disputes; Acts of God; and other reasons.

## Training

1. We will provide you with Volumes 1 and 2 of the Operations Manuals (called New Owner Reference and Operations) that contain mandatory and suggested specifications, standards

and procedures, and the website address, login and password so that you can access Volume 3 of the Operations Manuals (called KTEC Online) and all of the forms that are a part of the web-based KTEC Online manual. The Operations Manuals are collectively 395 pages. The Operations Manuals are confidential and remain our property. We may modify the Operations Manuals as and when we desire, but no modification will materially alter your status and rights under the Franchise Agreement (See Exhibit E: Franchise Agreement—Section 4.5). The Table of Contents of the Operations Manuals is attached to this Disclosure Document as Exhibit M.

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

### TRAINING PROGRAM

Column 1 Subject	Column 2 Hours of Classroom Training	Column 3 Hours of on-the-job training	Column 4 Location
New Owner Training	40	---	KTEC (Kahala Training & Education Center) in Scottsdale, AZ
In-Store Training	---	120	Training restaurant in Utah or such other location designated by us

a. You or another partner, shareholder or member of your business organization, and your manager must have successfully completed our Training Program to our satisfaction. If you wish to own and operate multiple restaurants, you must continuously employ a minimum number of managers who have successfully completed our Training Program. You and your restaurant managers must be able to read and write English adequately, in our good faith opinion, to satisfactorily complete our Training Program and to communicate with employees, customers and suppliers. If at any time prior to the opening or during the operation of your *Taco Time* restaurant you hire a new manager, the new manager must successfully complete the Training Program. The fee for a new manager to attend the Training Program is \$62.50 per person per day for the In-Store portion of the Training Program, and \$500 per person for the New Owner Training portion of the Training Program.

b. The classroom portion of the Training Program will be held at KTEC, which is located at our corporate offices in Scottsdale, Arizona, and the in-store portion of the Training Program will be held at the designated training restaurant in Salt Lake City, Utah, or at such other location(s) as we may designate in our sole discretion. You will need to arrange for transportation, food, and lodging for you and your designated attendee. The costs you incur will depend on the

distance you must travel and the type of accommodations you choose. The estimated costs for travel and living expenses for two persons while training, not including salaries, if any, for you and your employees ranges from \$4,000 to \$6,000 (See Exhibit E: Franchise Agreement—Sections 4.1 and 9.6).

c. You must complete the Training Program no more than three (3) months and no less than one (1) day prior to the opening of your *Taco Time* restaurant. Both the New Owner Training and the In-Store Training portions of the Training Program will be conducted once a month. We do not currently require you to attend additional training courses or refresher courses. However, if you would like additional training after completing the Training Program, we will provide additional training to you at a cost of \$300 per person per day.

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

e. We will provide one of our representatives to come to your restaurant during opening week for up to four (4) days at our expense to work with you and your manager on your grand opening, and on operating and marketing your restaurant. We may, in the future, hold refresher or additional training programs, conferences and seminars. Your attendance at these programs is mandatory. To help us defray the cost of sponsoring these programs, there may be a nominal registration fee, and you will also be required to pay the cost of transportation, food, lodging and other personal expenses of your attendance and those of your personnel at any such program. These programs will be held at locations within the United States that we will specify in our sole discretion (See Exhibit E: Franchise Agreement—Section 4.3).

#### During the operation of the Franchised Business:

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

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

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

4. We will provide one of our representatives to come to your restaurant during opening week for up to four (4) days, at our expense, to work with you and/or your manager on opening, operating and marketing your *Taco Time* restaurant (See Exhibit E: Franchise Agreement—Section 4.3).

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

6. We will make you aware of software available for purchase from an approved third party vendor to assist you in administrative, bookkeeping, accounting, and inventory control procedures.

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

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

9. We must offer you the option for a one-time renewal of your Franchise Agreement prior to its expiration for a maximum term of ten years, if you meet our requirements. Upon renewal, you must execute our form of Franchise Agreement being used at the time of your renewal and pay us the applicable Renewal Fee (See Exhibit E: Franchise Agreement – Article 13).

### Advertising

1. We (or, at our election, a third party that may be an affiliate of ours) will establish and administer an Advertising Fund (the “Fund”) that will include your Advertising Fees and those of other franchise owners in the System, in accordance with the Franchise Agreement. The Advertising Fee, which is a percentage of your weekly Gross Sales (See Exhibit E: Franchise Agreement – Sections 5.3 and 5.4), shall be due and payable with the Royalty Fee (See Exhibit E: Franchise Agreement – Section 5.2). All *Taco Time* franchisees must contribute to the Fund at the same rate, which is currently 1% of your weekly Gross Sales to national advertising, and if your restaurant is located within a cooperative, you must contribute an additional 3% of your weekly Gross Sales to your regional advertising for your Cooperative. If an affiliate of ours administers the Fund or places advertising in connection with the System, such affiliate may be paid a fee that will not exceed the fee that would be payable to unrelated third parties for comparable services. For each of our company-owned or affiliated restaurants, we will make contributions to the Fund on the same basis as required of the other *Taco Time* franchise owners in the same geographic market. Unless required by applicable law, we will have no obligation to create a trust account, escrow account or other special account for the Fund, and the monies comprising the Fund may be placed in our general account(s) if we desire. We may also reserve portions of the Fund for use in a subsequent year.

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

3. We, or our designee, will direct all advertising programs to be undertaken through the use of the Fund. We will have sole discretion over all creative concepts, materials and media used in such programs and the placement and allocation of such programs. Advertisements generally will be in both print and broadcast media, initially with local coverage. We are not required to use any specific amounts from the Fund in your market. However, we will use all amounts contributed by you to any approved regional advertising funds, if any, in the same geographic area in which your restaurant is located. We may use an outside advertising agency to create and place advertising or we may use our in-house marketing department. The Fund will be used to create new marketing material and promote the products and services offered by *Taco Time* restaurants. In the calendar year ending December 31, 2011, for the Advertising Fees we collected, we spent 14.7% on production, 65.9% on media placement, 11.9% on administrative expenses and 7.5% on other marketing activities. The “other” expenses included public relations, research, concept development and communications. None of the Fund was used for the solicitation of franchises.

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

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

6. All advertising by you in any medium must be conducted in a professional manner, must conform to the standards and requirements in our Operations Manuals, and must display our proprietary marks only in those forms approved by us. You will submit samples to us (through the mail, return receipt requested) and obtain our prior approval (except with respect to the cost of the advertising) of all advertising and promotional plans and materials that you desire to use and that have not been prepared or previously approved by us. If you do not receive our written disapproval within 15 days from the date of receipt by us of such materials, we will be deemed to have given the required approval. We may make available to you, from time to time, approved advertising, promotional plans and materials for purchase. You will not be obligated to accept or purchase any such advertising, promotional plans and materials offered to you by us (See Exhibit E: Franchise Agreement—Section 3.2 and 10.2).

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

8. We will not prevent the formation of franchisee cooperatives and we encourage our franchisees to form and operate a Cooperative. Each Cooperative will coordinate advertising and marketing efforts and programs, and will attempt to maximize the efficient use of local advertising media. If a Cooperative is formed for your region, you must participate in the Cooperative. The membership of the Cooperative is defined by us according to your market area. Currently, the *Taco Time* Cooperatives are located in the following market areas: Boise, Idaho; Idaho Falls – Pocatello, Idaho; Salt Lake City, Utah; Eugene, Oregon; Yakima, Washington; Portland, Oregon;

and Spokane, Washington. All *Taco Time* franchisees located within the Cooperative market area must contribute to the Regional Advertising Fund at the same rate, which is currently 3% of your weekly Gross Sales. For each of our company-owned or affiliated restaurants, we will make contributions to the Regional Advertising Fund on the same basis as required of the other *Taco Time* franchise owners in the same geographic market. We are responsible for administering the Cooperative. There are no written governing documents by which the Cooperative must operate. We prepare for each Cooperative a statement on the use of advertising collections. These statements are reviewed at recurring Cooperative meetings. We reserve the right at any time, in our sole discretion, to form, change, dissolve, or merge Cooperatives.

9. We may contribute sums from the Fund to a Cooperative. On our request, you must assist in establishing a Cooperative and in deciding how to allocate contributions from the Fund to your Cooperative. If we contribute Fund revenues to a Cooperative and if one of the following events occurs and the Cooperative does not resolve it, then we reserve the right to exercise sole decision-making power over the monies contributed to the Cooperative: (i) a Cooperative ceases functioning; (ii) an impasse arises because of the inability or failure of Cooperative members to resolve any issue affecting the establishment or effective functioning of the Cooperative; (iii) a Cooperative fails to function in a productive or harmonious manner; or (iv) a Cooperative is unable to approve any advertising program within a reasonable time not to exceed seven days. We reserve the right to establish general standards concerning the operation of a Cooperative, advertising agencies the Cooperative retains, and advertising programs the Cooperative conducts. No Cooperative decisions will be made or advertising collections spent without our prior written approval.

10. The Franchise Advisory Council ("FAC") is an advertising council composed of *Taco Time* franchisees that advise us on advertising policies. FAC serves in an advisory capacity only. The members of the council are selected by the franchisees in their region through a nomination and election. We reserve the right at any time, in our sole discretion, to dissolve FAC. We prepare annual statements on the use of advertising collections for FAC.

### Computer System

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

complete training for the POS System as we require. If you are buying an existing restaurant with an older cash register system, it is a requirement for the transfer that you purchase and install the then-current POS System in the restaurant. (See Exhibit E: Franchise Agreement – Section 4.6).

a. We require you to use a POS System that meets our specifications in order to: (i) assist you in the operation of your *Taco Time* restaurant; (ii) allow us to monitor your gross sales; (iii) enable us to develop chain-wide statistics that may improve purchasing; (iv) assist us in the development of new authorized products or the removal of existing unsuccessful authorized products; (v) enable us to refine existing authorized products; (vi) generally improve system-wide understanding of our marketing efforts; and (vii) obtain new types of information. The POS System must be configured so that we have independent and remote access to the information and data stored in it. We must also have independent access to your computer system. This access allows us to exchange/collect data and other information on such basis as we shall from time to time communicate to you. There are no contractual limitations on our right to access the information in your POS System. All approved cash registers are capable of recording accumulated sales and cannot be turned back or reset, and must be able to retain data in the event of power loss. You must purchase the approved electronic POS System from an approved vendor, as we have required our approved supplier to make special modifications to their equipment and systems to comply with our requirements (See Exhibit E: Franchise Agreement – Section 4.6). You must also purchase approved software for your restaurant. The cost of purchasing the POS System, including the software, ranges from \$5,000 to \$35,000. You may also purchase from us a help desk phone support maintenance contract on both the software and hardware for your FOCUS POS System, the cost of which is approximately \$540 to \$660 per year. If you do not have a FOCUS POS System, the cost of the annual maintenance contact varies by the number of POS terminals operating at your restaurant. It is recommended that you also purchase the hardware support for all modules for the first year you operate your *Taco Time* restaurant. The cost is approximately \$150 to \$1,300 per year depending on the equipment installed. This cost is subject to change by the supplier.

b. The approved POS System has in its specifications integrated “card swipe” systems that process debit card, credit card, or other non-cash payment systems including our stored value gift cards, loyalty cards, frequency cards, gift certificates, vouchers, and any other similar Kahala Franchising sponsored electronic card and/or payment programs (collectively, the “Gift/Loyalty Card”). You must obtain credit card and gift card processing services from our approved vendors. The charges associated with credit card and gift card transactions are compiled per transaction and therefore will vary from restaurant to restaurant. We estimate that the costs associated with credit card transactions will be between 1% and 4% of your gross sales. Gift card transactions will cost you between 5% to 9% of the gift card redemption. The Payment Card Industry (“PCI”) requires all companies that process, store, or transmit credit card information to protect the cardholders’ information by complying with the PCI Data Security Standard (“PCI DSS”). Therefore, as a franchisee who accepts credit cards, you are required to be PCI compliant by following and adhering to PCI DSS, completing an annual questionnaire and quarterly network PCI scans and installing a network firewall appliance for logging, tracking, reporting, and security assessment. The PCI compliance is mandated by the Payment Card Industry. The cost for the quarterly network security scans, network firewall appliance and annual questionnaire ranges from \$150 to \$1,300 per year.

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



computer. You are also responsible for recording and restoring all software license keys. We may require you to upgrade the hardware and software as reasonably necessary to provide reports and information required by us.

2. We require that you permit us to poll your sales information on a daily basis, and that you execute an Electronic Funds Transfer Agreement by and payable to Kahala Franchising (which is attached to this Disclosure Document as Exhibit K), permitting us to weekly debit your account for payment of weekly royalty and advertising fees and debit your account as necessary for product purchases from us or our affiliates (See Exhibit E: Franchise Agreement – Sections 5.2, 5.3, 5.4 and 5.5). We may require you to enter weekly inventory information, and if so, would require that you permit us have remote access to that information (See Exhibit E: Franchise Agreement – Section 4.6).

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

Obligations to Area Representatives:

1. We grant Area Representative the right to use the *Taco Time* trade names, trademarks, service marks and logos solely in connection with and in strict compliance with the terms and conditions of the Area Representative Agreement.

2. We will make the AR Training Program available to you and your designated representative after you sign the ARA (the “AR Training Program”). Attendance at the AR Training Program is mandatory for Area Representatives. The AR Training Program will be similar to the Training Program offered to the franchisees. The following table indicates the general subject matter, the number of hours of classroom training, and the number of hours of on-the-job training for each subject to be covered during the AR Training Program, and the location of the training. Our instructors have been adequately trained in the ownership and operation of a *Taco Time* franchise, including having, at a minimum, completed the entire *Taco Time* Training Program, and having experience in training each of the subjects listed in the table below, with some trainers having five years’ experience or more in training each of the subjects. Other personnel involved with on-the-job training of franchisees are Regional Directors of Operation, all who have more than one year experience with on-the-job training. During the classroom portion of the Training Program, New Owner Training will be taught using the following instructional materials: manuals, videos, and tests. In-store training will be taught in a *Taco Time* restaurant using the following instructional materials: manuals, job aids, videos, and tests. Certain portions of the entire Training Program may be adjusted as necessary as determined by Kahala. Further, substitute instructors may present certain portions of the Training Program.

**AR TRAINING PROGRAM**

<b>Column 1 Subject</b>	<b>Column 2 Hours of Classroom Training</b>	<b>Column 3 Hours of on-the-job training</b>	<b>Column 4 Location</b>
New Owner Training	56	---	KTEC (Kahala Training & Education Center) in Scottsdale, AZ
In-Store Training	---	120	Training restaurant in Arizona or such other location designated by us

3. You, if you are an individual, or two (2) principals of the Area Representative if Area Representative is a corporation, partnership, limited liability company or other entity, must successfully complete our Training Program to our satisfaction. You or two of your principals, if you are a business entity, must be able to read and write English adequately, in our good faith opinion, to satisfactorily complete our Training Program and to communicate with us and franchisees.

4. The classroom portion of the Training Program will be held at KTEC, which is located at our corporate offices in Scottsdale, Arizona, and the in-store portion of the Training Program and at one of our affiliated restaurants in the metropolitan Phoenix, Arizona area, or at such other location(s) as we may designate in our sole discretion. You will need to arrange for transportation, food, and lodging for you and your designated attendee. The costs you incur will depend on the distance you must travel and the type of accommodations you choose. The estimated cost for travel and living expenses for two persons while training, not including salaries, if any, for you and your employees ranges from \$4,000 to \$6,000.

5. You must complete the AR Training Program within sixty (60) days of signing your ARA. Both the New Owner Training and the In-Store Training portions of the AR Training Program will be conducted once a month.

6. In connection with the Area Representative's training, we shall provide Area Representative with one set of our confidential Operations Manuals and associated documents and written guidelines (the "Operations Manuals") that contain mandatory and suggested System specifications, standards and procedures for all franchisees, and we shall provide Area Representative with one set of our confidential operations manuals for Area Representatives ("AR Operations Manuals"). The Operations Manuals and AR Operations Manuals are confidential and remain our property. We may modify the AR Operations Manuals as and when we desire, but no modification will materially alter your status and rights under the Area Representative Agreement. Area Representative shall complete the Training Program for franchisees with a portion of the management training focused on the duties and obligations of an Area Representative. The Table of Contents of the AR Operations Manuals is attached to this Disclosure Document as Exhibit P. The AR Operations Manual contains 34 pages.

7. We shall provide Area Representative with one complete sample set of sales materials, forms, and a copy of this Disclosure Document to use in connection with the Area Representative Agreement. Kahala Franchising is responsible for the preparation and registration of the Franchise Disclosure Document.

8. We will make available during normal business hours our management personnel to consult with Area Representative either in person at our office in Scottsdale, Arizona or by telephone regarding any issues regarding selling, construction, training, opening, operating and/or supporting a *Taco Time* restaurant.

9. While the ARA is in effect, Kahala Franchising shall pay to Area Representative the Area Representative's portion of the applicable fees received by Kahala Franchising from franchisees for services provided by Area Representative in accordance with the payment terms indicated in the ARA.

## ITEM 12: TERRITORY

### Franchisees

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

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

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

We reserve the right, either directly or through affiliated entities, to operate or license others to operate businesses other than *Taco Time* restaurants anywhere, including in your ARA Territory (if applicable); including, but not limited to, locations of our other quick service restaurant concepts

and you agree that we or our affiliates may do so anywhere, including within your ARA Territory, if applicable.

The America's Taco Shop brand is a business that we franchise under a different trademark than *Taco Time* that sells freshly prepared Mexican fast food similar to some of the Mexican fast food offered by *Taco Time*. The America's Taco Shop franchises are offered under the America's Taco Shop word and design trademarks. The America's Taco Shop restaurants are currently primarily corporately operated by one of our affiliates, but may also be franchised. America's Taco Shop franchises have been offered by us since November 2011 under the name of Kahala Franchising. An America's Taco Shop may be located within the vicinity of your *Taco Time* restaurant. Franchisees of the America's Taco Shop brand are not currently given an exclusive territory. Kahala Franchising will provide support to all of its concepts regardless of the vicinity of a concept to another concept that sells similar products. The principal business address of these similar concepts is the same as Kahala Franchising's address. Kahala Franchising does not maintain separate offices or separate training facilities for the similar competing business.

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

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

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

### Area Representatives

During the term of your ARA, if applicable and so long as you are not in default of that ARA or any individual Franchise Agreements you may have under the ARA, you will be granted an exclusive ARA Territory in which to operate as a franchise broker and provide certain support services to *Taco Time* franchisees located within your ARA Territory that are sold and opened after the effective date of your ARA. The ARA Territory shall be agreed upon before you sign the ARA. The ARA Territory will be a defined geographic region and its boundaries will be identified as either: (i) political subdivisions, such as counties, cities, or states; or (ii) natural geographic boundaries, such as rivers or mountains. Once you have developed all of the locations according to the development schedule in your ARA, you will have no additional development obligations to maintain the exclusivity of your ARA Territory. You will have no right of first refusal to acquire additional franchises within contiguous territories or within the territorial boundaries as indicated in your ARA. There is no minimum sales quota at the individual unit level to maintain your ARA Territory. We may terminate the ARA in the event you fail to meet the development schedule. We retain the right to promote and establish *Taco Time* franchises within your ARA Territory subject to your rights as an Area Representative to earn and receive a portion of the revenues generated from the franchisees in the ARA Territory that are sold and opened after the effective date of your ARA. For

so long as your ARA is in force, we will not sell another ARA for *Taco Time* within your ARA Territory. However, we have the right to sell an ARA within your ARA Territory for any of our other quick service restaurant concepts.

Your ARA is for a specific defined ARA Territory only. You must obtain our prior approval to purchase an additional ARA Territory. The approval or rejection by us shall be in our sole discretion. In order to purchase an additional ARA Territory, you must be in compliance with your existing ARA and Franchise Agreement(s) (if applicable), you must qualify to purchase an additional ARA Territory, you must enter into our then-current form of ARA and pay the Initial Development Fee, and we must approve the ARA Territory.

### ITEM 13: TRADEMARKS

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

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

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

TRADEMARK	REGISTRATION DATE	REGISTRATION NUMBER
Taco Time	December 26, 1967	0,841,358
Taco Time (Design plus words)	September 21, 1971	0,920,869
Taco Time	August 24, 1982	1,206,365
Taco Time (Design plus words)	October 15, 2002	2,637,067
TacoTime (Design plus words)	October 15, 2002	2,637,068
(Design only – cactus)	October 5, 1982	1,211,961
Taco Time (Design plus words)	May 31, 1983	1,240,686
TacoTime (Design plus words)	November 13, 1984	1,305,240
TacoTime (Design plus words)	March 11, 1997	2,043,488

TRADEMARK	REGISTRATION DATE	REGISTRATION NUMBER
Anytime Is Taco Time	January 26, 1982	1,188,184
This Good! Only At Taco Time	June 18, 1985	1,343,541
TacoTime	June 25, 1985	1,344,891
Big Juan	July 16, 1985	1,349,867
Casita Burrito	August 13, 1985	1,354,539
Tostada Delight	August 20, 1985	1,355,690
Mexi-Fries	April 1, 1986	1,388,448
Tacoland Meal	November 25, 1986	1,418,759
Crustos	July 11, 1989	1,547,586
Taco Time Express	January 24, 1995	1,876,127
Wall Of Flame	March 10, 1998	2,142,628
Fiesta Platters	September 4, 2001	2,484,228
It Really Is	January 15, 2002	2,529,706

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

We have applied to register the following principal Trademarks with the United States Patent and Trademark Office on the Principal Register:

TRADEMARK	FILING DATE	SERIAL NUMBER
TACOTIME 5 ALARM	September 29, 2011	85/435,602

**We do not have a federal registration for our pending principal trademarks. Therefore, our pending trademarks do not have many legal benefits and rights as a federally registered trademark. If our right to use the pending trademarks is challenged, you may have to change to an alternative trademark, which may increase your expenses.**

No one other than us or our affiliates has an ownership interest in the above-referenced trademarks. Kahala Franchising is the sole owner of the above-referenced trademarks and has all right, title, and interest in and to the trademarks and the goodwill symbolized thereby in accordance with an Assignment Agreement made effective as of October 1, 2009 by and between Kahala Franchise Corp., the Assignor, and Kahala Franchising, the Assignee. This Assignment Agreement transferred the ownership of these trademarks to Kahala Franchising. In addition, the Assignment Agreement is binding upon the parties and under no conditions can this Assignment Agreement be terminated.

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

any others to do so. You must modify or discontinue the use of a trademark if we modify or discontinue it, at your sole cost.

Accord, Inc., an unrelated and unaffiliated third party, presently has the exclusive right to use the trade name and trademark "Taco Time" in the following counties in the western part of the State of Washington: Chelan, Clallam, Cowlitz, Grays Harbor, Island, Jefferson, Pacific, Pierce, San Juan, Skagit, Snohomish, King, Kitsap, Lewis, Mason, Thurston, Wahkiakum, Whatcom, Skamania and Grant; plus the cities of Wenatchee, East Wenatchee and Moses Lake.

Azteca Restaurant Enterprises, Inc., an unrelated and unaffiliated third party, presently has the exclusive right to use the trademark "Fiesta Platters" in the entire State of Washington and the following counties in the State of Oregon: Multnomah, Clackamas, Washington, Jackson and Josephine.

Kahala Franchising owns and has the exclusive right to license and use the "Taco Time" name and trademarks everywhere except the Western Washington area detailed above; and Accord, Inc. has no right to use or license the following Taco Time trademarked logos: the "Stylized Cactus Design" and the "Cactus/Sunburst Design." The Taco Time franchise systems of Kahala Franchising and Accord, Inc. are now completely unrelated and independent.

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

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

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

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

trademark. We do not know of any pending material federal or state court litigation regarding our use or ownership rights in the above registered trademarks or pending applications.

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

Taco Time International, Inc. owns the following copyright that has been registered with the United States Copyright Office and is in the process of assigning it to Kahala Franchising:

COPYRIGHT ITEM	REGISTRATION DATE	REGISTRATION NUMBER
Taco Time jingle pack	June 24, 1980	SRu-17-023

The duration of this copyright is 100 years from its effective date. Our right to use or license this copyright is not materially limited by any agreement or known infringing use.

We do not own any rights in any patents that are material to the franchise of your *Taco Time* restaurant.

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

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

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

You will not have the exclusive right to use the innovations or any of our patents or patent applications, copyrights or proprietary information, nor will you acquire, by use or otherwise, any right, title or interest in or to the innovations, the copyrights or the proprietary information, other than as expressly contained in, and limited by, the Franchise Agreement. Your right to use the innovations, the claimed subject matter of any patents or patent applications, the copyrights and the



proprietary information is limited and temporary. Upon expiration or termination of the Franchise Agreement, you may not, directly or indirectly, use the innovations, the claimed subject matter of any patents or patent applications, the copyrights or the proprietary information in any manner or for any purpose whatsoever.

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

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

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

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

While the Franchise Agreement does not specifically require you or your principals to personally participate in the direct operation of the franchise, it is our intention to select as *Taco Time* franchisees only those who plan to actively participate in the direct operation and daily affairs of the *Taco Time* restaurant. The franchise must be personally managed with on-premises supervision and directly operated by you or another partner, shareholder or member of your business organization, or a manager who must have successfully completed the Training Program. If you are a married individual, your spouse must sign the Spousal Consent to the Franchise Agreement. Each person, corporation, partnership, limited liability company or other entity that owns, directly or indirectly, an equity interest in the franchised entity (a "Principal"), and each executive officer must sign the Personal Acceptance attached to the Franchise Agreement ("Personal Acceptance") in which the Principal agrees to be bound by the restrictive covenants, the

confidentiality provisions and certain other provisions contained in the Franchise Agreement. Each Principal must also sign the Guaranty of Contract ("Guaranty of Contract") attached as an exhibit to the Franchise Agreement in which the Principal agrees to perform, and guarantees, all of the franchisee's obligations to us and our affiliates contained in the Franchise Agreement (See Exhibit E: Franchise Agreement). We are not seeking to license you to operate a *Taco Time* restaurant if your principals are merely seeking a passive investment.

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

Additionally, you must employ on a full time basis at least one (1) on-premises supervisor (the "Manager") for the restaurant. The Manager of the restaurant must at all times be a person who meets our criteria as a qualified restaurant operator. The Manager is not required to have any equity interest in the Franchised Business. The identity of the Manager must be disclosed to us, and if the Manager changes, you must notify us in writing no later than 15 days following the change. If the Manager is replaced, the new Manager must also complete the Training Program at your sole cost and expense. The Manager must devote his or her entire time during normal business hours to the management, operation and development of the Franchised Business and must maintain the confidentiality of the trade secrets and proprietary information, comply with the use of the proprietary marks, conform with the covenants not to compete, and conform with the operating standards in the Franchise Agreement and Operations Manuals. The Manager is required to sign a Confidentiality Agreement included in the confidential Operations Manuals.

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

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

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

We require that your business is solely that of a *Taco Time* restaurant, and you may not conduct any other business or activity at the site of the restaurant without our prior written approval. For traditional *Taco Time* franchises, you must offer the full menu prescribed by us, subject to change from time to time in our sole discretion. Non-traditional *Taco Time* franchises may offer a more limited menu than the traditional *Taco Time* franchises, as detailed in the Operations Manuals. We have the right to require you to sell additional authorized products and services from time to time that we believe will be successful. You will be obligated to offer and sell those new products and to participate in all local, regional, seasonal and promotional programs, initiatives and campaigns adopted by us in which we require you to participate. We reserve the right to designate

which of our franchisees may, or will be required to, participate in new product or service tests, new or modified product or service offerings and other programs and initiatives that we may periodically develop. If we designate you for participation in any such program, initiative or campaign, you must participate when and as required by us. There are no limits on our right to require you to offer and sell those new products or to participate in those programs, initiatives and campaigns. You may not add any item to your menu unless it is first researched and tested through our research and development center and approved by us in writing. In addition, you may not offer or sell any products or services specified by us in any configuration, form or manner (including items for resale) other than those specifically approved by us. You are prohibited from offering or selling any products or services not authorized or approved by us. You may only use products, materials, ingredients, supplies, paper goods, uniforms, fixtures, furnishings, signs, equipment, POS System, debit and credit card and Gift/Loyalty Card processing service, and methods of product preparation and delivery that meet our requirements as specified in the confidential Operations Manuals.

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

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

### **THE FRANCHISE RELATIONSHIP**

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

<b>Provision</b>	<b>Section in Franchise Agreement</b>	<b>Summary</b>
a. Length of the Term of the Franchise	Section 1.4	Term is the earlier of the following: (i) the ten (10) year anniversary of the date the restaurant opens to the public or, if you are acquiring an already operating restaurant, the effective date of your Franchise Agreement; or (ii) the expiration of the term of the real estate lease for the premises of the Franchised Business, including any extension or other renewal options.
b. Renewal or extension of the Term	Section 13	If you are not in default and satisfy certain conditions, you may renew for the shorter of the following: (i) ten (10) years; or (ii) the term of the new lease for the premises of the Franchised Business, including any extensions or renewal options.
c. Requirements for you to renew or extend	Section 13	“Renewal” means to sign a renewal Franchise Agreement (which will be in the form of the Franchise Agreement then customarily used by us in the granting of franchises) and all other agreements then customarily used by us in the granting of franchises. The renewal Franchise Agreement may have materially different terms and conditions than the original Franchise Agreement, including higher royalty and advertising fees. If offered, you must: give 120 days’ notice prior to the expiration date of the term; not be in default; be in compliance with the

Provision	Section in Franchise Agreement	Summary
		terms of the Franchise Agreement and Operations Manuals; not have received more than 3 notices of default or breach of the Franchise Agreement during its term, nor more than 2 such notices during the 5 years immediately before the proposed renewal date; have a premises; sign a new Franchise Agreement which may have materially different terms and conditions than the original Franchise Agreement; pay a renewal fee; remodel or refurbish if necessary; and be current on all financial obligations to us.
d. Termination by you	Not Applicable	-----
e. Termination by us without cause	Not Applicable	-----
f. Termination by us with cause	Sections 14.1 and 16.12	We can terminate only if you are in default under the Franchise Agreement or any other Franchise Agreements between you and us.
g. "Cause" defined— defaults that can be cured	Section 14.2	You have an immediate cure period of less than 24 hours to cure defaults of your violation of our social media policy regarding posting content containing public displays of affection, confidential information, violations of health or safety standards, foul or obscene language, or images that have not been consented to. You have 24 hours to cure defaults of your violation of (i) any law, regulation, or order; (ii) our standards relating to health, sanitation, or safety; or (iii) our policy regarding posting defamatory or offensive comments on social medium sites. You have 48 hours to cure defaults of your violation of our social media policy where you hold out your social medium site to be the official site of <i>Taco Time</i> . You have 7 days to cure defaults of failure to (i) pay us monies owing; or (ii) maintain insurance. You have 14 days to cure other defaults, except those which have no cure period. If a statute in the state or municipality in which the Franchised Business is located requires application of that state or municipal law, and that statute requires a cure period for the applicable default which is longer than the cure period listed in the Franchise Agreement, the statutory cure period will apply.
h. "Cause" defined— defaults that cannot be cured	Sections 12, 14.1 and 14.2	Non-curable defaults: failure to open your restaurant within the time period listed in your Franchise Agreement, transferring or attempting to transfer your Franchise Agreement or Franchised Business to a third party, bankruptcy, insolvency and similar events; conviction of felony; repeated defaults even if previously cured; abandonment; trademark misuse; breach of confidentiality or non-competition

Provision	Section in Franchise Agreement	Summary
		covenants; fraud with respect to obligations under the Franchise Agreement; and intentionally underreporting weekly Gross Sales.
i. Your obligations on termination/non-renewal	Section 14.5	Obligations include complete de-identification and payment of amounts due us (also see "r" below).
j. Assignment of contract by us	Section 12.5	No restriction on our right to assign.
k. "Transfer" by you—definition	Section 12.1	(i) Any act or circumstance by which ownership or control in the franchisee changes; (ii) any transfer of any right under the Franchise Agreement or transfer of the Franchised Business; or (iii) any transfer of the assets (including, but not limited to, equipment, fixtures, leasehold improvements and goodwill) located at the premises of the Franchised Business or used in the operation of the Franchised Business.
l. Our approval of transfer by franchise owner	Section 12.1	We have the right to approve all transfers, but we will not unreasonably withhold approval.
m. Conditions for our approval of transfer	Section 12.3	New franchise owner qualifies, no existing defaults, transfer and training fees paid, new franchisee completes training for two individuals (additional fee for additional individuals trained), release signed by you, new agreements signed.
n. Our right of first refusal to acquire your business	Section 12.2	We can match any offer for your business.
o. Our option to purchase your business	Section 12.2	We can match any offer for your business.
p. Your death or disability	Section 12.4	If representative of franchisee wants the Franchised Business to continue operating, it must be transferred within 90 days to an approved buyer. Upon non-compliance, all of franchisee's rights under the Franchise Agreement will be automatically terminated.
q. Non-competition covenants during the term of the franchise	Section 14.6	No involvement in any competing business.
r. Non-competition covenants after the Franchise Agreement is terminated or expires	Section 14.6	No competing business for 2 years, within 10 miles of another <i>Taco Time</i> restaurant.
s. Modification of the Agreement	Sections 4.5 and 16.14	Confidential Operations Manuals subject to change at any time; otherwise no modifications unless in writing and signed by both parties.
t. Integration/merger clause	Section 16.15	Only the terms of the Franchise Agreement are binding (subject to state law). Any representations or promises outside the Disclosure Document and Franchise Agreement may not be enforceable.
u. Dispute resolution by arbitration or mediation	Not Applicable	-----
v. Choice of forum	Section 16.3	Litigation must be in Maricopa County, Arizona.
w. Choice of law	Section 16.3	Except to the extent governed by the United States

Provision	Section in Franchise Agreement	Summary
		trademark laws or the franchise laws of any state, Arizona law applies.

See Exhibit E: Franchise Agreement and State Addenda.

### THE AREA REPRESENTATIVE RELATIONSHIP

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

Provision	Section in Area Representative Agreement*	Summary
a. Term of the franchise	14	Initial term of 10 years.
b. Renewal or extension of the term	14	Renewal term of 10 years.
c. Requirements for you to renew or extend	14	“Renewal” means to sign a renewal ARA (which will be in the form of the ARA then customarily used by us in the granting of territories to Area Representatives). You must be (and have been during the term of the ARA) in good standing; you must have been in substantial compliance with the Business Plan(s); provide timely notice of intent to renew; pay the renewal fee; Kahala Franchising has not notified you that it objects to the renewal and returns the renewal fee to you; and sign then-current Area Representative Agreement and sign a general release.
d. Termination by you	Not applicable	You may terminate the Area Representative Agreement on any grounds available by law.
e. Termination by the Franchisor without Cause	Not applicable	
f. Termination by the Franchisor with Cause	15	See (g) and (h).
g. “Cause” defined—defaults which can be cured	15(a)(i), (a)(vii) and (a)(viii)	Failure to pay us or an affiliate money owed; Failure to obtain or maintain licenses, registrations or permits, if circumstances were beyond the reasonable control of Area Representative; Failure to provide information requested by us in connection with updating or supplementing the Franchise Disclosure Document with respect to Area Representative; Holding yourself out to be an official page of, or video produced by, Kahala Franchising or the <i>Taco Time</i> brand on any form of social medium; Posting defamatory or offensive comments,

Provision	Section in Area Representative Agreement*	Summary
		confidential information, inappropriate displays of public affection, violations of health or safety standards, foul or obscene language, or unapproved images or information about anyone on any social medium site.
h. "Cause" defined-defaults which cannot be cured	13(h); 15(a)(ii) through 15(a)(vii), and 15(a)(ix) through 15(a)(xiii)	Repetitive defaults of material provisions within a 12-month period; Repetitive monetary defaults within an 18-month period; Your bankruptcy; Your insolvency; Failure to satisfactorily complete the franchisee Training Program and/or Area Representative Training Program within 30 days of the Effective Date of the Area Representative Agreement; Termination of a Franchise Agreement or other Area Representative Agreement; Unapproved transfer; Failure to transfer to an approved transferee within 90 days of death; Failure to obtain or maintain licenses, registrations or permits, if circumstances were not beyond the reasonable control of the Area Representative; If you misrepresent or commit fraud in connection with any information or statements; If you fail to comply with any material federal, state or local law or regulation applicable to the operation of your business unless you diligently contest any governmental determination of such failure to comply; If you or any Principal is (or has been) convicted by a trial court of, or has plead guilty or no contest to, a felony or other crime or offense that may adversely affect our goodwill or reputation, our products or the Service Marks; If you or any Principal engage in any conduct that violates any law, regulation or ordinance or commits an act of moral turpitude.
i. Your obligations on termination /non-renewal	16	You will forfeit all fees paid; will receive no payment for good will; must return Area Representative Operating Manual and our other property; must cease marketing franchises and development rights; will receive no further payments; and pay all amounts outstanding to us and our affiliates within 10 days.
j. Assignment of contract by the franchisor	24	No restrictions.
k. "Transfer" by you-definition	13(a), 13(c), 13(g)(ii), 13(h)	Any transfer of an equity interest in Area Representative and any merger or consolidation of Area Representative; assignment of any right granted under the Area Representative Agreement; transfer of a majority-owned interest in Area Representative; and upon your death, disability or dissolution of marriage, an approved transfer must be made within 90 days.
l. Franchisor approval of transfer by you	13, 15(a)(ix), (m), and 24	Our approval must be obtained before any transfer may be made; you must be in good standing to obtain approval.

Provision	Section in Area Representative Agreement*	Summary
m. Conditions for the Franchisor's approval of transfer	13	Give us written notice of the terms of the transfer, financial and other information about the transferee and pay a Transfer Fee; the transfer must be for cash; we may exercise our right of first refusal or approve or disapprove of the transfer; if we approve the transfer, the transferee must sign the then-current form of Area Representative Agreement and attend and satisfactorily complete the training program before the closing; the transferee's Principals, officers and employees must be bound by the restrictive covenants, the confidentiality provisions and certain other provisions contained in the Area Representative Agreement; and you must sign a general release of us and our affiliates, pay all amounts outstanding and cure any breaches; you will remain liable for the transferee's obligations under the Area Representative Agreement arising from any negligence or willful misconduct that occurred prior to transferring your Area Representative Agreement.
n. Franchisor's right of first refusal to acquire your business	13(d) and 13(e)	If you want to transfer your rights, we have the right to purchase the rights on the same terms as the transferee.
o. Franchisor's option to purchase your business	13(d) and 13(e)	We will notify Area Representative within 30 days after we receive the Required Materials (as defined in the ARA) whether we wish to purchase your rights under the ARA. If we do wish to purchase your rights under the ARA, the transaction will be completed within 60 days after receipt of the Required Materials and at the same terms and conditions offered by the transferee.
p. Your death or disability	13(h) and 15(a)(xi)	Upon your death or disability, your rights must be transferred to an approved transferee within 90 days.
q. Non-competition covenants during the term of the franchise	12; Exhibit G (Agreement to be Bound and to Guarantee); Exhibit H (Restrictive Covenant)	You and your Principals, officers, managers and employees may not operate a business that (a) manufactures, produces, markets or sells Mexican-style fast food within or outside of, or for consumption within or outside of, the United States or (b) solicits licensees or franchisees, or offers or sells licenses or franchises, to market or sell Mexican-style fast food.
r. Non-competition covenants after the franchise is terminated or expires	12; (Exhibit G (Agreement to be Bound and to Guarantee); Exhibit H (Restrictive Covenant)	For the two-year period after the expiration or termination of the Area Representative Agreement, you and your Principals, officers, managers and employees may not operate a business that (a) manufactures, produces, markets or sells Mexican-style fast food within or outside of, or for consumption within or outside of, the United States or (b) solicits licensees or franchisees, or offers or sells licenses or franchises, to market or sell Mexican-style fast food.



Provision	Section in Area Representative Agreement*	Summary
s. Modification of the agreement	25	Area Representative Operating Manual may be modified by us without your approval; rules, regulations, policies and procedures may be issued and modified without your approval; all fees (including all initial development fees, royalties, advertising fees and fees and payments relating to audits, transfers, additional training, consulting, interest, late payments or reports and liquidated damages) may be modified without your approval; otherwise, no modifications may be made without both parties' approval.
t. Integration /Merger Clause	27 and 38	Only the terms of the Area Representative Agreement are binding (subject to state law). Any representations or promises outside the Disclosure Document and Area Representative Agreement may not be enforceable.
u. Dispute resolution by arbitration or mediation	Not applicable	-----
v. Choice of Forum	30	Except to the extent governed by the franchise laws of any state, litigation must be in Maricopa County, Arizona.
w. Choice of Law	30; Exhibit G (Agreement to be Bound and to Guarantee) –15; Exhibit H (Restrictive Covenant) –9(c)	Except to the extent governed by the United States trademark laws or the franchise laws of any state, Arizona law applies.

See Exhibit O: Area Representative Agreement, State Addenda and General Release.

### ITEM 18: PUBLIC FIGURES

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

### ITEM 19: FINANCIAL PERFORMANCE REPRESENTATIONS

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

We do not make any representations about a franchisee's future financial performance or the past financial performance of company-owned or franchised outlets. We also do not authorize

our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet or ARA Territory, however, we may provide you with the actual records of that outlet or outlets within the ARA Territory. If you receive any other financial performance information or projection of your future income, you should report it to the franchisor's management by contacting Chris Henry, Executive Vice President of Development & Licensing, Kahala Franchising, L.L.C., 9311 E. Via De Ventura, Scottsdale, Arizona 85258; (480) 362-4800, the Federal Trade Commission, and the appropriate state regulatory agencies.

## ITEM 20: OUTLETS AND FRANCHISEE INFORMATION

Table No. 1

### Systemwide Outlet Summary For years 2009 to 2011 (United States)

Column 1 Outlet Type	Column 2 Year	Column 3 Outlets at the Start of the Year	Column 4 Outlets at the End of the Year	Column 5 Net Change
Franchised	2009	169	169	0
	2010	169	171	2
	2011	171	153	-18
Company- Owned	2009	0	0	0
	2010	0	0	0
	2011	0	11	11
Total Outlets	2009	169	169	0
	2010	169	171	2
	2011	171	164	-7

### Systemwide Outlet Summary For years 2009 to 2011 (International)

Column 1 Outlet Type	Column 2 Year	Column 3 Outlets at the Start of the Year	Column 4 Outlets at the End of the Year	Column 5 Net Change
Franchised	2009	121	125	4
	2010	125	128	3
	2011	128	128	0
Company- Owned	2009	0	0	0
	2010	0	0	0
	2011	0	0	0
Total Outlets	2009	121	125	4
	2010	125	128	3
	2011	128	128	0

Table No. 2

**Transfers of Outlets from Franchisees to New Owners (other than the Franchisor)  
For years 2009 to 2011**

Column 1 State	Column 2 Year	Column 3 Number of Transfers
Utah	2009	1
	2010	0
	2011	0
Washington	2009	0
	2010	1
	2011	0
Wyoming	2009	1
	2010	0
	2011	0
Total - U.S.	2009	2
	2010	1
	2011	0
Outside the United States		
Canada	2009	5
	2010	8
	2011	8
Total International	2009	5
	2010	8
	2011	9
TOTAL	2009	7
	2010	9
	2011	8

Table No. 3

**Status of Franchised Outlets  
For years 2009 to 2011**

Col. 1 State	Col.2 Year	Col.3 Outlets at Start of Year	Col.4 Outlets Opened	Col. 5 Termina- tions	Col. 6 Non- renewals	Col. 7 Reacquired by Franchisor	Col. 8 Ceased Operations – Other Reasons	Col. 9 Outlets at End of the Year
Alaska	2009	1	0	0	0	0	0	1
	2010	1	0	0	0	0	0	1
	2011	1	0	0	0	0	0	1

Col. 1 State	Col.2 Year	Col.3 Outlets at Start of Year	Col.4 Outlets Opened	Col. 5 Termina- tions	Col. 6 Non- renewals	Col. 7 Reacquired by Franchisor	Col. 8 Ceased Operations – Other Reasons	Col. 9 Outlets at End of the Year
Arizona	2009	2	0	0	0	0	2	0
	2010	0	0	0	0	0	0	0
	2011	0	0	0	0	0	0	0
Colorado	2009	1	0	0	0	0	0	1
	2010	1	0	0	0	0	0	1
	2011	1	1	0	0	0	0	2
Idaho	2009	26	2	0	0	0	2	26
	2010	26	0	0	0	0	2	24
	2011	24	0	1	0	1	2	20
Indiana	2009	1	0	0	0	0	0	1
	2010	1	0	0	0	0	0	1
	2011	1	0	0	0	0	0	1
Iowa	2009	2	0	0	0	0	1	1
	2010	1	0	0	0	0	0	1
	2011	1	0	0	0	0	0	1
Kansas	2009	0	0	0	0	0	0	0
	2010	0	0	0	0	0	0	0
	2011	0	1	0	0	0	1	0
Montana	2009	8	0	0	0	0	0	8
	2010	8	0	0	0	0	0	8
	2011	8	0	0	0	0	0	8
Nevada	2009	4	0	0	0	0	0	4
	2010	4	0	0	0	0	0	4
	2011	4	0	0	0	0	0	4
Oregon	2009	46	4	0	0	0	1	49
	2010	49	6	0	0	0	3	52
	2011	52	1	0	0	0	6	47
Utah	2009	46	3	0	0	0	2	47
	2010	47	3	0	0	0	2	48
	2011	48	2	0	0	0	1	49
Virginia	2009	0	0	0	0	0	0	0
	2010	0	0	0	0	0	0	0
	2011	0	0	0	0	0	0	0
Washington	2009	24	0	0	0	0	1	23
	2010	23	1	0	0	0	1	23
	2011	23	0	0	0	10	1	12
Wyoming	2009	8	0	0	0	0	0	8
	2010	8	0	0	0	0	0	8
	2011	8	0	0	0	0	0	8

Col. 1 State	Col.2 Year	Col.3 Outlets at Start of Year	Col.4 Outlets Opened	Col. 5 Termina- tions	Col. 6 Non- renewals	Col. 7 Reacquired by Franchisor	Col. 8 Ceased Operations – Other Reasons	Col. 9 Outlets at End of the Year
Total - U.S.	2009	169	9	0	0	0	9	169
	2010	169	10	0	0	0	8	171
	2011	171	5	1	0	11	11	153
Outside the United States								
Canada	2009	116	5	0	0	0	2	119
	2010	119	5	0	0	0	2	122
	2011	122	3	0	0	0	3	122
Kuwait	2009	5	0	0	0	0	0	5
	2010	5	0	0	0	0	0	5
	2011	5	0	0	0	0	0	5
Netherlands Antilles	2009	0	1	0	0	0	0	1
	2010	1	0	0	0	0	0	1
	2011	1	0	0	0	0	0	1
Total - International	2009	121	6	0	0	0	2	125
	2010	125	5	0	0	0	2	128
	2011	128	3	0	0	0	3	128
TOTAL	2009	290	15	0	0	0	11	294
	2010	294	15	0	0	0	10	299
	2011	299	8	1	0	11	14	281

Table No. 4

**Status of Company Owned Outlets  
For years 2009 to 2011**

Col. 1 State	Col.2 Year	Col.3 Outlets at Start of Year	Col.4 Outlets Opened	Col. 5 Outlets Reacquired from Franchisee	Col. 6 Outlets Closed	Col. 7 Outlets Sold to Franchisee	Col. 8 Outlets at End of the Year
Idaho	2009	0	0	0	0	0	0
	2010	0	0	0	0	0	0
	2011	0	0	1	0	0	1
Washington	2009	0	0	0	0	0	0
	2010	0	0	0	0	0	0
	2011	0	0	10	0	0	10
Totals	2009	0	0	0	0	0	0
	2010	0	0	0	0	0	0
	2011	0	0	11	0	0	11

Table No. 5

**Projected Openings As Of December 31, 2011**

Column 1 State	Column 2 Franchise Agreements Signed But Outlet Not Opened	Column 3 Projected New Franchised Outlets In The Next Fiscal Year	Column 4 Projected New Company-Owned Outlets in the Next Fiscal Year
Oregon	3	2	0
Utah	1	3	0
Washington	0	0	0
Wyoming	1	0	0
Total	5	5	0

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

We had twelve (12) franchise owners who had an outlet terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the Franchise Agreements during the year ending December 31, 2011 (nine in the United States and three in Canada), totaling 23 outlets terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business due to some franchisees having multiple locations close. We also had eight (8) franchise owners in Canada who had an outlet transfer during the year ending December 31, 2011. We have not had any franchisees who have not communicated with us for the 10-week period before the date of this Disclosure Document. The name, city and state and current business telephone number, or if unknown, the last known home telephone number, of these franchisees is as follows:

Franchisees who had an outlet terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the Franchise Agreements

	Franchisee Company	Franchisee Name	City	State	Telephone Number or Email Address
<b>United States</b>					
1	Jacksons Food Stores Inc. (3 locations)	John Jackson	Meridian	ID	(208) 955-6264
2	T & T Mex Ventures, LLC	Tod Eland	Salina	KS	(785) 826-0955
3	JRB Foods, Inc.	Ron Brooks	Bend	OR	(541) 388-1964
4	The Howling Coyote, Inc. (3 locations)	Doug Mortimore	Eugene	OR	(541) 914-1546
5	L.J. Arnold, Inc.	Larry & JoAnne Arnold	Salem	OR	(503) 559-0001
6	Anasazi Enterprises, LLC	Tory Davis	Torrey	UT	(435) 425-3060
7		Sang Hoon Lee	Bellevue	WA	(206) 229-3607
8	Taco Time Gage, LLC	Gregory Markel	Kennewick	WA	(509) 735-2255
9	Omni Management, Inc. (11 locations)	Jim Fox	Spokane Valley	WA	(509) 922-2748

	Franchisee Company	Franchisee Name	City	State	Telephone Number or Email Address
Canada					
10	Aberdeen Taco Inc.	Angelo and Linda Mauro	Kamloops	BC	250-542-2919
11	Rank Enterprises, Inc.	Rajan & Ash Khosla	Port Coquitlam	BC	604-472-0415
12	Shining Star Enterprises Inc.	Bhupinder S. Sodhi	Vancouver	BC	604-322-2188

Franchisees who had an outlet transfer

	Franchisee Company	Franchisee Name	City	State	Telephone Number or Email Address
Canada					
	1166821 Alberta LTD	Mi Jung "Jenny" Baik and Yong Jun "Bryan" Lee	Calgary	AB	Unknown
	650272 Alberta Ltd.	Harjinderpal & Gurjeevan Chahal	Calgary	AB	(403) 285-5725
	Redbrick Holdings Ltd.	Craig Watson and Helen Martins	Calgary	AB	Unknown
	1316774 Alberta Ltd.	Nestor and Marichu Tuazon	Edmonton	AB	(780) 463-0515
	Salto Management, Inc.	Neil McNairnay	Red Deer	AB	(403) 346-8450
	Amigo Foods Ltd.	Ted Chivers and Todd Chivers	Winnipeg	MB	(204) 896-7600
	Fiesta Foods Ltd.	Phil Meister	Saskatoon	SK	(306) 242-2529
	Success Foods, Ltd.	Sonya Wiebe	Swift Current	SK	(306) 773-4040

We had no franchisee who had its Franchise Agreement terminated during the year ending December 31, 2011 for a restaurant that never opened. We had one franchisee in Canada that transferred its Franchise Agreement during the year ending December 31, 2011 for a restaurant that was not yet open. The name, city and state and current business telephone number, or if unknown, the last known home telephone number, of these franchisee is as follows:

	Franchisee Company	Franchisee Name	City	State	Telephone Number
1	1521914 Alberta Ltd.	Alfayez and Zahra Jinah	Calgary	AB	unknown

If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system. Some of our franchisees have signed confidentiality clauses during the last three fiscal years. In some instances, current and former franchisees sign provisions restricting their ability to speak openly about their experience with the *Taco Time* franchise system. You may wish to speak with current and former franchisees, but be aware that not all such franchisees will be able to communicate with you.

If you are purchasing a company-owned outlet from one of our affiliates that was previously owned by a franchisee but is now owned and operated corporately by our affiliate, we will provide you with an addendum to this Disclosure Document disclosing additional information for that outlet

for the last five fiscal years. A sample form of the addendum is attached to this Disclosure Document as Exhibit S.

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

**Area Representatives**

Table No. 1

**Systemwide Area Representative Agreement Summary  
For years 2009 to 2011  
(United States)**

Column 1 Outlet Type	Column 2 Year	Column 3 Area Representative Agreements at the Start of the Year	Column 4 Area Representative Agreements at the End of the Year	Column 5 Net Change
ARAs (U.S.)	2009	6	6	0
	2010	6	6	0
	2011	6	6	0
Company-Owned	2009	0	0	0
	2010	0	0	0
	2011	0	0	0
Total ARAs (U.S.)	2009	6	6	0
	2010	6	6	0
	2011	6	6	0

Table No. 2

**Transfers of ARAs from Area Representatives to New Area Representatives  
(other than the Franchisor)  
For years 2009 to 2011**

Column 1 State	Column 2 Year	Column 3 Number of Transfers of Area Representative Agreements
All states	2009	0
	2010	0
	2011	0
Total	2009	0
	2010	0
	2011	0



Table No. 3

**Status of Area Representative Agreements  
For years 2009 to 2011**

Col. 1 State	Col.2 Year	Col.3 ARAs at Start of Year	Col.4 New ARAs	Col. 5 Termina- tions	Col. 6 Non- renewals	Col. 7 Reacquired by Franchisor	Col. 8 Ceased Operations – Other Reasons	Col. 9 ARAs at End of the Year
Nevada	2009	1	0	0	0	0	0	1
	2010	1	0	0	0	0	0	1
	2011	1	0	0	0	0	0	1
Oregon	2009	2	0	0	0	0	0	2
	2010	2	0	0	0	0	0	2
	2011	2	0	0	0	0	0	2
Utah	2009	1	0	0	0	0	0	1
	2010	1	0	0	0	0	0	1
	2011	1	0	0	0	0	0	1
Washington	2009	2	0	0	0	0	0	2
	2010	2	0	0	0	0	0	2
	2011	2	0	0	0	0	0	2
Total - U.S.	2009	6	0	0	0	0	0	6
	2010	6	0	0	0	0	0	6
	2011	6	0	0	0	0	0	6

Table No. 4

**Status of Company-Owned Area Representative Agreements  
For years 2009 to 2011**

Col. 1 State	Col.2 Year	Col.3 Outlets at Start of Year	Col.4 Outlets Opened	Col. 5 Outlets Reacquired from Franchisee	Col. 6 Outlets Closed	Col. 7 Outlets Sold to Franchisee	Col. 8 Outlets at End of the Year
All States	2009	0	0	0	0	0	0
	2010	0	0	0	0	0	0
	2011	0	0	0	0	0	0
Totals*	2009	0	0	0	0	0	0
	2010	0	0	0	0	0	0
	2011	0	0	0	0	0	0

\* Note that territories that are not owned and serviced by an Area Representative are serviced by Kahala Franchising and/or its affiliate.

Table No. 5

**Projected New Area Representative Agreements As Of December 31, 2011**

Column 1	Column 2	Column 3
State	Area Representative Agreements Signed But Not Yet Effective	Projected New Area Representative Agreements In The Next Fiscal Year
Alaska	0	1
Total	0	1

A list of the names, addresses and telephone numbers of our Area Representatives is attached to this Disclosure Document as Exhibit Q. We had no Area Representatives who had their Area Representative Agreements terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the Area Representative Agreements during the year ending December 31, 2011, and we had no Area Representatives who transferred their Area Representative Agreements during the year ending December 31, 2011. We have not had any Area Representatives who have not communicated with us for the 10-week period before the date of this Disclosure Document.

If you buy this Area Representative Agreement, your contact information may be disclosed to other buyers when you leave the system. In some instances, current and former Area Representatives sign provisions restricting their ability to speak openly about their experience with the *Taco Time* franchise system. You may wish to speak with current and former Area Representatives, but be aware that not all such Area Representatives will be able to communicate with you.

**ITEM 21: FINANCIAL STATEMENTS**

Attached to this Disclosure Document as Exhibit R are the unaudited financial statements of Kahala Franchising, L.L.C., for the six months ended June 30, 2012 (THESE FINANCIAL STATEMENTS HAVE BEEN PREPARED WITHOUT AN AUDIT. PROSPECTIVE FRANCHISEES OR SELLERS OF FRANCHISES SHOULD BE ADVISED THAT NO INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT HAS AUDITED THESE FIGURES OR EXPRESSED AN OPINION WITH REGARD TO THEIR CONTENT OR FORM). Also attached are our balance sheets as of December 31, 2011 and December 31, 2010 and our statements of operations, stockholders equity and cash flows as of December 31, 2011, 2010, and 2009, along with the independent auditor's reports. Kahala Corp. does not absolutely and unconditionally guarantee to assume the duties and obligations of Kahala Franchising to the franchisee under the Franchise Agreement.

**ITEM 22: CONTRACTS**

A copy of the Purchase and Sale Agreement (including the exhibits) with the Promissory Note and Security Agreement (if applicable) that you will be required to sign if you buy a corporate-owned restaurant from our affiliate is attached as Exhibit D to this Disclosure Document. A copy of the Franchise Agreement (including the exhibits) that you will be required to sign is attached as Exhibit E to this Disclosure Document. A copy of the Addendum to the Franchise Agreement for SBA Loans that you will be required to sign if you are obtaining an SBA loan is attached as Exhibit E. A copy of the Lease Guaranty Acknowledgment is attached as Exhibit H. A copy of the Lease Negotiation Acknowledgment is attached as Exhibit I. A copy of the Lease Procurement

Acknowledgment is attached as Exhibit J. A copy of the Release and Consent Agreement to Assignment of Franchised Business is attached as Exhibit L to this Disclosure Document. A copy of our Area Representative Agreement and General Release is attached as Exhibit O to this Disclosure Document.

### **ITEM 23: RECEIPTS**

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

**EXHIBIT A**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**State Addenda to Franchise Disclosure Document**

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

THE FOLLOWING PARAGRAPHS ARE ADDED TO THE END OF ITEM 17:

- A. **THE CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES THAT A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE DISCLOSURE DOCUMENT.**
- B. **Neither the franchisor, franchise broker nor any person in Item 2 of the Disclosure Document are subject to any currently effective order of any National Securities Association or National Securities Exchange, as defined in the Securities Exchange Act of 1934, 15 U.S.C.A. 78A et seq., suspending or expelling such person from membership in such association or exchange.**
- C. **The Franchise Agreement provides for termination upon bankruptcy. This provision may not be enforceable under Federal Bankruptcy Law. (11 U.S.C.A. Sec. 101 et seq.).**
- D. **The Franchise Agreement contains a covenant not to compete which extends beyond the termination of the Franchise. This provision may not be enforceable under California law.**
- E. **The Franchise Agreement requires application of the laws of the State of Arizona. This provision may not be enforceable under California Law.**
- F. **Section 31125 of the California Corporations Code requires us to give you a disclosure document, in a form containing the information that the commissioner may by rule or order require, before a solicitation of a proposed material modification of an existing franchise.**
- G. **YOU MUST SIGN A GENERAL RELEASE IF YOU RENEW OR TRANSFER YOUR FRANCHISE. CALIFORNIA CORPORATIONS CODE §31512 VOIDS A WAIVER OF YOUR RIGHTS UNDER THE FRANCHISE INVESTMENT LAW (CALIFORNIA CORPORATIONS CODE §§31000 THROUGH 31516).**
- H. **BUSINESS AND PROFESSIONS CODE §20010 VOIDS A WAIVER OF YOUR RIGHTS UNDER THE FRANCHISE RELATIONS ACT (BUSINESS AND PROFESSIONS CODE §§20000 THROUGH 20043).**
- I. **California Business and Professions Code Sections 20000 through 20043 provide rights to the franchisee concerning termination or non-renewal of a franchise. If the Franchise Agreement contains a provision that is inconsistent with the law, the law will control.**
- J. **The Franchise Agreement contains a liquidated damages clause. Under California Civil Code § 1671, certain liquidated damages clauses are unenforceable.**
- K. **If the Franchisee resides in the State of California or the franchised business is located within the State of California, the venue for any dispute may be within the State of California.**

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

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

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

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

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

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

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

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

1. The following paragraph is added to Item 17:

Section 482E-6(3) of the Hawaii Revised Statutes provides that upon termination or refusal to renew the Franchise Agreement, Kahala Franchising is obligated to

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

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

A. The states in which this proposed registration is effective: California.

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

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

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

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

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

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

1. Item 17.f is supplemented with the following language:

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

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

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

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

Litigation in Illinois.

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

Illinois law applies.

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



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

1. Item 17.c may be modified by Indiana Code § 23-2-2.7.
2. The Summary in Item 17.r. is deleted and replaced with the following Summary:  
  
For two years after the termination of your Franchise Agreement, you may not establish a similar type of business within your exclusive territory.
3. Item 17.t is supplemented with the following language:  
  
However, you do not waive any rights under the Indiana Statutes with regard to prior representations made by Kahala Franchising, L.L.C. in the Disclosure Document.
4. Items 17.v and 17.w are supplemented with the following language:  
  
Except that under Indiana law, you may have the right to bring an action in Indiana, and have Indiana law apply.
5. The Indiana Deceptive Franchise Practices Act, IC 23-2-2.7-1 (10) prohibits the limitation of litigation brought for breach of a Franchise Agreement including any limitation on the forum chosen. Any provision in the Franchise Agreement, specifying a forum contrary to Indiana law, shall not apply to any claims brought under the Indiana Deceptive Franchise Practices Act and/or the Indiana Franchise Act, Ind. Code ANN. §§ 1-51 (1994).
6. The Indiana Deceptive Franchise Practices Act, IC 23-2-2.7-1 (10) prohibits the limitation of litigation brought for breach of a Franchise Agreement. Any provision in the Franchise Agreement requiring the application of another state's law shall not apply to any claims brought under the Indiana Deceptive Franchise Practices Act and/or the Indiana Franchise Act, Ind. Code ANN. §§ 1-51 (1994).
7. Indiana Code § 23-2-2.5-9(2) requires a franchisor to give you a copy of the Franchise Disclosure Document at the earlier of: (i) 10 days prior to signing the franchise agreement; or (ii) 10 days prior to franchisor's receipt of any consideration. The Receipt is amended to reflect the 10 day waiting period.

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

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

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

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

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

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

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

4. Item 17 is amended to disclose the following:

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

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

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

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

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

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

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

(F) A provision requiring that arbitration or litigation be conducted outside this state. This shall not preclude the franchisee from entering into an agreement, at the time of arbitration, to conduct arbitration at a location outside this state.

(G) A provision which permits a franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause. This subdivision does not prevent a franchisor from exercising a right of first refusal to purchase the franchise. Good cause shall include, but is not limited to:

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

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

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

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

Any questions regarding this notice shall be directed to:

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

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

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

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

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

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

2. The following paragraph is added to Item 13:

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

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

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

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

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

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

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

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

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

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

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

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

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

7. As of the date of this Disclosure Document, no *Taco Time* restaurants are in operation in the State of Minnesota; no Area Representative Agreements are currently in effect in Minnesota; and no Franchise Agreements are currently in effect in Minnesota.

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

Information comparing franchisors is available. Call the state administrators listed in Exhibit B or your public library for sources of information. Registration of this franchise by New York State does not mean that New York State recommends it or has verified the information in this Disclosure Document. If you learn that anything in the Disclosure Document is untrue, contact the Federal Trade Commission and New York State Department of Law, Bureau of Investor Protection and Securities, 120 Broadway, 23<sup>rd</sup> Floor, New York, New York 10271.

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

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

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

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

FACTORS TO BE CONSIDERED:

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

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

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

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

**NORTH DAKOTA LAW MODIFICATIONS**

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

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



- g. Section 51-19-08 of the North Dakota Franchise Investment Law requires franchisor to give you a copy of the Franchise Disclosure Document at the earlier of: (i) seven days prior to signing the franchise agreement; or (ii) seven days prior to franchisor's receipt of any consideration.

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

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

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

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

**RHODE ISLAND LAW MODIFICATIONS**

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

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

2. Section 19-28.1-8 of the Rhode Island Franchise Investment Act requires a franchisor to give you a copy of the Franchise Disclosure Document at the earlier of: (i) the first personal meeting; (ii) 10 business days before the execution of the franchise agreement; or (iii) 10 business days before the payment of any consideration that relates to the franchise relationship.

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

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

1. The Director of the South Dakota Division of Securities requires that certain provisions contained in franchise documents be amended to be consistent with South Dakota law, including the South Dakota Franchises for Brand-Name Goods and Services Law, South Dakota Codified Laws, Title 37, Chapter 37-5A, Sections 37-5A-1 through 37-5A-87 (1994). To the extent that the Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

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

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

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

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

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

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

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

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

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

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

Surf City Squeeze, Inc., an affiliate of Kahala Franchising, L.L.C., filed for Bankruptcy Protection Code Chapter 11 of the United States Bankruptcy Code on January 13, 1997. Full disclosure of the particulars of this filing is in Item 4 of this Disclosure Document.

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

Washington Franchise Investment Protection Act, Wash. Rev. Code § 19.100.080 requires a franchisor to give you a copy of the Franchise Disclosure Document at the earlier of: (i) 10 business days prior to signing the franchise agreement; or (ii) 10 business days prior to franchisor's receipt of any consideration.

**Effect of Washington Law on Termination**

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

(Revised Code of Washington)

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

\*\*\*\*\*

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

\*\*\*\*\*

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

(j) Terminate a franchise prior to the expiration of its term except for good cause. Good cause shall include, without limitation, the failure of the franchisee to comply with lawful material provisions of the franchise or other agreement between the franchisor and the franchisee and to cure such default after being given written notice thereof and a reasonable opportunity, which in no event need be more than thirty days, to cure such default, or if such default cannot reasonably be cured within thirty days, the failure of the franchisee to initiate within thirty days substantial and continuing action to cure such default: PROVIDED, that after three willful and material breaches of the same term of the Franchise Agreement occurring within a twelve month period, for which the franchisee has been given notice and an opportunity to cure as provided in this subsection, the franchisor may terminate the Franchise Agreement upon any subsequent month period without providing notice or opportunity cure: PROVIDED FURTHER, that a franchisor may terminate a Franchise Agreement without prior notice or opportunity to cure a default if the franchisee: (i) is adjudicated bankrupt or insolvent; (ii) makes an assignment for the benefit of creditors or similar disposition of the assets of the franchised business; (iii) voluntarily abandons the franchised business; or (iv) is convicted of or pleads guilty or no contest to a charge of violating any law relating to the franchised business. Upon termination for good cause the franchisor shall purchase from the franchisee at a fair market value at the time of termination, the franchisee's inventory and supplies, exclusive of: (i) personalized materials which have no value to the franchisor; (ii) inventory and supplies not reasonably required in the conduct of the franchised business; and (iii) if the franchisee is to retain control of the premises of the franchised business, any inventory and supplies not purchased from the franchisor or on his express requirement: PROVIDED, that a franchisor may offset against amounts owed to a franchisee under this subsection any amounts owed by such franchisee to the franchisor."

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

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

**WISCONSIN LAW MODIFICATIONS**

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

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

2. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of the Wisconsin law applicable to the provision are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.



**EXHIBIT B**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Directory of State Agencies and Administrators**

## DIRECTORY OF STATE AGENCIES AND ADMINISTRATORS

<p><b><u>CALIFORNIA</u></b> Commissioner of Corporations Department of Corporations 320 4<sup>th</sup> Street, #750 Los Angeles, CA 90013 (213) 576-7500</p> <p><b><u>HAWAII</u></b> Commissioner of Securities Dept. of Commerce and Consumer Affairs Business Registration Division Securities Compliance Branch 335 Merchant Street, Room 203 Honolulu, Hawaii 96813 (808) 586-2722</p> <p><b><u>ILLINOIS</u></b> Illinois Attorney General Chief, Franchise Division 500 South Second Street Springfield, IL 62706 (217) 782-4465</p> <p><b><u>INDIANA</u></b> Indiana Secretary of State Securities Division 302 West Washington Indianapolis, IN 46204 (317) 232-6685</p> <p><b><u>MARYLAND</u></b> Office of the Attorney General Securities Division 200 St. Paul Place Baltimore, Maryland 21202 (410) 576-6360</p>	<p><b><u>MINNESOTA</u></b> Department of Commerce Director of Registration 85 Seventh Place East, #500 St. Paul, MN 55101-2198 (651) 296-4026</p> <p><b><u>NEW YORK</u></b> State of New York Office of the Attorney General Investor Protection &amp; Securities Bureau, Franchise Section 120 Broadway, 23<sup>rd</sup> Floor New York, NY 10271 (212) 416-8236</p> <p><b><u>NORTH DAKOTA</u></b> Securities Commissioner State Capitol Bismarck, North Dakota 58505 (701) 224-2910</p> <p><b><u>RHODE ISLAND</u></b> Director of the Rhode Island Department of Business Regulation, Securities Division John O. Pastore Complex, Building 69-1 1511 Pontiac Avenue Cranston, Rhode Island 02920 (401) 462-9500</p>	<p><b><u>VIRGINIA</u></b> State Corporation Commission Division of Securities and Retail Franchising P.O. Box 1197 Richmond, VA 23209-1197 (804) 371-9051</p> <p><b><u>WASHINGTON</u></b> Department of Financial Institutions Securities Division P.O. Box 9033 Olympia, WA 98507-9033 (360) 902-8760</p> <p><b><u>WISCONSIN</u></b> State of Wisconsin Department of Financial Institutions Division of Securities 345 West Washington Avenue 4th Floor Madison, WI 53703 P.O. Box 1768 Madison, WI 53701 (608) 266-3364</p>
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**EXHIBIT C**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

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

## FRANCHISOR'S AGENT FOR SERVICE OF PROCESS

### ARIZONA

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

### CALIFORNIA

C T CORPORATION SYSTEM  
818 W. Seventh Street  
Los Angeles CA 90017

### HAWAII

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

### ILLINOIS

ILLINOIS ATTORNEY GENERAL  
500 South Second Street  
Springfield, Illinois 62706

### MARYLAND

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

### MINNESOTA

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

### RHODE ISLAND

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

### VIRGINIA

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

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

There may also be additional agents appointed in some of the states listed.

For states listed in Exhibit B, the agent for Service of Process is listed in Exhibit B.

Kahala Franchising, L.L.C.  
Attn: Kevin Blackwell  
9311 E. Via De Ventura  
Scottsdale, Arizona 85258

**EXHIBIT D**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

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

# **PURCHASE AND SALE AGREEMENT**

**Taco Time – [mall]; (city, state)**

This Purchase and Sale Agreement (hereinafter “Agreement”) is entered into this \_\_\_ day of \_\_\_\_\_, 20\_\_\_, by and between [Kahala Restaurants][Kahala Holdings][Taco Time Spokane Management], L.L.C., an Arizona limited liability company (“Seller”), and \_\_\_\_\_, a(n) \_\_\_\_\_ (“Purchaser”).

## **RECITALS**

A. Seller owns a quick service restaurant business operating as Taco Time located at [mall] (the “Business”) located at \_\_\_\_\_ (the “Premises”).

B. Purchaser desires to purchase the Business and enter into a franchise agreement with Kahala Franchising, L.L.C. (“Kahala Franchising”), an Arizona limited liability company, to continue operating the Business as a Taco Time franchised location.

C. For purposes of this Agreement, the Closing Date shall be \_\_\_\_\_ (the “Closing Date”).

Now, therefore, in consideration of the promises and mutual agreements set forth herein, the parties hereto agree as follows:

## **AGREEMENT**

1. Purchase Price. Purchaser shall acquire from Seller all of Seller’s right, title and interest in the Business, including all equipment, leasehold improvements and inventory on hand as of the Closing Date, for \$\_\_\_\_\_ (collectively, the “Purchase Price”). The Purchase Price shall be paid by Purchaser to Seller as follows: (i) \_\_\_\_\_ Dollars (\$\_\_\_\_\_) by cashiers or certified check made payable to “[Kahala Restaurants][Kahala Holdings][Taco Time Spokane Management], L.L.C.”, on or before the Closing Date, as defined below (the “Down Payment”); and (ii) \_\_\_\_\_ Dollars (\$\_\_\_\_\_) shall be paid by Purchaser to Seller pursuant to the promissory note attached hereto as Exhibit “B” (the “Note”). The Note, which shall bear interest at \_\_% per annum beginning \_\_\_\_\_ and be payable to Seller, shall provide for \_\_\_\_\_ (\_\_\_) equal \$\_\_\_\_\_ [monthly] payments of principal and interest to Seller via electronic funds transfer beginning on \_\_\_\_\_ and on the [first] [fifteenth] [1<sup>st</sup>][15<sup>th</sup>] of each month thereafter until paid in full on \_\_\_\_\_.

The parties to this Agreement further agree that the Purchase Price being paid herein represents the fair market value of the Business as of the Closing Date.

The entire \_\_\_\_\_ Dollars (\$\_\_\_\_\_) Purchase Price shall be allocated as follows: (i) \_\_\_\_\_ Dollars (\$\_\_\_\_\_) to the initial franchise fee under the Franchise Agreement, as defined below; (ii) \_\_\_\_\_ Dollars (\$\_\_\_\_\_) to the leasehold improvements and fixtures at the Business; (iii) \_\_\_\_\_ Dollars (\$\_\_\_\_\_) to goodwill; and (iv) the remaining \_\_\_\_\_ Dollars (\$\_\_\_\_\_) shall be allocated to the moveable equipment of said location of the Business as shown on the Bill of Sale at Exhibit "B," which sum shall be allocated to the individual items in the manner indicated thereon.

In addition to the Purchase Price paid at Closing, Purchaser shall deliver to Seller, Purchaser's check for the stock in trade present at the Business as of the Closing Date inventoried and valued at their actual cost to Seller, but in an amount not to exceed \$\_\_\_\_, plus all cash balances and gift certificates contained in the cash drawers and/or safe of the Business (collectively, the "Inventory Payment") at the Closing.

2. Representations and Warranties. Purchaser represents and warrants that neither Seller, Kahala Franchising, nor anyone acting on behalf of Seller or Kahala Franchising, has made any representations or warranties concerning the Business, including, but not limited to, earnings claims, potential earnings, potential sales, potential profits, actual profits, forecast profits, forecast sales, the value of the location within the \_\_\_\_\_, \_\_\_\_\_ traffic, population statistics, or any other information concerning the success or potential success of the Business. Purchaser further acknowledges that Seller, Kahala Franchising, and affiliates of Kahala Franchising have multiple operations throughout the United States that are similar to the Business, and that this Agreement does not make Purchaser a party to any of Seller, Kahala Franchising or its affiliates' operations other than the Business located at the Premises described in paragraph A above. Purchaser represents and warrants that it has conducted whatever due diligence deemed necessary and has obtained all necessary information in making its decision from sources unrelated to Seller and Kahala Franchising. The only representations and warranties of Seller are contained within this Agreement. If there are no representations and warranties of Seller contained in this Agreement, Purchaser represents and warrants that no representations and warranties have been made.

3. Assumption of Liabilities. Purchaser acknowledges and agrees that it and only it, shall be responsible for all liabilities of the Business incurred or accrued on or after the Closing Date. Purchaser acknowledges that these liabilities include all operating expenses of the Business, including, but not limited to, all food costs, local, state and federal taxes of any sort, purveyor debts, rent, payroll and applicable payroll taxes, general commercial liability insurance, workers compensation insurance, and federal and state unemployment insurance expenses, telephone expenses, repairs and maintenance expenses, property taxes, and all permits and license expenses required by law. Seller is responsible for all bills, debts, and other obligations of the Business prior to the Closing Date, except for the expenses to be prorated under Section 4 below.

4. Prorations. The following expenses shall be prorated between the Seller and Purchaser on the basis of a 30-day month as of 12:01 a.m. Central Standard Time on the Closing Date:

a. All personal property taxes levied or assessed against any of the assets of the Business for the tax year in which the Closing Date occurs based on the amount shown on the latest available tax bill for the asset, whether the bill be for the current tax year or the preceding tax year; provided that if such taxes are prorated based on the tax bill for the preceding tax year, then within 10 business days of the receipt of such tax bill for the year in which the Closing Date occurs, any necessary adjustments shall be made and Purchaser shall pay to Seller or Seller shall pay to Purchaser, as the case may be, the amount of any such adjustment; and

b. Utility bills attributable to the operation of the Business.

5. Acceptance of Design and Construction of the Premises; As-Is Condition. Purchaser acknowledges and accepts the design and build-out of the Business. Purchaser represents and warrants that the condition of the Business, including, but not limited to, the leasehold improvements, furniture and fixtures, and equipment are acceptable and of satisfactory condition, and are being sold “as is.” Seller shall have no responsibility for the repair or maintenance of any part of the Business following the Closing Date. Purchaser’s signature on this Agreement shall be deemed Purchaser’s acceptance of the Business, including, but not limited to, its furniture, fixtures, leasehold improvements, equipment, design and construction. Purchaser represents and warrants that Seller has made no representations or warranties concerning the construction and/or design of the Business.

6. Franchise Agreement. Purchaser will enter into a Franchise Agreement with Kahala Franchising. The Franchise Agreement provides, among other things, for the payment of a continuing royalty to Kahala Franchising of 6% of the Business’ gross sales on a weekly basis by electronic funds transfer. Without the Franchise Agreement, Seller would not sell the Business. Any breach of the Franchise Agreement shall be considered breach of this Agreement

7. Obligations of Purchaser. In consideration for the Franchise granted in section 6 above, Purchaser agrees that the Business will be maintained in accordance with the standard procedures provided by Kahala Franchising to Purchaser both now (as provided in the Franchise Agreement) and from time to time in the future. Above and beyond the terms of this Agreement, Purchaser agrees to operate the Business in a manner of cleanliness and operational professionalism that is acceptable to both the Landlord under the Lease and Kahala Franchising.

8. Compliance with Laws. Purchaser shall operate the Business in compliance with all applicable laws, rules and regulations of all local, state and federal governmental authorities, including, but not limited to, health, labor and tax collecting departments. The Purchaser shall immediately notify Seller and Kahala Franchising of any litigation,



arbitration, disciplinary action, criminal proceeding, or any other legal proceeding or action brought against or involving the Business, or any entity affiliated with Purchaser, Seller, Kahala Franchising, or any agent, employee, owner, director or partner of the Business, which notification shall include all relevant details in respect thereof.

9. Costs and Expenses. All costs and expenses incurred in conducting the purchase described in this Agreement shall be borne by Purchaser and Seller in the following manner:

a. Each party, Purchaser and Seller, having been represented by his own counsel in this transaction, shall pay the fees and expenses of such counsel;

b. All sales tax, if any, arising because of the sale pursuant to this Agreement of the fixtures and equipment of said Business to Purchaser shall be paid solely by Purchaser; and

c. All closing costs and expenses arising from the performance of this Agreement shall be borne by the parties, Purchaser and Seller, respectively, incurring these expenses.

10. Indemnification. Purchaser hereby agrees to protect, defend and indemnify Seller and Kahala Franchising, their direct or indirect parents, their subsidiaries, affiliates and designees and their officers, board of directors, legal counsel, and employees and hold them harmless from and against any and all costs and expenses actually incurred by them or for which they are liable, including attorney's fees, court costs, expert witness fees/costs, losses, liabilities, damages, claims and demands of every kind or nature, and including those incurred pursuant to a settlement entered into in good faith, arising out of or in connection with the Business after the Closing Date. Seller, Kahala Franchising and their direct or indirect parents, their subsidiaries, affiliates and designees and their officers, board of directors, employees, at their sole discretion, may hire legal counsel to defend any actions brought against Seller or Kahala Franchising, their direct or indirect parents, their subsidiaries, affiliates and designees and their officers, board of directors, and employees which arise out of Purchaser's obligations herein. Purchaser hereby agrees to pay any and all attorneys' fees, expert costs, and any other fees and costs incurred by Seller or Kahala Franchising, their direct or indirect parents, their subsidiaries, affiliates and designees and their officers, board of directors, and employees to said selected counsel upon the request of Seller or Kahala Franchising, their direct or indirect parents, their subsidiaries, affiliates and designees and their officers, board of directors and employees. Purchaser will, if requested by Kahala Franchising, their direct or indirect parents, their subsidiaries, affiliates and designees and their officers, board of directors, or employees, defend any suits at the sole cost and expense of Purchaser. Purchaser hereby agrees to defend said suits with the use of attorneys requested by Kahala Franchising, their direct or indirect parents, their subsidiaries, affiliates and designees and their officers, board of directors, and employees. For purposes of this provision, requests shall be made pursuant to the Notice section herein.

11. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the successors and assigns of Seller, and shall be binding upon and inure to the benefit of the Purchaser and its or their respective heirs, executors, administrators, successors and assigns.

12. Counterparts. This Agreement may be executed in any number of copies and/or by facsimile, each of which shall be deemed to be an original, and all of which together shall be deemed to be one and the same instrument.

13. Notices. All notices which the parties hereto may be required or may desire to give under or in connection with this Agreement shall be in writing and shall be sent either by certified United States mail, return receipt requested, postage prepaid, or by reliable overnight delivery service, addressed as follows:

If to Seller:

[Kahala Restaurants][Kahala Holdings][Taco Time Spokane Management], L.L.C.  
Attn: General Counsel  
9311 E. Via De Ventura  
Scottsdale, AZ 85258

If to Purchaser:

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

14. Governing Law. This Agreement and the totality of the legal relations among the parties hereto shall be governed by and construed in accordance with the laws of the State of Arizona.

15. Venue. Any and all court proceedings arising from the transaction evidenced by this Agreement shall be brought in, and only in, a court of competent jurisdiction in Maricopa County, Phoenix, Arizona. In either case, Purchaser and Seller hereby consent to the exercise of subject matter and personal jurisdiction by such courts.

16. Entire Agreement; Modification. This Agreement contains all of the terms and conditions and representations agreed upon by the parties hereto with reference to the subject matters hereof. No other agreements or representations, oral or otherwise, shall be deemed to exist or to bind any of the parties hereto and all prior agreements and understandings are superseded hereby. No officer or employee or agent of Seller or Kahala Franchising has any authority to make any representation or promise not contained in this Agreement. Purchaser agrees that it has executed this Agreement without reliance upon any such unauthorized representation or promise and in fact has received no representation or promise not contained within this Agreement. This Agreement cannot be modified or changed except by written instrument signed by all of

the parties hereto. Signatures to this Agreement by facsimile shall be acceptable and deemed original signatures for purposes of the effectiveness and enforcement of this Agreement.

17. Severability. In the event that any part, article, section, sentence or clause of this Agreement shall be held to be indefinite, invalid or otherwise unenforceable, the indefinite, invalid, or unenforceable provision shall be deemed deleted, and the remaining parts thereof shall continue in full force and effect.

18. No Third Party Beneficiaries; Representation by Counsel. This Agreement is not intended to benefit any other person or entity except the named parties hereto and no other person or entity shall be entitled to any rights hereunder by virtue of so-called “third party beneficiary rights” or otherwise. The parties to this Agreement have each reviewed the Agreement with their respective counsel or advisor. Consequently, the normal rule of construction to the effect that an agreement is to be strictly construed against the drafter should not apply to this Agreement.

19. Certain Representations and Warranties of Purchaser. Purchaser represents and warrants that the following statements are true and accurate:

(a) Purchaser does not seek to obtain the Business for speculative or investment purposes.

(b) If Purchaser is a corporation, Purchaser is duly incorporated and is qualified to do business in the state and any other applicable jurisdiction within which the Business is located.

(c) The execution of this Agreement by Purchaser will not constitute or violate any other agreement or commitment to which Purchaser is a party.

(d) Any individual executing this Agreement on behalf of Purchaser is duly authorized to do so and the Agreement shall constitute a valid and binding obligation of the Purchaser and, if applicable, all of its partners, if Purchaser is a partnership.

(e) Purchaser has, or if a partnership, corporation or other entity, its partners, members or its principals have carefully read this Agreement and all other related documents to be executed by it concurrently or in conjunction with the execution hereof, that it has obtained, or had the opportunity to obtain, the advice of counsel in connection with the execution and delivery of this Agreement, that it understands the nature of this Agreement, and that it intends to comply herewith and be bound thereby.

(f) Purchaser acknowledges and understands that the food business is a personal business and individual success is dependent upon business skill and judgment. This includes the Purchaser’s choice of employees to hire to serve the public. The Purchaser’s skill in hiring the right people to operate the Business is very important in determining

whether people decide to purchase products from the Business or from another store in the same vicinity.

(g) Purchaser understands and acknowledges that ownership of a business carries certain risks. These risks include the loss of the Purchaser's initial investment, other continued financial losses such as rent payments due under lease obligations to the Landlord and other contractual obligations, the loss of the Purchaser's time and energy in starting up and running the Business, and loss of earnings and investment income from the Purchaser's investment in the Business. Purchaser understands and acknowledges that it may make money and may lose money and is entering this business venture with this express understanding. Purchaser is not relying upon anything which is not contained within this Agreement in determining and deciding to purchase the Business.

The parties hereto have executed this Agreement on the date first written above.

“SELLER”

[KAHALA RESTAURANTS]  
[KAHALA HOLDINGS]  
[TACO TIME SPOKANE  
MANAGEMENT], L.L.C.

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

“PURCHASER”

\_\_\_\_\_

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

**CONSENT OF SPOUSE**

The undersigned is the spouse of the Franchisee identified in the Purchase and Sale Agreement dated as of \_\_\_\_\_, between his or her spouse and [Kahala Restaurants][Kahala Holdings][Taco Time Spokane Management], L.L.C. (the "Agreement"), to which this Consent of Spouse is attached.

The undersigned hereby declares that he or she has read the Agreement in its entirety and, being fully convinced of the wisdom and equity of the terms of the Agreement, and in consideration of the premises and of the provisions of the Agreement, the undersigned hereby expresses his or her acceptance of the same and does agree to its provisions.

The undersigned further agrees that in the event of the death of his or her spouse, the provisions of this Agreement will be binding upon him or her.

