

Deli Delicious

Franchise Disclosure Document [FDD]

Deli Delicious Franchising, Inc.
a California corporation
2495 West Shaw Ave.
Fresno, California 93711
(877) 306-7079

Franchise@Deli-Delicious.com
www.Deli-Delicious.com

Deli Delicious Franchising, Inc. operates a restaurant that offers a large variety of deli sandwiches made with fresh, high quality meats and produce daily. The franchise will offer salads and deli sandwiches of various types complimented with side dishes and beverages at competitive prices. This is a unique upscale deli restaurant dedicated to serving customers who seek quality sandwiches in a casual, relaxed environment enhanced by superior customer service, under the name “Deli Delicious™”. The total estimated initial investment required for a Deli Delicious™ express model ranges from \$122,300 to \$251,000 or from \$226,850 to \$473,850 for a Deli Delicious™ standard model depending on a number of factors that are more fully discussed in Item 7. This includes the Initial Franchise Fee of \$25,000 for an express model or \$30,000 for a standard model (as discussed in Item 5) that must be paid to the Franchisor or the Franchisor’s affiliate.

This disclosure document summarizes certain provisions of your franchise agreement and other information in plain English. Read this disclosure document and all 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 government agency has verified the information contained in this document.**

You may wish to receive your disclosure document in another format that is more convenient to you. To discuss the availability of disclosures in different forms, contact Deli Delicious Franchising, Inc. at 2495 West Shaw Ave., Fresno, California 93711 and 1-877-306-7079.

The terms of your contract will govern your franchise relationship. Do not 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, DC 20580. You can also visit the FTC’s home page at www.ftc.gov for additional information. Call your state agency or visit your public library for other sources of information on franchising.

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

Issued: March ____,

How to Use This Franchise Disclosure Document

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

QUESTION	WHERE TO FIND INFORMATION
How much can I earn?	Item 19 may give you information about outlet sales, costs, profits or losses. You should also try to obtain this information from others, like current and former franchisees. You can find their names and contact information in Item 20 or Exhibit 7.
How much will I need to invest?	Items 5 and 6 list fees you will be paying to the franchisor or at the franchisor's direction. Item 7 lists the initial investment to open. Item 8 describes the suppliers you must use.
Does the franchisor have the financial ability to provide support to my business?	Item 21 or Exhibit 9 includes financial statements. Review these statements carefully.
Is the franchise system stable, growing, or shrinking?	Item 20 summarizes the recent history of the number of company-owned and franchised outlets.
Will my business be the only Deli Delicious business in my area?	Item 12 and the "territory" provisions in the franchise agreement describe whether the franchisor and other franchisees can compete with you.
Does the franchisor have a troubled legal history?	Items 3 and 4 tell you whether the franchisor or its management have been involved in material litigation or bankruptcy proceedings.
What's it like to be a Deli Delicious franchisee?	Item 20 or Exhibit 7 and Exhibit 8 lists current and former franchisees. You can contact them to ask about their experiences.
What else should I know?	These questions are only a few things you should look for. Review all 23 Items and all Exhibits in the disclosure document to better understand this franchise opportunity. See the table of contents.

What You Need To Know About Franchising *Generally*

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

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

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

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

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

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

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

Some States Require Registration

Your state may have a franchise law, or other law, that requires franchisors to register before offering or selling franchises in the state. Registration does not mean that the state recommends the franchise or has verified the information in this document. To find out if your state has a registration requirement, or to contact your state, use the agency information in Exhibit 2.

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

Special Risks to Consider About *This* Franchise

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

1. **Out-of-State Dispute Resolution.** The franchise agreement requires you to resolve disputes with the franchisor by mediation, arbitration and/or litigation only in California. Out-of-state mediation, arbitration, or litigation may force you to accept a less favorable settlement for disputes. It may also cost more to mediate, arbitrate, or litigate with the franchisor in California than in your own state.
2. **Negative net worth.** The franchisor's financial condition as reflected in its financial statements (see Item 21), calls into question the franchisor's ability to provide services and support to you.
3. **Spousal liability.** Your spouse must sign a document that makes your spouse liable for all financial obligations under the franchise agreement even though your spouse has no ownership interest in the franchise. This guarantee will place both your and your spouse's marital and personal assets, perhaps including your house, at risk if your franchise fails.

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

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Deli Delicious Franchising, Inc.

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ITEM 1
THE FRANCHISOR AND ANY PARENTS, PREDECESSORS & AFFILIATES

The Franchisor is Deli Delicious Franchising, Inc., a California corporation, doing business as “Deli Delicious™”. For ease of reference, Deli Delicious Franchising, Inc. will be referred to as “we”, “us”, “our”, “DDF” or “Franchisor” in this Disclosure Document. We will refer to the person or entity who buys the Franchise as ‘you,’ ‘your,’ and ‘Franchisee,’ throughout this Disclosure Document. If you are a Corporation or Limited Liability Company or other entity, the provisions of the Franchise Agreement also apply to your shareholders, members or owners and each must sign the Franchise Agreement and be obligated to its provisions.

We are a California corporation, incorporated on August 27, 2008, and our name is “Deli Delicious Franchising, Inc.”. Our principal business address is 2495 West Shaw Ave., Fresno, California 93711. We operate and sell franchises for the operation of a business known as “Deli Delicious™” (the “Business” or “Franchise”). We offer a Franchise Agreement for the development and operation of a single Deli Delicious™ business at a specified location. Our agents for service of process are disclosed in Exhibit 2.

Our Predecessors and Affiliates are as follows:

There are three operating businesses that offer similar products and services to a Deli Delicious™ franchise being offered. The following is a description of our predecessors and affiliates including principal addresses and number of locations for each.

Our predecessor, Deli Delicious™, owned by Mohammad Hobab, began operations as a sole proprietor on February 2, 1996 (the “Sole Proprietorship”). The Sole Proprietorship sold all of its outlets except an Affiliate retained one, Deli D Enterprises, Inc. (the “Affiliate”) and we do not own any outlets. The Affiliate sold its remaining outlet. The outlets we previously owned were all operated as a Deli Delicious™ business substantially similar to the franchise business being offered by us. The Affiliate has not offered franchises in any line of business. The Affiliate is an independent entity and does not assume any of our legal or other obligations, nor us of theirs.

DD’s Bakery (an “Affiliate”) is a facility owned by Mohammad Hobab and Ali and Debbie Nekumanesh which supplies the bakery products for us and our franchisees. DD’s Bakery is a California Corporation that was formed January 3, 2017, with an address at 2495 West Shaw Ave., Fresno, CA 93711.

Our Business and the Franchises Offered in this State:

Deli Delicious™ is a system developed for the establishment and operation of a restaurant either in the form of a small restaurant (“Express Model”) or a standard restaurant (“Standard Model”) that is devoted to the preparation and sale of over forty different kinds of fresh, high quality deli sandwiches. The Express Model is a non-traditional restaurant in locations like a hotel, airport, casino, train station, university, stadiums or convenience stores that sells products made on site. The Standard Model is a permanent, in-line or stand-alone structure and both models are full-service restaurants providing counter service, takeout and limited seating. Deli Delicious™ offers an alternative to fast food by providing customers with deli sandwiches made from fresh ingredients incorporating our proprietary recipes all complimented by side dishes and beverages in a casual dining environment. A Deli Delicious™ Franchise will offer customers a variety of food products and services that include but are not limited to: Offering over forty different kinds of deli sandwiches, fresh salads, a variety of side dishes, desserts and beverages. Additional services are customizable as a franchisee may also offer: Catering, delivery services, private party accommodations,

prepackaged food items and sauces for retail sale, apparel and other restaurant related products or services that are approved by us.