The undersigned further agrees that he or she will at any time make, execute and deliver such instruments and documents which may be necessary to carry out the provisions of the Agreement.

This instrument is not a present transfer or release of any rights which the undersigned may have in any of the community property of his or her marriage.

DATED \_\_\_\_\_

\_\_\_\_\_  
(Signature of Spouse)

\_\_\_\_\_  
(Print Name of Spouse)

**EXHIBIT "A"**

(BILL OF SALE)

## BILL OF SALE

KNOW ALL PERSONS BY THESE PRESENTS, that for valuable consideration, the receipt and sufficiency of which is hereby acknowledged [Kahala Restaurants][Kahala Holdings][Taco Time Spokane Management], L.L.C., an Arizona limited liability company (the "Grantor"), does hereby grant, sell, transfer, assign, convey, deliver and set over unto \_\_\_\_\_, a(n) \_\_\_\_\_ (the "Grantee"), its successors and assigns, all of Grantor's right, title and interest in and to all of the following described assets and properties (collectively, the "Assets") that comprise or are utilized in or related to the operation of Grantor's Taco Time store at the following location, herein after referred to as "Store":

[mall name and address]

The Assets and the operations at the Store are hereinafter sometimes referred to collectively as the "Business". The following constitutes the Assets of the Business, excluding the items listed on Schedule A hereto (the "Excluded Assets"):

- A. All personal property utilized by Grantor in the conduct of business in the Store, including, but not limited to, the inventory, mechanical systems, fixtures and equipment, utensils and other items comprising a part of or attached to or located at the site of the Store;
- B. All service contracts, warranties and guarantees relating to the Business that are transferable;
- C. All permits, licenses, certificates of occupancy and governmental approvals that are transferable in Grantor's possession that relate to the Business; and
- D. All telephone numbers, and electric, water, gas, oil and other utility accounts used in connection with the Store.

The Grantor hereby covenants that the Assets are free from any and all liens, charges, mortgages, encumbrances and other restrictions of every nature and description, and that the Grantor has full power and authority to sell, assign and transfer the same as herein provided, and that it will and does hereby warrant and defend the same against the claims and demands of all persons. The Grantor further covenants and agrees with the Grantee that it will, from time to time, at the request of the Grantee, execute and deliver or cause to be executed and delivered all such further bills of sale, assignments, instruments of transfer and agreements as may reasonably be required by the Grantee to more effectively vest title in the Grantee to the Assets hereby conveyed or intended to be conveyed.

EXECUTED as of \_\_\_\_\_, 20\_\_\_\_

“GRANTOR”

[KAHALA RESTAURANTS][KAHALA HOLDINGS][TACO TIME SPOKANE  
MANAGEMENT] , L.L.C., an Arizona  
limited liability company

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

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



## SCHEDULE A

### EXCLUDED ASSETS

- a. Cash, deposits, bank accounts, certificates of deposit, securities or evidences of indebtedness received prior to and including the date of this Bill of Sale; and
- b. Credit card or house accounts receivable from sales generated from the Taco Time restaurant and constituting a part of the Business prior to and including the date of this Bill of Sale, any other account receivable, or choses of action accruing on or before the Closing Date, as defined in the Sale and Purchase Agreement.

**EXHIBIT "B"**

(\$\_\_\_\_\_ PROMISSORY NOTE)

## PROMISSORY NOTE AND SECURITY AGREEMENT

Principal Amount:

Scottsdale, Arizona

\$ \_\_\_\_\_

\_\_\_\_\_

1. Promise to Pay. For value received, the undersigned (the “Maker”) promises to pay to the order of [Kahala Restaurants][Kahala Holdings][Taco Time Spokane Management], L.L.C., at 9311 E. Via De Ventura, Scottsdale, Arizona 85258, or at such other address as the holder of this Note at any given time (the “Holder”) may designate by written notice to the Maker, in lawful money of the United States of America, the principal sum of \$ \_\_\_\_\_ together with all then accrued and unpaid interest and other amounts that are the Maker’s obligations under this Note. The Note represents the balance of the purchase price of Maker’s purchase of the [Mall] Taco Time restaurant in \_\_\_\_\_, \_\_\_\_\_ from an affiliate of Holder. Any capitalized terms not expressly defined in this Note shall have the exact meaning(s) ascribed to such terms in the Purchase and Sale Agreement executed concurrently herewith by and between Maker [Kahala Restaurants][Kahala Holdings][Taco Time Spokane Management], L.L.C. (an affiliate of Holder) and incorporated herein by this reference.

2. Computation of Interest. Except as otherwise set forth in this Note, interest shall accrue on the outstanding balance of this Note beginning \_\_\_\_\_, 20\_\_\_\_, compounded, at the rate of \_\_\_\_\_ percent (\_\_\_ %) per annum. Interest shall be computed on the basis of 30-day months and 360-day years.

3. Required Payments; Method of Payment. Principal and interest shall be repaid to Holder in \_\_\_\_\_ (\_\_\_) equal installments of \$ \_\_\_\_\_, with the first installment due on \_\_\_\_\_, 20\_\_\_\_, and the remaining \_\_\_\_\_ (\_\_\_) installments due on the [first] [fifteenth] [1<sup>st</sup>][15<sup>th</sup>] of each month thereafter until the final payment on \_\_\_\_\_, 20\_\_\_\_ all as set forth on the amortization schedule attached hereto as Exhibit “A”. Maker shall open a designated bank account and complete the Electronic Funds Transfer Agreement attached hereto as Exhibit “B” for such account (the “EFT Agreement”) authorizing Holder to electronically debit the required payments under this Note. The designated bank account shall be opened and funded, and the EFT Agreement completed concurrently with the execution of this Note.

4. Application of Payments. All payments and other credits shall be applied (a) first, to fees, costs and expenses payable by the Maker under this Note, (b) second, to accrued and unpaid interest, and (c) third, to principal.

5. Collection Costs. If suit, arbitration, or other legal proceeding or any nonjudicial foreclosure proceeding is instituted or any other action is taken by the Holder to collect all or any part of the indebtedness evidenced hereby or to proceed against any collateral for any portion of such indebtedness or against any guarantor of the payment of any portion of the indebtedness, the Maker promises to pay the Holder’s attorneys’ fees and other costs (to be determined by the court and not by jury) incurred thereby. Such fees and costs shall be included in any judgment or arbitration award obtained by the Holder, and shall bear interest at the default rate set forth in Section 9.

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

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

8. Acceleration. In the event of any default under this Note which is not cured within ten (10) calendar days after the date of such default, the principal sum hereof, together with all accrued and unpaid interest, shall, at the option of the Holder (and without limiting any remedies available to Holder), become immediately due and payable without further notice or demand by the Holder.

9. Default Interest. After maturity, including maturity upon acceleration as described in Section 8, above, or at any time that Maker is more than ten (10) calendar days delinquent in the payment of money as required by this Note (whether or not Holder has given any notice of default or any cure period has expired), then all amounts outstanding hereunder and any advances thereafter made from the loan evidenced hereby and any accruing costs and reasonable attorneys' fees which are the obligation of the Maker shall thereafter bear interest at the rate of eighteen percent (18%) per annum until paid.

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

11. Take-Back Rights – Additional Remedies. Maker hereby grants Holder the following "Take Back Rights" with respect to Maker's Taco Time stores located in \_\_\_ at \_\_\_\_\_. Specifically, in the event Maker defaults under any term or condition of this Note, or in the payment of continuing royalties under the Taco Time Franchise Agreement for the stores located at \_\_\_\_\_ in \_\_\_\_\_ (the "Stores") to Holder (collectively, a "Payment Default"), Maker shall have five days after receipt of written notice from Holder to cure any such Payment Default. If Maker does not timely cure the Payment Default, Maker hereby grants Holder the exclusive right to immediately enter one or more of the Stores and take possession and full ownership of the Store(s) going forward, and further agrees to execute any and all reasonably necessary documents to transfer ownership of the Stores, including all assets

located therein, to Holder or its designee and to assign the lease for the premises of the Stores to Holder or its designee (the "Take Back Rights"). In the event of an uncured Payment Default, Maker further acknowledges and agrees to the following: (i) Maker agrees to fully pay and satisfy any third-party debt attached to any of the Stores; (ii) the Take Back Rights represent Holders liquidated damages for Maker's Payment Default; (iii) that such damages are reasonable under the circumstances; (iv) that Maker shall have no right to contest, and hereby waives any such rights to contest or appeal, Holder's exercise of its Take Back Rights, including Holder's entry into the Store and subsequent possession, control, operation, and ownership of the Store thereafter; and (v) that Maker shall receive no compensation or other monetary consideration from Holder for the Store. For purposes of the Take Back Rights under this Section 11, all notices shall be sent by certified mail, return receipt requested, to the other party at the address listed Section 1 above.

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

13. Governing Law. This Note shall be construed according to the substantive laws and judicial decisions of the State of Arizona. Any action brought to enforce this Note may be commenced and maintained in the Superior Court of the State of Arizona in and for the County of Maricopa. Maker and any sureties, endorsers and guarantors irrevocably consent to jurisdiction and venue in such court for such purposes.

IN WITNESS WHEREOF, this Note has been executed as of the date first written above.

"MAKER"

\_\_\_\_\_

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

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

**AND**

\_\_\_\_\_

\_\_\_\_\_, in his/her Individual  
capacity

**EXHIBIT "A"**  
**TO PROMISSORY NOTE AND SECURITY AGREEMENT**

**AMORTIZATION SCHEDULE**

**EXHIBIT "B"**  
**TO PROMISSORY NOTE AND SECURITY AGREEMENT**  
**EFT AUTHORIZATION FORM FOR ELECTRONIC PAYMENT**



## ELECTRONIC FUNDS TRANSFER (EFT) AUTHORIZATION

### FRANCHISEE INFORMATION

Franchisee Name	Store No.	Franchisee Phone No.
Franchisee Mailing Address (street, city, state, zip)		
Contact Name, Address and Phone number (if different than above)		

### BANK ACCOUNT INFORMATION

Bank Name	Bank Account Number	Bank Routing Number [:           ]: 9 Characters
Bank Mailing Address (street, city, state, zip)		
Bank Phone Number		

### PAYEE INFORMATION

<b>[Kahala Restaurants][Kahala Holdings][Taco Time Spokane Management],L.L.C.</b>
<b>Authorization:</b> The Franchisee hereby authorizes the Bank to honor and charge the Bank Account for electronic funds transfers or drafts drawn on the Bank Account and payable to the Payee. The amount of such charge shall be set forth in a notice from the Payee presented to the Bank on the day of the week set forth in your Promissory Note and Security Agreement. The Franchisee agrees to execute such additional documents as may be reasonably requested by the Payee or the Bank to evidence the interest of this EFT Authorization. This authority shall remain in full force and effect until the Payee has received written notification from the Franchisee in such time and manner as to afford the Payee and the Bank to act on such notice. The Franchisee understands that the termination of this authorization does not relieve the Franchisee of its obligations to make payments to the Payee.

Signature:	Date:
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**NOTE: FRANCHISEE MUST ATTACH A VOIDED OR COMPLETED CHECK RELATING TO THE BANK ACCOUNT.**

ATTACH VOIDED OR COMPLETED CHECK HERE
---------------------------------------



**AMENDMENT TO  
PURCHASE AND SALE AGREEMENT  
AND PROMISSORY NOTE AND SECURITY AGREEMENT  
FOR THE STATE OF ILLINOIS**

The Purchase and Sale Agreement between \_\_\_\_\_ (“Purchaser”) and [Kahala Restaurants][Kahala Holdings][Taco Time Spokane Management], L.L.C., an Arizona limited liability company (“Seller”), dated \_\_\_\_\_ and the Promissory Note and Security Agreement attached thereto by \_\_\_\_\_ (“Maker”) for the benefit of [Kahala Restaurants][Kahala Holdings][Taco Time Spokane Management], L.L.C., an Arizona limited liability company (collectively, the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of the Agreement (this “Amendment”):

**ILLINOIS LAW MODIFICATIONS**

1. The Illinois Attorney General’s Office requires that certain provisions contained in franchise documents be amended to be consistent with Illinois law, including the Franchise Disclosure Act of 1987, III. Comp. Stat. Ch. 815 para. 705/1 –705/44 (1994). To the extent that the Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:
  - a. Illinois Franchise Disclosure Act paragraphs 705/19 and 705/20 provide rights to the Franchisee concerning non-renewal and termination of the Franchise Agreement. If the Agreement contains a provision that is inconsistent with the Act, the Act will control.
  - b. If the Franchisee is required in the Agreement to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action that would violate the Act, or a rule of order under the Act, such release shall exclude claims arising under the Illinois Franchise Disclosure Act, and such acknowledgements shall be void with respect to claims under the Act.
  - c. If the Agreement requires litigation to be conducted in a forum other than the State of Illinois, the requirement is void under the Illinois Franchise Disclosure Act.
  - d. If the Agreement requires that it be governed by a state’s law, other than the State of Illinois, to the extent that such law conflicts with the Illinois Franchise Disclosure Act, the Act will control.
  - e. To the extent that Sections 7 and 11 of the Promissory Note and Security Agreement requires Purchaser to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action that would violate the Act, or a rule or order under the Act, such release shall exclude claims arising under the

- f. Section 41 of the Illinois Franchise Disclosure Act states that “any condition, stipulation, or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of this Act is void.”
- 2. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of the Illinois Franchise Disclosure Act, with respect to each such provision, are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Amendment to Purchase and Sale Agreement and Promissory Note and Security Agreement on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**SELLER:**

[KAHALA RESTAURANTS][KAHALA HOLDINGS][TACO TIME SPOKANE MANAGEMENT], L.L.C., an Arizona limited liability company

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

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

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

**PURCHASER AND MAKER:**

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

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

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

**AMENDMENT TO  
PURCHASE AND SALE AGREEMENT  
AND PROMISSORY NOTE AND SECURITY AGREEMENT  
FOR THE STATE OF INDIANA**

The Purchase and Sale Agreement between \_\_\_\_\_ (“Purchaser”) and [Kahala Restaurants][Kahala Holdings][Taco Time Spokane Management], L.L.C., an Arizona limited liability company (“Seller”), dated \_\_\_\_\_ and the Promissory Note and Security Agreement attached thereto by \_\_\_\_\_ (“Maker”) for the benefit of [Kahala Restaurants][Kahala Holdings][Taco Time Spokane Management], L.L.C., an Arizona limited liability company (collectively, the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of the Agreement (this “Amendment”):

**INDIANA LAW MODIFICATIONS**

1. The Indiana Securities Commissioner requires that certain provisions contained in franchise documents be amended to be consistent with Indiana law, including the Indiana Franchises Act, Ind. Code Ann. §§ 1-51 (1994) and the Indiana Deceptive Franchise Practices Act, Ind. Code Ann. § 23-27 (1985). To the extent that the Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:
  - a. The Indiana Deceptive Franchise Practices Act provides rights to Franchisee concerning non-renewal and termination of the Agreement. To the extent the Franchise Agreement contains a provision that is inconsistent with the Act, the Act will control.
  - b. If the Franchisee is required in the Agreement to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action that would violate the Act, or a rule of order under the Act, such release shall exclude claims arising under the Indiana Deceptive Franchise Practices Act and the Indiana Franchises Act, and such acknowledgements shall be void with respect to claims under the Act.
  - c. The Indiana Deceptive Franchise Practices Act provides that substantial modification of the Agreement by Franchisor requires written consent of the Franchisee. If the Agreement contains provisions that are inconsistent with this requirement, the Act will control.
  - d. If the Agreement requires litigation/arbitration to be conducted in a forum other than the State of Indiana, the requirement may be unenforceable as a limitation on litigation under the Indiana Deceptive Franchise Practices Act §§ 23-2.2.7(10).
  - e. If the Agreement requires that it be governed by a state’s law, other than the State of Indiana, to the extent that such law conflicts with the Indiana

- f. The Indiana Deceptive Franchise Practices Act provides rights to Franchisee concerning the waiver of claims or rights. To the extent the Agreement contains a provision that is inconsistent with the Act, the Act will control.
  - g. The Indiana Deceptive Franchise Practices Act provides rights to Franchisee concerning the time period to bring an action against the Franchisor. To the extent the Agreement contains a provision that is inconsistent with the Act, the Act will control.
2. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of the Indiana Deceptive Practices Act and the Indiana Franchises Act, with respect to each such provision, are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Amendment to Purchase and Sale Agreement and Promissory Note and Security Agreement on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**SELLER:**

[KAHALA RESTAURANTS][KAHALA HOLDINGS][TACO TIME SPOKANE MANAGEMENT], L.L.C., an Arizona limited liability company

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**PURCHASER AND MAKER:**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**AMENDMENT TO  
PURCHASE AND SALE AGREEMENT  
AND PROMISSORY NOTE AND SECURITY AGREEMENT  
FOR THE STATE OF MARYLAND**

The Purchase and Sale Agreement between \_\_\_\_\_ (“Purchaser”) and [Kahala Restaurants][Kahala Holdings][Taco Time Spokane Management], L.L.C., an Arizona limited liability company (“Seller”), dated \_\_\_\_\_ and the Promissory Note and Security Agreement attached thereto by \_\_\_\_\_ (“Maker”) for the benefit of [Kahala Restaurants][Kahala Holdings][Taco Time Spokane Management], L.L.C., an Arizona limited liability company (collectively, the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of the Agreement (this “Amendment”):

**MARYLAND LAW MODIFICATIONS**

1. The Maryland Securities Division requires that certain provisions contained in franchise documents be amended to be consistent with Maryland law, including the Maryland Franchise Registration and Disclosure Law. To the extent that the Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:
  - a. All representations in the Franchise Agreement and the exhibits attached thereto requiring prospective franchisees to assent to a release, estoppel or waiver of liability are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.
  - b. The Franchise Agreement requires litigation to be conducted in the State of Arizona. The Franchise Agreement is amended to state that the requirement for litigation to be conducted in a forum other than the State of Maryland shall not be interpreted to limit any rights Franchisee may have to bring suit in the state of Maryland. A Franchisee may file a civil lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law. Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within three years after the grant of the franchise.
  - c. All initial fees and payments payable to Franchisor before the business opens shall be deferred until such time as all initial obligations owed to the Franchisee under the Franchise Agreement or other agreements have been fulfilled by the Franchisor and the Franchisee has commenced doing business in accordance with the Franchise Agreement.
2. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of the Maryland Franchise Registration and Disclosure Law, with respect to each such provision, are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Amendment to Purchase and Sale Agreement and Promissory Note and Security Agreement on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

**SELLER:**

[KAHALA RESTAURANTS][KAHALA HOLDINGS][TACO TIME SPOKANE MANAGEMENT], L.L.C., an Arizona limited liability company

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

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

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

**PURCHASER AND MAKER:**

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

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

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

**ADDENDUM TO  
PURCHASE AND SALE AGREEMENT  
AND PROMISSORY NOTE AND SECURITY AGREEMENT**

**FOR THE STATE OF MICHIGAN**

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

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

(A) A PROHIBITION ON THE RIGHT OF A FRANCHISEE TO JOIN AN ASSOCIATION OF FRANCHISEES.

(B) A REQUIREMENT THAT A FRANCHISEE ASSENT TO A RELEASE, ASSIGNMENT, NOVATION, WAIVER, OR ESTOPPEL WHICH DEPRIVES A FRANCHISEE OF RIGHTS AND PROTECTIONS PROVIDED IN THIS ACT. THIS SHALL NOT PRECLUDE A FRANCHISEE, AFTER ENTERING INTO A FRANCHISE AGREEMENT, FROM SETTLING ANY AND ALL CLAIMS.

(C) A PROVISION THAT PERMITS A FRANCHISOR TO TERMINATE A FRANCHISE PRIOR TO THE EXPIRATION OF ITS TERM EXCEPT FOR GOOD CAUSE. GOOD CAUSE SHALL INCLUDE THE FAILURE OF THE FRANCHISEE TO COMPLY WITH ANY LAWFUL PROVISION OF THE FRANCHISE AGREEMENT AND TO CURE SUCH FAILURE AFTER BEING GIVEN WRITTEN NOTICE THEREOF AND A REASONABLE OPPORTUNITY, WHICH IN NO EVENT NEED BE MORE THAN 30 DAYS, TO CURE SUCH FAILURE.

(D) A PROVISION THAT PERMITS A FRANCHISOR TO REFUSE TO RENEW A FRANCHISE WITHOUT FAIRLY COMPENSATING THE FRANCHISEE BY REPURCHASE OR OTHER MEANS FOR THE FAIR MARKET VALUE AT THE TIME OF EXPIRATION, OF THE FRANCHISEE'S INVENTORY, SUPPLIES, EQUIPMENT, FIXTURES, AND FURNISHINGS. PERSONALIZED MATERIALS WHICH HAVE NO VALUE TO THE FRANCHISOR AND INVENTORY, SUPPLIES, EQUIPMENT, FIXTURES, AND FURNISHINGS NOT REASONABLY REQUIRED IN THE CONDUCT OF THE FRANCHISE BUSINESS ARE NOT SUBJECT TO COMPENSATION. THIS SUBSECTION APPLIES ONLY IF: (i) THE TERM OF THE FRANCHISE IS LESS THAN FIVE (5) YEARS; AND (ii) THE FRANCHISEE IS PROHIBITED BY THE FRANCHISE OR OTHER AGREEMENT FROM CONTINUING TO CONDUCT SUBSTANTIALLY THE SAME BUSINESS UNDER ANOTHER TRADEMARK, SERVICE MARK, TRADE NAME, LOGOTYPE, ADVERTISING, OR OTHER COMMERCIAL SYMBOL IN THE SAME AREA SUBSEQUENT TO THE EXPIRATION OF THE FRANCHISE OR THE FRANCHISEE DOES NOT RECEIVE AT LEAST SIX (6) MONTHS ADVANCE NOTICE OF FRANCHISOR'S INTENT NOT TO RENEW THE FRANCHISE.

(E) A PROVISION THAT PERMITS THE FRANCHISOR TO REFUSE TO RENEW A FRANCHISE ON TERMS GENERALLY AVAILABLE TO OTHER FRANCHISEES OF THE SAME CLASS OR TYPE UNDER SIMILAR CIRCUMSTANCES. THIS SECTION DOES NOT REQUIRE A RENEWAL PROVISION.

(F) A PROVISION REQUIRING THAT ARBITRATION OR LITIGATION BE CONDUCTED OUTSIDE THIS STATE. THIS SHALL NOT PRECLUDE THE FRANCHISEE FROM ENTERING INTO AN AGREEMENT, AT THE TIME OF ARBITRATION, TO CONDUCT ARBITRATION AT A LOCATION OUTSIDE THIS STATE.

(G) A PROVISION WHICH PERMITS A FRANCHISOR TO REFUSE TO PERMIT A TRANSFER OF OWNERSHIP OF A FRANCHISE, EXCEPT FOR GOOD CAUSE. THIS SUBDIVISION DOES NOT PREVENT A FRANCHISOR FROM EXERCISING A RIGHT OF FIRST REFUSAL TO PURCHASE THE FRANCHISE. GOOD CAUSE SHALL INCLUDE, BUT IS NOT LIMITED TO:

- (i) THE FAILURE OF THE PROPOSED TRANSFEREE TO MEET THE FRANCHISOR'S THEN CURRENT REASONABLE QUALIFICATIONS OR STANDARDS.
- (ii) THE FACT THAT THE PROPOSED TRANSFEREE IS A COMPETITOR OF THE FRANCHISOR OR SUBFRANCHISOR.
- (iii) THE UNWILLINGNESS OF THE PROPOSED TRANSFEREE TO AGREE IN WRITING TO COMPLY WITH ALL LAWFUL OBLIGATIONS.
- (iv) THE FAILURE OF THE FRANCHISEE OR PROPOSED TRANSFEREE TO PAY ANY SUMS OWING TO THE FRANCHISOR OR TO CURE ANY DEFAULT IN THE FRANCHISE AGREEMENT EXISTING AT THE TIME OF THE PROPOSED TRANSFER.

(H) A PROVISION THAT REQUIRES THE FRANCHISEE TO RESELL TO THE FRANCHISOR ITEMS THAT ARE NOT UNIQUELY IDENTIFIED WITH THE FRANCHISOR. THIS SUBDIVISION DOES NOT PROHIBIT A PROVISION THAT GRANTS TO A FRANCHISOR A RIGHT OF FIRST REFUSAL TO PURCHASE THE ASSETS OF A FRANCHISE ON THE SAME TERMS AND CONDITIONS AS A BONA FIDE THIRD PARTY WILLING AND ABLE TO PURCHASE THOSE ASSETS, NOR DOES THIS SUBDIVISION PROHIBIT A PROVISION THAT GRANTS THE FRANCHISOR THE RIGHT TO ACQUIRE THE ASSETS OF A FRANCHISE FOR THE MARKET OR APPRAISED VALUE OF SUCH ASSETS IF THE FRANCHISEE HAS BREACHED THE LAWFUL PROVISIONS OF THE FRANCHISE AGREEMENT AND HAS FAILED TO CURE THE BREACH IN THE MANNER PROVIDED IN SUBDIVISION (C).

(I) A PROVISION WHICH PERMITS THE FRANCHISOR TO DIRECTLY OR INDIRECTLY CONVEY, ASSIGN, OR OTHERWISE TRANSFER ITS OBLIGATIONS TO FULFILL CONTRACTUAL OBLIGATIONS TO THE FRANCHISEE UNLESS PROVISION HAS BEEN MADE FOR PROVIDING THE REQUIRED CONTRACTUAL SERVICES.

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

ANY QUESTIONS REGARDING THIS NOTICE SHALL BE DIRECTED TO :

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



**AMENDMENT TO  
PURCHASE AND SALE AGREEMENT  
AND PROMISSORY NOTE AND SECURITY AGREEMENT  
FOR THE STATE OF MINNESOTA**

The Purchase and Sale Agreement between \_\_\_\_\_ (“Purchaser”) and [Kahala Restaurants][Kahala Holdings][Taco Time Spokane Management], L.L.C., an Arizona limited liability company (“Seller”), dated \_\_\_\_\_ and the Promissory Note and Security Agreement attached thereto by \_\_\_\_\_ (“Maker”) for the benefit of [Kahala Restaurants][Kahala Holdings][Taco Time Spokane Management], L.L.C., an Arizona limited liability company (collectively, the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of the Agreement (this “Amendment”):

**MINNESOTA LAW MODIFICATIONS**

1. The Commissioner of Commerce for the State of Minnesota requires that certain provisions contained in franchise documents be amended to be consistent with Minnesota Franchise Act, Minn. Stat. Section 80.01 et seq., and of the Rules and Regulations promulgated under the Act (collectively the “Franchise Act”). To the extent that the Agreement and Disclosure Document contain provisions that are inconsistent with the following, such provisions are hereby amended:

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

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

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

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

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

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

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

2. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of the Minnesota law applicable to the provision are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Amendment to Purchase and Sale Agreement and Promissory Note and Security Agreement on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**SELLER:**

[KAHALA RESTAURANTS][KAHALA HOLDINGS][TACO TIME SPOKANE MANAGEMENT], L.L.C., an Arizona limited liability company

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**PURCHASER AND MAKER:**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**AMENDMENT TO  
PURCHASE AND SALE AGREEMENT  
AND PROMISSORY NOTE AND SECURITY AGREEMENT  
FOR THE STATE OF NEW YORK**

The Purchase and Sale Agreement between \_\_\_\_\_ (“Purchaser”) and [Kahala Restaurants][Kahala Holdings][Taco Time Spokane Management],L.L.C., an Arizona limited liability company (“Seller”), dated \_\_\_\_\_ and the Promissory Note and Security Agreement attached thereto by \_\_\_\_\_ (“Maker”) for the benefit of [Kahala Restaurants][Kahala Holdings][Taco Time Spokane Management], L.L.C., an Arizona limited liability company (collectively, the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of the Agreement (this “Amendment”):

**NEW YORK LAW MODIFICATIONS**

1. The New York Department of Law requires that certain provisions contained in franchise documents be amended to be consistent with New York law, including the General Business Law, Article 33, Section 680 through 695 (1989). To the extent that the Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:
  - a. If the Franchisee is required in the Agreement to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action that would violate the General Business Law, regulation, rule or order under the Law, such release shall exclude claims arising under the New York General Business Law, Article 33, Section 680 through 695 and the regulations promulgated thereunder, and such acknowledgements shall be void. It is the intent of this provision that non-waiver provisions of Sections 687.4 and 687.5 of the General Business Law be satisfied.
  - b. If the Agreement requires that it be governed by a state’s law, other than the State of New York, the choice of law provision shall not be considered to waive any rights conferred upon the Franchisee under the New York General Business Law, Article 33, Sections 680 through 695.
2. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of New York General Business Law, with respect to each such provision are met.

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IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Amendment to Purchase and Sale Agreement and Promissory Note and Security Agreement on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**SELLER:**

[KAHALA RESTAURANTS][KAHALA HOLDINGS][TACO TIME SPOKANE MANAGEMENT], L.L.C., an Arizona limited liability company

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

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

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

**PURCHASER AND MAKER:**

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

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

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

**AMENDMENT TO  
PURCHASE AND SALE AGREEMENT  
AND PROMISSORY NOTE AND SECURITY AGREEMENT  
FOR THE STATE OF NORTH DAKOTA**

The Purchase and Sale Agreement between \_\_\_\_\_ (“Purchaser”) and [Kahala Restaurants][Kahala Holdings][Taco Time Spokane Management], L.L.C., an Arizona limited liability company (“Seller”), dated \_\_\_\_\_ and the Promissory Note and Security Agreement attached thereto by \_\_\_\_\_ (“Maker”) for the benefit of [Kahala Restaurants][Kahala Holdings][Taco Time Spokane Management], L.L.C., an Arizona limited liability company (collectively, the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of the Agreement (this “Amendment”):

**NORTH DAKOTA LAW MODIFICATIONS**

1. The North Dakota Securities Commissioner requires that certain provisions contained in franchise documents be amended to be consistent with North Dakota Law, including the North Dakota Franchises Investment Law, North Dakota Century Code Annotated Chapter 51-19, Sections 51-19-01 through 51-19-17 (1993). To the extent that the Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:
  - a. If the Franchisee is required in the Agreement to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action that would violate the Law, or a rule or order under the Law, such release shall exclude claims arising under the North Dakota Franchise Investment Law, and such acknowledgements shall be void with respect to claims under the Law.
  - b. If this Agreement requires litigation to be conducted in a forum other than the State of North Dakota, the requirement is void with respect to claims under the North Dakota Franchise Investment Law.
  - c. If the Agreement requires that it be governed by a state’s law, other than the State of North Dakota, to the extent that such law conflicts with the North Dakota Franchise Investment Law, the North Dakota Franchise Investment Law will control.
  - d. If the Agreement requires mediation or arbitration to be conducted in a forum other than the State of North Dakota, the requirement may be unenforceable under the North Dakota Franchise Investment Law. Arbitration involving a franchise purchased in the State of North Dakota must be held either in a location mutually agreed upon prior to the arbitration or if the parties cannot agree on a location, the location will be determined by the arbitrator.
  - e. If the Agreement requires payment of a termination penalty, the requirement may be unenforceable under the North Dakota Franchise Investment Law.
2. **THE SECURITIES COMMISSIONER HAS HELD THE FOLLOWING TO BE UNFAIR, UNJUST OR INEQUITABLE TO NORTH DAKOTA FRANCHISEES (SECTION 51-19-09, N.D.C.C.):**
  - A. Restrictive Covenants: Franchise disclosure documents which disclose the existence of covenants restricting competition contrary to Section 9-08-06, N.D.C.C., without further disclosing that such covenants will be subject to the statute.

- B. Situs of Arbitration Proceedings: Franchise agreements providing that the parties must agree to the arbitration of disputes at a location that is remote from the site of the franchisee's business.
- C. Restrictions on Forum: Requiring North Dakota franchisees to consent to the jurisdiction of courts outside of North Dakota.
- D. Liquidated Damages and Termination Penalties: Requiring North Dakota franchisees to consent to liquidated damages or termination penalties.
- E. Applicable Laws: Franchise agreements which specify that they are to be governed by the laws of a state other than North Dakota.
- F. Waiver of Trial by Jury: Requiring North Dakota Franchises to consent to the waiver of a trial by jury.
- G. Waiver of Exemplary & Punitive Damages: Requiring North Dakota Franchisees to consent to a waiver of exemplary and punitive damage.
- H. General Release: Franchise Agreements that require the franchisee to sign a general release upon renewal of the franchise agreement.
- I. Limitation of Claims: Franchise Agreements that require the franchisee to consent to a limitation of claims. The statute of limitations under North Dakota law applies.
- J. Enforcement of Agreement: Franchise Agreements that require the franchisee to pay all costs and expenses incurred by the franchisor in enforcing the agreement. The prevailing party in any enforcement action is entitled to recover all costs and expenses including attorney's fees.

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

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Amendment to Purchase and Sale Agreement and Promissory Note and Security Agreement on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**SELLER:**

[KAHALA RESTAURANTS][KAHALA HOLDINGS][TACO TIME SPOKANE MANAGEMENT], L.L.C., an Arizona limited liability company

By: \_\_\_\_\_  
 Name: \_\_\_\_\_  
 Title: \_\_\_\_\_

**PURCHASER AND MAKER:**

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

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

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

**AMENDMENT TO  
PURCHASE AND SALE AGREEMENT  
AND PROMISSORY NOTE AND SECURITY AGREEMENT  
FOR THE STATE OF RHODE ISLAND**

The Purchase and Sale Agreement between \_\_\_\_\_ (“Purchaser”) and [Kahala Restaurants][Kahala Holdings][Taco Time Spokane Management], L.L.C., an Arizona limited liability company (“Seller”), dated \_\_\_\_\_ and the Promissory Note and Security Agreement attached thereto by \_\_\_\_\_ (“Maker”) for the benefit of [Kahala Restaurants][Kahala Holdings][Taco Time Spokane Management], L.L.C., an Arizona limited liability company (collectively, the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of the Agreement (this “Amendment”):

**RHODE ISLAND LAW MODIFICATIONS**

1. The Rhode Island Securities Division requires that certain provisions contained in franchise documents be amended to be consistent with Rhode Island law, including the Franchise Investment Act, R.I. Gen. Law. ch. 395 Sec. 19-28.1-1 – 19-28.1-34. To the extent that the Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:
  - a. If the Agreement requires litigation to be conducted in a forum other than the State of Rhode Island, the requirement is void under Rhode Island Franchise Investment Act Sec. 19-28.1-14.
  - b. If the Agreement requires that it be governed by a state’s law, other than the State of Rhode Island, to the extent that such law conflicts with Rhode Island Franchise Investment Act it is void under Sec. 19-28.1-14.
  - c. If the Franchisee is required in this Agreement to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action that would violate the Act, or a rule or order under the Act, such release shall exclude claims arising under the Rhode Island Franchise Investment Act, and such acknowledgements shall be void with respect to claims under the Act.
2. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of the Rhode Island Franchise Investment Act, with respect to each such provision, are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.



IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Amendment to Purchase and Sale Agreement and Promissory Note and Security Agreement on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

**SELLER:**

[KAHALA RESTAURANTS][KAHALA HOLDINGS][TACO TIME SPOKANE MANAGEMENT], L.L.C., an Arizona limited liability company

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

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

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

**PURCHASER AND MAKER:**

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

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

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

**AMENDMENT TO  
PURCHASE AND SALE AGREEMENT  
AND PROMISSORY NOTE AND SECURITY AGREEMENT  
FOR THE STATE OF SOUTH DAKOTA**

The Purchase and Sale Agreement between \_\_\_\_\_ (“Purchaser”) and [Kahala Restaurants][Kahala Holdings][Taco Time Spokane Management], L.L.C., an Arizona limited liability company (“Seller”), dated \_\_\_\_\_ and the Promissory Note and Security Agreement attached thereto by \_\_\_\_\_ (“Maker”) for the benefit of [Kahala Restaurants][Kahala Holdings][Taco Time Spokane Management], L.L.C., an Arizona limited liability company (collectively, the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of the Agreement (this “Amendment”):

**SOUTH DAKOTA LAW MODIFICATIONS**

1. The Director of the South Dakota Division of Securities requires that certain provisions contained in franchise documents be amended to be consistent with South Dakota law, including the South Dakota Franchises for Brand-Name Goods and Services Law, South Dakota Codified Laws, Title 37, Chapter 37-5A, Sections 37-5A-1 through 37-5A-87 (1994). To the extent that the Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:
  - a. If the Franchisee is required in the Agreement to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action that would violate the Law, or a rule or order under the Law, such release shall exclude claims arising under the South Dakota Franchises for Brand-Name Goods and Services Law, and such acknowledgements shall be void with respect to claims under the Law.
  - b. Covenants not to compete upon termination or expiration of the Agreement are generally unenforceable in the state of South Dakota, except in certain limited instances as provided by law. If this Agreement contains a covenant not to compete which is inconsistent with South Dakota Law, the covenant may be unenforceable.
  - c. If the Agreement requires payment of liquidated damages that are inconsistent with South Dakota law, the liquidated damage clause may be void under SDCL 53-9-5.
  - d. If the Agreement requires litigation to be conducted in a forum other than the State of South Dakota, the requirement is void with respect to any cause of action otherwise enforceable under South Dakota Law.
  - e. If the Agreement requires that it be governed by a state’s law, other than the State of South Dakota, matters regarding franchise registration, employment, covenants not to compete, and other matters of local concern will be governed by the laws of the State of South Dakota; but as to contractual and all other matters, the Agreement and all provisions of this Amendment will be and remain subject to the application, construction, enforcement, interpretation under the governing law set forth in the Agreement.
  - f. If the Agreement requires that disputes between Franchisor and Franchisee be mediated/arbitrated at a location that is outside the State of South Dakota, the mediation/arbitration will be conducted at a location mutually agreed upon by the

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

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Amendment to Purchase and Sale Agreement and Promissory Note and Security Agreement on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**SELLER:**

[KAHALA RESTAURANTS][KAHALA HOLDINGS][TACO TIME SPOKANE MANAGEMENT], L.L.C., an Arizona limited liability company

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

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

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

**PURCHASER AND MAKER:**

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

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

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

**AMENDMENT TO  
PURCHASE AND SALE AGREEMENT  
AND PROMISSORY NOTE AND SECURITY AGREEMENT  
REQUIRED BY THE STATE OF VIRGINIA**

The Purchase and Sale Agreement between \_\_\_\_\_ (“Purchaser”) and [Kahala Restaurants][Kahala Holdings][Taco Time Spokane Management], L.L.C., an Arizona limited liability company (“Seller”), dated \_\_\_\_\_ and the Promissory Note and Security Agreement attached thereto by \_\_\_\_\_ (“Maker”) for the benefit of [Kahala Restaurants][Kahala Holdings][Taco Time Spokane Management], L.L.C., an Arizona limited liability company (collectively, the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of the Agreement (this “Amendment”):

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

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Amendment to Purchase and Sale Agreement and Promissory Note and Security Agreement on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**SELLER:**

[KAHALA RESTAURANTS][KAHALA HOLDINGS][TACO TIME SPOKANE MANAGEMENT], L.L.C., an Arizona limited liability company

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**PURCHASER AND MAKER:**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**AMENDMENT TO  
PURCHASE AND SALE AGREEMENT  
AND PROMISSORY NOTE AND SECURITY AGREEMENT  
REQUIRED BY THE STATE OF WASHINGTON**

The Purchase and Sale Agreement between \_\_\_\_\_ (“Purchaser”) and [Kahala Restaurants][Kahala Holdings][Taco Time Spokane Management], L.L.C., an Arizona limited liability company (“Seller”), dated \_\_\_\_\_ and the Promissory Note and Security Agreement attached thereto by \_\_\_\_\_ (“Maker”) for the benefit of [Kahala Restaurants][Kahala Holdings][Taco Time Spokane Management], L.L.C., an Arizona limited liability company (collectively, the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of the Agreement (this “Amendment”):

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

In any arbitration involving a franchise purchased in Washington, the arbitration site shall be either in the State of Washington or in a place mutually agreed upon at the time of the arbitration, or as determined by the arbitrator.

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

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

The undersigned does hereby acknowledge receipt of this addendum.

Dated this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**SELLER:**

[KAHALA RESTAURANTS][KAHALA HOLDINGS][TACO TIME SPOKANE MANAGEMENT], L.L.C., an Arizona limited liability company

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

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

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

**PURCHASER AND MAKER:**

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

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

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

**AMENDMENT TO  
PURCHASE AND SALE AGREEMENT  
AND PROMISSORY NOTE AND SECURITY AGREEMENT  
FOR THE STATE OF WISCONSIN**

The Purchase and Sale Agreement between \_\_\_\_\_ (“Purchaser”) and [Kahala Restaurants][Kahala Holdings][Taco Time Spokane Management], L.L.C., an Arizona limited liability company (“Seller”), dated \_\_\_\_\_ and the Promissory Note and Security Agreement attached thereto by \_\_\_\_\_ (“Maker”) for the benefit of [Kahala Restaurants][Kahala Holdings][Taco Time Spokane Management], L.L.C., an Arizona limited liability company (collectively, the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of the Agreement (this “Amendment”):

**WISCONSIN LAW MODIFICATIONS**

1. The Securities Commissioner of the State of Wisconsin requires that certain provisions contained in franchise documents be amended to be consistent with Wisconsin Fair Dealership Law, Wisconsin Statutes, Chapter 135 (“Fair Dealership Law”). To the extent that the Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:
  - a. The Wisconsin Fair Dealership Law, among other things, grants You the right, in most circumstances, to 90 days’ prior written notice of termination and 60 days within which to remedy any claimed deficiencies. If the Agreement contains a provision that is inconsistent with the Wisconsin Fair Dealership Law, the provisions of the Agreement shall be superseded by the Law’s requirements and shall have no force or effect.
  - b. If the Agreement requires that it be governed by a state’s law, other than the State of Wisconsin, to the extent that any provision of the Agreement conflicts with the Wisconsin Fair Dealership Law such provision shall be superseded by the law’s requirements.
2. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of the Wisconsin law applicable to the provision are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Amendment to Purchase and Sale Agreement and Promissory Note and Security Agreement on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**SELLER:**

[KAHALA RESTAURANTS][KAHALA HOLDINGS][TACO TIME SPOKANE MANAGEMENT], L.L.C., an Arizona limited liability company

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

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

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

**PURCHASER AND MAKER:**

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

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

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

## CONSENT OF SPOUSE

The undersigned is the spouse of the Franchisee identified in the Promissory Note and Security Agreement dated as of \_\_\_\_\_, between his or her spouse and [Kahala Restaurants][Kahala Holdings][Taco Time Spokane Management], L.L.C. (the "Agreement"), to which this Consent of Spouse is attached.

The undersigned hereby declares that he or she has read the Agreement in its entirety and, being fully convinced of the wisdom and equity of the terms of the Agreement, and in consideration of the premises and of the provisions of the Agreement, the undersigned hereby expresses his or her acceptance of the same and does agree to its provisions.

The undersigned further agrees that in the event of the death of his or her spouse, the provisions of this Agreement will be binding upon him or her.

The undersigned further agrees that he or she will at any time make, execute and deliver such instruments and documents which may be necessary to carry out the provisions of the Agreement.

This instrument is not a present transfer or release of any rights which the undersigned may have in any of the community property of his or her marriage.

DATED \_\_\_\_\_

\_\_\_\_\_  
(Signature of Spouse)

\_\_\_\_\_  
(Print Name of Spouse)



**EXHIBIT E**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Form of Franchise Agreement**

**FRANCHISE AGREEMENT**

**between**

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

**and**

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

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**Exhibits**

Exhibit 1	Ownership Information Sheet (applicable only if Franchisee is a business entity)
Exhibit 2	Required Lease Terms
Exhibit 3	Electronic Funds Transfer Authorization
Exhibit 4	Guaranty of Contract Franchise Agreement
Exhibit 5	Collateral Assignment and Irrevocable Special Power of Attorney
Exhibit 6	Amendment to Franchise Agreement and Related Franchise Documents for Non-Traditional Locations (applicable only for Non-Traditional Locations)
Exhibit 7	State Specific Addendum (applicable only for the following states: California, Georgia, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington, & Wisconsin)
Exhibit 8	Franchisee Questionnaire

**TACO TIME®**  
**FRANCHISE AGREEMENT**  
(“Agreement”)

**PARTIES:**

KAHALA FRANCHISING, L.L.C.,  
an Arizona limited liability company  
9311 E. Via De Ventura  
Scottsdale, Arizona 85258

(“Franchisor”)

\_\_\_\_\_  
a(n) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Telephone No.: \_\_\_\_\_

(“Franchisee”)

**RESTAURANT NAME AND NO.:** \_\_\_\_\_

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

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

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

A “Traditional” restaurant offers a full menu selection, and a “Non-Traditional” restaurant generally offers a limited menu selection. Non-Traditional restaurants consist of a kiosk, co-branded restaurant, or a restaurant located within a facility such as a travel plaza, gas station, convenience store, sports or entertainment venue, airport, military base, shopping mall, college campus, or similar locations as determined by Franchisor.

To simplify the language in this Agreement, the terms “we,” “us,” “our” and the like may be used to refer to the Franchisor, and the terms “you,” “your” and the like may be used to refer to the Franchisee.

**RECITALS:**

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

A. Franchisor has over a period of time and at considerable expense developed and established a uniform and unique method of operation, customer service, advertising, publicity, processes, recipes, techniques and technical knowledge in connection with the restaurant business, specializing in Mexican-style fast food and other related menu items. These restaurants do business under the trade name “*Taco Time*®.” These recipes, techniques, processes and methods constitute “Trade Secrets.” All of the knowledge, experience, Trade Secrets, processes, methods, specifications, techniques and proprietary marks and information of Franchisor are referred to in this Agreement as the “System.” The System may be changed, supplemented, improved and further developed by us from time to time.



B. Franchisor has owned and issued franchises to others for the operation of franchised restaurants in the United States of America and in other countries. Franchisor has registered the trademarks and service marks “*Taco Time*” and other related proprietary marks with the United States Patent and Trademark Office and, if necessary, with offices in other countries serving similar functions. These proprietary interests, trademarks, service marks, logos, insignias, copyrights, domain names, trade names and trade dress are referred to in this Agreement as the “Proprietary Marks.”

C. Franchisor is engaged in the business of licensing to independently-owned businesses the right to use the Proprietary Marks in connection with the operation and promotion of the System.

D. Franchisee understands and recognizes that: (1) the developments and properties of Franchisor as recited above are of considerable value; and (2) it is of importance to Franchisor and all of its franchisees to maintain the development of the System in a uniform and distinctive manner, allowing Franchisee and all other franchisees of Franchisor to enjoy a public image and reputation greatly in excess of that which any single Franchisee could establish.

E. Franchisee desires to make use of the trademark and service mark “*Taco Time*” and to enjoy the benefits of that mark, the other Proprietary Marks, and the System; and to establish a “*Taco Time*” franchise to be operated in accordance with the methods, practices and procedures set forth from time to time by Franchisor in its confidential operations manuals, construction and design manuals, and related documents, both now existing and hereinafter developed (collectively, the “Operations Manuals”). Franchisor is willing to grant Franchisee the right to do so under the terms, conditions and provisions set forth in the following Agreement. (This Agreement, along with the Appendices, Addenda, Attachments and Exhibits, attached to it and/or executed with it constitute the Franchise Agreement, and are referred to in this Agreement as the “Franchise Agreement” or this “Agreement.”)

F. Franchisee recognizes the necessity and desirability of protecting the reputation, goodwill, Trade Secrets, and confidential business information of Franchisor; and that disclosure of Trade Secrets and confidential business information, including specifics of the System to any third party, will cause irreparable damage and harm to Franchisor.

## **AGREEMENT:**

The parties agree as follows:

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

#### **1.1 Franchise Grant.**

Franchisor grants Franchisee a *Taco Time* franchise that includes the right to use the System and the Proprietary Marks (the “Franchised Business”) as provided in this Agreement, at the following location:

Arena, Mall, Facility, or Center Name: \_\_\_\_\_  
(if applicable)

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

City/State/Zip Code: \_\_\_\_\_ ("Location")

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

You must operate the Franchised Business only from the Location, including any catering services of *Taco Time* menu items you provide. You acknowledge that the *Taco Time* franchise granted under this Agreement is nonexclusive, that we are not granting you any territorial protection or any other exclusive rights, and that we, directly or through one or more affiliates, reserve the right in our sole discretion, and without compensating you or seeking your prior approval: (i) to establish, and grant to other franchisees or licensees the right to establish, a *Taco Time* restaurant or any other business using the Proprietary Marks, the *Taco Time* System or any variation of the Proprietary Marks and the *Taco Time* System, in any location other than the approved Location (including locations in the immediate vicinity of your Location), on any terms and conditions that we deem appropriate; (ii) to establish, and grant to other franchisees or licensees the right to establish, restaurants other than *Taco Time*, including, but not limited to, Surf City Squeeze, Rollerz, Frullati Cafe & Bakery, Ranch One, Samurai Sam's Teriyaki Grill, Blimpie, Great Steak, NrGize Lifestyle Cafe, Johnnie's New York Pizzeria, Cereality, Cold Stone Creamery, America's Taco Shop, Pizza Fresh, and Kahala Coffee Traders brand restaurants in any location on any terms and conditions that we deem appropriate (including locations in the immediate vicinity of the Location); (iii) to sell products identified by the Proprietary Marks or other trademarks, service marks or commercial symbols in any location through any distribution channels, including grocery stores, convenience stores, supermarkets, club stores, vending machines, delivery services and restaurants other than *Taco Time* restaurants; and (iv) to take any other action that we are not expressly prohibited from taking under this Agreement.

We grant to you during the term of this Agreement, a non-exclusive right and license to operate a single restaurant at the Location only, using the Proprietary Marks and the *Taco Time* System, subject to the terms, conditions and restrictions contained in this Agreement and in the Operations Manuals. This Agreement is limited to the operation of one restaurant and does not grant you the right to buy, own or operate additional restaurants. Unless you and we have otherwise agreed and signed the Amendment to Franchise Agreement and Related Franchise Documents for Non-Traditional Locations ("Non-Traditional Amendment") as described in this paragraph, your restaurant will operate as a traditional-format *Taco Time* restaurant. If you and we have agreed for you to operate a Non-Traditional restaurant, you and we will sign the Non-Traditional Amendment in the form attached as Exhibit 6 to this Agreement, and incorporated herein by reference, at the same time as you and we sign this Agreement.

Except as expressly limited in this Agreement, Franchisor (for itself and its affiliates and designees) retains all rights with respect to all Proprietary Marks and the sale of *Taco Time* products anywhere in the world, including the right to:

a. Establish and/or operate (or license to any other person or entity the right to establish and/or operate) *Taco Time* restaurants owned or licensed by the Franchisor at any location;

b. Develop, market, own, operate and/or participate in any other business under the Proprietary Marks or any other trademarks (including trademarks identified in the Uniform Franchise Disclosure Document ("Disclosure Document") and other trademarks the Franchisor or its Affiliates own or have the right to license);

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

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

e. Distribute, sell and/or license other persons or entities to distribute and/or sell products through all other channels. "Other Channels" of distribution includes sale by or through other channels of distribution including, without limitation, catalog sales, telemarketing grocery stores, limited access highway food facilities, vending machines and similar automated dispensing systems, mobile units, off-site sales accounts, electronic mail, Internet sales, and movie theatres; and

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

### **1.3 Franchisee Representations.**

Franchisee and all shareholders, partners, and members of Franchisee represent and warrant that each individual is a United States citizen or a lawful resident alien of the United States; that each corporation or other business entity that is a party to this Agreement is and shall remain duly organized and in good standing during the term of this Agreement; and that all financial and other information that Franchisee has provided to us in connection with Franchisee's application for this *Taco Time* franchise is true and accurate.

### **1.4 Term of Agreement.**

The term of this Agreement will commence on the Effective Date of this Agreement and will terminate on the earlier of the following: (i) the ten (10) year anniversary of either the date you open this Franchised Business to the public or, if you are acquiring an already operating Franchised Business, the Effective Date of this Agreement; or (ii) the expiration of the term of the real estate lease for the Location of the Franchised Business, including any extensions or other renewal options thereto (the "Term"), unless terminated earlier in accordance with *Article 14* of this Agreement or any other provisions of this Agreement, or renewed in accordance with *Article 13* of this Agreement.

### **1.5 System Standards.**

You shall operate the restaurant in accordance with the System Standards (as defined below) of food quality, cleanliness and customer service; and shall conduct and maintain the Franchised Business and Location so as not to distract from or interfere with the integrity and

standards of the System. “System Standards” means the mandatory specifications, standards, operating procedures and rules that we specify in the Operations Manuals or other communications to you from time to time for the operation of restaurants operating under the System. We may change, improve, update and further develop the System Standards as provided herein.

You understand and agree that the operation and maintenance of your restaurant according to the System Standards are essential to the well-being and vitality of the System and to preserve the goodwill of the Proprietary Marks for us and for all other franchisees operating under the System. In particular, you understand that it is critical to the success of the *Taco Time* System for all restaurants operating under the *Taco Time* System to present a uniform and professional image to *Taco Time* customers regardless of which location the customer visits. Therefore, at all times while this Agreement is in effect, you agree to operate and maintain the restaurant in strict compliance with each System Standard, including any periodic modifications or updates we make to the System Standards. We will inform you of System Standards in the Operations Manuals (which we may amend and update as provided in *Section 4.5*), or via bulletins or notices. Any information in the Operations Manuals or in bulletins or other communications from us to you regarding the operation of the restaurant will be considered a mandatory System Standard, unless it is clear from the express language that the information is merely optional or is intended by us as a suggestion rather than a requirement. By way of example, System Standards may regulate any one or more of the following aspects of the operation of your restaurant:

- a. restaurant design, layout, decor, appearance and lighting; periodic maintenance, cleaning and sanitation; periodic remodeling; replacement of obsolete or worn-out improvements, fixtures, furnishings, equipment and signs; periodic painting; and use and lighting of interior and exterior signs, emblems, lettering and logos;
- b. types, models and brands of required fixtures, furnishings, equipment, signs, materials and supplies;
- c. containers, napkins, bags, cups, matches, menus and other packaging and similar articles;
- d. required or authorized food recipes and ingredients, menu items, names for menu items, menu categories and menu layout and design;
- e. designated or approved suppliers (which may include us and may be limited to us) of fixtures, furnishings, equipment, signs, products, services, materials and supplies;
- f. standards and practices for food preparation and food safety, which may be more stringent than the applicable law in your jurisdiction requires;
- g. terms and conditions of the sale and delivery of, and terms and methods of payment for, products, materials, supplies and services you buy from us or from other suppliers;
- h. cooperation with and participation in sales, marketing, advertising and promotional programs (including discount coupons, special menu promotions, and entering into product and service agreements directly with third party vendors and service providers as required by Franchisor) and materials and media used in those programs;
- i. use and display of the Proprietary Marks;

- j. staffing levels for the restaurant and matters relating to managing the restaurant; and qualifications, training, dress and appearance of managers and employees;
- k. days and hours of operation of the restaurant;
- l. cooperation with and participation in market research and testing and product and service development programs;
- m. acceptance of Franchisor's stored value gift cards, loyalty cards, frequency cards, gift certificates, vouchers, and any other Franchisor sponsored similar electronic card and/or payment programs (collectively, the "Gift/Loyalty Card"), credit and debit cards other payment systems, check verification services and use of point of sale computer systems. You agree to enter into a separate participation agreement with KGC, LLC, its successors or assigns;
- n. bookkeeping, accounting, data processing and record keeping systems; computer hardware and software; connections to the internet or to proprietary networks; forms, methods, formats, content and frequency of reports to us of Gross Sales, financial performance and condition; adherence to the Operations Manuals or written directions; and furnishing tax returns and other operating and financial information to us; and/or
- o. regulation of any other aspect of the operation and maintenance of the restaurant that we decide is necessary or desirable to enhance or maintain the efficient operation, image or goodwill of the Proprietary Marks and the System.

You agree that System Standards contained in the Operations Manuals or which we notify you of in writing, shall constitute binding provisions of this Agreement as if they were an integral part of this Agreement. All references to this Agreement include System Standards as periodically modified and updated.

## **1.6 Modification to System Standards.**

You understand that the quick casual Mexican-style restaurant market is extremely competitive and always changing and evolving. You understand that for the System to compete and flourish in this competitive environment, we must be able to review the standards, methods and procedures embodied in the System Standards and change them whenever we think it is necessary to adapt to changing market conditions, take advantage of new market opportunities or to improve the *Taco Time* System. Therefore, you agree that we may periodically modify any System Standard upon thirty (30) days' written notice to you, and you will implement and follow all our modifications to System Standards. Our modifications to System Standards may accommodate regional or local variations as we feel are appropriate in our discretion. We may also modify System Standards in the case of individual franchisees in our sole discretion. You also understand that we may operate *Taco Time* restaurants under a variety of formats (for example kiosks, co-branded facilities or at stadiums, airports, convenience stores, etc.) and that System Standards may vary depending upon the format.

## **ARTICLE 2. SELECTION OF LOCATION AND FRANCHISE DEVELOPMENT**

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

You must select a Location approved by us in writing, for your Franchised Business within two (2) years of the Effective Date of this Agreement. If you cannot secure an acceptable

Location for your Franchised Business within two (2) years of the Effective Date of this Agreement, then we may terminate this Agreement by giving you written notice to that effect. Because you have had at least fourteen (14) days to review and consider this investment, we will have no obligation to refund to you all or any part of your Initial Franchise Fee (as defined in *Section 5.1* of this Agreement). You are ultimately responsible for selection of the Location. We will not have any liability to you with respect to your selection of the Location, any assistance we provide you in making your selection or our recommendation or approval of any location. You agree that your selection of the Location will be based on your own independent investigation of the suitability of the Location.

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

If you intend to lease the Location for your Franchised Business, the lease will be subject to our prior approval, and you must provide us with a copy of the lease and details relating to square footage, rental per square foot, the term of the lease, and such other terms as we reasonable require at least thirty (30) days prior to executing the lease. You and your attorneys shall be responsible for negotiating the terms of the lease, which shall be subject to our final approval. If you do not submit all of the required documents to us, we will not approve your lease. We have no liability to you regarding the terms or negotiations of the lease. You must pay us a nonrefundable location review fee of \$1,250 in the form of a cashier's or bank check (the "Location Review Fee") in order to compensate us for our time and effort in reviewing the lease. Each such lease must contain the provisions set forth in Exhibit 2 attached to this Agreement and incorporated herein by reference, and must specifically state that we are a third party beneficiary of the lease. If we cure any default by you under the lease, any amounts that we pay to cure the default will be payable by you to us on demand, together with interest thereon, at the rate of one and one-half percent (1½%) per month from the date we make such payment; or, if less, at the maximum rate that does not violate applicable state usury laws (the "Default Rate").

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

You acknowledge and understand that our approval of any specific location, lease or purchase agreement does not in any way guarantee or ensure its success or profitability, or its conformity to applicable laws, and such approvals are only for our own benefit.

## **2.3 Construction.**

a. You must, at your own cost and expense, construct, furnish and equip the Franchised Business at the Location selected by you and approved by us, in accordance with plans and specifications approved by us and/or our third party approved architect. Our approval of the plans is solely for complying with our System Standards, and not for determining compliances with codes, ordinances or the legal requirements of the Americans with Disabilities Act (the "ADA"). You are solely responsible for ensuring that your Location conforms to all codes and ordinances, including the ADA. You must, at your own cost and expense, use our designated and approved third party design architect (the "Design Architect") to prepare the initial design drawings for your Franchised Business. The Design Architect must provide us with one (1) set of the design drawings, which is the detailed plans and specifications including landscaping and parking space, if applicable, (the "Plans") for your Franchised Business. We

will provide you with a copy of the Plans upon our approval of the Plans. You must also, at your own cost and expense, retain a licensed architect of record to prepare the permitted construction set of drawings. The permitted construction set of drawings must be submitted to us for our files prior to the start of construction. In addition, you must obtain the appropriate construction documents, and all mechanical, plumbing, electrical and architectural plans must be sealed and stamped, as Franchisor may require, even if the Location's local government does not require same.

b. Any material modifications to the approved Plans must be submitted to us for approval, and you will not undertake any construction until such modifications have been approved by us. Such modifications do not constitute any representation by us that the Plans comply with applicable zoning laws, building codes or other laws.

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

d. You must, at your own cost and expense, use a general contractor that is licensed, and if applicable, registered in the state where your restaurant is being constructed. The general contractor must have prior experience in the construction of quick-service restaurants.

e. You acknowledge that the design and appearance of the *Taco Time* restaurant is part of the System, and that uniformity is essential to the success of the System. Therefore, you agree that after the restaurant has been constructed, you will not make any material changes to the building plan or design or its appearance without our prior written consent, and you will, at your expense, maintain the interior and exterior decor of the restaurant in a first class condition and in such manner as we may reasonably prescribe from time to time. In addition to any remodeling required by us upon the renewal of this Agreement and upon the assignment of the Franchised Business, as set forth in *Articles 13* and *14*, respectively, you will, upon thirty (30) days' written notice from us, and at your sole cost and expense, remodel and make all improvements and alterations in and to your Franchised Business as reasonably determined by us to reflect the then-current *Taco Time* System specifications, standards, format, image and appearance.

f. A certificate of occupancy for your Franchised Business must be submitted to us approximately six (6) days prior to the day you open your Franchised Business to the public.

## **2.4 Signage.**

You will acquire signs for advertising and identifying the Franchised Business as a *Taco Time* restaurant. All signs must be in accordance with the System Standards and specifications of Franchisor and any local governing body (i.e. city, county, etc.). You acknowledge that quality control is essential to protect and promote our Proprietary Marks, standards, and

uniform image, and you shall acquire all signs only from approved suppliers. In addition, you shall prominently display on all communications, forms, advertising, business stationery and business cards, and in a sign easily visible to consumers at the Franchised Business, the following words: "INDEPENDENTLY OWNED AND OPERATED."

## **2.5 Relocation.**

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

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

(ii) Within twenty-one (21) days after receiving your written request, we shall either approve or disapprove in writing such relocation in our sole discretion. In the event of our disapproval of a relocation, you may request an alternative proposed new location pursuant to the provisions of this *Section 2.5*.

(iii) The current term of this Franchise Agreement will not be extended in connection with the requested relocation.

b. In order to have the right to relocate the Franchised Business, you must also meet each of the following requirements:

(i) You must not then be in default under this Agreement, and no event shall have occurred that, with the giving of notice, the passage of time, or both, would constitute a default under this Agreement;

(ii) You must be in complete compliance with the terms of this Agreement, including, without limitation, all financial obligations to us, and the then-current Operations Manuals;

(iii) You must neither have received more than three (3) written notices of default or breach of this Agreement during its term, nor more than two (2) such notices during the five years immediately preceding the effective date of the proposed relocation;

(iv) You must have the right to possession of the relocation site;

(v) You and we must execute an amendment to this Franchise Agreement indicating the address for your relocated Franchised Business;

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

(vii) You shall have paid to us a relocation fee in the amount of Five Hundred Dollars (\$500.00) as indicated in *Section 5.15* of this Agreement.



c. If we approve the relocation of your Franchised Business, you must open your Franchised Business at the new location within ninety (90) days after you close your Franchised Business at the current Location. During the period of time between the closure of your Franchised Business at the current Location, and the opening of the Franchised Business at the approved relocation address, you will not owe the Royalty Fee (as defined in *Section 5.2* below).

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

You may not wholly or partially sublet the Location without our prior written consent. The Location may be used only for the operation of a *Taco Time* restaurant in compliance with this Agreement and the Operations Manuals. Franchisee shall not conduct other businesses or activities at the Location without our prior written consent.

## **ARTICLE 3. OPERATIONS**

### **3.1 Commencing Operations.**

You agree to start operating your *Taco Time* restaurant at the approved Location within two (2) years of the Effective Date of this Agreement. You acknowledge that before starting operations you must, at your own expense, do the following (in addition to any other requirements set forth in this Agreement):

a. Complete a food safety training program at your sole cost and expense. We recommend the SERVSAFE course available through your local county health department, or we will accept your local county or state required program or any other nationally recognized food safety program. You must provide us with a copy of your certificate prior to commencing training;

b. Complete the Training Program described in *Section 4.1* of this Agreement;

c. Purchase, lease or otherwise acquire all the signage, supplies, equipment, fixtures, inventory and all other items necessary to operate the *Taco Time* Franchised Business from the list of approved sources provided by us; and

d. Obtain liability insurance in accordance with the requirements described in *Section 9.5* of this Agreement and provide to us evidence that such insurance has been obtained.

Prior to opening the Franchised Business, you must notify us that you have satisfied all requirements to begin operations, and provide us with such documents as we may reasonably request that show your compliance with all such requirements. Upon receipt of our acknowledgment that such requirements have been satisfied, you will have five (5) days to begin operations of your *Taco Time* restaurant. If you do not begin operations of your restaurant at the approved Location before the expiration of the two (2) year period, then we may terminate this Agreement by giving you written notice to that effect. We will have no obligation to refund to you all or any part of the Initial Franchise Fee (as defined in *Section 5.1* of this Agreement).

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

You agree to sell only those menu items, products and services authorized under the terms

of this Agreement and as specified in the Operations Manuals, and you shall use only supplies and ingredients in making those menu items that are in compliance with the standards as set forth in the Operations Manuals or other documents provided by, or approved by, us as they presently exist or may exist in the future. You shall purchase all such services, supplies and ingredients only from approved vendors and utilize approved distributor(s) as specified in the documents provided by, or approved by, us as they presently exist or may exist in the future. You must purchase promotional materials containing the Proprietary Marks, including stationery, business cards, promotional and advertising materials and similar items, from suppliers approved by us, except that we must first approve all such promotional and advertising materials before you use them, and all such printed materials containing any of the Proprietary Marks shall be accompanied by the words "INDEPENDENTLY OWNED AND OPERATED." Additionally, during the term of this Agreement, Franchisee agrees to participate in any Rollout of new products and/or suppliers, as defined in *Section 9.3* of this Agreement.

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

Unless otherwise approved by us in writing, you will: (1) acquire fixtures, furnishings, and equipment to be used in the operation of your Franchised Business that is in accordance with the System Standards and specifications set forth by us in the Operations Manuals or other documents provided by, or approved by, us as they presently exist or may exist in the future; and (2) procure the fixtures, furnishings, and equipment from suppliers or vendors previously approved in writing by us.

### **3.4 Internet and Social Medium Sites.**

You may not maintain a World Wide Web site, social medium site (including, but not limited to, a Twitter® account or a Facebook® page), or otherwise maintain a presence or advertise on the Internet or any other public computer network (collectively, the "Site") in connection with the Franchised Business without our prior written approval, which we may withhold in our sole discretion. If we grant you written approval, you agree to submit to us for approval before use true and correct printouts of all Site pages you propose to use in connection with the Franchised Business. You understand and agree that our right of approval of all such Site pages is necessitated by the fact that such Site pages will include and be inextricably linked with our Proprietary Marks. If we approve your use of a Site, you may only use Site pages that we have approved. Your Site must conform to all of our website and social medium site requirements, policies and procedures, as set forth in the Operations Manuals or otherwise. You agree to provide all hyperlinks or other URLs that we require. If we grant approval for a Site, you may not use any of the Proprietary Marks on the Site except as we expressly permit. You may not post any of our proprietary, confidential or copyrighted material or information on the Site without our prior written permission. If you wish to modify your approved Site, all proposed modifications must also receive our prior written approval. You explicitly understand that you may not post on any Site (whether yours or someone else's) any material in which a third-party has any direct or indirect ownership interest (including, without limitation, video clips, photographs, sound bites, copyrighted text, trademarks or service marks, or any other text or image which any third-party may claim intellectual property or other rights in). If we grant approval, you agree to list on the Site any website maintained by us, and any other information we require in the manner we dictate. You agree to obtain our prior written approval for any Internet domain name, home page address and/or URL. The requirement for our prior approval set forth in this *Section 3.4* will apply to all activities on the Internet or other communications network to be conducted by you, except that you may maintain one or more e-mail addresses and may conduct individual e-mail communications without our prior written approval. You agree to obtain our prior approval as provided above if you propose to send

advertising to multiple addressees via e-mail.

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

### **4.1 Training Program.**

We will provide you and one (1) of your employees (i.e., two natural persons), with a training program designed to inform the participants as to the fundamentals of operating the Franchised Business prior to your opening of the Franchised Business. The training program is made up of the "In-Store Training," which is approximately fifteen (15) days, and "New Owner Training," which is approximately five (5) days (collectively, the "Training Program"). All personnel attending the Training Program must have a demonstrable relationship to the management and operation of the Franchised Business. The Training Program and all requisite materials will be provided for you and one (1) of your employees for no additional fee. If you will employ an on-site manager, that individual must complete the Training Program, and must adequately speak and read English. You will be solely responsible for all transportation costs, food, lodging and other personal expenses incurred by you and your employees in connection with the Training Program. The New Owner Training will be conducted at the Kahala Training and Education Center (KTEC) in Scottsdale, and the In-Store Training will be conducted at a training store in Arizona or such other location as we may designate at our sole discretion. You acknowledge that adequate knowledge regarding the operation of the Franchised Business is essential to the success of your franchise and to the promotion of the System. Based upon your prior experience in the food service industry and subject to our approval, we may waive all or a portion of the Training Program. If at any time during the operation of your *Taco Time* restaurant you hire a new manager, the new manager must successfully complete the Training Program.

### **4.2 Employee Training.**

You acknowledge that the employees of your *Taco Time* Franchised Business are an integral and important part of the Franchised Business, as they will have substantial contact with customers. You are responsible for the hiring, training, terms of employment and compensation of your employees, and for their compliance with the policies and procedures set forth in the Operations Manuals. You must insure that your employees are able to speak and read English and any other language that may be required to adequately meet the public needs in your Franchised Business. We will make videotaped training programs available online from time to time that you may elect to use in connection with your employee training program.

### **4.3 Additional Programs; Continuing Assistance.**

We will provide one (1) of our representatives to come to your restaurant during opening week for up to four (4) days, at our expense, to work with you or your manager on your grand opening, and on operating and marketing your restaurant. We may, in the future, request that you and your executive personnel participate in refresher or additional training programs. We may also hold an annual conference to introduce new products, discuss sales and marketing techniques, personnel training, advertising programs, merchandising procedures and other appropriate subjects. You may be charged a nominal registration fee for these programs, and you will be solely responsible for the cost of transportation, food, lodging and other personal expenses of your attendance incurred by you and your executive personnel at any such program. Attendance at these additional training programs and conferences is mandatory. They will be held in the metropolitan Phoenix, Arizona area, or at other locations in the United States chosen by us, at our sole discretion.

In addition to the initial training available under *Section 4.1* of this Agreement, we shall provide such periodic supervision and assistance as we deem appropriate, utilizing our field representatives who may visit the Franchised Business from time to time. The frequency and duration of such visits to a Franchised Business by our representatives shall be in our sole discretion. In addition, we will be available on an ongoing basis at our offices for consultation and guidance with respect to the operation and management of the Franchised Business. In addition to the Operations Manuals, we may, but are not required to, from time to time provide you with additional materials relating to the Franchised Business.

#### **4.4 Area Representative.**

We may retain the services of an independent third party area representative ("Area Representative") to represent us in the area in which the restaurant is located and perform some or all of the services we provide under this Agreement. The services the Area Representative may perform could include, but are not limited to: (i) assistance in location selection and evaluating and approving the Location; (ii) advice and guidance regarding lease negotiations; (iii) assistance in opening new *Taco Time* locations; (iv) assistance with store training; (v) assistance with marketing advice; (vi) periodic Quality Service Cleanliness and Experience ("QSCE") evaluations; (vii) assistance with collection of the various sums due us from *Taco Time* franchisees; and (viii) coordination with other *Taco Time* franchisees in your area and general supervision and monitoring of your Franchised Business on our behalf. You agree in advance to our delegation to an Area Representative of some or all of our obligations, and assignment to an Area Representative of some or all of our rights, under this Agreement. You agree that we may require you to submit to an Area Representative any reports you are required to submit to us. Upon our request, you will provide the Area Representative with access, inspection and audit rights to the same extent we have those rights under this Agreement. You are not a third party beneficiary of any agreement between us and any Area Representative, and the Area Representative does not have authority to bind us to any obligation to you or a third party. If we have designated an Area Representative for your restaurant as of the Effective Date, the name and contact information of the Area Representative is shown in *Section 17.3h* and Exhibit 1 of this Agreement and incorporated herein by reference. We reserve the right in our sole discretion to remove any Area Representative in your area at any time and to appoint any other Area Representative for your area. We have no obligation to appoint an Area Representative in the area in which your restaurant is located, and we have no obligation to appoint a new Area Representative after we have removed an Area Representative.

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

#### **4.5 Confidential Operations Manuals.**

To protect the reputation and goodwill of the System and to maintain the uniform standards of operation under the Proprietary Marks, you must conduct your business in accordance with our Operations Manuals (as defined in the Recitals above), which may be revised, amended, restated or supplemented by us from time to time. All equipment, decor, fixtures, leasehold improvements, supplies and inventory used by you in the operation of the Franchised Business must conform to our System specifications and quality standards and be purchased from suppliers and distributors approved by us.

The Operations Manuals will be provided to you at the New Owner Training referred to in *Section 4.1* above.

So that you may benefit from new knowledge gained by us as to improved techniques in the operation of the Franchised Business, we may from time to time revise, amend, restate or supplement the content of the Operations Manuals. However, no revision, amendment, restatement or supplementation will alter your fundamental status under this Agreement. You will at all times ensure that your copy of the Operations Manuals is kept current and up to date. In the event of a dispute regarding the content of the Operations Manuals, the master copy maintained by us at our corporate office will be controlling. You agree to incorporate and implement any improvements to the System as reasonably required by us, which improvements will be reflected in amendments to the Operations Manuals.

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

a. Prior to the opening of your restaurant, you will be required to acquire and to exclusively use an approved cash register/computer system during the operation of the Franchised Business. The components and specifications of this system are specifically identified in the Operations Manuals (the "POS System"). You and your employees must complete training for the POS System as we require, and you will be required to use the POS System to produce sales reports, keep inventory control and post sales tax, refunds, credits and allowances and submit that information to us immediately upon our request. You are required to obtain DSL/high-speed internet connection service for your POS System. This requirement shall be defined by the then-current Operations Manuals, which may change from time to time. If neither DSL nor cable is available in your area, dial-up Internet access may be used until DSL or cable service becomes available in your area. The POS System must be configured so that we will have remote access to the information and data stored in it, which may include inventory information. This access will allow us to exchange/collect data and other information on such bases as we will communicate to you from time to time. You will be required to maintain the POS System in good working order at all times, and to upgrade or update the POS System during the term of this Agreement as we may require from time to time. It will be your responsibility to enter into contracts for the maintenance, support, upgrades and updates to the POS System with an approved supplier of such services by us on the list of approved vendors and distributors or other notification to you from us advising of suppliers for your market area. In addition, you shall, within thirty (30) days of receipt of written notice from Franchisor, obtain and purchase, at the sole expense of Franchisee, a cash register system or computerized point of sale system acceptable to us to permit restaurant sales to be polled from the corporate offices of Franchisor. You shall also be required to own a personal computer or similar device with access to the Internet that allows you to report your gross sales online and send and receive e-mails with us, and a fax machine to allow communication with us. In addition to email with Franchisor, the computer equipment will be used for providing reports to Franchisor, for communicating with Franchisor, and for communicating with third parties involved in the operation

of the Franchised Business. We may provide specifications that you must follow for the hardware, software, and Internet provider for such computer equipment. We may require you to upgrade the hardware and software as reasonably necessary to provide reports and information required by us. We may require you to allow us to have independent electronic access to your POS System and the data relating to the Franchised Business.

b. You are required to accept debit and credit cards and Gift/Loyalty Cards from consumers at the Franchised Business. Prior to the opening of your restaurant, you will be required to acquire an approved debit, credit and Gift/Loyalty card processing system to use during the operation of the Franchised Business. The components and specifications of this system are specifically identified in the Operations Manuals. Additionally, you must utilize Franchisor's approved third party payment card processor, as identified in the Operations Manuals, for processing all such debit, credit, rewards, and Gift/Loyalty card transactions. The Payment Card Industry ("PCI") requires all companies that process, store, or transmit credit card information to protect the cardholders' information by complying with the PCI Data Security Standard ("PCI DSS"). Therefore, as a franchisee who accepts credit cards, you are required to be PCI compliant by following and adhering to PCI DSS, which includes, but is not limited to ensuring that your POS System, back office POS computer (if supplied), and any other device that is plugged into the POS network is only used for POS business purposes. You are also required to complete an annual questionnaire and quarterly network PCI scans and install a network firewall appliance for logging, tracking, reporting, and security assessment. We require your Franchised Business' POS System, including, but not limited to, terminals, computers, and software to be in compliance with the PCI DSS at all times. The PCI DSS is often updated, and you are required to obtain and comply with all updated standards.

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

You agree to pay each of the following amounts to us in accordance with the following provisions:

### **5.1 Initial Franchise Fee.**

The Initial Franchise Fee is Thirty Thousand Dollars (\$30,000.00) (the "Initial Franchise Fee"). The Initial Franchise Fee will be due and payable by you to us by cashier's check, wire transfer or other form of immediately available funds acceptable to us, upon your execution of this Agreement. You and we agree that our grant of the franchise and your payment of the Initial Franchise Fee provided for in this *Section 5.1* does not give you any rights with respect to other franchises, if any, as we in our sole discretion may elect to make available in the future. No portion of the Initial Franchise Fee is refundable.

### **5.2 Royalty Fee and Surcharge.**

For the period of time commencing on the later of the date that you sign this Agreement or the date the Franchised Business opens to the public, and for the duration of the Term of this Agreement, you must pay to us a weekly royalty fee equal to the greater of the following: (i) six percent (6%) of total Gross Sales (as defined below); or (ii) \$400.00 (the "Royalty Fee"). If we or the landlord of the Location require you to remodel your Franchised Business, or if there is a disaster at your Franchised Business, such as a fire, flood or damage caused by an act of God, you may temporarily close your Franchised Business and must provide us or our authorized representative with notice of such temporary closure within twenty-four (24) hours of such closure. The temporary closure of your Franchised Business shall not exceed ninety (90) days, but may be extended on a case by case basis at our sole discretion and with our prior written

approval. During the period of time of such temporary closure, you are not required to pay the Royalty Fee.

In our sole discretion, we may charge, addition to the Royalty Fee, a surcharge of up to \$10 per week if your franchised business is located in a state that imposed additional reporting requirements on a franchisor ("Surcharge"). The Royalty Fee and applicable Surcharge shall be due and payable no later than Thursday of each week, which day may be modified by Franchisor, for the week ending on the preceding Sunday in which applicable Gross Sales (as defined below) were earned from the Franchised Business. The weekly Royalty Fee and applicable Surcharge shall be paid by electronic funds transfer, as detailed below.

You are required to report Gross Sales to our designated accounting office via the Internet at <http://franchisee.kahalamgmt.com>, as set forth in the Operations Manuals, by the close of business on each Monday for the week ending on the preceding Sunday, commencing on the Effective Date and continuing through the Term of the Franchise Agreement. You shall be required to establish a Depository Account at the time you execute this Agreement as set forth in *Section 5.5* below. Payment of Royalty Fees, Advertising Fees (as defined in this *Article 5*), and all other fees due under this Agreement to us shall be made via electronic transfer of funds from the Depository Account. To accomplish this electronic transfer of funds from the Depository Account, you must complete, sign and deliver to us a current Electronic Funds Transfer Authorization in the form attached to this Agreement as Exhibit 3 and incorporated herein by reference.

As used in this Agreement, "Gross Sales" means all sales, money or things of value, received or receivable, directly or indirectly, by Franchisee on account of the Franchised Business, less applicable sales taxes and any documented refunds, credits and allowances given by you to customers in accordance with the Operations Manuals, but without deducting any of Franchisee's costs and expenses. All sales made from catering services must be included in the Gross Sales.

### **5.3 Advertising Fees.**

a. Unless your Franchised Business is located in an enclosed shopping mall or other enclosed structure identified in *Section 1.1* above, and in addition to the Advertising Fees under *Section 5.3b* below, you shall spend on advertising and on promotion at least Five Thousand Dollars (\$5,000.00) within the first six (6) months following the opening of the Franchised Business.

b. You shall pay to us or directly into a national advertising fund designated by us, and/or, at our sole discretion, to a designated Franchisor-approved regional advertising fund (any such funds are referred to below as "Advertising Fund") the amount set forth below (the "Advertising Fee"). Upon thirty (30) days' notice by Franchisor to Franchisee, Franchisor may unilaterally increase the Advertising Fee from its current level not exceed four percent (4%) of Franchisee's weekly Gross Sales. The Advertising Fee currently being collected by Franchisor that is applicable to this Agreement is immediately set forth below this subsection. The Advertising Fee shall be due and payable with the Royalty Fee under *Section 5.2* above. Advertising Fees are the property of the Franchisor and may be deposited by Franchisor into its general operating account.

Current Applicable Advertising Fee payable by Franchisee under this Agreement:

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c. Three percent (3%) of Franchisee's Gross Sales paid into the Advertising Fund shall be designated for media placement and expenditures, and shall be allocated to the geographic region from which the funds were contributed. One percent (1%) of the 4% of Franchisee's Gross Sales paid into the Advertising Fund may be applied to creative productions and administration. The Advertising Funds will be used for marketing, advertising, production and media expenses to promote the *Taco Time* name, System, products and services. Franchisor is entitled to receive the following from the Advertising Fund: reimbursement of expenses, overhead, and employee salaries for services provided; and rent for office space provided to the Advertising Fund. We have no fiduciary obligation to you in connection with the operation of any Advertising Fund. No interest on unexpended Advertising Fees shall be imputed or otherwise charged for the benefit of, or payable to, Franchisee. You understand and agree that the only obligations we have regarding the collection and spending of the Advertising Fees or the administration of the Advertising Fund are the express contractual obligations in this *Section 5.3*. We are not acting as a trustee, fiduciary, agent or in any other special capacity. We do not give any representation or warranty regarding the quality or effectiveness of the advertising and marketing activities funded by the Advertising Fees or of the Advertising Fund, and we will have no liability to you with respect to how these funds are spent.

d. Franchisee's own local marketing and advertising should be developed to maximize your particular customer base. You should not rely upon a marketing program or plan by the Franchisor in the success or failure of your own Franchised Business.

#### **5.4 Cooperative Advertising.**

a. We encourage the formation and operation of franchisee cooperative advertising associations (each an "Association"). Each Association will coordinate advertising, marketing efforts and programs, and attempt to maximize the efficient use of local advertising media. If an Association is formed for your region, you must participate in the Association or lose your right to vote as to decisions regarding advertising and marketing efforts and programs.

b. Upon our request, you will assist in establishing an Association or in deciding how to allocate all or part of any Fund contribution we elect to distribute to the Association. We will decide in our sole discretion whether to make contributions from the Fund to an Association and how much to contribute. If we decide to distribute a portion of the Fund to an Association, and if one of the following events occurs and is not resolved by the Association, then we reserve the right to exercise sole decision-making power over the monies contributed to the Association: (i) an Association ceases functioning; (ii) an impasse arises because of the inability or failure of the Association members to resolve any issue affecting the establishment or effective functioning of an Association; (iii) an Association fails to function in a productive or harmonious manner; or (iv) an Association is unable to approve any advertising program within a reasonable time not to exceed seven (7) days. We reserve the right to establish general standards concerning the operation of an Association, advertising agencies retained by an Association, and advertising programs conducted by an Association. No Association decision will be made or advertising collections spent without our prior written approval.



## **5.5 Depository Account.**

You are required to establish, at the time you execute this Agreement, and maintain a depository account (the "Depository Account") at a bank or other federally insured financial institution (the "Depository"). You will initially deposit no less than \$3,000 into the Depository Account and are required to maintain a balance of \$3,000 or more in the Depository Account at all times by replenishing the Depository Account to \$3,000 after Franchisor makes withdrawals. On Monday of each week, you must submit a report to us regarding the weekly period which ended on the preceding Sunday, including details on Gross Sales and other statistical data as provided in the Franchise Agreement, Operations Manuals, or as otherwise specified from time to time by us. We will withdraw funds electronically on Thursday of each week from the Depository Account. The withdrawals are based upon the figures Franchisee reports and constitute Royalty Fees and Advertising Fees as described in *Sections 5.2 and 5.3* of this Agreement. If you do not submit a report on any Monday, we may estimate the Royalty Fee and Advertising Fee based upon prior reports and withdraw the estimated amounts up to the entire \$3,000. We will return any overage within thirty (30) days of our receipt of your report(s). We shall not be responsible to you for any interest charges for any overage collected due to your failure to timely report your sales. Additionally, we shall not be responsible for any bank service charges incurred by you which result in the withdrawal of funds from your Depository Account. You shall instruct the Depository to disburse each week to our designated bank, via electronic funds transfer by the close of business on Thursday of each week (or preceding banking business day, if Thursday is a bank holiday), the weekly Royalty Fee and Advertising Fee and other fees due for that week, which week shall end on the preceding Sunday. Under no circumstances shall such access to the Depository Account be deemed control or joint control of the Depository Account by Franchisor. You shall pay us Fifty Dollars (\$50.00) for each electronic funds transfer attempted from your Depository Account pursuant to this *Section 5.5* that is returned for non-sufficient funds. You shall also reimburse us for all other costs incurred by us in collecting or attempting to collect funds due Franchisor from the Depository Account (for example, without limitation, charges for non-sufficient funds, uncollected funds or other discrepancies in deposits or maintenance of the Depository Account balance in accordance with the terms hereof). The Depository Account shall be established and maintained solely for the purposes set forth in this *Section 5.5* and the Operations Manuals.

## **5.6 Location Review Fee.**

You are required to pay us a One Thousand Two Hundred Fifty Dollar (\$1,250.00) Location Review Fee for our services of reviewing your lease if you have entered into a lease with a landlord. The Location Review Fee is non-refundable and can be waived in certain situations at the sole and absolute discretion of Franchisor.

## **5.7 Lease Guarantee Fee.**

If, in order to obtain the lease agreement for the Location of your Franchised Business, the landlord requires you to obtain a lease guarantee, and Franchisor or one of its affiliates agrees to serve as such guarantor (with such determination to be made in Franchisor's sole discretion), you will pay Franchisor a fee in the amount of ten percent (10%) of the total amount of the rental obligations being guaranteed under the lease during its term up to a maximum fee of Ten Thousand Dollars (\$10,000.00) ("Lease Guarantee Fee"). The Lease Guarantee Fee will be due and payable to Franchisor upon Franchisor's (or any affiliate of Franchisor) execution of the applicable lease guarantee agreement with the landlord. Neither Franchisor nor any of its affiliates is required to serve as a guarantor of your lease for the Location of your Franchised

Business; rather, the decision of whether to serve as a guarantor shall be made in Franchisor's sole and absolute discretion.

#### **5.8 Lease Negotiation Fee.**

If Franchisee requests and obtains assistance from Franchisor's real estate department in negotiating a term sheet to secure a lease or negotiating terms of the actual lease with the landlord or broker/agent for the landlord for the Location of the Franchised Business, a Two Thousand Five Hundred Dollar (\$2,500.00) lease negotiation fee ("Lease Negotiation Fee") will be payable to us by the Franchisee. The final approval and execution of the term sheet and/or lease and the provisions therein remain the sole responsibility of the Franchisee. If you elect to use the lease negotiation service, the amount of the Location Review Fee paid by you will be deducted from the Lease Negotiation Fee due (i.e., \$2,500.00 - Location Review Fee paid = Lease Negotiation Fee due).

#### **5.9 Lease Procurement Fee.**

If Franchisee requests and obtains assistance from Franchisor's real estate department in identifying a Location, visiting the Location, and negotiating the terms of the actual lease with the landlord or broker/agent for the landlord for the Location of the Franchised Business, a Five Thousand Dollar (\$5,000.00) lease procurement fee ("Lease Procurement Fee") will be payable to us by the Franchisee. The final approval of the Location and the provisions in the lease, along with the execution of the lease, remain the sole responsibility of Franchisee. The services provided by Franchisor's real estate department when the Lease Procurement Fee is paid includes all of the services as provided as part of the Lease Negotiation Fee detailed above in addition to assisting the Franchisee in identifying the location. If you elect to use the lease procurement service, the amount of the Location Review Fee paid by you will be deducted from the Lease Procurement Fee due (i.e., \$5,000.00 - Location Review Fee paid = Lease Procurement Fee due).

#### **5.10 Additional Persons Training Fee.**

During the Training Program, we will train two (2) persons free of charge. If you desire to have more than two (2) people attend the Training Program, you must pay an Additional Training Fee of Sixty-Two Dollars and Fifty Cents (\$62.50) for each such person per day to attend the In-Store Training, and an Additional Training Fee of Five Hundred Dollars (\$500.00) for each such person to attend the New Owner Training (see *Section 4.1* of this Agreement).

#### **5.11 Additional Training Fee.**

If, after attending the Training Program, you desire to receive additional training, we will provide additional training time to you at a fee of Three Hundred Dollars (\$300.00) per person per day.

#### **5.12 Document Administration Fee.**

A Five Hundred Dollar (\$500.00) document administration fee is payable to us when we must re-draft your franchise documents due to your request to: (i) change your name on the franchise documents from your name as an individual(s) to your entity name in which you are the sole owner(s) of the entity; (ii) change your name on the franchise documents from one entity name to another entity name in which the owners of the entities are the same individual(s); (iii) delete an owner's name from the franchise documents (unless the person has

more than a fifty percent (50%) ownership interest, in which case such change would be considered a transfer pursuant to *Section 12.1a* of this Agreement); or (iv) such other cases, other than a transfer, in which franchisee requests a name change that requires us to re-draft the franchise documents.

### **5.13 Renewal Fee.**

A Five Thousand Dollar (\$5,000.00) renewal fee is payable to us when you renew your Franchise Agreement (see *Section 13g* of this Agreement).

### **5.14 Transfer Fee.**

A transfer fee of either Seven Thousand Five Hundred Dollars (\$7,500.00) or Twenty Thousand Dollars (\$20,000.00) is payable to us when you sell your Franchised Business (see *Section 12.3f* of this Agreement).

### **5.15 Relocation Fee.**

A Five Hundred Dollar (\$500.00) relocation fee is payable to us when you sign the amendment to your Franchise Agreement for your relocation (see *Section 2.5* of this Agreement).

### **5.16 Training Fee.**

In addition to the Transfer Fee in *Section 5.14* above, in the event of a sale of the Franchised Business, Franchisee shall pay to Franchisor a non-refundable Training Fee of Two Thousand Five Hundred Dollars (\$2,500.00) to cover the Franchisor's costs and expenses in providing the necessary training for the transferee of Franchisee (training provided is for two individuals, and a fee of \$500 will be charged for each additional individual trained over two).

### **5.17 Annual Meeting Registration Fee.**

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

### **5.18 Late Report, Non-Sufficient Funds and Default Fees.**

If you fail to submit to us any financial statements, forms, reports or records required to be provided under this Agreement by its due date, including your weekly Gross Sales report for calculating your Royalty and Advertising Fees, you must pay to us a late report charge of One Hundred Dollars (\$100.00) per report.

If any fees or assessments due under this Agreement, including Royalty Fees and Advertising Fees, are not paid when due, interest shall accrue on the late payment (from the date payment is due until the date it is paid) at the Default Rate or the maximum legal interest

rate (whichever is higher), which amount, plus a Fifty Dollar (\$50.00) late fee, shall be added to each late payment. For any payments made by Franchisee to Franchisor under this Agreement which are returned for non-sufficient funds of a processed check, Franchisee shall be charged a non-sufficient funds fee of Twenty-Five Dollars (\$25.00) per occurrence. Pursuant to *Section 5.5* of this Agreement, for each electronic funds transfer that is attempted from the Depository Account but returned for non-sufficient funds, Franchisee shall be charged a Fifty Dollar (\$50.00) non-sufficient funds fee per occurrence.

If, as a result of your failure to remit payments required under any provision of this Agreement, we retain an attorney or a collection agency to collect such payments, you must pay all collection costs, including reasonable attorneys' fees, whether or not legal proceedings are initiated. Our rights under this *Section 5.18* are in addition to any other rights or remedies that we may have as a result of your default under this Agreement.

#### **5.19 Audit Fees.**

For the purpose of this *Section 5.19*, we will have the right, at any time during business hours, and with or without prior notice to you, to inspect and audit, or cause to be inspected and audited, the business records, cash control devices, bookkeeping and accounting records, sales and income tax records and returns and other records of the Franchised Business and your entity's books and records.

You hereby grant us access to any computers utilized by you for such purposes and we will have the ability, at all times, via modem, to obtain daily and weekly sales reports and other financial records that the POS System provides. You will fully cooperate with our representatives, the Area Representative, if applicable, and independent accountants hired by us to conduct any such inspection or audit. In addition, in the event such inspection or audit is made necessary by your failure to furnish reports, supporting records or other information, as required herein, or to furnish such reports, records or information on a timely basis, or if an understatement of Gross Sales, resulting in an underpayment of Royalty Fees or Advertising Fees for the period of any audit (which shall not be for less than one month) is determined by any such audit or inspection to be five percent (5%) or greater, you will pay to us, immediately after receipt of the inspection or audit report, any additional Royalty Fees and/or Advertising Fees as a result of any such understatement, plus interest at the Default Rate from the date originally due until the date of payment and you must reimburse us for such audit or inspection, including the charges of any independent accountants, and the travel expenses, room, board and compensation of such accountants and our employees.

The remedies in this *Section 5.19* will be in addition to all other remedies and rights available to Franchisor under this Agreement or otherwise available.

#### **5.20 Data Fees.**

We may require you to pay us or a third party we designate a data fee of up to Seventy-Five Dollars (\$75.00) per month for polling or collecting data from your POS System.

#### **5.21 POS Help Desk Phone Support Maintenance Service Fee; Set Up Fee.**

You may purchase from us a help desk phone support maintenance service that covers phone support for both the software and hardware for your FOCUS POS System, the cost of which is approximately \$660 per year or \$55 per month, subject to increase by Franchisor (the "POS Help Desk Phone Support Maintenance Service Fee"). The first year POS Help Desk

Phone Support Maintenance Service Fee is included in cost of the FOCUS POS System. If you purchase this service for subsequent years, you may choose to pay the POS Help Desk Phone Support Maintenance Service Fee yearly or monthly. If you choose to pay the fee monthly, there is an additional annual set up fee of \$25. If you choose to pay the fee yearly, there is no additional set up fee.

## **5.22 New Supplier Approval Fee.**

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

## **5.23 Early Termination Fee.**

If you stop operating your Franchised Business before this Agreement expires without obtaining our prior written consent, you must pay us an early termination fee ("Early Termination Fee") for breaching your Agreement. The amount of the Early Termination Fee is calculated as follows:

- a. Compute the average monthly Royalty and Advertising Fees paid during the twelve (12) month period immediately preceding the date we receive notification of the closure, or, if the Franchised Business has been open for less than twelve (12) months, the average monthly Royalty and Advertising Fees paid since the opening of the Franchised Business;
- b. Multiple the average monthly Royalty and Advertising Fees calculated in a. above by the number of months remaining in the term of the Franchise Agreement; and
- c. Divide the resulting total computed in b. above by 2.

For example purposes only: If the average monthly Royalty and Advertising Fees were \$1,000 and there were five years (60 months) remaining in the term of the Franchise Agreement, the Early Termination Fee would be \$30,000, calculated as follows:  $\$1,000 \times 60 \text{ months} = \$60,000 \div 2 = \$30,000$ .

If you unilaterally terminate your Franchise Agreement prior to the end of the term of the Franchise Agreement, you must give us ninety (90) days' prior written notice of the early termination (the "Early Termination Notice"). Within ten (10) days of our receipt of your Early Termination Notice, we will calculate the Early Termination Fee, which will be due and payable thirty (30) days prior to the closure of your Franchised Business. In the event that you do not (i) provide us with the Early Termination Notice at least ninety (90) days prior to the early termination of your Franchised Business and this Franchise Agreement; (ii) remain open for at least ninety (90) days after providing us with the Early Termination Notice; and (iii) pay the Early Termination Fee in full at least thirty (30) days prior to closing of the Franchised Business, the Early Termination Fee due will be increased as follows: it will be calculated by multiplying the

average monthly Royalty and Advertising Fees by the number of months remaining in the term of the Franchise Agreement, and will not be divided in half.

If you have not paid your Royalty and Advertising Fees for any period(s) within the twelve (12) months prior to notifying us of your early termination, or if you have not reported your Gross Sales for any period(s) within the twelve (12) months prior to notifying us of your intended early termination, we will estimate the Royalty Fee and Advertising Fee based upon prior reports to calculate the average monthly Royalty and Advertising Fees.

#### **5.24 Payment Procedures.**

Subject to reasonable advance notice for non-recurring payment amounts, we have the right to debit your Depository Account referenced in Section 5.5 above, according to the terms of your Electronic Funds Transfer Authorization attached to this Agreement as Exhibit 3, for any of the payments described above. If you do not pay all amounts due by the due date, we may suspend our services and support until your payment default is cured. Repeated failure to pay all amounts when due, whether or not the defaults are subsequently cured, can be cause for termination under Article 14 of this Agreement.

#### **5.25 No Accord or Satisfaction.**

If you pay, or we otherwise receive, a lesser amount than the full amount provided for under this Agreement for any payment due hereunder, such payment or receipt shall be applied against the earliest amount due us. In addition, if interest or late fees are owed, we may apply any amounts paid to the late fees and interest before such amounts are applied to the principal amount owed. We may accept any check or other payment in any amount without prejudice to our right to recover the entire balance of the amount due or to pursue any other right or remedy. No endorsement or statement by you on any check or payment or in any letter accompanying any check or payment or elsewhere shall constitute or be construed as an accord or satisfaction.

### **ARTICLE 6. PROPRIETARY MARKS**

#### **6.1 Ownership and Right to Use.**

We warrant to you that:

- a. We are the owner of all right, title and interest in and to the Proprietary Marks;
- b. We have granted to you the non-exclusive right to use the Proprietary Marks in connection with the operation of your Franchised Business;
- c. We have taken and will take all steps reasonably necessary to preserve and protect our rights in the Proprietary Marks; and
- d. We will only permit you to use the Proprietary Marks in accordance with the System and its standards and specifications.

#### **6.2 Covenants of Franchise Owners.**

- a. You acknowledge our ownership of the Proprietary Marks, and you agree that during the term of this Agreement and after its expiration or termination, you will not directly or

indirectly contest, or aid in contesting, the validity of the Proprietary Marks or our ownership of the Proprietary Marks, nor will you take any action which might impair or prejudice our ownership of the Proprietary Marks. You shall not, directly or indirectly, apply to register, register or otherwise seek to own or control any of the Proprietary Marks, or any confusingly similar mark thereto, whether in whole or in part, in any place or jurisdiction either within or outside the United States; nor will you assist any others to do so.

b. You agree that the license granted pursuant to this Agreement authorizes you to use the Proprietary Marks solely in connection with the Franchised Business only at the Location, and for no other purpose. You have no right to license or sublicense any aspect of the System or the Operations Manuals or any of the Proprietary Marks.

c. You agree to use the Proprietary Marks only in the manner and to the extent specifically licensed by this Agreement. You further agree that any unauthorized use or continued use of the Proprietary Marks after the termination or expiration of this Agreement will constitute irreparable harm subject to injunctive relief.

d. The license granted by this Agreement includes only the Proprietary Marks, now existing or which may exist in the future. This license does not include the right to use any other trademarks, service marks, trade name or trade dress owned by Franchisor or its licensor. You agree that any and all goodwill associated with and identified by your use of the Proprietary Marks will inure directly and exclusively to our benefit, and that, on the expiration or termination of this Agreement, no monetary amount will be payable to you as a result of any goodwill associated with your ownership or operation of the Franchised Business.

### **6.3 Limitations on Franchisee's Use of Proprietary Marks.**

To develop and maintain high and uniform standards of quality and service and thereby protect our reputation and goodwill and that of the System, you agree to:

a. Operate and advertise the Franchised Business only under the Proprietary Marks authorized by us; and

b. Adopt and use the Proprietary Marks licensed by this Agreement solely in the manner prescribed by us.

You agree that your corporate, partnership or other entity name including, without limitation, trade name, will not include any of the Proprietary Marks, in whole or in part, or any terms confusingly similar thereto, unless first authorized by us in writing.

You agree to submit all advertising promotional materials and all printed matter, including stationery and business cards, and any materials to be used on the Internet to us for our written approval before you may use any of these items.

You agree that we may from time to time change or modify the System, including, without limitation, modifying existing Proprietary Marks or adopting new marks. You agree, at your own expense, to adopt, use and display any such new or modified Proprietary Marks within ninety (90) days of notification from us. However, if we require you to modify or discontinue use of our proprietary information and/or use other information and/or rights in its place at any time other than upon renewal of the Franchise Agreement, and that requirement is a direct result of proceedings or litigation that determined that our and our franchisees' use of the proprietary

information infringed upon a third party's rights, we will bear the cost of those modifications or discontinuances.

Upon your abandonment of the Franchised Business (whether voluntary or involuntary), or termination or expiration of this Agreement, you must immediately cease to use, in any manner whatsoever, any of the Proprietary Marks or any other marks which, in whole or in part, may be confusingly similar to any of the Proprietary Marks.

#### **6.4 Non-Exclusive License of Proprietary Marks.**

You understand and agree that your license to use the Proprietary Marks is non-exclusive; that we, in our sole discretion, can grant to other franchisees the right to use the Proprietary Marks and obtain the benefits of the System, in addition to the licenses and rights granted to you under this Agreement; and that we may develop and license other proprietary marks in conjunction with systems other than the System (including the system for any additional concepts), on any terms and conditions we deem advisable. You will have no right or interest in any such other licenses, proprietary marks or systems.

#### **6.5 Notification of Infringement and Claims.**

You agree that you will notify us immediately of any apparent infringement of, or challenge to your use of any of the Proprietary Marks, or any claim by any person of any rights in any of the Proprietary Marks. You agree that you will not communicate with any person, other than us and our legal counsel, in connection with any such infringement, challenge or claim. We will have the sole discretion to take such action as we may deem appropriate to protect the Proprietary Marks and the exclusive right to control any litigation, United States Patent and Trademark Office proceeding, or other proceeding arising out of any such infringement, challenge, claim or otherwise relating to any Proprietary Marks. You agree to execute any and all instruments and documents, render such assistance, and do such acts and things as may, in the opinion of our counsel, be necessary or advisable to protect and maintain our interests in connection with any such litigation or proceeding, or to otherwise protect and maintain our interests in the Proprietary Marks.

### **ARTICLE 7. TRADE SECRETS AND PROPRIETARY INFORMATION**

#### **7.1 Innovations.**

During the term of this Agreement, Franchisee and its principals, officers, managers and employees may conceive, invent, create, design and/or develop various ideas, techniques, methods, processes and procedures, recipes, formulae, products, packaging or other concepts and features relating to restaurant operations, business practices or the manufacturing, production, marketing and sale of Mexican-style fast food and related goods now in existence and/or later developed, adopted, or improved in connection with the Franchised Business (collectively, the "Innovations"). Franchisee, without further consideration, hereby assigns any and all of its rights, title and interest in the Innovations, including any intellectual property rights, to Franchisor, and also agrees to cooperate with Franchisor and its counsel in the protection of the Innovations, including the perfecting of title thereto in Franchisor. In addition, Franchisee will require all of its principals, officers, managers and employees to sign an agreement in the form set forth in our Operations Manuals and incorporated herein by reference ("Confidentiality Agreement"), and shall be liable to Franchisor for obligating Franchisee's principals, officers, managers and employees to assign all of their rights, title and interest to the Innovations to Franchisor and requiring its principals, officers, managers and employees to cooperate in the



obtaining, protecting, maintaining and enforcing Franchisor's right, title and interest in the Innovations.

## 7.2 Confidentiality Agreement.

a. In connection with the operation of the Franchised Business, you will from time to time receive, have access to, or learn certain information and materials that are proprietary to us. You and any person signing this Agreement under the heading "Personal Acceptance of Sections 7.1, 14.6 and 14.8" agree that you will keep confidential, and will not use for your own purposes, nor supply or divulge to any other person, any of our Trade Secrets, including our methods of operation, processes, techniques, formulae and procedures and the other proprietary information ("Confidential Information"). You acknowledge that much of the information imparted to you by us is confidential, constitutes Trade Secrets, are unique to Franchisor, and remains the sole exclusive property of Franchisor. Our Confidential Information includes, without limitation, the following:

1. The Operations Manuals and any amendments thereto;
2. Ingredients, recipes, and methods of preparation of food products;
3. Methods of operation of *Taco Time* restaurants;
4. Information about products, services, or procedures before they become public knowledge;
5. Information which relates in any manner to our business or the System, whether oral or reduced to writing, and which is not generally known to, or readily ascertainable by, other persons who might derive economic benefit from its disclosure or use; and
6. Any other information which may be imparted to you from time to time and designated by us as confidential.

b. You and any person signing this Agreement under the heading "Personal Acceptance of Sections 7.1, 14.6 and 14.8" acknowledge and agree that the Confidential Information and any business goodwill of the Franchised Business is our sole and exclusive property, and that you will preserve the confidentiality thereof. Upon termination or expiration of this Agreement, all items, records or documentation recording or incorporating any Confidential Information will be immediately turned over by you to us or our authorized representative.

c. You agree to take all steps necessary at your own expense, to protect the Confidential Information and Trade Secrets, and to adopt and implement all reasonable procedures prescribed by us from time to time to prevent the unauthorized use or disclosure of any of the Confidential Information. We require that all of your executive officers, agents, directors, shareholders, trustees, beneficiaries, partners and managers who may or are likely to obtain knowledge concerning the Proprietary Information (and who do not sign this Agreement under the heading "Personal Acceptance of Sections 7.1, 14.6 and 14.8") sign the Confidentiality Agreement binding such person to preserve the confidentiality of the Confidential Information as part of the terms and conditions of such person's employment or association with you. You must obtain a Confidentiality Agreement signed by any such person prior to or at the same time that you begin employment of, or association with, that person. This will be a continuing obligation on your part, and will throughout the Term of this Agreement. You must

keep each original signed Confidentiality Agreement and provide us with a copy of each Confidentiality Agreement when requested by us or our authorized representative.

d. This requirements under this *Section 7.2* will remain in full force and effect during the Term of this Agreement and after its termination or expiration.

## **ARTICLE 8. RELATIONSHIP OF THE PARTIES AND INDEMNIFICATION**

### **8.1 Relationship of the Parties.**

You and we agree that this Agreement does not create a fiduciary or employment relationship between you, any of your employees, and us, that you are an independent contractor, and that nothing in this Agreement is intended to make either you or us a general or special agent, legal representative, subsidiary, joint venture, partner, employee or servant of the other for any purpose. You shall not enter into any agreement on behalf of or otherwise bind Franchisor for any purpose.

### **8.2 Indemnification of Franchisor.**

You agree to indemnify, defend, and hold us and our affiliates (including our parent and subsidiary companies), and our stockholders, directors, officers, members, managers, partners, joint venturers, attorneys, employees, contractors, agents, guarantors, successors and assignees (the "Indemnified Parties") harmless for, from and against any and all claims, liabilities, causes of action, demands, obligations, costs and expenses, damages, liabilities, judgments, proceedings, of every kind and nature, including reasonable attorneys' fees, (individually and collectively, the "Claims") suffered or incurred by any of the Indemnified Parties arising out of or relating to your construction, ownership, marketing, Promotions (as defined in Article 10), operation, including, but not limited to, your failure to comply with PCI DSS or any law, statute, regulation, order, rule, or ordinance, or management of the Franchised Business, except for Claims held to have resulted solely from our gross negligence or willful misconduct. Notwithstanding the foregoing, we will have the right, at our option, to defend any Claim, but you must reimburse us upon demand for the costs of such defense.

### **8.3 Indemnification of Franchisee.**

We agree to indemnify, defend, and hold you and your affiliates, and their stockholders, directors, officers, members, managers, partners, employees, agents, successors and assignees harmless for, from and against any and all Claims, liabilities, causes of action, demands, obligations, costs and expenses, including reasonable attorneys' fees, arising out of any Claim of infringement or unfair competition in connection with your authorized use of the Proprietary Marks and/or Confidential Information, provided that such use is in accordance with the provisions of this Agreement. However, if we require you to modify or discontinue use of our proprietary information and/or use other information and/or rights in its place at any time other than upon renewal of the Franchise Agreement, and that requirement is a direct result of proceedings or litigation that determined that our and our franchisees' use of the proprietary information infringed upon a third party's rights, we will bear the cost of those modifications or discontinuances.

### **8.4 Special Power of Attorney.**

Franchisee agrees to cooperate with and assist Franchisor as may be requested by Franchisor from time to time to obtain, protect, maintain or enforce Franchisor's (IP/Trademarks/Service Marks), including, without limitation, executing documents and

appearing as a witness. Franchisee hereby appoints Franchisor as his/her/its attorney-of-fact and grants Franchisor an irrevocable Special Power of Attorney, coupled with an interest, with full power and authority for the purpose of executing documents or taking such action as necessary or appropriate as Franchisee might or could do if personally present, hereby ratifying all that Franchisor, as Franchisee's attorney-in-fact, shall lawfully do or cause to be done by virtue of this Special Power of Attorney to obtain, protect, maintain or enforce Franchisor's (IP/Trademarks/Service Marks) if Franchisor is, for any reason, unable to obtain Franchisee's cooperation or assistance. The Special Power of Attorney granted by this *Section 8.4*, shall survive the dissolution, death, incompetence or disability of Franchisee and the termination or expiration of this Agreement.

## **ARTICLE 9. OPERATING STANDARDS AND DUTIES OF FRANCHISE OWNER**

### **9.1 General Operating Standards and Compliance with Operations Manuals.**

You understand and acknowledge that every detail of the operation of the Franchised Business is important in order to develop and maintain high and uniform standards of quality, cleanliness, appearance, service, facilities and techniques, to increase the demand for the System, and to protect our reputation and goodwill and that of other *Taco Time* franchisees. You also acknowledge that the operation of the Franchised Business is your sole responsibility, and that we have no responsibility to obtain customers for you. Mandatory services, System specifications, standards and operating procedures prescribed from time to time by us in the Operations Manuals will constitute provisions of this Agreement as if fully set forth herein.

### **9.2 Authorized Products and Services.**

a. You agree that you will not, without our prior written approval, offer at the Location any menu items, beverages, products or services that are not authorized by us for Franchised Business, as set forth in the Operations Manuals.

b. You have complete discretion in establishing the minimum price you charge for your products. Although we may suggest pricing strategy, you will have the final pricing decision.

c. Notwithstanding the terms of *Section 9.2b*, we may conduct periodic promotional campaigns during which a specified product or products are promoted at a specified price. During the promotional period, you may not charge your customers more than the specified promotional price, although you may charge less than the promotional price.

d. We may conduct new marketing, research and development, branding and/or operational program tests, which will generally be conducted with experienced, existing franchisees and may include incentives and other rights that are not available to all franchisees. We reserve the right to sell some of the products associated with the Proprietary Marks to different retail outlets, such as grocery chains or membership-based retailers, even if such retail outlets are located near your Franchised Business.

e. You hereby consent to third party vendors, suppliers and distributors sharing with us any and all information, reports, invoices and related documentation covering and otherwise detailing your purchases for the Franchised Business.

f. You are required to accept debit and credit cards (including, but not limited to, Visa®, MASTERCARD® and AMERICAN EXPRESS®) and Gift/Loyalty Cards from consumers

at the Franchised Business. Prior to the opening of your Franchised Business, you will be required to acquire an approved debit, credit and Gift/Loyalty card processing system ("Card Processing System") to use during the operation of the Franchised Business. The components and specifications of this Card Processing System are specifically identified in the Operations Manuals. Additionally, you must utilize Franchisor's approved third party payment card processor, as identified in the Operations Manuals, for processing all Card Processing System transactions.

### **9.3 Specifications and Standards for Supplies; Approved Suppliers; Rollouts**

a. You must purchase certain proprietary and/or required equipment and supplies utilized in the Franchised Business only from our designated approved distributors and/or suppliers. If, during the term of this Agreement, we change designated approved distributors and/or suppliers for any of the proprietary and/or required equipment and supplies utilized in the Franchised Business, you shall change to the new designated approved distributor and/or supplier within sixty (60) days of written notification of such change from us.

b. If you desire to purchase or lease any equipment, supplies or inventory items required in the Operations Manuals but not previously approved by us or from sources not previously approved by us, you must submit to us sufficient specifications, photographs, drawings, and/or other information and samples sufficient to allow us to determine whether such equipment, supplies or inventory items meet our System specifications. We may require that our representatives be allowed to inspect the facilities of the proposed supplier and revoke its approval upon the supplier's failure to meet any of our then current minimum System Standards and specifications. We may also require that samples from the proposed supplier be delivered, at no charge to us, either to us or to our designee for testing. A charge not to exceed the reasonable cost of the inspection and the actual cost of the test must be paid to us either by you or by the proposed supplier. We will notify you in writing within sixty (60) days of your request of our approval or disapproval of the proposed product or supplier, with such determination to be made in our sole and absolute discretion. You acknowledge and agree that our approval of any item or supplier of equipment, supplies or inventory not previously approved by us will not, in and of itself, make the supplier of that item an approved supplier for other *Taco Time* franchise owners in the System. We may, at our option, re-inspect the facilities and products of any approved supplier and revoke its approval upon the supplier's failure to meet any of our then current minimum System Standards and specifications. If you receive a written notice of revocation from us, you must stop selling disapproved products and stop purchasing from the disapproved supplier.

c. We will provide to you a list of all recommended and required items of equipment, fixtures, supplies, smallwares and interior decor. This list will be included in the Operations Manuals.

d. At any time or from time to time, Franchisor may at its sole option engage in new product Rollouts to add to or change the menu items offered for sale in the Franchised Business and/or the ingredients or supplier of ingredients utilized in the preparation of the menu items sold in the Franchised Business (the "Rollout"). If Franchisor engages in a Rollout, Franchisee shall participate in the changes that are the subject of such Rollout, including, but not limited to, offering the new menu items, changing the menu items, changing to the new supplier of the ingredients utilized in the preparation of the menu items, and/or changing to the new ingredients utilized in the preparation of the menu items. If Franchisor engages in a Rollout, it will notify Franchisee in writing of the details of the Rollout and provide Franchisee sixty (60) days from said written notification to take the applicable actions required by the Rollout.

e. You hereby consent to third party vendors, suppliers and distributors sharing with us any and all information, reports, invoices and related documentation covering and otherwise detailing your purchases for the restaurant covered by this Franchise Agreement.

**9.4 Compliance with Legal Requirements and Good Business Practices.**

You must, at your sole expense, operate the Franchised Business in full compliance with all applicable laws, ordinances and regulations. You must pay all costs and expenses incurred by, and in the conduct of, the Franchised Business, including but not limited to, all rent, salaries, taxes, disbursements, license or permit fees, traveling expenses and any other business expenses. You must immediately notify us in writing, and in no event, later than three (3) days of your receipt of any demand, action, suit or proceeding, or of the issuance of any order, writ, injunction, award or decree of any court, agency or other governmental instrumentality relating to your Franchised Business. Any such notice must be accompanied by a copy of the demand, complaint, order, writ, injunction, award, decree or other similar document. You must, in all dealings with your customers, suppliers, the public, and us adhere to the highest standards of honesty, integrity, fair dealing and ethical conduct. You agree to refrain from any business practice that may be injurious to the System or the goodwill associated with the Proprietary Marks.

**9.5 Maintenance of Insurance.**

At all times during the term of this Agreement, you must maintain in full force and effect comprehensive general liability insurance against claims for bodily and personal injury, death and property damage caused by or occurring in connection with the construction, ownership, operation or conduct of the Franchised Business. The insurance must also include coverage for product liability and fire claims.

Such insurance coverage must be maintained under one or more policies of insurance (each of which shall be primary coverage and shall not be contributory or secondary to any other coverage) containing minimum liability limits of One Million Dollars (\$1,000,000.00), combined single limit (or greater if applicable state laws or regulations require) for each occurrence and with an aggregate of not less than Two Million Dollars (\$2,000,000.00). Such insurance policy or policies must be “occurrence” policies and not “claims made” policies; must not provide for a deductible greater than One Thousand Dollars (\$1,000.00) in the aggregate and must provide that no act or omission of ours or of any officer, director or employee of ours or any affiliate of ours shall invalidate or diminish any coverage thereunder.

Such insurance policies must be issued by insurers having an A.M. Best's financial strength rating of at least “A-” or better. The general liability insurance required by this Agreement must: (i) name our parent company, Kahala Corp., as the certificate holder; (ii) name Kahala Franchising, L.L.C., Kahala Franchise Corp, Kahala Corp., their subsidiaries, affiliates, officers, directors, and employees as additional insureds; (iii) contain a waiver by the insurance carrier of all subrogation rights against us and our affiliates and our affiliates’ respective officers, directors and employees for casualty losses; (iv) indicate the address of the Franchised Business being insured; and (v) provide that we will receive notice of cancellation of any such policy. Our minimum insurance coverage requirements are as follows:

<b>Type of Coverage</b>	<b>Limits/Specifications</b>
General Liability	\$1,000,000 Bodily Injury/Property Damage Per Occurrence / \$2,000,000 Aggregate
Building Improvements and Betterments	100% of Full Replacement Cost – No Coinsurance

<b>Type of Coverage</b>	<b>Limits/Specifications</b>
Business Personal Property	100% of Full Replacement Cost – No Coinsurance – Special Form
Spoilage	\$10,000
Business Income	Actual Loss Sustained or at least 50% of Annual Sales
Flood, Earthquake and Volcanic Eruption	Subject to Territory Limitations – required if in a designated Flood Zone
Workers' Compensation	Statutory Requirements
Stop Gap or Employer Liability	\$1,000,000 by Disease \$1,000,000 each Accident \$1,000,000 Policy Limit
Hired and Non-Owned Automobile Liability	\$1,000,000 Combined Single Limit

Your landlord may require additional insurance, higher coverage requirements, or have specific requirements regarding additional certificate holders and/or additional insureds. You are responsible for maintaining insurance as required by us pursuant to this *Section 9.5*, as well as maintaining insurance as required by your landlord pursuant to your lease. You must always keep the required insurance coverage in force at all times during the operation of the Franchised Business, and you must comply with any changes we make periodically to our insurance requirements. If your restaurant is located in a flood zone or an area subject to earthquakes, hurricanes, tornadoes, other similar hazards, you may want to obtain additional specific insurance to cover these risks; such insurance may significantly increase your premiums. Upon thirty (30) days' notice to you, we may require you to increase the minimum coverage of the insurance referred to above as of the next renewal date of any policy, and require different or additional kinds of insurance at any time, including excess liability (umbrella) insurance, to reflect inflation, identification of special risks, changes in law or standards of liability, higher damage awards or other relevant changes in circumstances.

At the time you sign your lease and annually, at least ten (10) days prior to renewal of your insurance coverage, and at any other time on our request, you must provide us with certificates of insurance or copies of insurance policies showing that you are in compliance with our insurance requirements, as well as proof that you have paid the premiums you owe for the insurance we require. You will pay your insurance premiums to your insurance broker or to the insurance company issuing the policy. You must have insurance and have provided a copy of your certificate of insurance to us which meets our requirements before you may open your restaurant. We may, at our option and in addition to our other rights and remedies under this Agreement, obtain such insurance coverage on your behalf, and you must promptly execute any applications or other forms or instruments required to obtain any such insurance and pay to us, on demand, any costs and premiums incurred by us. Your obligation to obtain and maintain the insurance described above will not be limited in any way by reason of any insurance maintained by us, nor will your performance of such obligations relieve you of any obligations under *Section 8.2* of this Agreement.

## **9.6 Management of the Franchised Business.**

You are directly responsible for all aspects of operating the Franchised Business, and you agree that you will, at all times you operate the Franchised Business, use your best efforts to enhance your Franchised Business and the System. The Franchised Business must be personally managed and directly operated by either you or another partner, shareholder or member of your business organization, or a manager, who must have successfully completed the Training Program referred to in *Section 4.1* above.

If any manager leaves your employment or if your principal owner desires to later delegate control over the operation of the Franchised Business, a replacement manager must be designated by you and must complete the Training Program referred to in *Section 4.1* above to our satisfaction. You must immediately notify us of any change in management or supervisory personnel.

#### **9.7 Inspections by Franchisor.**

For the purpose of this *Section 9.7*, you must make available to us or our authorized representatives such financial and other information concerning the Franchised Business, and you must permit us or our authorized representatives, to have full and free access to such information at your Franchised Business Location during regular business hours without notice. We and our authorized representatives will have the right to communicate freely with your employees, and make extracts from, and copies of, all such information. Our authorized representative may make announced or unannounced inspections of your Franchised Business to ensure compliance with all of the requirements of this Agreement.

#### **9.8 Shareholder Guaranty.**

If you are a corporation, limited liability company, or other business entity, each of your shareholders, members, or other owners (and their respective spouses, if married) must execute and deliver to us a Guaranty of Contract, in the form of Exhibit 4 attached to this Agreement and incorporated herein by reference, as a condition to the validity of this Agreement, at the same time that you sign this Agreement.

In the event any person who has not previously signed a Guaranty of Contract becomes the holder of any class of your stock or ownership interests at any time after the execution of this Agreement, you must cause that person to immediately execute and deliver a Guaranty of Contract to us.

### **ARTICLE 10. ADVERTISING AND PROMOTION**

#### **10.1 Advertising by Franchisor.**

We (or at our election a third party which may be an affiliate of ours) will administer the Advertising Fund that will include your Advertising Fees and those of other franchise owners in the System. If an affiliate of ours administers the Advertising Fund or places advertising in connection with the System, such affiliate may be paid a fee that will not exceed the fee that would be payable to unrelated third parties for comparable services. Unless required by applicable law, we will have no obligation to create a trust account, escrow account or other special account for the Advertising Fund, and the monies comprising the Advertising Fund may be placed in our general account. We may also reserve Advertising Fees for use in a subsequent year.

We will direct all advertising and promotional programs. We will have sole discretion over all creative concepts, materials and media used in such programs and the placement and allocation of such programs. The Advertising Fund will be used for marketing, advertising, production and media expenses to promote the *Taco Time* trade name, System, products and services. We are entitled to receive the following from the Advertising Fund: reimbursement of expenses, overhead, and employee salaries for services provided; and rent for office space provided to the Advertising Fund. We are not required to use any specific amounts from the Fund in your market. However, we will use all amounts contributed by you to any Franchisor-

approved regional advertising funds, if any (see *Section 5.3*) in the same geographic area in which your Franchised Business is located.

## **10.2 Advertising by Franchisee.**

In addition to your Advertising Fees, if applicable, and your grand opening promotional advertising program required under *Section 5.3* above, and unless your Franchised Business is located in an enclosed shopping mall or other enclosed structure identified in *Section 1.1* above, you agree to pay for a regular (white pages) and classified (Yellow Pages) telephone directory advertisement in the main directory distributed in the area where your Franchised Business is located, in such directory categories as we specify, utilizing forms of listing and classified directory advertisements approved by us. We also recommend that, in addition to your Advertising Fee, you spend at least two percent (2%) of your monthly gross sales on local advertising.

Your own local marketing and advertising should be developed to maximize your particular customer base. You should not rely upon a marketing program or plan by the Franchisor for the success of your own Franchised Business.

You must submit to us for our prior approval samples of all local advertising and promotional materials not prepared or previously approved by us. If written disapproval is not received by you within fifteen (15) days from the date of receipt by us of such materials, we will be deemed to have given the required approval.

Under no circumstances may you use, without limitation, the name, image, or voice of a celebrity, public figure, character or other person in connection with the Proprietary Marks or the Franchised Business without our prior written consent. We retain the sole and exclusive right to use, without limitation, the name, services or image of any celebrity, public figure, character or other person in advertising, endorsing or recommending the System.

If you decide to hold a contest, giveaway or sweepstakes (individually and collectively, "Promotion"), you must provide us with at least sixty (60) days' written notice prior to the start of such Promotion. You must also provide to us, with the Promotion notice, a copy of the official rules for the Promotion. As an independent contractor and owner of the Franchised Business, you shall at no time represent that your Promotion is affiliated with, sponsored by or in any way approved or authorized by Franchisor. In addition, as an independent contractor and owner of the Franchised Business, you agree that you are solely responsible for complying with all federal, state, and local laws concerning your Promotion.

## **ARTICLE 11. ACCOUNTING PROCEDURES AND REPORTS**

### **11.1 Maintenance of Records.**

You shall keep full, complete, and accurate books and accounts in accordance with generally accepted accounting principles, and in the form and manner indicated below or as from time to time further required by us. You agree to submit reports and data to us electronically if we advise you to do so. Franchisee agrees:

a. to submit to us within thirty (30) days after the end of each calendar month, on a Franchisor-approved form, on Monday of each week before the close of business, a signed statement of weekly Gross Sales for the seven (7) day period ending at the close of business on the preceding Sunday;



b. to submit to us, on or before the thirtieth (30th) day of each month, commencing with the opening of the Franchised Business, on a Franchisor-approved form, a profit and loss statement of the Franchised Business for the preceding calendar month prepared in accordance with generally accepted accounting principles;

c. to submit to us, within ninety (90) days after the end of each calendar year, commencing with the opening of the Franchised Business, on a Franchisor-approved form, a profit and loss statement and balance sheet (including a statement of retained earnings or partnership account) for the preceding calendar year;

d. to submit to us, at the times required, such other periodic forms, reports and information as may from time to time be required by us;

e. to preserve, in the English language and for the time periods set forth below, all accounting records and supporting documents related to the Franchised Business (referred to below as the "Records"), including:

1. daily cash reports;
2. cash receipts journal and general ledger;
3. cash disbursements journal and weekly payroll register;
4. monthly bank statements, and daily deposit slips and canceled checks;
5. all tax returns, including personal returns of Franchisee, its officers, shareholders, partners and members;
6. suppliers invoices (paid and unpaid);
7. dated cash register tapes (detailed and summary);
8. semi-annual balance sheets and monthly profit and loss statements;
9. daily production, throwaway and finishing records and weekly inventories;
10. records of promotion and coupon redemptions;
11. records of all outside sales; and
12. such other records as we may from time to time request.

f. to record all sales on cash registers approved by us, as specified in the Operations Manuals;

g. to file all federal and state tax returns of Franchisee on a timely basis and to provide copies of them to Franchisor. We may, where applicable, require that tax returns from all shareholders, members or partners of Franchisee be provided to us, if Franchisee is other than an individual;

h. During the term of this Agreement, you shall preserve the Records for at least the current fiscal year and for the three (3) immediately preceding fiscal years. For three (3) years after the date of any transfer of an interest in this Agreement, the transferor of such interest will preserve the Records for its last three (3) fiscal years of operation under this Agreement. For three (3) years after the expiration of the term of this Agreement (or after any earlier

termination), you shall preserve the Records for the last three (3) fiscal years of operation under this Agreement; and

i. In connection with our efforts to attract additional franchise owners to the System, we will have the right to use (without identifying you, except as required or allowed by law) any financial statements, sales reports, profit and loss statements or balance sheets provided by you and, in connection therewith, you authorize us to disclose any information contained on such financial reports as may be required by any federal or state registration or disclosure law.

### **11.2 Audit by Franchisor.**

We will have the right, at any time during business hours, and with or without prior notice to you, to inspect and audit, or cause to be inspected and audited, the Records and cash control devices of the Franchised Business, and your corporate, partnership or limited liability company books and records (if you are a corporation, partnership, limited liability company, or other entity). You agree that we may access any computers utilized by you for such purposes.

You will fully cooperate with our authorized representatives and independent accountants hired by us to conduct any such inspection or audit. In the event any such inspection or audit discloses an understatement of your Gross Sales for any period in question, you will pay to us, immediately after receipt of the inspection or audit report, any additional Royalty Fees or Advertising Fees due as a result of any such understatement, plus interest at the Default Rate from the date originally due until the date such understatement is paid in full.

In addition, in the event such inspection or audit is made necessary by your failure to timely furnish Records, or if an understatement of Royalty Fees or Advertising Fees for the period of any audit (which period shall not be for less than one month) is determined by any such audit or inspection to be five percent (5%) or greater, you must reimburse us all amounts incurred in connection with such audit or inspection including, without limitation, our employee costs, any independent accountants' and/or attorneys' fees, transportation, room, and meal expenses.

The remedies in this *Section 11.2* will be in addition to all our other remedies and rights under this Agreement or under applicable law.

### **11.3 Ownership Information.**

You must provide to us with a list containing the name, address, phone number, social security number, and entity ownership interest, for each officer, director, shareholder, partner, member, manager (and of each officer, director, shareholder, partner, member, and manager of an entity owner) or any other person directly or indirectly holding an ownership interest in you on the Ownership Information Sheet attached to this Agreement as Exhibit 1. You must advise us in writing of any changes in such information within five (5) days after such change is effective.

## **ARTICLE 12. ASSIGNMENT, SALE OR TRANSFER**

*Sections 12.1 through 12.4* apply to all transfers, except transfers by Franchisor, which are described in *Section 12.5*.

## **12.1 Prior Consent of Franchisor to Assignment**

a. For the purpose of this Agreement, “transfer” means any act or circumstance by which fifty percent (50%) or more of the ownership or control is shifted from any individual or entity to another; including, without limitation, if Franchisee is a corporation, any changes in the ownership of the stock of Franchisee or the issuance of additional stock of Franchisee or, if Franchisee is a partnership, limited liability company, or limited liability partnership, any change in or addition of partners or members.

b. We are entering into this Agreement based upon our knowledge of and faith in the ability of Franchisee. Therefore, the Franchised Business and all the rights granted by this Agreement are personal to Franchisee and may not be assigned or transferred by Franchisee without Franchisor’s prior written consent. Any attempt to assign or transfer: (i) any right under this Agreement; (ii) any interest in any entity holding an interest in this Agreement; (iii) all or any portion of the Franchised Business; or (iv) any assets now owned or later acquired by Franchisee during the Term of this Agreement that are located at and/or utilized in the operation of the Franchised Business, without Franchisor’s prior written consent, will be null and void; and will give us the right to terminate this Agreement and your rights under it, in addition to any remedies which we may have for the breach of this covenant by reason of an attempted assignment or transfer.

c. We shall not unreasonably withhold our consent to an assignment or transfer, so long as it is shown to the satisfaction of Franchisor that the proposed transferee can perform a franchisee’s obligations under the then-current form of agreement required of new franchisees. The proposed transferee must execute the then-current form of franchise agreement and all other agreements, legal instruments, and documents used by us in the assignment of our franchises. The then-current form of franchise agreement, and other legal documents, may vary materially from the agreements currently used by Franchisor, including the payment of higher Royalty Fees and Advertising Fees.

## **12.2 Advance Notice of Proposed Terms and Right of First Refusal**

a. If you, or any shareholder, member or partner of Franchisee, have received and desire to accept a signed bona fide written offer from a third party to purchase: (i) Franchisee’s rights under this Agreement, or any part of it; (ii) any interest in any entity holding an interest in this Agreement; (iii) all or any portion of the Franchised Business; or (iv) any assets now owned or later acquired by Franchisee during the Term of this Agreement that are located at and/or utilized in operation of the Franchised Business, and before making any binding commitment regarding such transfer, you shall notify us and provide us with a complete copy of the offer (letter of intent) which must include the name, address and telephone number for every proposed transferee. Franchisee must also include information as to the identity of all who will own an interest in this Agreement or in the Franchised Business after the completion of the transfer, their respective interests, and the proposed terms and conditions of sale and payment.

b. Franchisor shall have the right and option, exercisable within thirty (30) days after the date Franchisor receives its copy of the offer, to purchase the interest proposed to be transferred, at the price and upon the same terms and conditions specified in the notice.

c. If Franchisor does not exercise this option, and the terms of the unaccepted offer are altered, we must, in each such instance, be notified by Franchisee of the changed offer; and we will again have thirty (30) days to exercise our right to purchase on the altered terms. If Franchisor does not exercise its option, then the transfer may take place on the terms and price set forth in the notice; provided: (i) Franchisor gives its written consent; (ii) the transfer takes

place no later than six (6) months from receipt of Franchisor's written refusal to exercise its option to purchase; and (iii) all the conditions set forth in *Section 12.3* below are satisfied.

### **12.3 Requirement for Consent to Transfer**

If a transfer of: (i) any right under this Agreement; (ii) any interest in any entity holding an interest in this Agreement; (iii) all or any portion of the Franchised Business; or (iv) any assets now owned or later acquired by Franchisee during the Term of this Agreement that are located at and/or utilized in the operation of the Franchised Business, is proposed and Franchisor does not exercise its right to purchase pursuant to the preceding Section, then Franchisor will consent to the transfer, provided that:

a. Each transferee provides to us a completed application and financial documents, is financially acceptable, is not associated with a competitor of Franchisor, is of good moral character and reputation, and meets Franchisor's criteria, which includes: work experience and aptitude; ability to devote time and best efforts to the Franchised Business; equity interest in the Franchised Business; ability to speak and read English sufficient in the opinion of Franchisor to communicate with employees, customers and suppliers and to satisfactorily complete Franchisor's training; no conflicting interests; and other criteria and conditions that Franchisor applies to new franchisees;

b. Franchisee provides to us a copy of the purchase and sale agreement, and following our analysis of the terms and conditions of the proposed transfer, Franchisor, in its sole discretion, concludes that such terms and conditions will not interfere with the financial feasibility of the future operation of the Franchised Business;

c. Each transferee shall have completed the Training Program required under *Section 4.1* of this Agreement;

d. Each transferee enters into all Franchisor current forms of agreements then being required of new franchisees. The terms of the then-current franchise agreement may vary materially from the current agreements used by Franchisor, including the payment of higher Royalty Fees and Advertising Fees. Unless a longer period is agreed upon between Franchisor and the transferee, the term of the transferee's franchise agreement shall be for the unexpired term of this Agreement; and unless a longer term is agreed upon by Franchisor, the transferee will not pay an Initial Franchise Fee as provided in *Section 5.1* of this Agreement;

e. All obligations of Franchisee under this Agreement are fully paid and satisfied; Franchisee is not in default under any provisions of this Agreement or any other agreement with Franchisor; and Franchisee and transferee enter into a written assignment of Franchised Business with Franchisor, including (except where prohibited by law) a general release by Franchisee of all claims against Franchisor;

f. You or the transferee shall have paid to us a non-refundable Transfer Fee in the amount of: (i) Twenty Thousand Dollars (\$20,000.00), if the assignment or sale is consummated prior to the expiration of twenty-four (24) months from the Effective Date of this Agreement; or (ii) Seven Thousand Five Hundred Dollars (\$7,500.00), if the assignment or sale is consummated after twenty-four (24) months from the Effective Date of this Agreement;

g. In addition to the Transfer Fee in *Section 12.3f* above, either Franchisee or transferee (as agreed to by Franchisee and transferee) shall pay to Franchisor a non-refundable Training Fee of Two Thousand Five Hundred Dollars (\$2,500.00) to cover the Franchisor's costs

and expenses in providing the necessary training for the transferee of Franchisee (training provided is for two individuals, and a fee of Five Hundred Dollars (\$500.00) will be charged for each additional individual trained over two);

h. The transferee agrees to complete all remodeling and improvements as required by us, within the time period specified by us; and

i. Franchisee and transferee agree not to assert any security interest, lien, right or claim now or in the future, in the Franchised Business. Any security interest, lien, claim or right asserted with respect to any personal property at the Location must not include any after-acquired property and must be subject, junior and subordinate to any security interest, lien, right or claim now or in the future, asserted by Franchisor, its successors or assigns.

j. Franchisee agrees to complete and sign a letter of agency, letter of authorization, or equivalent and provide it to transferee so that transferee may keep the existing telephone number when the store is transferred to transferee.

#### **12.4 Death or Incapacity of Individual Franchisee; Change in Entity.**

a. Death or incapacity of Franchisee that is an individual:

(i) In the event of the death or incapacity of an individual Franchisee, the legal representative of the individual Franchisee may for a period of ninety (90) days from the date of death or incapacitation continue to operate the Franchised Business, provided that the operation is conducted in accordance with the terms of this Agreement and any other agreements with Franchisor.

(ii) If a representative of Franchisee desires to continue the operation of the Franchised Business beyond the ninety (90) day period, then prior to the expiration of this period, the legal representative of the individual Franchisee must apply in writing for the right to transfer the Franchised Business to the person or persons (whether spouse, heir, devisee, purchaser, or any other person), as the legal representative may specify. The application for transfer will be treated in the same manner as any other proposed transfer under this Agreement.

(iii) If the legal representative does not comply with the provisions of the preceding paragraph, or does not propose a transferee acceptable to us under the standards set forth in this Agreement, all rights licensed to Franchisee under this Agreement will terminate immediately and automatically revert to Franchisor. Franchisor shall have the right and option, in its sole discretion, exercisable upon such termination, to purchase all removable furniture, fixtures, signs, equipment and other chattels, but not leasehold improvements, at a price to be agreed upon by the parties or, if no agreement as to price is reached by the parties, at such price as may be determined by a qualified appraiser, approved by both parties, such approval not to be unreasonably withheld. Franchisor shall give notice of its intent to exercise the option no later than twenty-one (21) days prior to termination.

b. Death or incapacity of a shareholder, partner, or member in Franchisee when Franchisee is a business entity:

(i) In the event of the death or incapacity of any shareholder, partner, or member in the Franchisee which is a business entity, the surviving shareholders, partners, or members may for a period of ninety (90) days from the date of death or incapacitation continue to

operate the Franchised Business, provided that the operation is conducted in accordance with the terms of this Agreement and any other agreements with Franchisor.

(ii) If the shareholders, partners, or members of Franchisee desire to continue the operation of the Franchised Business beyond the ninety (90) day period, then prior to the expiration of this period, the shareholders, partners, or members of Franchisee must apply jointly with all surviving shareholders, partners, or members in writing, for the right to transfer the Franchised Business (or the interest of the deceased or incapacitated shareholder, partner, or member in the Franchised Business), to the person or business entity as the surviving shareholders, partners, or members may specify. The application for transfer will be treated in the same manner as any other proposed transfer under this Agreement.

(iii) If all surviving shareholders, partners or members do not comply with the provisions of the preceding paragraph, or do not propose a transferee acceptable to us under the standards set forth in this Agreement, all rights licensed to Franchisee under this Agreement will terminate immediately and automatically revert to Franchisor. Franchisor shall have the right and option, in its sole discretion, exercisable upon such termination, to purchase all removable furniture, fixtures, signs, equipment and other chattels, but not leasehold improvements, at a price to be agreed upon by the parties or, if no agreement as to price is reached by the parties, at such price as may be determined by a qualified appraiser, approved by both parties, such approval not to be unreasonably withheld. Franchisor shall give notice of its intent to exercise the option no later than twenty-one (21) days prior to termination.

## **12.5 Assignment by Franchisor.**

You agree and affirm that we may, without your prior consent, sell our business, our assets, our Proprietary Marks and/or our System, in whole or in part, to a third-party; may issue a public offering of our securities; may engage in private placement of some or all of our securities; may merge, acquire other corporations, or be acquired by another corporation; and/or may undertake a refinancing, recapitalization, leveraged buyout or other economic or financial restructuring. You further agree and affirm that we have the right, now and in the future, without your prior consent, to purchase, merge, acquire or affiliate with an existing competitive or non-competitive franchise network, chain or any other business regardless of the location of that chain's or business' facilities, which you acknowledge may be proximate to your Franchised Business, and to operate, franchise or license those businesses and/or facilities as *Franchised Businesses* operating under the Proprietary Marks or any other marks following our purchase, merger, acquisition or affiliation. With regard to any of the above sales, assignments and dispositions, you expressly and specifically waive any claims, demands or damages against us arising from or related to the loss of our name, Proprietary Marks (or any variation thereof), System and/or the loss of association with or identification of Kahala Franchising, L.L.C. (dba *Taco Time*).

This Agreement will inure to the benefit of the successors and assigns of Franchisor. In conjunction with one or more of the transactions contemplated above, or as otherwise determined by us, we have the right to assign our rights and obligations under this Agreement to any person or entity, without your prior consent. Upon such assignment, we will be relieved of all obligations or liabilities then existing or thereafter able to be asserted under this Agreement.

## **12.6 Restrictions on Security Interests and Subfranchising.**

Except as otherwise set forth below in this *Section 12.6*, you shall not have any rights to pledge, encumber, hypothecate or otherwise give any third party a security interest in this

Agreement in any manner whatsoever, nor subfranchise or otherwise transfer, or attempt to subfranchise or transfer the Franchised Business, in whole or in part, so long as it is operated as the Franchised Business, without the express prior written permission of Franchisor, which permission may be withheld for any reason whatsoever in Franchisor's sole discretion. Notwithstanding anything contained herein to the contrary, you shall have the right to pledge your accounts receivable, net of royalties and rent, without our prior written consent for the sole purpose of obtaining financing for the operation of the Franchised Business, provided you are in full compliance with all of the terms and conditions of this Agreement and any other agreement, arrangement or understanding with us.

### **ARTICLE 13. RENEWAL OF FRANCHISE**

Subject to the terms and conditions described below, you will have the right to renew your license to operate the Franchised Business for the shorter of the following: (i) ten (10) years; or (ii) the term of the new lease for the Location of the Franchised Business, including any renewal options thereto. In the event you desire to renew your license, you must give us written notice to that effect at least one hundred twenty (120) days prior to the expiration date of the Term. In addition to giving the written notice of renewal referred to above in a timely manner, in order to have the right to renew the license to operate the Franchised Business for an additional term, you must also meet each of the following requirements:

a. You must not then be in default under this Agreement, and no event shall have occurred that, with the giving of notice, the passage of time, or both, would constitute a default under this Agreement, including, without limitation, all financial obligations to us;

b. You must be in complete compliance with the terms of this Agreement, including, without limitation, all financial obligations to us, and the then-current Operations Manuals;

c. You must not have received more than three (3) written notices of default or breach of this Agreement during its term, nor more than two (2) such notices during the five years immediately preceding the Effective Date of the proposed renewal;

d. You must have the existing right to maintain possession of the Location for a term co-extensive with the term of the renewal, or you must have secured and developed suitable substitute location approved by us;

e. You and we must execute a renewal franchise agreement (which will be in the form of the franchise agreement then customarily used by us in the granting of franchises in connection with the System) and all other agreements, legal instruments, and documents then customarily used by us in the granting of franchises in connection with the System. The renewal franchise agreement will not provide for the payment of an Initial Franchise Fee, and its terms may materially differ from the terms of this Agreement, including the payment of higher royalty fees and advertising contributions. The renewal franchise agreement will supersede this Agreement, but will not terminate your liability to perform any obligations which you have not yet performed under this Agreement, or which survive the termination of this Agreement; nor will the renewal franchise agreement terminate or supersede any Guaranty of Contract or Confidentiality Agreement executed pursuant to this Agreement;

f. The equipment, fixtures and signage used in connection with the operation of the Franchised Business must either meet our then-existing System specifications and standards, or you must agree, within a timeframe required by us, to replace or refurbish such items, and otherwise modify the methods of operation of the Franchised Business at your cost, in order to

comply with our System specifications and standards then applicable to new franchise owners; and

g. You shall have paid to us a Renewal Fee in the amount of Five Thousand Dollars (\$5,000.00).

If you do not meet any of the requirements for renewal, we will give you a written notice to that effect which will specify the requirements not met. The written notice will be given to you within sixty (60) days after you deliver to us your written notice of intent to renew.

## **ARTICLE 14. DEFAULT AND TERMINATION**

### **14.1 Default; Termination.**

a. Franchisee will be in default under this Agreement:

(i) If: (a) Franchisee becomes insolvent or makes an assignment for the benefit of creditors; (b) Franchisee files a petition in bankruptcy, or if such a petition is filed against and consented to by Franchisee, and such petition is not dismissed within thirty (30) days from the filing date of such petition; (c) Franchisee is adjudicated bankrupt; (d) a bill in equity or other proceeding for the appointment of a receiver of Franchisee or other custodian for Franchisee's business or assets is filed and is consented to by Franchisee or is not dismissed within thirty (30) days from the filing date of such bill or other proceeding; (e) a receiver or other custodian is appointed; (f) proceedings for composition with creditors under any state or federal law is instituted by or against Franchisee; (g) the real or personal property of the Franchised Business is sold at levy thereupon by any sheriff, marshal or constable, or sold by a secured party under any state's Commercial Code;

(ii) If Franchisee fails to pay, perform, observe or comply with any of Franchisee's duties and obligations under this Agreement or the Operations Manuals, including failure to pay when due, any sum due Franchisor under this Agreement (including, but not limited to, Royalty Fees and Advertising Fees); or if Franchisee breaches any of its obligations under any lease, sublease, mortgage, equipment agreement, promissory note, vendor account, conditional sales contract or other contract arising from, or in connection with, the Franchised Business, to which the Franchisee is a party or by which Franchisee is bound, whether or not we are a party thereto;

(iii) If Franchisee's direct lease or sublease for the Location of the Franchised Business is either: (a) in default and you fail to cure such default as provided in the direct lease or sublease; (b) is terminated for reason of default by Franchisee; or (c) the Location is lost as a result of Franchisee's failure to comply with the Lease Agreement;

(iv) If you fail, within thirty (30) days of the entry of a final judgment against Franchisee in an amount exceeding Two Thousand Dollars (\$2,000.00), to discharge, vacate or reverse the judgment or to stay its execution pending appeal, or to discharge any judgment which is not vacated or reversed within thirty (30) days after expiration of the stay of execution;

(v) If we determine that a serious health or safety problem exists at the Franchised Business, in which case, we may require you to immediately correct the problem or cease operating until the problem is corrected;



(vi) If you, or any owner, co-owner or principal of the Franchised Business, is convicted of a felony, a crime involving moral turpitude, or any other crime or offense that is reasonably likely to adversely affect the System, the Proprietary Marks, the goodwill associated therewith, or our interest therein;

(vii) Except for any reason provided in *Section 5.2*, if you abandon the Franchised Business, which abandonment shall conclusively be deemed established if the Franchised Business is closed for more than three (3) consecutive days;

(viii) Except for any reason provided in *Section 5.2*, If you close or relocate the Franchised Business, without Franchisor's express advance written consent;

(ix) If you fail to maintain an independent contractor relationship with Franchisor;

(x) If you either negligently or knowingly inaccurately report, or fail to report, any information in your franchise application;

(xi) If Franchisee or any owner, co-owner or principal of the Franchised Business commits an act, or permits an act to be committed, that violates any federal, state or local law that adversely impacts the Franchised Business;

(xii) If you fail to participate in any Rollout detailed in *Section 9.3* of this Agreement;

(xiii) If Franchisee violates any of the provisions of *Sections 2.3, 3.2, 9.2, or 9.3* including, but not limited to, the requirement that Franchisee: (a) sells or offers for sale only those products and services authorized by Franchisor; (b) purchases such authorized products only from suppliers who are approved in writing by Franchisor; and (c) utilizes and/or switches to any of Franchisor's designated approved and/or exclusive suppliers, including a supplier who has entered into a national or regional master supplier agreement with Franchisor; or

(xiv) If you transfer or attempt to transfer any rights or obligations under this Agreement or any other property or assets to any third party in violation of the provisions of *Article 12* of this Agreement.

(xv) If Franchisee or any officer, director, manager, member, or partner of Franchisee (as applicable) becomes subject to U.S. Executive Order 13224.

b. If you fail to cure any default to our satisfaction, within the applicable period following notice from us, if applicable, we may, in addition to all other remedies at law or in equity or as otherwise set forth in this Agreement, immediately terminate this Agreement. This termination will be effective immediately upon the giving of notice pursuant to Article 15.

## 14.2 Opportunity to Cure.

a. Fourteen Day Cure Period - Except as otherwise provided in this *Section 14.2*, you will have the right to cure your default under this Agreement within fourteen (14) days after written notice of default is given by Franchisor pursuant to Article 15. Notwithstanding the foregoing, the following lesser periods will apply under the circumstances described:

b. Seven Day Cure Period - A seven (7) day cure period will apply if you fail, refuse, or neglect to pay when due, any monies owing to us (including, but not limited to, Royalty Fees and Advertising Fees), or to any Advertising Fund, or if you fail to maintain the insurance coverage set forth in this Agreement;

c. 48 Hour Cure Period – A forty-eight (48) hour cure period will apply if you use any form of social medium (as defined in the Operations Manuals), including, but not limited to, a Twitter® account, Facebook® page or a video on YouTube®, whereby you hold yourself out to be an official page of, or video produced by, Franchisor and/or the owner of the *Taco Time* brand, and do not affirmatively state: (i) that you are a third party franchisee and that the opinion and content being expressed are your own and not that of *Taco Time*; and (ii) the Location of your Franchised Business, as required by the Operations Manual;

d. 24 Hour Cure Period - A twenty-four (24) hour cure period will apply to your violation of any law, regulation, order or our standards relating to health, sanitation or safety; or, except as provided in *Section 5.2* above, if you cease to operate the Franchised Business for a period of forty-eight (48) hours without the prior written consent of Franchisor. In addition, a twenty-four (24) hour cure period will apply if you post on any social medium site or direct others to any site or page, post, blog or other social medium site where there are posted any defamatory or offensive comments about Franchisor, other franchisees, the *Taco Time* brand, other Kahala brands, your or other franchisees' customers, vendors, or any of Franchisor's, your or franchisees' competitors;

e. Immediate Cure Period (less than 24 hours) – an immediate cure period (less than twenty-four (24) hours will apply if you post any content to a social medium site in which the content includes, without limitation, any inappropriate public displays of affection, Franchisor's or others' confidential information or materials, violations of health or safety standards, foul or obscene language, or any images of or information about any persons from whom you did not obtain prior written consent;

f. No Cure Period - No cure will be available (1) if Franchisee is in default under or breaches its covenants or obligations under *Sections 3.1, 14.1a, 14.1c, 14.1f, 14.1g, 14.1h, 14.1n* or *14.1o*, or (2) if Franchisee intentionally underreports weekly Gross Sales, falsifies financial data, fails to promptly provide upon Franchisor's request financial data and records specified in this Agreement, or otherwise commits an act of fraud with respect to its rights or obligations under this Agreement; or (3) if Franchisee is in default under or breaches its covenant against competition set forth in *Section 14.6* of this Agreement; or (4) if Franchisee is in default under or breaches its covenant to observe and obey all applicable laws, rules, ordinances and regulations set forth in *Section 9.4*, or (5) if Franchisee repeatedly fails to comply with the provisions of this Agreement, whether or not subsequently cured; or (6) if Franchisee, having twice previously cured a default or breach of this Agreement, commits the same breach or default again.

g. Statutory Cure Period - If a statute in the state or municipality in which the Franchised Business is located requires application of that state or municipal law, and that statute requires a cure period for the applicable default which is longer than any cure period specified in this *Article 14*, the statutory cure period will apply.

### **14.3 Our Right to Take Over Management.**

We have the right (but not the obligation), under the circumstances described below, to enter the Franchised Business and assume the Franchised Business' management for any period of time we feel is appropriate. If we assume the Franchised Business' management, you must pay us (in addition to the Royalty and Advertising Fee) six percent (6%) of the Franchised Business' Gross Sales, plus our direct out-of-pocket cost and expenses. If we assume the Franchised Business' management, you acknowledge that our duty is limited to using our reasonable efforts, and we will not be liable to you or your owners for any debts, losses or obligations the Franchised Business incurs, or to any of your creditors for any supplies or services the Franchised Business purchases. We may assume the Franchised Business' management if you abandon the Franchised Business or if you fail to comply with any provision of this Agreement and did not cure the failure within the time period we specify in our notice to you. You agree to complete and sign a letter of agency, letter of authorization, or equivalent and provide it to us upon our request if we assume the Franchised Business' management so that we may keep the existing telephone, facsimile, alarm, and credit card machine numbers (as applicable) in operation under our phone service provider. You also agree to keep the phone, water, gas, electric service (as applicable) turned on and active for one week after we assume the Franchised Business's management to allow us to switch the services over to us or our affiliate. Our exercise of our management rights under this *Section 14.3* will not affect our right to terminate this Agreement.

### **14.4 Remedies.**

a. Interest, Costs and Damages - If you fail to remit when due any payments required under this Agreement, you agree to pay, in addition to the unpaid amounts, all Franchisor's collection costs, expert fees, reasonable attorneys' fees, and costs and expenses, including, without limitation, all fees and costs of court, including all appeals, with interest on the unpaid amounts the Default Rate or the highest permissible rate. If you fail to cure a default, following notice, within the applicable time period set forth in *Section 14.2*, or if this Agreement is terminated as a result of your default, you shall pay to us all damages of any kind and nature whatsoever and all collection costs, expert fees, reasonable attorneys' fees, and costs and expenses, including, without limitation, all fees and costs of court, including all appeals, together with interest at the Default Rate or the highest permissible rate. If you fail to report Gross Sales, we may estimate your Royalty Fee and Advertising Fee based on prior reports, and may sue for and obtain judgment for such estimates unless you prove, prior to the entry of any default order or judgment, that your Royalty Fee and Advertising Fee are different than the estimates.

b. Waiver of Punitive Damages - Both Franchisor and Franchisee waive, to the full extent permitted by law, any right they otherwise may have had to claim, pursue, demand or receive any exemplary or punitive damages arising out of or related in any way to this Agreement and its addenda, appendices, exhibits and attachments.

c. If you breach any of the terms of this Agreement or are in default under this Agreement, we may enforce our rights by injunction, specific performance, or any other remedy available under this Agreement, at law or in equity, including, without limitation, termination. These remedies are cumulative and not exclusive and we may use all remedies available. In addition, we may elect to terminate this Agreement and all Franchisee's rights under it as set forth in *Section 14.5*.

d. If you breach any of the terms of this Agreement or are in default under this Agreement, we have the right to have a receiver appointed to take possession, manage and control the assets of the Franchised Business, collect the profits, and pay the net income for the operation of the Franchised Business as ordered by a court of competent jurisdiction. The right to appoint a receiver will be available regardless of whether waste or danger of loss or destruction of the assets exists.

#### **14.5 Effect of Termination or Expiration.**

Upon termination or expiration of this Agreement, we can advise all suppliers of *Taco Time* proprietary food items and other supplies bearing any of the Proprietary Marks or service marks to cease delivering the items and products to you.

Upon your abandonment of the Franchised Business (whether voluntary or involuntary), any termination of this Agreement (whether pursuant to *Sections 14.1, 14.2* or *14.4* above or otherwise), or upon expiration of the Term, you must immediately cease to hold yourself out to the public as a franchise owner of the System, and you must comply with the following:

a. Immediately pay to us or any affiliate of ours all sums owing from you to us or such affiliate, including the monthly Royalty Fees and Advertising Fees, for any period prior to the date of termination, the applicable Early Termination Fee, and all amounts owed for services and/or supplies or other items purchased by you from us or any affiliate of ours, or that were financed by us or any affiliate of ours, or which we or any affiliate of ours loaned to you, together with any interest or late fees accrued thereon, together with all other sums due us under this Agreement, and all damages of any kind or nature whatsoever that may be allowed by law;

b. Immediately cease to use, in any manner whatsoever, including, without limitation, in all advertising, the Proprietary Marks, any Trade Secrets, any Confidential Information, any benefits of the System or any part thereof, any methods associated with the Proprietary Marks or the System, any forms, recipes, Operations Manuals, slogans, signs, sign posts, marks, symbols, or devices used in connection with the operation of the Franchised Business; and you must deliver or destroy all of the above-mentioned materials, including, without limitation, any materials containing or referencing any of the foregoing, to us as directed by us. If we do not recover any such items, such items shall be valued at their then-current replacement cost, for purposes of determining the damages owing by you to us for failure to return such items, if we pursue a damage claim as a result thereof;

c. Immediately discontinue all advertising as a franchisee of the System, and thereafter refrain from any advertising that would indicate that you are or ever were a franchisee or licensee of ours, or otherwise were affiliated with us or the System;

d. Immediately take such steps as may be necessary or appropriate to:

(i) delete your listing in the yellow pages or any other directory, if applicable, and terminate any other listings that indicate that you are or were a franchisee or licensee of ours, or otherwise were affiliated with us or the System; and

(ii) transfer to our designee or us any telephone numbers used by you in connection with the Franchised Business. To accomplish this transfer, you must sign the Collateral Assignment and Irrevocable Special Power of Attorney attached to this Agreement as Exhibit 5 and incorporated herein by reference, and return it when you return this signed Agreement to us. You acknowledge that between you and us, we have the sole right and interest in all telephone numbers and directory listings associated with any Proprietary Marks, and you authorize us and appoint us and any officer or agent of ours, as your attorney-in-fact, to direct the telephone company and all listings agencies to accept such direction, or this Agreement, as conclusive evidence of our exclusive rights in such telephone numbers and directory listings and its authority to direct their transfer;

e. Immediately take such action as may be required to cancel all fictitious or assumed names, amend any entity name, or dissolve any entity that contains any Proprietary Mark, in whole or in part, regardless of whether the entity name was authorized by us, and amend or cancel any and all equivalent registrations relating to your use of any Proprietary Mark. You acknowledge that between you and us, we have the sole right and interest in all such fictitious or assumed names, entity name, and equivalent registrations, and you authorize us and appoint us and any officer or agent of ours as your attorney-in-fact, to effect the termination or cancellation of such fictitious or assumed names or equivalent registrations should you fail or refuse to do so, and the appropriate federal, state, and local agencies may accept your direction or this Agreement as conclusive evidence of our exclusive rights in such fictitious or assumed names or equivalent registrations, and its authority to direct their termination or cancellation (see Exhibit 5);

f. Comply with the confidentiality requirements and the covenant against competition in this Agreement for the specified period. Franchisee acknowledges that he/she, or (if an entity) its, authorized representative has carefully reviewed the confidentiality requirements and the covenant against competition in this Agreement; and that Franchisee has agreed to be bound by all the requirements and covenants; and

g. Maintain at a place made known to us all books, records and reports required under this Agreement for a period of not less than three (3) years after the date of termination or expiration of this Agreement, to allow us to make a final inspection of your books and records for the purpose of verifying that all amounts owing have been paid.

If you fail to do any of the foregoing, we may pursue against you and/or any guarantor of your obligations under this Agreement any remedy available at law or in equity.

We have the right, but not the obligation, to purchase from you any assets or property (but not leasehold improvements) used in the operation of the Franchised Business for an amount equal to the Value (as defined below), as of the termination date. If Franchisor is required, by law, regulation or court order, to purchase the equipment and/or other tangible assets used in connection with the Franchised Business, the purchase price will be equal to the Value. For purposes of this Agreement, the term "Value" means, subject to applicable law, an amount equal to Franchisee's cost for such assets, less depreciation and amortization using a 200% declining balance method over a 5-year period. If all, or any portion of, Franchisee's assets that are being purchased by Franchisor or its authorized representative are subject to lien(s), Franchisor or its authorized representative may pay, on Franchisee's behalf, the lienholder(s)

that portion of the purchase price for Franchisee's assets (which may be the entire purchase price) that is necessary to obtain the release of those assets from the lien(s), in lieu of paying Franchisee those funds. Further, Franchisor may offset any amounts payable to Franchisee pursuant to this Section, or otherwise pursuant to this Agreement, against any unpaid amounts payable to Franchisor or its Affiliates pursuant to this Agreement or any agreement executed in connection with this Agreement.

#### **14.6 Covenant Not to Compete; Conflicting Interests.**

a. During the term of this Agreement and for a period of one (1) year after your abandonment of the Franchised Business, expiration of the Franchise Agreement, or termination of the Franchise Agreement (whether voluntary or involuntary), Franchisee shall not engage in any business in competition (a "Competing Business", as further defined below in *Section 14.6c.*) with any *Taco Time* restaurant, nor shall Franchisee have any Conflicting Interest (as such term is defined below) in a Competing Business. The provisions of this Agreement bind Franchisee in any capacity, including as a franchisee, sole proprietor, partner, limited partner, member, employer, franchisor, stockholder, officer, director or employee.

b. During the Term of this Agreement, and for a period of one (1) year after your abandonment of the Franchised Business, expiration of the Franchise Agreement, or termination of the Franchise Agreement, (whether voluntary or involuntary, you shall not divert or attempt to divert any business, customers, or potential customers of *the Taco Time System* to any Competing Business, by direct or indirect inducement or otherwise. In addition, you shall not at any time do or perform any act, directly or indirectly, which harms the goodwill or reputation of Franchisor or the System.

c. For purposes of this *Section 14.6*, "Competing Business" means a business which is primarily engaged in the sale of freshly made tacos and burritos, and all variations thereof, within a geographical area consisting of: (1) during the term of this Agreement, anywhere else; and (2) after abandonment, expiration or termination of this Agreement, within a ten (10) mile radius from the location of any *Taco Time* restaurant of Franchisor, its third party licensees or its third party franchisees, including the restaurant licensed by this Agreement. The term "*Taco Time* restaurant" includes not only the restaurants now in existence, but also those established at a later date. The term of this covenant will be extended by any time consumed in litigation to enforce it in both trial and appellate courts. If a court of competent jurisdiction determines that the restrictions in this paragraph are excessive in time, geographic scope, or otherwise, the court may reduce the restriction to the level that provides the maximum restriction allowed by law.

d. For purposes of this *Section 14.6*, "Conflicting Interest" means an interest by which you, or your executive officers, directors and shareholders (if you are a corporation), or your partners (if you are a partnership), or your members (if you are a limited liability company), or your designated manager, directly or indirectly, have a controlling interest in, lend money to, consult with or otherwise assist any Competing Business. If any of the persons named above do not sign this Agreement under the heading "Personal Acceptance of *Sections 7.1, 14.6 and 14.8*", then you agree to obtain the execution by such person of a written agreement setting forth the foregoing in a form acceptable to us.

#### **14.7 Continuing Obligations.**

All your obligations that expressly survive the expiration or termination of this Agreement, including, without limitation, *Sections 14.5 and 14.6*, or by the implicit nature thereof require performance after the expiration or termination of this Agreement, will continue in full force and effect (subsequent to, and notwithstanding, your abandonment of the Franchised Business (whether voluntary or involuntary) the expiration of the Term of this Agreement, or termination of this Agreement), until they are satisfied in full or by their nature expire. The

indemnities and obligations set forth in *Article 8* will continue in full force and effect subsequent to, and notwithstanding, the expiration or termination of this Agreement.

#### **14.8 Remedies.**

Franchisee acknowledges and agrees that the restrictions contained in this Agreement, including, without limitation, in this Article 14, are fair and reasonable and necessary for the protection of Franchisor's legitimate business interests and Franchisee intends and agrees that such restrictions be enforceable and enforced to their fullest extent. Franchisee further understands and agrees that, notwithstanding any other provision of this Agreement, Franchisee's breach of its obligations under this Article 14, will cause Franchisor irreparable harm for which recovery of monetary damages alone would not be an adequate remedy. Franchisor and Franchisee both shall be entitled to obtain timely injunctive relief, including, without limitation, a temporary restraining order, preliminary and permanent injunctions, to protect their rights under this Agreement, in addition to and not exclusive of any and all other remedies available to each party.

### **ARTICLE 15. NOTICES**

All notices specified by this Agreement or required by law must be in writing and given by personal delivery, sent by carrier (i.e., FedEx®, UPS®, etc.), U.S. mail, or certified mail, return receipt requested. All notices to Franchisor must be given at the address set forth on page 1 of this Agreement or to such other address as Franchisor may designate in writing from time to time in accordance with this *Article 15*. All Notices to Franchisee may be given at the address set forth on page 1 of this Agreement, at the address of the Franchised Business, at any franchised restaurant of Franchisee, at the residence of Franchisee (if an individual), or at the residence of the principal shareholder(s), partner(s), or member(s) of Franchisee (if a business entity). Notices will be conclusively deemed to be given, delivered, and effective when sent pre-paid and actually left in the custody of an adult agent, employee or resident at a place of business or residence if given by personal delivery; or if given by carrier, twenty-four (24) hours after deposited with carrier, or if by U.S. mail or certified mail, three (3) days after deposited with the U.S. Postal Service. Franchisee has an obligation to promptly notify us pursuant to this *Article 15* whenever its mailing address, phone number and/or email address change.

### **ARTICLE 16. CONSTRUCTION AND ENFORCEMENT; MISCELLANEOUS**

#### **16.1 Independent Contractors.**

The relationship between Franchisor and Franchisee is that of independent contractors. Franchisee is in no way to be deemed a partner, joint venturer, agent, employee, or servant of Franchisor. You have no authority to bind Franchisor to any contractual obligation or incur any liability for or on behalf of Franchisor. You shall identify yourself as an independent owner of the Franchised Business in all dealings with customers, lessors, contractors, suppliers, public officials, employees, and others.

#### **16.2 Severability and Substitution of Provisions.**

Except as provided to the contrary in this Agreement, each Article, Section, subsection, term and provision of this Agreement, and any portion thereof, will be considered severable, and if, for any reason, any such portion of this Agreement is held to be invalid, contrary to, or in conflict with any applicable present or future law or regulation, or as a result of a final, non-appealable ruling issued by any court, agency or tribunal with competent jurisdiction in a

proceeding to which we are a party, that regulation or ruling will not impair the operation of, or have any other effect upon, such other portions of this Agreement as may otherwise remain valid, and such other portions will continue to be given full force and effect and bind the parties to this Agreement. If the severed provision is material to this Agreement, Franchisor shall promptly provide a substitute provision to replace the invalid severed provision consistent with then current law and the original intent of the parties.

If any applicable and binding law or rule of any jurisdiction requires a greater prior notice of the termination of, or refusal to renew, this Agreement than is required under this Agreement, or the taking of some other action not required under this Agreement, or if under any applicable law, regulation, or court ruling of any jurisdiction, any provision of this Agreement or any specification, standard or operating procedure prescribed by us is invalid or unenforceable, the prior notice and/or other action required by such law, regulation, or court ruling will be substituted for the comparable provisions of this Agreement, and we will have the right, in our sole discretion, to modify such invalid or unenforceable provision, specification, standard or operating procedure to the extent required to be valid and enforceable. Such modifications to this Agreement shall be effective only in such jurisdiction, unless we elect to give them greater applicability, and otherwise shall be enforced as originally made and entered into in all other jurisdictions.

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

Except to the extent that the United States Trademark Act of 1946, as amended (15 U.S.C., § 1051 et seq.) or the franchising laws of any state that may be applicable, the laws of the State of Arizona govern all rights and obligations of the parties under this Agreement. Franchisor and Franchisee agree that any appropriate state or federal court located in Maricopa County, Arizona has exclusive jurisdiction over any case or controversy arising under or in connection with this Agreement and is the proper forum in which to adjudicate the case or controversy; provided, however, that notwithstanding the foregoing any action initiated by Franchisor may, at Franchisor's election, be brought in any jurisdiction where Franchisee is domiciled or that has jurisdiction over Franchisee. The parties hereto irrevocably submit to the jurisdiction of, and venue in, any such court, and hereby waive any objection or defense thereto. THE PARTIES AGREE THAT ALL DISPUTES SUBMITTED TO THE COURT PURSUANT TO THIS SECTION SHALL BE TRIED TO THE COURT SITTING WITHOUT A JURY, NOTWITHSTANDING ANY STATE OR FEDERAL CONSTITUTIONAL OR STATUTORY RIGHTS OR PROVISIONS.

Notwithstanding anything contained in this Agreement to the contrary, the parties agree that any claims under, arising out of, or related to, this Agreement must be brought within two (2) years of the date on which the underlying cause of action accrued, and Franchisor and Franchisee hereby waive any right to bring any such action after such two-year period, except for the collection of unpaid Royalty Fees, Advertising Fees, and related monies due to Franchisor or its affiliate under this Franchise Agreement or related documents that govern the Franchised Business.

### **16.4 No Guarantee of Franchisee's Success.**

Franchisee has been informed of and acknowledges the highly competitive nature of the business involved, and agrees that the successful operation of its Franchised Business will depend in part, upon the best efforts, capabilities, management, and efficient operation by Franchisee; as well as the general economic trend and other market conditions.



## **16.5 Existence of Various Forms of Franchise Agreements.**

Franchisee acknowledges that present and future franchisees of Franchisor operate under a number of forms of franchise agreements and consequently, Franchisor's obligations and rights with respect to its various franchisees may differ materially in certain instances. The existence of different forms or versions of the franchise agreement does not entitle Franchisee to benefit from any such difference; nor does it operate to alter or amend the agreement of the parties set forth in this Agreement.

## **16.6 Franchise Owner May Not Withhold Payments.**

You agree that you will not, on grounds of alleged or actual nonperformance or breach by us of any of our obligations under this Agreement, withhold payment of any Royalty Fees, Advertising Fees, amounts due to us or any of our affiliates for goods and/or services purchased by you, or any other amounts due us or any of our affiliates.

## **16.7 Remedies Are Cumulative.**

The rights and remedies of the parties to this Agreement are cumulative and not exclusive, and no exercise or enforcement by either party of any right or remedy under this Agreement shall preclude the exercise or enforcement by such party of any other right or remedy under this Agreement or otherwise available at law or in equity to such party.

## **16.8 Interpretation.**

All the terms and provisions of this Agreement will be binding upon and inure to the benefit of the successors and assigns of the parties. However, nothing in this *Section 16.8* may be construed as a consent by us to the assignment or transfer of this Agreement or any rights by you.

## **16.9 Waiver.**

Failure of Franchisor to insist upon the strict performance of any term, covenant or condition contained in this Agreement will not constitute or be construed as a waiver or relinquishment of Franchisor's rights to enforce thereafter any such term, covenant or condition and such term, covenant or condition will continue in full force and effect.

## **16.10 Litigation Expense.**

If an action at law or suit in equity is brought to establish, obtain or enforce any right by either of the parties to this Agreement, the prevailing party in the suit or action, in the trial and/or appellate courts, will be entitled to recover from the non-prevailing party reasonable attorneys' fees, costs and disbursements incurred in such suit or action.

## **16.11 Cross Default.**

A default by Franchisee under this Agreement will be deemed a default of all franchise agreements between Franchisee and Franchisee's principal in his/her individual capacity or any other entity in which Franchisee's principals are members, managers, shareholders or partners ("Franchisee Entity") and Franchisor (and/or any of its predecessors.) A default by Franchisee or a Franchisee Entity under any other franchise agreement between Franchisor (and/or any of its predecessors), and Franchisee will be deemed a default under this Agreement. A default by Franchisee or a Franchisee Entity under any sublease between any affiliate of Franchisor (and/or

any of its predecessors) will be deemed a default under this Agreement. A default by the Guarantor(s) of this Agreement or any other franchise agreement Guaranty of Contract (including Franchisor and/or any of its predecessors), will be deemed a default of this Agreement.

#### **16.12 Cross Termination.**

If this Agreement is terminated as a result of a default by Franchisee under this Agreement or any other agreement related to the Franchised Business, Franchisor may, at its option, elect to terminate any or all other franchise agreements between Franchisee or a Franchisee Entity and Franchisor (and/or any of its predecessors.) If any other franchise agreement between Franchisee or a Franchisee Entity and Franchisor (and/or any of its predecessors), is terminated as a result of a default by Franchisee or a Franchisee Entity, Franchisor may, at its option, elect to terminate this Agreement. If any sublease between Franchisee or a Franchisee Entity and any affiliate of Franchisor (and/or any of its predecessors), is terminated as a result of a default by Franchisee or a Franchisee Entity, Franchisor may, at its option, elect to terminate this Agreement. It is agreed that an incurable or uncured default under this Agreement or any other franchise agreement between Franchisee and a Franchisee and Franchisor (and/or any of its predecessors), will be grounds for termination of this Agreement and/or any and all franchise agreements between Franchisee or a Franchisee Entity and Franchisor (and/or any of its predecessors), without additional notice or opportunity to cure.

#### **16.13 No Third Party Beneficiaries.**

This Agreement is not intended to benefit any other person or entity except the named parties hereto and no other person or entity shall be entitled to any rights hereunder by virtue of so-called "third party beneficiary rights" or otherwise.