Competition includes local and national quick service food and beverage establishments as well as fast food establishments and sandwich restaurants operated by national chains, local chains and independent operators, other food service businesses and to some extent with grocery stores that sell various prepared food products similar to those found in a Deli Delicious™ restaurant. The market for the food products and services offered by a Deli Delicious™ restaurant is developed and highly competitive, as is the market for obtaining locations in qualified shopping malls, outlet centers, airports, casinos and shopping centers or other similar buildings with a captive market customer base. The quick serve food and beverage industry is highly competitive throughout the United States as the market is continuously changing and evolving. However, the market for high quality deli sandwiches is growing due to increased awareness in society about the risks of obesity and other health problems caused by many fast food establishments. We plan controlled expansion into areas that we determine can support a Deli Delicious™ restaurant to improve name recognition and our reputation through franchised businesses. However, we believe that our competitive position will be improved based on that expansion and combination of unique products and services we offer, which is enhanced by our operational format, places our Deli Delicious restaurants in a unique class of its own.

The Deli Delicious™ restaurant is characterized by a distinctive, unique and recognizable exterior and interior layout, content, décor, color scheme, display signs and furnishings; various menu items, proprietary products, recipes and ingredients; procedures for sanitation, food preparation and storage, uniform systems of operation, quality and uniformity of products and services offered; procedures for purchasing, sales promotion, advertising, inventory, cost controls, management and financial control (including point of sale and tracking systems); the DDF confidential Operations Manual and other Manuals which are made available either in hard copy or electronically; all of which may be changed, improved, and further developed by DDF periodically (the ‘System’).

You will be licensed to use not only the Marks described in Item 13 below, but also all other service marks, trademarks, slogans, logos and emblems as we may designate for use in connection with the System (the “Marks”).

Laws and Regulations:

You should be aware that food products may be subject to the Pure Food and Drug Act, as well as the Food and Drug Administration (FDA) regulations. Food and Drug laws as well as the FDA’s regulations concerning the offering of food products may change. Also, the Federal Trade Commission, and the State Attorney Generals prohibit the making of any unfair or deceptive claims concerning the healthiness of any food item.

In addition to laws and regulations that apply to businesses generally, your Deli Delicious™ restaurant will be subject to various federal, state and local government regulations, including those relating to site location, zoning ordinances, and building construction (such as the Americans with Disabilities Act as described below); health and consumer protection laws and regulations concerning food preparation, baking, handling, storage, labeling, “Truth in Menu” regarding nutritional claims and sale of food products. Some states may require that you obtain restaurant, business, occupational, food product and miscellaneous licenses. You may also have to obtain health licenses and to comply with health laws and regulations that apply to restaurant and food product establishments. We do not assume any responsibility for advising you on such regulatory matters.

You will also be required to comply with all local, state and federal laws in the operation of your Deli Delicious™ business including health, sanitation, safety, no smoking, EEOC, discrimination, employment and sexual harassment laws. You will be subject to the Americans with Disabilities Act which prohibits practices that

discriminate against physically and mentally challenged individuals regarding access to public accommodations and employment opportunities (Schedule 4 of the Franchise Agreement). There may be other laws and codes applicable to your business and we urge you to make further inquiries about those laws and codes.

Item 2 **BUSINESS EXPERIENCE**

Owner and Chairman of the Board: Mohammad Hobab. Mohammad is the creator and founder of the Deli Delicious™ business started in 1996 as a sole proprietorship in Fresno California and the predecessor to the Franchisor.

President, Secretary and Director: Hesam Hobab. Hesam has been with the predecessor to the Franchisor since inception in 1996 in Fresno California. From 2005 to present his position is the Multi-Unit Franchisor Manager providing various operational and development support to the franchisees.

Executive Vice President and Director: Ali Nekumanesh. Ali has extensive restaurant management and franchise consulting experience. He joined the Franchisor in 2009. From 1995 to 2009 he was the President of Eagle Management, a business consulting firm in Fresno, California.

Controller/CPA: Jennifer Brandon. Jennifer has been with the company since 2015. She provides the day-to-day accounting and tax functions for the company as well as the supervision of human resource activities.

Franchise Brokers: We may engage the services of franchise brokers.

Item 3 **LITIGATION**

Pending Actions

Tim Campbell vs. Mohamed Hobab, Ali Nekumanesh, Deli Delicious Franchise, Inc., No. 19CECG02930 (Superior Court of CA, County of Fresno).

On August 9, 2019, Tim Campbell, a former employee of Franchisor, filed this action which asserts causes of action against Franchisor for:

- Defamation per se and defamation arising from Mr. Campbell's allegation that Franchisor and the other defendants published or communicated knowingly false statements about him to his professional colleagues, associates and peers and told multiple third parties that he was terminated from Franchisor's employ due to alcoholism.
- Intentional interference with prospective economic relations resulting from defamatory statements that were intended to disrupt and harm his business relationship.
- Intentional and negligent infliction of emotional distress arising from Mr. Campbell's allegation that the Franchisor and the other defendants' campaign of making the aforementioned defamatory

statements.

As to the aforementioned causes of action, Mr. Campbell seeks general damages, special damages and punitive damages according to proof as well as injunctive relief ordering Franchisor and the other defendants to end harassment and defamation of him, and attorney's fees and costs as allowed by statute.

On September 27, 2019, Franchisor filed a cross-complaint against Mr. Campbell in which it alleged the following causes of action against him:

- Breach of duty of loyalty arising from Franchisor's claim that by virtue of his employment and position with Franchisor, Mr. Campbell had access to Franchisor's confidential and proprietary information and has a duty of loyalty to Franchisor to refrain from using information acquired by him and seeks monetary damages.
- Misappropriation of trade secrets.
- Campbell contends that he has suffered damages based on loss of goodwill, damage to its business reputation and is seeking double damages, punitive and exemplary damages and injunctive relief.
- Defamation arising from Franchisor's contention that Mr. Campbell, without justification or privilege, and knowingly, recklessly and/or in conscious disregard for falsity, published orally and in writing a series of false and defamatory communications to third persons. Franchisor seeks damages according to proof, punitive damages, issuance of injunctive relief.
- Intentional and negligent interference with contract between Franchisor and its franchisees and sought monetary damages.
- Unfair competition (California Business & Professions Code section 17200 et seq.) and unlawful and violations of California Labor Code section 2860 and California Civil Code section 3426 et seq and sought injunctive relief, damages and disgorgement.

Trial in this matter is scheduled to commence on March 28, 2022. A Stipulation and Order to Continue Trial was filed and accepted on January 20, 2022. Trial will be continued to September 19, 2022.

Deli Delicious Franchising Inc., v. Sam Siamak Namdarian, No. 20CECG02037 (Superior Court of CA, County of Fresno).

On July 15, 2020, Deli Delicious Franchising, Inc. ("Franchisor" or "DDFI") filed suit for preliminary and permanent injunctive relief against Sam Siamak Namdarian and Akoo, Inc. (collectively, "Franchisee") arising from Franchisee's failures to comply with certain provisions of the governing franchise agreements. Through this lawsuit, Franchisor sought an order of the Court to: (1) enjoin Franchisee from purchasing bread from any vendor other than the Franchisor-designated bread vendor;

(2) enjoin Franchisee from serving bread purchased from a vendor other than the Franchisor-designated bread vendor; (3) compel Franchisee to purchase bread from the Franchisor-designated bread vendor; (4) compel Franchisee to acquire, install and display the Franchisor-designated digital menu boards; (5) recover from Franchisee the reasonable attorney's fees it incurs to obtain the requested injunctive relief; and (6) recover its costs of suit from Franchisor.

On September 1, 2020, Franchisee filed a "Cross-Complaint Including Allegation "Of Class Action Claims" against Franchisor, two of Franchisor's representatives, i.e., Hesam Hobab and Muhammad (Mohamad) Hobab, and the Franchisor's designated bread vendor, D.D.'s Bakery, that asserted causes of action against Franchisor for:

- Violation of California Business and Professions Code from claims that Franchisor is purporting to sell organic bread products and so-called fresh bread products and sought relief for monetary damages and an order of the court prohibiting Franchisor from advertising improperly.
- Violation of the Discriminatory Practices Act (California Business & Professions Code section 17071 et seq.) because Franchisor discriminated against franchisees by refusing to renew their franchises and sought an order of the court precluding such alleged practices and related relief.
- Violation of the Discriminatory Practices Act (California Business & Professions Code section 17045 et seq.) arising from claims that reduced pricing was made for ulterior motives.
- Alter ego arising from Franchisee's claim that DDFI and the other cross-defendants used the corporations improperly.
- Violation of the Sherman Anti-Trust Act, the Cartwright Act and the California Business and Professions Code arising from claims that Franchisor's franchisees are required to only buy bread from D.D.'s Bakery without any alternative and sought divestment.
- Breach of franchise agreement (i) resulting from a violation of the anti-trust act and price fixing and (ii) by requiring franchisees to buy bread made by its approved vendor and seeking repayment of certain royalty fees and other relief
- Misappropriation of funds from claim of comingling of royalty and marketing fees, seeking return of such funds.
- Combination, collusion (price fixing) and violation of California Business and Professions Code arising from claim regarding required purchase of bread and sought an injunction and other relief.

Although no class was certified, Franchisee sought various relief as to the class claims:

As to the individual (non-class claims), Franchisee also sought various relief of the same and similar as described in its other claims.

Franchisor contended that the causes of action alleged against it in the cross-complaint were subject to the contractual dispute resolution provision contained in the governing franchise agreements. On October 20, 2020, the Court granted preliminary injunctive relief in favor of Franchisor against Franchisee.

On March 2, 2021, the Court issued an order granting Franchisor's motion for attorney's fees and costs under the governing franchise agreements against Franchisee.

On March 4, 2021, the Court issued an order granting Franchisor's motion to compel arbitration on Franchisee's cross-complaint and staying proceedings on the cross-complaint pending the completion of arbitration subject to certain exceptions.

In June 2021, Franchisor and Franchisee entered into a settlement agreement to resolve the claims at issue in this lawsuit, inclusive of the claims subject to arbitration. Franchisor and Franchisee anticipate that they will file a request for dismissal of the complaint and cross-complaint in February 2022 after Franchisee makes its final payment to Franchisor under the settlement.

Sam Siamak Namdarian and Akoo Inc, as Defendants in this action, were ordered to pay to DDFI c/o its counsel Fennelmore Dowling Aaron the sum of \$30,500: for attorney's fees and \$505 for costs that DDFI reasonably incurred to enforce the subject Franchise Agreements through obtaining the Preliminary Injunction that this Court issued on October 20, 2020. A Notice of Settlement of the Entire Case was filed for the Projected Completion Date of February 6, 2022 and a request for dismissal was entered and accepted on February 16, 2022.

Deli Delicious Franchising, Inc. v. Vahid Misaghi, No. 21CECG00287 ((Superior Court of CA, County of Fresno).

On February 1, 2021, Deli Delicious Franchising, Inc. ("Franchisor") filed suit for preliminary and permanent injunctive relief against Vahid Misaghi ("Franchisee") arising from Franchisee's failures to comply with certain provisions of the governing franchise agreements. Through this lawsuit, Franchisor sought an order of the Court to: (1) enjoin Franchisee from displaying and requiring Franchisee to remove, all non-Franchisor approved signage; (2) enjoin Franchisee from purchasing bread from any vendor other than the Franchisor-designated bread vendor; (3) enjoin Franchisee from serving bread purchased from a vendor other than the Franchisor-designated bread vendor; (4) compel Franchisee to purchase bread from the Franchisor-designated bread vendor; (5) compel Franchisee to acquire, install and display the Franchisor-designated digital menu boards; (6) enjoin Franchisee from serving food products in non-Franchisor approved packaging; (7) recover from Franchisee the reasonable attorney's fees it incurs to obtain the requested injunctive relief; and (6) recover its costs of suit from Franchisor.

On March 8, 2021, Franchisee filed a cross-complaint against Franchisor, two of Franchisor's representatives, i.e., Hesam Hobab and Mohammad (Mohamad) Hobab, and the Franchisor's designated bread vendor, i.e., D.D.'s Bakery, that asserted causes of action against Franchisor for:

- Breach of written contract (i.e., the subject franchise agreements) arising from Franchisee's allegations that Franchisor breached the franchise agreement by: failing to adhere to the quality control standards for fresh products set forth in the agreement and various other bread preparation and selling claims.
- Fraud and deceit arising from Franchisor's misrepresentations as to various facts of the history, operations, owners and affiliated persons of the business and seeks to rescind the franchise agreements and recover restitution and punitive damages
- Negligent misrepresentations made prior to Franchisee entering the franchise agreement and is seeking damages.
- Breach of the California Franchise Relations Act from claim regarding Franchisor's wrongful failure to notify Franchisee of nonrenewal and to renew Franchisee's franchise agreement and seeks damages.
- Breach of the California Franchise Investment Law arising from Franchisee's claim that Franchisor breached Franchisee's association rights under California Corporations Code and seeks an injunction and punitive damages.
- Rescission of contracts (i.e., the subject franchise agreements) due to Franchisor's fraud or other justifications.
- Unfair trade practices arising from claims Franchisor's acts constituted fraudulent trade practices in violation of California Business and Professions Code section 17200. and that Franchisor's misrepresentations deceived Franchisee and is seeking injunction, rescission and punitive damages.

Franchisor contends the causes of action asserted against it in the cross-complaint are subject to the contractual dispute resolution provision contained in the governing franchise agreements. Franchisor and Franchisee have agreed to arbitrate the claims in the cross-complaint but have not yet scheduled an arbitration date.

On March 30, 2021, the Court granted preliminary injunctive relief in favor of Franchisor against Franchisee.

On May 25, 2021, Franchisee filed a notice of appeal with the Court of Appeal, Fifth Appellate District, and is appealing the Court's issuance of the preliminary injunction. Franchisee's deadline to file his opening appellate brief is May 10, 2022.

The next scheduled Court event is a case management conference in the Superior Court on May 10, 2022.

Leticia Sanches v. Deli Delicious Franchising, Inc., Hesam Hobab, No. 21CECG00378 (Superior Court of CA, County of Fresno).

On February 9, 2021, Leticia Sanches filed this action alleging the following causes of action against Franchisor:

- Dissemination of false advertising (violation of California Business & Professions Code section 17500 et seq.) arising from Ms. Sanches' allegation that Franchisor and the other defendant violated California Business and Professions Code section 17500 by making untrue or misleading statements in connection with the sale of goods or services.
- Unfair competition arising from claims that defendant violated the Unfair Competition Law by engaging in unlawful, unfair, and fraudulent business acts or practices and sought a permanent injunction to remedy these misrepresentations; payment to those affected by the acts; and that the Franchisor be assessed a civil penalty for violations of California's Unfair Competition Law.

Trial is scheduled to commence on February 14, 2023.

Deli Delicious Franchise, Inc. v. Hadi Hobab, No. 19CECG01217 (Superior Court of CA, County of Fresno).

On April 26, 2019, Franchisor filed this lawsuit against Hadi Hobab, a former representative of Franchisor which asserts causes of action for:

- Defamation arising from Franchisor's contention that defendant maliciously, without justification, and with knowledge, recklessly and/or with conscious disregard for their falsity, published orally and in writing a series of false and defamatory communications to third persons including Franchisor's franchisees, vendors and banking institutions and sought damages and injunctive relief.
- Intentional and negligent interference with contract of the franchisees and sought punitive damages.
- Intentional and negligence interference with prospective economic advantage because Defendant knowingly and intentionally interfered with its business relationships by publishing false and defamatory communications to third persons including Franchisor's franchisees, vendors and banking institutions.

This lawsuit was dismissed in 2021.

Deli Delicious Franchising Inc., a California corporation ("Plaintiff") v. H. TY Kharazi and other defendants ("Defendants") No. 21CECG03757 (Superior Court of CA, County of Fresno); Complaint for Damages for Breach of Fiduciary Duty.