#### **16.14 Binding Effect; Modification.**

This Agreement is binding upon the parties to this Agreement and their respective executors, administrators, personal representatives, heirs, permitted assigns and successors in interest. No amendment, change, or modification of this Agreement shall be binding on any party unless executed in writing by you and us.

#### **16.15 Entire Agreement; Nature and Scope; Construction.**

This Agreement, all exhibits, attachments, addendums, and amendments, constitute the entire understanding and agreement between the parties, and there are no other oral or written understandings or agreements between us and you relating to the subject matter of this Agreement. If required to be signed, any state specific addendums contained in Exhibit 7 are incorporated herein by reference. Any representation not specifically contained in this Agreement made prior to entering into this Agreement do not survive subsequent to the execution of this Agreement. We and you have entered into this Agreement for the sole purpose of authorizing you to use the System licensed by this Agreement in the operation of the Franchised Business during the Term of this Agreement in which those specific items designated by us for sale and use in such locations are offered for sale and use in individual, face-to-face transactions with patrons visiting the Franchised Business (and equivalent telephone or mail transactions accepted as a convenience to that customer group). All consideration being furnished by us to you during the course of performance of this Agreement has been determined based on the limited rights and other limitations expressed herein. No other rights have been bargained for or paid for. This provision is intended to define the nature and extent of the parties' mutual contractual intent, there being no mutual intent to enter into

contract relations, whether by agreement or by implication, other than as set forth in this Agreement. The parties further acknowledge that these limitations are intended to achieve the highest possible degree of certainty in the definition of the contract being formed, in recognition of the fact that uncertainty creates economic risks for both parties which, if not addressed as provided in this Agreement, would affect the economic terms of this bargain.

Nothing in this Agreement or in any related agreement is intended to disclaim the representations we made in the Disclosure Document. Nothing in this Agreement is intended, nor shall be deemed, to confer any rights or remedies upon any person or legal entity not a party hereto.

#### **16.16 Terminology.**

In addition to the terms defined elsewhere in this Agreement, the following terms defined below are incorporated in this Agreement by reference and shall be deemed to include all persons who succeed to the interest of the original, where applicable:

The term “affiliate” means any person who, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with any person;

The use of the terms “includes” and “including” in any provision of this Agreement followed by specific examples used shall not be construed to limit application of the provision to only the specific examples used;

The term “person” means any natural person, corporation, partnership, trust, other entity, association or form of organization;

The term “will” and “shall” shall be synonymous, and shall be mandatory and not discretionary, unless otherwise specifically provided herein; and

The term “you” as used herein is applicable to one or more persons, a corporation, partnership, trust, other entity, association or form of organization as the case may be, and the singular usage includes the plural, masculine, neuter, feminine, and possessive usages.

#### **16.17 Counterparts.**

This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original copy of this Agreement and all of which, when taken together, shall be deemed to constitute one and the same Agreement.

#### **16.18 Offerings.**

If you are a corporation, partnership or other entity, and if you intend to offer securities, partnership interests or other ownership interests in you through any public or private offering, you shall not use any Proprietary Marks in such public or private offering, except to reflect your franchise relationship with us; nor shall you misrepresent your relationship with us by any statement or omission of an essential statement. You shall indemnify and hold us harmless from any liability in connection with such offering. Nothing in the foregoing shall modify the provisions of *Article 12* of this Agreement, and no such offering shall be made without first complying with any applicable provisions of *Article 12* of this Agreement.

#### **16.19 Time.**

Time is of the essence of each and every provision of this Agreement.

#### **16.20 Plurals and Captions.**

Words in the singular number include the plural when the context requires (and vice-versa). The table of contents and the captions are inserted only for convenience and are not a part of this Agreement or a limitation of the scope of the particular article, section or subsection to which each refers.

#### **16.21 Joint and Several Liability.**

If Franchisee consists of two (2) or more persons, whatever the form of business entity through which the persons control Franchisee, then all these persons will be jointly and severally liable under the provisions of this Agreement.

#### **16.22 Trademark Notice.**

Cereality, Surf City Squeeze, Frullati Cafe & Bakery, Samurai Sam's Teriyaki Grill, Great Steak, NrGize Lifestyle Cafe, Rollerz, Ranch One, Johnnie's New York Pizzeria, Blimpie, America's Taco Shop, Pizza Fresh, and Kahala Coffee Traders are trademarks of Kahala Franchising, L.L.C. and/or its licensors. Cold Stone Creamery is a registered trademark of Cold Stone Creamery, Inc. and/or its licensors. All other trademarks referenced in this Agreement are those of their respective owners.

### **ARTICLE 17. ACKNOWLEDGMENTS AND REPRESENTATIONS OF FRANCHISEE**

#### **17.1 Certain Representations and Warranties of Franchisee.**

Franchisee represents and warrants that the following statements are true and complete as of the Effective Date:

a. Franchisee does not seek to obtain the Franchised Business for speculative or investment purposes and has no present intention to sell or transfer or attempt to sell or transfer the Franchised Business and/or the Franchise.

b. Franchisee understands and acknowledges the value to the System of uniform and ethical standards of quality, appearance and service described in and required by the Operations Manuals and the necessity of operating the Franchised Business under the standards set forth in the Operations Manuals. Franchisee represents that it has the capabilities, professionally, financially and otherwise, to comply with the standards of Franchisor.

c. If Franchisee is a corporation, limited liability company, partnership, or other form of entity, Franchisee is duly incorporated, organized, or formed and is qualified to do business in the state and any other applicable jurisdiction within which the Franchised Business is located.

d. The execution of this Agreement by Franchisee will not constitute or violate any other agreement or commitment to which Franchisee is a party.

e. Any individual executing this Agreement on behalf of Franchisee is duly authorized

to do so and the Agreement shall constitute a valid and binding obligation of the Franchisee and, if applicable, all of its partners, members, or shareholders, if Franchisee is a partnership, limited liability company, or corporation.

f. Franchisee has, or if a partnership, corporation or other entity, its partners or its principals have, carefully read this Agreement and all other related documents to be executed by it concurrently or in conjunction with the execution hereof, that it has obtained, or had the opportunity to obtain, the advice of counsel in connection with the execution and delivery of this Agreement, that it understands the nature of this Agreement, and that it intends to comply with and be bound by this Agreement.

g. Franchisee has read and understands the information and disclosures made in the Disclosure Document provided to Franchisee as acknowledged in *Section 17.3e*. Franchisee understands and acknowledges that estimates for initial start up expenses are estimates only. Franchisee understands that there can be and likely will be additional start-up expenses. Franchisee has had the opportunity to and has consulted or elected not to consult with its attorney and accountant and business advisors before entering into this Agreement.

h. Franchisee acknowledges and understands that Franchisor's past experience indicates that owner-operated restaurants generally perform better than absentee owners with hired managers. This does not mean that you will operate your Franchised Business better or that a manager is not going to operate your Franchised Business successfully. The food business is a personal business and your success is dependent upon your business skill and judgment. This includes your choice of employees. Your skill in hiring the right people to work in your Franchised Business is very important in determining whether people decide to purchase menu items from your Franchised Business or from another restaurant in the same vicinity.

i. Franchisee understands and acknowledges that ownership of a franchise and the Franchised Business carries certain risks. These risks include the loss of your initial investment, other continued financial losses such as rent payments due under lease obligations and other contractual obligations, the loss of your time and energy in starting up and running your Franchised Business, and loss of earnings and investment income from your investment in the Franchised Business. Franchisee understands and acknowledges that it may make money and may lose money and is entering this business venture with this express understanding. Franchisee is not relying upon anything which is not contained within this Agreement or the Disclosure Document in determining and deciding to become a Franchisee.

j. Notwithstanding the foregoing, you understand and agree that the System must not remain static if it is to meet (without limitation) presently unforeseen changes in technology, competitive circumstances, demographics, populations, consumer trends, social trends and other market place variables, and if it is to best serve the interests of us, you and all other franchisees. Accordingly, you expressly understand and agree that we may from time to time change the components of the System, including, without limitation, altering the products, programs, services, methods, standards, forms, policies and procedures of that System; abandoning the System altogether in favor of another system in connection with a merger, acquisition or other business combination or for other reasons; adding to, deleting from or modifying those products, programs and services which your Franchised Business is authorized and required to offer, modifying or substituting entirely the equipment, signage, trade dress, décor, color schemes and uniform System Standards and specifications and all other unit constructions, design, appearance and operation attributes which you are required to observe under this Agreement; and, abandoning, changing, improving, modifying or substituting the

Proprietary Marks. You expressly agree to comply with any such modifications, changes, additions, deletions, substitutions and alterations. You shall accept, use and effectuate any such changes or modifications to, or substitution of, the System as if they were part of the System at the time that this Agreement was executed. Except as provided herein, we shall not be liable to you for any expenses, losses or damages sustained by you as a result of any of the modifications contemplated hereby.

k. Franchisee represents that neither Franchisee nor any of its officers, directors, managers, members, or partners (as applicable) are subject to U.S. Executive Order 13224.

## 17.2 Additional Information Respecting Franchisee.

a. Attached hereto as Exhibit 1 is a schedule prepared by Franchisee which contains complete information respecting the owners, partners, members, officers and directors, as the case may be, of Franchisee.

b. The address (written notice of any change in this information after the Effective Date must be delivered to Franchisor pursuant to *Article 15* of this Agreement) where Franchisee's financial and other records are maintained is:

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

c. Franchisee has delivered to Franchisor or will deliver concurrent herewith, complete and accurate copies of all organizational documents relating to Franchisee, including without limitation, all partnership agreements, certificates of partnership, articles of organization, operating agreements, articles or certificates of incorporation, by-laws and shareholder agreements, including all amendments, side letters and other items modifying such documents.

d. Franchisee has completed and signed the Franchisee Questionnaire attached hereto as Exhibit 8 and incorporated herein by reference.

## 17.3 Acknowledgements of Franchisee.

a. Franchisee acknowledges that it has conducted an independent investigation of the business venture contemplated by this Agreement and recognizes that the success of this business venture involves substantial business risks and will largely depend upon the ability of Franchisee. Franchisor expressly disclaims making, and Franchisee acknowledges that it has not received or relied on, any warranty or guarantee, express or implied, as to the potential volume, profits or success of the Franchised Business contemplated by this Agreement.

Franchisee Initials \_\_\_\_/\_\_\_\_

b. Franchisee hereby certifies that no employee of Franchisor, no other person speaking on Franchisor's behalf, and no Area Representative, if applicable, has: (i) made any oral, written, visual, or other representation, agreement, commitment, claim, or statement that stated or suggested any level or range of actual or potential sales, costs, income, expenses, profits, cash flow, or otherwise; or (ii) made any oral, written, visual, or other representation, agreement, commitment, claim, or statement from which any level or range of actual or potential sales, costs, income, expenses, profits, cash flow, or otherwise might be ascertained, related to a *Taco Time* franchise, that is different from, contrary to, or not contained in the *Taco Time*

Disclosure Document; or (iii) made any representation, agreement, commitment, claim or statement to me that is different from, contrary to, or not contained in, the *Taco Time* Disclosure Document. I acknowledge and agree that Franchisor does not make or endorse, nor does it allow any of its employees or other persons speaking on its behalf to make or endorse, any oral, written, visual, or other representation, agreement, commitment, claim, or statement that states or suggests any level or range of actual or potential sales, costs, income, expenses, profits, cash flow, or otherwise with respect to a *Taco Time* franchise.

Franchisee Initials \_\_\_\_/\_\_\_\_

c. Franchisee acknowledges that Franchisee has received, read and understands this Agreement and the related Exhibits, Attachments and agreements and that Franchisor has afforded Franchisee sufficient time and opportunity to consult with advisors selected by Franchisee about the potential benefits and risks of entering into this Agreement.

Franchisee Initials \_\_\_\_/\_\_\_\_

d. Franchisee understands that the Franchise Agreement, including any amendments and exhibits, contains the entire agreement between Franchisor and me concerning the Franchised Business, and that any prior oral or written statements that are not set out in the Franchise Agreement, including any amendments and exhibits, will not be binding. I acknowledge and agree that Franchisor does not permit any representations, agreements, commitments, claims, or statements or approve any changes in the Franchise Agreement or any of the amendments and Exhibits to the Franchise Agreement, except by means of a written amendment or addendum signed by all parties to the Franchise Agreement. I acknowledge that nothing in this Agreement or in any related agreement is intended to disclaim the representations Franchisor made in the Disclosure Document.

Franchisee Initials \_\_\_\_/\_\_\_\_

e. Franchisee acknowledges receipt of our Disclosure Document fourteen (14) days prior to the execution of this Agreement or your payment of any monies to us or our agent (or sooner if required by applicable state law).

Franchisee Initials \_\_\_\_/\_\_\_\_

f. Franchisee acknowledges that it has not received any financial statements for Franchisor's parent company, Kahala Corp., nor has Franchisee received any financial statements for any of Franchisor's affiliated companies. Franchisee further acknowledges that it has not relied on the financial condition of Franchisor's parent company or any of its affiliated companies when making the decision to purchase the Franchised Business.

Franchisee Initials \_\_\_\_/\_\_\_\_

g. Franchisee acknowledges, as detailed in *Section 2.3* of this Agreement, that you must, at your own cost and expense, use only our designated and approved Design Architect for the design of your Franchised Business. Except for the Design Architect designated and approved by Franchisor, no other architect may be used by you for the design of your Franchised Business.

Franchisee Initials \_\_\_\_/\_\_\_\_

h. Franchisee acknowledges that the following is your Area Representative (if applicable):

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

Franchisee Initials \_\_\_\_/\_\_\_\_

i. If an Area Representative is identified in *Section 17.3h.* above, Franchisee makes the following representations with respect to the Area Representative:

(i) I/We have met or spoken to only \_\_\_\_\_, the Area Representative;

(ii) At no time did the Area Representative make any promises or statements, or projections or forecasts, or estimates or warranties or representations or other statement or agreement concerning profits or expenses or costs or actual or projected sales of any kind directly or by implication about *Taco Time* restaurants or about the Franchised Business that we desire to develop under this Agreement or about obtaining the approved Location or about any other matter other than what is contained in the *Taco Time* Disclosure Document or *Taco Time* restaurant brochure.

(iii) We have not received any written materials from Franchisor or the Area Representative except for the *Taco Time* brochure and Disclosure Document; and

If there are any exceptions to *Sections 17.3i (i) – (iii)* above, identify the item number and list the exception here:

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

Franchisee Initials \_\_\_\_/\_\_\_\_

j. Franchisee acknowledges there have been no other inducements made with any person or entity, including the Identified Area Representative, encouraging us to purchase the Franchised Business, such as a “side deal” or other promise or agreement not included in the Agreement.

Franchisee Initials \_\_\_\_/\_\_\_\_

k. Franchisee acknowledges and understands that NrGize Lifestyle Cafe, Cereality, Surf City Squeeze, Ranch One, Frullati Cafe & Bakery, Samurai Sam’s Teriyaki Grill, Taco Time, Great Steak, Rollerz, Johnnie’s New York Pizzeria, Blimpie, America’s Taco Shop, Pizza Fresh and Kahala Coffee Traders are trademarks of Kahala Franchising, L.L.C. and/or is licensors. Cold Stone Creamery is a registered trademark of Cold Stone Creamery, Inc. and/or its licensors. All other trademarks referenced in this Agreement are those of their respective owners.

Franchisee Initials \_\_\_\_/\_\_\_\_

l. Franchisee acknowledges and understands that *Article 6* of the Franchise Agreement covers the use of the *Taco Time* trademark and prohibition on registration of



Franchisor's Proprietary Marks. Franchisee acknowledges the ownership of the Proprietary Marks by us, and Franchisee agrees that during the term of this Agreement and after its expiration or termination, Franchisee will not, directly or indirectly, apply to register, register or otherwise seek to use or control or in any way use "*Taco Time*", or any other of Franchisor's proprietary marks, or any confusingly similar form or variation, in any place or jurisdiction either within or outside the United States; nor will you assist any others to do so. You further agree that your corporate, partnership or other entity name will not include any of the Proprietary Marks or phrases similar thereto as a part thereof. Furthermore, you acknowledge and understand that you are prohibited from filing applications for the registration of Franchisor's trade names used in connection with your Franchised Business.

Franchisee Initials \_\_\_\_/\_\_\_\_

m. Franchisee acknowledges and understands that in the event he/she/it has registered a trade name or entity name containing Franchisor's trademarks, Franchisee will be required to immediately discontinue all further use of the trademark, all Proprietary Marks and any other marks or names confusingly similar thereto in your entity name. Furthermore, Franchisee will take such action as may be required to amend your entity name and affirmatively cancel and/or terminate and dissolve all fictitious or assumed names or other registrations that contain Franchisor's Proprietary Marks. In the event Franchisee does not comply and/or agree to execute any and all instruments and documents necessary to protect and maintain our interests in the Proprietary Marks, Franchisor will then have power of attorney to execute any documents necessary to protect and maintain Franchisor's interests in the Proprietary Marks.

Franchisee Initials \_\_\_\_/\_\_\_\_

## **ARTICLE 18. SUBMISSION OF AGREEMENT**

### **18.1 No Offer by Franchisor.**

The submission of this Agreement to Franchisee does not constitute an offer and this Agreement shall become effective only upon the execution thereof by Franchisor and Franchisee. THIS AGREEMENT SHALL NOT BE BINDING ON FRANCHISOR UNLESS AND UNTIL IT SHALL HAVE BEEN ACCEPTED AND SIGNED BY THE PRESIDENT OR OTHER EXECUTIVE OFFICER OF FRANCHISOR.

**[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]**

**IN WITNESS WHEREOF** the parties have duly executed and delivered this Agreement as of the Effective Date.

**FRANCHISEE:** \_\_\_\_\_, a(n) \_\_\_\_\_

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

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

**FRANCHISOR:** **KAHALA FRANCHISING, L.L.C., an Arizona limited liability company**

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

**PERSONAL ACCEPTANCE OF SECTIONS 7.1, 14.6, AND 14.8**

Each of the undersigned individually and personally accepts and agrees to be bound by the provisions of Sections 7.1, 14.6, and 14.8 of the foregoing Franchise Agreement.

\_\_\_\_\_, \_\_\_\_\_, an Individual  
(signature) Date: \_\_\_\_\_

\_\_\_\_\_, \_\_\_\_\_, an Individual  
(signature) Date: \_\_\_\_\_

\_\_\_\_\_, \_\_\_\_\_, an Individual  
(signature) Date: \_\_\_\_\_

\_\_\_\_\_, \_\_\_\_\_, an Individual  
(signature) Date: \_\_\_\_\_

## CONSENT OF SPOUSE

(to be executed if Franchisee is a married individual)

The undersigned is the spouse of the Franchisee identified in the Franchise Agreement, dated as of \_\_\_\_\_, between his or her spouse and Kahala Franchising, L.L.C. (the "Agreement"), to which this Consent of Spouse is attached.

The undersigned hereby declares that he/she has read the Agreement, including each of the documents that are exhibits to or referenced in the Agreement, in its entirety and, being fully convinced of the wisdom and equity of the terms of the Agreement, including each of the documents that are exhibits to or referenced in the Agreement, and in consideration of the premises and of the provisions of the Agreement, the undersigned hereby expresses his or her acceptance of the same and does agree to its provisions.

The undersigned further agrees that in the event of the death of his or her spouse, the provisions of this Agreement, including each of the documents that are exhibits to or referenced in the Agreement, will be binding upon him/her.

The undersigned further agrees that he/she will at any time make, execute and deliver such instruments and documents which may be necessary to carry out the provisions of the Agreement, including each of the documents that are exhibits to or referenced in the Agreement.

This instrument is not a present transfer or release of any rights which the undersigned may have in any of the community property of his or her marriage.

DATED \_\_\_\_\_

\_\_\_\_\_  
(Signature of Spouse)

\_\_\_\_\_  
(Print Name of Spouse)

**LIST OF EXHIBITS TO FRANCHISE AGREEMENT:**

- Exhibit 1      Ownership Information Sheet (applicable only if Franchisee is a business entity)
- Exhibit 2      Required Lease Terms
- Exhibit 3      Electronic Funds Transfer Authorization
- Exhibit 4      Guaranty of Contract Franchise Agreement
- Exhibit 5      Collateral Assignment and Irrevocable Special Power of Attorney
- Exhibit 6      Amendment to Franchise Agreement and Related Franchise Documents for Non-Traditional Locations (applicable only for Non-Traditional Locations)
- Exhibit 7      State Specific Addendum (applicable only for the following states: California, Georgia, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington, & Wisconsin)
- Exhibit 8      Franchisee Questionnaire

**EXHIBIT 1**

**OWNERSHIP INFORMATION SHEET**

**(applicable only if Franchisee is a business entity)**

**EXHIBIT 1**

**OWNERSHIP INFORMATION SHEET**

**(applicable only if Franchisee is a business entity)**

FRANCHISEE'S SHAREHOLDERS, PARTNERS, MEMBERS AND/OR PRINCIPAL OFFICERS

**NOTE:** Franchisee's registration of trade names or entity names containing any of Franchisor's trademarks is expressly prohibited. You agree that your corporate, partnership or other entity name will not include any of Franchisor's Proprietary Marks (*i.e.*, NrGize Lifestyle Cafe, Cereality, Surf City Squeeze, Frullati Cafe & Bakery, Rollerz, Samurai Sam's Teriyaki Grill, Taco Time, Great Steak & Potato Company, Ranch One, Johnnie's New York Pizzeria, Cold Stone Creamery, Blimpie, America's Taco Shop, Pizza Fresh or Kahala Coffee Traders) or any other phrases, marks or names confusingly similar thereto in your entity name.

*(Please circle each answer)*

1. Are you a Partnership? Yes / No
2. Are you a Corporation? Yes / No
3. Are you a Limited Liability Company? Yes / No
4. If you are a Partnership or Limited Liability Company, please complete the following:

**PARTNERSHIP/LIMITED LIABILITY COMPANY**

<u>Name</u> <u>(each partner)</u>	<u>Percentage</u> <u>Ownership</u>	<u>Residence</u> <u>Address</u>	<u>Home</u> <u>Phone</u>	<u>Work</u> <u>Phone</u>	<u>Social Security</u> <u>Number</u>
--------------------------------------	---------------------------------------	------------------------------------	-----------------------------	-----------------------------	---

5. If you are a Corporation, please complete the following:

**CORPORATION**

<u>Name</u> <u>(each shareholder)</u>	<u>Number</u> <u>of shares</u>	<u>Residence</u> <u>Address</u>	<u>Home</u> <u>Phone</u>	<u>Work</u> <u>Phone</u>	<u>Social Security</u> <u>Number</u>
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**AREA REPRESENTATIVE (if applicable)**

6. Your Area Representative is: \_\_\_\_\_

**EXHIBIT 2  
REQUIRED LEASE TERMS**

**The Terms and Conditions in the Attached Lease Addendum must be included in the Franchisee's lease for the location of the Franchised Business via execution of the attached Lease Addendum or through modifications to the actual lease agreement**



**LEASE ADDENDUM**

**TO**

**LEASE AGREEMENT**

**Dated \_\_\_\_\_, 20\_\_ between**

\_\_\_\_\_ and \_\_\_\_\_  
Landlord Name Tenant/Franchisee Name

**1. Use of Premises.**

During the term of the Franchise Agreement (or, if shorter, the term of the Lease), the Premises may be used only for the operation of a quick service restaurant under the *Taco Time* System, Proprietary Marks, Trade names, and logos, which specialize in the sale of moderately priced Mexican-style prepared foods. Landlord consents to Tenant's use of such marks, tag lines, signs, décor items, color schemes, and related components of the *Taco Time* franchise System as *Taco Time* may prescribe for the franchisees of its System.

**2. Assignment and Notices.**

a. Notwithstanding anything to the contrary in this Lease, Tenant shall have the right to assign this Lease and all rights hereunder, to Kahala Franchising, L.L.C., ("*Taco Time*"), an affiliate of *Taco Time*, or to a franchisee of *Taco Time* (duly approved as such by *Taco Time* and meeting the franchise requirements of *Taco Time* as of the date hereof) upon the expiration or earlier termination of that certain Franchise Agreement dated \_\_\_\_\_, 20\_\_ (the "Franchise Agreement"), by and between *Taco Time* and Tenant without obtaining Landlord's consent and without the imposition of any assignment fee or similar charge. Landlord shall not accelerate the rent owed hereunder in connection with such assignment(s), so long as *Taco Time*, its affiliate(s) or its franchisees assumes in writing the obligations of Tenant under the Lease. Nothing in this Section 2(a) shall serve to extend the term of the Lease or provide *Taco Time* any occupancy rights, options to renew or other rights not expressly set forth to Tenant in the Lease.

b. Landlord agrees to furnish *Taco Time* with copies of any and all letters and notices to Tenant pertaining to the Lease and the Premises at the same time that such letters and notices are sent to Tenant. Landlord further agrees that, if it intends to terminate the Lease, the Landlord will give *Taco Time* the same advance written notice of such intent as provided to Tenant, specifying in such notice all defaults that are the cause of the proposed termination. *Taco Time* shall have the right to cure, at its sole option, any such default within the time periods granted to Tenant under the Lease. If neither Tenant or *Taco Time* cures all such defaults within said time periods (or such longer cure periods as may be specifically permitted by the Lease), then the Landlord may terminate the Lease, re-enter the Premises and/or exercise all other rights as set forth in the Lease.

c. Prior to the expiration or termination of the Lease, *Taco Time* shall have the right to enter the Premises to make any reasonable modifications or reasonable alterations necessary to protect *Taco Time* interest in the *Taco Time* business and the Proprietary Marks and System (as such terms are defined in the Franchise Agreement), or to cure any default under the Franchise Agreement or any development agreement entered into by *Taco Time* and

the Tenant or under the Lease, and Landlord agrees that *Taco Time* shall not be liable for trespass or any other crimes or tort.

**3. Notices.**

All notices and demands required to be given hereunder shall be in writing and shall be sent by personal delivery, expedited delivery service, certified or registered mail, return receipt requested, first-class postage prepaid, facsimile, telegram or telex (provide that the sender confirm the facsimile, telegram or telex by sending an original confirmation copy by certified transmission), to the respective parties at the following addresses unless and until a different address has been designated by written notice to the other parties.

If directed to Tenant, the notice shall be addressed to:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Attn: \_\_\_\_\_  
Facsimile: \_\_\_\_\_

If directed to Landlord, the notice shall be address to:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Attn: \_\_\_\_\_  
Facsimile: \_\_\_\_\_

If directed to *Taco Time*, the notices shall be addressed to:

Kahala Franchising, L.L.C.  
9311 E. Via De Ventura  
Scottsdale, AZ 85258  
Attn: Legal Department  
Facsimile: (480) 362-4797

Any notices sent by personal delivery shall be deemed given upon receipt. Any notices given by telex or facsimile shall be deemed given on the business day of transmission, provided confirmation is made as provided above. Any notice sent by expedited delivery service or registered or certified mail shall be deemed given three (3) business days after the time of mailing. Any change in the foregoing addresses shall be effected by giving fifteen (15) days' written notice of such change to the other parties.

**4. Amendments.**

Landlord and Tenant will not amend, renew, extend or otherwise modify this Lease in any manner which would materially affect any of the foregoing provisions without *Taco Time's* prior written consent.

**5. Third Party Beneficiary.**

Landlord and Tenant agree that *Taco Time* is a third party beneficiary of the Lease.

**6. Miscellaneous.**

The terms and conditions of this Lease Addendum will supersede any Conflicting terms of the Lease. Any capitalized term not specifically defined in this Addendum shall have the meaning ascribed to such term in the Lease or Franchise Agreement, as applicable.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Addendum in duplicate as of the day and year set forth in the Lease Agreement.

**“LANDLORD”**

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

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

**“TENANT”**

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

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

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



**EXHIBIT 3  
ELECTRONIC FUNDS TRANSFER (EFT) AUTHORIZATION**

FRANCHISEE INFORMATION		
Franchisee Name	Store No.	Franchisee Phone No.
Franchisee Mailing Address (street, city, state, zip)		
Contact Name, Address and Phone number (if different than above)		
Employer Identification Number (if applicable)	Principal's Name and Social Security Number	

BANK ACCOUNT INFORMATION		
Bank Name	Bank Account Number	Bank Routing Number [:           ]: 9 Characters
Bank Mailing Address (street, city, state, zip)		
Bank Phone Number		

PAYMENT AUTHORIZATION		
<p>Franchisee hereby authorizes Kahala Franchising, L.L.C. (the "Payee"), to initiate withdrawals from the Bank Account indicated on this form, and hereby authorizes the Bank to honor and charge the Bank Account for electronic funds transfers or drafts drawn on the Bank Account and payable to Payee. The amount of such charge shall be set forth in a notice from the Payee presented to the Bank on the day(s) of the week set forth in your franchise agreement, gift card participation agreement (or similar agreement for the gift card program), and any other agreement you sign that authorizes us or our affiliate to debit your account for the fees, which may be modified by Kahala Franchising, L.L.C. or its affiliates, for the payment of royalty fees, advertising fees, POS support fees, gift card and e-gifting program fees and funds flow, and any other fees, charges and other amounts payable to us or our affiliates for any services we provide or facilitate. The Franchisee agrees to execute such additional documents as may be reasonably requested by the Payee or the Bank to evidence the interest of this EFT Authorization. This authority shall remain in full force and effect until the Payee has received written notification from the Franchisee in such time and manner as to afford the Payee and the Bank to act on such notice. The Franchisee understands that the termination of this authorization does not relieve the Franchisee of its obligations to make payments to the Payee. Payee may assign its rights and obligations under this EFT Authorization to Payee's affiliates or agents. Payee may change its designated affiliates or agents at Payee's discretion.</p>		
<table border="1"> <tr> <td>Signature:</td> <td>Date:</td> </tr> </table>	Signature:	Date:
Signature:	Date:	

**NOTE: FRANCHISEE MUST ATTACH A VOIDED OR COMPLETED CHECK RELATING TO THE BANK ACCOUNT.**

<p>ATTACH VOIDED OR COMPLETED CHECK HERE</p>
--

## **EXHIBIT 4**

### **GUARANTY OF CONTRACT FRANCHISE AGREEMENT**

#### **RECITALS**

- A. The undersigned are shareholders, partners, members, or other persons or entities interested in effecting the grant or transfer of this Franchise Agreement.
- B. Without this guaranty, Franchisor cannot be assured that there are sufficient assets to operate the franchise, or to protect Franchisor in the event of a default by Franchisee.
- C. Franchisor is willing to enter into the Franchise Agreement only if the undersigned personally guarantee faithful performance of all the terms of the Franchise Agreement.

#### **AGREEMENT**

1. In consideration of the above recitals, the undersigned personally guarantee the prompt and complete performance of all the covenants and conditions contained in the foregoing Franchise Agreement.
2. This guaranty is effective until all terms of the Franchise Agreement have been fully and completely performed by Franchisee. No release of Franchisee or discharge of Franchisee under bankruptcy law, or any other law, shall impair or effect the obligations of Guarantor(s) to Franchisor hereunder.
3. Franchisor is not required to proceed first against the Franchisee, but may proceed first against the undersigned or any of them alone or concurrent with proceeding against Franchisee. The obligations of Guarantor(s) hereunder are absolute and unconditional.
4. Franchisee and Franchisor may from time to time alter or modify the Franchise Agreement between themselves, possibly changing or increasing the extent of the undersigned's obligation under this contract. The undersigned consent to any and all modifications or amendments of the Franchise Agreement and the documents and Operations Manuals referred to in the Franchise Agreement, without requiring notice to them or their consent as guarantors.
5. The undersigned agree specifically to be bound by the confidentiality requirements and the covenant against competition in the Franchise Agreement.
6. The undersigned waive notice of acceptance of this guaranty and notice of non-performance or non-payment by Franchisee of any of its obligations or liabilities under the Franchise Agreement.
7. A default by the Guarantor(s) under this Agreement will be deemed a default under all Franchise Agreements guaranteed by the Guarantor(s).
8. Guarantor(s) jointly and severally agree(s) to pay all attorneys' fees, costs and expenses (including any and all Royalty Fees and Advertising Fees and associated interest on such amounts, that are determined to be owing to Franchisor due to underreporting by Franchisee) incurred by Franchisor in enforcing this Guaranty, whether or not suit or action is filed, and if suit or action is filed, then through trial and all appeals, and also in any proceedings or matter in

Bankruptcy Court; Guarantor(s) assume all liability for all losses, costs, attorney's fees, and expenses that Franchisor incurs as a result of a default by Franchisee, including those fees and expenses incurred in a bankruptcy proceeding involving Franchisee.

9. The undersigned hereby agrees that upon notice of default or upon an uncured default of the Franchise Agreement or any other agreement between the undersigned (or a legal entity thereof) and Franchisor or its affiliates, and with no prior notice, the undersigned consent(s) to Franchisor's (or its affiliates' or third-party contractors') acquisition and use of non-business consumer credit reports on the undersigned in order to evaluate as necessary the financial condition of the undersigned as principal(s), member(s), manager(s), franchisee(s), and/or guarantor(s) in connection with the collection of monetary obligations as contemplated by your Franchise Agreement, this Guaranty of Contract, a promissory note, or any other agreements between the undersigned (or a legal entity thereof), and Franchisor or its affiliates. The undersigned as [an] individual(s) hereby knowingly consent to the use of such credit reports consistent with the Federal Fair Credit Reporting Act as contained in 15 U.S.C. § 1681 et seq.

10. The Guaranty is personal to the undersigned and the obligations and duties imposed herein may not be delegated or assigned; provided, however, that this Guaranty shall be binding upon the successors, assigns and personal representatives of the undersigned. This Guaranty shall inure to the benefit of Franchisor, its affiliates, successors and assigns.

11. In the event that any one or more provisions contained herein shall for any reason be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof and this Guaranty shall be construed to bind the undersigned to the maximum extent permitted by law that is subsumed within the terms of such provision as though it were separately articulated herein.

12. This Guaranty shall be interpreted and construed under the laws of the State of Arizona, which laws shall prevail in the event of any conflict of law. Any appropriate state or federal court located in Maricopa County, Phoenix, Arizona has exclusive jurisdiction over any case or controversy arising under or in connection with this Agreement and is the proper forum in which to adjudicate the case or controversy, and the parties hereto irrevocably submit to the jurisdiction of any such court. THE PARTIES AGREE THAT ALL DISPUTES ADMITTED TO THE COURT PURSUANT TO THIS SECTION 12 SHALL BE TRIED TO THE COURT SITTING WITHOUT A JURY, NOTWITHSTANDING ANY STATE OR FEDERAL CONSTITUTIONAL OR STATUTORY RIGHTS OR PROVISIONS.

13 Each of the undersigned acknowledges that (i) it is a condition to the granting of the Franchise Agreement to Franchisee that each of the undersigned shall execute and deliver this Guaranty to Franchisor, (ii) that Franchisor has entered into the Franchise Agreement in reliance upon the agreement of the undersigned to do so, and (iii) that, as owners of the Franchisee, the undersigned have received adequate consideration to support their execution of this Guaranty. This Guaranty does not grant or create in the undersigned any interests, rights or privileges in any Franchise or Franchise Agreement.

\_\_\_\_\_  
\_\_\_\_, an Individual

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

\_\_\_\_\_  
\_\_\_\_, an Individual

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

**EXHIBIT 5**

**COLLATERAL ASSIGNMENT  
AND  
IRREVOCABLE SPECIAL POWER OF ATTORNEY**

**COLLATERAL ASSIGNMENT**  
**AND**  
**IRREVOCABLE SPECIAL POWER OF ATTORNEY**

**THIS COLLATERAL ASSIGNMENT AND IRREVOCABLE SPECIAL POWER OF ATTORNEY** ("Assignment") is entered into this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_ ("Effective Date") in accordance with the terms of that certain Franchise Agreement ("Franchise Agreement") between \_\_\_\_\_ ("Franchisee") and Kahala Franchising, L.L.C., an Arizona limited liability company (the "Franchisor"), executed concurrently with this Assignment and under which Company granted Franchisee the right to own and operate a Taco Time restaurant located at \_\_\_\_\_ ("Restaurant").

**FOR VALUE RECEIVED**, Franchisee hereby assigns to Franchisor, its affiliates, subsidiaries, successors and assigns, all of Franchisee's right, title and interest in and to: (i) the "Telephone Numbers and Listings" which include those certain telephone numbers and regular, yellow-pages, special, classified or other telephone directory listings used at any time in connection with the operation of the Restaurant; (ii) any website page or social media addresses and accounts, including, but not limited to, a Facebook® page or Twitter® account that contains any term or any mark confusingly similar to a trademark or other intellectual property owned or licensed by Franchisor; and (iii) any corporation, limited liability company, partnership, or other entity name or trade name filed or formed by Franchisee that contains any trademark or other intellectual property owned or licensed by Franchisor (each an "Entity Name"). This Assignment is for collateral purposes only, and except as specified herein, Franchisor shall have no liability or obligation of any kind whatsoever arising from or in connection with this Assignment unless Franchisor shall notify the (i) telephone company and/or the listing agencies with which Franchisee has placed telephone directory listings (all such entities are collectively referred to herein as the "Telephone Company"); (ii) webmaster/webhost for the website or social media account; and (iii) Secretary of State, Corporation Commission or other state government agency that handles the filing of entity formation documents, to effectuate the assignment pursuant to the terms hereof.

Franchisee hereby appoints Franchisor as his/her/its attorney-of-fact and grants Franchisor an irrevocable Special Power of Attorney, coupled with an interest, with full power and authority for the purpose of executing documents or taking such action as necessary or appropriate as Franchisee might or could do if personally present, hereby ratifying all that Franchisor, as Franchisee's attorney-in-fact, shall lawfully do or cause to be done by virtue of this Special Power of Attorney to obtain, protect, maintain or enforce Franchisor's intellectual property rights if Franchisor is, for any reason, unable to obtain Franchisee's cooperation or assistance. The Special Power of Attorney granted by this Assignment, shall survive the dissolution, death, incompetence or disability of Franchisee and the termination or expiration of the Franchise Agreement or this Assignment.

Upon (i) termination of the Franchise Agreement for any reason, or (ii) expiration of the Franchise Agreement without renewal or extension, Franchisor shall have the right and is hereby empowered to effectuate the assignment of the Telephone Numbers and Listings, website and/or social media account, and Entity Name. In such event Franchisee shall have no further right, title or interest in the Telephone Numbers and Listings or the website and/or social media account, and shall remain liable to the Telephone Company for all past due fees and charges owing to the Telephone Company on or before the effective date of the assignment hereunder.

Franchisee agrees and acknowledges that as between Franchisor and Franchisee, Franchisor shall have the sole right to and interest in the Telephone Numbers and Listings, website and/or social media accounts and Entity Name upon termination or expiration of the Franchise Agreement. Franchisee appoints Franchisor as Franchisee's true and lawful attorney-in-fact to direct the Telephone Company, webmaster/webhost, and state government agency to assign same to Franchisor and execute such documents and take such actions as may be necessary to effectuate the assignment. Upon such event Franchisee shall immediately instruct the (i) Telephone



Company to assign the Telephone Numbers and Listings to Franchisor; the webmaster/webhost to assign the website and/or social media account to Franchisor; and (iii) state government agency to allow Franchisor to file the necessary documents to change the Entity Name. If Franchisee fails to promptly direct the (i) Telephone Company to assign the Telephone Numbers and Listings to Franchisor; (ii) webmaster/webhost to assign the website or social media account(s) to Franchisor; and/or (iii) file the necessary documents with the appropriate state government agency to remove Franchisor's trademarks or other intellectual property from the Franchisee's Entity Name, Franchisor shall direct the appropriate parties to effectuate the assignment contemplated hereunder to Franchisor.

The parties agree that the Telephone Company, webmaster/webhost, and appropriate state government agency may accept Franchisor's written direction, the Franchise Agreement or this Assignment as conclusive proof of Franchisor's exclusive rights in and to the Telephone Numbers and Listings, website and/or social media accounts, and Franchisor's authority to file the necessary documents to remove Franchisor's trademark or other intellectual property from the Entity Name and that such assignment shall be made automatically and effective immediately upon Telephone Company's, webmaster's/webhost's or state government agency's receipt of such notice from Franchisor or Franchisee. The parties further agree that if the Telephone Company, webmaster/webhost, or state government agency requires that the parties execute an assignment form or other documentation at the time of termination or expiration of the Franchise Agreement Franchisor's execution of such forms or documentation on behalf of Franchisee shall effectuate Franchisee's consent and agreement to the assignment. The parties agree that at any time after the date hereof they will perform such acts and execute and deliver such documents as may be necessary to assist in or accomplish the assignment described herein upon termination or expiration of the Franchise Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Assignment by their duly authorized representatives with full rights, power and authority to enter into and bind the respective Party and to perform all obligations under this Assignment.

**ASSIGNOR (Franchisee):**

\_\_\_\_\_

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Its: \_\_\_\_\_

State of \_\_\_\_\_  
County of \_\_\_\_\_

On \_\_\_\_\_ before me, personally appeared \_\_\_\_\_  
known to me (or proved to me on the oath of \_\_\_\_\_ or through  
\_\_\_\_\_) to be the person whose name is subscribed to the within  
instrument and acknowledged to me that he/she executed the same in his/her/their authorized  
capacity, and that by his/her signature on the instrument the person, or the entity upon behalf of  
which the person acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of \_\_\_\_\_ that the  
foregoing paragraph is true and correct.

WITNESS my hand and official seal.

(Seal)

\_\_\_\_\_  
(Signature of Notary Public)

Acknowledged by:

**ASSIGNEE (Franchisor)**  
**KAHALA FRANCHISING, L.L.C.**,  
an Arizona limited liability company

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Its: \_\_\_\_\_

**EXHIBIT 6**

**AMENDMENT TO FRANCHISE AGREEMENT AND RELATED FRANCHISE  
DOCUMENTS FOR NON-TRADITIONAL LOCATIONS**

**(Applicable only for Non-Traditional Locations)**

## EXHIBIT 6

### AMENDMENT TO FRANCHISE AGREEMENT AND RELATED FRANCHISE DOCUMENTS FOR NON-TRADITIONAL LOCATIONS

THIS AMENDMENT (the "Amendment") dated \_\_\_\_\_, 20\_\_\_\_, to the Franchise Agreement dated \_\_\_\_\_, 20\_\_\_\_ for the Non-Traditional *Taco Time* location at \_\_\_\_\_ (the "Franchise Agreement" or "Agreement") by and between Kahala Franchising, L.L.C., an Arizona limited liability company, doing business as "*Taco Time*" ("Franchisor") and \_\_\_\_\_ ("Franchisee"), is entered into by such parties to amend the Agreement as set forth herein. To the extent this Amendment contains terms and conditions that differ from those contained in the Agreement, this Amendment shall control. The parties agree that a concept or principle provided in one Section of this Amendment shall apply and be incorporated into all other provisions of the Franchise Agreement in which the concept or principle is also applicable, notwithstanding the absence of any specific cross reference thereto. All capitalized terms not otherwise defined herein will have the same meanings ascribed to such terms in the Agreement.

#### **The following shall apply to Non-Traditional locations:**

1. Pursuant to Section 4.1 "Training Program", the following shall be added after the last sentence of the existing paragraph: "Notwithstanding the foregoing, for Non-Traditional locations, the total number of days of training and related assistance will be a total of three (3) days."
2. Section 5.1 "Initial Franchise Fee", shall be deleted in its entirety and replaced with the following: "Concurrently upon Franchisee's execution of this Agreement, Franchisee shall pay to Franchisor an "Initial Franchisee Fee" for this Non-Traditional location equal to \$7,500.00 (the current initial franchisee fee for a Non-Traditional *Taco Time* franchise). You and we agree that our grant of the franchise and your payment of the Initial Franchise Fee provided for in this *Section 5.1* does not give you any rights with respect to other franchises, if any, as we in our sole discretion may elect to make available in the future. No portion of the Initial Franchise Fee is refundable."
3. Section 5.2 "Royalty Fee and Surcharge", shall be deleted in its entirety and replaced with the following: "Commencing on the Effective Date, Franchisee will be required to pay Franchisor a weekly "Royalty Fee" equal to 6% of Franchisee's Gross Sales for the prior week at the Franchised Business. In our sole discretion, we may charge, in addition to the Royalty Fee, a Surcharge of up to \$10 per week if your Franchised Business is located in a state that imposed additional reporting requirements on a franchisor."
4. Section 5.3 "Advertising Fees", paragraph a. shall be deleted in its entirety.
5. Section 5.14 "Transfer Fee", shall be deleted in its entirety and replaced with the following: "A Transfer Fee of Five Thousand Dollars (\$5,000.00) is payable to us when you sell your Franchised Business (see Section 12.3(f) of this Agreement)."
6. Section 12.3(f) "Requirement for Consent to Transfer", shall be deleted in its entirety and replaced with the following: "Franchisee shall pay to Franchisor a non-refundable Transfer fee of \$5,000.00."

The following shall apply to **Non-Traditional locations Co-Branded with another Kahala Franchising, L.L.C. concept ONLY** (locations listed as **Co-Branded** on page 1 of the Agreement under "Restaurant Description if Non-Traditional" ONLY):

7. Section 5.5, "Depository Account," shall be deleted in its entirety.
8. Section 5.6, "Location Review Fee," shall be deleted in its entirety.
9. Section 5.7, "Lease Guarantee Fee," shall be deleted in its entirety.
10. Section 5.8, "Lease Negotiation Fee," shall be deleted in its entirety.
11. Section 5.9, "Lease Procurement Fee," shall be deleted in its entirety.
12. Section 5.12, "Document Administration Fee," shall be deleted in its entirety.
13. Section 5.17, "Annual Meeting Registration Fee," shall be deleted in its entirety.
14. Section 5.20, "Data Fees," shall be deleted in its entirety.
15. Section 5.21, "POS Help Desk Phone Support Maintenance Contract Fee," shall be deleted in its entirety.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Amendment to the Franchise Agreement on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**FRANCHISOR:**

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

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**FRANCHISEE:**

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

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**EXHIBIT 7**

**STATE SPECIFIC ADDENDUM**

**(Applicable only for the following states:  
California, Georgia, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York,  
North Dakota, Rhode Island, South Dakota, Virginia, Washington, & Wisconsin)**

**AMENDMENT TO KAHALA FRANCHISING, L.L.C.  
FRANCHISE AGREEMENT AND RELATED FRANCHISE DOCUMENTS  
FOR THE STATE OF CALIFORNIA**

The Kahala Franchising, L.L.C. Franchise Agreement between \_\_\_\_\_ (“Franchisee”) and Kahala Franchising, L.L.C., an Arizona limited liability company (“Franchisor”), dated \_\_\_\_\_ (the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of this Agreement (this “Amendment”):

**CALIFORNIA LAW MODIFICATIONS**

- A. THE CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES THAT A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE DISCLOSURE DOCUMENT.
- B. NEITHER THE FRANCHISOR, FRANCHISE BROKER NOR ANY PERSON IN ITEM 2 OF THE DISCLOSURE DOCUMENT ARE SUBJECT TO ANY CURRENTLY EFFECTIVE ORDER OF ANY NATIONAL SECURITIES ASSOCIATION OR NATIONAL SECURITIES EXCHANGE, AS DEFINED IN THE SECURITIES EXCHANGE ACT OF 1934, 15 U.S.C.A. 78A ET SEQ., SUSPENDING OR EXPELLING SUCH PERSON FROM MEMBERSHIP IN SUCH ASSOCIATION OR EXCHANGE.
- C. THE FRANCHISE AGREEMENT PROVIDES FOR TERMINATION UPON BANKRUPTCY. THIS PROVISION MAY NOT BE ENFORCEABLE UNDER FEDERAL BANKRUPTCY LAW. (11 U.S.C.A. SEC. 101 ET SEQ.).
- D. THE FRANCHISE AGREEMENT CONTAINS A COVENANT NOT TO COMPETE WHICH EXTENDS BEYOND THE TERMINATION OF THE FRANCHISE. THIS PROVISION MAY NOT BE ENFORCEABLE UNDER CALIFORNIA LAW.
- E. THE FRANCHISE AGREEMENT REQUIRES APPLICATION OF THE LAWS OF THE STATE OF ARIZONA. THIS PROVISION MAY NOT BE ENFORCEABLE UNDER CALIFORNIA LAW.
- F. SECTION 31125 OF THE CALIFORNIA CORPORATIONS CODE REQUIRES US TO GIVE YOU A DISCLOSURE DOCUMENT, IN A FORM CONTAINING THE INFORMATION THAT THE COMMISSIONER MAY BY RULE OR ORDER REQUIRE, BEFORE A SOLICITATION OF A PROPOSED MATERIAL MODIFICATION OF AN EXISTING FRANCHISE.
- G. YOU MUST SIGN A GENERAL RELEASE IF YOU RENEW OR TRANSFER YOUR FRANCHISE. CALIFORNIA CORPORATIONS CODE §31512 VOIDS A WAIVER OF YOUR RIGHTS UNDER THE

FRANCHISE INVESTMENT LAW (CALIFORNIA CORPORATIONS CODE §§31000 THROUGH 31516).

- H. BUSINESS AND PROFESSIONS CODE §20010 VOIDS A WAIVER OF YOUR RIGHTS UNDER THE FRANCHISE RELATIONS ACT (BUSINESS AND PROFESSIONS CODE §§20000 THROUGH 20043).
- I. CALIFORNIA BUSINESS AND PROFESSIONS CODE SECTIONS 20000 THROUGH 20043 PROVIDE RIGHTS TO THE FRANCHISEE CONCERNING TERMINATION OR NON-RENEWAL OF A FRANCHISE. IF THE FRANCHISE AGREEMENT CONTAINS A PROVISION THAT IS INCONSISTENT WITH THE LAW, THE LAW WILL CONTROL.
- J. THE FRANCHISE AGREEMENT CONTAINS A LIQUIDATED DAMAGES CLAUSE. UNDER CALIFORNIA CIVIL CODE § 1671, CERTAIN LIQUIDATED DAMAGES CLAUSES ARE UNENFORCEABLE.
- K. IF THE FRANCHISEE RESIDES IN THE STATE OF CALIFORNIA OR THE FRANCHISED BUSINESS IS LOCATED WITHIN THE STATE OF CALIFORNIA, THE VENUE FOR ANY DISPUTE MAY BE WITHIN THE STATE OF CALIFORNIA.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Amendment to the Franchise Agreement on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**FRANCHISOR:**

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

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**FRANCHISEE:**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_



**AMENDMENT TO KAHALA FRANCHISING, L.L.C.**  
**FRANCHISE AGREEMENT AND RELATED FRANCHISE DOCUMENTS**  
**FOR GEORGIA RESIDENTS AND FRANCHISEES WHOSE FRANCHISES WILL BE**  
**OPERATED IN GEORGIA ONLY**

The Kahala Franchising, L.L.C. Franchise Agreement between \_\_\_\_\_ (“Franchisee”) and Kahala Franchising, L.L.C., an Arizona limited liability company (“Franchisor”), dated \_\_\_\_\_ (the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of this Agreement (this “Amendment”):

Section 14.6.c. “Confidentiality; Covenant Not to Compete,” shall be deleted in its entirety and replaced with the following:

During the term of this Agreement and for a period of two (2) years after its termination for any cause, Franchisee shall not engage in any business in competition with any *Taco Time* restaurant. The provisions of this Agreement bind Franchisee in any capacity, including as a franchisee, sole proprietor, partner, limited partner, member, employer, franchisor, stockholder, officer, director or employee. For purposes of this paragraph, “competition” means the franchising, ownership, or operation of a restaurant similar to a *Taco Time* outlet at the location identified in Section 1.1 of this Agreement, or within a geographical area consisting of: (1) during the term of this Agreement, a ten (10) mile radius from the restaurant covered under this Franchise Agreement and from any of the *Taco Time* outlets located on the attached Exhibit “A”; and (2) for a period of two (2) years after termination of this Agreement, a ten (10) mile radius from the restaurant covered under this Franchise Agreement and from any of the *Taco Time* outlets located on the attached Exhibit “A”. The term of this covenant will be extended by any time consumed in litigation to enforce it in both trial and appellate courts. If a court of competent jurisdiction determines that the restrictions in this paragraph are excessive in time, geographic scope, or otherwise, the court may reduce the restriction to the level that provides the maximum restriction allowed by law.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Amendment to the Franchise Agreement on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**FRANCHISOR:**

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

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**FRANCHISEE:**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**Exhibit "A"**

<b>Store Address</b>	<b>City</b>	<b>State</b>	<b>Zip Code</b>

**AMENDMENT TO KAHALA FRANCHISING, L.L.C.  
FRANCHISE AGREEMENT & RELATED FRANCHISE DOCUMENTS  
FOR THE STATE OF HAWAII**

The Kahala Franchising, L.L.C. Franchise Agreement between \_\_\_\_\_ (“Franchisee”) and Kahala Franchising, L.L.C., an Arizona limited liability company (“Franchisor”), dated \_\_\_\_\_ (the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of this Agreement (this “Amendment”):

**HAWAII LAW MODIFICATIONS**

1. The Director of the Hawaii Department of Commerce and Consumer Affairs requires that certain provisions contained in franchise documents be amended to be consistent with Hawaii law, including the Hawaii Franchise Investment Law, Hawaii Revised Statutes, Title 26, Chapter 482E-1 through 482E-12 (1988). To the extent that the Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

- a. The Hawaii Franchise Investment Law provides rights to You concerning non-renewal, termination and transfer of the Agreement. If the Agreement contains a provision that is inconsistent with the Law, the Law will control. Among those rights, the law may require that upon termination or non-renewal Franchisor purchase for fair market value Franchisee’s inventory, supplies, equipment and furnishings purchased from Franchisor or a supplier designated by Franchisor; provided that personalized materials which have no value to Franchisor need not be compensated for. If the non-renewal or termination is for the purpose of converting the Franchisee’s business to one owned and operated by Franchisor, Franchisor may, additionally, be obligated to compensate the Franchisee for loss of goodwill. Franchisor may deduct all amounts due from Franchisee and any costs related to the transportation or disposition of items purchased against any payment for those items. If the parties cannot agree on fair market value, fair market value shall be determined in the manner set forth in the Agreement. If the Agreement does not provide for determination of fair market value of assets for purchase by Franchisor, such amount will be determined by an independent appraiser approved by both parties, and the costs of the appraisal shall be shared equally by the parties.
- b. If the Franchisee is required in the Agreement to execute a release of claims, such release shall exclude claims arising under the Hawaii Franchise Investment Law.

2. Section 482E-3(a) of the Hawaii Franchise Investment Law requires us to give you a copy of the Franchise Disclosure Document at least 7 calendar days prior to signing the Franchise Agreement.

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

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Amendment to the Franchise Agreement on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**FRANCHISOR:**

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

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

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

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

**FRANCHISEE:**

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

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

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

**AMENDMENT TO KAHALA FRANCHISING, L.L.C.  
FRANCHISE AGREEMENT & RELATED FRANCHISE DOCUMENTS  
FOR THE STATE OF ILLINOIS**

The Kahala Franchising, L.L.C. Franchise Agreement between \_\_\_\_\_ (“Franchisee”) and Kahala Franchising, L.L.C., an Arizona limited liability company (“Franchisor”), dated \_\_\_\_\_ (the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of this Agreement (this “Amendment”):

**ILLINOIS LAW MODIFICATIONS**

1. The Illinois Attorney General’s Office requires that certain provisions contained in franchise documents be amended to be consistent with Illinois law, including the Franchise Disclosure Act of 1987, Ill. Comp. Stat. Ch. 815 para. 705/1 –705/44 (1994). To the extent that the Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

- a. Illinois Franchise Disclosure Act paragraphs 705/19 and 705/20 provide rights to the Franchisee concerning non-renewal and termination of the Agreement. If the Agreement contains a provision that is inconsistent with the Act, the Act will control.
- b. If the Franchisee is required in the Agreement to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action that would violate the Act, or a rule of order under the Act, such release shall exclude claims arising under the Illinois Franchise Disclosure Act, and such acknowledgements shall be void with respect to claims under the Act.
- c. If the Agreement requires litigation to be conducted in a forum other than the State of Illinois, the requirement is void under the Illinois Franchise Disclosure Act.
- d. If the Agreement requires that it be governed by a state’s law, other than the State of Illinois, to the extent that such law conflicts with the Illinois Franchise Disclosure Act, the Act will control.
- e. To the extent that Sections 17.3(a) and 17.3(c) of the Agreement requires Operator to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action that would violate the Act, or a rule or order under the Act, such release shall exclude claims arising under the Illinois Franchise Disclosure Act, and such acknowledgements shall be void and hereby deleted with respect to claims under the Act.
- f. Section 41 of the Illinois Franchise Disclosure Act states that “any condition, stipulation, or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of this Act is void.”

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

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Amendment to the Franchise Agreement on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**FRANCHISOR:**

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

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**FRANCHISEE:**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**AMENDMENT TO KAHALA FRANCHISING, L.L.C.  
FRANCHISE AGREEMENT AND RELATED FRANCHISE DOCUMENTS  
FOR THE STATE OF INDIANA**

The Kahala Franchising, L.L.C. Franchise Agreement between \_\_\_\_\_ (“Franchisee”) and Kahala Franchising, L.L.C., an Arizona limited liability company (“Franchisor”), dated \_\_\_\_\_ (the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of this Agreement (this “Amendment”):

**INDIANA LAW MODIFICATIONS**

1. The Indiana Securities Commissioner requires that certain provisions contained in franchise documents be amended to be consistent with Indiana law, including the Indiana Franchises Act, Ind. Code Ann. §§ 1-51 (1994) and the Indiana Deceptive Franchise Practices Act, Ind. Code Ann. § 23-27 (1985). To the extent that the Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

- a. The Indiana Deceptive Franchise Practices Act provides rights to Franchisee concerning non-renewal and termination of the Agreement. To the extent the Agreement contains a provision that is inconsistent with the Act, the Act will control.
- b. If the Franchisee is required in the Agreement to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action that would violate the Act, or a rule of order under the Act, such release shall exclude claims arising under the Indiana Deceptive Franchise Practices Act and the Indiana Franchises Act, and such acknowledgements shall be void with respect to claims under the Act.
- c. If the Agreement contains covenants not to compete upon expiration or termination of the Agreement that are inconsistent with the Indiana Deceptive Franchise Practices Act, the requirements of the Act will control.
- d. The Indiana Deceptive Franchise Practices Act provides that substantial modification of the Agreement by Franchisor requires written consent of the Franchisee. If the Agreement contains provisions that are inconsistent with this requirement, the Act will control.
- e. If the Agreement requires litigation/arbitration to be conducted in a forum other than the State of Indiana, the requirement may be unenforceable as a limitation on litigation under the Indiana Deceptive Franchise Practices Act §§ 23-2.2.7(10).
- f. If the Agreement requires that it be governed by a state’s law, other than the State of Indiana, to the extent that such law conflicts with the Indiana Deceptive Franchise Practices Act and the Indiana Franchises Act, the Acts will control.

- g. The Indiana Deceptive Franchise Practices Act provides rights to Franchisee concerning the waiver of claims or rights. To the extent the Agreement contains a provision that is inconsistent with the Act, the Act will control.
- h. The Indiana Deceptive Franchise Practices Act provides rights to Franchisee concerning the time period to bring an action against the Franchisor. To the extent the Agreement contains a provision that is inconsistent with the Act, the Act will control.
- i. The Indiana Deceptive Franchise Practices Act prohibits the Franchisor from operating a substantially identical business to that of the Franchisee's within the Franchisee's territory, regardless of trade name. To the extent this Agreement contains a provision that is inconsistent with the Act, the Act will control.
- j. The Indiana Deceptive Franchise Practice Act excludes any indemnification for liability caused by the Franchisee's proper reliance on or use of procedures or materials provided by the Franchisor. To the extent this Agreement contains a provision that is inconsistent with the Act, the Act will control.

2. Indiana Code § 23-2-2.5-9(2) requires us to give you a copy of the Franchise Disclosure Document at the earlier of: (i) 10 days prior to signing the Franchise Agreement; or (ii) 10 days prior to our receipt of any consideration.

3. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of the Indiana Deceptive Practices Act and the Indiana Franchises Act, with respect to each such provision, are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Amendment to the Franchise Agreement on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**FRANCHISOR:**

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

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**FRANCHISEE:**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_



**AMENDMENT TO KAHALA FRANCHISING, L.L.C.  
FRANCHISE AGREEMENT & RELATED FRANCHISE DOCUMENTS  
FOR THE STATE OF MARYLAND**

The Kahala Franchising, L.L.C. Franchise Agreement and all exhibits thereto between \_\_\_\_\_ (“Franchisee”) and Kahala Franchising, L.L.C., an Arizona limited liability company (“Franchisor”), dated \_\_\_\_\_ (the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of this Agreement (this “Amendment”):

**MARYLAND LAW MODIFICATIONS**

1. The Maryland Securities Division requires that certain provisions contained in franchise documents be amended to be consistent with Maryland law, including the Maryland Franchise Registration and Disclosure Law. To the extent that the Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:
  - a. The general release required as a condition of assignment/transfer shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.
  - b. The Franchise Agreement requires litigation to be conducted in the State of Arizona. The Franchise Agreement is amended to state that the requirement for litigation to be conducted in a forum other than the State of Maryland shall not be interpreted to limit any rights Franchisee may have to bring suit in the state of Maryland. A Franchisee may file a civil lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law. Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within three years after the grant of the franchise.
  - c. All initial fees and payments payable to Franchisor before the business opens shall be deferred until such time as all initial obligations owed to the Franchisee under the Franchise Agreement or other agreements have been fulfilled by the Franchisor and the Franchisee has commenced doing business in accordance with the Franchise Agreement.
  - d. All representations requiring prospective franchisees to assent to a release, estoppel or waiver of liability are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.
2. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of the Maryland Franchise Registration and Disclosure Law, with respect to each such provision, are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Amendment to the Franchise Agreement on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**FRANCHISOR:**

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

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**FRANCHISEE:**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**ADDENDUM TO KAHALA FRANCHISING, L.L.C.**  
**FRANCHISE AGREEMENT**  
**FOR THE STATE OF MICHIGAN**

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

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

(A) A PROHIBITION ON THE RIGHT OF A FRANCHISEE TO JOIN AN ASSOCIATION OF FRANCHISEES.

(B) A REQUIREMENT THAT A FRANCHISEE ASSENT TO A RELEASE, ASSIGNMENT, NOVATION, WAIVER, OR ESTOPPEL WHICH DEPRIVES A FRANCHISEE OF RIGHTS AND PROTECTIONS PROVIDED IN THIS ACT. THIS SHALL NOT PRECLUDE A FRANCHISEE, AFTER ENTERING INTO A FRANCHISE AGREEMENT, FROM SETTLING ANY AND ALL CLAIMS.

(C) A PROVISION THAT PERMITS A FRANCHISOR TO TERMINATE A FRANCHISE PRIOR TO THE EXPIRATION OF ITS TERM EXCEPT FOR GOOD CAUSE. GOOD CAUSE SHALL INCLUDE THE FAILURE OF THE FRANCHISEE TO COMPLY WITH ANY LAWFUL PROVISION OF THE FRANCHISE AGREEMENT AND TO CURE SUCH FAILURE AFTER BEING GIVEN WRITTEN NOTICE THEREOF AND A REASONABLE OPPORTUNITY, WHICH IN NO EVENT NEED BE MORE THAN 30 DAYS, TO CURE SUCH FAILURE.

(D) A PROVISION THAT PERMITS A FRANCHISOR TO REFUSE TO RENEW A FRANCHISE WITHOUT FAIRLY COMPENSATING THE FRANCHISEE BY REPURCHASE OR OTHER MEANS FOR THE FAIR MARKET VALUE AT THE TIME OF EXPIRATION, OF THE FRANCHISEE'S INVENTORY, SUPPLIES, EQUIPMENT, FIXTURES, AND FURNISHINGS. PERSONALIZED MATERIALS WHICH HAVE NO VALUE TO THE FRANCHISOR AND INVENTORY, SUPPLIES, EQUIPMENT, FIXTURES, AND FURNISHINGS NOT REASONABLY REQUIRED IN THE CONDUCT OF THE FRANCHISE BUSINESS ARE NOT SUBJECT TO COMPENSATION. THIS SUBSECTION APPLIES ONLY IF: (i) THE TERM OF THE FRANCHISE IS LESS THAN FIVE (5) YEARS; AND (ii) THE FRANCHISEE IS PROHIBITED BY THE FRANCHISE OR OTHER AGREEMENT FROM CONTINUING TO CONDUCT SUBSTANTIALLY THE SAME BUSINESS UNDER ANOTHER TRADEMARK, SERVICE MARK, TRADE NAME, LOGOTYPE, ADVERTISING, OR OTHER COMMERCIAL SYMBOL IN THE SAME AREA SUBSEQUENT TO THE EXPIRATION OF THE FRANCHISE OR THE FRANCHISEE DOES NOT RECEIVE AT LEAST SIX (6) MONTHS ADVANCE NOTICE OF FRANCHISOR'S INTENT NOT TO RENEW THE FRANCHISE.

(E) A PROVISION THAT PERMITS THE FRANCHISOR TO REFUSE TO RENEW A FRANCHISE ON TERMS GENERALLY AVAILABLE TO OTHER FRANCHISEES OF THE SAME CLASS OR TYPE UNDER SIMILAR CIRCUMSTANCES. THIS SECTION DOES NOT REQUIRE A RENEWAL PROVISION.

(F) A PROVISION REQUIRING THAT ARBITRATION OR LITIGATION BE CONDUCTED OUTSIDE THIS STATE. THIS SHALL NOT PRECLUDE THE FRANCHISEE FROM ENTERING INTO AN AGREEMENT, AT THE TIME OF ARBITRATION, TO CONDUCT ARBITRATION AT A LOCATION OUTSIDE THIS STATE.

(G) A PROVISION WHICH PERMITS A FRANCHISOR TO REFUSE TO PERMIT A TRANSFER OF OWNERSHIP OF A FRANCHISE, EXCEPT FOR GOOD CAUSE. THIS SUBDIVISION DOES NOT PREVENT A FRANCHISOR FROM EXERCISING A RIGHT OF FIRST REFUSAL TO PURCHASE THE FRANCHISE. GOOD CAUSE SHALL INCLUDE, BUT IS NOT LIMITED TO:

- (i) THE FAILURE OF THE PROPOSED TRANSFEREE TO MEET THE FRANCHISOR'S THEN CURRENT REASONABLE QUALIFICATIONS OR STANDARDS.
- (ii) THE FACT THAT THE PROPOSED TRANSFEREE IS A COMPETITOR OF THE FRANCHISOR OR SUBFRANCHISOR.
- (iii) THE UNWILLINGNESS OF THE PROPOSED TRANSFEREE TO AGREE IN WRITING TO COMPLY WITH ALL LAWFUL OBLIGATIONS.
- (iv) THE FAILURE OF THE FRANCHISEE OR PROPOSED TRANSFEREE TO PAY ANY SUMS OWING TO THE FRANCHISOR OR TO CURE ANY DEFAULT IN THE FRANCHISE AGREEMENT EXISTING AT THE TIME OF THE PROPOSED TRANSFER.

(H) A PROVISION THAT REQUIRES THE FRANCHISEE TO RESELL TO THE FRANCHISOR ITEMS THAT ARE NOT UNIQUELY IDENTIFIED WITH THE FRANCHISOR. THIS SUBDIVISION DOES NOT PROHIBIT A PROVISION THAT GRANTS TO A FRANCHISOR A RIGHT OF FIRST REFUSAL TO PURCHASE THE ASSETS OF A FRANCHISE ON THE SAME TERMS AND CONDITIONS AS A BONA FIDE THIRD PARTY WILLING AND ABLE TO PURCHASE THOSE ASSETS, NOR DOES THIS SUBDIVISION PROHIBIT A PROVISION THAT GRANTS THE FRANCHISOR THE RIGHT TO ACQUIRE THE ASSETS OF A FRANCHISE FOR THE MARKET OR APPRAISED VALUE OF SUCH ASSETS IF THE FRANCHISEE HAS BREACHED THE LAWFUL PROVISIONS OF THE FRANCHISE AGREEMENT AND HAS FAILED TO CURE THE BREACH IN THE MANNER PROVIDED IN SUBDIVISION (C).

(I) A PROVISION WHICH PERMITS THE FRANCHISOR TO DIRECTLY OR INDIRECTLY CONVEY, ASSIGN, OR OTHERWISE TRANSFER ITS OBLIGATIONS TO FULFILL CONTRACTUAL OBLIGATIONS TO THE FRANCHISEE UNLESS PROVISION HAS BEEN MADE FOR PROVIDING THE REQUIRED CONTRACTUAL SERVICES.

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

ANY QUESTIONS REGARDING THIS NOTICE SHALL BE DIRECTED TO :

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

**AMENDMENT TO KAHALA FRANCHISING, L.L.C.  
FRANCHISE AGREEMENT & RELATED FRANCHISE DOCUMENTS  
FOR THE STATE OF MINNESOTA**

The Kahala Franchising, L.L.C. Franchise Agreement between \_\_\_\_\_ (“Franchisee”) and Kahala Franchising, L.L.C., an Arizona limited liability company (“Franchisor”), dated \_\_\_\_\_ (the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of this Agreement (this “Amendment”):

**MINNESOTA LAW MODIFICATIONS**

1. The Commissioner of Commerce for the State of Minnesota requires that certain provisions contained in franchise documents be amended to be consistent with Minnesota Franchise Act, Minn. Stat. Section 80.01 et seq., and of the Rules and Regulations promulgated under the Act (collectively the “Franchise Act”). To the extent that the Agreement and Disclosure Document contain provisions that are inconsistent with the following, such provisions are hereby amended:

- a. Minnesota Statutes, Section 80C.21 and Minnesota Rules 2860.4400(J) prohibit the franchisor from requiring litigation to be conducted outside Minnesota, requiring waiver of a jury trial, or requiring the franchisee to consent to liquidated damages, termination penalties or judgment notes. In addition, nothing in the Franchise Disclosure Document or agreement(s) can abrogate or reduce (1) any of the franchisee’s rights as provided for in Minnesota Statutes, Chapter 80C or (2) franchisee’s rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.
- b. With respect to franchises governed by Minnesota law, the franchisor will comply with Minnesota Statutes, Section 80C.14, Subd. 3-5, which require (except in certain specified cases) (1) that a franchisee be given 90 days notice of termination (with 60 days to cure) and 180 days notice for non-renewal of the franchise agreement and (2) that consent to the transfer of the franchise will not be unreasonably withheld.
- c. The franchisor will protect the franchisee’s rights to use the trademarks, service marks, trade names, logotypes or other commercial symbols or indemnify the franchisee from any loss, costs or expenses arising out of any claim, suit or demand regarding the use of the name.

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

- d. Minnesota Rules 2860.4400(D) prohibits a franchisor from requiring a franchisee to assent to a general release.
- e. The franchisee cannot consent to the franchisor obtaining injunctive relief. The franchisor may seek injunctive relief. See Minn. Rules 2860.4400J.

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

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

2. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of the Minnesota law applicable to the provision are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Amendment to the Franchise Agreement on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**FRANCHISOR:**  
KAHALA FRANCHISING, L.L.C.,  
an Arizona limited liability company

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**FRANCHISEE:**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**AMENDMENT TO KAHALA FRANCHISING, L.L.C.  
FRANCHISE AGREEMENT & RELATED FRANCHISE DOCUMENTS  
FOR THE STATE OF NEW YORK**

The Kahala Franchising, L.L.C. Franchise Agreement between \_\_\_\_\_ (“Franchisee”) and Kahala Franchising, L.L.C., an Arizona limited liability company (“Franchisor”), dated \_\_\_\_\_ (the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of this Agreement (this “Amendment”):

**NEW YORK LAW MODIFICATIONS**

1. The New York Department of Law requires that certain provisions contained in franchise documents be amended to be consistent with New York law, including the General Business Law, Article 33, Section 680 through 695 (1989). To the extent that the Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:

- a. If the Franchisee is required in the Agreement to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action that would violate the General Business Law, regulation, rule or order under the Law, such release shall exclude claims arising under the New York General Business Law, Article 33, Section 680 through 695 and the regulations promulgated thereunder, and such acknowledgements shall be void. It is the intent of this provision that non-waiver provisions of Sections 687.4 and 687.5 of the General Business Law be satisfied.
- b. If the Agreement requires that it be governed by a state’s law, other than the State of New York, the choice of law provision shall not be considered to waive any rights conferred upon the Franchisee under the New York General Business Law, Article 33, Sections 680 through 695.

2. The following Items are required to be included within the Disclosure Document and shall be deemed to supersede the language in the Disclosure Document itself:

**ITEM 3: LITIGATION**

Neither the Franchisor, its Predecessor nor any person listed under Item 2 or an affiliate offering franchises under Franchisor’s principal trademark:

- a. has an administrative, criminal or civil action pending against the person alleging: a felony, a violation of a franchise, antitrust or securities law; fraud, embezzlement, fraudulent conversion, misappropriation of property; unfair or deceptive practices or comparable civil or misdemeanor allegations.
- b. has been convicted of a felony or pleaded nolo contendere to a felony charge or, within the ten year period immediately preceding the application for registration, has been convicted of or pleaded nolo contendere to a

misdemeanor charge or has been the subject of a civil action alleging: violation of a franchise, anti-fraud or securities law; fraud, embezzlement, fraudulent conversion or misappropriation of property, or unfair or deceptive practices or comparable allegations.

- c. is subject to a currently effective injunctive or restrictive order or decree relating to the franchise, or under a Federal, State or Canadian franchise, securities, antitrust, trade regulation or trade practice law, resulting from a concluded or pending action or proceeding brought by a public agency; or is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities and Exchange Act of 1934, suspending or expelling such person from membership in such association or exchange; or is subject to a currently effective injunctive or restrictive order relating to any other business activity as a result of an action brought by a public agency or department, including, without limitation, actions affecting a license as a real estate broker or sales agent.

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

4. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of New York General Business Law, with respect to each such provision are met.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Amendment to the Franchise Agreement on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**FRANCHISOR:**

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

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**FRANCHISEE:**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_



**AMENDMENT TO KAHALA FRANCHISING, L.L.C.  
FRANCHISE AGREEMENT & RELATED FRANCHISE DOCUMENTS  
FOR THE STATE OF NORTH DAKOTA**

The Kahala Franchising, L.L.C. Franchise Agreement between \_\_\_\_\_ (“Franchisee”) and Kahala Franchising, L.L.C., an Arizona limited liability company (“Franchisor”), dated \_\_\_\_\_ (the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of this Agreement (this “Amendment”):

**NORTH DAKOTA LAW MODIFICATIONS**

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

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

- g. Section 51-19-08 of the North Dakota Franchise Investment Law requires Franchisor to give you a copy of the Franchise Disclosure Document at the earlier of: (i) seven days prior to signing the Franchise Agreement; or (ii) seven days prior to Franchisor's receipt of any consideration.

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

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

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

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Amendment to the Franchise Agreement on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**FRANCHISOR:**

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

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**FRANCHISEE:**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**AMENDMENT TO KAHALA FRANCHISING, L.L.C.  
FRANCHISE AGREEMENT & RELATED FRANCHISE DOCUMENTS  
FOR THE STATE OF RHODE ISLAND**

The Kahala Franchising, L.L.C. Franchise Agreement between \_\_\_\_\_ (“Franchisee”) and Kahala Franchising, L.L.C., an Arizona limited liability company (“Franchisor”), dated \_\_\_\_\_ (the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of this Agreement (this “Amendment”):

**RHODE ISLAND LAW MODIFICATIONS**

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

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

2. Section 19-28.1-8 of the Rhode Island Franchise Investment Act requires a franchisor to give you a copy of the Franchise Disclosure Document at the earlier of: (i) the first personal meeting; (ii) 10 business days before the execution of the Franchise Agreement; or (iii) 10 business days before the payment of any consideration that relates to the franchise relationship.

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

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Amendment to the Franchise Agreement on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**FRANCHISOR:**

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

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

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

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

**FRANCHISEE:**

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

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

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

**AMENDMENT TO KAHALA FRANCHISING, L.L.C.  
FRANCHISE AGREEMENT & RELATED FRANCHISE DOCUMENTS  
FOR THE STATE OF SOUTH DAKOTA**

The Kahala Franchising, L.L.C. Franchise Agreement between \_\_\_\_\_ (“Franchisee”) and Kahala Franchising, L.L.C., an Arizona limited liability company (“Franchisor”), dated \_\_\_\_\_ (the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of this Agreement (this “Amendment”):

**SOUTH DAKOTA LAW MODIFICATIONS**

1. The Director of the South Dakota Division of Securities requires that certain provisions contained in franchise documents be amended to be consistent with South Dakota law, including the South Dakota Franchises for Brand-Name Goods and Services Law, South Dakota Codified Laws, Title 37, Chapter 37-5A, Sections 37-5A-1 through 37-5A-87 (1994). To the extent that the Agreement contains provisions that are inconsistent with the following, such provisions are hereby amended:
  - a. If the Franchisee is required in the Agreement to execute a release of claims or to acknowledge facts that would negate or remove from judicial review any statement, misrepresentation or action that would violate the Law, or a rule or order under the Law, such release shall exclude claims arising under the South Dakota Franchises for Brand-Name Goods and Services Law, and such acknowledgements shall be void with respect to claims under the Law.
  - b. Covenants not to compete upon termination or expiration of the Agreement are generally unenforceable in the state of South Dakota, except in certain limited instances as provided by law. If this Agreement contains a covenant not to compete which is inconsistent with South Dakota Law, the covenant may be unenforceable.
  - c. Regardless of the terms of the Agreement concerning termination, if Franchisee fails to meet performance and quality standards or fails to make any royalty payments under the Agreement, Franchisee will be afforded thirty (30) days’ written notice with an opportunity to cure the default before termination.
  - d. If the Agreement requires payment of liquidated damages that are inconsistent with South Dakota law, the liquidated damage clause may be void under SDCL 53-9-5.
  - e. If the Agreement requires litigation to be conducted in a forum other than the State of South Dakota, the requirement is void with respect to any cause of action otherwise enforceable under South Dakota Law.
  - f. If the Agreement requires that it be governed by a state’s law, other than the State of South Dakota, matters regarding franchise registration, employment, covenants not to compete, and other matters of local concern will be governed by the laws of the State of South Dakota; but as to contractual and all other matters, the Agreement and all provisions of this Amendment will be and

remain subject to the application, construction, enforcement, interpretation under the governing law set forth in the Agreement.

- g. If the Agreement requires that disputed between Franchisor and Franchisee be mediated/arbitrated at a location that is outside the State of South Dakota, the mediation/arbitration will be conducted at a location mutually agreed upon by the parties. If the parties cannot agree on location for the mediation/arbitration, the location shall be determined by the mediator/arbitrator selected.

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

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Amendment to the Franchise Agreement on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**FRANCHISOR:**

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

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**FRANCHISEE:**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**AMENDMENT TO KAHALA FRANCHISING, L.L.C.  
FRANCHISE AGREEMENT AND RELATED FRANCHISE DOCUMENTS  
REQUIRED BY THE STATE OF VIRGINIA**

The Kahala Franchising, L.L.C. Franchise Agreement between \_\_\_\_\_ (“Franchisee”) and Kahala Franchising, L.L.C., an Arizona limited liability company (“Franchisor”), dated \_\_\_\_\_ (the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of this Agreement (this “Amendment”):

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

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Amendment to the Franchise Agreement on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**FRANCHISOR:**

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

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**FRANCHISEE:**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_



**ADDENDUM TO THE KAHALA FRANCHISING, L.L.C.  
FRANCHISE AGREEMENT & RELATED FRANCHISE DOCUMENTS  
REQUIRED BY THE STATE OF WASHINGTON**

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

In any arbitration involving a franchise purchased in Washington, the arbitration site shall be either in the State of Washington or in a place mutually agreed upon at the time of the arbitration, or as determined by the arbitrator.

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

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

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

The Washington Franchise Investment Protection Act, Wash. Rev. Code § 19.100.080 requires us to provide you with a copy of the Disclosure Document at the earlier of: (i) 10 business days prior to signing the Franchise Agreement; or (ii) 10 business days prior to our receipt of any consideration.

The undersigned does hereby acknowledge receipt of this addendum.

Dated this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

**FRANCHISOR:**

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

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**FRANCHISEE:**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**AMENDMENT TO KAHALA FRANCHISING, L.L.C.  
FRANCHISE AGREEMENT AND RELATED FRANCHISE DOCUMENTS  
FOR THE STATE OF WISCONSIN**

The Kahala Franchising, L.L.C. Franchise Agreement between \_\_\_\_\_ (“Franchisee”) and Kahala Franchising, L.L.C., an Arizona limited liability company (“Franchisor”), dated \_\_\_\_\_ (the “Agreement”) shall be amended by the addition of the following language, which shall be considered an integral part of this Agreement (this “Amendment”):

**WISCONSIN LAW MODIFICATIONS**

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

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

2. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of the Wisconsin law applicable to the provision are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Amendment to the Franchise Agreement on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**FRANCHISOR:**

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

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

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

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

**FRANCHISEE:**

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

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

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

**EXHIBIT 8**

**FRANCHISEE QUESTIONNAIRE**

## FRANCHISEE QUESTIONNAIRE

The undersigned is in the process of negotiating and consummating the purchase of a Kahala Franchising, L.L.C. ("Kahala") Franchise Agreement ("Agreement") for Taco Time.

We have been informed that since the laws of franchising limit the type of information that may be provided to prospective franchisees, the Kahala Legal Department has established a compliance audit program to ensure that all pre-sale negotiations have been lawfully completed.

We understand that if improper sales practices have occurred, the Kahala Legal Department, with appropriate notice prior to Agreement execution, will be able to either rectify and cure the violation or in the alternative reject the franchise sale.

In order to comply with your compliance audit program we hereby make the following acknowledgments and representations concerning events during the course of the negotiations and offer of sale of the Agreement knowing that Kahala will rely thereon in agreeing to accept the franchise sale.

1. In the course of the negotiations and the offer and sale of the Agreement we have met or spoken only to: \_\_\_\_\_

List any additional people: \_\_\_\_\_  
\_\_\_\_\_

2. Did any of the individuals identified in paragraph number one (1) or any other person or entity acting on behalf of or at the direction of Kahala make any promises, statements, projections, forecasts, estimates, warranties or representations or other statement or agreement (a) concerning the actual or potential financial performance of the franchised or franchisor owned-outlets, profits or expenses or actual or projected sales of any kind directly or by implication concerning Taco Time restaurants or about the Taco Time restaurant that is to be developed or about obtaining the approved location or about any other matter relating to the prospect for financial performance to the prospective franchisee, or (b) about any other matter other than what is contained in the Franchise Disclosure Document ("FDD"), and as stated in ITEM 19 of the Taco Time FDD.

Check one:                     Yes                     No

If yes, please state in detail the oral, written, or visual claim or representation:

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

3. Did you receive any financial statements for Franchisor's parent company, Kahala Corp., or for any of Franchisor's affiliated companies, or did you rely on the financial condition of Franchisor's parent company or any of its affiliated companies when making the decision to purchase the Franchised Business?

Check one:                     Yes                     No

If yes, please comment, in detail:

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



If no, please comment:

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8. Do you understand that the success or failure of your franchise will depend in large part upon your adherence to the Taco Time Operations Manual, your skills and experience, your business acumen, your location, the local market for products under our trademarks, interest rates, the economy, inflation, the number of employees you hire and their compensation, competition, and other economic and business factors? Further, do you understand that the economic and business factors that exist at the time you open your franchise may change?

Check one:                     Yes                     No

If no, please comment:

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*All representations requiring prospective franchisees to assent to a release, estoppel or waiver of liability are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.*

**[Name of Franchisee]**

**By:** \_\_\_\_\_  
          (Name)  
          Title

\_\_\_\_\_ **DATE**

**CONSENT OF SPOUSE**

(to be executed if Franchisee is a married individual)

The undersigned is the spouse of the Franchisee identified in the Amendment(s) to Franchise Agreement, dated as of \_\_\_\_\_, between his or her spouse and Kahala Franchising, L.L.C. (collectively, the "Agreement"), to which this Consent of Spouse is attached.

The undersigned hereby declares that he or she has read the Agreement in its entirety and, being fully convinced of the wisdom and equity of the terms of the Agreement, and in consideration of the premises and of the provisions of the Agreement, the undersigned hereby expresses his or her acceptance of the same and does agree to its provisions.

The undersigned further agrees that in the event of the death of his or her spouse, the provisions of this Agreement will be binding upon him or her.

The undersigned further agrees that he or she will at any time make, execute and deliver such instruments and documents which may be necessary to carry out the provisions of the Agreement.

This instrument is not a present transfer or release of any rights which the undersigned may have in any of the community property of his or her marriage.

DATED \_\_\_\_\_

\_\_\_\_\_  
(Signature of Spouse)

\_\_\_\_\_  
(Print Name of Spouse)



**EXHIBIT F**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Form of Addendum to the Franchise Agreement for SBA Loans**

**ADDENDUM  
RELATING TO  
TACO TIME  
FRANCHISE AGREEMENT  
(SBA Loan)**

THIS ADDENDUM (Addendum) is made and entered into on \_\_\_\_\_, 20\_\_\_\_, by Kahala Franchising, L.L.C., located at 9311 E. Via De Ventura, Scottsdale, Arizona 85258 (“Franchisor”), and \_\_\_\_\_, located at \_\_\_\_\_ (“Franchisee”).

**Recitals.** Franchisor and Franchisee entered into a Franchise (or License) Agreement on \_\_\_\_\_, 20\_\_\_\_, (“Franchise Agreement”). The Franchisee agreed among other things to operate and maintain a Taco Time franchise located at \_\_\_\_\_ designated by Franchisor as Store #\_\_\_\_\_ (the “Store”). Franchisee has obtained from a lender a loan (“Loan”) in which funding is provided with the assistance of the United States Small Business Administration (“SBA”). SBA requires the execution of this Addendum as a condition for obtaining the SBA assisted financing.