On December 21, 2021, Plaintiff Deli Delicious Franchising, Inc. ("Plaintiff") filed a claim for damages for breach of fiduciary duty in the Superior Court of California, County of Fresno, against H. Ty Kharazi, individually and as a partner, shareholder and/or member attorney of Yarra, Kharazi and Clason, a/k/a Yarra Law Group, an entity of unknown character, and Robert W. Yarra, a professional law corporation; Yarra, Kharazi and Clason, a/k/a Yarra Law Group, an entity of unknown character; Robert W. Yarra, a professional law corporation, and Does 1 through 50, inclusive ("Defendants"). The matter arises from facts stated by the Plaintiff that the Defendants represented the Plaintiff with regard to certain operations, including new bread manufacturing arrangements and that later after the Plaintiff filed suit against certain franchisees (the "Franchisee Defendants") who were being represented by these same Defendants who has previously represented Plaintiff. Plaintiff's claims are based on the breach of the Defendants' fiduciary duty to Plaintiff in representing the Franchisee Defendants (who had adverse interest to Plaintiff) in violation of the California Rules of Professional Conduct.

The adverse interests relate to claims that Plaintiff had brought against Akoo, Misaghi, and Sanchez referred to in this Item 3. Each of these actions concerns their franchise agreements pertaining to the failure to purchase bread from the required vendor and other violations. Further, the Plaintiff's claim a breach and misuse of confidential information that it had provided to the Defendants and that such Defendants used Plaintiff's confidential information to gain an advantage in representing their clients (Franchisee Defendants) in the lawsuits involving Plaintiff. The claims involve general damages, special damages, punitive damages, and recovery for cost of suit, and such other relief as the court shall deem proper.

In response, Defendants filed an anti-SLAPP Special Motion to Strike pursuant to CCP § 425.16 on January 18, 2022, that automatically stayed discovery by operation of law. In support of Defendants' Motion, Defendants filed Declaration of Hadi Hobab; C. Defendants anti-SLAPP Special Motion to Strike is currently scheduled to be heard on July 7, 2022.

Plaintiff desires to engage in limited discovery regarding the Declaration of Hadi Hobab. Plaintiff and Defendants' counsel stipulated and agreed that Plaintiff's Motion to be Allowed to Conduct Limited Discovery shall be heard on a shortened basis, subject to the Court's availability. Defendant shall have seven (7) calendar days following the filing and service of Plaintiff's Motion to file an Opposition, if any. Plaintiff shall have four (4) calendar days following the filing and service of Defendants' Opposition to file Reply, if any.

The next scheduled Court event is a Demurrer in the Superior Court on September 7, 2022.

Item 4
BANKRUPTCY

No person previously identified in Items 1 or 2 of this Disclosure Document has been involved as a debtor in proceedings under the U.S. Bankruptcy code required to be disclosed in this Item. There have been no cases, actions, or other proceedings filed under the laws of foreign nations relating to bankruptcy.

Item 5
INITIAL FEES

The Initial Franchise Fee for a single area Franchise (“Initial Franchise Fee”) is \$25,000 for an Express Model and \$30,000 for a Standard Model in an area. The area of a Franchise is determined once a specific location is identified and approved by us. We have adequate funds to provide the following services and do not rely on the Initial Franchise Fee to pay them and which payment is made in exchange, in part, for expenses incurred by us in furnishing assistance and services to you as set forth in the Franchise Agreement and for costs incurred by us, including general sales and marketing expenses, training, legal, accounting and other professional fees. The Franchise Fee also includes access to franchise portals online for ongoing news bulletins and templates for print and advertising materials to support your business; a comprehensive 14-day training program at corporate headquarters including a Pre-Opening Manual, Operations Manual and up to an additional 5 days at your Deli Delicious™ restaurant. In addition, Franchisees will be provided with a web page that is location specific only with contact information and directions to the Restaurant housed within the corporate website. Franchisee will be provided with a list of approved suppliers to maintain inventory of equipment, ingredients, products and supplies at our negotiated cost with these suppliers. At the time you sign your Franchise Agreement you may purchase additional franchises at \$12,500 for each Express Model and \$15,000 for each Standard Model.

Except as indicated below, the Initial Franchise Fee is paid in a lump sum at the time the Franchise Agreement is signed and is deemed fully earned and nonrefundable upon payment per the terms of the Franchise Agreement.

We may offer you an option to be awarded a Deli Delicious™ Franchise, on the terms set forth in the Option Agreement Exhibit 6. Under the Option Agreement, you have one year to enter into a Franchise Agreement for a franchised business within a territory we both agree upon. For the option, you pay a nonrefundable fee of \$12,500 that will be credited toward the Initial Franchise Fee of an express franchise which is \$25,000 or \$15,000 non-refundable fee that will be credited toward the Initial Franchise Fee for the purchase of a standard franchise which is \$30,000. All additional purchases through an option are for the same option fee which will be the franchise fee (the option price for 2nd and subsequent purchases is half of the fee for the first franchise and will be the new reduced cost of the 2nd and subsequent purchase of franchises).

At the time of acquiring an option and also at the time of exercising the option, you must meet our then requirements for new franchisees which includes: (i) Franchisee has completed all training phases, (ii) Franchisee is fully compliant with all requirements under the Franchise Agreement then being used by the Franchisor to sell to prospective franchisees` or that which it will sign, if different, (iii) Franchisee demonstrates financial ability to own and operate the franchise with reasonable success and (v) The option agreement has an expiration date after which Franchisee can no longer the right to purchase a franchise.

The Initial Franchise Fee and Option Fee are not refundable and are payable in full when you sign the Franchise Agreement or Option Agreement, as applicable. In certain states, we may be required by state authorities

(based on a review of our financial statements and other factors), to defer our receipt of the Initial Franchise Fee and all other initial payments and not require you to pay us until you are open and we have completed all of our requirements to assist you. In some cases, we may instead deposit them into escrow until you are open and we have met our initial obligations to you; see state addenda in Exhibit 4.

Item 6
OTHER FEES
(FOR BOTH THE STANDARD AND EXPRESS MODEL)

<u>Type of Fee</u> <u>Remark</u>	<u>Amount</u>	<u>Due Date</u>	<u>Remarks</u>
Royalties	6% of Weekly Gross Revenues	Due weekly for the prior week payable by prearranged direct deposit (“Direct Deposit” or “ACH”).	See Note 1
National Advertising Fee	2.5% of Weekly Gross Revenues	Due weekly for prior week payable by ACH.	We may increase this fee up to 3.5% (depending on the needs of the market place upon 30 days notice to you.) See Note 2 and Item 11
Advertising Local	Minimum is 1% of Monthly Gross Revenue	Spent by you and documented to us on a quarterly basis to promote your Franchise business locally	See Item 11
Regional/Local Advertising Cooperatives	Up to 1.5% of Monthly Gross Revenue	Payable as directed by the cooperative or us	We may establish a cooperative within your region. See Item 11. See also Note 3.
Inventory of Deli Delicious Products	You are required to purchase between \$1590 and \$2500 of Deli Delicious products from our Affiliate, which amount will depend on your sales. The total inventory is higher and shown in Item 7.	As Incurred	Payable to us, our approved affiliates or suppliers. See Item 8
Interest and Late Charges	A late fee of 10% of the amount late and 1.5% per month.	On due date of fees	See Note 4
Additional Training	\$300/day per person plus our cost of travel, lodging and meals (\$7,500 maximum).	At time training is scheduled and/or additional assistance is requested by you	See Item 11

<u>Type of Fee</u> <u>Remark</u>	<u>Amount</u>	<u>Due Date</u>	<u>Remarks</u>
Audit Expenses	Cost of Audit Fees plus interest @ 1.5% per month. We expect the cost to be between \$1,000-\$2,000 unless your books are not well kept.	10 days after receipt of audit report	Payable only if under payment is greater than 2% of reported amounts. Must occur twice within any 12-month period
Transfer Fee	A fee of \$7,500 will apply.	At the time the transferee signs the Franchise Agreement in effect for transfer or sale	Payable to us when the Franchise Agreement is signed or a material portion of the assets in the business is transferred
Costs and Attorney's Fees	Will vary under circumstances	As Incurred	Payable as incurred by us in obtaining injunctive relief or the enforcement of any item of the Franchise Agreement
Indemnification	Will vary under circumstances	On Demand	As Incurred; See Note 5
Insurance Premiums	\$300 - \$800 per month	You must have the required policies, including worker's compensation insurance before training begins.	Payable to Third Parties See Item 7
Inspection and Testing Fee for Products	Cost of inspection or testing products removed from your Business.	On Demand	We may require you to pay the cost for testing of a product that does not meet our specifications. See Item 8
New Equipment, Vendor and Product Assessment Fee	\$100 per product or vendor \$300 for multiple products \$100 for equipment testing	On Demand	Payable to us See Note 6
Inspection Fee	\$1,500 if you fail to pass an inspection and we have to re-inspect.	On Demand	Payable to us See Note 7 and Item 8
Renewal Fee	50% of the then current franchise fee for each Franchise	At the time of the fifteenth year renewal period for each franchise.	You must give us six-month notice, remodel to current standards and sign the then current Franchise Agreement
Renovation and Maintenance	\$0-\$8,000 estimated cost per year or up to \$24,000 every third year to maintain and renovate your Business as necessary.	As incurred	We may require that you renovate your business every third year in our discretion.

<u>Type of Fee Remark</u>	<u>Amount</u>	<u>Due Date</u>	<u>Remarks</u>
Conference Fee	Conference fee, travel, transportation, lodging, meals and incidental expenses in addition to compensation of the people you send to any conferences. Will vary under circumstances. There will be a registration fee for conferences not to exceed \$1,000 per person although we will work in good faith to keep the cost so it does not exceed our cost.	As Incurred	As Incurred and Payable to Third Parties and us. There will normally be an annual conference for all franchisees and other conferences as needed. See Item 11, (15) (iii) for more detail
Continuing Education	The fee will vary under different circumstances and is estimated not to exceed \$300 per day, per person adjusted to the current per diem fee and our travel, lodging and meals.	As Incurred	The location for the Continuing Education will be at our headquarters although we reserve the right to provide them over the internet or phone.
Replacement Manual Fee	\$1,500	On Demand	Due if manual is lost, stolen or destroyed.
Failure to Open Restaurant Fee	\$200 per week or fraction thereof	By the 10 th of each month	If you have not opened your Deli Delicious restaurant by the agreed upon start date, then you will pay us the minimum royalty of \$200 per week or fraction thereof, until such time as your restaurant is open. Our acceptance of such fee paid by you is not a waiver of any default by you, or our acceptance of your failure to open your restaurant.

<u>Type of Fee</u> <u>Remark</u>	<u>Amount</u>	<u>Due Date</u>	<u>Remarks</u>
Mandatory Non-Compliance Fee	\$500 for 1 st non-compliance, \$1,200 for 2 nd non-compliance and \$2,000 for each subsequent non-compliance.	On Demand	This fee is payable by you if you do not follow any of the requirements of the Franchise Agreement, the Operational Manual or as we direct. It increases as shown.

Except as stated above, you pay all fees to us. All fees, other than the Conference Fees are collected only by us. All fees are nonrefundable. All fees are uniformly imposed.

Note 1: Gross Revenue is defined in the Franchise Agreement as the gross amount, in money or other forms of consideration, that you earn or receive from any source-related to, or in connection with, the operation of your franchised business or with this franchise, whether on or off your premises. Gross Revenue also includes fair market value for any product or service you receive in barter or exchange for your products or services and all insurance proceeds that you receive for the loss of the Restaurant due to a casualty to or similar event at the Restaurant. The entire amount of the sale generated from service providers such as Uber Eats, Door Dash and similar companies is reportable as Gross Revenue. We exclude only sales tax receipts that you must by law collect or pay and any customer refunds of previous payments you actually make.

The royalty obligations begin immediately once the business is open and after the initial training is completed then continues for the term of your franchise. The royalty is due and payable weekly by noon Monday for the prior week. The royalty rate is 6% of your gross revenues. We may increase this royalty on an annual basis by a percentage up to the increase in the specific U.S. Consumer Price Index described below, and such increase will not be more than a 3.5% increase over the term of your Franchise Agreement (i.e. a maximum of 9.5%). Franchisor shall choose the index within the general vicinity of the Franchisee location. If your Franchise Agreement is terminated, you may be required to continue royalty payments for the remaining term of your Franchise Agreement.

Royalty fees shall be made by Direct Deposit from franchisee's account. See Direct Deposit Agreement attached as Schedule 1 of the Franchise Agreement. We reserve the right to change the time and manner of payment upon written notice to you.

Any payment you make may be applied by us, at our option, to any of your past due indebtedness to us regardless of your written or orally expressed intention. Once so applied, we will not alter the manner in which that payment has been applied. We are not required to accept payments after they are due or to extend credit or otherwise finance your operations. Failure to fully and timely pay all amounts due under this Agreement or any other agreement related to your franchise may result in the suspension of your access to our services, brand, products and/or support and may also be deemed good cause for termination of the Agreement. All fees due under this Agreement are non-refundable.

If you are delinquent more than three (3) times in any continuous twelve (12) month period during the term of this Agreement in the payment of your royalty, advertising fee or other fees, or of other sums due to us, or fail to report your sales on a timely basis and otherwise in accordance with this Agreement, we may require you to implement a system prescribed by us permitting us to unilaterally estimate and draw down the amounts owed by you, which system may include EFT systems, automatic debits, use of pre-authorized checks, other instruments or authority or any other arrangement we may prescribe. We may base our estimates of royalties, advertising fees and similar payments, on your historically reported Adjusted Gross Sales. You will promptly implement such system in strict accordance with our policies and procedures.

Note 2: You will pay us a National Advertising Fee contribution equal to 2.5% of your weekly Gross Revenues as defined in the Franchise Agreement. The National Advertising Fee begins immediately once the business is open and is due by noon Monday for the prior week and continues for the term of the Franchise. We may raise, discontinue, or reduce the contribution, based on the needs of the market place, but your total contribution will not exceed 3.5% of your Gross Revenues in any calendar year. Gross Revenue is defined in the Franchise Agreement and in Note 1 above. You pay the National Advertising contribution at the same time and under the same terms as the royalty described above.

We will place the National Advertising contribution in a separate bank account. We may use this fund for marketing, local, regional, national, or international advertising, public relations, promotions, surveys, test marketing, research and development, administration (including our salaries, accounting, collection, legal, and other costs), related expenses, and any media costs. We make the expenditures at our discretion. We do not represent that any particular level of expenditure will be made for particular programs or to benefit particular franchisees or franchised locations. We are not required to spend any amount on advertising in the area where you are located. We will not spend advertising funds for activities that are principally a solicitation for the sale of franchises. We have no fiduciary duty to you regarding any National Advertising Fees.

Note 3: We currently have no company owned outlets. We do not yet have any regional advertising cooperatives. We cannot predict what direct voting power we may have concerning fees imposed by local or regional advertising cooperatives.

Note 4: Interest and late charges begin to accrue from the due date of payment. You must also pay any damages, expenses, collection costs and reasonable attorney fees we incur when you do not make the required payments. The interest rate cannot exceed 10% per year in California.

Note 5: You must protect, defend, indemnify and hold us harmless against any claims, lawsuits or losses arising out of your operation of the franchised business. If you default under the agreement and we engage an attorney for collection or enforcement, you must pay all our damages and costs to the extent permitted by law.

Note 6: You will be required to obtain our written approval for any new piece of equipment, product and/or vendor you wish to use in the operation of your Business (as described in Item 8) and you will be responsible for paying us an assessment fee. This fee is \$100 for any single product that you wish to use and/or substitute that you wish to offer in your Business. A fee of \$300 is for up to 20 different products under the same vendor that you wish to offer in your Business. The fee for equipment testing is a minimum of \$100 per piece or any reasonable amount we determine from time to time. We may waive these fees if the products and/or vendors you select meet our requirements and make it on our approved list of products and vendors for all Franchise locations.

Note 7: You are required to maintain our standards and product specifications. We reserve the right to charge you a fee of \$1,500 if you do not pass the re-inspection. This is in addition to any product or vendor assessment fee as described above (Franchise Agreement Sections X.H and XII.Q).