NOW, THEREFORE, in consideration of the mutual promises below, and for good and valuable considerations in hand paid by each of the parties to the others, the receipt and sufficiency of which the parties acknowledge, the parties agree as follows:

- Franchise Agreement is in full force and effect, and Franchisor has sent no official notice of default to Franchisee under the Franchise Agreement that remains uncured on the date hereof.
- Under Section 12.6 of the Franchise Agreement, any SBA financed franchise will be granted a lien on the business assets of the franchisee as required in its loan authorization.
- If the Franchise Agreement is terminated and the Franchised Business or its contents are to be sold under Section 14.5 of the Franchise Agreement and the parties are unable to agree as to a purchase price and terms, the fair market value of such premises and property shall be determined by three appraisers chosen in the following manner: Franchisee shall select one and Franchisor shall select one, and the two appraisers so chosen shall select a third appraiser. The decision of the majority of the appraisers so chosen shall be conclusive. The cost of the third appraiser shall be shared equally by the parties.
- Section 12.2 of the Franchise Agreement provides that the Franchisor (or any Third Party Assignee of the Franchisor) may elect pursuant to its Right of First Refusal to exercise said option when the franchisee decides to sell partial interest(s) in the business. This section is hereby amended to reflect that the

Franchisor (nor any Third Party Assignee of the Franchisor) will not exercise the option for any partial sale of the franchisee's business. The Franchisor (Third Party Assignee of the Franchisor) may not become a partial owner of any SBA financed franchises.

- If the Franchisor must operate the business under Section 14.3 of the Franchise Agreement, Franchisor will operate the business for a 90 day renewable term, renewable as necessary for up to one year and the Franchisor will periodically discuss the status with the Franchisee or its heirs.
- This Addendum automatically terminates on the earliest to occur of the following: (i) a Termination occurs under the Franchise Agreement; (ii) the Loan is paid; or (iii) SBA no longer has any interest in the Loan.

IN WITNESS WHEREOF, the parties hereto have duly signed and executed this Addendum as of the day and year first above written.

**FRANCHISOR:**

**FRANCHISEE:**

**KAHALA FRANCHISING, L.L.C.**  
**d/b/a Taco Time**

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

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

Print Name: Walter L. Schultz

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

Title: Executive Vice President/CFO of its Member

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

**EXHIBIT G**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Form of Required Lease Terms**

## **REQUIRED LEASE TERMS**

**The Terms and Conditions in the Attached Lease Addendum must be included in the Franchisee's lease for the location of the Franchised Business via execution of the attached Lease Addendum or through modifications to the actual lease agreement**

**LEASE ADDENDUM**

**TO**

**LEASE AGREEMENT**

**Dated \_\_\_\_\_, 20\_\_ between**

\_\_\_\_\_ and \_\_\_\_\_  
Landlord Name Tenant/Franchisee Name

**1. Use of Premises.**

During the term of the Franchise Agreement (or, if shorter, the term of the Lease), the Premises may be used only for the operation of a quick service restaurant under the *Taco Time* System, Proprietary Marks, Trade names, and logos, which specialize in the sale of moderately priced Mexican-style prepared foods. Landlord consents to Tenant's use of such marks, tag lines, signs, décor items, color schemes, and related components of the *Taco Time* franchise System as *Taco Time* may prescribe for the franchisees of its System.

**2. Assignment and Notices.**

a. Notwithstanding anything to the contrary in this Lease, Tenant shall have the right to assign this Lease and all rights hereunder, to Kahala Franchising, L.L.C. ("*Taco Time*"), an affiliate of *Taco Time*, or to a franchisee of *Taco Time* (duly approved as such by *Taco Time* and meeting the franchise requirements of *Taco Time* as of the date hereof) upon the expiration or earlier termination of that certain Franchise Agreement dated \_\_\_\_\_, 20\_\_ (the "Franchise Agreement"), by and between *Taco Time* and Tenant without obtaining Landlord's consent and without the imposition of any assignment fee or similar charge. Landlord shall not accelerate the rent owed hereunder in connection with such assignment(s), so long as *Taco Time*, its affiliate(s) or its franchisees assumes in writing the obligations of Tenant under the Lease. Nothing in this Section 2(a) shall serve to extend the term of the Lease or provide *Taco Time* any occupancy rights, options to renew or other rights not expressly set forth to Tenant in the Lease.

b. Landlord agrees to furnish *Taco Time* with copies of any and all letters and notices to Tenant pertaining to the Lease and the Premises at the same time that such letters and notices are sent to Tenant. Landlord further agrees that, if it intends to terminate the Lease, the Landlord will give *Taco Time* the same advance written notice of such intent as provided to Tenant, specifying in such notice all defaults that are the cause of the proposed termination. *Taco Time* shall have the right to cure, at its sole option, any such default within the time periods granted to Tenant under the Lease. If neither Tenant or *Taco Time* cures all such defaults within said time periods (or such longer cure periods as may be specifically permitted by the Lease), then the Landlord may terminate the Lease, re-enter the Premises and/or exercise all other rights as set forth in the Lease.

c. Prior to the expiration or termination of the Lease, *Taco Time* shall have the right to enter the Premises to make any reasonable modifications or reasonable alterations necessary to protect *Taco Time* interest in the *Taco Time* business and the Proprietary Marks and System (as such terms are defined in the Franchise Agreement), or to cure any default under the Franchise Agreement or any development agreement entered into by *Taco Time* and the Tenant or under the Lease, and Landlord agrees that *Taco Time* shall not be liable for trespass or any other crimes or tort.

**3. Notices.**

All notices and demands required to be given hereunder shall be in writing and shall be sent by personal delivery, expedited delivery service, certified or registered mail, return receipt requested, first-class postage prepaid, facsimile, telegram or telex (provide that the sender confirm the facsimile, telegram or telex by sending an original confirmation copy by certified transmission), to the respective parties at the following addresses unless and until a different address has been designated by written notice to the other parties.

If directed to Tenant, the notice shall be addressed to:

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

Attn: \_\_\_\_\_

Facsimile: \_\_\_\_\_

If directed to Landlord, the notice shall be address to:

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

Attn: \_\_\_\_\_

Facsimile: \_\_\_\_\_

If directed to *Taco Time*, the notices shall be addressed to:

Kahala Franchising, L.L.C.  
9311 E. Via De Ventura  
Scottsdale, AZ 85258  
Attn: Legal Department  
Facsimile: (480) 362-4797

Any notices sent by personal delivery shall be deemed given upon receipt. Any notices given by telex or facsimile shall be deemed given on the business day of transmission, provided confirmation is made as provided above. Any notice sent by expedited delivery service or registered or certified mail shall be deemed given three (3) business days after the time of mailing. Any change in the foregoing addresses shall be effected by giving fifteen (15) days written notice of such change to the other parties.

**4. Amendments.**

Landlord and Tenant will not amend, renew, extend or otherwise modify this Lease in any manner which would materially affect any of the foregoing provisions without *Taco Time's* prior written consent.

**5. Third Party Beneficiary.**

Landlord and Tenant agree that *Taco Time* is a third party beneficiary of the Lease.

**6. Miscellaneous.**

The terms and conditions of this Lease Addendum will supersede any Conflicting terms of the Lease. Any capitalized term not specifically defined in this Addendum shall have the meaning ascribed to such term in the Lease or Franchise Agreement, as applicable.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Addendum in duplicate as of the day and year set forth in the Lease Agreement.

**“LANDLORD”**

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

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

**“TENANT”**

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

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

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



**EXHIBIT H**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Form of Lease Guaranty Acknowledgment**

**Lease Guaranty Acknowledgment**

You have informed Kahala Management, L.L.C. (the "Company") that the landlord of the location which you have selected for the operation of your Franchised Business requires, as a condition for you to obtain a lease agreement, that you obtain a lease guaranty from the Company or any affiliate of the Company of your obligations under the lease. You have requested that the Company or any affiliate of the Company execute and deliver a lease guaranty in favor of the premises landlord for the location you have selected or are considering for your Franchised Business. You acknowledge that neither the Company nor any of its affiliates is required to serve as guarantor of your lease for the site of your Franchised Business and that a decision whether to serve as guarantor is within the sole and absolute discretion of the Company.

We are willing to undertake to assist you in obtaining a lease by agreeing to execute and deliver a lease guaranty, in form and substance satisfactory to the Company and its counsel. In consideration for the execution and delivery of a lease guaranty, you hereby acknowledge that you have agreed to pay a lease guaranty fee to the Company in an amount equal to the lesser of (i) ten percent (10%) of the total amount of the rental obligations to be guaranteed under the lease during its term, and any renewal term (inclusive of any charges for real estate taxes, common area maintenance, insurance), or (ii) Ten Thousand (\$10,000) Dollars (the "Lease Guaranty Fee"). The Lease Guaranty Fee will be due and payable to the Company upon the Company's (or any affiliate of the Company) execution of the applicable lease guaranty agreement with the landlord.

Any capitalized terms not specifically defined in this Lease Guaranty Acknowledgment shall have the meaning ascribed to such terms in your Taco Time Franchise Agreement dated \_\_\_\_  
\_\_\_\_\_.

The undersigned understands and acknowledges that: (i) notwithstanding the agreement of the Company to execute and deliver a lease guaranty, the execution and delivery of such guaranty and any participation of the Company and/or its agents or employees, including, without limitation, its Area Representatives, and/or brand presidents in the negotiation of an LOI or a lease, and analyzing and/or approving site(s) for the Location of the Franchised Business, you are solely responsible for conducting a review of the proposed site, the LOI and lease terms, and for final Location selection and approval based upon your review, your business plan and model; (ii) you have not relied upon the assistance of the Company in procuring, or in the approval of, an LOI or lease for the Franchised Business, or in its decision to select any proposed site; (iii) each potential site for the Franchised Business is unique and provides different risks and benefits, which may impact the performance of the Franchised Business; and, (iv) as part of analyzing the proposed site, it is your responsibility to meet with the local officials to determine, among other things whether any street, highway, interchange, city, or other changes are planned in the area or access to the proposed site that could negatively affect the performance of the Franchised Business.

Acknowledged and accepted:

Corporation or Entity: \_\_\_\_\_

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

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

Brand Concept: \_\_\_\_\_

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

**EXHIBIT I**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Form of Lease Negotiation Acknowledgment**

**Lease Negotiation Acknowledgment**

You have requested that Kahala Management, L.L.C. ("Company") negotiate a term sheet and/or a Letter of Intent ("LOI") to secure a lease, and thereafter to negotiate the terms of a master lease with the landlord or broker/agent of the landlord for the location you have selected or are considering for your Franchised Business. We are willing to undertake to assist you in procuring the LOI, and with such related negotiations. The final approval and execution of the LOI and/or the lease and the provisions of the LOI and lease remain your sole responsibility. You have agreed to pay the Company a fee of Two Thousand Five Hundred Dollars (\$2,500.00) for such assistance ("Lease Negotiation Fee"), less any Location Review Fee paid by you.

Any capitalized terms not specifically defined in this Lease Negotiation Acknowledgment shall have the meaning ascribed to such terms in your Taco Time Franchise Agreement dated \_\_\_\_.

You may require or elect to seek additional information or guidance other than what is provided by the Company. This would be your sole responsibility.

The undersigned understands and acknowledges that: (i) notwithstanding any participation of the Company and/or its agents or employees, including, without limitation, its Area Representatives, and/or brand presidents in the negotiation of an LOI or a lease, and analyzing and/or approving site(s) for the Location of the Franchised Business, you are solely responsible for conducting a review of the proposed site, the LOI and lease terms, and for final Location selection and approval based upon your review, your business plan and model; (ii) you have not relied upon the assistance of the Company in procuring, or in the approval of, an LOI or lease for the Franchised Business, or in its decision to select any proposed site; (iii) each potential site for the Franchised Business is unique and provides different risks and benefits, which may impact the performance of the Franchised Business; and, (iv) as part of analyzing the proposed site, it is our responsibility to meet with the local officials to determine, among other things whether any street, highway, interchange, city, or other changes are planned in the area or access to the proposed site that could negatively affect the performance of the Franchised Business.

Acknowledged and accepted:

Corporation or Entity: \_\_\_\_\_

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

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

Brand Concept: \_\_\_\_\_

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

**EXHIBIT J**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Form of Lease Procurement Acknowledgment**

**Lease Procurement Acknowledgment**

You have requested that the real estate department of the Franchisor, Kahala Management, L.L.C. (the "Company") assist you in the identification of a location for the development of your Franchised Business (the "Location"), which may include visits to the Location and/or participation in the negotiation of the terms of a lease with the landlord and/or broker/agent of the landlord for the Location of the Franchised Business (the "Procurement Assistance"). We are willing to undertake to assist you in the identification of the Location, and with visits to the Location and related negotiations. You have agreed to pay the Company, upon execution of this Acknowledgment, a fee of Five Thousand Dollars (\$5,000.00) for such assistance (the "Lease Procurement Fee"), less any Location Review Fee paid by you.

Any capitalized terms not specifically defined in this Lease Procurement Acknowledgment shall have the meaning ascribed to such terms in your Taco Time Franchise Agreement dated \_\_\_\_\_.

The final approval and execution of the lease and the provisions of the lease remain your sole responsibility. You may require or elect to seek additional information or guidance other than what is provided by the Company. This would be your sole responsibility.

The undersigned understand and acknowledges that: (i) notwithstanding any provision by Kahala Management, L.L.C. and/or its agents or employees, including, without limitation, its Area Representatives, and/or Brand Presidents in Procurement Assistance for the location of the Franchised Business, you are solely responsible for conducting a review of the proposed site, the LOI and lease terms, and for final site selection and approval based upon your review, your business plan and model; (ii) you have not relied solely upon the Procurement Assistance of Kahala Management, L.L.C. in procuring, or in the approval of, an LOI or lease for the Franchised Business, or in its decision to select any proposed site; (iii) each potential site for the Franchised Business is unique and provides different risks and benefits, which may impact the performance of the Franchised Business; and, (iv) as part of analyzing the proposed site, it is your responsibility to meet with the local officials to determine, among other things whether any street, highway, interchange, city, or other changes are planned in the area or access to the proposed site that could negatively affect the performance of the Franchised Business.

Acknowledged and accepted:

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

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

Corporation or Entity: \_\_\_\_\_

Brand Concept: \_\_\_\_\_

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

**EXHIBIT K**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Pre-Authorized Electronic Funds Transfer Form**



# ELECTRONIC FUNDS TRANSFER (EFT) AUTHORIZATION

FRANCHISEE INFORMATION		
Franchisee Name	Store No.	Franchisee Phone No.
Franchisee Mailing Address (street, city, state, zip)		
Contact Name, Address and Phone number (if different than above)		
Employer Identification Number (if applicable)	Principal's Name and Social Security Number	

BANK ACCOUNT INFORMATION		
Bank Name	Bank Account Number	Bank Routing Number [:           ]: 9 Characters
Bank Mailing Address (street, city, state, zip)		
Bank Phone Number		

PAYMENT AUTHORIZATION
<p>Franchisee hereby authorizes Kahala Franchising, L.L.C. (the "Payee"), to initiate withdrawals from the Bank Account indicated on this form, and hereby authorizes the Bank to honor and charge the Bank Account for electronic funds transfers or drafts drawn on the Bank Account and payable to Payee. The amount of such charge shall be set forth in a notice from the Payee presented to the Bank on the day(s) of the week set forth in your franchise agreement, gift card participation agreement (or similar agreement for the gift card program), and any other agreement you sign that authorizes us or our affiliate to debit your account for the fees, which may be modified by Kahala Franchising, L.L.C. or its affiliates, for the payment of royalty fees, advertising fees, POS support fees, gift card and e-gifting program fees and funds flow, and any other fees, charges and other amounts payable to us or our affiliates for any services we provide or facilitate. The Franchisee agrees to execute such additional documents as may be reasonably requested by the Payee or the Bank to evidence the interest of this EFT Authorization. This authority shall remain in full force and effect until the Payee has received written notification from the Franchisee in such time and manner as to afford the Payee and the Bank to act on such notice. The Franchisee understands that the termination of this authorization does not relieve the Franchisee of its obligations to make payments to the Payee. Payee may assign its rights and obligations under this EFT Authorization to Payee's affiliates or agents. Payee may change its designated affiliates or agents at Payee's discretion.</p>

Signature:	Date:
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**NOTE: FRANCHISEE MUST ATTACH A VOIDED OR COMPLETED CHECK RELATING TO THE BANK ACCOUNT.**

<p>ATTACH VOIDED OR COMPLETED CHECK HERE</p>
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**EXHIBIT L**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Form of Release and Consent Agreement to Assignment of Franchised  
Business**

**RELEASE AND CONSENT AGREEMENT TO  
ASSIGNMENT OF FRANCHISED BUSINESS**

(\_\_\_\_\_; \_\_\_\_, \_\_\_\_)

THIS RELEASE AND CONSENT AGREEMENT TO ASSIGNMENT OF FRANCHISED BUSINESS (“Agreement”) is entered into this \_\_\_ day of \_\_\_\_\_, 20\_\_ (the “Effective Date”) by and among \_\_\_\_\_ (“Assignor”), and \_\_\_\_\_ (“Assignee”), and Kahala Franchising, L.L.C., an Arizona limited liability company (the “Franchisor” or “KAHALA”).

**RECITALS**

A. \_\_\_\_\_ and Assignor are parties to a Franchise Agreement with an Effective Date of \_\_\_\_\_ for the \_\_\_\_\_ Taco Time located at \_\_\_\_\_ (“Franchise Agreement”). The \_\_\_\_\_ franchise located at \_\_\_\_\_ in \_\_\_\_\_, \_\_\_\_\_ will hereinafter be referred to as the “Franchised Business”.

B. Assignor desires to assign the Franchised Business to Assignee, and Assignee desires to accept the assignment.

C. Assignee acknowledges receipt of a copy of the Franchise Agreement from Assignor.

D. Assignee and Assignor acknowledge that upon assignment, Assignee must execute the Franchisor’s current form of franchise agreement, which includes its current royalty fee and advertising contributions that may be greater than the amount of such fees in Assignor’s Franchise Agreement.

E. Franchisor agrees to consent to the assignment of the Franchised Business from Assignor to Assignee, subject to the terms and conditions of this Agreement.

**AGREEMENT**

1. Assignor agrees to transfer the Franchised Business to Assignee pursuant to the transfer provisions in the Assignor’s Franchise Agreement, and Assignee accepts the transfer of the Franchised Business pursuant to the transfer provision in the Assignor’s Franchise Agreement, including, but not limited to, the payment of the applicable transfer and training fees.

2. Assignee hereby agrees to execute Franchisor’s current form of franchise agreement with Franchisor, and to be bound by the terms and conditions set forth in such current form of franchise agreement, including a weekly continuing royalty fee of the greater of six percent (6%) of gross sales or \$400, and a weekly advertising fund contribution of four percent (4%) (subject to adjustment pursuant to the franchise agreement) of gross sales, with such franchise agreement to expire concurrently with the term of the Assignor’s lease for the Franchised Business.

3. Assignor agrees to pay to Franchisor concurrently with the execution of this Agreement the \$\_\_\_\_\_ transfer fee pursuant to Section \_\_\_ of the Assignor's Franchise Agreement.

4. Assignor agrees to pay to Franchisor concurrently with the execution of this Agreement the \$\_\_\_\_\_ training fee pursuant to Section \_\_\_ of the Assignor's Franchise Agreement.

5. Assignor agrees to cure any and all defaults of any monetary consideration due and payable to KAHALA prior to the execution of this Agreement, including any past due and current royalties and advertising contributions under the Franchise Agreement through the Effective Date.

6. Assignor agrees to cure any and all monetary defaults due and payable under their phone service agreement, complete and sign a letter of agency, letter of authorization or equivalent form, and provide the form to Assignee at least one week prior to the transfer of the Franchised Business to allow Assignee to retain the telephone number of the Franchised Business.

7. Assignee agrees provide the letter of agency, letter of authorization or equivalent form to their phone service provider in an effort to retain the telephone number of the Franchised Business.

8. Assignor represents and warrants that it has not failed to disclose to KAHALA any information, which, if known by KAHALA, might provide grounds for KAHALA to reasonably withhold its consent to this Agreement, and that Assignor has disclosed all of the terms of the transfer to KAHALA.

9. Assignor ratifies and reaffirms any and all provisions and/or agreements with KAHALA intended to survive the assignment and/or termination of the Franchise Agreement and agrees to remain bound by them, including but not limited to any provisions pertaining to confidential information and covenant against competition.

10. Assignor agrees that it has no rights in any of the trademarks, trade names, or service marks of Franchisor; except in connection with other Taco Time franchises owned by Assignor (if any). Assignor also stipulates that such marks, names, symbols and the like are the sole property of Franchisor and that it has no rights in them, except in connection with other Taco Time franchises owned by Assignor (if any). Assignor quitclaims to Franchisor any rights in any trademarks, trade names, and service marks of Franchisor, in the event Assignor has any such rights, except those rights acquired through other Taco Time franchises owned by Assignor (if any).

11. Assignee acknowledges that KAHALA has not made any express or implied verbal or written representations or promises whatsoever that:

- a. Future assignments will be approved;

- b. Assignee will have financial success operating the Franchised Business;
- c. The consideration, if any, paid for the Franchised Business represents the true value of the Franchised Business; or
- d. Assignor is not in default under the terms of the Franchise Agreement.

12. Assignee acknowledges that KAHALA has made no representations whatsoever concerning the value of the Franchised Business.

13. Assignee acknowledges that its address for receipt of notices under this Agreement is:

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

14. KAHALA hereby consents to the transfer of the Franchised Business to Assignee subject to the terms and conditions of this Agreement being fully met by both Assignor and Assignee.

15. In consideration of KAHALA's agreements set forth in this Agreement, Assignor represents that KAHALA has not failed to perform, and is not in any respect in default in the performance of, any of its obligations under the Franchise Agreement, and Assignor irrevocably and unconditionally waives, releases and discharges KAHALA, its related companies, parents, subsidiaries, and their employees, its officers, directors, shareholders, agents, employees and representatives from any and all claims, actions, rights, demands, debts, obligations, damages, liabilities, judgments, losses or causes of suit or causes of action of any kind whatsoever, whether known or unknown, fixed or contingent, liquidated or unliquidated, Assignor has or may have against KAHALA, its officers, directors, employees, agents or representatives arising out of or connected with any matters, acts, or omissions on the part of KAHALA, its officers, directors, employees, agents or representatives in connection with the negotiation and execution of the Franchise Agreement, the administration of the Franchise Agreement, and the operation or management of the franchise system as defined in the Franchise Agreement. Assignor hereby releases KAHALA, its officers, directors, employees, agents, related companies, subsidiaries, and parent companies from any and all liability, causes of action, claims or losses arising out of or connected with the Franchise Agreement prior to the Effective Date.

IT IS UNDERSTOOD BY ASSIGNOR THAT IF THE FACTS OR LAW WITH RESPECT TO THE FOREGOING RELEASE IS GIVEN HEREAFTER TURN OUT TO BE OTHER THAN OR DIFFERENT FROM THE FACTS OR LAW IN THAT CONNECTION NOT KNOWN TO BE OR BELIEVED BY ASSIGNOR TO BE TRUE, THEN ASSIGNOR HERETO EXPRESSLY ASSUMES THE RISK OF THE FACTS OR LAW TURNING OUT TO BE SO DIFFERENT, AND AGREES THAT THE FOREGOING RELEASE SHALL BE IN ALL RESPECTS EFFECTIVE AND NOT SUBJECT TO TERMINATION OR RESCISSION BASED UPON SUCH DIFFERENCES IN FACTS OR LAW.

16. Assignor and Assignee hereby agree to protect, defend and indemnify KAHALA, its direct or indirect parents, their subsidiaries, affiliates and designees and their officers, board of directors, employees and hold them harmless from and against any and all costs and expenses actually incurred by them or for which they are liable, including attorney's fees, court costs, expert witness fees/costs, losses, liabilities, damages, claims and demands of every kind or nature, and including those incurred pursuant to a settlement entered into in good faith, arising out of or in connection with the Franchised Business, including specifically without limitation any claim or controversy arising out of (i) this Agreement, (ii) the Franchise Agreement, (iii) any transfer by Assignee or Assignor referred to in the Franchise Agreement, (iv) acts or omissions of Assignee and/or Assignor which are not in strict compliance with this Agreement, the Franchise Agreement and the Operations Manual in respect of use or display of the Marks (as such term is defined in the Franchise Agreement), or (v) acts or omissions of Assignee and/or Assignor which tend to create an impression that the relationship between the parties hereto is other than one of Franchisor and Franchisee. KAHALA, and its direct or indirect parents, their subsidiaries, affiliates and designees and their officers, board of directors, employees, at their sole discretion, may hire legal counsel to defend any actions brought against KAHALA, its direct or indirect parents, their subsidiaries, affiliates and designees and their officers, board of directors, employees which arise out of Franchisee's (Assignor's and Assignee's) obligations herein. Assignor and Assignee hereby agree to pay any and all attorneys' fees, expert costs, and any other fees and costs incurred by KAHALA, its direct or indirect parents, their subsidiaries, affiliates and designees and their officers, board of directors, employees to said selected counsel upon the request of KAHALA, its direct or indirect parents, their subsidiaries, affiliates and designees and their officers, board of directors, employees. Assignor and Assignee will, if requested by KAHALA, its direct or indirect parents, their subsidiaries, affiliates and designees and their officers, board of directors, employees, defend any suits at the sole cost and expense of Assignor and Assignee. Assignor and Assignee hereby agree to defend said suits with the use of attorneys requested by KAHALA, its direct or indirect parents, their subsidiaries, affiliates and designees and their officers, board of directors, employees. For purposes of this provision, requests shall be made pursuant to the Notice paragraph herein. Notwithstanding the other provisions of this Section 16 to the contrary, if any, Assignor shall not be responsible for any of the acts or omissions of Assignee after the expiration of the Franchise Agreement, excluding any renewal options exercised thereunder.

17. *In accordance with Maryland Franchise Registration and Disclosure Law, the releases found in Sections 15 and 16 of this Agreement shall not apply to any liability for claims that arise under the Maryland Franchise Registration and Disclosure Law.*

18. Each individual executing this Agreement on behalf of a partnership, limited liability company or corporation represents and warrants that he or she is duly authorized to execute and deliver this Agreement on behalf of the partnership, limited liability company, or corporation, and agrees to deliver evidence of his or her authority to KAHALA upon request by KAHALA.

19. The provisions of this Agreement are severable, and if any one or more provisions may be determined to be unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

20. This Agreement shall be construed under and according to the laws of the State of Arizona. *In accordance with Maryland Franchise Registration and Disclosure Law, a Franchisee may sue in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.*

21. VENUE. ANY AND ALL COURT PROCEEDINGS ARISING FROM THIS RELEASE AND CONSENT SHALL BE BROUGHT IN, AND ONLY IN, A COURT OF COMPETENT JURISDICTION IN MARICOPA COUNTY, PHOENIX, ARIZONA. IN EITHER CASE, THE PARTIES CONSENT TO THE EXERCISE OF SUBJECT MATTER AND PERSONAL JURISDICITON BY SUCH COURTS.

22. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

23. No amendment, modification, supplement or waiver of this Agreement or any of its provisions shall be binding on the parties unless made in writing and duly executed by KAHALA and Assignor and Assignee. A failure of any party to enforce at any time any of the provisions of this Agreement or to require at any time performance by another party or any provision of this Agreement, shall in no way be construed as a waiver of those provisions.

24. This Agreement shall not be construed in any way as modifying, waiving, or affecting any of the terms, covenants, conditions, or agreements contained in the Franchise Agreement executed by Assignor, or the current form of franchise agreement to be executed by Assignee.

25. This Agreement shall inure to the benefit of and shall be binding upon the parties hereto and their respective successors and assigns.

**[SIGNATURES TO FOLLOW ON NEXT PAGE]**

**ASSIGNOR**

\_\_\_\_\_

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

**ASSIGNEE**

\_\_\_\_\_

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

**KAHALA**

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

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

**EXHIBIT M**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

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**EXHIBIT N**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**List of Franchise Owners  
(as of December 31, 2011)**

TACO TIME  
FRANCHISEE LIST - AS OF DECEMBER 31, 2011  
(United States)

The name of the franchisee, store address and store telephone number are listed below

	Corporate Name	Franchisee Name	Store Address	City	State	Zip Code	Telephone Number
1	M.R. Taco, LLC	Amado and Linda Montecillo	2417 Tongass Avenue, Unit #120	Ketchikan	AK	99901	(907) 225-3663
2		Orval Proctor	707 Main Street	Delta	CO	81416	(970) 874-3711
3	F and L, LLC	Melany Leasure, Lane Fillingim and Laura Fillingim	2301 North Avenue, #E	Grand Junction	CO	81504	(970) 241-0624
4	DeWitt, Inc.	Larry and Pamela Cornelius	511 Lincoln Way	Ames	IA	50010	(515) 232-6391
5	I Taco, Inc.	Frank Dickson	895 Sexton	Blackfoot	ID	83221	(208) 785-2262
6	EI D&L, Inc.	Dale and Lynn Banks	BoiseTown Center, 350 N. I	Boise	ID	83788	(208) 322-1707
7	L.R. Company, LLC.	Trea Latimer	6940 Overland Road	Boise	ID	83709	(208) 376-3621
8	SCR Northand, Inc.	Steve Reed	405 Vista Ave.	Boise	ID	83705	(208) 343-0932
9	SCR Northand, Inc.	Steve Reed	7965 Fairview Ave.	Boise	ID	83704	(208) 376-3281
10	SCR Northand, Inc.	Steve Reed	2605 Blaine Street	Caldwell	ID	83605	(208) 459-0211
11	Happy Trails, LLC	Kelli Callihan	2517 N. 4th Street	Coeur d'Alene	ID	83815	(208) 765-8226
12		Dan Willie	Travelers' Oasis, 1017 South 1150 East	Eden	ID	83325	(208) 825-4147
13		Michael Dickson	2251 1st Street	Idaho Falls	ID	83401	(208) 241-4923
14	Happy Day Corporation	Bruce Finch	1828 - 21st Street	Lewiston	ID	83501	(208) 746-1961
15		Gary Andersen	898 East Hwy 30	McCammon	ID	83250-1534	(208) 254-3838
16		Benton "Skip" Hofferber	785 S. Progress Avenue	Meridian	ID	83642	(208) 887-1973
17	Jacksons Food Stores, Inc.	John Jackson	Jacksons Food Store 7 East Main	Middleton	ID	83644	(208) 585-2896
18		Jerry and Joyce Hunzeker	218 N. 4th	Montpelier	ID	83254	(208) 847-2912
19	<b>Happy Day Corporation</b>	Bruce Finch	401 W. Sixth Street	Moscow	ID	83843	(208) 882-8226
20	SCR Northand, Inc.	Steve Reed	1015 S. Third Street	Nampa	ID	83651	(208) 466-7761
21	U Taco Inc.	Frank Dickson	1060 Yellowstone Ave.	Pocatello	ID	83201	(208) 233-8840
22		Brian and Christine Larsen	274 S. 2nd W.	Rexburg	ID	83440	(208) 356-9005
23		Gary Andersen	295 E. 2nd So.	Soda Springs	ID	83276	(208) 547-4130
24	Oasis Stop 'N Go, L.L.C.	Troy Willie	659 Addison Avenue West Inside Oasis Stop 'N Go	Twin Falls	ID	83301	(208) 733-4476
25	Omegah, L.L.C.	Pratik Patel	2823 Gateway Dr. S.	Goshen	IN	46526	(574) 534-1212

TACO TIME  
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	Corporate Name	Franchisee Name	Store Address	City	State	Zip Code	Telephone Number
26		William E. Schmitz, Jr., David Herigstad, and Jeri Herigstad	421 E. Commerical	Anaconda	MT	59711	(406) 563-7053
27		William R. Schmitz, Nancy L. Schmitz, William E. Schmitz, and Vickie R. Schmitz	100 W. Madison	Belgrade	MT	59714	(406) 388-6540
28	Maasa Company, Inc.	Marnie Adams	2012 W. Main	Bozeman	MT	59715	(406) 587-1084
29		William Schmitz	4 Corners 35 N. Star Lane	Bozeman	MT	59718	(406) 522-3940
30	E & E, Inc.	Xue Rong Tan	505 1st St., West	Havre	MT	59501	(406) 262-9999
31	Z, Inc.	Jim Zellick	511 E. Main	Lewistown	MT	59457-9405	(406) 535-3435
32	D-Bar-B, LLC	Doug & Linda Barr and Browne Barr	11400 Highway 93 South	Lolo	MT	59847	(406) 273-2700
33	D-Bar-B LLC	Doug & Linda Barr and Browne Barr	4780 N. Reserve	Missoula	MT	59802	(406) 542-1414
34	Favre, Ltd.	L. Varmae Betancourt	2520 Idaho Street	Elko	NV	89801	(775) 738-8800
35	Reed, Inc.	Donald and Shirley Reed	1690 South 7th Street East	Ely	NV	89301	(775) 289-8226
36	TA Operating Corp.	Guy McNeil	Las Vegas Travel Center, 8050 Dean Martin Drive	Las Vegas	NV	89139	(702) 361-1176
37	Snow Snail, LLC	Dawneen Sparks	1400 W. Winnemucca Blvd.	Winnemucca	NV	89445	(775) 625-1598
38	Mid-Valley Foods, Inc.	Ardyth Hopkins	2715 Santiam Highway	Albany	OR	97321	(541) 926-6858
39	Krista-Cody Ltd.	Don and Renay Patterson	Marine Mini-Mart, 95 W. Marine Drive	Astoria	OR	97103	(503) 325-4162
40	Tom Van Diepen, Inc.	Tom and Janet Van Diepen	915 Campbell	Baker City	OR	97814	(541) 523-6657
41	Balwant Foods, Inc.	Sarwan Singh and Amandeep Kaur	Cedar Hills Crossing, 3205	Beaverton	OR	97005	(503) 643-6739
42	Oregon Holdings, Inc.	Greg Schons and Robin Brown	11960 S.W. Allen	Beaverton	OR	97005	(503) 644-6235
43	JRB Foods, Inc.	Ron Brooks	61479 Highway 97	Bend	OR	97701	(541) 388-1964

TACO TIME  
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	<b>Corporate Name</b>	<b>Franchisee Name</b>	<b>Store Address</b>	<b>City</b>	<b>State</b>	<b>Zip Code</b>	<b>Telephone Number</b>
44	Mid-Valley Foods, Inc.	Ardyth Hopkins	1105 NW Ninth St.	Corvallis	OR	97330	(541) 753-2338
45	Ezra Foods, Inc	Cynthia and Leo Hoeft	430 SE Main	Estacada	OR	97023	(503) 630-4476
46	Masa Foods, Inc.	Sarwan Singh and Amandeep Kaur	3855 W. 11th Ave.	Eugene	OR	97402	(541) 484-0482
47	The Howling Coyote, Inc.	Doug Mortimore	1031 Greenacres Road	Eugene	OR	97408	(541) 338-0856
48	Cheema Foods, Inc.	Sukhjot Singh	Clackamas Town Center, 12000 Southeast 82nd Ave., Suite 2093	Happy Valley	OR	97086	(503) 786-8866
49	H & H Tacos, Inc.	Todd Pedersen	Sunset Esplanade, 2117 SE Tualatin Valley Highway	Hillsboro	OR	97123	(503) 693-7944
50	MASA Foods, Inc.	Sarwan Singh	355 S. First Street	Hillsboro	OR	97123	(503) 648-1321
51	The Howling Coyote, Inc.	Doug Mortimore	2560 Campus Way	Klamath Falls	OR	97603	(541) 884-8806
52		O. Karl Bomberger	1612 Portland Street	La Grande	OR	97850	(541) 963-9316
53	Mid-Valley Foods, Inc.	Ardyth Hopkins	2300 S. Santiam	Lebanon	OR	97355	(541) 258-7377
54	L.J. Arnold, Inc.	Larry and JoAnne Arnold	3350 NE Highway 101	Lincoln City	OR	97367	(541) 994-0062
55	RBH Foods, Inc.	Balwinder Singh and Sarwan Singh	14715 SE McLoughlin	Milwaukie	OR	97267	(503) 496-1172
56	Oregon Holdings, Inc.	Greg Schons and Robin Brown	2009 Portland Road	Newberg	OR	97132	(503) 538-8700
57		O. Karl Bomberger	1767 E. Idaho Ave.	Ontario	OR	97914	(541) 889-5546
58		Ashraf Abozaid	503 Molalla Avenue	Oregon City	OR	97045	(503) 305-8596
59		Issa Elias Fakhoury	1830 Main Street	Philomath	OR	97370	(541) 929-7313
60	Balwant Foods, Inc.	Sarwan Singh	1405 Jantzen Beach Center	Portland	OR	97217	(503) 286-3422
61	Chand Food Inc.	Balwinder Dhillon	1024 NE 82nd Ave	Portland	OR	97220	(503) 265-8180
62	Chutzpah Inc.	Todd and Jeannie Pederson	2306 Lloyd Center Food Court	Portland	OR	97232	(503) 335-8480
63	J.R. & Sons, Inc.	Javier Rojas, RosaMaria Rojas, and Mario Juarez	12122 SE Division St.	Portland	OR	97266	(503) 760-1461
64	JA & TE LLC	Todd and Jeanne Howard	12330 SE 82nd Ave.	Portland	OR	97266	(503) 653-2250
65	JB Foods Inc.	Sukhdev Jandu	8136 SE Foster Road	Portland	OR	97206	(503) 517-8583

TACO TIME  
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	<b>Corporate Name</b>	<b>Franchisee Name</b>	<b>Store Address</b>	<b>City</b>	<b>State</b>	<b>Zip Code</b>	<b>Telephone Number</b>
66	Kijumava Inc.	Jasbir Sidhu and Sarwan Singh	5036 NE Sandy Blvd.	Portland	OR	97213	(503) 827-8961
67	PIC Foods, Inc.	Patrick M. Collins	9455 SW Barbur Blvd.	Portland	OR	97219	(503) 246-1869
68	RBM, Inc.	Balwinder Singh, Mario Juarez, and Sarwan Singh	5009 SE Powell Blvd	Portland	OR	97206	(503) 777-1380
69		Sarwan Singh and Amandeep Kaur	5327 N. Interstate	Portland	OR	97217	(503) 735-1191
70		Ashraf Abozaid	18225 SE Stark Street	Portland	OR	97223	(503) 465-9220
71	Stafford Enterprises, Inc.	Mark and Marla Stafford	1717 NE 3rd	Prineville	OR	97754	(541) 447-0647
72	JRB Foods, Inc	Ron Brooks	1029 W. Highland	Redmond	OR	97756	(541) 923-8220
73	R&V Marketing	Roger Beckenhauer	881 West Harvard Ave.	Roseburg	OR	97470	(541) 672-7356
74	L.J. Arnold, Inc.	Larry and JoAnne Arnold	922 Lancaster Drive NE	Salem	OR	97301	(503) 364-9625
75	Sultan, Inc.	Ahmad F. Alsafadi	17475 Beers	Sandy	OR	97055	(503) 668-7872
76	3-H Drive-In	Stephen Hinton	800 S. Roosevelt	Seaside	OR	97138	(503) 738-6460
77	The Howling Coyote, Inc.	Doug Mortimore	199 South 58th Street	Springfield	OR	97478	(541) 726-4221
78	The Howling Coyote, Inc.	Doug Mortimore	265 Main Street	Springfield	OR	97477	(541) 746-6911
79	Mid-Valley Foods, Inc.	Ardyth Hopkins	2301 Main Street	Sweet Home	OR	97386	(541) 367-4117
80	Columbia Taco Corp.	Ross Gardner	1108 W. Sixth	The Dalles	OR	97058	(541) 298-5316
81	RBM, Inc.	Balwinder Singh, Mario Juarez, and Sarwan Singh	Washington Square Mall, 9651 SW Washington Square Road	Tigard	OR	97223	(503) 639-9900
82		Robert Ridderbusch	2211 Highway 101 N.	Tillamook	OR	97141-9290	(503) 842-2399
83	The Howling Coyote, Inc.	Doug Mortimore	24985 Highway 126	Veneta	OR	97487	(541) 935-2030
84	Krista-Cody Ltd.	Don and Renay Patterson	58 S.E. Harbor P.O. Box 910	Warrenton	OR	97146	(503) 861-2246
85	JSK3, LLC	Klint Mathews	802 E. State Street	American Fork	UT	84003	(801) 492-1211
86	Bigler Brothers, Inc.	Jeff Bigler	840 S. Main	Brigham City	UT	84302	(435) 734-9346
87	Cedar Foods, Inc.	Jim Dunyon	820 S. Main	Cedar City	UT	84720	(435) 586-3614
88	Dickson Foods, Inc.	Frank Dickson	45 N. Main	Centerville	UT	84014	(801) 295-7796
89	Howill International	James and Joan Anderson	50 S. State Street	Clearfield	UT	84015	(801) 773-1282
90		Lowell and Nicole Zaugg	846 W. 1700 South	Clearfield	UT	84015	(801) 774-8000

TACO TIME  
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91	Dickson North, LLC	Eric Dickson and Doug Dickson	1776 North 2000 West	Clinton	UT	84015	(801) 779-2555
92	Ronda Foods #5, LLC	Ron Larsen	82 East 11400 South	Draper	UT	84020	(801) 571-8226
93	JSK3, LLC	Scott Risinger, James Scadlock, and Klint Mathews	570 N. Main Street	Heber City	UT	84032	(435) 657-2230
94	Ronda Foods, LLC #11	Adrene Wall	13262 South 5600 West	Herriman	UT	84096	(801) 446-8652
95	JSK3 Highland, LLC	Scott Risinger, James Scadlock, and Klint Mathews	5348 W 11000 N	Highland	UT	84003	(801) 492-8020
96	Daisy K, Inc.	Kevin Gingrich	170 N. Main Street	Kaysville	UT	84037	(801) 546-9416
97	Ronda Foods #3, LLC	Ron Larsen	4916 West 6200 South	Kearns	UT	84118	(801) 967-2298
98	Dickson Central, LLC	Eric Dickson	Layton Hills Mall, 1076 Layt	Layton	UT	84041	(801) 546-6007
99	Dickson-Greaves, Inc.	Frank Dickson	392 N. Main Street	Layton	UT	84041	(801) 544-0721
100	JSK3 Lehi, LLC	Scott Risinger, James Scadlock, and Klint Mathews	1750 W Main St.	Lehi	UT	84043	(801) 653-3084
101	Greaves-Dickson, Inc.	Frank Dickson	90 E. 400 N.	Logan	UT	84321	(435) 753-9902
102	SL Taco Time Corporation	Michael Dickson	904 S. Main St.	Logan	UT	84321	(435) 787-8367
103	Utah State University	Alan Andersen	Utah State University, 190 Old Main Hill, The Hub Food Court, Room #171, Space G, Level 1	Logan	UT	84322-0135	(435) 797-1653
104	Black Oil Company, Inc.	J. Burton Black	17 North Main Street	Monticello	UT	84535	(435) 587-2555
105	Ronda Foods, LLC #9	Ron Larsen	382 W. 5300 S.	Murray	UT	84123	(801) 265-9101
106	CALS, LLC	Julie and Calvin Sabin	1155 E. State Road, 132	Nephi	UT	84648	(435) 623-0870
107	Copper Cactus Foods, Inc.	Kelly Zaugg	2311 North 400 East	North Ogden	UT	84414	(801) 782-3760
108	Dickson South, L.L.C.	Eric Dickson	496 East 1100 North	North Salt Lake	UT	84054	(801) 397-5554
109	Howill Inc.	Jim and Joan Anderson	3739 Washington Blvd.	Ogden	UT	84403	(801) 621-1460
110	JSK3 Northgate, LLC	Scott Risinger, James Scadlock, and Klint Mathews	1100 W. 800 North	Orem	UT	84057	(801) 655-0124
111		Calvin and Julie Sabin	212 S. 100 W.	Payson	UT	84651	(801) 465-3881
112		Jim and Kimberly Noyes	640 W. Price River Dr.	Price	UT	84501	(435) 637-8403

TACO TIME  
FRANCHISEE LIST - AS OF DECEMBER 31, 2011  
(United States)

The name of the franchisee, store address and store telephone number are listed below

	Corporate Name	Franchisee Name	Store Address	City	State	Zip Code	Telephone Number
113	JSK3, LLC	Scott Risinger, James Scadlock, and Klint Mathews	Plum Tree Shopping Center 388 West 2230 North	Provo	UT	84601	(801) 374-8226
114	Hawks, Inc.	Russel and Sharon Hawks	310 N. 100 E.	Richfield	UT	84701	(435) 896-6588
115	Ronda Foods #1 LLC	Ron Larsen	1939 West 12600 South	Riverton	UT	84065	(801) 254-2371
116	Dunyon-Stephens, Inc.	Jim Dunyon	670 E. 200 N.	Roosevelt	UT	84066	(435) 722-2811
117	JSK3, LLC	Scott Risinger, James Scadlock, and Klint Mathews	960 S. University	S. Provo	UT	84601	(801) 373-8226
118	Daisy J, Inc.	Kevin Gingrich	810 S. State Street	Salt Lake City	UT	84111	(801) 359-9373
119	K & J Foods, LLC	Ron Larsen	Gateway Shopping Mall 140 S. Rio Grande, #3	Salt Lake City	UT	84101	(801) 456-0795
120	Ronda Foods, LLC #10	Ron Larsen	Salt Lake City (West Valley) 3348 W 3500 South	Salt Lake City	UT	84119	(801) 966-5563
121	SDC Enterprises	Jim Dunyon	3911 S.State Street	Salt Lake City	UT	84107	(801) 262-7235
122	SDC Enterprises	Jim Dunyon	6195 S. Highland Drive	Salt Lake City	UT	84121	(801) 272-6522
123	Managers Corporation	Jim Dunyon	9411 S. 700 E.	Sandy	UT	84070	(801) 571-5011
124	Fast Trax, LLC	Stacy and Kirk Greenhalgh	385 East Main	Santaquin	UT	84655	(801) 754-3438
125	Spanish Fork Taco Time, Inc.	Calvin and Julie Sabin	1150 North Kirby Lane	Spanish Fork	UT	84660	(801) 709-6656
126	Whoopsy Daisy, Inc.	Earlene Gingrich	835 E. St. George Blvd.	St. George	UT	84770	(435) 673-5657
127		Norman Younker	141 West Bringham Rd	St. George	UT	84790	(435) 652-8936
128		Lowell and Nicole Zaugg	4631 S. Redwood Rd.	Taylorsville	UT	84123	(801) 263-1721
129	Ronda Foods #4, LLC	Ron Larsen	209 S. Main Street	Tooele	UT	84074	(435) 882-4520
130	Dickson, Bernton, Smith Inc.	Frank Dickson	295 E. Main	Tremonton	UT	84337	(435) 257-5016
131	Reed, Inc.	Donald and Shirley Reed	80 E Wendover Blvd.	Wendover	UT	84083	(435) 665-2635
132	Ronda Foods #2 LLC	Ron Larsen	9068 S. 2700 West	West Jordan	UT	84088	(801) 566-7678
133		Lowell and Nicole Zaugg	4691 S. Midland Dr.	Westhaven	UT	84401	(801) 731-1481
134	Breeze, Inc.	Glen and Kathleen Campbell	12807 West Sunset Hwy.	Airway Heights	WA	99001	(509) 244-8226
135	Happy Day Corporation	Bruce Finch	115 Bridge Street	Clarkston	WA	99403	(509) 758-1463
136	Bergey Management, Inc.	Wayne Bergey	638 N. Main	Colfax	WA	99111	(509) 397-3949
137		Jamie Brons and Kajsa Brons	1145 S. Main St.	Colville	WA	99114	(509) 684-8640



TACO TIME  
FRANCHISEE LIST - AS OF DECEMBER 31, 2011  
(United States)

The name of the franchisee, store address and store telephone number are listed below

	<b>Corporate Name</b>	<b>Franchisee Name</b>	<b>Store Address</b>	<b>City</b>	<b>State</b>	<b>Zip Code</b>	<b>Telephone Number</b>
138	Taco Time Gage, L.L.C.	Gregory Markel	7520 W. Clearwater Ave., Bldg. D, Suite 101	Kennewick	WA	99336	(509) 735-3852
139	Whitley-Bird LLC	Ben and Jeanne Whitley	800 E. Riverside Drive (Inside Texaco)	Omak	WA	98841	(509) 826-2965
140	Defar Management LLC	Sally Deranleau	1414 West Francis Avenue	Spokane	WA	99205	(509) 326-1432
141	Prism Food, Inc.	Balwinder S. Dhillon and Sarbjit Singh	2600 E. 4th Plain	Vancouver	WA	98661	(360) 718-8497
142		Satvir Brar and Balwinder Dhillon	Vancouver Mall, 5001 NE Thurston Space 279	Vancouver	WA	98662	(360) 253-2498
143	Golden Enterprises, Inc.	D. Lloyd Hunter	1020 S. 16th Ave.	Yakima	WA	98902	(509) 248-4584
144	Golden Enterprises, Inc.	D. Lloyd Hunter	2111 S. First Street	Yakima	WA	98901	(509) 453-8815
145	Golden Enterprises, Inc.	D. Lloyd Hunter	701 W. Yakima Ave.	Yakima	WA	98902	(509) 248-0624
146	Santo Poco, LLC	James K. Sanderson	295 Washington	Afton	WY	83110	(307) 885-8226
147	Casper Taco Industries, Inc.	Clarence McBee	1215 S. Beverly Street	Casper	WY	82609	(307) 237-9891
148	Mega Enterprises, Inc	Mary Widmer	106 North 3rd Street	Evanston	WY	82930	(307) 789-1803
149	E&B Industries, Inc.	Elden and Barbara Staley	375 Uinta Drive	Green River	WY	82935	(307) 875-2257
150	E&B Industries, Inc.	Elden and Barbara Staley	1121 Coral Street	Kemmerer	WY	83101	(307) 877-3357
151	E&B Industries, Inc.	Elden and Barbara Staley	104 North Main Street	Lyman	WY	82937	(307) 787-6528
152	E&B Industries, Inc.	Elden and Barbara Staley	1639 Elk Street	Rock Springs	WY	82901	(307) 382-3501
153	E&B Industries, Inc.	Elden and Barbara Staley	2700 Dewar Drive	Rock Springs	WY	82901	(307) 362-1634

**TACO TIME  
CURRENT FRANCHISEE LIST - CANADA STORES  
AS OF DECEMBER 31, 2011**

The name of the franchisee, store address and store telephone number are listed below.

**ALBERTA**

1. **Airdrie, AB-64**  
Airdrie Co-op Shopping Centre  
Unit 500, 2700 Main Street  
Airdrie, AB T4B 2X1  
Phone: 403-912-9041  
Franchisee: 874585 ALBERTA LTD.
2. **Brooks, AB-25**  
707 - 2 Street West  
P.O. Box 1088  
Brooks, AB T1R 1B9  
Phone: 403-362-2232  
Franchisee: 367792 ALBERTA LTD.
3. **Calgary (Blackfoot), AB-70**  
723 46<sup>th</sup> Ave. S.E.  
Calgary, AB T2G 2A4  
Phone: 403-214-7842  
Franchisee: 1029925 ALBERTA LTD.
4. **Calgary, AB-22**  
E-9 Deerfoot Mall  
901 - 64th Avenue NE  
Calgary, AB T2E 7P4  
Phone: 403-275-0777  
Franchisee: 1153331 ALBERTA LTD.
5. **Calgary, AB-26**  
Marlborough Mall  
Bay 63, 3800 Memorial Drive NE  
Calgary, AB T2A 2K2  
Phone: 403-273-2282  
Franchisee: 1301824 ALBERTA LTD.
6. **Calgary, AB-27**  
285G, South Centre Mall  
100 Anderson Road SE  
Calgary, AB T2J 3V1  
Phone: 403-278-4411  
Franchisee: 1129065 ALBERTA, LTD. (Hye Deok Kim and Oh Young Kim)
7. **Calgary, AB-34**  
F103, Sunridge Mall  
2525 - 36 Street NE  
Calgary, AB T1Y 5T4  
Phone: 403-293-5753  
Franchisee: 1218451 AB Ltd.
8. **Calgary, AB-36**  
Stanley Park  
4039 Macleod Trail SW  
Calgary, AB T2G 2R4  
Phone: 403-287-3539  
Franchisee: 650272 Alberta Ltd..
9. **Calgary, AB-37**  
J009, Calgary Market Mall  
3625 Shaganappi Trail NW  
Calgary, AB T3A 0E2  
Phone: 403-247-9404  
Franchisee: 1432306 Alberta Ltd.
10. **Calgary, AB-45**  
Chinook Centre  
Box 225, 6455 Macleod Trail SE  
Calgary, AB T2H 0K9  
Phone: 403-255-8534  
Franchisee: FIESTA FOODS, INC.
11. **Calgary, AB-49**  
130 Northland Village Shoppes  
5111 Northland Drive NW  
Calgary, AB T3A 2L6  
Phone: 403-286-6070  
Franchisee: 628851 ALBERTA LTD.
12. **Calgary, AB-52**  
Hunterhorn Plaza  
532 - 64 Avenue NE  
Calgary, AB T2K 6G9  
Phone: 403-275-2526  
Franchisee: 1153331 ALBERTA LTD.
13. **Calgary, AB-55**  
395 Heritage Drive SE  
Calgary, AB T2H 1M8  
Phone: 403-640-9844  
Franchisee: 1033744 ALBERTA LTD.
14. **Calgary (5<sup>th</sup> Ave.), AB-56**  
Bow Valley Square  
226, 205 5th Ave. SW  
Calgary, AB T2P 2V7  
Phone: 403-263-2987  
Franchisee: 1166821 Alberta LTD.
15. **Calgary, AB-59**  
Foothills Crossing  
220 - 3619 61Ave. S.E.  
Calgary, AB T2C 1V5  
Phone: 403-279-8937  
Franchisee: 666975 Alberta Ltd.
16. **Calgary, AB-62**  
Century Park Plaza  
10409 Bonaventure Drive S.E.  
Calgary, AB T2J 6Y2  
Phone: 403-225-1180  
Franchisee: 1325940 Alberta Ltd.

**TACO TIME  
CURRENT FRANCHISEE LIST - CANADA STORES  
AS OF DECEMBER 31, 2011**

The name of the franchisee, store address and store telephone number are listed below.

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| <p><b>17. Calgary, AB-63</b><br/>Calgary International Airport<br/>2000 Airport Road<br/>Calgary, AB T2W 6W5<br/>Phone: (403) 250-1938<br/>Franchisee: 1573427</p>                   | <p><b>26. Edmonton, AB-84</b><br/>Northgate Center<br/>#3008, 9499 - 137th Avenue<br/>Edmonton, AB T53 5R8<br/>Phone: 780-756-3500<br/>Franchisee: 1476768 Alberta Inc.</p>                      |
| <p><b>18. Calgary, AB- 88</b><br/>Gates of Walden Center<br/>194th Avenue and Walden Gate SE<br/>Calgary, AB T2X 0P3<br/>Phone:<br/>Franchisee: 1511410 Alberta Inc.</p>             | <p><b>27. Edmonton, AB-14</b><br/>G121 Gourmet World. WEM Phase 1<br/>8770 - 170 Street<br/>Edmonton, AB T5T 3J7<br/>Phone: 780-444-1225<br/>Franchisee: 788498 ALBERTA LTD.</p>                 |
| <p><b>19. Calgary, AB-65</b><br/>Suite 270 Unit C 605 5 Avenue S.W.<br/>Calgary, AB T2P 3H5<br/>Phone: 403-266-1765<br/>Franchisee: 1515487 Alberta Inc</p>                          | <p><b>28. Edmonton, AB-16</b><br/>Millwoods Town Centre<br/>Unit 516, 2331 - 66 Street<br/>Edmonton, AB T6K 4B4<br/>Phone: 780-438-1214<br/>Franchisee: 1395411 ALBERTA LTD.</p>                 |
| <p><b>20. Calgary, AB-87</b><br/>Centennial Place Tower<br/>210, 520 - 3rd Avenue S.W.<br/>Calgary, AB T2P 0R3<br/>Phone: 403-262-6111<br/>Franchisee: 1600827 Alberta Ltd.</p>      | <p><b>29. Edmonton, AB-17</b><br/>F19 Kingsway Garden Mall<br/>109 Street &amp; Princess Elizabeth Avenue<br/>Edmonton, AB T5G 3A6<br/>Phone: 780-477-8472<br/>Franchisee: TOLTEC FOODS LTD.</p> |
| <p><b>21. Calgary, AB-66</b><br/>1803 North Hill Centre<br/>1632 - 14 Ave.N.W.<br/>Calgary, AB T2N 1M7<br/>Phone: 403-289-6071<br/>Franchisee: 628851 ALBERTA LTD.</p>               | <p><b>30. Edmonton, AB-21</b><br/>Q145, WEM Phase II<br/>8770 - 170 Street<br/>Edmonton, AB T5T 4M2<br/>Phone: 780-444-1395<br/>Franchisee: 788499 ALBERTA LTD.</p>                              |
| <p><b>22. Calgary, AB-73</b><br/>#148 Eau Claire Market<br/>200 Barclay Parade S.W.<br/>Calgary, AB T2P 4R5<br/>Phone: 403-264-3611<br/>Franchisee: 1141324 ALBERTA LTD.</p>         | <p><b>31. Edmonton, AB-35</b><br/>#228 Mayfield Common<br/>Edmonton, AB T5P 4A9<br/>Phone: 780-483-6440<br/>Franchisee: 855739 Alberta Ltd.</p>  |
| <p><b>23. Calgary, AB-74</b><br/>Deerfoot Meadows<br/>Unit 854 - 33 Heritage Meadows Way SE<br/>Calgary, AB T2H 3B8<br/>Phone: 403-233-8226<br/>Franchisee: 1156720 Alberta Ltd.</p> | <p><b>32. Edmonton, AB-38</b><br/>Edmonton City Centre, Unit D019<br/>10200 – 102 Avenue<br/>Edmonton, AB T5J 4B7<br/>Phone: 780-420-6615<br/>Franchisee: 332538 ALBERTA LTD.</p>                |
| <p><b>24. Cold Lake, AB-89</b><br/>4511 - 50th Street, Unit 101<br/>Cold Lake, AB T9M 1Y6<br/>Phone: 780-594-5934<br/>Franchisee: 1563403 Alberta Ltd</p>                            | <p><b>33. Edmonton, AB-42</b><br/>401F Southgate Centre<br/>111 Street &amp; 51 Avenue<br/>Edmonton, AB T6H 4M6<br/>Phone: 780-438-7214<br/>Franchisee: 501487 ALBERTA LTD.</p>                  |
| <p><b>25. Edmonton, AB-86</b><br/>11149 - 87th Avenue NW<br/>Edmonton, AB T6G 0X8<br/>Phone: 780-756-5511<br/>Franchisee: 1085214 Alberta Ltd.</p>                                   |  |

**TACO TIME  
CURRENT FRANCHISEE LIST - CANADA STORES  
AS OF DECEMBER 31, 2011**

The name of the franchisee, store address and store telephone number are listed below.

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| <p><b>34. Edmonton, AB-43</b><br/>U80 Londonderry Mall<br/>137 Avenue &amp; 66 Street<br/>Edmonton, AB T5C 3C8<br/>Phone: 780-472-7911<br/>Franchisee: 706386 ALBERTA LTD.</p>   | <p><b>43. Lacombe, AB-82</b><br/>English Estates Centre<br/>Highway 2A, Unit 3020A<br/>Lacombe, AB T4L 2G5<br/>Phone: 403-786-0140<br/>Franchisee: CAN EH DIAN ENDEAVOURS LTD.</p> |
| <p><b>35. Edmonton, AB-50</b><br/>170 Bonnie Doon Shopping Mall<br/>82<sup>nd</sup> Avenue &amp; 83<sup>rd</sup> Street<br/>Edmonton, AB T6C 4E3<br/>Phone: 780-469-7860<br/>Franchisee: Sto. Nino Cantina Ltd</p>           | <p><b>44. Lethbridge, AB-01</b><br/>2346 Fairway Plaza Road South<br/>2012 Mayor Macgrath<br/>Lethbridge, AB T1K 6Z3<br/>Phone: 403-328-2729<br/>Franchisee: H-5 HOLDINGS LTD.</p> |
| <p><b>36. Edmonton, AB-79</b><br/>Telus Plaza<br/>10025 Jasper Avenue, Unit 54<br/>Edmonton, AB T5J 2B8<br/>Phone: 780-990-1103<br/>Franchisee: 1489990 ALBERTA LTD (Mildred Fajardo and Thelma Corpuz)</p>                  | <p><b>45. Lethbridge, AB-11</b><br/>537 - 13th Street North<br/>Lethbridge, AB T1H 2S1<br/>Phone: 403-320-7868<br/>Franchisee: H-5 HOLDINGS LTD.</p>                               |
| <p><b>37. Edmonton, AB-06</b><br/>13208 – 82<sup>nd</sup> Street<br/>Edmonton, Alberta T5E 2T7<br/>Phone: 780-478-5705<br/>Franchisee: 1483603 Alberta Ltd.</p>  | <p><b>46. Lethbridge, AB-32</b><br/>L-03 Park Place Mall<br/>501 - 1st Avenue South<br/>Lethbridge, AB T1J 4L9<br/>Phone: 403-329-9383<br/>Franchisee: L.A. TACO INC.</p>          |
| <p><b>38. Edmonton, AB-081</b><br/>University of Alberta, Student Union Building,<br/>Unit 129, 8900 -114<sup>th</sup> Street<br/>Edmonton, Alberta T6G 2J7<br/>Phone: 780-492-4236<br/>Franchisee: 1402193 Alberta Ltd.</p> | <p><b>47. Lloydminster, AB-72</b><br/>5627A 44 Street<br/>Lloydminster, AB T9V 0W3<br/>Phone: 780-872-5858<br/>Franchisee: KACTUS KORNER INC.</p>                                  |
| <p><b>39. Ft. McMurray, AB-46</b><br/>#2026 - 9713 Hardin Street<br/>Ft. McMurray, AB T9H 1L2<br/>Phone: 780-743-5745<br/>Franchisee: 512046 ALBERTA LTD.</p>  | <p><b>48. Medicine Hat, AB-18</b><br/>202, 2960 Dunmore Road SE<br/>Medicine Hat, AB T1A 8E3<br/>Phone: 403-529-2299<br/>Franchisee: J ANGELO &amp; SONS ENTERPRISES LTD.</p>      |
| <p><b>40. Ft. McMurray, AB-28</b><br/>8720 Franklin Ave<br/>Ft. McMurray, AB T9H 3K8<br/>Phone: 780-791-6555<br/>Franchisee: 685759 ALBERTA LTD.</p>   | <p><b>49. Medicine Hat, AB-48</b><br/>Unit F4 Medicine Hat Mall<br/>Medicine Hat, AB T1B 2R4<br/>Phone: 403-528-9578<br/>Franchisee: J ANGELO &amp; SONS ENTERPRISES LTD.</p>      |
| <p><b>41. Grande Prairie, AB-19</b><br/>10821 - 100 Street<br/>Grande Prairie, AB T8V 2M7<br/>Phone: 780-539-1003<br/>Franchisee: Louco Enterprises Ltd.</p>   | <p><b>50. Mic Mac, AB-68</b><br/>Unit #6, Micmac Blvd. West<br/>Lehtbridge, AB T1K 7R1<br/>Phone: (403) 380-3323<br/>Franchisee: SOMBRERO FOODS, INC.</p>                          |
| <p><b>42. Grande Prairie, AB-80</b><br/>Prairie Mall<br/>#258, 11801 – 100<sup>th</sup> Street<br/>Grande Prairie, AB T8V 3Y2<br/>Phone: 780-357-1223<br/>Franchisee: Louco Enterprises Ltd.</p>                             |  |

**TACO TIME  
CURRENT FRANCHISEE LIST - CANADA STORES  
AS OF DECEMBER 31, 2011**

The name of the franchisee, store address and store telephone number are listed below.

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|---|---|--|
| <p><b>51. Red Deer, AB-07</b><br/>3321 50th Avenue<br/>Red Deer, AB T4N 3Y2<br/>Phone: 403-347-2205<br/>Franchisee: SALTO MANAGEMENT</p>  | <p><b>60. Sunrise Town Square, AB-76</b><br/>#101 Southpoint Shopping Ctr<br/>183 Highway 16A<br/>Spruce Grove, AB T7X 4P9<br/>Phone: 780-960-8770<br/>Franchisee: 1238408 ALBERTA LTD.</p> |  |
| <p><b>52. Red Deer 2, AB-20</b><br/>1077 Bower Place Mall<br/>4900 Molly Banister Drive<br/>Red Deer, AB T4R 1N9<br/>Phone: 403-346-8310<br/>Franchisee: ARRIVA INVESTMENTS INC.</p>                          | <p><b>61. Sylvan Lake, AB-83</b><br/>3715 - 4th Avenue, #450<br/>Sylvan Lake, AB<br/>Phone: 403-887-0498<br/>Franchisee: 1415774 Alberta Inc.</p>   |  |
| <p><b>53. Red Deer (Parkland Mall), AB-47</b><br/>524 Parkland Mall<br/>Red Deer, AB T4N 6H3<br/>Phone: 403-346-1788<br/>Franchisee: ENSUL INVESTMENTS LTD.</p>   | <p><b>62. Taber, AB-04</b><br/>5307-50 Ave.<br/>Taber, AB T1G 2C7<br/>Phone: 403-223-2422<br/>Franchisee: J ANGELO &amp; SONS<br/>ENTERPRISES LTD.</p>                                      |  |
| <p><b>54. Red Deer 4, AB-51</b><br/>7150 - 50th Avenue<br/>Red Deer, AB T4N 4E4<br/>Phone: 403-346-6612<br/>Franchisee: T&amp;V Enterprises LTD (Tom and<br/>Vivian McCluskey)</p>                            | <p><b>63. Westmount Shopping Centre, AB-77</b><br/>111 Ave &amp; Groat Road, Suite 300<br/>Edmonton, AB T5M 3L7<br/>Phone: 780-452-5164<br/>Franchisee: WESTMOUNT TACO TIMES LTD.</p>       |  |
| <p><b>55. St. Albert, AB-13</b><br/>18 Muir Drive<br/>St. Albert, AB T8N 1G3<br/>Phone: 780-459-0117<br/>Franchisee: TOLTEC FOODS LTD.</p>  | <p><b>64. Whitecourt, AB-67</b><br/>3847 Caxton Street<br/>Whitecourt, AB T7S 1P6<br/>Phone: (780) 706-3386<br/>Franchisee: 1252430 Alberta Ltd.</p>  |  |
| <p><b>56. Sherwood Park, AB-69</b><br/>#103, 2020 Sherwood Drive<br/>Sherwood Park, Alberta T8A 2H9<br/>Phone: 780-449-4155<br/>Franchisee: 1395411 ALBERTA LTD.</p>  | <p><b><u>BRITISH COLUMBIA</u></b></p>   |  |
| <p><b>57. SouthPointe Shopping Centre, AB-75</b><br/>#606 Southpointe Shopping Ctr<br/>4600 130<sup>th</sup> Ave SE<br/>Calgary, AB T2Z 0C2<br/>Phone: 403-257-5211<br/>Franchisee: 1485615 Alberta Ltd..</p> | <p><b>65. Abbotsford, BC-08</b><br/>32260 South Fraser Way<br/>Abbotsford, B.C. V2T 1W9<br/>Phone: 604-859-7855<br/>Franchisee: 0800133 B.C. Ltd.</p>                                       |  |
| <p><b>58. Strathmore, AB-85</b><br/>800 Pine Rd.<br/>#110 J, Pine Center<br/>Strathmore, AB T1P 1Y6<br/>Phone: 403-934-3439<br/>Franchisee: 1472455 Alberta Ltd.</p>  | <p><b>66. Burnaby, BC-19</b><br/>747 Brentwood Mall<br/>4567 Lougheed Highway<br/>Burnaby, BC V5G 2V7<br/>Phone: 604-291-7787<br/>Franchisee: ANK ENTERPRISES, INC.</p>                     |  |
| <p><b>59. Sunridge Corner, AB-78</b><br/>3168 Sunridge Blvd. NE<br/>Calgary, AB T1Y 7G6<br/>Phone: 403-769-1331<br/>Franchisee: SOUTHPPOINT CANTINA INC.</p>  | <p><b>67. Burnaby, BC-21</b><br/>324 Metrotown Mall<br/>4820 Kingsway<br/>Burnaby, BC V5H 4M1<br/>Phone: 604-433-0022<br/>Franchisee: BATT A HOLDINGS LTD.</p>                              |  |

**TACO TIME  
CURRENT FRANCHISEE LIST - CANADA STORES  
AS OF DECEMBER 31, 2011**

The name of the franchisee, store address and store telephone number are listed below.

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|--|--|
| <p><b>68. Burnaby, BC-33</b><br/>726K Lougheed Mall<br/>9855 Austin Avenue<br/>Burnaby, BC V3J 1N4<br/>Phone: 604-420-0210<br/>Franchisee: MPSA ENTERPRISES LTD.</p>                             | <p><b>77. Penticton, BC-23</b><br/>2050 Main Street<br/>Penticton, BC V2A 5H3<br/>Phone: 250-493-0060<br/>Franchisee: 489897 BRITISH COLUMBIA LTD.</p>   |
| <p><b>69. Courtenay, BC-06</b><br/>450 Ryan Road<br/>Courtenay, BC V9N 7R6<br/>Phone: 250-338-1660<br/>Franchisee: 649715 B.C. Ltd.</p>  | <p><b>78. Surrey, BC-36</b><br/>8942 - 120 Street<br/>Surrey, BC V3V 4B4<br/>Phone: 604-501-1199<br/>Franchisee: HAJ HOLDINGS INC.</p>   |
| <p><b>70. Cranbrook, BC-13</b><br/>400 Cranbrook Street North<br/>Cranbrook, BC V1C 3R6<br/>Phone: 250-489-1717<br/>Franchisee: 0745208 BC LTD</p>   | <p><b>79. North Vancouver, BC-59</b><br/>Capilano Mall<br/>935 Marine Drive, Unit #14<br/>North Vancouver, BC V7P 1S3<br/>Phone:<br/>Franchisee: 0881192 B.C. LTD</p>  |
| <p><b>71. Kelowna, BC-03</b><br/>Dilworth Shopping Centre<br/>2397 Highway 97 North<br/>Kelowna, BC V1X 4H9<br/>Phone: 250-763-1237<br/>Franchisee: INTERIOR TACO INC.</p>                       | <p><b>80. Vancouver, BC-45</b><br/>Pacific Centre Mall<br/>Box #10211, H-10 Pacific Center<br/>777 Dunsmuir<br/>Vancouver, BC V7Y 1E7<br/>Phone: 604-408-1833<br/>Franchisee: 657293 BC LTD (Samuel and Su-Chin Lee)</p>   |
| <p><b>72. Kelowna, BC-53</b><br/>#1-110 Hollywood Road South<br/>Kelowna, BC V1X 3S9<br/>Phone: 250-869-4772<br/>Franchisee: INTERIOR TACO INC.</p>  | <p><b>81. Vancouver, BC-46</b><br/>International Village<br/>Unit #2021 - 88 Pender St.<br/>Vancouver, BC V6B 6N9<br/>Phone: 604-647-0474<br/>Franchisee: 657293 BC LTD (Samuel and Su-Chin Lee)</p>                       |
| <p><b>73. Langley, BC-40</b><br/>Walnut Grove<br/>Unit #1, 20177 - 88 Avenue<br/>Langley, BC V1M 2N9<br/>Phone: 604-882-7362<br/>Franchisee: 551355 B.C. Ltd</p>                                 | <p><b>82. Vancouver, BC-56</b><br/>Oakridge Centre Unit F6<br/>650 - 41<sup>st</sup> Avenue West<br/>Vancouver, BC V5Z 2M9<br/>Phone: 604-261-5878<br/>Franchisee: 0788175 B.C. Ltd (Sung Sam Kim and Sunja Chang Kim)</p> |
| <p><b>74. Langley, BC-58</b><br/>Willowbrook Shopping Center<br/>19705 Fraser Highway, #410A<br/>Langley, BC V3A 7E9<br/>Phone: 604-882-7362<br/>Franchisee: 0878533 B.C. LTD (Jong Hee Yea)</p> | <p><b>83. Vancouver, BC-57</b><br/>Waterfront Centre<br/>FC03 – 200 Burrard Street<br/>Vancouver, BC V6C 3L6<br/>Phone: 604-689-9722<br/>Franchisee: 0794379 B.C. Ltd (Joo Pyung Hwang and Jung Soon Hwang)</p>            |
| <p><b>75. Nanaimo, BC-05</b><br/>#10, 4890 Rutherford Rd<br/>Nanaimo, B.C. V9T 6H6<br/>Phone: 250-756-1331<br/>Franchisee: 0713320 BC LTD.</p>   | <p><b>84. Victoria (The Bay Centre), BC-16</b><br/>#0412 – The Bay Centre<br/>1150 Douglas Street<br/>Victoria, BC V8W 3M9<br/>Phone: 250-381-2386<br/>Franchisee: 735158 BC LTD.</p>                                      |
| <p><b>76. Nanaimo, BC-22</b><br/>Woodgrove Centre Mall<br/>81, 6631 Island Highway North<br/>Nanaimo, BC V9R 5K1<br/>Phone: 250-390-2550<br/>Franchisee: TOMALE VENTURES INC.</p>                |  |

**TACO TIME  
CURRENT FRANCHISEE LIST - CANADA STORES  
AS OF DECEMBER 31, 2011**

The name of the franchisee, store address and store telephone number are listed below.

- |   |  |
|---|--|
| <p><b>85. Victoria (Mayfair), BC-51</b><br/>Mayfair Shopping Center<br/>FC #3, 3147 Douglas Street<br/>Victoria, BC V8Z 6E3<br/>Phone: 250-360-2565<br/>Franchisee: 735158 BC LTD.</p>          | <p><b>93. Winnipeg, MB-05</b><br/>232 Polo Park Mall<br/>1485 Portage Avenue<br/>Winnipeg, MB R3G 0W4<br/>Phone: 204-772-2150<br/>Franchisee: AMIGO FOODS LTD.</p>         |
| <p><b>86. Victoria, BC-09</b><br/>942 Hillside Avenue<br/>Victoria, BC V8T 2A1<br/>Phone: 250-384-4843<br/>Franchisee: 735158 BC LTD.</p>   | <p><b>94. Winnipeg, MB-07</b><br/>166 Portage Place Mall<br/>393 Portage Avenue<br/>Winnipeg, MB R3B 2C5<br/>Phone: 204-956-5676<br/>Franchisee: 5499110 Manitoba Ltd.</p> |
| <p><b>87. Victoria, BC-29</b><br/>FF207 Hillside Shopping Centre<br/>1644 Hillside Avenue<br/>Victoria, BC V8T 2C5<br/>Phone: 250-595-6220<br/>Franchisee: 735158 BC LTD.</p>                   | <p><b>95. Winnipeg, MB-09</b><br/>F4 Kildonan Place<br/>1555 Regent Avenue West<br/>Winnipeg, MB R2C 5C9<br/>Phone: (204) 663-1640<br/>Franchisee: 74890 MANITOBA INC.</p> |
| <p><b>88. Victoria, BC-41</b><br/>Unit 101, West Shore Town Center<br/>2945 Jacklin Road<br/>Victoria, BC V9B 5E3<br/>Phone: 250-391-8670<br/>Franchisee: YFH Foods Ltd. (Kwok Cheung Wong)</p> | <p><b>96. Winnipeg, MB-11</b><br/>#726 St. Vital Centre Mall<br/>1226 St. Mary's<br/>Winnipeg, MB R2M 5E5<br/>Phone: 204-257-6097<br/>Franchisee: AMIGO FOODS LTD.</p>     |
| <p><b>89. West Vancouver, BC-35</b><br/>Unit #FC2, 2002 Park Royal Mall South<br/>West Vancouver, BC V7T 2W4<br/>Phone: 604-925-2424<br/>Franchisee: Stoneyloft Enterprises Ltd.</p>            | <p><b>97. Winnipeg, MB-13</b><br/>#FF5, 360 Main Street<br/>Winnipeg, MB R3C 3Z3<br/>Phone: 204-219-7622<br/>Franchisee: 5454965 Manitoba Ltd.</p>                         |
| <p><b>90. Yarrow, BC-55</b><br/>42221 Yarrow Central Road<br/>Yarrow, BC V2R 5E3<br/>Phone: 604-823-4200<br/>Franchisee: 0782056 B.C. Ltd.</p>  | <p style="text-align: center;"><b><u>ONTARIO</u></b></p>   |
| <p style="text-align: center;"><b><u>MANITOBA</u></b></p>   | <p><b>98. Brampton, ON-020</b><br/>196 Main Street South<br/>Brampton, ON L6W 2E2<br/>Phone: 905-450-8881<br/>Franchisee: 2186062 Ontario Inc.</p>                         |
| <p><b>91. Winnipeg, MB-01</b><br/>23 Marion Street<br/>Winnipeg, MB R2H 0S8<br/>Phone: 204 -233-0405<br/>Franchisee: Cheema Investments Ltd (Samina Chaudhry)</p>                               | <p><b>99. Dryden, ON-017</b><br/>539 Government Street<br/># 1 Golden Mile Plaza<br/>Dryden, ON P8N 2P6<br/>Phone: 807-223-5383<br/>Franchisee: 2149551 Ontario Inc.</p>   |
| <p><b>92. Winnipeg, MB-04</b><br/>#322 Garden City Mall<br/>2305 McPhillips Street<br/>Winnipeg, MB R2V 3E1<br/>Phone: 204-339-7531<br/>Franchisee: 6173463 MANITOBA LTD.</p>                   | <p><b>100. Oshawa, ON-018</b><br/>2069 Simcoe Street North<br/>Oshawa, ON L1H 7K4<br/>Phone: 289-240-7900<br/>Franchisee: 6872859 Canada Inc.</p>                          |

**TACO TIME  
CURRENT FRANCHISEE LIST - CANADA STORES  
AS OF DECEMBER 31, 2011**

The name of the franchisee, store address and store telephone number are listed below.

- |  |  |
|--|--|
| <p><b>101. Toronto, ON-21</b><br/>Atrium on Bay<br/>595 Bay Street<br/>Toronto, ON M5G 2C2<br/>Phone: 416-840-4315<br/>Franchisee: 2192974 Ontario Inc.</p>                  | <p><b>109. Prince Albert, SK-25</b><br/>G3, Gateway North Plaza Mall<br/>1403 Central Avenue<br/>Prince Albert, SK S6V 7J4<br/>Phone: 306-763-1333<br/>Franchisee: AMPCO Foods Ltd</p> |
| <p><b>102. Thunder Bay, ON-01</b><br/>679 Memorial Avenue<br/>Thunder Bay, ON P7B 3Z6<br/>Phone: 807-345-4096<br/>Franchisee: SOHI HOLDINGS INC.</p>                         | <p><b>110. Regina, SK-11</b><br/>2740 Avonhurst Drive<br/>Regina, SK S4R 3J4<br/>Phone: 306-525-5140<br/>Franchisee: SIERRA FOODS LTD.</p>   |
| <p><b>103. Thunder Bay, ON-02</b><br/>Intercity Mall, 1000<br/>Ft. William Road<br/>Thunder Bay, ON P7B 6B9<br/>Phone: 807-622-8200<br/>Franchisee: DMS Thunder Bay Inc.</p> | <p><b>111. Regina, SK-16</b><br/>TF4 Cornwall Centre Mall<br/>2101 – 11 Avenue<br/>Regina, SK S4P 3Y6<br/>Phone: 306-781-6998<br/>Franchisee: Sierra Foods Ltd</p>                     |
| <p><b>104. Thunder Bay, ON-06</b><br/>598 West Arthur Street<br/>Thunder Bay, ON P7E 5R7<br/>Phone: 807-577-4239<br/>Franchisee: SOHI HOLDINGS INC.</p>                      | <p><b>112. Regina, SK-23</b><br/>2965 Gordon Road<br/>Regina, SK S4S 6H7<br/>Phone: 306-586-7944<br/>Franchisee: Sierra Foods Ltd.</p>   |
| <p><b>105. Thunder Bay, ON-10</b><br/>180 Cumberland Street North<br/>Thunder Bay, ON P7A 4M8<br/>Phone: 807-344-0720<br/>Franchisee: 988500 ONTARIO LTD.</p>                | <p><b>113. Regina, SK-26</b><br/>1930 Prince of Wales Drive<br/>Regina, SK S4Z 1A4<br/>Phone: 306-205-7915<br/>Franchisee: Sierra Foods Ltd.</p>                                       |
| <p><b>106. Timmins, ON-22</b><br/>Timmins Square Mall<br/>1500 Riverside Drive, Suite 6H<br/>Timmins, ON P4R 1A1<br/>Franchisee: 2214319 Ontario, Inc.</p>                   | <p><b>114. Saskatoon, SK-02</b><br/>1403 Idylwyld Drive N.<br/>Saskatoon, SK S7L 1A7<br/>Phone: 306-664-3353<br/>Franchisee: 101024919 SK Ltd.</p>                                     |
| <b><u>SASKATCHEWAN</u></b>   |  |
| <p><b>107. North Battleford, SK-24</b><br/>1391-101 Street<br/>North Battleford, SK S9A 0Z9<br/>Phone: 306-445-4026<br/>Franchisee: 101028266 SASKATCHEWAN,<br/>LTD.</p>     | <p><b>115. Saskatoon, SK-03</b><br/>600 - 22 Street West<br/>Saskatoon, SK S7M 0V6<br/>Phone: 306-384-7700<br/>Franchisee: SOMBRERO FOODS</p>  |
| <p><b>108. Prince Albert, SK-08</b><br/>1699 - 2nd Avenue West<br/>Prince Albert, SK S6V 5B7<br/>Phone: 306-764-2777<br/>Franchisee: RCR MEXICAN FOODS</p>                   | <p><b>116. Saskatoon, SK-04</b><br/>210, 2600 - 8 Street East<br/>Saskatoon, SK S7H 0V7<br/>Phone: 306-477-1228<br/>Franchisee: White Whiskers Holdings Inc.</p>                       |
|  | <p><b>117. Saskatoon, SK-15</b><br/>#5 The Centre<br/>3310 - 8 Street East<br/>Saskatoon, SK S7H 5M3<br/>Phone: 306-374-2922<br/>Franchisee: CSE Foods Ltd</p>                         |



**TACO TIME  
CURRENT FRANCHISEE LIST - CANADA STORES  
AS OF DECEMBER 31, 2011**

The name of the franchisee, store address and store telephone number are listed below.

- 118. Saskatoon, SK-17**  
85 Saskatoon Market Mall  
2325 Preston Avenue  
Saskatoon, SK S7J 2G2  
Phone: 306-374-7759  
Franchisee: 101118501 SASKATCHEWAN LTD.
- 119. Saskatoon, SK-19**  
#1, 820B - 51<sup>st</sup> Street East  
Saskatoon, SK S7K 0X8  
Phone: 306-933-4803  
Franchisee: 101122544 SASKATCHEWAN LTD.
- 120. Saskatoon, SK-20**  
Box 146 Midtown Plaza Mall  
Saskatoon, SK S7K 1J9  
Phone: 306-664-2728  
Franchisee: SOMBRERO FOODS
- 121. Saskatoon, SK-22**  
1212 Central Ave.  
Saskatoon, SK S7M 2H2  
Phone: 306-373-6200  
Franchisee: 614084 Sask. Ltd.
- 122. Swift Current, SK-07**  
410 South Service Road East  
Swift Current, SK S9H 3T6  
Phone: 306-773-4998  
Franchisee: Senor Food Group Ltd.

**TACO TIME  
CURRENT FRANCHISEE LIST – OTHER INTERNATIONAL STORES  
AS OF DECEMBER 31, 2011**

The name of the franchisee, store address and store telephone number are listed below.

**KUWAIT**

1. **Kuwait City**  
Salmiya Kuwait  
Salem Almubark Street  
Kuwait City, Kuwait 13020  
Franchisee: Sami Altamimi Group Inc.  
(Ahmed Altamimi)
  
2. **Kuwait City**  
Hawalli  
Berout Street  
Kuwait City, Kuwait 13020  
Franchisee: Sami Altamimi Group Inc.  
(Ahmed Altamimi)
  
3. **Salmiya**  
Souk Salmiya  
75-76 Food Court  
Salmiya, Kuwait 13020  
Franchisee: Sami Altamimi Group Inc.  
(Ahmed Altamimi)
  
4. **Jabriya Co-op**  
Jabriya, Kuwait 13020  
Franchisee: Sami Altamimi Group Inc.  
(Ahmed Altamimi)
  
5. **Muhballah**  
Street 5  
Kuwait City, Kuwait 13020  
Franchisee: Sami Altamimi Group Inc.  
(Ahmed Altamimi)
  
6. **NETHERLANDS ANTILLES**  
**Curacao**  
VINIK Plaza & Business Center  
Sta. Rosaweg 89-89A  
Willemstad, Curacao  
Netherlands Antilles  
Phone: 011-59997673999  
Franchisee: TI Restaurants Inc. (Ivar Asjes  
and Tara Prins)

**Taco Time Franchisees who have signed Franchise Agreements  
and whose stores were under construction but not open as of December 31, 2011  
(United States)**

Franchisee Company Name	Franchisee Name	Store Address	City	State	Zip	Phone/Email
JB Foods, Inc	Sukhdev S Jandu	To Be Determined	Portland	OR	94555*	(650) 333-6127*
Prickly Pear Foods, Inc.	Kelly Zaugg	390 North 2000 West	Marriott-Slaterville	UT	84404*	(801) 391-7400*
Cross Food Group, LLC	Larry Cross Bryan Cross	122 South 2nd East	Riverton	WY	82501	(307) 856-3168*

**Taco Time Franchisees who have signed Franchise Agreements but whose stores were in the site selection process and not  
open as of December 31, 2011  
(United States)**

Franchisee Company Name	Franchisee Name	Store Address	City	State	Zip	Phone/Email
J.R. & SONS, INC	Mario Juarez RosaMaria Rojas Javier Rojas	To Be Determined	Portland	OR	97123*	(503) 504-5390*
RBM, Inc.	Mario Juarez Sarwan Singh Aman Balwinder Singh	To Be Determined	Portland	OR	97123*	(503) 504-5390*

\* Note: Where no store city, state, or phone number was available, the Franchisee's city, state, and office telephone number (or home telephone number if no office telephone number was available) or email address is listed.

**EXHIBIT O**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Form of Area Representative Agreement and General Release**

**TACO TIME**  
**AREA REPRESENTATIVE AGREEMENT**

**DATED** \_\_\_\_\_, \_\_\_\_\_

# AREA REPRESENTATIVE AGREEMENT

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### Exhibits

Exhibit A	Territory
Exhibit B	List of Units Already Sold and Third Party Franchisees within Territory currently Negotiating with Franchisor as of Effective Date
Exhibit C	Business Plan

Exhibit D	State Specific Addendums (applicable only for the following states: California, Georgia, Hawaii, Illinois, Indiana, Maryland, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Washington, and Wisconsin)
Exhibit E	Amendment to Area Representative Agreement (Renewal) (applicable only for the renewal of an existing area representative agreement)
Exhibit F	Amendment to Area Representative Agreement (Transfer) (applicable only for the transfer of an existing area representative agreement)
Exhibit G	Agreement to be Bound and to Guarantee
Exhibit H	Restrictive Covenant
Exhibit I	General Release
Exhibit J	Electronic Funds Transfer (EFT) Authorization

## AREA REPRESENTATIVE AGREEMENT

**THIS AREA REPRESENTATIVE AGREEMENT (the “Agreement”)**, is made and entered into as of the date set forth on the last page of this Agreement (the “**Effective Date**”), by and between **KAHALA FRANCHISING, L.L.C.**, an Arizona limited liability company (“**Franchisor**”), whose principal business address is 9311 E. Via De Ventura, Scottsdale, Arizona 85258 (phone number 480-362-4800; fax number 480-362-4797), and the area representative identified on the last page of this Agreement (“**Area Representative**”), whose address, phone number and fax number are set forth on the last page of this Agreement.

### R E C I T A L S

- A.** Franchisor, under the Service Marks (as defined in the most recent version of the Franchise Disclosure Documents), has, as a result of significant time, effort and money, originated a comprehensive system for the manufacture and restaurant sale of Mexican-style fast food (prepared using proprietary recipes) and related menu items (the “**Franchised Business**”);
- B.** Franchisor owns certain intellectual property, including trade secrets and other confidential and proprietary information, processes, materials and rights relating to the development, promotion and operation of the Franchised Business (the “**Proprietary Information**”);
- C.** Franchisor has developed a program, including the Proprietary Information, for conducting and operating the Franchised Business under the Service Marks (the “**Program**”);
- D.** Subject to the terms and conditions of this Agreement, Franchisor desires to appoint Area Representative as Franchisor's representative for the development, management, servicing and supervision of persons to be approved by Franchisor to own and operate Franchised Businesses in the Territory (as defined below) (subject to Section 3(hh)), persons so approved, on or after the Effective Date, to own and operate Franchised Businesses in the Territory, including Area Representative with respect to his Franchised Business, are referred to as “**Franchisees**”); and
- E.** Area Representative desires to be so appointed.

### A G R E E M E N T

**NOW, THEREFORE**, in consideration of the mutual covenants and agreements contained in this Agreement, and for other good and valuable consideration, the parties agree as follows:

#### **1. Grant of Area Representative Rights.**

Subject to and in accordance with the terms of this Agreement, Franchisor grants to Area Representative, and Area Representative accepts the right to develop, manage, service, support and supervise Franchisees within the territory set forth in Exhibit A to this Agreement (the “**Territory**”).



## 2. Territorial Rights.

Subject to Franchisor's rights to terminate this Agreement, Franchisor will not, directly or indirectly, operate the Franchised Business or appoint another person as an Area Representative to develop, manage, service, support and supervise Franchisees within the Territory for the term of this Agreement, except for persons who will develop, manage, service, support and/or supervise Units (as defined below) that qualify as Permitted Exceptions (as defined in Section 3(hh)). Notwithstanding anything contained in this Agreement to the contrary, Franchisor may, directly or indirectly:

(a) Solicit prospective franchisees and grant Franchises to persons who will own and/or operate Franchised Businesses within and outside of the Territory, on the terms and conditions that Franchisor deems appropriate;

(b) Own and/or operate Franchised Businesses at locations outside of the Territory;

(c) Own and/or operate Franchised Businesses within the Territory;

(d) Distribute, sell and/or license other persons or entities to distribute and/or sell products through and/or services under the Service Marks (or under other trademarks) through locations other than Taco Time® restaurants owned, licensed or franchised by Franchisor (including sales by or through other channels of trade, including kiosks, carts, grocery stores, convenience stores, food chains, electronic mail, Internet sales, malls, universities, schools, hospitals, military bases, casinos, convention centers, arenas, stadiums, health and fitness facilities, office buildings, theme parks, movie theatres, and amusement facilities) (collectively, “**Other Channels**”). Franchisor shall utilize its best efforts to: (i) notify Area Representative of pending opportunities in Other Channels in the Territory; and (ii) seek the input of Area Representative as to the Other Channel opportunity (including discussing any concerns Area Representative may have on the impact of the Other Channel with existing Units), but Franchisor shall in no way be bound or required to follow Area Representative’s input; or

(e) Merge with, acquire and/or be acquired by any other business, or acquire and convert any retail stores, including retail stores operated by competitors, or otherwise operated independently or as part of, or in association with, any other system or chain, whether franchised or corporately owned; and

(f) Implement multi-area marketing programs that may allow Franchisor or others to solicit or sell to customers anywhere. Franchisor also reserves the right to issue mandatory policies to coordinate such multi-area marketing programs.

Area Representative may not use the Internet (including, but not limited to, a website or social medium site such as Twitter® or Facebook®) (collectively, the “**Site**”) to market franchises, or use the Service Marks on the Site without Franchisor’s prior written authorization, which we may withhold for any reason or no reason. If we grant you written approval, you agree to submit to us for approval before use true and correct printouts of all Site pages you propose to use. You understand and agree that our right of approval of all such web and social medium materials is

necessitated by the fact that such materials will include and be inextricably linked with our Service Marks. If we approve your use of a Site, you may only use material that we have approved. If we grant approval for a site, Area Representative may only use the Site in the manner prescribed by Franchisor. You agree to provide all hyperlinks or other links that we require. You may not post any of our proprietary, confidential or copyrighted material or information on the Site without our prior written permission. If you wish to modify your approved Site, all proposed modifications must also receive our prior written approval. You explicitly understand that you may not post on any Site (whether yours or someone else's) any material in which a third-party has any direct or indirect ownership interest (including, without limitation, video clips, photographs, sound bites, copyrighted text, trademarks or service marks, or any other text or image which any third-party may claim intellectual property rights in).

### **3. Obligations of Area Representative Generally.**

(a) For purposes of this Article 3 only, Area Representative shall be defined as a Principal(s), a Supervising Principal, a Supervising Manager; and/or a qualified employee of Area Representative. Area Representative (or, if Area Representative is a corporation, partnership, limited liability company or other entity, a Principal selected by Area Representative and approved by Franchisor (the “**Supervising Principal**”) or a manager selected by Area Representative and approved by Franchisor (the “**Supervising Manager**”)):

(i) Must satisfactorily complete the Franchisee and ARA Training Program (as those terms are defined below);

(ii) Must devote his best efforts and full time (which will be no less than an average of 40 hours per week, excluding reasonable vacation periods) to the development, management, servicing and supervision of Franchisees and the Franchised Businesses (each Franchised Business at a separate location within the Territory is referred to as a “**Unit**”) operated by Franchisees in the Territory, and the operation of Area Representative's Unit(s);

(iii) May not engage in any other business activity that is similar to any competing quick service restaurant franchise concepts or that impacts their ability to comply with their obligations under this Agreement during the term of this Agreement without the prior written consent of Franchisor.

The name of the Supervising Principal or the Supervising Manager is set forth on the signature page of this Agreement. Any changes must be approved by Franchisor.

(b) Area Representative must adapt the Franchised Business for use in the Territory, including product offerings, Franchisor's Operating Manual and sales and marketing materials. However, no adaptations will be made without Franchisor's prior written consent.

(c) Area Representative must provide assistance to Franchisees with respect to selecting sites for Franchisees' Franchised Businesses, in accordance with site selection criteria established by Franchisor from time to time, and the lease of the site, on terms and conditions satisfactory to Franchisor.

(d) If a Franchisee's franchise agreement did not contain a specific site at which the Franchised Business will be located, after the signing of the franchise agreement, Area Representative shall assist that Franchisee in submitting to Franchisor a complete site report (containing such demographic, commercial and other information and photographs as Franchisor may reasonably require) for each site at which that Franchisee proposes to establish and operate the Franchised Business and which Area Representative reasonably believes conforms to site selection criteria established by Franchisor from time to time.

(e) Area Representative must provide Franchisees guidance and assistance with respect to the construction and design of the Franchised Businesses in accordance with Franchisor's design criteria, including initial store layout.

(f) To the extent required by Franchisor, Area Representative shall consult with Franchisees regarding the securing of third party financing for Franchisees.

(g) If requested by Franchisor, Area Representative must assist Franchisor in locating and selecting vendors and suppliers who demonstrate the ability to meet Franchisor's standards and specifications for fresh ingredients, flavorings, equipment, supplies and other products to be used by Franchisees.

(h) Area Representative must consult with Franchisees by telephone, at times reasonably requested by Franchisees, with respect to all aspects of starting and operating their Franchised Businesses.

(i) Area Representative shall provide Franchisees pre-opening assistance in selecting, installing and operating equipment and selecting, preparing and storing food products, and shall ensure that all equipment and pre-opening food products and other items and checks are present and satisfactory.

(j) Area Representative must provide on-site consultation to Franchisees at their Units on the opening day (and/or the grand opening day, if that Franchisee so requests) of their Franchised Businesses, at no cost or expense to Franchisees.

(k) Area Representative must provide Franchisees on-site training at the Franchisees' Units as specified by Franchisor.

(l) In addition to Area Representative's other obligations under this Agreement, once a Unit has been established (as determined by Franchisor, in its sole discretion), at the request of the Franchisee, Area Representative must provide that Franchisee telephonic and on-site consultation, at times agreed upon between Area Representative and that Franchisee, at no cost to that Franchisee.

(m) Area Representative must provide to Franchisees the pre-opening and continuing operating assistance described in Franchisees' franchise agreements, Franchise Disclosure Document, Franchisor's Operating Manual and Franchisor's policies and procedures, as they may

exist from time to time; provided, however, that Franchisor will provide the classroom and Franchisor-based Phoenix-based on-the-job training for Franchisees contemplated by Franchisees' franchise agreements.

(n) Area Representative must communicate with each Franchised Business at least once every two weeks and must conduct at least one Quality Service Cleanliness and Experience (“**QSCE**”) field evaluation per quarter of each Franchised Business, at no cost to Franchisee, in the Territory to verify compliance with the terms and conditions of Franchisees' franchise agreements, Franchisor's Operating Manual and Franchisor's policies and procedures, as they may exist from time to time, and to confirm whether the quality of service and products is being maintained in accordance with Franchisor's requirements, and provide written reports of those QSCE evaluations, containing the information required by Franchisor, to Franchisor within 15 days after the end of that quarter. The reports of the QSCE evaluations may be sent to Franchisor via email. Area Representative must promptly notify each Franchisee of any deficiencies, and must send a copy of that notice to Franchisor. Area Representative acknowledges, however, that Area Representative's QSCE evaluations, notices and reports are advisory only, and that Franchisor will have:

- (i) All rights to evaluate and ascertain compliance as if this Agreement were not in effect;
- (ii) The sole right to send notices of default to Franchisees;
- (iii) The sole right to terminate a franchise agreement; and
- (iv) The sole right to take any legal action with respect to any breach of, or default under, a franchise agreement.

If Area Representative believes that any Franchisee has breached, or is in default under, its franchise agreement, Area Representative must promptly provide written notice to Franchisor of all facts relating to that breach or default. If, as a result of receiving that notice, Franchisor elects to investigate that breach or default and/or determines that a breach or default has occurred, Franchisor may, in its sole discretion, take such action as it deems appropriate.

(o) Area Representative shall periodically solicit information from Franchisees' primary distributor and the owner of the property where Franchisee's outlet is located (the “**Landlord**”) to verify compliance with the terms of Franchisees' franchise agreements and lease (or sublease, where applicable) agreements and to confirm whether Franchisees are in arrears with respect to any of their obligations to the primary distributor and Landlord, and to confirm the quality and the adequacy of the products and services provided by Franchisees.

(p) Franchisor will assist and advise Area Representative with respect to Area Representative's responsibilities under this Agreement, including advice, direction and requirements with respect to operating problems detected by Franchisor or Area Representative in the Territory and/or other issues of concern to Franchisor and/or Area Representative. Area Representative must comply with Franchisor's advice, direction and requirements, use his best

efforts to resolve those operating problems in the manner advised, directed and required by Franchisor and periodically report to Franchisor with respect to such matters that Franchisor may from time to time require.

(q) At Area Representative's reasonable request, Franchisor will provide to Area Representative, at Franchisor's then-current rates (including shipping costs), copies of requisite disclosure and contractual documents, brochures, advertising formats and related materials. Franchisor shall notify Area Representative of its then-current rates upon execution of this Agreement and then only when such rates change.

(r) Area Representative must, at Area Representative's expense, plan, organize and conduct regular seminars for, and meetings of, Franchisees and provide instruction and assistance to Franchisees, in connection with the introduction of new services and products and marketing and business techniques that Franchisor sponsors or approves for Franchisees.

(s) Area Representative must assist Franchisor in implementing advertising programs. For only those advertising programs where Area Representative, through itself or any group representing all Area Representatives, has pre-approved the costs of such advertising campaign, Franchisor may assess Area Representative a proportionate share of the cost of national advertising campaigns to solicit franchisees.

(t) Area Representative must use his best efforts to cause Franchisees to keep payments to Franchisor current and, if requested by Franchisor, assist in the enforcement of Franchisor's rights under Franchisees' franchise agreements and Franchisor's Operating Manual, policies, procedures and specifications, including the collection of delinquent payments from Franchisees. Area Representative may not modify or amend Franchisor's Operating Manual, policies, procedures or specifications without Franchisor's written consent. Area Representative must pay to Franchisor, or reimburse Franchisor for, at Franchisor's election, thirty-three and one-third (33 1/3%) percent of all third party costs and expenses (including reasonable third party attorneys' fees) incurred by Franchisor in connection with the collection of delinquent payments (including Royalties) from Franchisees to Franchisor. That payment must be made by Area Representative within thirty (30) days after Franchisor's written request therefor or invoice thereof.

(u) (i) Area Representative (or, if Area Representative is a corporation, partnership, limited liability company or other entity, a Principal) must attend and satisfactorily complete the entire training, if any, provided by Franchisor for franchisees (the "**Franchisee Training Program**"). (Area Representative's rights to attend the Franchisee Training Program are set forth in his franchise agreement.) Area Representative (or, if Area Representative is a corporation, partnership, limited liability company or other entity, a Principal) must attend and satisfactorily complete the entire training, if any, provided by Franchisor for Area Representatives (the "**AR Training Program**"). (If more than one person signs this Agreement, both or all must attend and satisfactorily complete the Franchisee Training Program and the AR Training Program. In addition, all of Area Representative's employees from time to time must attend and satisfactorily complete the Franchisee Training Program and the AR Training Program; the cost of attendance from time to time will be the amount then charged by Franchisor

to new franchisees or Area Representatives, respectively, for additional training. Expenses, such as travel, lodging and meal expenditures, in connection with Area Representative and his employees attending the Franchisee Training Program and the AR Training Program will be borne by Area Representative.

(ii) Area Representative acknowledges that the Franchisee Training Program and/or the AR Training Program may have multiple stages, and that in connection with each stage, Area Representative may be tested. Area Representative further acknowledges that Area Representative may be evaluated upon, among other things, the results of such tests, whether Area Representative is competent, in Franchisor's sole judgment, in performing the skills necessary to be a franchisee and/or an Area Representative, whether Area Representative can speak English fluently, whether Area Representative has an aptitude for being a franchisee and/or an Area Representative, whether Area Representative is, in Franchisor's sole judgment, a good fit within the Taco Time system and whether Area Representative's being a franchisee and/or an Area Representative may, in Franchisor's sole judgment, adversely affect the goodwill or reputation of Franchisor, its products or the Service Marks. If Area Representative fails the Franchisee Training Program and/or the AR Training Program, Franchisor may, in its sole discretion, provide Area Representative an opportunity to take additional classes and to pass the Franchisee Training Program exams and/or the AR Training Program exams. Area Representative may take the additional classes at a cost of \$1,500 per person.

(iii) If Franchisor determines, in its sole judgment, that Area Representative (or, if Area Representative is a corporation, partnership, limited liability company or other entity, a Principal) has not performed satisfactorily on the Franchisee Training Program exams and/or the AR Training Program exams, that Area Representative is not competent in performing the skills necessary to be a franchisee and/or an Area Representative, cannot speak English fluently, does not have an aptitude for being a franchisee and/or an Area Representative or has failed to satisfactorily complete the Franchisee Training Program and/or the AR Training Program, Franchisor may terminate this Agreement, in which event Area Representative must return to Franchisor all materials delivered to him in connection by or on behalf of Franchisor. If this Agreement is terminated pursuant to this Section 3(u)(iii), the Initial Development Fee will be refunded to Area Representative less a \$25,000 administrative fee that will be retained by Franchisor.

(iv) The Initial Development Fee covers the training for up to two individuals at the Franchisee Training Program and AR Training Program. If Area Representative wants additional person to attend the Franchisee Training Program and AR Training Program, the fee is \$1,500 per person. The individuals participating in the Franchisee Training Program and/or the AR Training Program on behalf of Area Representative will not be deemed to be employees of Franchisor or the owner of any store in which those individuals participate in the Franchisee Training Program and/or the AR Training Program, but will be deemed to be employees of Area Representative during all aspects of the Franchisee Training Program and the AR Training Program.

(v) If Area Representative (or any of his attendees) fails to provide Franchisor at least 14 days' advance notice of his cancellation of any portion of the AR Training Program,

Area Representative may be assessed a \$500 no-show fee, payable upon Area Representative's failure to cancel.

(vi) The AR Training Program may be modified or amended from time to time.

(vii) Area Representative must, promptly upon hiring, obtain from all officers and employees, and must deliver to Franchisor, signed agreements, in the form attached to the Franchise Disclosure Document, pursuant to which those officers and employees agree to be bound by the restrictive covenants, the confidentiality provisions and certain other provisions contained in this Agreement; provided, however, that Sections 12 (b) and (c) will be effective with respect to officers during the term of their office with Area Representative and for the one-year period thereafter and with respect to employees during the term of their employment or other association with Area Representative and for the six-month period thereafter.

(v) Franchisor reserves the right to require Area Representative (or, if Area Representative is a corporation, partnership, limited liability company or other entity, a Principal) to attend additional development programs and seminars with respect to the Franchised Business and developing the Territory (other than the AR Training Program) at such times as Franchisor reasonably requires. However, the frequency of those additional programs and seminars will not exceed 10 days per calendar year. The cost of attendance and participation in those programs and seminars, as well as Area Representative's expenses (such as travel, lodging and meal expenditures in connection with attending those programs and seminars) will be paid by Area Representative. Franchisor may impose a charge for Area Representative's failure to attend such programs and seminars.

(w) Area Representative must submit a quarterly report to Franchisor on Area Representative's activities (including Area Representative's objectives, progress against objectives, sales, site locating, activity in the market and competition) in a format that follows the Business Plan, to Franchisor within 15 days after the end of each calendar quarter.

(x) Area Representative must use his best efforts to cause Franchisees in the Territory to comply with all applicable laws and regulations and to refrain from taking any action that would constitute a breach under his Franchise Agreement or that would be the basis for a claim or lawsuit by Franchisor.

(y) Area Representative must not employ any person who Franchisor, in its sole discretion, has determined to be unfit to represent Franchisor in the marketing of Franchises or in the furnishing of services to Franchisees.

(z) Area Representative must not solicit or receive any kickback, rebate, discount or other remuneration from any vendor or supplier to Franchisees or from any other person with whom Franchisees do business.

(aa) Area Representative must not receive any payment from Franchisees or prospective Franchisees, other than payments payable to Franchisor that are promptly forwarded by Area Representative to Franchisor.

(bb) Area Representative must reimburse Franchisor for Area Representative's pro-rata portion of the premiums (and any applicable finance charges) for any Errors & Omissions Insurance (also known as Professional Liability Insurance) and any other insurance policies reasonably required by Franchisor that are procured by Franchisor on behalf of all Taco Time Area Representatives during the Term of this Agreement (hereinafter, the "**Premium Charges**"). The Premium Charges for Area Representative shall be due and payable in full to Franchisor within thirty (30) days of Area Representative's receipt of an invoice from Franchisor for such Premium Charges. Area Representative's pro-rata portion of the premiums (and any applicable finance charges) shall be determined based upon the number of open Taco Time units in Area Representative's Territory at the beginning of the applicable policy year compared to the total number of open Taco Time outlets in the United States at the beginning of the policy year. During the Term of this Agreement, Franchisor shall utilize its best efforts to obtain Errors & Omissions Insurance that covers both the Franchisor and all Taco Time Area Representatives with minimum liability limits of One Million Dollars (\$1,000,000.00) for each liability claim or related claim, with an aggregate of not less One Million Dollars (\$1,000,000.00) and no more than Ten Million Dollars (\$10,000,000). **These insurance policies shall name Franchisor (and any Affiliate of Franchisor that it may reasonably require) as an additional insured.** Notwithstanding any provision of this subsection 3(bb) to the contrary, Area Representative hereby acknowledges and agrees that Franchisor is under no obligation to procure the Errors & Omissions Insurance detailed above; but rather it is Franchisor's intention to procure such insurance subject to availability and reasonable cost, with such determination of whether to ultimately procure the Errors and Omissions Insurance to be made by Franchisor in its sole discretion.

(cc) Area Representative must notify Franchisor in writing of the commencement of any action, suit, proceeding or investigation, or the issuance of any order, writ, injunction, award or decree:

(i) Against Area Representative that may adversely affect the operations or financial condition of Area Representative or his business;

(ii) Against any Franchisee, of which Area Representative is aware, which may adversely affect the operations or financial condition of that Franchisee or its business or

(iii) Against Area Representative or any officer, director, employee, shareholder, partner, member, Affiliate or agent of Area Representative that arises out of or relates to the conduct of Area Representative's business under this Agreement.

(dd) Area Representative must become aware of, and comply with, all federal, state and local laws, regulations, rules and ordinances (and, if Franchisor so elects, all voluntary codes of conduct) applicable to the conduct of Area Representative's business under this Agreement.



(ee) Notwithstanding anything contained in this Agreement to the contrary, if Franchisor has provided a formal written notice of default to Area Representative that has not been timely cured, Franchisor may perform any or all of Area Representative's obligations under this Agreement. Area Representative must promptly pay, or reimburse Franchisor for, any and all costs and expenses incurred by Franchisor in connection therewith (but for only those costs and expenses incurred on and after the date Franchisor commenced performing Area Representative's obligations under this Agreement), including a per diem charge, at Franchisor's then-current rates, for the time spent by Franchisor's representatives in connection with their travel and performance.

(ff) Franchisor may, from time to time, prescribe reasonable standards, specifications and procedures with respect to Area Representative's obligations under this Agreement and with which Area Representative must comply, so long as such standards, specifications and procedures do not materially change Area Representative's obligations under this Agreement. The prescribed standards, specifications and procedures will be incorporated in this Agreement by this reference and made a part of this Agreement.

(gg) Area Representative will bear all costs and expenses in connection with his responsibilities and obligations under this Agreement.

(hh) Notwithstanding anything contained in this Agreement to the contrary, unless Franchisor so requests in writing, Area Representative will have no authority or responsibility as an Area Representative, and will not receive any payments, with respect to Units owned or operated (i) by a franchisee who Franchisor believes intends to own or operate 10 or more Taco Time restaurants in accordance with an understanding or agreement with Franchisor that provides for regional or national establishment of Taco Time restaurants by that franchisee (such as airport and mall locations) or (ii) in certain dense retail traffic areas designated by Franchisor (such as Las Vegas, Honolulu and the New York metropolitan area), or (iii) retail restaurant locations being sublet under lease or a concession agreement to a master concessionaire and other unique or non-traditional marketplaces (in Franchisor's sole discretion), such as kiosks, carts, cafeterias, convenience stores, malls, stadiums, entertainment pavilions, amusement parks, sports or entertainment venues, airports, train stations, travel plazas, toll roads, military bases, hospitals, hotels, casinos and high school and college campuses (collectively, "**Permitted Exceptions**"). Further, notwithstanding anything contained in this Agreement to the contrary, unless Franchisor so requests in writing, Area Representative will have no authority or responsibility as an Area Representative, and will not receive any payments, with respect to Units owned or operated by Franchisor or its Affiliates. If Franchisor requests Area Representative to manage, service, support and/or supervise Units that qualify as Permitted Exceptions and/or Units that are owned or operated by Franchisor or its Affiliates and Area Representative accepts such request, (x) Area Representative will have such authority and responsibility with respect to those Units as Franchisor may designate, (y) Area Representative will receive such percentage of the Royalties with respect to those Units as Franchisor may designate and (z) the owners of those Units will be deemed to be "**Franchisees**" for purposes of this Agreement to the extent designated by Franchisor. Franchisor shall utilize its best efforts to: (i) notify Area Representative of pending opportunities in the Territory that would meet the definition of Permitted Exceptions; and (ii) seek the input of Area Representative as to these

opportunity(s) that would be Permitted Exceptions (including discussing any concerns Area Representative may have on the impact of Permitted Exception with existing Units in the Territory), but Franchisor shall in no way be bound or required to follow Area Representative's input;

(ii) During the term of this Agreement, Area Representative must maintain a dedicated e-mail account from an Internet service provider (ISP) approved by Franchisor as part of the sales gathering process and also to provide a means of communicating with us and franchisees. Area Representative shall pay the fees associated with acquiring and maintaining a dedicated e-mail account and access to the Internet by an approved ISP. Franchisor may change its list of approved ISPs at any time and may enter into an exclusive agreement with a High Speed ISP and require Area Representative to utilize the services of that specific provider. If you need dial-up Internet services until DSL or cable is available in your area, it is Area Representative's responsibility to verify with his telephone provider that the ISP access number is a non-toll call and will not result in toll charges. Any toll charges incurred through this process will be Area Representative's responsibility. Area Representative must inform Franchisor and its Franchisees of his e-mail address promptly upon signing this Agreement and if Area Representative's e-mail address is changed. Area Representative should check and respond to his e-mail on a daily basis (except for weekends); provided, however, that the timeliness of his e-mail review and responses must be consistent with reasonable business practices and must not cause Franchisor, the Franchisees or other franchisees to be unable to communicate with Area Representative in a timely manner.

(jj) Area Representative (or, if Area Representative is a corporation, partnership, limited liability company or other entity, all equity owners) must attend, at his expense, all annual and other meetings and conference calls of Franchisees and/or Area Representatives that Franchisor determines are mandatory for all franchisees and/or Area Representatives, or groups of franchisees and/or Area Representatives, as designated by Franchisor, such as Area Representatives within a particular geographic region.

(kk) Franchisor will be entitled to use the name, likeness and voice of Area Representative and his Principals, officers and employees for purposes of promoting the Franchise, Franchisor and its products, including all photos and audio and video recordings of Area Representative and his Principals, officers and employees, and Area Representative hereby irrevocably consents thereto. Area Representative acknowledges that Franchisor will own all right, title and interest, to the extent allowed by law, in all rights of integrity, disclosure and publication and any other rights that may be known as or referred to as "moral rights," "artist's rights," "publicity rights" or the like associated with such photos and audio and video recordings, and assigns and transfers unto Franchisor the full and exclusive right, title, and interest to such publicity rights. At Franchisor's request, Area Representative will obtain from any or all of his Principals, officers and employees written consent, in such form as Franchisor may request.

(ll) Franchisor or its representatives or agents may meet and communicate with, and solicit information (including books and records and other documentation) from, Area Representative's past and present employees, suppliers, vendors, lenders, lessors, customers, franchisees and other persons to verify compliance with the terms of this Agreement, to confirm

whether Area Representative is performing his obligations to those persons and entities, to confirm the quality and adequacy of the services provided by Area Representative and for any other purpose related to this Agreement and/or the relationship between the parties that Franchisor determines to be necessary or desirable, and Area Representative will assist and cooperate with Franchisor and its representatives and agents in that regard.

(mm) If Area Representative is a person other than an individual (for example, a corporation, partnership, limited liability company or other entity), Area Representative must deliver to Franchisor, simultaneously with the signing of this Agreement, the Agreement to be Bound and to Guarantee attached hereto as Exhibit G signed by each person (and his/her spouse) or entity owning, directly or indirectly, a 5% or greater equity interest in Area Representative (for example, the general partners or the shareholders) (collectively, “**Principals**”), pursuant to which the Principals agree to perform, and guarantee, Franchisee's obligations to Franchisor and its Affiliates, and agree to be bound by the restrictive covenants, the confidentiality provisions and certain other provisions contained in this Agreement.

(nn) If Area Representative fails to pay any amount he is required to pay, or perform any obligation he is required to perform, pursuant to this Agreement, Franchisor may, but will not be obligated to, pay such amount and/or take any action necessary to cure the default. In this event, Area Representative must immediately pay to Franchisor the amount so paid by Franchisor or the amount expended by Franchisor to cure such default, plus interest at the rate of 18% per annum (or, if less, the highest amount permitted by law) from the date paid or expended by Franchisor. This right will accrue whether or not Franchisor terminates this Agreement.

(oo) If Area Representative fails to deliver or provide to Franchisor any statement, report or other document or information required to be delivered (for example, certificates of insurance, financial statements and evaluation and activity reports), by the applicable deadline, Area Representative will be assessed a \$100 late charge per week, or part thereof (until that statement, document or other information has been delivered or provided).

(pp) Franchisor will lend to Area Representative, upon satisfactory completion of the Franchisee Training Program and/or the AR Training Program, one copy of Franchisor's Area Representative Operating Manual (which is comprised of a series of volumes under various titles), for use by Area Representative strictly in accordance with the terms of this Agreement during the term of this Agreement. Area Representative must conduct his operations strictly in accordance with Franchisor's Area Representative Operating Manual, as amended from time to time, and with the rules, regulations, instructions, policies and procedures as may from time to time be issued by Franchisor for the conduct of the Franchised Business as Franchisor may, in its sole discretion, deem appropriate. If there is any disparity between Franchisor's copy of the Operating Manual and Franchisee's copy, Franchisor's copy will govern.

(qq) Any amounts payable by Area Representative to Franchisor or its Affiliates that are not paid within thirty (30) days after their due date will bear interest at the rate of 12% per annum.

(rr) Area Representative must obtain and maintain continuous access to Franchisor's Internet website in a manner that will enable Area Representative to download required information (without regard to size) and to otherwise interact with Franchisor, franchisees and other persons, in such manner as Franchisor may specify. Area Representative is solely responsible for protecting himself from viruses, computer hackers and other computer-related problems, and hereby waives any and all claims against Franchisor and its Affiliates relating to or arising out of us any harm caused by such computer-related problems.

(ss) Area Representative must hire or otherwise engage such number and type of qualified personnel as Franchisor may from time to time require, with such skills and experience as Franchisor may from time to time require, to enable Area Representative to fulfill his obligations under this Agreement. Such requirements may include, among other things, the following: the requirement to hire or otherwise engage on a full-time basis a designated number of field consultants (Regional Directors of Operation) who are acceptable to Franchisor to support and supervise the operations of the Franchised Businesses.

(tt) Periodically, as determined by Franchisor, Area Representative must submit to Franchisor a business plan in the format and containing the elements determined by Franchisor. If Franchisor does not accept such business plan, in its sole discretion, Franchisor and Area Representative shall use their best efforts to agree upon such business plan. If the parties cannot so agree upon such business plan, Franchisor shall determine the terms of such business plan. The final business plan fixed from time to time is referred to as the "**Business Plan.**" Area Representative must use his best efforts to meet or exceed the requirements contained in the Business Plan and must meet with Franchisor periodically as Franchisor may require to discuss Area Representative's progress towards meeting the requirements contained in the Business Plan.

(uu) Area Representative may be responsible for providing all of the support services referenced in this Section 3 to all Taco Time locations in the Territory including: (i) locations already open in the Territory as of the Effective Date of this Agreement; (ii) locations that are already sold but not yet open; (iii) locations that are currently being negotiated by Franchisor; and (iv) all new locations.

#### **4. Promotional Obligations of Area Representative.**

(a) Area Representative must advertise for, recruit and screen prospective Franchisees within the Territory.

(b) Area Representative will review and screen all prospective Franchisees and their applications to confirm that they meet Franchisor's then-current criteria for Franchisees. Area Representative will submit the application of each prospective Franchisee who it has approved (an "**Applicant**") to Franchisor for approval as provided in this Section 4.

(c) Each Applicant's application must be submitted to Franchisor with all information with respect to Applicant then customarily required by Franchisor concerning applicants, and such other material information that Franchisor possesses regarding Applicant. In addition, if

Applicant desires that the franchise agreement contain a specific site at which the Franchised Business will be located, Area Representative must submit, or assist Franchisee in submitting, to Franchisor a complete site report (containing such demographic, commercial and other information and photographs as Franchisor may reasonably require) for each site at which Franchisee proposes to establish and operate the Franchised Business and which Area Representative reasonably believes conforms to site selection criteria established by Franchisor from time to time.

(d) Franchisor will use its best efforts to approve or disapprove Applicants within 30 days after the later of (i) Franchisor's receipt of Applicant's complete application and other requested information materials and (ii) Franchisor's personal interview of Applicant, if Franchisor so requests. If Franchisor, in its sole discretion, determines that Applicant possesses sufficient financial and managerial capability and satisfies Franchisor's other criteria for applicants at that time, Franchisor will offer Applicant a Franchise for the operation of the Franchised Business. The grant of the Franchise will be evidenced by the signing by Franchisor and Applicant of the then-current franchise agreement and will be subject to all of its terms. If Applicant fails to sign a franchise agreement and pay Franchisor the initial franchise fee within 20 business days after Franchisor has approved Applicant as a Franchisee, Applicant will again be subject to Franchisor's approval process provided in this Section 4. Notwithstanding anything contained in this Agreement to the contrary, Franchisor will not be obligated to consider any Applicant during any period during which Area Representative is not in compliance with this Agreement or any Franchise Agreement signed by it or Area Representative's Affiliate.

(e) Area Representative must at all times give prompt, courteous and efficient service to prospective franchisees and Franchisees. Area Representative will, in all dealings with prospective franchisees and Franchisees, adhere to the highest standards of honesty, integrity, fair dealing and ethical conduct.

(f) Area Representative must not, in bad faith, prefer any Franchisee or prospective franchisee over any other.

(g) All advertising and promotion by Area Representative will be subject to Franchisor's prior approval, will be completely factual, and will conform to the highest standards of ethical advertising. Area Representative must refrain from any business or advertising practice that may be injurious to the business of Franchisor, the goodwill associated with the Service Marks or the Franchised Business. In addition, Area Representative must not disparage Franchisor, its employees, representatives or agents, its products or the Service Marks to any person. For purposes of this subsection, disparage shall mean to make negative statements or comments that are not factually correct.

(h) Area Representative may be responsible meeting all of the promotional obligations referenced in this Section 4 to all Taco Time locations in the Territory including: (i) locations already open in the Territory as of the Effective Date of this Agreement; (ii) locations that are already sold but not yet open; (iii) locations that are currently being negotiated by Franchisor; and (iv) all new locations.

## **5. Obligation of Area Representative to Comply with Law.**

(a) Area Representative must not, and must cause his employees and representatives not to, solicit prospective franchisees until Franchisor has provided Area Representative:

(i) Written notice of Franchisor's compliance with all laws and regulations (and, if Franchisor so elects, all voluntary codes of conduct) applicable to the offering and sale of franchises in or from the Territory; and

(ii) Requisite disclosure and contractual documents.

(b) If a prospective franchisee resides or conducts business outside of the Territory, but intends to operate the Franchised Business within the Territory, Area Representative must so inform Franchisor. Area Representative must not, and must cause his employees and representatives not to, solicit that prospective Franchisee until Franchisor has provided Area Representative:

(i) Written notice of Franchisor's compliance with all laws and regulations (and, if Franchisor so elects, all voluntary codes of conduct) applicable to the offering and sale of franchises to that prospective Franchisee; and

(ii) Requisite disclosure and contractual documents.

(c) Area Representative must not, and must cause his employees and representatives not to, solicit prospective franchisees at any time that Franchisor has provided Area Representative written notice that the requisite disclosure and contractual documents are not then in compliance with applicable laws and regulations (and, if Franchisor so elects, all voluntary codes of conduct).

(d) At Franchisor's request, Area Representative will promptly:

(i) Provide all information reasonably requested by Franchisor in order to prepare all requisite disclosure and contractual documents required in connection with this Agreement or Area Representative's operations under this Agreement;

(ii) Promptly complete and sign all documents required by Franchisor for the purpose of registering the offering and sale of Franchised Businesses in accordance with this Agreement; and

(iii) Have prepared and provide to Franchisor financial statements with respect to Area Representative and his business, in the form and for the periods as Franchisor may reasonably request in connection with compliance with applicable laws and regulations (and, if Franchisor so elects, all voluntary codes of conduct).

(e) If, due to the actual request of Area representative or expressly caused by the Area Representative's actions, Area Representative's operations under this Agreement require

the preparation, amendment, registration or filing of any information or documents, that information and documents will be prepared, amended, registered or filed by Franchisor or its designee. The costs and expenses of that preparation, amendment, registration or filing, and any additional costs and expenses incurred by Franchisor in connection with the Territory, will be borne by Area Representative and the other Area Representatives within the master territory, as determined by Franchisor, in which Area Representative's Territory is located, on a proportionate basis determined by Franchisor. At Franchisor's request, Area Representative must pay promptly Franchisor, or its designee, at Franchisor's election, the proportionate amount of those costs and expenses or must promptly reimburse Franchisor therefor.

(f) In connection with the offering and sale of Franchised Businesses under this Agreement, Area Representative must:

(iv) Provide only information that is contained in or consistent with Franchisor's then-current disclosure documents;

(ii) Not provide any oral or written representations, warranties, claims or other information with respect to the historical or anticipated revenues, expenses or profits of Franchised Businesses, unless Franchisor so requires or permits in writing;

(iii) Not make any oral or written representations, warranties or agreements to or with any prospective Franchisee other than those contained in Franchisor's then-current disclosure document, unless Franchisor so requires or permits in writing; and

(iv) Comply with all laws and regulations (and, if Franchisor so elects, all voluntary codes of conduct) in connection with the offering and sale of Franchised Businesses.

## **6. Obligations of the Franchisor.**

Franchisor promises and covenants as follows:

(a) To permit Area Representative to use the Trademarks and Service Marks, its logotypes and any other trademarks or service marks which Franchisor may authorize and designate for use by Area Representative, including tag lines and slogans. Area Representative, upon Franchisor's request, agrees to use the newest trademarks, tag lines and slogans and other promotional material developed by Franchisor upon the minimum of at least 30 days prior written notice to Area Representative;

(b) To furnish, by lending Area Representative as created, a copy of the Taco Time Operations Manuals (hereinafter the "**Manual(s)**"), together with any subsequent changes or amendments thereto. Area Representative agrees not to copy, publish or duplicate the contents of said Manuals except when needed to supply each new Taco Time franchisee or for dissemination to the officers and key employees of Area Representative;

(c) To make available to Area Representative the right to consult in person at the office of Franchisor or by telephone with Franchisor's officials and staff in its Scottsdale,

Arizona offices or at such other location designated by Franchisor about issues and problems relating to the franchise development of the Territory and the design, construction and operation of franchise units so that Area Representative will have available to it the experience of Franchisor. Additional or replacement offices may be developed in the future and the advice and consultation will be provided from these respective offices of Franchisor;

(d) To provide the Area Representative a training program for 5 days (approximately 40 hours) (or such lesser or greater periods as established by Franchisor) of classroom instruction and on-the-job training in an existing Taco Time outlet at a location selected by Franchisor for such training in its sole discretion (the “**ARA Training Program**”). The ARA Training Program covers the operational and statistical methods of operating a Taco Time location, area representative business, franchise sales, real estate procurement and marketing. The ARA Training Program shall be attended by the controlling stockholders of Area Representative if a corporation, all partners if a partnership, all individual proprietors if a sole proprietorship, and all managing executives and operational supervisors. If the ownership, management or operational supervisor is changed, the new management or executive(s) must also be trained prior to the commencement of their responsibilities at Area Representative’s sole cost and expense. With regards to the ARA Training Program, Area Representative shall be solely responsible for the salaries of Area Representative's principals, owners, and/or employees during the term of the training and all travel expenses, including food, entertainment and lodging expenses, of Area Representative, and its principals, owners and/or employees. Franchisor shall be solely responsible for the costs of its training staff member(s) during the ARA Training Program. It is acknowledged that subsequent to the ARA Training Program, there will be continued practical training and education arising between the Area Representative's staff and Franchisor's staff as Area Representative confronts the problems and difficulties that arise in the development of the Territory. The costs and expenses of any and all training programs and sessions after the ARA Training Program shall be the sole responsibility of Area Representative.

(e) As changes in applicable laws occur, Franchisor shall make reasonable efforts to inform Area Representative of any new or recently modified applicable federal or state franchise laws. Area Representative acknowledges that such information will be generally provided to Area Representative through mailings or emails from the Franchisor’s corporate office. This provision and its compliance or lack thereof shall in no way release Area Representative from its obligation to comply with all applicable laws and/or to be knowledgeable of all applicable franchising laws and regulations, including those specific to the Territory;

(f) To pay all bills, invoices, fees and other obligations that may be owed to Area Representative by Franchisor, provided Area Representative is not in receipt of a written notice of default from Franchisor that has not been cured, including default of its monetary obligations to Franchisor;

(g) To protect and defend Area Representative's right to use, and the validity of, Franchisor's Trademarks;

(h) To direct all franchise sales and real estate leads received by Franchisor for potential franchisees and real estate in the Territory promptly to Area Representative; and



(i) Franchisor, or its affiliated companies, shall have no responsibility or obligation to become a party (i.e., tenant, guarantor, etc.) to any commercial real estate leases in the Territory, whether for Area Representative's corporate locations, or for third party franchisees in the Territory who purchased franchises during the Term of this Agreement. However, Franchisor will have the right to reject any proposed locations for Taco Time units in the Territory in its sole and absolute discretion unless any proposed location falls within a protected radius of either (i) an existing or under development third party Taco Time franchise location or (ii) Taco Time landlord in the Territory.

## **7. Initial Development Fee.**

(a) In consideration of the rights granted to Area Representative contained in this Agreement, Area Representative will pay to Franchisor an amount, which amount is stated on the signature page of this Agreement (the "**Initial Development Fee**") equal to the greater of:

(i) The product of (I) \$0.10 and (II) the number of people residing within the Territory, as determined in accordance with the most recent edition or announcement of the source designated by Franchisor from time to time; or

(ii) The product of (I) \$0.03 and (II) the number of people residing within the Territory plus (III) four times the royalty payments received in the last 12 months on existing stores within the Territory.

(b) The Initial Development Fee will be payable in cash or by cashiers' or certified check upon the signing of this Agreement by Franchisor and Area Representative. Except as set forth in Section 3(u)(iii), the Initial Development Fee will be fully earned by Franchisor upon the signing of this Agreement and will be nonrefundable.

(c) Area Representative must pay to Franchisor an amount equal to any sales, gross receipts or similar taxes assessed against, or payable by, Franchisor and calculated on the Initial Development Fee or other payments required to be paid pursuant to this Agreement, unless the tax is an income tax or an optional alternative to an income tax otherwise payable by Franchisor. Such amount will be due and payable within 10 days after receipt of Franchisor's invoice.

(d) No Initial Development Fee will be payable in connection with a renewal or transfer.

## **8. Area Representative's Compensation and Liabilities.**

Area Representative's compensation, in consideration of the performance by Area Representative of his responsibilities and obligations under this Agreement shall be computed as follows:

(a) **Compensation from Franchise, Transfer and Renewal Fees.**

(i) **Fee Compensation.** Area Representative will be paid thirty three and one-third percent (33 1/3%) of the Net Collected Proceeds (the resulting calculated amount to be referred to as the “**Fee Compensation**”). Net Collected Proceeds, for purposes of this Section 8, is defined as Initial Franchise Fees, transfer fees and renewal fees collected for Units in the Territory during the Term of this Agreement, operated by Franchisees, less (a) a the Legal Expense and Sales Facilitation Fee, (b) the Training Fee, and (c) the Selling Expenses (if any); as defined below; for each Unit in the Territory. The Fee Compensation owed to Area Representative will be paid on or before the 15th day of the month following the month in which the applicable franchise agreement or transfer agreement has been executed by Franchisor, all amounts are fully collected by Franchisor, and all documentation and other materials required by Franchisor, in its sole discretion, in connection therewith was delivered, accepted and approved by Franchisor.

(ii) **Legal Expense and Sales Facilitation Fee.** For each franchise sold or transferred in the Territory, whether to a third party or to an Area Representative, \$2,000 shall be paid to Franchisor to cover its legal expenses and sales administration costs (“**Legal Expense and Sales Facilitation Fee**”). The Legal Expense and Sales Facilitation Fee shall be deducted from each collected Initial Franchise Fee or transfer fee, as appropriate, and paid to Franchisor in all cases prior to calculating Area Representative’s Fee Compensation regarding that Unit. The Legal Expense and Sales Facilitation Fee will be reduced to \$500 if Franchisee is entering into a franchise agreement as part of a Non-Traditional location and the Franchisee has already paid, or is simultaneously paying a \$2,000 Legal Expense and Sales Facilitation Fee as part of Franchisee’s execution of a separate franchise agreement with Franchisor for the same physical location (a “co-brand” or “dual-brand” location) in the Territory. In cases where multiple franchise agreements are being executed simultaneously it will be within Franchisor’s sole discretion to determine which is the primary location (the “**Lead Brand**”) for purposes of determining which Franchise requires the \$2,000 fee and which the \$500 fee. By way of example if a particular physical location will house a Taco Time franchise unit and a Taco Time franchise unit operating as a co-brand or dual-brand, owned by the same Franchisee, the combined Legal Expense and Sales Facilitation Fee for the units will total \$2,500.

(iii) **Training Fee** - For each franchise sold or transferred in the Territory, whether to a third party or to an Area Representative, \$1500 shall be paid to Franchisor to cover its training expenses (“**Training Fee**”). The Training Fee may be waived if the Franchisee is not required, in Franchisor’s sole discretion, to complete Franchisor’s Training Program. The Training Fee shall be deducted from the Initial Franchise Fee or transfer fee, as appropriate, and paid to Franchisor in all cases that a Franchisee is required to complete Franchisor’s Training Program, prior to calculating Area Representative’s Fee Compensation regarding that Unit.

(iv) **Selling Expenses** - From time-to-time Area Representative and Franchisor may agree that Franchisor’s internal sales staff, or unrelated third-party brokers may be involved in franchise sales and or franchise transfer transactions in the Territory. In all such cases any sales commissions or broker fees paid by Franchisor related to such transaction will be considered Selling Expenses (hereinafter “**Selling Expenses**”). The Selling Expenses shall be

deducted from the Initial Franchise Fee or transfer fee, as appropriate, and paid to Franchisor in all cases prior to calculating Area Representative's Fee Compensation regarding that Unit.

(v) Additional fees may be charged by Franchisor to Franchisees in the Territory for services provided by Franchisor, such as lease review and architectural review fees, etc. ("**Service Fees**"). Area Representative will not be paid Fee Compensation for any Service Fees charged by Franchisor to Franchisee.

(vi) Area Representative acknowledges that Area Representative is not entitled to any share of the Initial Franchise Fees in regards to any and all Taco Time locations already open in the Territory as of the Effective Date of this Agreement and those locations identified on Exhibit B hereto that are already sold (but not yet open) or being negotiated by Franchisor for Taco Time locations to be opened in the Territory after the Effective Date of this Agreement nor do any of these pre-existing locations or identified locations count towards Area Representative's development obligations under Exhibit C of this Agreement.

(vii) All amounts to be paid to Area Representative pursuant to this Section 8(a) are subject to offset as provided in Section 8(j) below.

(b) **Compensation From Continuing Royalty Fees**

(i) **Royalty Fee Compensation.** Area Representative will be paid thirty-three and one-third percent (33 1/3%) of all Continuing Royalty Fees received (and actually collected by the Franchisor) during the term of this Agreement from Franchisees (including Area Representative, if a Franchisee) within the Territory during the term of this Agreement, less the Accounting Expense Deduction (the resulting calculated amount to be referred to as the "**Royalty Fee Compensation**"). For purposes of this Agreement, the term "**Continuing Royalty Fees**" means the payments from Franchisees designated by Franchisor as Continuing Royalty Fees and equal to a percentage (as designated by Franchisor in the applicable franchise agreement) of sales from all products and services sold at the Franchised Business, whether for on-site or off-site consumption. (However, the term "**Continuing Royalty Fees**" does not include amounts paid or owing to Franchisor by a particular Franchisee or Landlord (x) with respect to periods during which that Franchisee is in breach of its obligations under its franchise agreement or (y) in connection with the failure to open his Taco Time restaurant in accordance with the timetable set forth in his franchise agreement, pursuant to Section 9(b) of the franchise agreement or (z) in connection with the termination of a Franchise Agreement or Lease Agreement. The Royalty Fee Compensation owed to Area Representative will be paid on or before the 15th day of the month following the month in which Franchisor receives those Continuing Royalty Fees from Franchisees in the Territory.

(ii) **Accounting Expense Deduction.** For each franchise sold under this Agreement, whether to a third party, or to the Area Representative to operate as their own unit, 2% of the gross amount of all Continuing Royalty Fees collected by Franchisor (hereinafter "**Accounting Expense Deduction**") shall be paid to Franchisor to cover its accounting expenses. The Accounting Expense Deduction shall be deducted from the Continuing Royalty Fees

collected from Units in the Territory prior to the calculation of Area Representative's Royalty Fee Compensation.

(iii) Penalty fees may be charged by Franchisor to Franchisees which may include hours of operation violation fees, late fees, interest, audit costs, etc. (the "**Penalty Fees**"). Area Representative will not be paid a commission on any Penalty Fees charged by Franchisor to Franchisee.

(iv) Area Representative acknowledges that Area Representative is not entitled to any share of the Continuing Royalty Fees or any Fee Compensation in regards to any and all Units identified on Exhibit B hereto nor do any of these pre-existing locations or identified locations count towards Area Representative's development obligations under Exhibit C of this Agreement.

(v) All amounts to be paid to Area Representative pursuant to this Section 8(b) are subject to offset as provided in Section 8(j) below.

(c) **Area Representative's Compensation and Liabilities Regarding Acquired Locations operated by Area Representative.** If Franchisor requests Area Representative to operate a Unit within the Territory that Franchisor has acquired for any reason, Area Representative must execute any management or other agreement requested by Franchisor, operate that Unit in good faith and in the same manner that Area Representative operates Units that it owns. Area Representative's compensation or costs, if any, for those services will be an amount equal to:

(i) The profits or losses realized by Area Representative in connection with that Unit during the period of time that that Unit was operated by Area Representative; plus or minus

(ii) Thirty-three and one-third percent (33 1/3%) of the amount by which the net sale price realized by Franchisor in connection with the sale of that Unit exceeds the net amount paid or incurred by Franchisor in connection with acquiring or holding that Unit; minus

(iii) Thirty-three and one-third percent (33 1/3%) of the amount owed to Franchisor by the Franchisee that previously owned the acquired Unit (but expressly excluding any amounts representing unilateral financing provided by Franchisor (or an Affiliate of Franchisor) to the Franchisee that previously owned the Unit that assisted such Franchisee in acquiring or otherwise building out the Unit); minus

(iv) Thirty-three and one-third percent (33 1/3%) of the amount that Franchisor or its Affiliate has paid to a landlord, financial institution, collection agency, vendor, supplier, governmental agency or other person with respect to that Unit.

(d) **Area Representative's Compensation and Liabilities Regarding Acquired Locations operated by Franchisor.** If Franchisor operates a Unit within the Territory that is in breach of its franchise agreement, or that Franchisor has acquired from a Franchisee for any

reason, Area Representative's compensation or costs, if any, related to such operation will be an amount equal to:

(i) Thirty-three and one-third percent (33 1/3%) of all profits or losses realized by Franchisor in connection with that Unit during the period of time that that Unit was operated by Franchisor; plus or minus

(ii) Thirty-three and one-third percent (33 1/3%) of the amount by which the net sale price realized by Franchisor in connection with the sale of that Unit exceeds the net amount paid or incurred by Franchisor in connection with acquiring or holding that Unit; minus

(iii) Thirty-three and one-third percent (33 1/3%) of the amount owed to Franchisor by the Franchisee that previously owned the acquired Unit (but expressly excluding any amounts representing unilateral financing provided by Franchisor (or an Affiliate of Franchisor) to the Franchisee that previously owned the Unit that assisted such Franchisee in acquiring or otherwise building out the Unit); minus

(iv) Thirty-three and one-third percent (33 1/3%) of the amount that Franchisor or its Affiliate has paid to a landlord, financial institution, collection agency, vendor, supplier, governmental agency or other person with respect to that Unit.

(e) **Area Representative's Liabilities for Closed Locations.** If Franchisor, in its sole discretion, decides to close a Unit in the Territory that Franchisor acquired from a Franchisee as a result of a default or termination of a Franchisee's Franchise Agreement, Area Representative shall pay Franchisor thirty-three and one-third percent (33 1/3%) of the amount that Franchisor or its Affiliate has paid to a landlord, vendor, supplier, governmental agency and/or other person with respect to that Unit.

(f) Notwithstanding anything contained in this Agreement to the contrary, Franchisor will have no obligation to pay Area Representative any amounts pursuant to this Section 8 (and none of such amounts will accrue):

(i) Unless and until Franchisor receives from the applicable Franchisee the full amount that Franchisor is entitled to receive with respect thereto;

(ii) With respect to any period during which Area Representative or his Affiliate is in breach of, or default under, his obligations under this Agreement or any Franchise Agreement between Franchisor and Area Representative or any of his Affiliates;

(iii) With respect to Permitted Exceptions (except as set forth in Section 3(ii)) or Units located in the Territory owned or operated by Franchisor or its Affiliates in accordance with Section 2(c); and

(iv) With respect to any quarter and with respect to any Unit with respect to which Area Representative failed to conduct any of the quarterly QSCE evaluations, or deliver to Franchisor any of the reports, required under Section 3(o);

(g) Notwithstanding anything contained in this Agreement to the contrary, Franchisor will have no obligation to pay Area Representative any amounts pursuant to this Section 8 with respect to any Unit that has been transferred without full compliance with Franchisor's transfer procedures (as set forth in the applicable franchise agreement), until Franchisor's transfer procedures have been fully complied with and Franchisor has received all documentation in connection therewith that Franchisor determines, in its sole judgment, to be necessary.

(h) (i) If Franchisor is required, or elects to, return all or a portion of a Franchisee's Initial Franchise Fee or Continuing Royalty Fees, Area Representative will be required to pay his proportionate share of such amounts to Franchisor.

(ii) If a Franchisee's franchise agreement is terminated and Franchisor, in its sole discretion, agrees to pay that Franchisee any amount (or Franchisor waives collection of any amount to which it is entitled and for which Area Representative has already received its thirty-three and one-third percent (33 1/3%) share), or if a court of competent jurisdiction determines that Franchisor must pay that Franchisee any amount (or that Franchisor must waive collection of any amount to which it is entitled and for which Area Representative has already received its thirty-three and one-third percent (33 1/3%) share, Area Representative must promptly pay to Franchisor thirty- three and one-third percent (33 1/3%) of any amount that Franchisor so pays or waives.

(iii) The provisions of Section 10 of this Agreement will supersede the terms of this Section 8(h).

(i) **Right of Offset.** Notwithstanding anything contained in this Agreement to the contrary, Franchisor may offset any funds owed to Franchisor by Area Representative or an Affiliate pursuant to this Agreement (including Premium Charges), or any other agreement including but not limited to Franchise Agreements, Promissory Note(s), and Subleases, between Franchisor and Area Representative or its Affiliates, against any funds owed to Area Representative by Franchisor pursuant to this Agreement.

(j) Notwithstanding anything contained in this Agreement to the contrary, if Franchisor's receipt (or the payer's payment to Franchisor) of any initial franchise fees, Continuing Royalty Fees, development fees or other amounts are subject to withholding or other taxes or payments, the amount to which Area Representative is entitled pursuant to this Section 8 will be reduced in an amount proportionate to the amount that that withholding or other tax bears to the payment to which Franchisor is entitled. In addition, all amounts payable to Area Representative pursuant to this Agreement will be subject to all withholding or other taxes or payments applicable to the payment of those amounts. All amounts payable to Franchisor pursuant to this Agreement are net of taxes or similar payments (other than income taxes) payable by, or on behalf of, Franchisor in connection with such payments. All amounts payable to Area Representative pursuant to this Agreement will be calculated after taking into account amounts, if any, payable as taxes or similar payments (other than income taxes) payable by, or on behalf of, Franchisor in connection with such payments.

(k) The term “**Franchisees**” will, for purposes of this Agreement, include persons who have been granted Franchises within the Territory prior to the Effective Date. Area Representative will not be entitled to receive any payment with respect to those Franchisees' initial franchise fees and the terms of this Agreement will be subject to the terms of the agreements then existing between Franchisor and those Franchisees. The term “**Franchisees**” will not include Units operated by the Franchisor or its Affiliates, unless Franchisor designates them as “**Franchisees.**”

## **9. Service Marks, Etc.**

(a) Area Representative acknowledges and recognizes Franchisor's interest in, and rights to, the Trade Marks, Service Marks, the Copyrights (as defined in Franchise Disclosure Documents), the Innovations (as defined in Franchise Disclosure Documents) and the Proprietary Information. Area Representative acknowledges that it has no interest whatsoever in or to the Service Marks, the Copyrights, the Innovations and the Proprietary Information and that it is not granted any right to use the Service Marks, the Copyrights, the Innovations or the Proprietary Information by this Agreement, other than as authorized by Franchisor in writing. Area Representative will not derive any right, title or interest in the Trade Marks, Service Marks, the Copyrights, the Innovations or the Proprietary Information in connection with the conduct of his business under this Agreement. Area Representative further acknowledges that any use by Area Representative of the Trade Marks, Service Marks, the Copyrights, the Innovations and the Proprietary Information pursuant to this Agreement will inure to the benefit of Franchisor and the Program and that any goodwill arising from Area Representative's use will automatically vest in Franchisor. Area Representative may not, at any time during the term of this Agreement, or after its termination or expiration, contest the validity or ownership of any Trade Marks, Service Marks, the Copyrights, the Innovations or the Proprietary Information, or assist any other person in same. Area Representative must immediately notify Franchisor of any conduct that could constitute infringement of or challenge to the Trade Marks, Service Marks, the Copyrights, the Innovations or the Proprietary Information. Franchisor may, in its sole discretion, decide whether to institute any action in connection with infringement of or challenge to the Trade Marks, Service Marks, the Copyrights, the Innovations or the Proprietary Information, and will control all proceedings and litigation.

(b) Area Representative must not solicit other Area Representatives or franchisees, or use the lists of Area Representatives and franchisees, for any commercial or other purpose other than purposes directly related to the conduct of their business in accordance with this Agreement without the prior approval of Franchisor. Area Representative must not engage in any business venture or activity (other than that expressly contemplated by this Agreement), including operating Franchised Businesses, with other Area Representatives or franchisees without the prior approval of Franchisor. Area Representative will cause his Principals, officers, and employees to comply with such restrictions.

## **10. Financial Reporting; Inspections; Audits.**

(a) Area Representative must submit to Franchisor such financial information, statements and reports related to the Franchised Business that Franchisor may require, in its sole discretion, from time to time, in the format that Franchisor may require, in its sole discretion. Franchisor may require that any such financial statements be compiled, reviewed or audited, at Area Representative's expense. Area Representative must maintain his books and records in the English language and in an orderly fashion and in accordance with standard accounting procedures. Area Representative must maintain such books and records as are required by law and such books and records as Franchisor may require, in its sole discretion, including employee timecards. All books and records maintained by Area Representative relating to the conduct of his business must be retained by Area Representative during the term of this Agreement and for the seven-year period following the expiration or termination of this Agreement. Franchisor may disclose to any bona fide requesting person (including any lender to, or lessor of, Area Representative), or use for any valid business purpose, any financial or other information regarding Area Representative in Franchisor's possession, without obtaining Area Representative's consent.

(b) Franchisor may inspect, or cause its agents or representatives to inspect, at any time, Area Representative's account statements and other books and records with respect to his operations pursuant to this Agreement, including Area Representative's federal and state tax returns and financial accounts. Area Representative must maintain his books and records with respect to his operations at such place as is approved in writing by Franchisor. At the request of Franchisor, or its agents or representatives, Area Representative must, by the close of the day upon which such request is made, (i) deliver his books and records (and/or accurate and complete copies thereof, at Franchisor's option) to Franchisor, or its agents or representatives, at such location as Franchisor designates or (ii) provide Franchisor, or its agents or representatives, access to Area Representative's account statements and other books and records (and/or accurate and complete copies thereof, at Franchisor's option) at the place at which they are maintained.

(c) Franchisor may audit, or cause its agents or representatives to audit, Area Representative's books and records with respect to his operations pursuant to this Agreement. Area Representative must provide Franchisor and its representatives and agents access to Area Representative's books and records with respect to his operations pursuant to this Agreement, and must cooperate with the conduct of any audit. Franchisor will pay all costs and expenses in connection with any audit unless the audit reveals that Area Representative or an Affiliate has breached any of its monetary obligations under this Agreement, or any other agreement between Franchisor and Area Representative or his Affiliates, or that the financial statements submitted to Franchisor by Area Representative are inaccurate, by either (i) 5% of Area Representative's revenues or (ii) 2% of Area Representative's net income. In this event, Area Representative must promptly pay, or reimburse Franchisor for, all costs and expenses in connection with the audit (including reasonable attorneys' fees and costs). In addition, Franchisor may pursue any other remedies to which it may be lawfully entitled.

(d) Upon request, Area Representative must, at his expense, promptly provide Franchisor copies of Area Representative's books and records requested by Franchisor



(including Area Representative's charter documents, evidence of equity ownership and any agreements among his Principals).

**11. Indemnification.** Area Representative must protect, defend and indemnify Franchisor, its Affiliates and their respective officers, directors, employees, shareholders, Affiliates, agents, successors and assigns (collectively, the “**Indemnified People**”) and must hold the Indemnified People harmless (with counsel acceptable to Franchisor) for, from and against any and all damages, amounts paid in settlement, claims, demands, liabilities, losses, costs and expenses (including reasonable attorneys' fees), of every kind and nature, suffered or incurred by any of the Indemnified People in connection with any lawsuit, action, proceeding or claim arising out of or relating to any breach of this Agreement, Area Representative's actions or omissions or the conduct of Area Representative's business under this Agreement (collectively, an “**Event**”), including the provision of inaccurate, incomplete or misleading information requested pursuant to Section 5(d), the failure to provide information requested pursuant to Section 5(d) or the failure of Area Representative to comply with the provisions of Section 5 or 20. If Franchisor (or any of the other Indemnified People) suffers or incurs any damages, amounts paid in settlement, claims, demands, liabilities, losses, costs and expenses (including reasonable attorneys' fees) arising out of or relating to an Event, Franchisor's determination of the allocation of liability therefor between Area Representative and the Indemnified People, respectively, will be conclusive and binding upon Area Representative. If Area Representative is an individual who is married, his or her spouse must sign a spousal consent in the form attached to this Agreement.

**12. Confidentiality; Restriction on Hiring; Covenant Not to Compete.**

(a) (i) Area Representative acknowledges that Franchisor is engaged in a highly competitive business, the success of which is dependent upon, among other things, confidential and proprietary information. Area Representative further acknowledges that Franchisor's method of operation, processes, techniques, formulae and procedures and the other Proprietary Information constitute valuable trade secrets.

(ii) Area Representative agrees not to use for any purpose, or disclose or reveal (and must cause all of Area Representative's directors, officers and employees not to use for any purpose, or disclose or reveal), during the term of this Agreement or forever thereafter, to any person the contents of Franchisor's Area Representative Operating Manual or any Proprietary Information. Area Representative must fully and strictly comply with all security measures prescribed by Franchisor for maintaining the confidentiality of all Proprietary Information.

(iii) Area Representative acknowledges that to breach his obligations under this Section 12(a) would cause damage to Franchisor, and that Area Representative would be liable for this damage.

(iv) Notwithstanding the foregoing, Area Representative may disclose Proprietary Information to a person who is bound by the terms of this provision regarding confidentiality and a restrictive covenant contemplated by this Section 12, to the extent that that

disclosure is necessary in connection with that person's capacity with Area Representative. In addition, notwithstanding the foregoing, Area Representative may use the Proprietary Information as may be necessary in connection with the conduct of his business under this Agreement.

(v) Notwithstanding the foregoing, the following will not be subject to the provisions of this Section 12(a):

(a) Information that is in the public domain as of the date of receipt by Area Representative;

(b) Information that is known to Franchisee prior to the date of receipt by Area Representative;

(c) Information that becomes known to the public without a breach of the provisions of this Section 12 or any agreement signed in connection with this Agreement; and

(d) Information that is required by law to be disclosed or revealed, but only strictly to the extent required by law.

(b) Area Representative may not, during the term of this Agreement and for the two-year period after the expiration or termination of this Agreement for any reason, directly or indirectly (as an owner, partner, director, officer, employee, manager, consultant, shareholder, representative, agent, lender or otherwise), employ, hire or engage as an independent contractor or otherwise any person who is or was (at any time during the term of this Agreement) employed or engaged as an independent contractor or otherwise by Franchisor or any of its affiliates. This section 12(b) may be waived by Franchisor, in its sole and absolute discretion, but such waiver must be in writing and signed by either the CEO, President or General Counsel of Franchisor to be effective.

(c) Area Representative may not, during the term of this Agreement and for the two-year period after the expiration or termination of this Agreement for any reason, directly or indirectly (as an owner, partner, director, officer, employee, manager, consultant, shareholder, representative, agent, lender or otherwise), be engaged in a business that:

(i) Manufactures, produces, markets or sells Mexican-style fast food within, or for consumption within, a 10-mile radius of any Taco Time restaurant previously or presently owned or supervised, in whole or in part, by Area Representative or his Affiliates, or any location with respect to which Area Representative or any of his Affiliates has entered into a contract with respect to the future operation of a Taco Time restaurant.

(ii) Manufactures, produces, markets or sells Mexican-style fast food within, or for consumption within, a 10-mile radius of any Taco Time restaurant or any location with respect to which a contract has been entered into in connection with the future operation of a Taco Time restaurant.

(iii) Manufactures, produces, markets or sells Mexican-style fast food within, or for consumption within, the United States;

(iv) Manufactures, produces, markets or sells Mexican-style fast food outside of, or for consumption outside of, the United States; or

(v) Solicits prospective licensees or franchisees or offers or sells licenses or franchises to market or sell Mexican-style fast food.

For purposes of this Section 12(c), a business will be deemed to be marketing or selling Mexican-style fast food if more than 15% of his gross sales are derived from the marketing or sale of such products.

(d) Simultaneously with the signing of this Agreement, Area Representative must cause each Principal (and his or her spouse) to sign the Agreement to be Bound and to Guarantee attached hereto as Exhibit G, pursuant to which the Principals agree to, among other things, be bound by the terms of this Section 12.

(e) Area Representative must, promptly upon hiring, obtain from all officers and employees, and must deliver to Franchisor, signed agreements, in substantially the form attached as an exhibit to the Franchise Disclosure Document pursuant to which those officers and employees agree to be bound by, among other things, the provisions of this Section 12; provided, however, that Sections 12 (b) and (c) will be effective with respect to officers during the term of their office with Area Representative and for the one-year period thereafter and with respect to employees during the term of their employment or other association with Area Representative and for the six-month period thereafter.

(f) Area Representative agrees that his failure to adhere strictly to the restrictions contained in this Section 12 will cause substantial and irreparable damage to Franchisor. Upon any breach by Area Representative of any of the terms of this Section 12, Franchisor may institute and prosecute proceedings, at law or in equity, in any court of competent jurisdiction, to obtain an injunction to enforce the provisions of this Agreement and to pursue any other remedy to which Franchisor may be entitled. Area Representative agrees that the rights conveyed by this Agreement are of a unique and special nature and that Franchisor's remedy at law for any breach would be inadequate and agrees and consents that temporary or permanent injunctive relief may be granted in any proceeding that may be brought to enforce any provision of this Section 12, without the necessity of posting bond therefor or proof of actual damages.

(g) If the scope of any restriction contained in this Section 12 is too broad to permit the enforcement of that restriction to its fullest extent, then that restriction will be enforced to the maximum extent permitted by law, and the parties consent and agree that the scope may be judicially limited or modified accordingly in any proceeding brought to enforce that restriction. Each provision contained in this Section 12 is independent and severable and, to the extent that any provision is declared by a court of competent jurisdiction to be illegal, invalid or unenforceable, that declaration will not affect the legality, validity or enforceability of any other

provision contained in this Agreement or the legality, validity or enforceability of that provision in any other jurisdiction.

### **13. Assignment or Transfer of Development Rights.**

(a) Area Representative may not assign, delegate or otherwise transfer, by operation of law or otherwise, any right or obligation of Area Representative under this Agreement, without the prior written consent of Franchisor, which consent may not be unreasonably withheld by Franchisor. Except as provided herein, any transfer of an equity interest in Area Representative, by operation of law or otherwise, and any merger or consolidation of Area Representative (if a corporation, partnership, limited liability company or other entity) will be deemed to be a transfer of Area Representative's rights in violation of this Section 13.

(b) It is agreed that Franchisor's withholding of consent under any of the following circumstances is reasonable: (i) at any time when Area Representative (or his Principals, officers or employees) is in breach of, or default under, this Agreement or any other agreement with Franchisor or its Affiliates is reasonable, (ii) if the prospective transferee (the "**Transferee**") is, in Franchisor's sole discretion, not an individual who possesses sufficient managerial and business experience and aptitude and financial resources to perform Area Representative's obligations under this Agreement, (iii) if the Transferee otherwise fails to meet Franchisor's then applicable criteria for Area Representatives, (iv) if the financial or other terms of the transfer may have an adverse impact upon the Transferee's operations or ability to conduct his business under this Agreement and (v) if the Transferee will not, immediately following the transfer, own and operate a Unit.

(c) If Area Representative desires to assign or otherwise transfer any right granted under this Agreement, he must provide Franchisor with a written request for a transfer, which request must be accompanied by such financial and other information regarding the prospective Transferee as Franchisor may require, and a description of the pertinent terms of the transaction (such information is collectively referred to as the "**Required Materials**"). For purposes of this Agreement, the term "**Transfer Fee**" means the greater of:

(i) 5% of the gross sales price or other consideration to be received or realized by Area Representative and his Affiliates in connection with the transfer; or

(ii) \$30,000,

payable in cash or by certified or cashiers' check. Franchisor may, but will not be obligated to, evaluate, investigate, contact or meet with the Transferee. The Transfer Fee will be deemed to have been earned by Franchisor, and be non-refundable, upon Franchisor's approval of the transfer. The transferee shall enter into Franchisor's then current form of Area Representative Agreement with an Initial Term of ten (10) years.

(d) Within 30 days after Franchisor's receipt of all of the Required Materials, Franchisor will notify Area Representative that (i) Franchisor desires to purchase Area Representative's rights under this Agreement, upon the same terms and conditions as are offered

by the Transferee, (ii) the transfer is approved or (iii) the transfer is disapproved, at Franchisor's election. If the transferee is disapproved, the Transfer Fee, less all out-of-pocket expenses incurred by Franchisor relating to the proposed transfer, will be refunded to Area Representative. If Area Representative proposes an alternate transferee within 90 days after Franchisor's notice that the transfer is disapproved, the Transfer Fee will be applied to that application to transfer. Franchisor has the right, but not the obligation, to evaluate and/or investigate the Transferee .

(e) If Franchisor notifies Area Representative that it desires to purchase Area Representative's rights under this Agreement, that transaction will be consummated, upon the same terms and conditions as are offered by the Transferee, but not later than 60 days after the end of the 30-day period referred to above.

(f) If Franchisor notifies Area Representative that the transfer is approved, Area Representative may transfer Area Representative's rights under this Agreement, within 60 days after the end of the 30-day period referred to above, to the Transferee on terms no less favorable to Area Representative than the terms set forth in the Required Materials, provided that on or prior to the closing:

(i) The Transferee signs the form of Area Representative Agreement then being signed by new Area Representatives and will be subject to the terms of that Area Representative Agreement other than the term, the Initial Development Fee and Exhibits A and C (which terms, in each case, will be the same as the corresponding terms set forth in the transferor's area representative agreement);

(ii) Each person (and his or her spouse) or entity owning, directly or indirectly, a 5% or greater equity interest in the Transferee (for example, the general partners or the shareholders) signs an agreement in the form of an exhibit to the form of Area Representative Agreement then being signed by new Area Representatives, pursuant to which he agrees to perform, and guarantee, the Transferee's obligations to Franchisor and its Affiliates and agrees to be bound by the confidentiality provisions and restrictive covenants contained in the form of Area Representative Agreement then being signed by new Area Representatives;

(iii) The Transferee attends the Franchisee Training Program and/or the AR Training Program, if required by Franchisor;

(iv) Area Representative signs and delivers to Franchisor a general release of Franchisor and its Affiliates, in the form that Franchisor may require;

(v) All amounts outstanding by Area Representative to Franchisor as of the date of the closing must be paid at the closing; and

(vi) All breaches of or defaults under this Agreement or any other agreement with Franchisor or its Affiliates must be cured as of the closing.

You acknowledge and agree that you are responsible and liable for any claims, liabilities, demands, obligations, actions judgments, causes of action, orders, awards, administrative

actions, penalties, fines, or other legal or administrative actions by a court of competent jurisdiction, administrative body, or other governmental organization, costs and expenses, including reasonable attorneys' fees, arising from any negligence or willful misconduct that occurred prior to transferring your Area Representative Agreement to the Transferee, and you agree to indemnify and hold us and our affiliates (including our parent and subsidiary companies), and our stockholders, directors, officers, attorneys, employees, agents, successors and assignees harmless for, from and against any and all claims, liabilities, demands, obligations, actions judgments, causes of action, orders, awards, administrative actions, penalties, fines, or other legal or administrative actions by a court of competent jurisdiction, administrative body, or other governmental organization, costs and expenses, including reasonable attorneys' fees, arising out of or relating to your Area Representative Agreement (“**Claims**”), except for Claims successfully alleged to have resulted solely from our negligence or willful misconduct. Notwithstanding the foregoing, we will have the right, at our option, to defend any such claim, but you must reimburse us upon demand for the costs of such defense. Neither this Agreement nor any of the rights conferred on the Transferee under this Agreement or Transferee's Area Representative Agreement, may be retained by Area Representative as security for the payment of the Transferee's obligations to Area Representative.

(g) (i) Any Majority-owned Transfer (as defined below) will be subject to the other provisions of this Section 13; provided, however, that Franchisor will not have the right of first refusal contemplated by Section 13(e) and Transfer Fee will be an amount equal to Franchisor's out-of-pocket expenses in connection with the Majority-owned Transfer. In connection with this transfer, however, the Transferee in connection with a Majority-owned Transfer will not be entitled to attend the AR Training Program, the Transferee must sign the Area Representative Agreement then being signed by new Area Representatives (and will be subject to the terms of that Area Representative Agreement other than the term and the Initial Development Fee) and each person (and his or her spouse), corporation, partnership, limited liability company or other entity that owns, directly or indirectly, a 5% or greater equity interest following any such Majority-owned Transfer must sign and deliver to Franchisor an agreement, in the form attached to the Area Representative Agreement then being signed by new Area Representatives, pursuant to which he, she or it agree to perform, and guarantee, the Transferee's obligations to Franchisor and its Affiliates, and agree to be bound by the restrictive covenants and the confidentiality and certain other provisions contained in the Area Representative Agreement then being signed by new Area Representatives.

(ii) For purposes of this Agreement, the term “**Majority-owned Transfer**” means a transfer (a) to a person or entity that is majority owned by Area Representative, (b) to a person or entity that owns a majority interest in Area Representative, (c) to an entity that is owned by the same persons or entities (on a cumulative basis) that beneficially own a majority interest in Area Representative or (d) as a result of which the person(s) who owned a majority interest in Area Representative prior to the transfer continues to own a majority interest in Area Representative after the transfer (for example, an additional person purchases or is issued an equity interest in Area Representative).

(h) In the case of an individual Area Representative, any attempt to transfer any right granted under this Agreement upon Area Representative's death, permanent and total disability

or dissolution of marriage (if Area Representative's rights under this Agreement, or a majority interest therein, will be transferred to Area Representative's spouse upon dissolution of marriage) will be subject to the restrictions on transfer contained in this Section 13; provided, however, that Franchisor will not have the right of first refusal contemplated by Section 13(e). However, if Franchisor does not approve the proposed transferee upon death, disability or dissolution of marriage, Area Representative or his or her legal representative must, within 180 days after Area Representative's death, disability or dissolution of marriage, transfer Area Representative's rights under this Agreement to a person approved by Franchisor in accordance with the provisions of this Section 13; provided, however, that Franchisor will have the right of first refusal contemplated by Section 13(e) in connection with that proposed transfer. If Area Representative's rights under this Agreement are not transferred within this 180-day period, this Agreement will terminate.

#### **14. Term; Renewal.**

The initial term of this Agreement shall commence on the Effective Date and continue for a term of ten (10) years (the "**Initial Term**"), unless terminated or renewed as provided for herein. If this Agreement has not expired or been terminated prior to the end of the Initial Term, then Area Representative will have the right to renew the term of this Agreement for an additional ten (10) year term commencing upon the expiration of the then-current term, provided that:

(a) At the time of each renewal, Area Representative must not be in breach of its obligations under, or related to, this Agreement or any Franchise Agreement between Franchisor and Area Representative or its Affiliates;

(b) Area Representative must have been in substantial compliance with the Business Plan(s) during the term of this Agreement;

(d) Prior to each renewal, Area Representative must sign a general release of Franchisor and its Affiliates, in the form that Franchisor may require;

(e) Area Representative must notify Franchisor in writing of its intention to renew at least one year (but not more than 18 months) before the end of each then current term (initial or renewal), which notice must be accompanied by a renewal fee in an amount equal to the greater of:

(i) Five percent (5%) of the total Fee Compensation and Royalty Fee Compensation earned by Area Representative and his Affiliates pursuant to this Agreement for the twelve (12) months immediately preceding the renewal; or

(ii) \$30,000,

which amount will be stated on the signature page of the Area Representative Agreement to be signed in connection with the renewal, payable in cash or by cashiers or certified check;

(f) Prior to each renewal, Area Representative must sign the form of Area Representative Agreement then being signed by new Area Representatives and will be subject to the terms of that Area Representative Agreement (other than (i) the term, which will be the term remaining under this Agreement and (ii) Exhibit A, which will be identical to Exhibit A to this Agreement;

(g) Prior to each renewal, Area Representative must, at its expense, attend such training programs or refresher courses as Franchisor may request; and

(h) Franchisor has not notified Area Representative in writing that Franchisor objects to the renewal based upon either: (i) three defaults by Area Representative under this Agreement in the immediately preceding eighteen (18) months, regardless of whether timely cured; or (ii) any monetary defaults by Area Representative under this Agreement that have not been timely cured and Franchisor returns the renewal fee to Area Representative.,

At the time of renewal, Area Representative shall enter into Franchisor's then current form of Area Representative Agreement with a renewal term of ten (10) years. If any of the above requirements has not been satisfied, the term of this Agreement will not be renewed and will expire at the end of the then-current term. The parties agree that the Franchisor's refusal to renew if any of the above requirements has not been satisfied constitutes "good cause."

**15. Default and Termination.** You and/or Area Representative refers to Area Representative, its Principals, officers or employees.

(a) Area Representative will be in material default, and Franchisor may terminate this Agreement and/or seek an injunction, monetary damages and/or other relief, in Franchisor's sole discretion, without notice and without an opportunity for Area Representative to correct a condition of default, except where a cure period is noted below, upon the occurrence of any of the following events ("**Events of Default**"), each of which individually constitutes "good cause" for termination of this Agreement:

(i) If Area Representative (or its Principals) fails to pay any monies owed to Franchisor or any of its Affiliates under this Agreement, or any other agreement between Franchisor and Area Representative, within ten (10) days after receiving notice that such amounts are overdue.

(ii) If during any twelve-month period Area Representative (or its Principals, officers or employees) has been in default under the material provisions of this Agreement, or any other agreement between Area Representative or its Affiliates and Franchisor or its Affiliates, and has received from Franchisor three (3) or more notices of such defaults, whether or not any or all of the prior defaults were cured within the time limits allowed under this Agreement.

(iii) If Area Representative (or his Principals, officers or employees) repeatedly (three or more times in any 18 month period) fails to pay any monies owed to Franchisor or any of its Affiliates or perform any obligation, or repeated Events of Default occur



(either one obligation and/or Event of Default three times, three obligations and/or Events of Default one time or any such combination) under this Agreement, or any other agreement between Area Representative or his Affiliates and Franchisor or its Affiliates.

(iv) If Area Representative or any of the Principals is declared bankrupt or judicially determined to be insolvent, or all or a substantial part of the assets of Area Representative are assigned to or for the benefit of any creditor or creditors, or Area Representative admits the inability to pay its debts as they become due.

(v) If Area Representative (or, if Area Representative is a corporation, partnership, limited liability company or other entity, a Principal) fails to satisfactorily complete the Franchisee Training Program and/or the AR Training Program, in the sole discretion of Franchisor, within 30 days after the Effective Date.

(vi) If one or more of the Franchise Agreements or any Area Representative Agreement between Area Representative or its Affiliates and Franchisor are terminated.

(vii) If Area Representative fails to promptly cooperate with Franchisor in connection with obtaining any licensing, registration or permit necessary in connection with Area Representative's activities under this Agreement, or if Area Representative loses, or fails to maintain, any licensing, registration or permit necessary in connection with Area Representative's activities under this Agreement; provided, however, if any failure to maintain such licensing or permit results from circumstances beyond the reasonable control of Area Representative, Area Representative shall have a reasonable amount of time to reinstate such license or permit.

(viii) If Area Representative fails to deliver to Franchisor information and documents requested by Franchisor in connection with updating or supplementing the Franchise Disclosure Document with respect to Area Representative within fifteen (15) days after receiving notice from Franchisor that such information or documents are required.

(ix) If Area Representative fails to transfer his rights under this Agreement in accordance with Section 13(h), including if Area Representative attempts to transfer, or transfers, by operation of law or otherwise, his rights under this Agreement, without the prior written consent of Franchisor, or otherwise in violation of this Agreement. Any transfer of an equity interest in Area Representative, by operation of law or otherwise, and any merger or consolidation of Area Representative (if a corporation, partnership, limited liability company or other entity) is deemed to be a transfer in violation of this provision.

(x) If Area Representative misrepresents, or commits fraud in connection with, any information contained in his application for Area Representative rights, or in any other oral or written information communicated to Franchisor.

(xi) If Area Representative fails to comply with any material federal, state, or local law or regulation applicable to the operation of Area Representative's business unless such

noncompliance is not material to the operation of the business or Area Representative diligently contests any governmental determination of such failure to comply.

(xii) If Area Representative or any Principal is (or has been) convicted by a trial court of, or has plead guilty or no contest to, a felony or other crime or offense that may adversely affect the goodwill or reputation of Franchisor, its products or the Service Marks, or if Area Representative or any Principal engages in (or has engaged in) any conduct that may adversely affect the goodwill or reputation of Franchisor, its products or the Service Marks.

(xiii) If Area Representative or any Principal engages in any conduct that violates any law, regulation or ordinance or commits an act of moral turpitude.

(b) Additional Defaults – In addition to the grounds for immediate termination described above, Franchisor may terminate this Agreement should Area Representative violate any other material term of this Agreement, or any other agreement between Franchisor and Area Representative, and that violation is not cured within any time period allowed. In the case of a violation of this Agreement which does not result in its immediate termination as described above and which may be correctable by Area Representative, such default must be corrected to the reasonable satisfaction of Franchisor within thirty (30) days after Area Representative is given written notice from Franchisor describing the condition which constitutes the violation and the corrective action which can be taken to correct the default. Should the default be of such a nature that more than thirty (30) days are reasonably required for its cure, Area Representative will be given such additional time as Franchisor may reasonably determine to be necessary to cure the default as long as Area Representative diligently prosecutes such cure to completion. However, the following cure periods will apply with respect to Area Representative's violation of the social media policy:

(i) a forty-eight (48) hour cure period will apply if you use any form of social medium (as defined in the Manuals), including, but not limited to, a Twitter® account, Facebook® page or a video on YouTube®, whereby you hold yourself out to be an official page of, or video produced by, Franchisor and/or the owner of the Taco Time brand;

(ii) a twenty-four (24) hour cure period will apply if you post on any social medium site or direct others to any site or page, post, blog or other social medium site where there are posted any defamatory or offensive comments about Franchisor, franchisees, the Taco Time brand, Franchisor's other brands, franchisees' customers, vendors, or any of Franchisor's competitors; and

(iii) an immediate cure period (less than twenty-four (24) hours will apply if you post any content to a social medium site in which the content includes, without limitation, any inappropriate public displays of affection, Franchisor's or others' confidential information or materials, violations of health or safety standards, foul or obscene language, or any images of or information about any persons from whom you did not obtain prior written consent to include in the content.