Item 7
YOUR ESTIMATED INITIAL INVESTMENT
(EXPRESS MODEL)

Type of Expenditure	Amount		Method of Payment	When Due	To Whom Payment is to be Made
	Low Amount	High Amount			
Initial Franchise Fee 10% Discount for Veterans	\$25,000	\$25,000	The Initial Franchise Fee is \$25,000 for a territory which includes our training. This is nonrefundable.	At signing of the Franchise Agreement.	Franchisor
Computers, Software and POS system	\$10,000	\$13,000	Computers, software, printers, high-speed internet connection, sound system, POS system, with QuickBooks Interactive, Deli Delicious Radio Broadcast, On-Line ordering system and a telephone(s). Frequency and costs of upgrading technologies may result in additional fees presently unknown to the Franchisor.	Before opening, as incurred.	Vendors See Note 7
Furniture and Fixtures	\$3,000	\$15,000	Actual cost will vary based on the size for your business. Costs include furniture and fixtures necessary for the operation of the business.	Before opening as incurred	Vendors See Note 1
Security and Camera System	\$1,500	\$2,500	Costs to install a security system and video surveillance camera system for your Business.	Before Opening	Vendors
Real Estate	\$3,600	\$4,500	Estimated expenses for your business location and is based on leasing 600 to 900 square foot facility including your first month rent, security deposit and/or last month rent.	Before Opening	Landlord
Leasehold Improvements	\$20,000	\$50,000	The costs to construct and make necessary modifications to the space for your Business and any allowance you negotiate with the lessor for construction.	Before Opening.	Landlord See Note 2
Utilities	\$700	\$1,500	Estimated deposit for utilities such as electric, gas and water. Costs will vary due to policies of local utilities.	Before Opening	Local Utility Suppliers
Equipment	\$28,000	\$63,000	These are the costs to lease or purchase various pieces of kitchen equipment necessary the operation of the franchised business.	Before Opening, As Incurred	Approved Vendors See Note 3
Signage	\$10,000	\$20,000	Estimated costs for the delivery and installation of exterior signage.	Before Opening	Vendors
Graphics and Menu Boards	\$3,200	\$8,000	Estimated costs for graphic work, menu boards and instillation of these items to be displayed in your Business.	Before Opening	Vendors
Start Up Inventory & Supplies	\$3,000	\$6,000	Estimates for a startup inventory of food products, ingredients, condiments, beverages and other retail items as specified in the operations manual.	Before Opening	Vendors

Type of Expenditure	Amount		Method of Payment	When Due	To Whom Payment is to be Made
	Low Amount	High Amount			
Staffing	\$2,500	\$6,000	This is an estimate for additional staff. You will need to hire part-time counter help before opening for business.	Before Opening, as incurred over the course of the first month.	Salaries and Expenses See Note 4
Grand Opening Marketing Expense	\$3,000	\$6,000	Marketing will vary depending on several factors including your business plan, growth rate, cost of media in your area and ability to attract customers. Includes minimum amount of \$3,000 for Grand Opening expenses, which must be spent within first three months of operation.	As Incurred	Local Vendors
Uniforms	\$250	\$400	Estimate varies depending on number staff.	Before Opening	Vendor
Initial Marketing Kit For New Restaurant	\$500	\$700	This is information needed before opening.	Before Opening	Vendors
Insurance	\$350	\$900	Estimated premiums for the first three months of operation. Coverage is to begin before commencing operations of the Franchise and as required by the Insurance Company.	Spent over the course of the first 3 months.	Payable to third parties; See Note 5
Travel, Lodging and Meals for Initial Training Program	\$1,200	\$5,000	Training held at corporate headquarters. You are responsible for all costs associated with attending such as travel, room and board. Additional training is available at your request for which an additional training fee of up to \$300 per person per day may be required.	As Incurred	See Item 11
Business Licenses, Permits, Certifications and other professional fees	\$1,500	\$3,500	Licenses, permits and food handling certifications required to operate the restaurant and any professional legal and accounting fees incurred.	Before Opening	Appropriate licensing authorities and Third Parties See Item 11
Operating Expenses and Additional Funds	\$5,000	\$20,000	Additional funds necessary for startup of your business which includes working capital	Spent over the course of first 3 months	Third Parties See Note 5
Total	\$122,300	\$251,000			

Note 1: This is an estimate for the items we would expect you to need for lighting, cabinets, countertops, tables and seating options for the operation of your business. You may be able to use some of the existing light fixtures, cabinets, countertops and seating subject to our written approval. Actual furniture and fixture costs may vary due to additional seating. The estimate given is based on seating for 10-25 customers.

Note 2: We advise you to find a location needing minimal leasehold improvements. The leasehold improvements will depend on the size of the Express Model and because these are typically located in a host facility, these Express Models require fewer leasehold improvements than a Standard Model. A typical lease location for an Express Model is in a hotel, airport, casino, train station, university, stadium, gas station or convenience stores and the typical size

ranges anywhere from approximately 600 to 900 square feet of space. Lease payments are usually not refundable in most circumstances. You should check the terms and conditions of your lease concerning any refunds of lease payments.

Note 3: You must lease or purchase various pieces of kitchen equipment (used or new) for the operation of the franchised business as specified in the operations manual. You must lease or purchase only the approved brands and models of kitchen equipment and from our approved vendors. You must lease or purchase (used or new) kitchen equipment that meets our specifications, which may change from time to time. The type of kitchen equipment includes, but is not limited to: One 20 cubic foot refrigerator, one 20 cubic foot freezer, under counter refrigerator, one toaster conveyor belt, meat slicer, microwave, under counter prep cooler, deep fryer, charbroiler, hoods and ansel system, table top display case, ice machine, sinks, work tables, shelving and various kitchen utensils. The cost of this equipment will depend on financing terms available, the condition of the equipment and other factors. Whether or not payments for equipment purchased or leased by you are refundable, depend on the terms and conditions of the equipment lease agreement, or the equipment acquisition agreement.

Note 4: This is an estimate for the cost of labor in operating your Business (this estimate does not include any draw or salary for you). Labor costs comprise a significant component of the costs in operating a restaurant. The cost of labor is influenced by various factors such as: Time invested into business by you, level of sales at a Deli Delicious™ restaurant, number of hours Business is open and the average number of staff required in addition to market rates for labor which can vary by location.

Note 5: This estimated amount represents the first three months of insurance premiums that does not take into account workers' compensation insurance which may vary greatly by state, payroll and classification.

Note 6: These figures are just estimates and we cannot guarantee that you will not have higher costs. Competitive conditions described in Item 1 will affect these costs. Estimate includes minimum working capital for the startup of your business. This also includes estimates of miscellaneous startup costs such as: Draw or salary for you, any additional training, workers' compensation insurance payments, tax deposits, prepaid expenses, deposits (for utility), legal fees, accounting fees and other miscellaneous costs.

Note 7: POS: We will provide you with specifications for our approved POS software and hardware system, along with the approved list of providers. You must only use a POS system that is approved by us.

Total Estimated Initial Investment. The total estimated initial investment is an estimate only of the range of start-up expenses you may incur. Most of these items have been provided based on 3 months of use. We relied on our principals' combined expertise when preparing these figures. The actual amount of funds you will need depends on a variety of factors, including the size of your restaurant, the time of year when you start your business, cost of labor, type and quantity of equipment, implementation of a marketing plan, your own management skill, economic conditions, competition in your area, and other factors. The estimate of initial investment funds is based on owner-operated business, or incorporating Franchise operations to an existing complimentary business and does not include salaries or benefits for full-time employees. As your business grows, you may choose to hire additional employees to carry out support service tasks.