Notwithstanding the foregoing, if a statute in the state or municipality in which the Area Representative is located, or any statute within the Territory, requires application of that state or municipal law, and that statute requires a cure period for the applicable default which is longer than any cure period specified in this Article 15, the statutory cure period will apply.

(c) Termination Upon Expiration of Cure Period – If a default under this Agreement is not cured within any time period allowed for the cure of the default, termination of this Agreement will occur without further notice to Area Representative upon the expiration of such cure period.

## **16. Rights and Obligations of the Parties upon Expiration or Termination.**

(a) Upon expiration or termination of this Agreement for any reason:

(i) Area Representative will forfeit to Franchisor all fees paid by Area Representative to Franchisor, except as expressly set forth in Section 3(u)(iii) of this Agreement.

(ii) All goodwill associated with Area Representative's operations is, and will be, the property of Franchisor, and Area Representative will receive no payment therefor.

(iii) Area Representative must promptly return to Franchisor Franchisor's Area Representative Operating Manual, all training materials and all other property of Franchisor (including all materials relating to the Service Marks, the Copyrights, the Innovations or the Proprietary Information), other than documents and materials provided under any Franchise Agreement between Franchisor and Area Representative that is then in effect.

(iiiv) Area Representative must immediately refrain from marketing Franchises and acting on Franchisor's behalf in connection with his communications with Franchisees and all other persons.

(iv) Area Representative will receive no further payments pursuant to Section 8.

(vi) Area Representative must pay to Franchisor, within 10 days of expiration or termination of this Agreement, all amounts outstanding to Franchisor or its Affiliates from Area Representative or his Affiliates.

(b) Upon any breach by Area Representative of any of the terms of this Agreement, Franchisor may institute and prosecute proceedings, at law or in equity, in any court of competent jurisdiction, to obtain an injunction to enforce the provisions of this Agreement and to pursue any other remedy to which Franchisor may be entitled. Area Representative agrees that the rights conveyed by this Agreement are of a unique and special nature and that Franchisor's remedy at law for any breach would be inadequate and agrees and consents that temporary or permanent injunctive relief may be granted in any proceeding that may be brought to enforce any provision of this Section 16, without the necessity of posting bond therefor or proof of actual damages.

## 17. No Representations, Etc.

Area Representative warrants, represents and acknowledges that:

(a) Except for any representation or warranty contained in the Taco Time FDD and any supplemental franchise performance representations, if any, there have been no representations, forecasts, inducements, projections, warranties or statements made by Franchisor or any of its salesmen, officers, directors, employees, or others, including but not limited to, franchise or Area Representative Business sales, profits and/or growth potential nor has Area Representative relied upon any representations, forecasts, inducements, projections, warranties or statements made by any entity involved in this transaction;

(b) Area Representative has made an independent decision to enter into this transaction and to consult with and receive the advice of counsel, and that it has not been induced by any promise or commitment not contained herein. This is the entire agreement of the parties hereto;

(c) No other salesman, staff member, entity, or associate of Franchisor has met Area Representative regarding this area representative sale or the offer and acceptance thereof;

(d) Area Representative acknowledges and agrees that it and its salesmen (called “**Franchise Sales Associates**”) now existing or hereinafter existing are not the agents of Franchisor nor may they bind Franchisor unless agreed to in writing by Franchisor. Franchise Sales Associates are individuals who are involved as franchise sales persons/representatives on behalf of the Franchisor. They are not the agents of the Franchisor nor are they authorized to enter into any contracts, agreements, understandings, or modifications of any agreement between the Area Representative herein or any other franchisee and the Franchisor or on behalf of any subsidiary, affiliate, or other entity associated with the Franchisor. With respect to the franchise sales process, Franchise Sales Associates are authorized to disseminate information approved in writing by the Franchisor. Franchise Sales Associates are not authorized nor is there any intention to grant any apparent authority to do anything other than to assist Franchisor in the sale of Taco Time franchises in the Territory for the Franchisor in accordance with applicable laws, rules and regulations;

(e) Except for any supplemental franchise performance representation, if any, there have been no representations, warranties, inducements, pro formas, forecasts, estimates or any other inducement or statement made by any salesperson associated with Franchisor or Franchisor or its agents, salesmen, directors, officers, employees or any other salesmen or other person or entity regarding financing, net profits, gross profits, net sales, gross sales, costs or expenses of Taco Time stores generally or of any specific Taco Time store nor has the Area Representative relied upon any representations, warranties, inducements, pro formas, forecasts, estimates or any other inducement or statement made by Franchisor or its agents, directors, officers, employees or salesmen or other associates or any other area representative or any of Area Representatives agents, directors, officers, employees or salesmen or other associates, regarding financing, net profits, gross profits, net sales, gross sales, costs or expenses of Taco Time stores generally or of



2. Area Representative is fully informed as to all of Area Representative's obligations, and of Franchisor's obligations as set forth in this Agreement.

YES      NO \_\_\_\_\_  
(Initial)

3. Area Representative has only had contact, negotiations and/or discussions with [INSERT SALES REPRESENTATIVE'S NAME], and no others regarding the offer and acceptance of this Agreement.

YES      NO \_\_\_\_\_  
(Initial)

4. Except for the salesperson(s) and executives identified in item (3) above, no other salesman, staff member, entity or associate of Franchisor met the Area Representative regarding this Area Representative Agreement or the offer and acceptance of this Agreement.

YES      NO \_\_\_\_\_  
(Initial)

5. Area Representative acknowledges that Franchisor, its salesperson(s), any of their agents, salesmen, directors, officers or employees or any other salesperson(s), person or entity have not made, nor has Area Representative relied on any representations (other than any supplemental financial performance representations, if any), warranties, inducements, pro formas, forecasts, estimates or any other inducements or statements regarding area representative business financing, area representative business net profits, area representative gross profits, area representative business net sales, area representative business gross sales, area representative business costs or expenses, generally or specifically or with respect to any other material fact relating to the development of Taco Time locations in the Territory during the Term of this Agreement or any other matter pertaining to Franchisor, any Area Representative, the Taco Time chain or any other matter not set forth herein.

YES      NO \_\_\_\_\_  
(Initial)

6. Area Representative acknowledges that Franchisor's salesperson(s) and/or executives identified in item (3) above or any other entity have not made any other agreement or understanding with Area Representative or any of its stockholders or members except as is set forth in this Agreement.

YES      NO \_\_\_\_\_  
(Initial)

7. Area Representative understands that in entering into this Agreement, Franchisor is relying upon Area Representative's acknowledgments, representations and commitments as stated in this Section.

YES      NO \_\_\_\_\_  
(Initial)

8. Area Representative acknowledges that any and all Taco Time locations already open in the Territory as of the Effective Date of this Agreement and those locations identified on Exhibit B hereto that are already sold (but not yet open) or being negotiated by Franchisor for Taco Time locations to be opened in the Territory after the Effective Date of this Agreement are in no way covered by or made a part of this Agreement, and Area Representative is not entitled to any share of the Initial Franchise Fees, Continuing Royalty Fees, Assignment Fees, or franchise renewal fees generated from these locations within the Territory, nor do any of these pre-existing locations or identified locations count towards Area Representative's development obligations under Exhibit C of this Agreement.

YES      NO \_\_\_\_\_  
(Initial)

9. Area Representative acknowledges and agrees to keep all of the terms and conditions of this Area Representative Agreement confidential, and to not disclose any of the contents and specific terms of this Agreement to any third party, including any other potential or existing Area Representative of Franchisor, except (i) as necessary to perform Area Representative's duties under this Agreement, (ii) as required by law or by any legal proceedings or similar process, or (iii) to its own accountants and attorneys.

YES      NO \_\_\_\_\_  
(Initial)

10. Area Representative understands, acknowledges, and agrees that this Agreement ***does not grant*** Area Representative any development rights of any kind in Kahala Corp.'s fourteen other retail food concepts (i.e., Rollerz, Ranch One, Samurai Sam's, Surf City Squeeze, Cold Stone Creamery, Frullati Cafe & Bakery, Johnnie's New York Pizzeria, Blimpie, NrGize Lifestyle Cafe, Cereality, Great Steak & Potato, America's Taco Shop, Kahala Coffee Traders, and Pizza Fresh Take•N•Bake).

YES      NO \_\_\_\_\_  
(Initial)

**"NO" ANSWERS EXPLAINED HERE:**

**18. Currency.** Unless otherwise directed by Franchisor in writing, all amounts contemplated by this Agreement will be paid in United States Dollars and deposited in the bank account specified by the recipient. Computation of any amounts to be paid that require conversion between currencies will be made at the selling rate for United States Dollars quoted by Franchisor's primary bank on the date on which payment is made. Area Representative will pay all costs of currency exchange.

**19. Survival.** Notwithstanding anything contained in this Agreement to the contrary, the provisions of this Agreement that may affect the parties' rights and obligations after the expiration or termination of this Agreement will survive the expiration and termination of this Agreement.

**20. Relationship of the Parties.**

(a) Area Representative will be an independent contractor, and nothing contained in this Agreement will be construed to create or imply a fiduciary relationship between the parties, nor to make either party a general or specific agent, legal representative, employee, joint venturer, partner or servant of the other; provided, however, that Franchisor appoints Area Representative as his special agent for the particular purposes set forth in this Agreement. Area Representative is in no way authorized to sign any contract or agreement, to make any representation or warranty or to create any obligation (express or implied) on behalf of Franchisor. Area Representative will be responsible for his own taxes.

(b) Area Representative must conspicuously identify himself at the premises of his business and in all dealings with Franchisees, prospective Franchisees, lessors, contractors, suppliers, public officials and others as the owner of his own business under an Area Representative Agreement with Franchisor, and must place other notices of independent ownership on signs, forms, stationary, advertising and other materials as Franchisor may reasonably require.

**21. Provisions.** Each provision, condition and term of this Agreement is material, and a breach or violation of any of them will constitute a default of that party's obligations under this Agreement.

**22. Affiliates.** For purposes of this Agreement, the term “**Affiliate**” means any person or entity (a) that beneficially owns a 20% or greater equity interest in the other person or entity (for example, a parent company of Area Representative or an individual that owns at least a 20% interest in Area Representative), (b) whose equity interests (20% or greater) are beneficially owned by the other person or entity (for example, a subsidiary of Area Representative) or (c) whose equity interests (20% or greater) are beneficially owned by the other persons or entities who (on a cumulative basis) own a 20% or greater equity interest in the other person or entity (for example, a sister company of Area Representative).



**23. Notices.** All communications or notices required or permitted to be given or served under this Agreement must be in the English language and in writing and will be deemed to have been duly given or made if (a) delivered in person or by courier (including by Federal Express or other courier), (b) deposited in the United States mail, postage prepaid, for mailing by certified or registered mail, return receipt requested, (c) faxed, or (d) delivered by e-mail, and addressed to the address or fax number set forth in this Agreement. All communications and notices will be effective upon delivery in person or by courier to the address set forth in this Agreement, upon being deposited in the United States mail in the manner set forth above, upon being faxed in the manner set forth above or delivered by e-mail in the manner set forth above. Any party may change his or its address, fax number or e-mail address by giving notice in writing, stating his or its new address, fax number or e-mail address to the other party to this Agreement as provided in the foregoing manner.

**24. Successors and Assigns.** Subject to Section 13, which restricts Area Representative's rights to assign his rights under this Agreement, this Agreement will be binding upon and inure to the benefit of the parties and their respective assigns, legal representatives, executors, heirs and successors. Any attempt by Area Representative to assign any of his rights under this Agreement, or to delegate his obligations under this Agreement, without compliance with the terms of Section 13 will be void. Notwithstanding anything contained in this Agreement to the contrary, Franchisor may assign this Agreement, or any of its rights under this Agreement, or delegate any of its obligations under this Agreement, to a person or entity designated by it as a Master Area Representative or any other person without the consent of Area Representative or any other person.

**25. Amendment, Modification, Waiver or Deferral.**

(a) Except as set forth in this Agreement, no amendment, modification or waiver of any condition, provision or term of this Agreement will be valid or of any effect unless made in a writing specifying with particularity the nature and extent of the amendment, modification or waiver and signed by Area Representative and by Franchisor's Chief Executive Officer, President or General Counsel, or by another person designated in writing to Area Representative by one of such persons, on Franchisor's behalf.

(b) Notwithstanding anything contained in this Agreement to the contrary, Franchisor retains the right to modify and amend Franchisor's Operating Manual, Franchisor's Area Representative Operating Manual and to issue and amend rules, regulations, instructions, policies and procedures for the conduct of Area Representative's business under this Agreement from time to time, in its sole discretion, without obtaining the consent or approval of Area Representative, so long as such changes (i) do not materially alter or otherwise materially change the rights, duties, and obligations of Area Representative under this Agreement; or (ii) change the Area Representative's Compensation under Article 8.

(c) Failure on the part of any party to complain of any act or failure to act of another party or to declare another party in default, irrespective of how long the failure continues, will not constitute a waiver by that party of his or its rights under this Agreement; provided, however, that any breach or default of Franchisor will be deemed to be waived 180 days after the

occurrence of this breach or default unless Area Representative provides written notice of this breach or default to Franchisor within this 180-day period. Any waiver by any party of any default of another party will not affect or impair any right arising from any other or subsequent default.

(d) Notwithstanding anything contained in this Agreement to the contrary, at any time that Area Representative or any of his Affiliates is in breach of his obligations under this Agreement, or any other agreement between Area Representative or any of his Affiliates and Franchisor or any of its Affiliates, Franchisor (or its Affiliate) may elect to defer the performance of Franchisor's (or its Affiliate's) obligations under this Agreement or such other agreement until Area Representative's (or his Affiliate's) breach has been cured. Franchisor's (or its Affiliate's) exercise of that right will not constitute a waiver of its rights under this Agreement or such other agreement, including Franchisor's (or its Affiliate's) right to terminate this Agreement or such other agreement. In addition, Franchisor's (or its Affiliate's) exercise of that right will not serve as a basis for any claim by Area Representative (or his Affiliate) that Franchisor did not perform its obligations in a timely manner.

**26. Severable Provisions; Enforceability.** Each and every provision of this Agreement is intended to be independent of and severable from the others. If any provision, or any portion of a provision, of this Agreement is declared by a court of competent jurisdiction to be illegal, unenforceable or invalid for any reason whatsoever, that illegality, unenforceability or invalidity will not affect the validity of the remainder of this Agreement or the legality, enforceability or validity of that provision in any other jurisdiction. It is the intention and the agreement of the parties to this Agreement that the noncompetition and confidential information provisions set forth in Section 12 of this Agreement be enforceable to the maximum extent permitted by law and, to that end, understand and agree that said provisions may be limited or modified by a court of competent jurisdiction to ensure enforceability thereof.

**27. Entire Agreement.** This Agreement, **including** the other agreements contained as exhibits to Franchisor's FDD and Franchisor's Area Representative Operating Manual, contains the entire understanding and agreement of the parties with respect to the subject matter hereof and supersedes all prior agreements and understandings between the parties with respect to that subject matter. Each of the other agreements contained as exhibits to Franchisor's FDD and Franchisor's Area Representative Operating Manual is incorporated in this Agreement by this reference and constitutes a part of this Agreement. Nothing in this Agreement or in any related agreement is intended to disclaim the representations we made in the Franchise Disclosure Document.

**28. Terminology.** All references in this Agreement to the term "including" means "including, without limitation." All references in this Agreement to the term "entity" include, among other things, a trust. Unless expressly provided to the contrary, any reference in this Agreement to Franchisor's discretion or judgment means Franchisor's sole and absolute discretion or judgment, and any determination (such as approval or consent), decision or judgment required or permitted to be taken or given by Franchisor will be subject to Franchisor's sole and absolute discretion. All references in this Agreement to the term "person" means an individual, corporation, partnership, limited liability company or other entity. All captions,

headings or titles in the paragraphs or sections of this Agreement are inserted for convenience of reference only and do not constitute a part of this Agreement or a limitation of the scope of the particular paragraph or section to which they apply. All personal pronouns used in this Agreement, whether used in the masculine, feminine, or neuter gender, will, where appropriate, include all other genders and the singular will include the plural and vice versa.

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

**30. Applicable Law and Forum; Waiver of Jury; Statute of Limitations.** Except to the extent that the United States Trademark Act of 1946, as amended (15 U.S.C., § 1051 et seq.) or the franchising laws of any state that may be applicable, the laws of the State of Arizona govern all rights and obligations of the parties under this Agreement. Franchisor and Franchisee agree that any appropriate state or federal court located in Maricopa County, Phoenix, Arizona has exclusive jurisdiction over any case or controversy arising under or in connection with this Agreement and is the proper forum in which to adjudicate the case or controversy; provided, however, that notwithstanding the foregoing any action initiated by Franchisor may, at Franchisor's election, be brought in any jurisdiction where Franchisee is domiciled or that has jurisdiction over Franchisee. The parties hereto irrevocably submit to the jurisdiction of any such court. THE PARTIES AGREE THAT ALL DISPUTES ADMITTED TO THE COURT PURSUANT TO THIS SECTION SHALL BE TRIED TO THE COURT SITTING WITHOUT A JURY, NOTWITHSTANDING ANY STATE OR FEDERAL CONSTITUTIONAL OR STATUTORY RIGHTS OR PROVISIONS.

Notwithstanding anything contained in this Agreement to the contrary, the parties agree that any claims by Area Representative under, arising out of, or related, this Agreement must be brought by Area Representative within one (1) year of the date on which the underlying cause of action accrued, and Area Representative hereby waives any right to bring any such action after such one-year period.

**31. Attorneys' Fees.** In the event of any Event of Default, or if any claim, controversy or dispute arising out of or relating to this Agreement, any the breach thereof, or the parties' relationship, Area Representative must pay to Franchisor all damages, costs and expenses, including all late fees, collection fees, interest and Franchisor's reasonable investigation and attorneys' fees and costs incurred in connection with any proceeding or as a result of any breach by Area Representative or Event of Default, as well as the costs of any experts and investigation relating thereto. Nothing herein in any way restricts Franchisor's right to recover monetary damages, injunctive relief and/or any and all other remedies available to Franchisor, in addition to its attorneys' fees and costs. All such interest, damages, costs and expenses may be included in and form part of the judgment awarded to Franchisor in any proceeding between the parties.

**32. Third Party Beneficiaries.** No Franchisee will be a third party beneficiary of the parties' respective rights and obligations under this Agreement.

**33. Remedies Cumulative.** The remedies of the parties under this Agreement are cumulative and will not exclude any other remedies to which any party may be lawfully entitled.

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

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

**36. Computation of Time.** Whenever the last day for the exercise of any privilege or discharge of any duty under this Agreement falls upon Saturday, Sunday or any legal holiday under Arizona law, the party having that privilege or duty will have until 5:00 p.m., Phoenix, Arizona time, on the next succeeding regular business day to exercise that privilege or to discharge that duty.

**37. Authority.** Any individual signing below on behalf of a corporation, partnership, limited liability company or other entity personally represents that he has full authority to bind the party or parties on whose behalf he is signing.

**38. Acknowledgements.** Area Representative acknowledges that it has conducted an independent investigation of the business authorized under this Agreement and recognizes that that business venture involves business risks and that his success will be largely dependent upon the ability of Area Representative as an independent businessperson. Franchisor expressly disclaims the making of, and Area Representative expressly acknowledges that it has not received, any warranty or guarantee, express or implied, as to the potential volume, profits or success of that business venture.

**39. Executive Order 13224.** To enable Franchisor to comply with U.S. Executive Order 13224, Franchisee hereby represents and warrants to Franchisor that neither Franchisee, nor any of his equity owners, directors, officers, employees, representatives and agents (collectively, the “**Included People**”), (a) is, or is owned or controlled by, a “suspected terrorist,” as defined in Executive Order 13224 and (b) to the best of Franchisee’s knowledge, has any of the Included People been designated a “suspected terrorist,” as defined in Executive Order 13224.

**[SIGNATURES ON NEXT PAGE]**



CONSENT OF SPOUSE

The undersigned is the spouse of the Area Representative identified in the Area Representative Agreement, dated as of \_\_\_\_\_, between his or her spouse and Kahala Franchising, L.L.C. (the “**Agreement**”), to which this Consent of Spouse is attached.

The undersigned hereby declares that he or she has read the Agreement in its entirety and, being fully convinced of the wisdom and equity of the terms of the Agreement, and in consideration of the premises and of the provisions of the Agreement, the undersigned hereby expresses his or her acceptance of the same and does agree to its provisions.

The undersigned further agrees that in the event of the death of his or her spouse, the provisions of this Agreement will be binding upon him or her.

The undersigned further agrees that he or she will at any time make, execute and deliver such instruments and documents that may be necessary to carry out the provisions of the Agreement.

This instrument is not a present transfer or release of any rights that the undersigned may have in any of the community property of his or her marriage.

DATED \_\_\_\_\_

\_\_\_\_\_  
(Signature of Spouse)

\_\_\_\_\_  
(Print Name of Spouse)

**Exhibit A**  
**Territory**

## **Exhibit B**

**List to be Provided of all Taco Time locations in Territory that Area Representative shall not service and shall receive on Royalty Fee Compensation.**



## Exhibit C

### Business Plan

SALES STATISTICS AND GOALS					
	This Year Actual	Next Year Goal	Next Year Actual	Variance to Goal	This year National Avg
<b>SSS%</b>					
<b>Weekly AUV</b>					
<b>Check Avg</b>					
_____ AUV					
_____ % to Net					
_____ %					
_____ %					
<b>Beverage AUV</b>					
<b>Additional Goals for Next Year</b>					
Increase SSS and/or AUV by			%	\$	
_____ Sales % to Net and Weekly AUV			%	\$	
Additional Goals:					
OPERATIONAL MARKET STATISTICS AND GOALS					
	This Year Actual	Next Year Goal	Next Year Actual	Variance to Goal	This Year National Avg
<b>Complaint Rating</b>					
<b>QSCE Average</b>					
<b>OEI Average</b>					
	Actual % This Year		Actual % Next Year	Variance to PY	This Year National Avg
<b>OOO Legal</b>	%		%	%	%
<b>OOO QSCE</b>	%		%	%	%
<b>Total OOO</b>	%		%	%	%
<b>Additional Goals for Next Year</b>					
Reduce Complaint Rating to _____ per \$100,000 in sales.					
Maintain Average QSCE Scores of _____ or above.					
Maintain 100% compliance on _____ Requirements.					
Insure 100% compliance on all National Marketing Programs, measure results of FSI's.					
Additional Goals:					


<b>INITIATIVES</b>
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Stack Rank – Top 1/3 – Bottom 1/3 – proactively identify Bottom 1/3
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Develop/Implement Action Plans for Bottom 1/3
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Introduce Profitability Initiatives – Prime Pay, My Profit Keeper to                      store(s).
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Additional Goals:
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<b>MARKET STRENGTHS</b>
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<b>MARKET OPPORTUNITIES</b>
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Effective Date - Effective Date

Plus 365 days (the "1st year") \_\_\_ outlets (\_\_\_ cumulative total in the Territory)

2nd year \_\_\_ outlets (\_\_\_ cumulative total in the Territory)

3rd year \_\_\_ outlets (\_\_\_ cumulative total in the Territory)

4th year \_\_\_ outlets (\_\_\_ cumulative total in the Territory)

5th year \_\_\_ outlets (\_\_\_ cumulative total in the Territory)

6th year \_\_\_ outlets (\_\_\_ cumulative total in the Territory)

7th year \_\_\_ outlets (\_\_\_ cumulative total in the Territory)

8th year \_\_\_ outlets (\_\_\_ cumulative total in the Territory)

9th year \_\_\_ outlets (\_\_\_ cumulative total in the Territory)

10th year \_\_\_ outlets (\_\_\_ cumulative total in the Territory)

During the Term of this Agreement, if any of the opened Taco Time outlets in the Territory close or cease to operate as a Taco Time outlet, Area Representative shall cause a replacement Taco Time outlet to open within one year from the date of any such closing or within one year from the cessation of operation of the former Taco Time outlet in order for Area Representative to maintain the above cumulative total of open Taco Time outlets in the Territory.

Any Taco Time franchise locations owned and operated by Area Representative in the Territory prior to the execution of this Agreement do *not* count toward Area Representative's minimum market development obligation set forth above. Additionally, all Taco Time locations already open in the Territory as of the Effective Date of this Agreement and those locations identified on Exhibit A hereto that are already sold (but not yet open) or being negotiated by Franchisor for Taco Time locations to be opened in the Territory after the Effective Date of this Agreement also do *not* count toward Area Representative's minimum market development obligations set forth above.

Notwithstanding anything to the contrary contained herein, in the event Area Representative fails to comply with its development schedule as described in this Exhibit C, this Agreement shall be terminated and Area Representative shall lose its exclusive rights granted herein at the end of the calendar year that Area Representative failed to meet its obligations under the development schedule.

If Area Representative fails to meet its development schedule, Franchisor may develop the Territory itself, or through others by the sale of another Area Representative Agreement, or otherwise.

**Exhibit D**

**State Specific Addendums (applicable only for the following states: California, Georgia, Hawaii, Illinois, Indiana, Maryland, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Washington, and Wisconsin)**

**RIDER TO AREA REPRESENTATIVE AGREEMENT  
FOR CALIFORNIA RESIDENTS ONLY AND  
AREA REPRESENTATIVES WHOSE TERRITORIES WILL BE OPERATED IN  
CALIFORNIA ONLY**

**AGREEMENT**, dated as of the date set forth at the end of this Agreement, by and between **KAHALA FRANCHISING, L.L.C.**, an Arizona limited liability company (“Franchisor”), and the Area Representative identified at the end of this Agreement (“Area Representative”).

That certain Area Representative Agreement, dated as of the date hereof, by and between Franchisor and Area Representative, is amended as follows:

1. If any of the provisions of the Agreement concerning termination are inconsistent with either the California Franchise Relations Act or with the Federal Bankruptcy Code (concerning termination of the Agreement on certain bankruptcy-related events), then such laws will apply.
2. The Agreement requires that it be governed by Arizona law. This requirement may be unenforceable under California law.
3. If the Area Representative resides in the State of California or the Territory is located within the State of California, the venue for any dispute may be within the State of California.
4. Each provision of this Rider will be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the California law applicable to the provision are met independently without reference to this Rider.

The undersigned does hereby acknowledge receipt of this Rider.

**IN WITNESS WHEREOF**, the parties have executed this Agreement, or caused this Agreement to be executed, as of \_\_\_\_\_.

**Kahala Franchising, L.L.C.**

**Name of Area Representative:**

\_\_\_\_\_

Executed by:

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

\_\_\_\_\_  
(Sign Name)

Name:

Title:

\_\_\_\_\_  
(Print Name)

**RIDER TO AREA REPRESENTATIVE AGREEMENT  
FOR GEORGIA RESIDENTS ONLY AND  
AREA REPRESENTATIVES WHOSE TERRITORIES WILL BE OPERATED IN  
GEORGIA ONLY**

AGREEMENT, dated as of the date set forth at the end of this Agreement, by and between KAHALA FRANCHISING, L.L.C., an Arizona limited liability company (“Franchisor”), and the Area Representative identified at the end of this Agreement (“Area Representative”).

That certain Area Representative Agreement, dated as of the date hereof, by and between Franchisor and Area Representative, is amended as follows:

Section 12(c) “Confidentiality; Restriction on Hiring; Covenant Not to Compete,” shall be deleted in its entirety and replaced with the following:

(c) Area Representative may not, during the term of this Agreement and for the two-year period after the expiration or termination of this Agreement for any reason, directly or indirectly (as an owner, partner, director, officer, employee, manager, consultant, shareholder, representative, agent, lender or otherwise), be engaged in a business that:

(i) Manufactures, produces, markets or sells Mexican-style fast food within, or for consumption within, a 10-mile radius of any of the Taco Time restaurant located on the attached Exhibit “A”;

(ii) Intentionally deleted;

(iii) Intentionally deleted;

(iv) Intentionally deleted; or

(v) Solicits prospective licensees or franchisees or offers or sells licenses or franchises to market or sell Mexican-style fast food within, a 10-mile radius of any of the Taco Time restaurant located on the attached Exhibit “A”

**IN WITNESS WHEREOF**, the parties have executed this Agreement, or caused this Agreement to be executed, as of \_\_\_\_\_.

**Kahala Franchising, L.L.C.**

**Name of Area Representative:**

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

Name:

Title:

\_\_\_\_\_  
**Executed by:**

\_\_\_\_\_  
(Sign Name)

\_\_\_\_\_





**RIDER TO AREA REPRESENTATIVE AGREEMENT  
FOR HAWAII RESIDENTS ONLY AND  
AREA REPRESENTATIVES WHOSE TERRITORIES WILL BE OPERATED IN  
HAWAII ONLY**

**AGREEMENT**, dated as of the date set forth at the end of this Agreement, by and between **KAHALA FRANCHISING, L.L.C.**, an Arizona limited liability company (“Franchisor”), and the Area Representative identified at the end of this Agreement (“Area Representative”).

That certain Area Representative Agreement, dated as of the date hereof, by and between Franchisor and Area Representative, is amended as follows:

1. Articles 13 and 14 of the Agreement as they relate to transfers and termination are only applicable if they are not inconsistent with the Hawaii Franchise Investment Law. Otherwise, the Hawaii Franchise Investment Law will control.
2. Section 15(a)(iv) of the Agreement permits us to terminate the Agreement on the bankruptcy of you and/or your affiliates. This Section may not be enforceable under federal bankruptcy law. (11 U.S.C. §101, et seq.).
3. Section 482E-3(a) of the Hawaii Franchise Investment Law requires Area Representative to receive the Disclosure Document at least 7 calendar days prior to signing the Agreement.
4. Each provision of this Rider will be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Hawaii Franchise Investment Law are met independently without reference to this Rider.

The undersigned does hereby acknowledge receipt of this Rider.

**IN WITNESS WHEREOF**, the parties have executed this Agreement, or caused this Agreement to be executed, as of \_\_\_\_\_.

**Kahala Franchising, L.L.C.**

**Name of Area Representative:**

\_\_\_\_\_

Executed by:

\_\_\_\_\_  
(Sign Name)

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

Name:

Title:

\_\_\_\_\_  
(Print Name)

**RIDER TO AREA REPRESENTATIVE AGREEMENT  
FOR ILLINOIS RESIDENTS ONLY AND  
AREA REPRESENTATIVES WHOSE TERRITORIES WILL BE OPERATED IN  
ILLINOIS ONLY**

**AGREEMENT**, dated as of the date set forth at the end of this Agreement, by and between **KAHALA FRANCHISING, L.L.C.**, an Arizona limited liability company (“Franchisor”), and the Area Representative identified at the end of this Agreement (“Area Representative”).

That certain Area Representative Agreement, dated as of the date hereof, by and between Franchisor and Area Representative, is amended as follows:

1. Article 15 of the Agreement is supplemented by the addition of the following, which will be considered an integral part of the Agreement:

“If any of the provisions of this Article 15 concerning termination are inconsistent with Section 19 of the Illinois Franchise Disclosure Act of 1987, Illinois law will apply.”

2. Sections 30(a) and (b) of the Area Representative Agreement will be revised to read as follows:

“(a) This Agreement will be governed by, and construed and enforced in accordance with, the law of Illinois, regardless of any conflict-of-law provisions to the contrary.

“(b) Each party agrees that any litigation between the parties will be commenced and maintained in the courts located in the county in Illinois in which Area Representative’s principal business office is located, and each party consents to the jurisdiction of those courts.”

3. The Illinois Franchise Disclosure Act will govern the Agreement with respect to Illinois franchisees. The provisions of the Agreement concerning governing law, jurisdiction, and venue will not constitute a waiver of any right conferred on you by the Illinois Franchise Disclosure Act. Consistent with the foregoing, any provision in the Agreement which designates jurisdiction and venue in a forum outside of Illinois is void with respect to any cause of action which is otherwise enforceable in Illinois.

4. Nothing in the Agreement will limit or prevent the enforcement of any cause of action otherwise enforceable in Illinois or arising under the Illinois Franchise Disclosure Act of 1987, as amended.

5. Each provision of this Rider will be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Illinois law applicable to the provision are met independently without reference to this Rider.

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

The undersigned does hereby acknowledge receipt of this Rider.

**IN WITNESS WHEREOF**, the parties have executed this Agreement, or caused this Agreement to be executed, as of \_\_\_\_\_.

**Kahala Franchising, L.L.C.**

**Name of Area Representative:**

\_\_\_\_\_

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

Executed by:

Name:

Title:

\_\_\_\_\_

(Sign Name)

\_\_\_\_\_

(Print Name)

**RIDER TO AREA REPRESENTATIVE AGREEMENT  
FOR INIDANA RESIDENTS ONLY AND  
AREA REPRESENTATIVES WHOSE TERRITORIES WILL BE OPERATED IN  
INDIANA ONLY**

**AGREEMENT**, dated as of the date set forth at the end of this Agreement, by and between **KAHALA FRANCHISING, L.L.C.**, an Arizona limited liability (“Franchisor”), and the Area Representative identified at the end of this Agreement (“Area Representative”).

That certain Area Representative Agreement, dated as of the date hereof, by and between Franchisor and Area Representative, is amended as follows:

1. Under Articles 11 and 13 of the Agreement, you will not be required to indemnify us for any liability imposed on us as a result of your reliance on or use of procedures or products which were required by us, if such procedures were utilized by you in the manner required by us.
2. Article 30 of the Agreement is amended to provide that in the event of a conflict of law, the Indiana Franchise Disclosure Law, I.C. 23-2-2.5, and the Indiana Deceptive Franchise Practices Law, I.C. 23-2-2.7, will prevail.
3. Nothing in the Agreement will abrogate or reduce any rights you have under Indiana law.
4. Indiana Code § 23-2-2.5-9(2) requires Area Representative to receive the Disclosure Document at the earlier of: (i) 10 days prior to signing the Agreement; or (ii) 10 days prior to Kahala’s receipt of any consideration.
5. Each provision of this Rider will be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Indiana Franchise Disclosure Law, Indiana Code §§ 23-2-2.5-1 to 23-2-2.5-51, and the Indiana Deceptive Franchise Practices Act, Indiana Code §§ 23-2-2.7-1 to 23-2-2.7-10, are met independently without reference to this Rider.

The undersigned does hereby acknowledge receipt of this Rider.

**IN WITNESS WHEREOF**, the parties have executed this Agreement, or caused this Agreement to be executed, as of \_\_\_\_\_.

**Kahala Franchising, L.L.C.**

**Name of Area Representative:**

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

Executed by: \_\_\_\_\_

Name:

Title:

\_\_\_\_\_  
(Sign Name)

\_\_\_\_\_  
(Print Name)

**RIDER TO AREA REPRESENTATIVE AGREEMENT  
FOR MARYLAND RESIDENTS ONLY AND  
AREA REPRESENTATIVES WHOSE TERRITORIES  
WILL BE OPERATED IN MARYLAND ONLY**

**AGREEMENT**, dated as of the date set forth at the end of this Agreement, by and between **KAHALA FRANCHISING, L.L.C.**, an Arizona limited liability company (“Franchisor”), and the Area Representative identified at the end of this Agreement (“Area Representative”).

That certain Area Representative Agreement, dated as of the date hereof, by and between Franchisor and Area Representative, is amended as follows:

1. The general release required as a condition of renewal, sale and/or assignment/transfer will not apply to any liability under the Maryland Franchise Registration and Disclosure Law.
2. The Area Representative may bring a lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.
3. Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within three years after the grant of the Franchise.
4. All initial fees and payments payable to Kahala before the business opens shall be deferred until such time as all initial obligations owed to the Area Representative under the Agreement or other agreements have been fulfilled by Kahala and the Area Representative has commenced doing business in accordance with the Agreement.
5. All representations requiring prospective franchisees to assent to a release, estoppel or waiver of liability are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

The undersigned does hereby acknowledge receipt of this Rider.

**IN WITNESS WHEREOF**, the parties have executed this Agreement, or caused this Agreement to be executed, as of \_\_\_\_\_.

**Kahala Franchising, L.L.C.**

**Name of Area Representative:**

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

\_\_\_\_\_

Name:

Executed by:

Title:

\_\_\_\_\_  
(Sign Name)

\_\_\_\_\_  
(Print Name)

**RIDER TO AREA REPRESENTATIVE AGREEMENT FOR MINNESOTA RESIDENTS  
ONLY AND AREA REPRESENTATIVES WHOSE TERRITORIES WILL BE OPERATED IN  
MINNESOTA ONLY**

**AGREEMENT**, dated as of the date set forth at the end of this Agreement, by and between **KAHALA FRANCHISING, L.L.C.**, an Arizona limited liability company (“Franchisor”), and the Area Representative identified at the end of this Agreement (“Area Representative”).

1. That certain Area Representative Agreement, dated as of the date hereof, by and between Franchisor and Area Representative, is amended as follows:

- a. Minnesota Statutes, Section 80C.21 and Minnesota Rules 2860.4400(J) prohibit the franchisor from requiring litigation to be conducted outside Minnesota, requiring waiver of a jury trial, or requiring the franchisee to consent to liquidated damages, termination penalties or judgment notes. In addition, nothing in the Franchise Disclosure Document or agreement(s) can abrogate or reduce (1) any of the franchisee’s rights as provided for in Minnesota Statutes, Chapter 80C or (2) franchisee’s rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.
- b. With respect to franchises governed by Minnesota law, the franchisor will comply with Minnesota Statutes, Section 80C.14, Subd. 3-5, which require (except in certain specified cases) (1) that a franchisee be given 90 days notice of termination (with 60 days to cure) and 180 days notice for non-renewal of the franchise agreement and (2) that consent to the transfer of the franchise will not be unreasonably withheld.
- c. The franchisor will protect the franchisee’s rights to use the trademarks, service marks, trade names, logotypes or other commercial symbols or indemnify the franchisee from any loss, costs or expenses arising out of any claim, suit or demand regarding the use of the name.

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

- d. Minnesota Rules 2860.4400(D) prohibits a franchisor from requiring a franchisee to assent to a general release.
- e. The franchisee cannot consent to the franchisor obtaining injunctive relief. The franchisor may seek injunctive relief. See Minn. Rules 2860.4400J.

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

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

2. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of the Minnesota law applicable to the provision are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

The undersigned does hereby acknowledge receipt of this Rider.

**IN WITNESS WHEREOF**, the parties have executed this Agreement, or caused this Agreement to be executed, as of \_\_\_\_\_

**Kahala Franchising, L.L.C.**

**Name of Area Representative:**

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

Name:

Title:

\_\_\_\_\_

**Executed by:**

\_\_\_\_\_

(Sign Name)

\_\_\_\_\_

(Print Name)



**RIDER TO AREA REPRESENTATIVE AGREEMENT  
FOR NEW YORK RESIDENTS ONLY AND  
AREA REPRESENTATIVES WHOSE TERRITORIES WILL BE OPERATED IN  
NEW YORK ONLY**

**AGREEMENT**, dated as of the date set forth at the end of this Agreement, by and between **KAHALA FRANCHISING, L.L.C.**, an Arizona limited liability company (“Franchisor”), and the Area Representative identified at the end of this Agreement (“Area Representative”).

That certain Area Representative Agreement, dated as of the date hereof, by and between Franchisor and Area Representative, is amended as follows:

1. Section 24 of the Agreement is amended to add the following:

However, we will not make any such transfer or assignment except to a person who, in our good faith judgment, is willing and able to assume our obligations under this Agreement, and all rights enjoyed by you and any causes of action arising in its favor from the provisions of Article 33 of the General Business Law of the State of New York and the regulations issued thereunder will remain in force, it being the intent of this proviso that the non-waiver provisions of General Business Law Sections 687.4 and 687.5 be satisfied.

2. Articles 11 and 13 of the Agreement are amended to add the following:

However, you will not be required to hold harmless or indemnify us for any claim arising out of a breach of this Agreement by us or any other civil wrong of us.

3. Section 25 of the Agreement is amended to add the following:

No amendment or modification of any provision of this Agreement will impose any new or different requirement which unreasonably increases your obligations or places an excessive economic burden on your operations.

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

5. Each provision of this Rider will be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the General Business Law of the State of New York are met independently without reference to this Rider.

The undersigned does hereby acknowledge receipt of this Rider.

**IN WITNESS WHEREOF**, the parties have executed this Agreement, or caused this Agreement to be executed, as of \_\_\_\_\_.

**Kahala Franchising, L.L.C.**

**Name of Area Representative:**

\_\_\_\_\_

Executed by:

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

\_\_\_\_\_  
(Sign Name)

Name:

Title:

\_\_\_\_\_  
(Print Name)

**RIDER TO AREA REPRESENTATIVE AGREEMENT  
FOR NORTH DAKOTA RESIDENTS ONLY AND  
AREA REPRESENTATIVES WHOSE TERRITORIES WILL BE OPERATED IN  
NORTH DAKOTA ONLY**

**AGREEMENT**, dated as of the date set forth at the end of this Agreement, by and between **KAHALA FRANCHISING, L.L.C.**, an Arizona limited liability company (“Franchisor”), and the Area Representative identified at the end of this Agreement (“Area Representative”).

That certain Area Representative Agreement, dated as of the date hereof, by and between Franchisor and Area Representative, is amended as follows:

1. Section 14(c) of the Area Representative Agreement is hereby deleted.
2. Section 30 of the Area Representative Agreement is subject to the following: (i) litigation may be conducted in North Dakota; (ii) North Dakota law will govern the Area Representative Agreement; and (iii) paragraph (c) will be deleted.
3. Section 14 of the Area Representative Agreement is subject to Section 9-08-06 of the North Dakota Century Code and, therefore, may be unenforceable in the State of North Dakota.
4. Section 51-19-08 of the North Dakota Franchise Investment Law requires Area Representative to receive the Disclosure Document at the earlier of: (i) seven days prior to signing the Agreement; or (ii) seven days prior to Kahala’s receipt of any consideration.
5. Each provision of this Rider will be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the North Dakota Franchise Investment Law, N.D. Cent. Code §§ 51-19-01 through 51-19-17, are met independently without reference to this Rider.

The undersigned does hereby acknowledge receipt of this Rider.

**IN WITNESS WHEREOF**, the parties have executed this Agreement, or caused this Agreement to be executed, as of \_\_\_\_\_.

**Kahala Franchising, L.L.C.**

**Name of Area Representative:**

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

\_\_\_\_\_

Name:

**Executed by:**

Title:

\_\_\_\_\_  
(Sign Name)

\_\_\_\_\_  
(Print Name)

**RIDER TO AREA REPRESENTATIVE AGREEMENT  
FOR RHODE ISLAND RESIDENTS ONLY AND  
AREA REPRESENTATIVES WHOSE TERRITORIES WILL BE OPERATED IN  
RHODE ISLAND ONLY**

**AGREEMENT**, dated as of the date set forth at the end of this Agreement, by and between **KAHALA FRANCHISING, L.L.C.**, an Arizona limited liability company (“Franchisor”), and the Area Representative identified at the end of this Agreement (“Area Representative”).

That certain Area Representative Agreement, dated as of the date hereof, by and between Franchisor and Area Representative, is amended as follows:

1. The Agreement requires that it be governed by Arizona law. To the extent that such law conflicts with Rhode Island Franchise Investment Act, it is void under Sec. 19-28.1-14.

2. Section 30 of the Agreement will each be amended by the addition of the following, which will be considered an integral part of the Agreement:

“§ 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. Section 19-28.1-8 of the Rhode Island Franchise Investment Act requires a franchisor to give you a copy of the Franchise Disclosure Document at the earlier of: (i) the first personal meeting; (ii) 10 business days before the execution of the Agreement; or (iii) 10 business days before the payment of any consideration that relates to the franchise relationship.

4. Each provision of this Rider will be effective only to the extent, with respect to such provision, that the jurisdictional requirements of Rhode Island Franchise Investment Act, §§ 19-28-1.1 through 19-28.1-34, are met independently without reference to this Rider.

The undersigned does hereby acknowledge receipt of this Rider.

**IN WITNESS WHEREOF**, the parties have executed this Agreement, or caused this Agreement to be executed, as of \_\_\_\_\_.

**Kahala Franchising, L.L.C.**

**Name of Area Representative:**

\_\_\_\_\_

Executed by:

\_\_\_\_\_  
(Sign Name)

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

Name:

Title:

\_\_\_\_\_  
(Print Name)

**RIDER TO AREA REPRESENTATIVE AGREEMENT  
FOR SOUTH DAKOTA RESIDENTS ONLY AND  
AREA REPRESENTATIVES WHOSE TERRITORIES WILL BE OPERATED IN  
SOUTH DAKOTA ONLY**

**AGREEMENT**, dated as of the date set forth at the end of this Agreement, by and between **KAHALA FRANCHISING, L.L.C.**, an Arizona limited liability company (“Franchisor”), and the Area Representative identified at the end of this Agreement (“Area Representative”).

That certain Area Representative Agreement, dated as of the date hereof, by and between Franchisor and Area Representative, is amended as follows:

1. If the Agreement requires litigation to be conducted in a forum other than the State of South Dakota, the requirement is void with respect to any cause of action otherwise enforceable under South Dakota Law.
2. If the Agreement requires that disputes between Kahala and Area Representative be mediated/arbitrated at a location that is outside the State of South Dakota, the mediation/arbitration will be conducted at a location mutually agreed upon by the parties. If the parties cannot agree on location for the mediation/arbitration, the location shall be determined by the mediator/arbitrator selected.
3. Each provision of this Amendment shall be effective only to the extent that the jurisdictional requirements of the South Dakota Franchise Investment Law, with respect to each such provision, are met independent of this Amendment. This Amendment shall have no force or effect if such jurisdictional requirements are not met.

The undersigned does hereby acknowledge receipt of this Rider.

**IN WITNESS WHEREOF**, the parties have executed this Agreement, or caused this Agreement to be executed, as of \_\_\_\_\_.

**Kahala Franchising, L.L.C.**

**Name of Area Representative:**

\_\_\_\_\_

Executed by:

\_\_\_\_\_  
(Sign Name)

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

Name:

Title:

\_\_\_\_\_  
(Print Name)

**RIDER TO AREA REPRESENTATIVE AGREEMENT  
FOR VIRGINIA RESIDENTS ONLY AND  
AREA REPRESENTATIVES WHOSE TERRITORIES WILL BE OPERATED IN  
VIRGINIA ONLY**

**AGREEMENT**, dated as of the date set forth at the end of this Agreement, by and between **KAHALA FRANCHISING, L.L.C.**, an Arizona limited liability company (“Franchisor”), and the Area Representative identified at the end of this Agreement (“Area Representative”).

That certain Area Representative Agreement, dated as of the date hereof, by and between Franchisor and Area Representative, is 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 grounds for default or termination stated in the Area Representative 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.

The undersigned does hereby acknowledge receipt of this Rider.

**IN WITNESS WHEREOF**, the parties have executed this Agreement, or caused this Agreement to be executed, as of \_\_\_\_\_.

**Kahala Franchising, L.L.C.**

**Name of Area Representative:**

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

\_\_\_\_\_

Name:

Title:

**Executed by:**

\_\_\_\_\_  
(Sign Name)

\_\_\_\_\_  
(Print Name)

**RIDER TO AREA REPRESENTATIVE AGREEMENT  
FOR WASHINGTON RESIDENTS ONLY AND  
AREA REPRESENTATIVES WHOSE TERRITORIES WILL BE OPERATED IN  
WASHINGTON ONLY**

**AGREEMENT**, dated as of the date set forth at the end of this Agreement, by and between **KAHALA FRANCHISING, L.L.C.**, an Arizona limited liability company (“Franchisor”), and the Area Representative identified at the end of this Agreement (“Area Representative”).

That certain Area Representative Agreement, dated as of the date hereof, by and between Franchisor and Area Representative, is amended as follows:

1. Article 15 of the Agreement regarding termination of the Agreement is effective only to the extent that it is not inconsistent with the Washington Franchise Investment Protection Act.
2. Section 30 of the Agreement states that the Agreement will be governed by Arizona law. Such requirement will be amended to state that in the event of a conflict of law, the Washington Franchise Investment Protection Act will prevail.
3. Section 30 of the Agreement will be amended to add that any claim or right arising under the Washington Franchise Investment Protection Act may be brought in the appropriate state or federal court in the State of Washington. In any arbitration involving a franchise purchased in Washington, the arbitration site shall be either in Washington or in a place as mutually agreed upon at the time of the arbitration, or as determined by the arbitrator.
4. Washington Franchise Investment Protection Act, Wash. Rev. Code § 19.100.080 requires Area Representative to receive the Disclosure Document at the earlier of: (i) 10 business days prior to signing the Agreement; or (ii) 10 business days prior to Kahala’s receipt of any consideration.
5. Each provision of this Rider will be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Washington Franchise Investment Protection Act, Wash. Rev. Code §§ 19.100.010 through 19.100.940, are met independently without reference to this Rider. If any of the provisions in the Disclosure Document or Area Representative Agreement are inconsistent with the relationship provisions of RCW 19.100.180 or other requirements of the Washington Franchise Investment Protection Act, the provisions of the Act will prevail over the inconsistent provisions of the Disclosure Document or Area Representative Agreement with regard to any franchise sold in Washington.

The undersigned does hereby acknowledge receipt of this Rider.

**IN WITNESS WHEREOF**, the parties have executed this Agreement, or caused this Agreement to be executed, as of \_\_\_\_\_.

**Kahala Franchising, L.L.C.**

**Name of Area Representative:**

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

Name:

Title:

\_\_\_\_\_

**Executed by:**

\_\_\_\_\_  
(Sign Name)

\_\_\_\_\_  
(Print Name)



**RIDER TO AREA REPRESENTATIVE AGREEMENT  
FOR WISCONSIN RESIDENTS ONLY AND  
AREA REPRESENTATIVES WHOSE TERRITORIES WILL BE OPERATED IN  
WISCONSIN ONLY**

**AGREEMENT**, dated as of the date set forth at the end of this Agreement, by and between **KAHALA FRANCHISING, L.L.C.**, an Arizona limited liability company (“Franchisor”), and the Area Representative identified at the end of this Agreement (“Area Representative”).

That certain Area Representative Agreement, dated as of the date hereof, by and between Franchisor and Area Representative, is amended as follows:

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

a. The Wisconsin Fair Dealership Law, among other things, grants You the right, in most circumstances, to 90 days’ prior written notice of non-renewal and 60 days within which to remedy any claimed deficiencies. If the Agreement contains a provision that is inconsistent with the Wisconsin Fair Dealership Law, the provisions of the Agreement shall be superseded by the Law’s requirements and shall have no force or effect.

b. The Wisconsin Fair Dealership Law, among other things, grants You the right, in most circumstances, to 90 days’ prior written notice of termination and 60 days within which to remedy any claimed deficiencies. If the Agreement contains a provision that is inconsistent with the Wisconsin Fair Dealership Law, the provisions of the Agreement shall be superseded by the Law’s requirements and shall have no force or effect.

c. If the Agreement requires that it be governed by a state’s law, other than the State of Wisconsin, to the extent that any provision of the Agreement conflicts with the Wisconsin Fair Dealership Law such provision shall be superseded by the law’s requirements.

2. Each provision of this Rider shall be effective only to the extent that the jurisdictional requirements of the Wisconsin law applicable to the provision are met independent of this Rider. This Rider shall have no force or effect if such jurisdictional requirements are not met.

The undersigned does hereby acknowledge receipt of this Rider.

**IN WITNESS WHEREOF**, the parties have executed this Agreement, or caused this Agreement to be executed, as of \_\_\_\_\_.

**Kahala Franchising, L.L.C.**

**Name of Area Representative:**

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

Name:

Title:

\_\_\_\_\_  
**Executed by:**

\_\_\_\_\_  
(Sign Name)

\_\_\_\_\_  
(Print Name)

**Exhibit E**

**Amendment to Area Representative Agreement (Renewal) (applicable only for the renewal of an existing area representative agreement)**

**AMENDMENT TO AREA REPRESENTATIVE AGREEMENT  
(Renewal)**

THIS AMENDMENT (the “Amendment”) dated \_\_\_\_\_, 20\_\_\_, to the Area Representative Agreement dated \_\_\_\_\_, 20\_\_\_ for Taco Time (the “Area Representative Agreement” or “Agreement”) by and between Kahala Franchising, L.L.C., an Arizona limited liability company (“Franchisor”) and \_\_\_\_\_ (“Area Representative”), is entered into by such parties to amend the Agreement as set forth herein. To the extent this Amendment contains terms and conditions that differ from those contained in the Agreement, this Amendment shall control. The parties agree that a concept or principle provided in one Section of this Amendment shall apply and be incorporated into all other provisions of the Area Representative Agreement in which the concept or principle is also applicable, notwithstanding the absence of any specific cross reference thereto. All capitalized terms not otherwise defined herein will have the same meanings ascribed to such terms in the Agreement.

**The following shall apply to the renewal of an Area Representative Agreement:**

1. Section 3(a)(i) “Obligations of Area Representative Generally,” shall be deleted as Area Representative has previously attended and satisfactorily completed the required Franchisee/AR Training Program.

2. Section 3(u) “Obligations of Area Representative Generally,” shall be deleted as Area Representative has previously attended and satisfactorily completed the required Franchisee/AR Training Program.

3. Section 3(mm) “Obligations of Area Representative Generally,” shall be deleted in its entirety and replaced with the following Section 3(mm): “If Area Representative signed a form of guaranty when it signed the prior area representative agreement which is being renewed under this Agreement, then Area Representative will sign that same form of guaranty when it signs this current Agreement. However, if Area Representative did not sign a form of guaranty when it signed the prior area representative agreement which is being renewed under this Agreement, then Area Representative is not required to sign a form of guaranty when it signs this current Agreement.

4. The following shall be added to the end of Section 6 “Obligations of the Franchisor,” as Section 6(j): “Any amounts payable by Franchisor to Area Representative that are not paid within thirty (30) days after their due date will bear interest at the rate of 12% per annum.”

5. Section 7 “Initial Development Fee,” shall be deleted in its entirety.

6. The following paragraph shall be added to the end of Section 11 “Indemnification,” as a second paragraph:

“Franchisor shall indemnify, hold harmless and defend Area Representative, as well as Area Representative’s subsidiaries, affiliates, shareholders, members, successors and

assigns, and each of their respective officers, directors, employees, agents and representatives, harmless from and against any and all loss, liability, claims, demands or suits (including, without limitation, reasonable attorneys' fees and expenses), either directly or indirectly, (i) which arise out of, result from or in any way connected with, the breach of any of the representations, warranties or agreements made by Franchisor in this Agreement; (ii) the alleged gross negligence or intentional conduct of Franchisor, its employees, agents, affiliates, assigns, independent contractors, officers, directors or principals; or (iii) any non-compliance with laws, ordinances, rules or regulations applicable to Franchisor's express obligations under this Agreement."

7. Section 15(a)(v) "Termination," shall be deleted as Area Representative has previously attended and satisfactorily completed the required Franchisee/AR Training Program.

8. Section 15(a)(xiii) "Termination," shall be deleted in its entirety.

9. In consideration of Franchisor's execution of this Agreement and the grant of the rights described herein, Area Representative agrees to pay to Franchisor the non-refundable Renewal Fee in the lump sum of \$\_\_\_\_\_.

10. The term of this renewal Area Representative agreement shall be ten (10) years beginning from the expiration date of the Initial Term of the original Area Representative Agreement.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Addendum to the Area Representative Agreement on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**Kahala Franchising, L.L.C.**

**Name of Area Representative**

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

Name:

Title:

\_\_\_\_\_

**Executed by:**

\_\_\_\_\_  
(Sign Name)

\_\_\_\_\_  
(Print Name)

**Exhibit F**

**Amendment to Area Representative Agreement (Transfer) (applicable only for the transfer of an existing area representative agreement)**

**AMENDMENT TO AREA REPRESENTATIVE AGREEMENT  
(Transfer)**

THIS AMENDMENT (the “Amendment”) dated \_\_\_\_\_, 20\_\_\_, to the Area Representative Agreement dated \_\_\_\_\_, 20\_\_\_ for Taco Time (the “Area Representative Agreement” or “Agreement”) by and between Kahala Franchising, L.L.C., an Arizona limited liability company (“Franchisor”) and \_\_\_\_\_ (“Area Representative”), is entered into by such parties to amend the Agreement as set forth herein. To the extent this Amendment contains terms and conditions that differ from those contained in the Agreement, this Amendment shall control. The parties agree that a concept or principle provided in one Section of this Amendment shall apply and be incorporated into all other provisions of the Area Representative Agreement in which the concept or principle is also applicable, notwithstanding the absence of any specific cross reference thereto. All capitalized terms not otherwise defined herein will have the same meanings ascribed to such terms in the Agreement.

**The following shall apply to the transfer of an Area Representative Agreement:**

1. Franchisor and Area Representative hereby acknowledge and agree in accordance with the terms of Section 3(mm) “Obligations of Area Representative Generally,” Area Representative is required to sign a form of guaranty; however, Area Representative will not be required to guaranty the lease buyout obligations under Section 8(e) of this Agreement.

2. The following shall be added to the end of Section 6 “Obligations of the Franchisor,” as Section 6(j): “Any amounts payable by Franchisor to Area Representative that are not paid within thirty (30) days after their due date will bear interest at the rate of 12% per annum.”

3. Section 7 “Initial Development Fee,” shall be deleted in its entirety.

4. Section 8(a)(ii) “Legal Expense and Sales Facilitation Fee,” shall be deleted in its entirety.

5. Section 8(a)(iii) “Training Fee,” shall be deleted in its entirety.

6. Section 8(b)(ii) “Accounting Expense Deduction,” shall be deleted in its entirety.

7. The following paragraph shall be added to the end of Section 11 “Indemnification,” as a second paragraph:

“Franchisor shall indemnify, hold harmless and defend Area Representative, as well as Area Representative’s subsidiaries, affiliates, shareholders, members, successors and assigns, and each of their respective officers, directors, employees, agents and representatives, harmless from and against any and all loss, liability, claims, demands or suits (including, without limitation, reasonable attorneys’ fees and expenses), either directly or indirectly, (i) which arise out of, result from or in any way connected with, the breach of any of the representations,

warranties or agreements made by Franchisor in this Agreement; (ii) the alleged gross negligence or intentional conduct of Franchisor, its employees, agents, affiliates, assigns, independent contractors, officers, directors or principals; or (iii) any non-compliance with laws, ordinances, rules or regulations applicable to Franchisor's express obligations under this Agreement."

8. Section 15(a)(xiii) "Termination," shall be deleted in its entirety.

9. In consideration of Franchisor's execution of this Agreement and the grant of the rights described herein, Area Representative agrees to pay to Franchisor the non-refundable Transfer Fee in the lump sum of \$\_\_\_\_\_.

10. The term of this transfer Area Representative Agreement shall be the remainder of the initial term left on the transferor's area representative agreement, or if the transferor renewed its area representative agreement for an additional ten (10) year term, then the term of this Area Representative Agreement shall be the remainder of the additional term left on the transferor's area representative agreement. The term of this agreement shall expire on \_\_\_\_\_.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Addendum to the Area Representative Agreement on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**Kahala Franchising, L.L.C.**

**Name of Area Representative**

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

Name:

Title:

\_\_\_\_\_

**Executed by:**

\_\_\_\_\_  
(Sign Name)

\_\_\_\_\_  
(Print Name)



**Exhibit G**

**Agreement to be Bound and to Guarantee**

## **AGREEMENT TO BE BOUND AND TO GUARANTEE**

AGREEMENT, dated as of the date set forth at the end of this Agreement, executed by the Principals identified in the Area Representative Agreement (each a “Guarantor”) in favor of Kahala Franchising, L.L.C. (“Kahala”).

WHEREAS, as an inducement for Kahala to execute and deliver, and to perform its obligations under, that certain Area Representative Agreement (the “Area Representative Agreement”), dated as of \_\_\_\_\_, by and between Kahala and \_\_\_\_\_ (“Area Representative”), Guarantor has agreed to jointly and severally guarantee the obligations of Area Representative under the Area Representative Agreement and have agreed to be bound by certain of the provisions contained in the Area Representative Agreement.

WHEREAS, Guarantor owns, directly or indirectly, a 5% or greater equity interest in Area Representative.

WHEREAS, Guarantor acknowledges and agree that Kahala will materially rely upon Guarantor’s obligations under this Agreement.

NOW, THEREFORE, in consideration of the foregoing premises and the execution and delivery of the Area Representative Agreement by Kahala, and the performance of Kahala’s obligations thereunder, Guarantor agrees, for the benefit of Kahala and its Affiliates (as defined in the Area Representative Agreement), as follows:

1. Guaranty. Guarantor unconditionally guarantees and promises to pay to Kahala and/or its Affiliates and to perform, for the benefit of Kahala and/or its Affiliates, on demand, any and all obligations and liabilities of Area Representative in connection with, with respect to or arising out of the Area Representative Agreement or any other agreement with Kahala or its Affiliates.

2. Confidentiality.

(a) Guarantor acknowledges that Kahala is engaged in a highly competitive business, the success of which is dependent upon, among other things, trade secrets and other confidential and proprietary information, processes, materials and rights relating to the development, promotion and operation of the Franchised Business (as defined in the Area Representative Agreement), including, without limitation, Kahala’s Operations Manuals, method of operation, processes, techniques, formulae and procedures (collectively, the “Proprietary Information”). Guarantor further acknowledges that the Proprietary Information constitutes valuable trade secrets.

(b) Guarantor agrees not to use for any purpose, or disclose or reveal (and must cause all of Area Representative’s directors, officers and employees not to use for any purpose, or disclose or reveal), during the term of this Agreement or forever thereafter, to any person any contents of Kahala’s Operations Manuals, any Proprietary Information or any other information relating to the operation of the Franchised Business. Guarantor must fully and strictly comply with all security measures prescribed by Kahala for maintaining the confidentiality of all Proprietary Information.

(c) Guarantor acknowledges that to breach his or her obligations under this Section 2 would cause damage to Kahala, Area Representative and to Kahala's other area representatives and franchisees, and that Guarantor would be liable for this damage.

(d) Notwithstanding the foregoing, Guarantor may disclose Proprietary Information to a person who is bound by the terms of this provision regarding confidentiality and a restrictive covenant contemplated by Section 12 of the Area Representative Agreement, to the extent that that disclosure is necessary in connection with that person's capacity with Area Representative.

(e) Notwithstanding the foregoing, the following will not be subject to the provisions of this Section 2:

(i) Information that is in the public domain as of the date of receipt by Area Representative;

(ii) Information that is known to Area Representative prior to the date of receipt by Area Representative;

(iii) Information that becomes known to the public without a breach of the provisions of this Section 12 or any agreement executed in connection with the Area Representative Agreement; and

(iv) Information that is required by law to be disclosed or revealed, but only strictly to the extent required by law.

### 3. Covenant Not to Compete.

(a) Guarantor may not, during the term of this Agreement and for the two-year period after the expiration or termination of this Agreement for any reason, directly or indirectly (as an owner, partner, director, officer, employee, manager, consultant, shareholder, representative, agent, lender or otherwise), be engaged in a business that manufactures, produces, markets or sells Mexican-style fast food within, or for consumption within, a 10-mile radius of any Taco Time® restaurant previously or presently owned or supervised, in whole or in part, by Area Representative or its Affiliates, or any location with respect to which Area Representative or any of its Affiliates has entered into a contract with respect to the future operation of a Taco Time® restaurant.

(b) Guarantor may not, during the term of this Agreement and for the two-year period after the expiration or termination of this Agreement for any reason, directly or indirectly (as an owner, partner, director, officer, employee, manager, consultant, shareholder, representative, agent, lender or otherwise), be engaged in a business that manufactures, produces, markets or sells Mexican-style fast food within, or for consumption within, a 10-mile radius of any Taco Time® restaurant or any location with respect to which a contract has been entered into in connection with the future operation of a Taco Time® restaurant.

(c) Guarantor may not, during the term of this Agreement and for the two-year period after the expiration or termination of this Agreement for any reason, directly or indirectly (as an owner, partner, director, officer, employee, manager, consultant, shareholder, representative, agent, lender or otherwise), be engaged in a business that manufactures, produces, markets or sells Mexican-style fast food within, or for consumption within, the United States.

(d) Guarantor may not, during the term of this Agreement and for the two-year period after the expiration or termination of this Agreement for any reason, directly or indirectly (as an owner, partner, director, officer, employee, manager, consultant, shareholder, representative, agent, lender or otherwise), be engaged in a business that manufactures, produces, markets or sells Mexican-style fast food outside of, or for consumption outside of, the United States.

(e) Guarantor may not, during the term of this Agreement and for the two-year period after the expiration or termination of this Agreement for any reason, directly or indirectly (as an owner, partner, director, officer, employee, manager, consultant, shareholder, representative, agent, lender or otherwise), be engaged in a business that solicits prospective licensees or franchisees or offers or sells licenses or franchises to market or sell Mexican-style fast food.

(f) For purposes of this Section 3, a business will be deemed to be marketing or selling Mexican-style fast food if more than 15% of its gross sales are derived from the marketing or sale of such products.

4. Restriction on Hiring. Guarantor may not, during the term of this Agreement and for the two-year period after the expiration or termination of this Agreement for any reason, directly or indirectly (as an owner, partner, director, officer, employee, manager, consultant, shareholder, representative, agent, lender or otherwise), employ, hire or engage as an independent contractor or otherwise any person who is or was (at any time during the term of this Agreement) employed or engaged as an independent contractor or otherwise by Kahala, Area Representative or any of its Affiliates.

5. Use of Name and Likeness. Kahala will be entitled to use the name, likeness and voice of Guarantor for purposes of promoting the franchise, Kahala and its products, including, without limitation, all photos and audio and video recordings, and Guarantor hereby irrevocably consents thereto. Guarantor acknowledges that Kahala will own all right, title and interest, to the extent allowed by law, in all rights of integrity, disclosure and publication and any other rights that may be known as or referred to as “moral rights,” “artist’s rights,” “publicity rights” or the like associated with such photos and audio and video recordings, and assigns and transfers unto Kahala the full and exclusive right, title, and interest to such publicity rights.

6. Innovations. Guarantor may conceive, invent, create, design and/or develop various ideas, techniques, methods, processes and procedures, recipes, formulae, products, packaging or other concepts and features relating to the manufacturing, production, marketing and sale of Mexican-style fast food and related goods in connection with the Franchised Business (the “Innovations”). Guarantor assigns any and all of its rights, title and interest in the Innovations, including, without limitation, any intellectual property rights, to Kahala, and also agrees to

cooperate with Kahala and its counsel in the protection of the Innovations, including, without limitation, the perfecting of title thereto.

7. Copyrights; Works-for-Hire; Solicitation. All advertising and promotional materials generated by or for Area Representative or its officers, managers or employees for the Franchised Business will be deemed a work-made-for-hire, and all ownership rights, including, without limitation, any copyrights, in such advertising and promotional materials are hereby assigned to Kahala. In addition, Guarantor will cooperate in the protecting any items or materials suitable for copyright protection by Kahala. Guarantor must not solicit other area representatives or franchisees, or use the lists of franchisees and area representatives, for any commercial or other purpose other than purposes directly related to the Area Representative's business. Guarantor must not engage in any business venture or activity (other than that expressly contemplated by the Area Representative Agreement), including operating Franchised Businesses, with other area representatives or franchisees without the prior approval of Kahala.

8. Guaranty of Payment. This is a guaranty of payment and not of collection. This Agreement shall remain in full force and effect until all amounts payable by Guarantor shall have been validly, finally and irrevocably paid in full and all obligations to be performed by Guarantor shall have been validly, finally and irrevocably performed in full.

9. Waiver. Guarantor hereby waives all requirements as to presentment for payment, protest, diligence and demand and notice of acceptance, default, protest, demand, dishonor and nonpayment, and all benefits and requirements of Arizona Revised Statutes Section 12-1641, *et seq.*, and Rule 17(f) of the Arizona Rules of Civil Procedure for the Superior Courts of Arizona, which set forth certain rights and obligations among guarantors, debtors and creditors, if applicable. This Agreement shall not be affected in any way by (a) the absence of any action to obtain such amounts from Area Representative or any other guarantor or indemnitor or of any recourse to any security for such amounts or (b) any extension, waiver, compromise or release of any or all of the obligations of Area Representative or any guarantor.

10. Subrogation. Guarantor hereby agrees that he will not exercise any rights of subrogation that he may acquire due to any payment or performance of the obligations of Area Representative pursuant to this Agreement unless and until all amounts payable to Kahala or its Affiliates, and all obligations for the benefit of Kahala or its Affiliates, shall have been validly, finally and irrevocably paid and performed in full.

11. Reasonable Restraints; Remedies. Guarantor acknowledges that the covenants contained in this Agreement (including, without limitation, the territorial and time restraints) are reasonable and necessary and agrees that his failure to adhere strictly to the restrictions contained herein shall cause substantial and irreparable damage to Kahala, Area Representative and to Kahala's other area representatives and franchisees. In the event of any breach by Guarantor of any of the terms of this Agreement, Kahala and/or Area Representative shall be entitled to institute and prosecute proceedings, at law or in equity, in any court of competent jurisdiction, to obtain an injunction to enforce the provisions of this Agreement and to pursue any other remedy to which Kahala and/or Area Representative may be entitled. Guarantor agrees that the rights conveyed by this Agreement are of a unique and special nature and that Kahala's and Area Representative's remedy at law for

any breach would be inadequate and agrees and consents that temporary or permanent injunctive relief may be granted in any proceeding that may be brought to enforce any provision hereof, without the necessity of posting bond therefor or proof of actual damages.

12. Enforceability. If the scope of any restriction contained in this Agreement is too broad to permit the enforcement of such restriction to its fullest extent, then such restriction shall be enforced to the maximum extent permitted by law, and Guarantor hereby consents and agrees that such scope may be judicially limited or modified accordingly in any proceeding brought to enforce such restriction. Each covenant contained in this Agreement is independent and severable and, to the extent that any such covenant shall be declared by a court of competent jurisdiction to be illegal, invalid or unenforceable, such declaration shall not affect the legality, validity or enforceability of any other provision contained herein or the legality, validity or enforceability of such covenant in any other jurisdiction.

13. No Waiver. No failure or delay on the part of Kahala, its Affiliates or Area Representative in exercising its rights hereunder shall operate as a waiver of, or impair, any such right. No single or partial exercise of any such right shall preclude any other or further exercise thereof or the exercise of any other right. No waiver of any such right shall be effective unless given in writing, specifying with particularity the nature of the waiver. No waiver of any such right shall be deemed a waiver of any other right hereunder. The rights provided for herein are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

14. Attorneys' Fees. Guarantor shall pay reasonable attorneys' fees and expenses and all other costs and expenses that may be incurred by Kahala or its Affiliates in connection with enforcing this Agreement.

15. **Arizona Law to Govern; Jurisdiction; Right to Jury Trial and Class Action Waived; Certain Damages Waived; Statute of Limitations.** This Agreement will be governed by, and construed and enforced in accordance with, the law of Arizona, regardless of any conflict-of-law provisions to the contrary. Each party agrees that any litigation between the parties will be commenced and maintained only in the courts located in Maricopa County, Arizona, and each party consents to the jurisdiction of those courts; **provided, however, that Kahala may seek to obtain injunctive relief in any court that Kahala may select.** GUARANTOR HEREBY WAIVES THE RIGHT TO A JURY TRIAL, WAIVES THE RIGHT TO INITIATE OR PARTICIPATE IN A CLASS ACTION IN ANY FORUM, INCLUDING, WITHOUT LIMITATION, ARBITRATION, AND WAIVES THE RIGHT TO SEEK OR COLLECT PUNITIVE, CONSEQUENTIAL AND SPECIAL DAMAGES IN ANY FORUM, INCLUDING, WITHOUT LIMITATION, ARBITRATION. NOTWITHSTANDING ANYTHING CONTAINED IN THIS AGREEMENT TO THE CONTRARY, GUARANTOR AGREES THAT ANY CLAIMS UNDER, ARISING OUT OF OR RELATED TO THIS AGREEMENT MUST BE BROUGHT WITHIN TWO YEARS OF THE DATE ON WHICH THE UNDERLYING CAUSE OF ACTION ACCRUED, AND GUARANTOR HEREBY WAIVES ANY RIGHT TO BRING ANY SUCH ACTION AFTER SUCH TWO-YEAR PERIOD. NOTWITHSTANDING THE FOREGOING, PURSUANT TO THE MARYLAND FRANCHISE REGISTRATION AND DISCLOSURE LAW, LITIGATION ARISING

**UNDER THE MARYLAND FRANCHISE REGISTRATION AND DISCLOSURE LAW ARISING OUT OF THIS AGREEMENT MAY BE CONDUCTED IN MARYLAND.**

16. Binding Nature of Agreement. This Agreement shall be binding upon Guarantor and his respective successors, heirs and assigns and shall inure to the benefit of Kahala, its Affiliates and their respective successors and assigns.

17. Joint and Several. If more than one person signs this Agreement as a Guarantor, his, her or its obligation shall be joint and several.

18. Entire Agreement; Amendment. This Agreement contains the entire agreement and understanding between the parties hereto with respect to the subject matter hereof, and supersedes all prior and contemporaneous agreements, understandings, inducements and conditions, express or implied, oral or written, of any nature whatsoever with respect to the subject matter hereof. The express terms hereof control and supersede any course of performance or usage of the trade inconsistent with any of the terms hereof. This Agreement may not be modified or amended other than by an agreement in writing signed by each of the parties hereto. The provisions of this Section 18 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.

19. Date of Area Representative Agreement: \_\_\_\_\_  
Name(s) of Guarantor(s): \_\_\_\_\_  
Name of Area Representative: \_\_\_\_\_

EXECUTED as of \_\_\_\_\_

Name: \_\_\_\_\_  
(Print Name)

Name: \_\_\_\_\_  
(Print Name)

Executed by: \_\_\_\_\_  
(Sign Name)

Executed by: \_\_\_\_\_  
(Sign Name)

**CONSENT OF SPOUSE**

The undersigned spouse of a party to the foregoing Agreement to be Bound and to Guarantee (the "Agreement") confirms that he/she has read the Agreement, understands same and consents and agrees to the terms of the Agreement.

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

\_\_\_\_\_  
(Sign Name)

\_\_\_\_\_  
(Sign Name)

\_\_\_\_\_  
(Print Name)

\_\_\_\_\_  
(Print Name)



**Exhibit H**  
**Restrictive Covenant**

## **RESTRICTIVE COVENANT**

AGREEMENT, dated as of the date set forth at the end of this Agreement, executed by the Principals identified in the Area Representative Agreement (“Party”) and \_\_\_\_\_ (“Area Representative”).

WHEREAS, Area Representative is engaged in the business of developing and supervising Taco Time® restaurants that produce and sell Mexican-style fast food (the “Franchised Business”), in accordance with an Area Representative Agreement (the “Area Representative Agreement”) with Kahala Franchising, L.L.C., an Arizona limited liability company (“Franchisor”).

WHEREAS, Party desires to be employed or appointed, or to continue to be employed or appointed, by Area Representative.

WHEREAS, In connection therewith, Party will have access and/or has had access to information that requires Franchisor’s and Area Representative’s highest trust and confidence in Party.

WHEREAS, Party acknowledges and agrees that Area Representative and Franchisor will materially rely upon Party’s obligations under this Agreement.

NOW, THEREFORE, in consideration of the foregoing premises, the compensation paid or to be paid to Party, and/or other good and valuable consideration, Party covenants and agrees as follows:

1. Confidential Information.

(a) Party acknowledges that Franchisor and Area Representative are engaged in a highly competitive business, the success of which is dependent upon, among other things, trade secrets and other confidential and proprietary information, processes, materials and rights relating to the development, promotion and operation of the Franchised Business, including, without limitation, Franchisor’s and Area Representative’s Operations Manuals, method of operation, processes, techniques, formulae and procedures (collectively, the “Proprietary Information”). Party further acknowledges that the Proprietary Information constitutes valuable trade secrets.

(b) Party covenants and agrees not to use for any purpose, or disclose or reveal, during the term of Party’s employment or other association with Franchisee and forever thereafter, to any person any Proprietary Information. In connection therewith, Party shall fully and strictly comply with all security measures prescribed by Franchisor and/or Area Representative for maintaining the confidentiality of all Proprietary Information.

(c) Upon the termination of Party's employment or other association with Area Representative, Party shall deliver promptly to Area Representative all documents containing Proprietary Information, whether or not prepared by or for Party.

(d) Party acknowledges that to breach its obligations under this Section 1 would cause damage to Franchisor, Area Representative and Franchisor's other area representatives and franchisees, and that Party would be liable for such damage.

(e) Notwithstanding the foregoing, Party may disclose Proprietary Information to a person who is bound by the terms of a similar provision or agreement regarding confidentiality and a restrictive covenant contemplated by Section 11 of the Area Representative Agreement, to the extent that that disclosure is necessary in connection with that person's capacity with Area Representative. In addition, notwithstanding the foregoing, Party may use the Proprietary Information as shall be necessary in connection with Area Representative's exercise of its area representative rights.

(f) Notwithstanding the foregoing, the following shall not be subject to the provisions of this Section 1:

- (i) Information that is in the public domain as of the date of receipt by Area Representative;
- (ii) Information that is known to Area Representative prior to the date of receipt by Area Representative;
- (iii) Information that becomes known to the public without a breach of any confidentiality agreement or provision in favor of Franchisor or Area Representative; and
- (iv) Information that is required by law to be disclosed or revealed, but only strictly to the extent required by law.

## 2. Covenant Not to Compete.

(a) Party shall not, during the term of Party's employment or other association with Area Representative and during the Restrictive Period (as defined below), directly or indirectly (as an owner, partner, director, officer, employee, manager, consultant, shareholder, representative, agent, lender or otherwise), be engaged in a business that manufactures, produces, markets or sells Mexican-style fast food within, or for consumption within, a 10-mile radius of any Taco Time® restaurant previously owned or supervised, in whole or in part, by Area Representative or its Affiliates, or any location with respect to which Area Representative or any of its Affiliates has entered into a contract with respect to the future operation of a Taco Time® restaurant.

(b) Party shall not, during the term of Party's employment or other association with Area Representative and during the Restrictive Period, directly or indirectly (as an owner, partner,

director, officer, employee, manager, consultant, shareholder, representative, agent, lender or otherwise), be engaged in a business that manufactures, produces, markets or sells Mexican-style fast food within, or for consumption within, a 10-mile radius of any Taco Time® restaurant or any location with respect to which a contract has been entered into in connection with the future operation of a Taco Time® restaurant.

(c) Party shall not, during the term of Party's employment or other association with Area Representative and during the Restrictive Period, directly or indirectly (as an owner, partner, director, officer, employee, manager, consultant, shareholder, representative, agent, lender or otherwise), be engaged in a business that manufactures, produces, markets or sells Mexican-style fast food within, or for consumption within, the United States.

(d) Party shall not, during the term of Party's employment or other association with Area Representative and during the Restrictive Period, directly or indirectly (as an owner, partner, director, officer, employee, manager, consultant, shareholder, representative, agent, lender or otherwise), be engaged in a business that manufactures, produces, markets or sells Mexican-style fast food outside of, or for consumption outside of, the United States.

(e) Party shall not, during the term of Party's employment or other association with Area Representative and during the Restrictive Period, directly or indirectly (as an owner, partner, director, officer, employee, manager, consultant, shareholder, representative, agent, lender or otherwise), be engaged in a business that solicits prospective licensees or franchisees or offers or sells licenses or franchises to market or sell Mexican-style fast food.

(f) For purposes of this Section 2, a business will be deemed to be marketing or selling Mexican-style fast food if more than 15% of its gross sales are derived from the marketing or sale of such products.

(f) For purposes of this Section 2, the "Restrictive Period" is defined as (i) in the case of an officer of Area Representative, the one-year period beginning at the termination of his or her serving as an officer of Franchisee and (ii) in the case of a or employee of Area Representative, the six-month period beginning at the termination of his or her employment other association with Franchisee.

3. Restriction on Hiring. Party may not, during the term of Party's employment or other association with Area Representative and during the Restrictive Period, directly or indirectly (as an owner, partner, director, officer, employee, manager, consultant, shareholder, representative, agent, lender or otherwise), employ, hire or engage as an independent contractor or otherwise any person who is or was (at any time during the term of this Agreement) employed or engaged as an independent contractor or otherwise by Franchisor, Area Representative or any of their affiliates.

4. Use of Name and Likeness. Franchisor will be entitled to use the name, likeness and voice of Party for purposes of promoting the franchise, Franchisor and its products, including, without limitation, all photos and audio and video recordings of Party, and Party hereby irrevocably consents thereto. Party acknowledges that Franchisor will own all right, title and interest, to the extent allowed by law, in all rights of integrity, disclosure and publication and any other rights

that may be known as or referred to as “moral rights,” “artist’s rights,” “publicity rights” or the like associated with such photos and audio and video recordings, and assigns and transfers unto Franchisor the full and exclusive right, title, and interest to such publicity rights.

5. Innovations. Party may conceive, invent, create, design and/or develop various ideas, techniques, methods, processes and procedures, recipes, formulae, products, packaging or other concepts and features relating to the manufacturing, production, marketing and sale of Mexican-style fast food and related goods in connection with the Franchised Business (the “Innovations”). Party assigns any and all of its rights, title and interest in the Innovations, including, without limitation, any intellectual property rights, to Franchisor, and also agrees to cooperate with Franchisor and its counsel in the protection of the Innovations, including, without limitation, the perfecting of title thereto.

6. Copyrights; Works-for-Hire; Solicitation. All advertising and promotional materials generated by or for Area Representative or its officers, managers or employees for the Franchised Business will be deemed a work-made-for-hire, and all ownership rights, including, without limitation, any copyrights, in such advertising and promotional materials are hereby assigned to Franchisor. In addition, Party will cooperate in the protecting any items or materials suitable for copyright protection by Franchisor. Party must not solicit other area representatives or franchisees, or use the lists of area representatives and franchisees, for any commercial or other purpose other than purposes directly related to the operation of Area Representative’s business. Party must not engage in any business venture or activity (other than that expressly contemplated by the Area Representative Agreement), including operating Franchised Businesses, with other area representatives or franchisees without the prior approval of Franchisor.

7. Reasonable Restraints; Remedies. Party acknowledges that the covenants contained in this Agreement (including, without limitation, the territorial and time restraints) are reasonable and necessary and agrees that his failure to adhere strictly to the restrictions contained herein shall cause substantial and irreparable damage to Franchisor, Area Representative and to Franchisor’s other franchisees. In the event of any breach by Party of any of the terms of this Agreement, Franchisor and/or Area Representative shall be entitled to institute and prosecute proceedings, at law or in equity, in any court of competent jurisdiction, to obtain an injunction to enforce the provisions of this Agreement and to pursue any other remedy to which Franchisor and/or Area Representative may be entitled. Party agrees that the rights conveyed by this Agreement are of a unique and special nature and that Franchisor’s and Area Representative’s remedy at law for any breach would be inadequate and agrees and consents that temporary or permanent injunctive relief may be granted in any proceeding that may be brought to enforce any provision hereof, without the necessity of posting bond therefor or proof of actual damages.

8. Modification; Severability. If the scope of any restriction contained in this Agreement is too broad to permit the enforcement of such restriction to its fullest extent, then such restriction shall be enforced to the maximum extent permitted by law, and Party hereby consents and agrees that such scope may be judicially limited or modified accordingly in any proceeding brought to enforce such restriction. Each covenant contained in this Agreement is independent and severable and, to the extent that any such covenant shall be declared by a court of competent jurisdiction to be illegal,

invalid or unenforceable, such declaration shall not affect the legality, validity or enforceability of any other provision contained herein or the legality, validity or enforceability of such covenant in any other jurisdiction.

9. General and Miscellaneous.

(a) Entire Agreement; Amendment. This Agreement contains the entire agreement and understanding between the parties hereto with respect to the subject matter hereof, and supersedes all prior and contemporaneous agreements, understandings, inducements and conditions, express or implied, oral or written, of any nature whatsoever with respect to the subject matter hereof. The express terms hereof control and supersede any course of performance or usage of the trade inconsistent with any of the terms hereof. This Agreement may not be modified or amended other than by an agreement in writing signed by each of the parties hereto.

(b) Binding Nature of Agreement. This Agreement will be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and assigns.

(c) **Arizona Law to Govern; Jurisdiction; Right to Jury Trial and Class Action Waived; Certain Damages Waived; Statute of Limitations.** This Agreement will be governed by, and construed and enforced in accordance with, the law of Arizona, regardless of any conflict-of-law provisions to the contrary. Each party agrees that any litigation between the parties will be commenced and maintained only in the courts located in Maricopa County, Arizona, and each party consents to the jurisdiction of those courts; **provided, however, that Franchisor may seek to obtain injunctive relief in any court that Franchisor may select.** PARTY HEREBY WAIVES THE RIGHT TO A JURY TRIAL, WAIVES THE RIGHT TO INITIATE OR PARTICIPATE IN A CLASS ACTION IN ANY FORUM, INCLUDING, WITHOUT LIMITATION, ARBITRATION, AND WAIVES THE RIGHT TO SEEK OR COLLECT PUNITIVE, CONSEQUENTIAL AND SPECIAL DAMAGES IN ANY FORUM, INCLUDING, WITHOUT LIMITATION, ARBITRATION.

(d) Third Party Beneficiary. Franchisor is an express third party beneficiary of this Agreement and may, directly or indirectly, enforce any obligation of Party hereunder.

10. Identification of Parties.

(a) The person identified as “Party” in this Agreement is \_\_\_\_\_  
\_\_\_\_\_.

(b) The person identified as “Area Representative” in this Agreement is \_\_\_\_\_  
\_\_\_\_\_.

**Party has read this entire Agreement carefully and fully understands the limitations that this Agreement imposes upon him and acknowledges and agrees that those limitations are reasonable.**

EXECUTED as of \_\_\_\_\_

\_\_\_\_\_  
Signature of Party

Area Representative: \_\_\_\_\_

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

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

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

**Exhibit I**  
**General Release**



**GENERAL RELEASE**

THIS GENERAL RELEASE is made this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

\_\_\_\_\_, a resident of the State of \_\_\_\_\_, (the "UNDERSIGNED") for and in consideration of the sum of One Dollar (\$1.00) paid to him/her by KAHALA FRANCHISING, L.L.C., and other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, hereby releases, remises and forever discharges KAHALA FRANCHISING, L.L.C., its predecessors, successors and assigns, parents, subsidiaries and affiliated corporations, officers, directors, agents, employees and representatives, past and present, of any and all of such corporations (all collectively referred to herein as "KAHALA"), of and from any and all claims, demands, causes of action, suits, debts, dues, duties, sums of money, accounts, reckonings, covenants, contracts, agreements, promises, damages, judgments, extents, executions, liabilities and obligations, both contingent and fixed, known and unknown, of every kind and nature whatsoever in law or equity, or otherwise, under local, state, or federal law, against any of them, which the UNDERSIGNED or his/her predecessors in interest, if any, ever had, now have, or which he/she, his/her heirs, executors, administrators, successors, or assigns hereafter can, shall, or may have, for, upon, or by reason of, any matter, cause, or thing whatsoever, for acts and occurrences prior to and including the date of this Release.

Without limiting the generality of the foregoing, but by way of example only, this release shall apply to any and all state or federal antitrust claims or causes of action; state or federal securities law claims or causes of action; state or federal RICO claims or causes of action; breach of contract claims or causes of action; claims or causes of action based on fraud or misrepresentation; breach of fiduciary duty; unfair trade practices (state or federal); and all other claims and causes of action whatsoever.

The UNDERSIGNED further agrees for himself/herself and for his/her successors and assigns, to indemnify and hold harmless forever, KAHALA (as defined above), against any and all claims, liabilities, obligations or actions arising in connection with any lawsuit, action, proceeding or claim, including, but not limited to, \_\_\_\_\_, arising out of or incidental to the matters to which this Release applies.

The UNDERSIGNED and KAHALA agree that this Release is not intended nor shall it be construed as an admission of any wrongdoing or liability and that it shall not be admissible in evidence in any suit or proceeding whatsoever as evidence or admission of any liability.

With respect to the matters hereinabove released, the UNDERSIGNED knowingly waives all rights and protection, if any, under Section 1542 of the Civil Code of the State of California, or any similar law of any state or territory of the United States of America. Section 1542 provides as follows:

1542 General Release; Extent. A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which, if known by him, must have materially affected his settlement with the debtor.

IN WITNESS WHEREOF, the UNDERSIGNED executed this General Release on the day and year first above written.

ATTEST:

---

Printed Name:

---

**RIDER TO GENERAL RELEASE  
FOR MARYLAND RESIDENTS ONLY AND  
AREA REPRESENTATIVES WHOSE TERRITORIES WILL BE OPERATED IN  
MARYLAND ONLY**

**AGREEMENT**, dated as of the date set forth at the end of this Agreement, by and between **KAHALA FRANCHISING, L.L.C.**, an Arizona limited liability company ("Franchisor"), and the Old Owners and New Owners identified at the end of this Agreement.

That certain Transfer and Consent Agreement dated as of the date hereof, by and between Franchisor and Franchisee, is amended as follows:

1. The general release required as a condition of renewal, sale and/or assignment/transfer excludes claims that may arise under the Maryland Franchise Registration and Disclosure Law. Also, the general release required as a condition of renewal, sale and/or assignment/transfer shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.
2. According to the Maryland Franchise Registration and Disclosure Law, litigation arising out of the Franchise Agreement may be conducted in Maryland. Any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within three years after the grant of the Franchise.

The undersigned does hereby acknowledge receipt of this Rider.

**IN WITNESS WHEREOF**, the parties have executed this Agreement, or caused this Agreement to be executed, as of \_\_\_\_\_.

**Kahala Franchising, L.L.C.**

**Name of Area Representative:**

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

Executed by: \_\_\_\_\_

Name:

\_\_\_\_\_  
(sign name)

Title:

\_\_\_\_\_  
(print name)

**Exhibit J**

**Electronic Funds Transfer (EFT) Authorization**



## ELECTRONIC FUNDS TRANSFER (EFT) AUTHORIZATION

FRANCHISEE INFORMATION		
Franchisee Name	Store No.	Franchisee Phone No.
Franchisee Mailing Address (street, city, state, zip)		
Contact Name, Address and Phone number (if different than above)		
Employer Identification Number (if applicable)	Principal's Name and Social Security Number	

BANK ACCOUNT INFORMATION		
Bank Name	Bank Account Number	Bank Routing Number [:       :] 9 Characters
Bank Mailing Address (street, city, state, zip)		
Bank Phone Number		

PAYMENT AUTHORIZATION	
<p>Franchisee hereby authorizes Kahala Franchising, L.L.C. (the "Payee"), to initiate withdrawals from the Bank Account indicated on this form, and hereby authorizes the Bank to honor and charge the Bank Account for electronic funds transfers or drafts drawn on the Bank Account and payable to Payee. The amount of such charge shall be set forth in a notice from the Payee presented to the Bank on the day(s) of the week set forth in your franchise agreement, gift card participation agreement (or similar agreement for the gift card program), and any other agreement you sign that authorizes us or our affiliate to debit your account for the fees, which may be modified by Kahala Franchising, L.L.C. or its affiliates, for the payment of royalty fees, advertising fees, POS support fees, gift card and e-gifting program fees and funds flow, and any other fees, charges and other amounts payable to us or our affiliates for any services we provide or facilitate. The Franchisee agrees to execute such additional documents as may be reasonably requested by the Payee or the Bank to evidence the interest of this EFT Authorization. This authority shall remain in full force and effect until the Payee has received written notification from the Franchisee in such time and manner as to afford the Payee and the Bank to act on such notice. The Franchisee understands that the termination of this authorization does not relieve the Franchisee of its obligations to make payments to the Payee. Payee may assign its rights and obligations under this EFT Authorization to Payee's affiliates or agents. Payee may change its designated affiliates or agents at Payee's discretion.</p>	
Signature:	Date:

**NOTE: FRANCHISEE MUST ATTACH A VOIDED OR COMPLETED CHECK RELATING TO THE BANK ACCOUNT.**

<p><b>ATTACH VOIDED OR COMPLETED CHECK HERE</b></p>
---

**EXHIBIT P**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Table of Contents – Confidential AR Operations Manual  
(For Area Representatives)**

# AREA REPRESENTATIVE OPERATIONS MANUAL

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**EXHIBIT Q**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**List of Area Representatives**



## List of Area Representatives

Area Representatives do not offer franchises for sale, but rather, operates as a franchise broker. Therefore, the Area Representative does not have its own uniform franchise disclosure document, but instead, will have this franchise disclosure document delivered to a prospective franchisee located within their ARA Territory. All area representatives are prohibited from making any representations of costs, expenses, sales or profits to prospective franchisees. Area representatives must abide by all federal and state laws in the performance of their duties. Area representatives, their officers and sales employees are not our agents and cannot bind us directly or indirectly unless we authorize in writing.

Listed below are the names, telephone numbers and addresses of our Area Representatives as of December 31, 2011. Most of the individuals listed below are also officers of their respective area representative corporations. Area Representatives must provide certain marketing, guidance, assistance and operational support to *Taco Time* restaurants in their areas.

**THE INFORMATION BELOW WAS PROVIDED TO KAHALA FRANCHISE CORP. BY THE ENTITY OR THE INDIVIDUAL AREA REPRESENTATIVES LISTED. KAHALA FRANCHISE CORP. DOES NOT MAKE ANY REPRESENTATIONS AS TO THE ACCURACY OF THE INFORMATION.**

### Nevada:

GJT Incorporated (Siranush Davtian), 1960 Sherer Lane, Glendale, California 91208; (818) 482-6756. Siranush Davtian has been a Great Steak & Potato Company Area Representative since August 2006.

### Oregon:

US Franchise, Inc. (Vahan Yepremyan and Romela Davtyan); 130 N. Brand Blvd., Suite 202, Glendale, California 91203; (818) 445-7595. Vahan Yepremyan have been Area Representatives for defined counties in the state of Oregon since November 2006. Vahan Yepremyan has been an Attorney-at-Law at the Law Offices of Yepremyan & Associates, Inc. in Glendale, California since March 1998. Romela Davtyan has been a Paralegal at the Law Offices of Yepremyan & Associates, Inc. since July 1999.

Balwant Foods, Inc. (Sarwan “Rimpy” Singh and Aman Kaur); 16235 SW Falcon Dr., Beaverton, Oregon 97007; (503) 201-1596. Mr. Singh and Ms. Kaur own and operate several Taco Time and Samurai Sam’s franchises and a Johnnie’s New York Pizzeria franchise.

### Utah:

JSK3, L.L.C. (Scott Risinger, Klint Mathews, and Jim Scadlock); PO Box 915, Pleasant Grove, UT 84062; (801) 830-4875. JSK3, L.L.C. has been an Area Representative for Utah County, Utah since October 2008. Mr. Risinger has served as the President and is the owner of Solar Glass Tinting, Inc. in Lindon, Utah for the past 20 year. Mr. Mathews has served as the District Manager of Ronda Foods from 1998 through July 2008 and is currently the Chief Operating Officer. Mr. Scadlock was the Senior Vice President of Marketing and Development of Kindred Healthcare, Inc. headquartered in Louisville, Kentucky from January 2005 through June 2008. Mr. Scadlock is currently retired.

**Washington:**

West Coast Concepts, LLC (Todd Sternfeld and Patricia Plaster); 2526 W. 33<sup>rd</sup> Place, Kennewick, Washington 99337; (509) 783-9898. West Coast Concepts, LLC has been an Area Representative for Benton and Franklin Counties in the state of Washington since February 2006. Mr. Todd Sternfeld has served as President of West Coast Concepts since December 2005. Mr. Sternfeld has also served as President of S.T.A.R. Inc. since September 1998. Ms. Patricia Plaster has served as a part owner of West Coast Concepts since March 2005. Ms. Sternfeld has also served as the Director of Operations of S.T.A.R. Inc. since July 2003. From June 2003 until June 2005, Ms. Sternfeld was the Sales/Account Manager for US Travel. From September 2000 until June 2003, Ms. Sternfeld was the owner of a Quiznos franchise.

Balwant Foods, Inc. (Sarwan “Rimpy” Singh and Aman Kaur); 9630 SW 160<sup>th</sup> Avenue, Beaverton, Oregon 97007; (503) 201-1596. (See Oregon)

**EXHIBIT R**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Financial Statements**

**KAHALA FRANCHISING LLC**

**Unaudited Financial Statements as of  
June 30, 2012**

# KAHALA FRANCHISING LLC

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**KAHALA FRANCHISING LLC**

**BALANCE SHEET  
AS OF JUNE 30, 2012**

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**ASSETS**

**CURRENT ASSETS**

Cash and equivalents	\$	10,425
Royalties receivable		899,961
Notes receivable - current portion		497,534
Total current assets		<u>1,407,920</u>

**OTHER ASSETS**

Notes receivable - less current portion		535,572
Definite lived intangible assets		6,990,310
Tradename		17,363,217
Goodwill		32,583,919
Due from Parent		<u>4,457,370</u>
Total other assets		<u>61,930,388</u>

**TOTAL ASSETS** \$ 63,338,308

**LIABILITIES AND MEMBER'S EQUITY**

**CURRENT LIABILITIES**

Accounts payable	\$	653,027
Total current liabilities		<u>653,027</u>

NOTE PAYABLE 80,000

DEFERRED FRANCHISE FEE INCOME 1,274,597

Total liabilities		<u>2,007,624</u>
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MEMBER'S EQUITY 61,330,684

**TOTAL LIABILITIES AND MEMBER'S EQUITY** \$ 63,338,308

The accompanying notes are an integral part of these financial statements.

**KAHALA FRANCHISING LLC**

**STATEMENT OF OPERATIONS  
FOR THE SIX MONTHS ENDED JUNE 30, 2012**

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INCOME	
Royalty income - net	\$ 8,329,004
Franchise fee income	<u>426,205</u>
Total income	<u>8,755,209</u>
COSTS AND EXPENSES	
Amortization of franchise agreements	983,326
General and Administrative	262,887
Management fee	<u>7,530,329</u>
Total costs and expenses	<u>8,776,542</u>
INCOME (LOSS) FROM OPERATIONS	<u>(21,333)</u>
INTEREST INCOME	<u>21,333</u>
NET INCOME (LOSS)	<u><u>-</u></u>

The accompanying notes are an integral part of these financial statements.

## KAHALA FRANCHISING LLC

### NOTES TO FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2012

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#### 1. ORGANIZATION AND BASIS OF PRESENTATION

Kahala Franchising, L.L.C. (the “Company”), an Arizona Limited Liability Company, was formed on December 29, 2008. The Company was organized to hold certain intellectual property and to administer, service, finance, manage, license, franchise and operate such intellectual property in the business of quick service food restaurants operating under the Samurai Sam’s Teriyaki Grill, Taco Time, The Great Steak & Potato Company, Frullati Cafe & Bakery, Rollerz, Ranch One, Surf City Squeeze, Johnnie’s New York Pizzeria, NrGize Lifestyle Cafe, and Blimpie, brand names (collectively, the “Concepts”).

The Company is a wholly owned subsidiary of Kahala Corp. (the “Parent”). The Company serves as a conduit to process certain transactions of Kahala Corp., primarily those related to area development agreements, franchise agreements and monthly royalties from franchisees. The Company’s operations are based upon the Concepts transferred to the Company by the Parent. The Company is committed to pay a management fee to an affiliate equal to the net income of the Company before consideration of such management fee. The Company’s results of operations and financial position may be substantially different if consolidated with the Parent. The ongoing operations of the Company are dependent upon the support of the Parent and its affiliates.

On September 30, 2009, the Parent effected the capitalization of the Company by transferring the intellectual property, notes receivable, royalties receivable and deferred franchise fees related to the operations of only three of the Concepts: Samurai Sam’s, Taco Time and The Great Steak & Potato Company (the “Initial Concepts”). These net assets were previously reported in the financial statements of Kahala Franchise Corp. (“KFC”), another wholly owned subsidiary of the Parent. These net assets of the Initial Concepts were all transferred at their book value as recorded by KFC on September 30, 2009.

On January 1, 2011, the Parent further capitalized the Company by transferring the intellectual property, notes receivable, royalties receivable and deferred franchise fees related to the operations of seven additional concepts: Frullati Cafe & Bakery, Rollerz, Ranch One, Surf City Squeeze, Johnnie’s New York Pizzeria, NrGize Lifestyle Cafe, and Blimpie. Except for Blimpie, the net assets of these concepts were previously reported in the financial statements of KFC, and the Blimpie net assets were previously reported in the financial statements of KBI Holdings, LLC (“KBI”), another wholly-owned subsidiary of the Parent. These net assets were transferred at their book value as recorded by KFC and KBI on January 1, 2011.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Equivalents – The Company considers all investment instruments purchased with an original maturity of three months or less to be cash equivalents. The Company may, in the normal course of business, maintain checking and savings account balances in excess of the \$250,000 Federal Deposit Insurance Corporation’s insurance limit.



## KAHALA FRANCHISING LLC

### NOTES TO FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2012

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#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments – Financial instruments consist primarily of cash, royalties receivable, notes receivable, net amounts due to/from Parent, and obligations under accounts payable and accrued expenses. The carrying amounts of cash, royalties receivable, accounts payable and accrued expenses approximate fair value because of the short maturity of those instruments. The Company cannot estimate the fair value of the net amounts due to Parent because of the related party nature of those obligations. Fair value of most of the notes receivable contain market interest rates. For those that do not, the notes are discounted at a market rate.

Revenue Recognition – Initial franchise fees received are deferred until the related franchised unit opens. When revenue from initial fees is collectible over an extended period of time and collectibility is not reasonably assured, revenue is recognized using the installment method as fees are collected.

Fees received from the sale of Area Representative Agreements (“ARA’s”) or similar development arrangements covering a defined geographic region (such area referred to as the “Territory”) are recognized as revenue as follows: as individual franchise agreements are signed and the applicable initial franchise fee paid to the Company for locations within a Territory, that portion of the area development fee equal in amount to the initial franchise fee collected is recognized as revenue upon the applicable store opening for business to the public. Upon termination or expiration of an ARA, the balance, if any remaining, of such area development fees is recognized.

Royalty income is recognized based on franchise store sales volumes and contractual arrangements with franchisees. If the franchise store is under an ARA, the royalties are recorded net of any royalties due to the respective Area Representative.

Royalties Receivable – The Company's royalties receivable reflects amounts that are due from franchisees for royalties earned. The Company determines any required allowance by considering a number of factors including the length of time royalties receivable are past due and the Company's loss history. Receivables are considered past due when they are unpaid greater than thirty days. The Company would record a reserve account for receivables if they become uncollectible, and any payments subsequently received on such receivables would be credited to the reserve account.

## KAHALA FRANCHISING LLC

### NOTES TO FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2012

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#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Notes Receivable – The Company's notes receivable principally results from the financing of the initial franchise fees required from franchisees, the sale of ARA's or similar development arrangements, and certain related expenses paid for on behalf of the Company's franchisees. The notes related to franchisees are generally guaranteed by the franchisee or purchaser and are collateralized by the related restaurant, associated equipment and leasehold improvements. The notes related to the ARA's are collateralized by development rights associated with the agreement. The notes are generally due in monthly installments of principal and interest with interest ranging from 6 - 12% per annum.

The Company determines any required allowance by periodically reviewing the collectibility of its notes receivable. The Company believes that the underlying collateral for the notes has sufficient value to offset any potential impairment of a note. Notes are valued at the estimated value of the collateral if it has been determined that foreclosure is probable. The Company recognizes interest income on notes it has determined to be impaired only when payments are received. The analysis of determining whether a note is impaired includes factors such as the payment history of the franchisee, operating results of the underlying store, the franchisee's relationship with the landlord and the value of any other collateral.

Income Taxes – As a limited liability company the Company is taxed as a partnership, and is not subject to federal income tax. The Member separately accounts for its share of the Company's items of income, deductions, losses and credits. Therefore, no provision is made in the accompanying financial statements for liabilities for federal, state or local income taxes since such liabilities are the responsibility of the individual member.

The Company adopted FASB Accounting Standards Codification (ASC) 740-10, relating to accounting for uncertain tax positions. ASC 740-10 prescribes a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters such as derecognition, interest, penalties and disclosures required. The Company does not have any entity level uncertain tax positions. The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. Generally, the Company is subject to examination by U.S. federal income tax authorities for three years from the filing of a tax return and three to four years by various state income tax authorities. The Company recognizes interest and penalties related to income tax matters in income tax expense.

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

## KAHALA FRANCHISING LLC

### NOTES TO FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2012

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#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible Assets – Intangible assets consist of franchise agreements, tradename and goodwill. Goodwill represents the excess of the aggregate price paid over the fair value of the net assets acquired in various acquisitions by the Parent and is not amortized. The tradename represents the value associated with the brand of the Concepts and is not amortized because the lives have been determined to be indefinite. The franchise agreements have finite lives and are amortized on a straight-line basis over their estimated useful lives. Amortizable intangible assets are tested for impairment annually or upon occurrence of such events that may indicate impairment exists. An impairment loss would be recognized when the carrying amount of an asset exceeds the estimated undiscounted cash flows used in determining the fair value of the assets.

In assessing the recoverability of goodwill and intangible assets, the Company must make assumptions about the estimated future cash flows and other factors to determine the fair value of these assets. Management evaluates goodwill and other intangibles for impairment annually and when impairment indicators arise, in accordance with ASC 350. The annual testing date is December 31. Assumptions about future revenue and cash flows require significant judgment. The Company's management develops future revenue estimates based on historical trends and market data available. Estimates of future cash flows assume that expenses will grow at rates consistent with historical rates.

Fair Value Measurements – The Company adopted the provisions of ASC 820 Fair Value Measurements, effective January 1, 2009. Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the "exit price") in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various valuation approaches, including market, income and/or cost approaches. The accounting standard established a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the value that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs, as follows:

Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Bank has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Assets and liabilities utilizing Level 2 inputs are valued using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

## KAHALA FRANCHISING LLC

### NOTES TO FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2012

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#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Level 3 - Inputs that are unobservable for the asset or liability, which are typically based on a entity's own assumptions, as there is little, if any, related market activity.

The availability of observable inputs varies based on the nature of the specific financial instrument. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair values requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining the fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. When market assumptions are available, the accounting standard requires the Company to make assumptions regarding the assumptions that market participants would use to estimate the fair value of the financial instrument at the measurement date.

The Company's investments consist of cash and equivalents. Cash and equivalents, Level 1 inputs, are stated at cost which approximates market value.

Subsequent Events - Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are available to be issued. The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued.

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

**FINANCIAL STATEMENTS**

For the Years Ended  
December 31, 2011 and 2010

## KAHALA FRANCHISING, L.L.C.

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**MORRISON & ASSOCIATES CPAs, PLLC**  
Certified Public Accountants

American Institute Of Certified Public Accountants / Arizona Society Of Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Kahala Franchising, L.L.C.:

We have audited the balance sheets of Kahala Franchising, L.L.C. (the "Company") as of December 31, 2011 and 2010, and the related statements of operations and member's equity and cash flows for years 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position of Kahala Franchising, L.L.C. as of December 31, 2011 and 2010 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Company is affiliated with other entities in the same line of business, all of which are controlled by a common parent with the ability to influence the volume of business generated by each of these entities. As discussed in Notes 1, 5 and 6, the Company and its affiliates have engaged in significant transactions with each other. The Company's sole member is Kahala Corp. ("Parent"). The Company was organized to hold certain intellectual property of the Parent and to administer, service, finance, manage, license, franchise and operate such intellectual property. The Company processes certain transactions of affiliates of the Parent, primarily those related to area development agreements, franchise agreements and monthly royalties from franchisees. The ongoing operations of the Company are dependent upon the support of the affiliates of the Parent.

*Morrison & Associates CPAs, PLLC*

5650 W. Chandler Blvd, Suite 2  
Chandler, Arizona 85226  
August 6, 2012

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

**BALANCE SHEETS**  
**AS OF DECEMBER 31, 2011 and 2010**

---

**ASSETS**

	<u><b>2011</b></u>	<u><b>2010</b></u>
<b>CURRENT ASSETS</b>		
Cash and equivalents	\$ 106,572	\$ 121,081
Royalties receivable	910,386	900,487
Notes receivable, net - current portion	439,002	399,244
Total current assets	<u>1,455,960</u>	<u>1,420,812</u>
<b>OTHER ASSETS</b>		
Notes receivable, net - less current portion	423,083	226,812
Definite lived intangible assets	7,973,636	2,123,492
Tradenname	17,363,217	4,243,505
Goodwill	32,583,919	18,073,432
Due from Affiliates	3,297,518	312,435
Total other assets	<u>61,641,373</u>	<u>24,979,676</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 63,097,333</u></u>	<u><u>\$ 26,400,488</u></u>

**LIABILITIES AND MEMBER'S EQUITY**

<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 528,005	\$ 35,084
Total current liabilities	528,005	35,084
<b>DEFERRED FRANCHISE FEE INCOME</b>	1,238,644	1,279,129
Total liabilities	<u>1,766,649</u>	<u>1,314,213</u>
<b>MEMBER'S EQUITY</b>	<u>61,330,684</u>	<u>25,086,275</u>
<b>TOTAL LIABILITIES AND MEMBER'S EQUITY</b>	<u><u>\$ 63,097,333</u></u>	<u><u>\$ 26,400,488</u></u>

The accompanying notes are an integral part of these financial statements.



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

**STATEMENTS OF OPERATIONS AND MEMBER'S EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010**

---

	<b><u>2011</u></b>	<b><u>2010</u></b>
<b>INCOME</b>		
Royalty income - net	\$ 14,871,689	\$ 7,482,378
Franchise fee income	<u>1,223,744</u>	<u>305,972</u>
Total income	<u>16,095,433</u>	<u>7,788,350</u>
<b>COSTS AND EXPENSES</b>		
Amortization of franchise agreements	1,966,652	516,676
Impairment charge	1,673,505	-
Bad debt expense	341,544	111,278
Other expense	102,517	-
Management fee	<u>12,069,685</u>	<u>7,190,100</u>
Total costs and expenses	<u>16,153,903</u>	<u>7,818,054</u>
INCOME (LOSS) FROM OPERATIONS	<u>(58,470)</u>	<u>(29,704)</u>
INTEREST INCOME	<u>58,470</u>	<u>29,704</u>
NET INCOME (LOSS)	-	-
MEMBER'S EQUITY, BEGINNING OF YEAR	25,086,275	25,086,275
CAPITAL CONTRIBUTION BY PARENT	<u>36,244,409</u>	<u>-</u>
MEMBER'S EQUITY, END OF YEAR	<u><u>\$ 61,330,684</u></u>	<u><u>\$ 25,086,275</u></u>

The accompanying notes are an integral part of these financial statements.

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

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ -	\$ -
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Amortization	1,966,652	516,676
Impairment charge	1,673,505	-
Bad debt expense	341,544	111,278
Changes in assets and liabilities (net of Parent contribution):		
Royalties receivable	(9,899)	(39,010)
Due from Affiliates	(3,908,775)	(582,492)
Accounts payable	111,295	11,728
Deferred franchise fee income	(1,089,177)	(406,037)
Net cash used in operating activities	<u>(914,855)</u>	<u>(387,857)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Repayments on notes receivable	<u>608,742</u>	<u>208,490</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Cash contributed by Parent	<u>291,604</u>	<u>-</u>
<b>DECREASE IN CASH AND EQUIVALENTS</b>	<b>(14,509)</b>	<b>(179,367)</b>
<b>CASH AND EQUIVALENTS, BEGINNING OF YEAR</b>	<b><u>121,081</u></b>	<b><u>300,448</u></b>
<b>CASH AND EQUIVALENTS, END OF YEAR</b>	<b><u>\$ 106,572</u></b>	<b><u>\$ 121,081</u></b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Interest paid	<u>\$ -</u>	<u>\$ -</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Notes receivable taken for franchise fees and royalties	<u>\$ 680,272</u>	<u>\$ 410,978</u>
Net non-cash assets transferred by the Parent	<u>\$ 35,952,805</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

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

### **NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010**

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#### **1. ORGANIZATION AND BASIS OF PRESENTATION**

Kahala Franchising, L.L.C. (the “Company”), an Arizona Limited Liability Company, was formed on December 29, 2008. The Company was organized to hold intellectual property and to administer, finance, manage, license, franchise and operate such intellectual property in the business of quick service food restaurants under Samurai Sam’s Teriyaki Grill, Taco Time, The Great Steak & Potato Company (“GSP”), Frullati Cafe & Bakery, Rollerz, Ranch One, Surf City Squeeze, Johnnie’s New York Pizzeria, NrGize Lifestyle Cafe, and Blimpie, tradenames (collectively, the “Concepts”).

The following summarizes each of the Concepts as of December 31, 2011, including the type of restaurant business and number of franchised units in operation: (i) Samurai Sam’s Teriyaki Grill: restaurants serving Japanese food with 42 franchises; (ii) Taco Time: restaurants serving Mexican food with 281 franchises; and (iii) The Great Steak & Potato Company: restaurants serving Philadelphia cheesesteak (and chicken) sandwiches and baked potatoes with 134 franchises; (iv) Frullati Cafe & Bakery: restaurants serving paninis, sandwiches, salads, soups, fresh baked goods and blended fruit drinks with 34 franchises; (v) Rollerz: restaurants serving rolled sandwiches, salads, soups and smoothies with 4 franchises; (vi) Ranch One: restaurants serving grilled and crispy breaded chicken sandwiches with 19 franchises; (vii) Surf City Squeeze: restaurants serving smoothies and blended fruit drinks with 129 franchisees; (viii) Johnnie’s New York Pizzeria: restaurants serving Italian food including New York style pizza and calzones with 14 franchises; (ix) NrGize Lifestyle Cafe: restaurants serving low-calorie smoothies and fruit drinks with 99 franchises; and (x) Blimpie: restaurants serving fresh deli sandwiches and salads with 733 franchises. During the year ended December 31, 2011, there were 42 new franchises sold, 141 units closed and 14 re-acquired by the Company.

As of December 31, 2011, the Company’s Concepts are located in 47 states in the United States, the District of Columbia, Canada, Kuwait, Mexico, the Netherland Antilles, Oman, Qatar, Saudi Arabia and the United Arab Emirates. The Company’s Concepts are primarily located in shopping malls, airports, medical centers, office buildings, pad sites, street locations and health clubs.

The Company is a wholly owned subsidiary of Kahala Corp. (the “Parent”). The Company serves as a conduit to process certain transactions of Kahala Corp., primarily those related to area development agreements, franchise agreements and monthly royalties from franchisees. The Company’s operations are based upon the Concepts transferred to the Company by the Parent. Also, as discussed in Note 5, the Company is committed to pay a management fee to an affiliate equal to the net income of the Company before consideration of such management fee. The Company’s results of operations and financial position may be substantially different if consolidated with the Parent. The ongoing operations of the Company are dependent upon the support of the Parent and its affiliates.

On September 30, 2009, the Parent effected the initial capitalization of the Company by transferring the intellectual property, notes receivable, royalties receivable and deferred franchise fees related to the operations of only three of the Concepts: Samurai Sam’s, Taco Time and The Great Steak & Potato Company (the “Initial Concepts”). These net assets were previously reported in the financial statements of Kahala Franchise Corp. (“KFC”), another wholly owned subsidiary of the Parent. These net assets were transferred at their book value as recorded by KFC on September 30, 2009.

## KAHALA FRANCHISING, L.L.C.

### NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

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#### 1. ORGANIZATION AND BASIS OF PRESENTATION (CONTINUED)

On January 1, 2011, the Parent further capitalized the Company by transferring the intellectual property, notes receivable, royalties receivable and deferred franchise fees related to the operations of seven additional concepts: Frullati Cafe & Bakery, Rollerz, Ranch One, Surf City Squeeze, Johnnie's New York Pizzeria, NrGize Lifestyle Cafe, and Blimpie (collectively, the "Remaining Concepts"). Except for Blimpie, the net assets of these Remaining Concepts were previously reported in the financial statements of KFC, and the Blimpie net assets were previously reported in the financial statements of KBI Holdings, LLC ("KBI"), another wholly-owned subsidiary of the Parent. These net assets were transferred at their book value as recorded by KFC and KBI on January 1, 2011.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Equivalents – The Company considers all investment instruments purchased with an original maturity of three months or less to be cash equivalents. The Company may, in the normal course of business, maintain checking and savings account balances in excess of the \$250,000 Federal Deposit Insurance Corporation's insurance limit. At December 31, 2011 and 2010 the Company had no cash balances in excess of federally insured amounts.

Financial Instruments – Financial instruments consist primarily of cash, royalties receivable, notes receivable, net amounts due to/from Parent, and obligations under accounts payable and accrued expenses. The carrying amounts of cash, royalties receivable, accounts payable and accrued expenses approximate fair value because of the short maturity of those instruments. The Company cannot estimate the fair value of the net amounts due to Parent because of the related party nature of those obligations. Fair value of most of the notes receivable contain market interest rates. For those that do not, the notes are discounted at a market rate.

Revenue Recognition – Initial franchise fees received are deferred until the related franchised unit opens. When revenue from initial fees is collectible over an extended period of time and collectibility is not reasonably assured, revenue is recognized using the installment method as fees are collected. Revenues of approximately \$80,000 and \$78,000 from prior year franchise sales originally deferred were recognized during 2011 and 2010, respectively.

Fees received from the sale of Area Representative Agreements ("ARA's") or similar development arrangements covering a defined geographic region (such area referred to as the "Territory") are recognized as revenue as follows: as individual franchise agreements are signed and the applicable initial franchise fee paid to the Company for locations within a Territory, that portion of the area development fee equal in amount to the initial franchise fee collected is recognized as revenue upon the applicable store opening for business to the public. Upon termination or expiration of an ARA, the balance, if any remaining, of such area development fees is recognized.

Royalty income is recognized based on franchise store sales volumes and contractual arrangements with franchisees. If the franchise store is under an ARA, the royalties are recorded net of any royalties due to the respective Area Representative.

## KAHALA FRANCHISING, L.L.C.

### NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

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#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Royalties Receivable – The Company's royalties receivable reflects amounts that are due from franchisees for royalties earned as of year end.

The Company determines any required allowance by considering a number of factors including the length of time royalties receivable are past due and the Company's loss history. Receivables are considered past due when they are unpaid greater than thirty days. The Company would record a reserve account for receivables if they become uncollectible, and any payments subsequently received on such receivables would be credited to the reserve account. There was no allowance for doubtful accounts as of December 31, 2011 and 2010 and no bad debt expense related to royalties for the years then ended.

Notes Receivable – The Company's notes receivable principally results from the financing of the initial franchise fees required from franchisees, the sale of ARA's or similar development arrangements, and certain related expenses paid for on behalf of the Company's franchisees. The notes related to franchisees are generally guaranteed by the franchisee or purchaser and are collateralized by the related restaurant, associated equipment and leasehold improvements. The notes related to the ARA's are collateralized by development rights associated with the agreement. The notes are generally due in monthly installments of principal and interest with interest ranging from 6 - 12% per annum.

The Company determines any required allowance by periodically reviewing the collectibility of its notes receivable. The Company believes that the underlying collateral for the notes has sufficient value to offset any potential impairment of a note. Notes are valued at the estimated value of the collateral if it has been determined that foreclosure is probable. The Company recognizes interest income on notes it has determined to be impaired only when payments are received. The analysis of determining whether a note is impaired includes factors such as the payment history of the franchisee, operating results of the underlying store, the franchisee's relationship with the landlord and the value of any other collateral. There was an allowance for uncollectible notes of \$211,618 as of December 31, 2011. There were write-offs or allowances of \$341,544 and \$111,278 related to notes receivable for the years ended December 31, 2011 and 2010 respectively. The Company does not accrue interest income on past due receivables.

Income Taxes – As a limited liability company, the Company is taxed as a partnership, and is not subject to federal income tax. The Member separately accounts for its share of the Company's items of income, deductions, losses and credits. Therefore, no provision is made in the accompanying financial statements for liabilities for federal or state income taxes since such liabilities are the responsibility of the Member.

The Company adopted FASB Accounting Standards Codification (ASC) 740-10, relating to accounting for uncertain tax positions. ASC 740-10 prescribes a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters such as derecognition, interest, penalties and disclosures required. The Company does not have any entity level uncertain tax positions. The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. Generally, the Company is subject to examination by U.S. federal income tax authorities for three years from the filing of a tax return and three to four years by various state income tax authorities. The Company recognizes interest and penalties related to income tax matters in income tax expense.

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

### **NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010**

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#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

Intangible Assets – Intangible assets consist of franchise agreements, tradename and goodwill. Goodwill represents the excess of the aggregate price paid over the fair value of the net assets acquired in various acquisitions by the Parent (see Note 4) and is not amortized. The tradename represents the value associated with the brand of the Concepts and is not amortized because the lives have been determined to be indefinite. The franchise agreements have finite lives and are amortized on a straight-line basis over their estimated useful lives. The weighted average remaining useful lives of the franchise agreements was five years as of December 31, 2011. Amortizable intangible assets are tested for impairment annually or upon occurrence of such events that may indicate impairment exists. An impairment loss would be recognized when the carrying amount of an asset exceeds the estimated undiscounted cash flows used in determining the fair value of the assets.

In assessing the recoverability of goodwill and indefinite-lived intangible assets, the Company must make assumptions about the estimated future cash flows and other factors to determine the fair value of these assets. Management evaluates goodwill and other intangibles for impairment annually and when impairment indicators arise, in accordance with ASC 350. The annual testing date is December 31. Assumptions about future revenue and cash flows require significant judgment. The Company's management develops future revenue estimates based on historical trends and market data available. Estimates of future cash flows assume that expenses will grow at rates consistent with historical rates.

Based on the Company's impairment analysis of goodwill and intangibles in accordance with the provisions of ASC 350, the Company concluded that the carrying value of the goodwill was not impaired at December 31, 2011 and 2010. There was an impairment charge of \$1,673,505 in the year ended December 31, 2011 on the GSP tradename.

Fair Value Measurements – The Company adopted the provisions of ASC 820 Fair Value Measurements, effective January 1, 2009. Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the "exit price") in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various valuation approaches, including market, income and/or cost approaches. The accounting standard established a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the value that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs, as follows:

## KAHALA FRANCHISING, L.L.C.

### NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

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#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Bank has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Assets and liabilities utilizing Level 2 inputs are valued using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 - Inputs that are unobservable for the asset or liability, which are typically based on a entity's own assumptions, as there is little, if any, related market activity.

The availability of observable inputs varies based on the nature of the specific financial instrument. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair values requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining the fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. When market assumptions are available, the accounting standard requires the Company to make assumptions regarding the assumptions that market participants would use to estimate the fair value of the financial instrument at the measurement date.

#### Fair Value Measures at December 31, 2011

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Tradenames			\$17,363,217

As a result of the impairment analysis conducted at December 31, 2011, the value of the tradenames was written down to its estimated fair value. That fair value was estimated using Level 3 inputs.

Subsequent Events - Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are available to be issued. The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued. The Company has evaluated subsequent events through August 6, 2012, which is the date the financial statements became available to issue.

## KAHALA FRANCHISING, L.L.C.

### NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

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#### 3. NOTES RECEIVABLE

The aggregate gross amount due under notes receivable at December 31, 2011 and 2010 was \$862,085 and \$626,056, respectively. Management believes that this balance is not impaired since collection remains likely or that there is adequate collateral in the value of the franchises under contract and the area representative agreement itself. The Company has been successful in reselling franchised units and area representative agreements when defaults occur and the Company moves to collect on its collateral. However, due to late payment history resulting in technical default of certain notes, the Company has established an allowance of \$211,618 for certain notes receivable at December 31, 2011. This amount represents a full allowance on the uncollected balance of 12 notes receivable. Collections on notes receivable are due as follows:

Year ending December 31,	
2012	\$ 439,002
2013	156,919
2014	111,643
2015	98,839
2016	24,533
Thereafter	<u>31,149</u>
Total	<u>\$ 862,085</u>

#### 4. INTANGIBLE ASSETS

The Company was formed by its Parent on December 29, 2008. The initial capitalization of the Company was made primarily by the transfer of intellectual property (the intangible assets) of several of the Concepts held by the Parent, including: Samurai Sam's Teriyaki Grill, Taco Time, and The Great Steak & Potato Company. Those assets were transferred on September 30, 2009. Additionally, in the year ended December 31, 2011, the Parent further capitalized the Company by transferring the intellectual property, notes receivable, royalties receivable and deferred franchise fees related to the operations of seven additional concepts: Frullati Cafe & Bakery, Rollerz, Ranch One, Surf City Squeeze, Johnnie's New York Pizzeria, NrGize Lifestyle Cafe, and Blimpie. These assets were recorded at the value of those assets as they were carried by the Parent and its affiliates as of the date of transfer.

As discussed in Note 2, there was an impairment charge of \$1,673,505 in the year ended December 31, 2011 on the GSP tradename. The estimated fair value of the tradename was based upon a weighted allocation using discounted future cash flows and market based multiples. The valuation methodology includes analyses under an assumption of a relief of royalty for use of tradename to estimate the cash flows associated with such.



## KAHALA FRANCHISING, L.L.C.

### NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

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#### 4. INTANGIBLE ASSETS (CONTINUED)

Intangible assets at December 31, 2011 and 2010 consisted of the following:

	<u>Goodwill</u>	<u>Tradenames</u>	<u>Franchise Agreements</u>	<u>Total</u>
BALANCE, December 31, 2009	\$ 18,073,432	\$ 4,243,505	\$ 2,640,168	\$ 24,957,105
Additions	-	-	-	-
Amortization	-	-	(516,676)	(516,676)
BALANCE, December 31, 2010	18,073,432	4,243,505	2,123,492	24,440,429
Additions	14,510,487	14,793,217	7,816,796	37,120,500
Amortization	-	-	(1,966,652)	(1,966,652)
Impairments/adjustments	-	(1,673,505)	-	(1,673,505)
BALANCE, December 31, 2011	<u>\$ 32,583,919</u>	<u>\$ 17,363,217</u>	<u>\$ 7,973,636</u>	<u>\$ 57,920,772</u>

Estimated aggregate amortization expense for each of the next five years and thereafter is as follows:

<u>Year ending December 31,</u>	
2012	\$ 1,966,626
2013	1,673,318
2014	1,673,318
2015	1,673,318
2016	565,495
Thereafter	<u>421,561</u>
Total	<u>\$ 7,973,636</u>

The weighted average life of the various franchise agreements is 10.37 years.

#### 5. RELATED PARTY TRANSACTIONS

##### Transactions With Affiliate

On October 1, 2009, the Company entered into a management agreement with Kahala Management, LLC (the "Affiliate"), a wholly owned subsidiary of the Parent, whereby the Affiliate would manage the Company's franchise systems and underlying businesses detailed in Note 1 above. Accordingly, the

## KAHALA FRANCHISING, L.L.C.

### NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

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#### 5. RELATED PARTY TRANSACTIONS (CONTINUED)

management and administrative functions of the Company are provided by the Affiliate. These functions include, but are not limited, to: (i) general and administrative support services; (ii) legal services; (iii) distribution services; (iv) purchasing services; (v) research and development; (vi) training; (vii) pre and post opening support and assistance to franchisees; (viii) collection of and monitoring of royalties and advertising contributions; (ix) marketing, advertising and promotional support; and (x) informational support services (collectively, the “Services”).

In exchange for the Services, the management agreement requires the Company to pay a fee to the Affiliate equal to the net income of the Company. The result is no income or losses on the accompanying statement of operations. During the year ended December 31, 2011 and 2010, the Company paid or accrued a total of \$14,474,403 and \$7,190,100, respectively to the Affiliate. The Company had net balances due from the Affiliate of \$1,936,610 and \$312,435 at December 31, 2011 and 2010, respectively.

#### 6. TRANSFER OF ASSETS FROM PARENT

As discussed in Note 1, the Parent transferred the Remaining Concepts from other Affiliates, KFC and Blimpie to the Company on January 1, 2011. The Parent had ownership of these concepts for several years and had been previously been operating them under other affiliated entities. As the transfer of these net assets has occurred among entities under common control, the historical cost carrying value of the net assets by those Affiliates represents the transferred value to the Company. The net assets transferred to the Company by the Parent on January 1, 2011 consisted of the following:

Cash	\$ 291,604
Notes Receivable	506,042
Franchise Agreements	7,816,796
Tradenames	14,793,217
Goodwill	14,510,487
Trade Accounts Payable	(381,627)
Deferred Franchise Fee Revenue	(368,420)
Due to Parent	(923,690)
Net Assets Transferred	<u>\$ 36,244,409</u>

#### 7. CONTINGENCIES

The Company becomes involved in legal disputes in the normal course of business. With respect to any claims existing at December 31, 2011, the Company believes that it has adequate counter claims or defenses and that the probability of incurring significant liability related to those claims is remote.

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

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010**

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7. CONTINGENCIES (CONTINUED)

The Company is committed under the management agreement discussed in Note 5 to pay the Affiliate substantially all of the Company's excess cash flow. The Affiliate and Parent may draw upon the Company's cash balances as desired.

Income tax obligations of the predecessor company, KFC, were not transferred to the Company. Income taxes payable by KFC are past due and KFC has estimated that these obligations do not exceed \$6,000,000 at December 31, 2011, including penalties and interest. Any income taxes payable remain an obligation of KFC. KFC is a separate tax-paying entity. However, until the settlement and payment of these obligations, the full implications to the Parent, its affiliates and the Company are unknown.

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**KAHALA FRANCHISING LLC**

**Financial Statements as of  
December 31, 2010  
And Independent Auditors' Report**

## KAHALA FRANCHISING LLC

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**MORRISON & ASSOCIATES CPAs, PLLC**  
Certified Public Accountants

American Institute Of Certified Public Accountants / Arizona Society Of Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Kahala Franchising LLC:

We have audited the balance sheet of Kahala Franchising LLC (the "Company") as of December 31, 2010 and the related statements of operations and member's equity and cash flows for 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 provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of Kahala Franchising LLC as of December 31, 2010 and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Company is affiliated with other companies in the same line of business, all of which are controlled by a common parent with the ability to influence the volume of business done by each company. As discussed in Notes 1 and 5, the Company and its affiliates have engaged in significant transactions with each other. The Company's sole member is beneficially owned by Kahala Corp. ("Parent"). The Company was organized to hold certain intellectual property of the Parent and to administer, service, finance, manage, license, franchise and operate such intellectual property. The Company processes certain transactions of the Parent primarily those related to area development agreements, franchise agreements and monthly royalties from franchisees. The ongoing operations of the Company are dependent upon the support of the Parent and its affiliates.

*Morrison & Associates CPAs, PLLC*

5650 W. Chandler Blvd., Suite 2  
Chandler, Arizona 85226  
November 11, 2011

**KAHALA FRANCHISING LLC**

**BALANCE SHEET  
AS OF DECEMBER 31, 2010**

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**ASSETS**

**CURRENT ASSETS**

Cash and equivalents	\$	121,081
Royalties receivable		900,487
Notes receivable - current portion		399,244
Total current assets		<u>1,420,812</u>

**OTHER ASSETS**

Notes receivable - less current portion		226,812
Definite lived intangible assets		2,123,492
Tradename		4,243,505
Goodwill		18,073,432
Due from Parent		312,435
Total other assets		<u>24,979,676</u>

<b>TOTAL ASSETS</b>	<b>\$</b>	<b><u>26,400,488</u></b>
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**LIABILITIES AND MEMBER'S EQUITY**

**CURRENT LIABILITIES**

Accounts payable	\$	35,084
Total current liabilities		<u>35,084</u>

<b>DEFERRED FRANCHISE FEE INCOME</b>		<u>1,279,129</u>
Total liabilities		<u>1,314,213</u>

<b>MEMBER'S EQUITY</b>		<u>25,086,275</u>
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<b>TOTAL LIABILITIES AND MEMBER'S EQUITY</b>	<b>\$</b>	<b><u>26,400,488</u></b>
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The accompanying notes are an integral part of these financial statements.

**KAHALA FRANCHISING LLC**

**STATEMENT OF OPERATIONS AND MEMBER'S EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2010**

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INCOME	
Royalty income - net	\$ 7,482,378
Franchise fee income	<u>305,972</u>
Total income	<u>7,788,350</u>
COSTS AND EXPENSES	
Amortization of franchise agreements	516,676
Bad debt expense	111,278
Management fee	<u>7,190,100</u>
Total costs and expenses	<u>7,818,054</u>
INCOME (LOSS) FROM OPERATIONS	<u>(29,704)</u>
INTEREST INCOME	<u>29,704</u>
NET INCOME (LOSS)	-
MEMBER'S EQUITY, BEGINNING OF YEAR	25,086,275
MEMBER'S EQUITY, END OF YEAR	<u><u>\$ 25,086,275</u></u>

The accompanying notes are an integral part of these financial statements.



**KAHALA FRANCHISING LLC**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

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<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Net income (loss)	\$ -
Adjustments to reconcile net income (loss) to net cash used in operating activities:	
Amortization	516,676
Bad debt expense	111,278
Changes in assets and liabilities:	
Royalties receivable	(39,010)
Due from Parent	(582,492)
Accounts payable	11,728
Deferred franchise fee income	(406,037)
Net cash used in operating activities	<u>(387,857)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Repayments on notes receivable	208,490
Net cash provided by investing activities	<u>208,490</u>
DECREASE IN CASH AND EQUIVALENTS	(179,367)
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>300,448</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 121,081</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>	
Interest paid	<u>\$ -</u>
Income taxes paid	<u>\$ -</u>
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>	
Notes receivable taken for franchise fees and royalties	<u>\$ 410,978</u>

The accompanying notes are an integral part of these financial statements.

## KAHALA FRANCHISING LLC

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

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#### 1. ORGANIZATION AND BASIS OF PRESENTATION

Kahala Franchising LLC (the “Company”), an Arizona Limited Liability Company, was formed on December 29, 2008. The Company was organized to hold certain intellectual property and to administer, service, finance, manage, license, franchise and operate such intellectual property in the business of quick service food restaurants operating under the Samurai Sam’s Teriyaki Grills, Taco Time, and The Great Steak & Potato Company brand names (collectively, the “Concepts”).

The following summarizes each of the Concepts as of December 31, 2010, including the type of restaurant business and number of franchised units in operation: (i) Samurai Sam’s Teriyaki Grills: restaurants serving Japanese food with 45 franchises; (ii) Taco Time: restaurants serving Mexican food with 299 franchises; and (iii) The Great Steak & Potato Company: restaurants serving Philadelphia cheesesteak (and chicken) sandwiches and french fries with 140 franchises.

As of December 31, 2010, the Company’s Concepts are located in 34 states in the United States, the District of Columbia, Canada, Kuwait, and the Netherland Antilles. The Company’s Concepts are primarily located in shopping malls, airports, medical centers, office buildings, pad sites, street locations and health clubs.

The Company is a wholly owned subsidiary of Kahala Corp. (the “Parent”). The Company serves as a conduit to process certain transactions of Kahala Corp., primarily those related to area development agreements, franchise agreements and monthly royalties from franchisees. The Company’s operations are based upon the Concepts transferred to the Company by the Parent. Also, as discussed in Note 5, the Company is committed to pay a management fee to an affiliate equal to the net income of the Company before consideration of such management fee. The Company’s results of operations and financial position may be substantially different if consolidated with the Parent. The ongoing operations of the Company are dependent upon the support of the Parent and its affiliates.

On September 30, 2009, the Parent effected the capitalization of the Company by transferring the intellectual property, notes receivable, royalties receivable and deferred franchise fees related to the operations of Samurai Sam’s, Taco Time and The Great Steak & Potato Company. These net assets were previously reported in the financial statements of Kahala Franchise Corp. (“KFC”), another wholly owned subsidiary of the Parent. These net assets were transferred at their book value as recorded by KFC on September 30, 2009. KFC previously operated and managed these Concepts in addition to Frullati Café & Bakery, Rollerz, Ranch \* 1, Surf City Squeeze, Johnnie’s Pizza, NRgize Lifestyle Café, Blimpie, and Wafflō brand names. Only the net assets related to the Concepts were transferred.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Equivalents – The Company considers all investment instruments purchased with an original maturity of three months or less to be cash equivalents. The Company may, in the normal course of business, maintain checking and savings account balances in excess of the \$250,000 Federal Deposit Insurance Corporation’s insurance limit. At December 31, 2010, the Company had no cash balances in excess of federally insured amounts.

## KAHALA FRANCHISING LLC

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

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#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments – Financial instruments consist primarily of cash, royalties receivable, notes receivable, net amounts due to/from Parent, and obligations under accounts payable and accrued expenses. The carrying amounts of cash, royalties receivable, accounts payable and accrued expenses approximate fair value because of the short maturity of those instruments. The Company cannot estimate the fair value of the net amounts due to Parent because of the related party nature of those obligations. Fair value of most of the notes receivable contain market interest rates. For those that do not, the notes are discounted at a market rate.

Revenue Recognition – Initial franchise fees received are deferred until the related franchised unit opens. When revenue from initial fees is collectible over an extended period of time and collectibility is not reasonably assured, revenue is recognized using the installment method as fees are collected. Revenues of approximately \$78,000 from prior year franchise sales originally deferred were recognized during 2010.

Fees received from the sale of Area Representative Agreements (“ARA’s”) or similar development arrangements covering a defined geographic region (such area referred to as the “Territory”) are recognized as revenue as follows: as individual franchise agreements are signed and the applicable initial franchise fee paid to the Company for locations within a Territory, that portion of the area development fee equal in amount to the initial franchise fee collected is recognized as revenue upon the applicable store opening for business to the public. Upon termination or expiration of an ARA, the balance, if any remaining, of such area development fees is recognized.

Royalty income is recognized based on franchise store sales volumes and contractual arrangements with franchisees. If the franchise store is under an ARA, the royalties are recorded net of any royalties due to the respective Area Representative.

Royalties Receivable – The Company's royalties receivable reflects amounts that are due from franchisees for royalties earned as of December 31, 2010.

The Company determines any required allowance by considering a number of factors including the length of time royalties receivable are past due and the Company's loss history. Receivables are considered past due when they are unpaid greater than thirty days. The Company would record a reserve account for receivables if they become uncollectible, and any payments subsequently received on such receivables would be credited to the reserve account. There was no allowance for doubtful accounts as of December 31, 2010 and no bad debt expense related to royalties for the year then ended.

## KAHALA FRANCHISING LLC

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

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#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Notes Receivable – The Company's notes receivable principally results from the financing of the initial franchise fees required from franchisees, the sale of ARA's or similar development arrangements, and certain related expenses paid for on behalf of the Company's franchisees. The notes related to franchisees are generally guaranteed by the franchisee or purchaser and are collateralized by the related restaurant, associated equipment and leasehold improvements. The notes related to the ARA's are collateralized by development rights associated with the agreement. The notes are generally due in monthly installments of principal and interest with interest ranging from 6 - 12% per annum.

The Company determines any required allowance by periodically reviewing the collectibility of its notes receivable. The Company believes that the underlying collateral for the notes has sufficient value to offset any potential impairment of a note. Notes are valued at the estimated value of the collateral if it has been determined that foreclosure is probable. The Company recognizes interest income on notes it has determined to be impaired only when payments are received. The analysis of determining whether a note is impaired includes factors such as the payment history of the franchisee, operating results of the underlying store, the franchisee's relationship with the landlord and the value of any other collateral. There was no allowance for uncollectible notes as of December 31, 2010. During the year ended December 31, 2010, \$111,278 related to notes receivable were written off.

Income Taxes – As a limited liability company the Company is taxed as a partnership, and is not subject to federal income tax. The Member separately accounts for its share of the Company's items of income, deductions, losses and credits. Therefore, no provision is made in the accompanying financial statements for liabilities for federal, state or local income taxes since such liabilities are the responsibility of the individual member.

The Company adopted FASB Accounting Standards Codification (ASC) 740-10, relating to accounting for uncertain tax positions. ASC 740-10 prescribes a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters such as derecognition, interest, penalties and disclosures required. The Company does not have any entity level uncertain tax positions. The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. Generally, the Company is subject to examination by U.S. federal income tax authorities for three years from the filing of a tax return and three to four years by various state income tax authorities. The Company recognizes interest and penalties related to income tax matters in income tax expense.

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

## KAHALA FRANCHISING LLC

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

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#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible Assets – Intangible assets consist of franchise agreements, tradename and goodwill. Goodwill represents the excess of the aggregate price paid over the fair value of the net assets acquired in various acquisitions by the Parent (see Note 4) and is not amortized. The tradename represents the value associated with the brand of the Concepts and is not amortized because the lives have been determined to be indefinite. The franchise agreements have finite lives and are amortized on a straight-line basis over their estimated useful lives. The weighted average remaining useful lives of the franchise agreements was five years as of December 31, 2010. Amortizable intangible assets are tested for impairment annually or upon occurrence of such events that may indicate impairment exists. An impairment loss would be recognized when the carrying amount of an asset exceeds the estimated undiscounted cash flows used in determining the fair value of the assets.

In assessing the recoverability of goodwill and intangible assets, the Company must make assumptions about the estimated future cash flows and other factors to determine the fair value of these assets. Management evaluates goodwill and other intangibles for impairment annually and when impairment indicators arise, in accordance with ASC 350. The annual testing date is December 31. Assumptions about future revenue and cash flows require significant judgment. The Company's management develops future revenue estimates based on historical trends and market data available. Estimates of future cash flows assume that expenses will grow at rates consistent with historical rates.

Based on the Company's impairment analysis of goodwill and intangibles in accordance with the provisions of ASC 350, the Company concluded that the carrying value of the goodwill was not impaired at December 31, 2010.

Fair Value Measurements – The Company adopted the provisions of ASC 820 Fair Value Measurements, effective January 1, 2009. Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the "exit price") in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various valuation approaches, including market, income and/or cost approaches. The accounting standard established a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the value that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs, as follows:

Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Bank has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

## KAHALA FRANCHISING LLC

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

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#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Assets and liabilities utilizing Level 2 inputs are valued using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 - Inputs that are unobservable for the asset or liability, which are typically based on a entity's own assumptions, as there is little, if any, related market activity.

The availability of observable inputs varies based on the nature of the specific financial instrument. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair values requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining the fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. When market assumptions are available, the accounting standard requires the Company to make assumptions regarding the assumptions that market participants would use to estimate the fair value of the financial instrument at the measurement date.

The Company's investments consist of cash and equivalents. Cash and equivalents, Level 1 inputs, are stated at cost which approximates market value.

Subsequent Events - Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are available to be issued. The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued. The Company has evaluated subsequent events through November 11, 2011, which is the date the financial statements became available to issue.

## KAHALA FRANCHISING LLC

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

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#### 3. NOTES RECEIVABLE

The aggregate gross amount due under notes receivable at December 31, 2010 was \$626,056. Management believes that this balance is not impaired since collection remains likely or that there is adequate collateral in the value of the franchises under contract and the area representative agreement itself. The Company has been successful in reselling franchised units and area representative agreements when defaults occur and the Company moves to collect on its collateral. Collections on notes receivable are due as follows:

Year ending December 31,	
2011	\$ 399,244
2012	137,842
2013	34,891
2014	15,437
2015	16,969
Thereafter	<u>21,673</u>
Total	<u>\$ 626,056</u>

#### 4. INTANGIBLE ASSETS

The Company was formed by its Parent on December 29, 2008. The initial capitalization of the Company was made primarily by the transfer of intellectual property (the intangible assets) of several of the Concepts held by the Parent, including: Samurai Sam's Teriyaki Grills, Taco Time, and The Great Steak & Potato Company. Those assets were transferred on September 30, 2009. The assets are recorded at the value of those assets as they were carried by the Parent and its affiliates as of the date of transfer.

Intangible assets at December 31, 2010 consisted of the following:

Franchise agreements:	
Gross Value	\$ 6,615,732
Accumulated amortization	(3,267,094)
Impairment loss (prior year)	<u>(1,225,146)</u>
Net franchise agreements	<u>\$ 2,123,492</u>
Tradename	<u>\$ 4,243,505</u>
Goodwill	<u>\$ 18,073,432</u>

Amortization expense related to the franchise agreements for the year ended December 31, 2010 was \$516,676. Estimated aggregate amortization expense for each of the next five years and thereafter is as follows:

## KAHALA FRANCHISING LLC

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

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#### 4. INTANGIBLE ASSETS (CONTINUED)

Year ending December 31,	
2011	\$ 516,676
2012	516,676
2013	516,676
2014	223,343
2015	223,343
Thereafter	<u>126,778</u>
Total	<u>\$ 2,123,492</u>

The weighted average remaining life of the various franchise agreements is 6.68 years.

#### 5. RELATED PARTY TRANSACTIONS

##### Transactions With Parent

On October 1, 2009, the Company entered into a management agreement with Kahala Management, LLC (the "Affiliate"), a wholly owned subsidiary of the Parent, whereby the Affiliate would manage the Company's franchise systems and underlying businesses detailed in Note 1 above. Accordingly, the management and administrative functions of the Company are provided by the Affiliate. These functions include, but are not limited, to: (i) general and administrative support services; (ii) legal services; (iii) distribution services; (iv) purchasing services; (v) research and development; (vi) training; (vii) pre and post opening support and assistance to franchisees; (viii) collection of and monitoring of royalties and advertising contributions; (ix) marketing, advertising and promotional support; and (x) informational support services (collectively, the "Services").

In exchange for the Services, the management agreement requires the Company to pay a fee to the Affiliate equal to the net income of the Company. The result is no income or losses on the accompanying statement of operations. During the year ended December 31, 2010, the Company paid or accrued a total of \$7,190,100 to the Affiliate. The Company had net balances due from the Affiliate of \$312,435 at December 31, 2010.

#### 6. CONTINGENCIES

The Company becomes involved in legal disputes in the normal course of business. With respect to any claims existing at December 31, 2010, the Company believes that it has adequate counter claims or defenses and that the probability of incurring significant liability related to those claims is remote.

The Company is committed under the management agreement discussed in Note 5 to pay the Affiliate substantially all of the Company's excess cash flow. The Affiliate and Parent may draw upon the Company's cash balances as desired.



**KAHALA FRANCHISING LLC**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

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6. CONTINGENCIES (CONTINUED)

Income tax obligations of the predecessor company, KFC, were not transferred to the Company. Income taxes payable by KFC are past due and KFC has estimated that these obligations do not exceed \$6,000,000 at December 31, 2010, including penalties and interest. Any income taxes payable remain an obligation of KFC. KFC is a separate tax-paying entity. However, until the settlement and payment of these obligations, the full implications to the Parent, its affiliates and the Company are unknown.

\* \* \* \* \*

MOSSES ADAMS

**KAHALA FRANCHISING LLC**

**Financial Statements as of  
December 31, 2009  
and Report of Independent Auditors**

# KAHALA FRANCHISING LLC

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**REPORT OF INDEPENDENT AUDITORS**

To the Board of Directors of  
Kahala Franchising LLC:

We have audited the balance sheet of Kahala Franchising LLC as of December 31, 2009 and the related statements of operations, member's equity 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 provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of Kahala Franchising LLC as of December 31, 2009 and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Company is affiliated with other companies in the same line of business, all of which are controlled by a common parent with the ability to influence the volume of business done by each company. As discussed in Notes 1 and 5, the Company and its affiliates have engaged in significant transactions with each other. The Company's sole member is beneficially owned by Kahala Corp. ("Parent"). The Company was organized to hold certain intellectual property of the Parent and to administer, service, finance, manage, license, franchise and operate such intellectual property. The Company processes certain transactions of the Parent primarily those related to area development agreements, franchise agreements and monthly royalties from franchisees. The ongoing operations of the Company are dependent upon the support of the Parent and its affiliates.

*Moss Adams LLP*

Scottsdale, Arizona  
August 6, 2010

**KAHALA FRANCHISING LLC**

**BALANCE SHEET  
AS OF DECEMBER 31, 2009**

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**ASSETS**

CURRENT ASSETS:

Cash	\$	300,448
Royalties receivable		861,477
Notes receivable - current portion		308,034
Total current assets		<u>1,469,959</u>

OTHER ASSETS:

Notes receivable - less current portion		226,812
Franchise agreements - net		2,640,169
Tradenname		4,243,505
Goodwill		18,073,432
Total other assets		<u>25,183,918</u>

TOTAL ASSETS	\$	<u>26,653,877</u>
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**LIABILITIES AND MEMBER'S EQUITY**

CURRENT LIABILITIES:

Accounts payable	\$	23,356
Due to affiliate		270,057
Total current liabilities		<u>293,413</u>

DEFERRED FRANCHISE FEE INCOME		<u>1,274,189</u>
Total liabilities		<u>1,567,602</u>

MEMBER'S EQUITY		<u>25,086,275</u>
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TOTAL LIABILITIES AND MEMBER'S EQUITY	\$	<u>26,653,877</u>
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*The accompanying notes are an integral part of these financial statements.*

**KAHALA FRANCHISING LLC**

**STATEMENT OF OPERATIONS AND MEMBER'S EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2009**

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INCOME:	
Royalty income - net	\$ 1,790,975
Franchise fee income	292,945
Total income	<u>2,083,920</u>
COSTS AND EXPENSES:	
Amortization of franchise agreements	129,169
Management fee	1,960,116
Total costs and expenses	<u>2,089,285</u>
INCOME FROM OPERATIONS	(5,365)
INTEREST INCOME	<u>5,365</u>
NET INCOME	-
MEMBER'S EQUITY BEGINNING OF YEAR	-
CONTRIBUTION OF ASSETS BY MEMBER	<u>25,086,275</u>
MEMBER'S EQUITY END OF YEAR	<u>\$ 25,086,275</u>

*The accompanying notes are an integral part of these financial statements.*

**KAHALA FRANCHISING LLC**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

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CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	\$ -
Adjustments to reconcile net income to net cash used in operating activities:	
Amortization of franchise agreements	129,169
Changes in assets and liabilities:	
Royalties receivable	22,162
Due to/from parent	479,443
Accounts payable	23,356
Deferred franchise fee income	(498,214)
Net cash provided by operating activities	<u>155,916</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Repayments on notes receivable	<u>144,532</u>
Net cash provided by investing activities	<u>144,532</u>
INCREASE IN CASH	300,448
CASH, BEGINNING OF YEAR	<u>-</u>
CASH, END OF YEAR	<u>\$ 300,448</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:	
Issuance of notes receivable	<u>\$ 86,172</u>
Contribution of assets by member	<u>\$ 25,086,275</u>

*The accompanying notes are an integral part of these financial statements.*

## **KAHALA FRANCHISING LLC**

### **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009**

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#### **1. ORGANIZATION AND BASIS OF PRESENTATION**

Kahala Franchising LLC (the “Company”) an Arizona Limited Liability Company, was formed on December 29, 2008. The Company was organized to hold certain intellectual property and to administer, service, finance, manage, license, franchise and operate such intellectual property in the business of quick service food restaurants operating under the Samurai Sam’s Teriyaki Grills, Taco Time and The Great Steak & Potato Company brand names (collectively, the “Concepts”).

The following summarizes each of the Concepts as of December 31, 2009, including the type of restaurant business and number of franchised units in operation: (i) Samurai Sam’s Teriyaki Grills: restaurants serving Japanese food with 55 franchises; (ii) Taco Time: restaurants serving Mexican food with 296 franchises; and (iii) The Great Steak & Potato Company: restaurants serving Philadelphia cheesesteak (and chicken) sandwiches and french fries with 169 franchises.

At December 31, 2009, the Concepts are located in 34 states in the United States, the District of Columbia, Canada, Kuwait, and the Netherlands Antilles. The Company’s Concepts are primarily located in shopping malls, airports, medical centers, office buildings, pad sites, street locations and health clubs.

The Company is a wholly owned subsidiary of Kahala Corp. (the “Parent”). The Company serves as a conduit to process certain transactions of Kahala Corp., primarily those related to area development agreements, franchise agreements and monthly royalties from franchisees. The Company’s operations are based upon the Concepts transferred to the Company by the Parent. Also, as discussed in Note 5, the Company is committed to pay a management fee to an affiliate equal to the net income of the Company before consideration of such management fee. The Company’s results of operations and financial position may be substantially different if consolidated with the Parent. The ongoing operations of the Company are dependent upon the support of the Parent and its affiliates.

On September 30, 2009, the Parent effected the capitalization of the Company by transferring the intellectual property, notes receivable, royalties receivable and deferred franchise fees related to the operations of Samurai Sam’s, Taco Time and The Great Steak & Potato Company. These net assets were previously reported in the financial statements of Kahala Franchise Corp. (“KFC”), another wholly owned subsidiary of the Parent. These net assets were transferred at their book value as recorded by KFC on September 30, 2009. KFC previously operated and managed these Concepts in addition to Frullati Café & Bakery, Rollerz, Ranch \* 1, Surf City Squeeze, Johnnie’s Pizza, nrgize Lifestyle Café, Blimpie and Wafflō brand names. Only the net assets related to the Concepts were transferred.

Operations of the Company commenced and are reported from the September 30, 2009 transfer date through December 31, 2009.



## KAHALA FRANCHISING LLC

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

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#### 1. ORGANIZATION AND BASIS OF PRESENTATION (CONTINUED)

The following schedule represents the balance sheet of KFC at September 30, 2009 and the assets and liabilities transferred from KFC to the Company on that date:

	<b>KFC</b> <b>(unaudited)</b>	<b>Company</b>
Cash	\$ 866,054	\$ -
Receivables	2,876,995	1,476,845
Intangible assets	36,277,188	25,086,275
Due from Parent	12,368,555	209,386
Total Assets	<u>\$ 52,388,792</u>	<u>\$ 26,772,506</u>
Accounts payable	\$ 150,423	\$ -
Income taxes payable	8,011,928	
Deferred income taxes	2,492,283	
Deferred Franchise Fee Income	4,940,996	1,686,231
Total Liabilities	<u>15,595,630</u>	<u>1,686,231</u>
Stockholder's Equity/Net Assets	<u>\$ 36,793,162</u>	<u>\$ 25,086,275</u>

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Equivalents – The Company considers all investment instruments purchased with an original maturity of three months or less to be cash equivalents. The Company may, in the normal course of business, maintain checking and savings account balances in excess of the \$250,000 Federal Deposit Insurance Corporation's insurance limit. At December 31, 2009, the Company had cash balances in excess of federally insured amounts of approximately \$50,448.

Financial Instruments – Financial instruments consist primarily of cash, royalties receivable, notes receivable, net amounts due to/from Parent, and obligations under accounts payable and accrued expenses. The carrying amounts of cash, royalties receivable, accounts payable and accrued expenses approximate fair value because of the short maturity of those instruments. The Company cannot estimate the fair value of the net amounts due to Parent because of the related party nature of those obligations. Fair value of most of the notes receivable contain market interest rates. For those that do not, the notes are discounted at a market rate.

Revenue Recognition – Initial franchise fees received are deferred until the related franchised unit opens. When revenue from initial fees is collectible over an extended period of time and collectibility is not reasonably assured, revenue is recognized using the installment method as fees are collected. Revenues of approximately \$222,000 from prior year franchise sales originally deferred were recognized during 2009.

## KAHALA FRANCHISING LLC

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

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#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fees received from the sale of Area Representative Agreements (“ARA’s”) or similar development arrangements covering a defined geographic region (such area referred to as the “Territory”) are recognized as revenue as follows: as individual franchise agreements are signed and the applicable initial franchise fee paid to the Company for locations within a Territory, that portion of the area development fee equal in amount to the initial franchise fee collected is recognized as revenue upon the applicable store opening for business to the public. Upon termination or expiration of an ARA, the balance, if any remaining, of such area development fees is recognized.

Royalty income is recognized based on franchise store sales volumes and contractual arrangements with franchisees. If the franchise store is under an ARA, the royalties are recorded net of any royalties due to the respective Area Representative.

Royalties Receivable – The Company's royalties receivable reflects amounts that are due from franchisees for royalties earned as of December 31, 2009.

The Company determines any required allowance by considering a number of factors including the length of time royalties receivable are past due and the Company's loss history. Receivables are considered past due when they are unpaid greater than thirty days. The Company would record a reserve account for receivables if they become uncollectible, and any payments subsequently received on such receivables would be credited to the reserve account. There was no allowance for doubtful accounts as of December 31, 2009 and no bad debt expense for the period then ended.

Notes Receivable – The Company's notes receivable principally results from the financing of the initial franchise fees required from franchisees, the sale of ARA's or similar development arrangements, and certain related expenses paid for on behalf of the Company's franchisees. The notes related to franchisees are generally guaranteed by the franchisee or purchaser and are collateralized by the related restaurant, associated equipment and leasehold improvements. The notes related to the ARA's are collateralized by development rights associated with the agreement. The notes are generally due in monthly installments of principal and interest with interest ranging from 6 - 12% per annum.

The Company determines any required allowance by periodically reviewing the collectibility of its notes receivable. The Company believes that the underlying collateral for the notes has sufficient value to offset any potential impairment of a note. Notes are valued at the estimated value of the collateral if it has been determined that foreclosure is probable. The Company recognizes interest income on notes it has determined to be impaired only when payments are received. The analysis of determining whether a note is impaired includes factors such as the payment history of the franchisee, operating results of the underlying store, the franchisee's relationship with the landlord and the value of any other collateral. There was no allowance for uncollectible notes as of December 31, 2009.

## KAHALA FRANCHISING LLC

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

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#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes – As a limited liability company the Company is taxed as a partnership, and is not subject to federal income tax. The Member separately accounts for its share of the Company's items of income, deductions, losses and credits. Therefore, no provision is made in the accompanying financial statements for liabilities for federal, state or local income taxes since such liabilities are the responsibility of the individual partners.

Income tax obligations of the predecessor company, KFC were not transferred to the Company. Income taxes payable and a net deferred income tax liability of \$8,012,000 and \$4,430,000 remain with KFC and continue to be an obligation of the Parent and its affiliates.

The Company adopted FASB Accounting Standards Codification (ASC) 740-10, relating to accounting for uncertain tax positions. ASC 740-10 prescribes a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters such as derecognition, interest, penalties and disclosures required. The Company does not have any entity level uncertain tax positions. The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. Generally, the Company is subject to examination by U.S. federal income tax authorities for three years from the filing of a tax return and three to four years by various state income tax authorities.

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

FASB Codification – On July 1, 2009, the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) became the single authoritative source for nongovernmental U.S. generally accepted accounting principles (GAAP). The ASC supersedes all previous authoritative GAAP applicable to the Company and is effective for interim and annual periods ended after September 15, 2009.

Intangible Assets – Intangible assets consist of franchise agreements, tradename and goodwill. Goodwill represents the excess of the aggregate price paid over the fair value of the net assets acquired in various acquisitions by the Parent (see Note 4) and is not amortized. The tradename represents the value associated with the brand of the Concepts and is not amortized because the lives have been determined to be indefinite. The franchise agreements have finite lives and are amortized on a straight-line basis over their estimated useful lives. The weighted average remaining useful lives of the franchise agreements was eleven years as of December 31, 2009. Amortizable intangible assets are tested for impairment annually or upon occurrence of such events that may indicate impairment exists. An impairment loss would be recognized when the carrying amount of an asset exceeds the estimated undiscounted cash flows used in determining the fair value of the assets.

## KAHALA FRANCHISING LLC

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

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#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In assessing the recoverability of goodwill and intangible assets, the Company must make assumptions about the estimated future cash flows and other factors to determine the fair value of these assets. Management evaluates goodwill and other intangibles for impairment annually and when impairment indicators arise, in accordance with ASC 350. The annual testing date is December 31. Assumptions about future revenue and cash flows require significant judgment. The Company's management develops future revenue estimates based on historical trends and market data available. Estimates of future cash flows assume that expenses will grow at rates consistent with historical rates.

Based on the Company's impairment analysis of goodwill and intangibles in accordance with the provisions of ASC 350, the Company concluded that the carrying value of the goodwill was not impaired at December 31, 2009.

Fair Value Measurements – The Company adopted the provisions of ASC 820 Fair Value Measurements, effective January 1, 2009. Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the "exit price") in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various valuation approaches, including market, income and/or cost approaches. The accounting standard established a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the value that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs, as follows:

Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Bank has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Assets and liabilities utilizing Level 2 inputs are valued using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 - Inputs that are unobservable for the asset or liability, which are typically based on a entity's own assumptions, as there is little, if any, related market activity.

## KAHALA FRANCHISING LLC

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

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#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The availability of observable inputs varies based on the nature of the specific financial instrument. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair values requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining the fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. When market assumptions are available, the accounting standard requires the Company to make assumptions regarding the assumptions that market participants would use to estimate the fair value of the financial instrument at the measurement date.

The Company's investments consist of cash and cash equivalents. Cash and cash equivalents, Level 1 inputs, are stated at cost which approximates market value.

Subsequent Events - Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are available to be issued. The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued. The Company has evaluated subsequent events through August 6, 2010, which is the date the financial statements became available to issue.

## KAHALA FRANCHISING LLC

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

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#### 3. NOTES RECEIVABLE

The aggregate gross amount due under notes receivable at December 31, 2009 was \$534,846. The balance of ARA notes receivable that is delinquent and not accruing interest at December 31, 2009 was \$109,250. Management believes that this balance is not impaired since collection remains likely or that there is adequate collateral in the value of the franchises under contract and the area representative agreement itself. The Company has been successful in reselling franchised units and area representative agreements when defaults occur and the Company moves to collect on its collateral. Collections on notes receivable are due as follows:

Year ending December 31,	
2010	\$ 308,034
2011	137,841
2012	34,890
2013	15,437
2014	16,969
Thereafter	<u>21,675</u>
Total	<u>\$ 534,846</u>

#### 4. INTANGIBLE ASSETS

The Company was formed by its Parent on December 29, 2008. The initial capitalization of the Company was made primarily by the transfer of intellectual property (the intangible assets) of several of the Concepts held by the Parent, including: Samurai Sam's Teriyaki Grills, Taco Time, and The Great Steak & Potato Company. Those assets were transferred on September 30, 2009. The assets are recorded at the value of those assets as they were carried by the Parent and its affiliates as of the date of transfer.

## KAHALA FRANCHISING LLC

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

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#### 4. INTANGIBLE ASSETS (CONTINUED)

Intangible assets at December 31, 2009 consisted of the following:

Franchise agreements:	
Gross value	\$ 6,615,732
Accumulated amortization	(3,267,093)
Impairment loss (prior year)	<u>(708,470)</u>
Net franchise agreements	<u>\$ 2,640,169</u>
Tradename	<u>\$ 4,243,505</u>
Goodwill	<u>\$ 18,073,432</u>

Amortization expense related to the franchise agreements for the year ended December 31, 2009 was \$129,169. Estimated aggregate amortization expense for each of the next five years and thereafter is as follows:

2010	\$ 516,676
2011	516,676
2012	516,676
2013	223,343
2014	223,343
Thereafter	<u>643,455</u>
	<u>\$ 2,640,169</u>

The weighted average remaining life of the various franchise agreements is 6.68 years.

#### 5. RELATED PARTY TRANSACTIONS

On October 1, 2009, the Company entered into a management agreement with Kahala Management, LLC (the "Affiliate"), a wholly owned subsidiary of the Parent, whereby the Affiliate would manage the Company's franchise systems and underlying businesses detailed in Note 1 above. Accordingly, the management and administrative functions of the Company are provided by the Affiliate. These functions include, but are not limited to: (i) general and administrative support services; (ii) legal services; (iii) distribution services; (iv) purchasing services; (v) research and development; (vi) training; (vii) pre and post opening support and assistance to franchisees; (viii) collection of and monitoring of royalties and advertising contributions; (ix) marketing, advertising and promotional support; and (x) informational support services (collectively, the "Services").

**KAHALA FRANCHISING LLC**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

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5. RELATED PARTY TRANSACTIONS (CONTINUED)

In exchange for the Services, the management agreement requires the Company to pay a fee to the Affiliate equal to the net income of the Company. The result is no income or losses on the accompanying statement of operations. The fees paid under this arrangement would likely not be similar had this management fee arrangement been consummated on terms equivalent to those that prevail in an arm's length transaction with an independent third party. During the year ended December 31, 2009, the Company paid or accrued a total of \$1,960,116 to the Affiliate. The Company had net balances due to the Affiliate of \$270,057 at December 31, 2009.

Income tax obligations of the predecessor company, KFC were not transferred to the Company. Income taxes payable by KFC are past due and KFC has estimated that these obligations do not exceed \$6,000,000 at December 31 2009, including penalties and interest. These income taxes payable remain with KFC. KFC is a separate tax-paying entity. However, until the settlement and payment of these obligations, the full implications to the Parent, its affiliates and the Company are unknown.

6. CONTINGENCIES AND COMMITMENTS

The Company becomes involved in legal disputes in the normal course of business. With respect to any claims existing at December 31, 2009, the Company believes that it has adequate counter claims or defenses and that the probability of incurring significant liability related to those claims is remote.

The Company is committed under the management agreement discussed in Note 5 to pay the Affiliate substantially all of the Company's excess cash flow. The Affiliate and Parent may draw upon the Company's cash balances as desired.

\* \* \* \* \*



**EXHIBIT S**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Form of Addendum for Sale of Company-Affiliated Owned Stores**

**Addendum for Sale of Company-Affiliated Owned Stores #1**

**Below is information covering the last five fiscal years on a previously-owned franchised outlet now under the control of an affiliate of Franchisor.**

Address of Outlet for Sale: \_\_\_\_\_

Previous Franchise Owner 1:

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

City, State: \_\_\_\_\_

Telephone Number: \_\_\_\_\_

Time period outlet was controlled by previous franchise owner: \_\_\_\_\_

Reason for change in ownership: \_\_\_\_\_

Previous Franchise Owner 2(if applicable):

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

City, State: \_\_\_\_\_

Telephone Number: \_\_\_\_\_

Time period outlet was controlled by previous franchise owner: \_\_\_\_\_

Reason for change in ownership: \_\_\_\_\_

Previous Franchise Owner 3(if applicable):

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

City, State: \_\_\_\_\_

Telephone Number: \_\_\_\_\_

Time period outlet was controlled by previous franchise owner: \_\_\_\_\_

Reason for change in ownership: \_\_\_\_\_

Note: The telephone number of the previous franchise owner(s) listed above is the current business telephone number, or if unknown, the last home telephone number Franchisor had for the previous franchise owner.

The time period(s) when affiliate of Franchisor retained control of the outlet: \_\_\_\_\_

Date: \_\_\_\_\_  
(Do not leave blank)

\_\_\_\_\_  
Signature of Prospective Franchisee

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

Addendum for Sale of Company-Affiliated Owned Stores #1 must be signed and dated and remains in the Franchise Disclosure Document as the prospective franchisee's copy. Addendum for Sale of Company-Affiliated Owned Stores #2 must be signed and dated by the prospective franchisee and returned to Kahala Franchising, L.L.C. either by mailing it to Kahala Franchising, L.L.C. at 9311 E. Via De Ventura, Scottsdale, Arizona 85258 or faxing it to Kahala Franchising, L.L.C. at (480) 362-4792.

**Addendum for Sale of Company-Affiliated Owned Stores #2**

**Below is information covering the last five fiscal years on a previously-owned franchised outlet now under the control of an affiliate of Franchisor.**

Address of Outlet for Sale: \_\_\_\_\_

Previous Franchise Owner 1:

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

City, State: \_\_\_\_\_

Telephone Number: \_\_\_\_\_

Time period outlet was controlled by previous franchise owner: \_\_\_\_\_

Reason for change in ownership: \_\_\_\_\_

Previous Franchise Owner 2(if applicable):

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

City, State: \_\_\_\_\_

Telephone Number: \_\_\_\_\_

Time period outlet was controlled by previous franchise owner: \_\_\_\_\_

Reason for change in ownership: \_\_\_\_\_

Previous Franchise Owner 3(if applicable):

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

City, State: \_\_\_\_\_

Telephone Number: \_\_\_\_\_

Time period outlet was controlled by previous franchise owner: \_\_\_\_\_

Reason for change in ownership: \_\_\_\_\_

Note: The telephone number of the previous franchise owner(s) listed above is the current business telephone number, or if unknown, the last home telephone number Franchisor had for the previous franchise owner.

The time period(s) when affiliate of Franchisor retained control of the outlet: \_\_\_\_\_

Date: \_\_\_\_\_  
(Do not leave blank)

\_\_\_\_\_  
Signature of Prospective Franchisee

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

Addendum for Sale of Company-Affiliated Owned Stores #1 must be signed and dated and remains in the Franchise Disclosure Document as the prospective franchisee's copy. Addendum for Sale of Company-Affiliated Owned Stores #2 must be signed and dated by the prospective franchisee and returned to Kahala Franchising, L.L.C. either by mailing it to Kahala Franchising, L.L.C. at 9311 E. Via De Ventura, Scottsdale, Arizona 85258 or faxing it to Kahala Franchising, L.L.C. at (480) 362-4792.

**EXHIBIT T**

**TO THE FRANCHISE DISCLOSURE DOCUMENT**

**Receipts**

## RECEIPT #1

This disclosure document summarizes certain provisions of the franchise agreement and other information in plain language. Read this disclosure document and all agreements carefully.

If Kahala Franchising, L.L.C. offers you a franchise, it must provide this disclosure document to you 14 calendar-days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale.

**[New York, Oklahoma and Rhode Island require that we give you this disclosure document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship.]**

**[Michigan and Washington require that we give you this disclosure document at least 10 business days before the execution of any binding franchise or other agreement or the payment of any consideration, whichever occurs first.]**

If Kahala Franchising, L.L.C. does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, DC 20580 and the state agency listed on Exhibit B.

The franchisor is Kahala Franchising, L.L.C., located at 9311 E. Via De Ventura, Scottsdale, Arizona 85258. Its telephone number is (480) 362-4800. The franchise seller for this offering is \_\_\_\_\_, \_\_\_\_\_, (\_\_\_\_) \_\_\_\_\_.

Issuance date: August 8, 2012.

Kahala Franchising, L.L.C. authorizes the respective state agencies identified on Exhibit C to receive service of process for it in the particular state.

I received a Taco Time Disclosure Document dated August 8, 2012 that included the following Exhibits:

- |  |   |
|--|---|
| A. State Addenda to Franchise Disclosure Document  | K. Pre-Authorized Electronic Funds Transfer Form                                    |
| B. Directory of State Agencies and Administrators  | L. Form of Release and Consent Agreement to Assignment of Franchised Business       |
| C. Franchisor's Agent for Service of Process   | M. Table of Contents - Confidential Operations Manual                               |
| D. Purchase and Sale Agreement (For Sale of a Corporate Store to a Franchisee) with Promissory Note and Security Agreement (if applicable) and State Addenda | N. List of Franchise Owners   |
| E. Form of Franchise Agreement and State Addenda   | O. Form of Area Representative Agreement, State Addenda and General Release         |
| F. Form of Addendum to the Franchise Agreement for SBA Loans   | P. Table of Contents – Confidential AR Operations Manual (For Area Representatives) |
| G. Form of Required Lease Terms  | Q. List of Area Representatives   |
| H. Form of Lease Guaranty Acknowledgment   | R. Financial Statements   |
| I. Form of Lease Negotiation Acknowledgment  | S. Form of Addendum for Sale of Company-Affiliated Owned Stores                     |
| J. Form of Lease Procurement Acknowledgment  | T. Receipts   |

Date: \_\_\_\_\_  
(Do not leave blank)

\_\_\_\_\_  
Signature of Prospective Franchisee

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

Receipt #1 must be signed and dated and remains in the Franchise Disclosure Document as the prospective franchisee's copy. Receipt #2 must be signed and dated by the prospective franchisee and returned to Kahala Franchising, L.L.C. by mailing it to Kahala Franchising, L.L.C. at 9311 E. Via De Ventura, Scottsdale, Arizona 85258.

## RECEIPT #2

This disclosure document summarizes certain provisions of the franchise agreement and other information in plain language. Read this disclosure document and all agreements carefully.

If Kahala Franchising, L.L.C. offers you a franchise, it must provide this disclosure document to you 14 calendar-days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale.

**[New York, Oklahoma and Rhode Island require that we give you this disclosure document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship.]**

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Date: \_\_\_\_\_  
(Do not leave blank)

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Signature of Prospective Franchisee

\_\_\_\_\_  
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