Item 7
YOUR ESTIMATED INITIAL INVESTMENT
(STANDARD MODEL)

Type of Expenditure	Amount		Method of Payment	When Due	To Whom Payment is to be Made
	Low Amount	High Amount			
Initial Franchise Fee 10% discount for Veterans	\$30,000	\$30,000	The Initial Franchise Fee is \$30,000 which includes training. This is nonrefundable.	At signing of the Franchise Agreement.	Franchisor
Computers, Software and POS system	\$13,000	\$16,000	Computers, software, printers, high-speed internet connection, sound system, POS system, Quick Books Interactive, Deli Delicious Radio Broadcast, On-Line ordering system, monthly support services and a telephone(s).	Before opening, as incurred.	Vendors See Note 7
Furniture and Fixtures	\$18,000	\$28,000	Actual cost will vary based on the size for your business. Costs include furniture and fixtures necessary for the operation of the business.	Before opening as incurred	Vendors See Note 1
Security and Camera System	\$2,000	\$5,000	Costs to install a security system and video surveillance camera system for your Business.	Before Opening	Vendors
Real Estate	\$6,500	\$11,750	Estimated expenses for your business location and is based on leasing 1300 to 2500 square foot facility including your first month rent, security deposit and/or last month rent (this estimate does not include common area maintenance monthly charges).	Before Opening	Landlord
Leasehold Improvements	\$65,000	\$200,000	The costs to construct interior alterations, improvements, lighting and decorating the facility will depend on the extent of the renovations needed to convert space into separate areas and any allowance you negotiate with the lessor for construction.	Before Opening.	Landlord See Note 2
Utilities	\$1,500	\$2,500	Estimated deposit for utilities such as electric, gas and water. Costs will vary due to policies of local utilities.	Before Opening	Local Utility Suppliers
Equipment	\$38,000	\$75,000	These are the costs to lease or purchase various pieces of kitchen equipment necessary for the operation of the franchised business.	Before Opening, As Incurred	Approved Vendors See Note 3
Signage	\$10,000	\$20,000	Estimated costs for the delivery and installation of exterior and interior signage.	Before Opening	Vendors
Graphics and Menu Boards	\$4,000	\$6,000	Estimated costs for graphic work, menu boards and installation of these items to be displayed in your Business.	Before Opening	Vendors

Type of Expenditure	Low Amount High Amount		Method of Payment	When Due	To Whom Payment is to be Made
Start Up Inventory & Supplies	\$6,500	\$18,000	Estimates for a startup inventory of food products, ingredients, condiments, beverages and other retail items as specified in the operations manual.	Before Opening	Vendors
Staffing	\$6,000	\$12,000	This is an estimate for additional staff. You will need to hire part-time counter help before opening for business.	Before Opening, as incurred over the course of the first month.	Salaries and Expenses See Note 4
Grand Opening Marketing Expense	\$7,500	\$9,000	Marketing will vary depending on several factors including your business plan, growth rate, cost of media in your area and ability to attract customers. Includes minimum amount of \$6,000 for Grand Opening expenses, which must be spent within first three months of operation and a Pre-Opening Marketing Kit in the amount of \$2,000.	As Incurred	Local Vendors
Uniforms	\$250	\$400	Estimate varies depending on number staff	Before Opening	Vendors
Initial Marketing Kit For New Restaurants	\$500	\$700	You will need this for advertising before opening.	Before Opening	Vendors
Insurance	\$400	\$1,000	Estimated premiums for the first three months of operation. Coverage is to begin before commencing operations of the Franchise and as required by the Insurance Company.	Spent over the course of the first 3 months.	Payable to third parties; See Note 4
Travel, Lodging and Meals for Initial Training Program	\$1,200	\$5,000	Training held at corporate headquarters. You are responsible for all costs associated with attending such as travel, room and board. Additional training is available at your request for which an additional training fee of up to \$300 per day may be required.	As Incurred	See Item 11
Business Licenses, Permits, Certifications and other professional fees	\$1,500	\$3,500	Licenses, permits and food handling certifications required to operate the restaurant and any professional legal and accounting fees incurred. In some counties the costs could be much more than the maximum amount stated here.	Before Opening	Appropriate licensing authorities and Third Parties
Operating Expenses and Additional Funds	\$15,000	\$30,000	Additional funds necessary for startup of your business which includes working capital	Spent over the course of first 3 months	Third Parties See Note 6
Totals	\$226,850	\$473,850			

Note 1: This is an estimate for the items we would expect you to need for cabinets, countertops, tables and seating options for the operation of your business. You may be able to use some of the existing cabinets, countertops and seating subject to our written approval. Actual furniture and fixture costs may vary due to additional seating. The

estimate given is based on seating for 25-50 customers.

Note 2: We advise you to find a location needing minimal leasehold improvements or fixtures. You may choose to invest in leasehold improvements, but we do not recommend it. These sums do not include any sums for purchase of real property, as we do not expect that you will buy real property. A Standard Model is in a shopping center, mall or is a stand-alone restaurant and the typical size ranges anywhere from approximately 1300-2500 square feet of space. The space must be an enclosed and separate from other businesses with its own locking door (Franchise Agreement Sections XII.S and XII.T). Lease payments usually are not refundable in most circumstances. You should check the terms and conditions of your lease agreement concerning any refunds.

Note 3: You must lease or purchase various pieces of kitchen equipment (used or new) for the operation of the franchised business as specified in the operations manual. You must lease or purchase only the approved brands and models of kitchen equipment and from our approved vendors. You must lease or purchase (used or new) kitchen equipment that meets our specifications, which may change from time to time. The type of kitchen equipment includes, but is not limited to: One walk-in refrigerator, one walk-in freezer, under counter refrigerator, one toaster conveyor belt, meat slicer, microwave, under counter prep cooler, deep fryer, table top display case, merchant display cooler, ice machine, ice bins, sinks, work tables, shelving and various kitchen utensils. The cost of this equipment will depend on financing terms available, the condition of the equipment and other factors. Whether or not payments for equipment purchased or leased by you are refundable, depend on the terms and conditions of the equipment lease agreement, or the equipment acquisition agreement.

Note 4: This is an estimate for the cost of labor in operating your Business (this estimate does not include any draw or salary for you). Labor costs comprise a significant component of the costs in operating a restaurant. The cost of labor is influenced by various factors such as: Time invested into business by you, level of sales at a Deli Delicious™ restaurant, number of hours Business is open and the average number of staff required in addition to market rates for labor which can vary by location.

Note 5: This estimated amount represents the first three months of insurance premiums that does not take into account workers' compensation insurance which may vary greatly by state, payroll and classification.

Note 6: These figures are just estimates and we cannot guarantee that you will not have higher costs. Competitive conditions described in Item 1 will affect these costs. Estimate includes minimum working capital for the startup of your business. This also includes estimates of miscellaneous startup costs such as: Draw or salary for you, any additional training, workers' compensation insurance payments, tax deposits, prepaid expenses, deposits (for utility), legal fees, accounting fees and other miscellaneous costs.

Note 7: POS: We will provide you with specifications for our approved POS software and hardware system, along with the approved list of providers. You must only use a POS system that is approved by us.

Total Estimated Initial Investment. The total estimated initial investment is an estimate only of the range of start-up expenses you may incur. We relied on our principals' combined expertise when preparing these figures. The actual amount of funds you will need depends on a variety of factors, including the size of your restaurant, the time of year when you start your business, cost of labor, type and quantity of equipment in your restaurant, implementation of a marketing plan, your own management skill, economic conditions, competition in your area, and other factors. The estimate of initial investment funds is based on an owner-operated business or incorporating Franchise operations to an existing complimentary business and does not include salaries or benefits for full-time employees. As your business grows, you may choose to hire additional employees to carry out support service tasks.

This estimate of startup costs is calculated for a period of one month, with a few items based on 3 months and with additional operating capital to be available as may be needed during the initial phase. These costs do not include your royalty payments, which begin the first day the Franchise Agreement is effective after the initial training is completed. These costs should be included in your projections of overall operations costs beginning with your first month of operation. DDF acknowledges that a Franchisee may choose to invest additional funds into their business during the first three months of operation, and sometimes longer, but we cannot estimate or promise when, or whether, any individual Franchisee will achieve positive cash flow or profits. These amounts are estimates only and specific amounts will vary with local market conditions, which are outside our control. You should review the figures carefully with a business advisor and identify your individual expenses along with cash flow projections before making any decision to buy the franchise.

We do not offer financing, directly or indirectly, for any part of the initial investment for a Franchise. The availability and terms of third party financing will depend on factors such as the availability of financing generally, your creditworthiness, collateral you may have, and the lending policies of financial institutions. The estimate does not include any finance charges, interest, or debt service obligation, or your living expenses. You should have sufficient capital or other means to pay for your living expenses for at least twelve months.

Item 8

RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

You are required to adhere to the standards and specifications established periodically by us with respect to your Deli Delicious™ business (referred to as the “Restaurant”), operational procedures, advertising, vendors, products and services to be offered through your Franchise and other items for the operation of your Restaurant. You must operate the Restaurant in strict conformity with the methods, standards and specifications that we prescribe in the Operations Manual or otherwise in writing. You must maintain in sufficient supply and use and sell at all times only those food and beverage items, ingredients, products, packaging materials, supplies and paper goods that meet our standards and specifications. We may change our standards and specifications, as a result of experience or changes in the marketplace and we will issue such changes to all franchisees. A list of approved vendors and suppliers from whom all products, inventory items and supplies may be purchased will be provided to you and may be amended by us periodically. You are not permitted to use the products or services of an unapproved vendor, purchase items from an unapproved supplier or sell any other products or items not approved by us, unless you first submit a written request to us for approval and agree to be responsible for all product assessment fees described in Item 6 and below in this Item 8. We will use best efforts to advise you within 30 days whether such products, vendors or suppliers are approved as further described in Item 8 below.

To maintain uniform quality standards, all food and beverage products, menu items, services, inventory, retail items, paper goods, signage, advertising, trademark usage, trade dress, dress code and other goods and services you use to operate the franchised business must meet our standards and specifications. All menu items and food products must be prepared by you in accordance with our recipes, cooking techniques and processes as designated by us. In addition, you must participate in and cooperate with promotional programs, gift certificate or gift card programs we may establish and follow Franchisor and supplier approved requirements and guidelines. We may require you to use or contribute to specified communications programs, stationary, operational forms and checklists, promotional items, vendor discounts, allowances, rebates and Regional/Local Advertising Cooperative Programs (as defined in Item 12).

You must permit us or our agents, at any reasonable time, to remove a reasonable number of food or non-food samples from your Restaurant free of charge for testing by us or by an independent laboratory, to determine

whether the samples meet our then-current standards and specifications. Besides any other remedies we may have, we may require you to pay for the testing if we have not previously approved the supplier of the item or if the sample fails to conform to our specifications (see Item 6). In addition, to maintain the highest degree of quality and service, we reserve the right to charge you an additional fee of \$1,500 if we inspect your Restaurant and you do not pass the inspection for a second time in any twelve-month period.

We maintain specifications for real estate leases, construction, leasehold improvements, furnishings, fixtures, uniforms, all kitchen equipment, POS and security systems to be used in your Restaurant. You may not install or permit to be installed on the Restaurant premises any fixtures, furnishings, equipment, décor items, signs, games, vending machines or other items without our written consent or that do not comply with our specifications. These specifications may include minimum standards for quality, performance, delivery, safety, durability, appearance, size, color, design, material and other characteristics. Some of these specifications are contained in our Operations Manual and others will be set forth in periodic written notices to our franchisees. In most cases, the specifications involve confidential and proprietary information regarding the content or formulation of a product and the specifications will only be made available to a supplier who agrees to sign a confidentiality agreement with us. We develop these specifications either through our research and by our development staff or with a particular manufacturer and they may be modified periodically.

We base our specifications for all food, beverage and non-food products, menu items, kitchen equipment, restaurant supplies, vendor and supplier approvals on our discretionary determination of quality, accuracy of product claims, safety, value, prompt attention to complaints, frequency of delivery, appearance and contributions or other benefits to us and/or any marketing fund. We have the right to disapprove supply sources from you. We may require vendors and/or suppliers to provide certain information, sign a nondisclosure agreement, and agree to guarantee our level of quality and produce sufficient samples to allow us to test the sample at your expense. We may require you to submit to us sufficient specifications, photographs, drawings or other information and samples to determine whether the items meet our specifications. There is a new product and new vendor assessment fee to obtain our approval and we may require third party testing, in which case you will pay the actual cost of the tests as described in Item 6. We may issue specifications in manuals or directives, in writing or orally, and we may modify them at any time. Our response to an adequate request to approve a new product, vendor and/or supplier will be made within a reasonable time, normally 30 days after we receive it. If we do not approve such products or vendors by written notice to you within this 30-day period, the product and/or vendor will be deemed disapproved. Approval may be revoked in our sole discretion. We will notify that supplier in writing of such revocation. We will also notify you through periodic written notices of such revocation.

We may offer or designate others to offer certain products, supplies or services and we and/or our affiliates may become approved suppliers or the only approved supplier(s) for these and other goods and services. Currently we do not sell any products to our franchisees, except (i) one or more of our suppliers puts our name and logo on some products sold directly to franchisees, (ii) miscellaneous items (e.g. posters) not exceeding \$10,000 annually for all franchisees, which are not required and which you can purchase through independent sources and (iii) bakery products and cheesecake. These products, supplies or services may include food items such as bread, pickles, seasoned meats (chicken and steak), spices and ingredients; DDF branded products, beverage products, packaging materials, paper and/or plastic products, napkins, cups, retail items, apparel, printed advertising materials, kitchen equipment, POS systems, merchant services, shows and event marketing opportunities, and vendor, co-branding, affinity programs. We may become approved suppliers or the only approved supplier(s) for other products and services, such bread, spices, ingredients, packaging materials, restaurant supplies, kitchen equipment, printed materials, promotional items and apparel. You will be allowed to carry authorized third party products and services from our authorized product and services list that will be made available to you after signing the Franchise Agreement. We have negotiated purchase arrangements with the approved vendors for the benefit of you in the areas of costs and customer support which benefits may continue or change from time to time based on our ability to obtain

such benefits. There are no purchasing or distribution cooperatives for any required products, services, or supplies at this time.

(i) Although it is recommended you have at least 3 days' worth of products (ii) you are required to have purchased bakery good equal to at least 15% of your gross food purchases based on all your products although this minimum may be increased based on the size of sales and (iii) otherwise we do not require a specific level of inventory whether or not they are products that are required to be purchased from approved vendors. The bakery products are from a facility owned by an affiliate of ours named DD's Bakery which is owned by two officers of the Franchisor. If particular items do not sell well in your Restaurant, you may request that a specific item or items be removed for your required product list. We will respond to your request within 30 days from the date the request is received. You may not independently act as an exclusive distributor for any third-party vendor or secure any exclusive rights for any non DDF product.

You should limit your "non proprietary" purchases of items such as cleaning supplies napkins and straws to no more than 10% of your total purchases.

We may derive revenue from rebates paid to us from certain vendors for products, goods or services you purchase from them. In addition to the rebates, we may, in the future, derive revenue through license fees, commissions, promotional fees, advertising allowances or other monies paid by approved suppliers. The revenue we receive from the rebates is based on different methods of calculation. We are paid based on the number of gallons you dispense for beverages, by a dollar amount per case of certain product and by the pound in certain other instances. Affiliates own the bakery that supplies bread products to franchisees and 3rd party vendors.

Whether or not we require you to buy products, goods or services from a vendor that pays such rebates, we may spend all of the fees we collect, based on our discretion. As of the date of this Franchise Disclosure Document we have retained all rebates.

Our gross revenue for the calendar year of 2021 was \$2,307,959.78 with the total of \$78,025.83 from required purchases of products and rebates representing 3.38% of our total gross revenue. Our affiliate had sales to franchisees and indirectly through sales to a vendor who resold to franchisees of \$982,015.43.

If a menu item, product, service, vendor or supplier is not authorized by us, you are prohibited from offering it in your Deli Delicious™ restaurant. We will enforce these limitations by using "secret shoppers" or unannounced on-site visits to your Restaurant on a regular basis. When we make other visits to Deli Delicious™ restaurants, such as to assist you, we may also take that opportunity to visibly inspect your inventory and determine if unauthorized products are being sold. In addition, we expect to receive information from other Deli Delicious™ Restaurants, customers or consumers reporting that non-approved menu items and/or products are being sold in a Deli Delicious™ Restaurant. We reserve the right to take whatever action we deem necessary in our absolute and sole discretion to prevent you from selling unauthorized products or services, including seeking injunctive relief or terminating your Franchise Agreement.

You must play what is referred to as "Retail Radio" while open, which first must be approved by us.

In addition to constantly maintaining and properly displaying all required federal and state governmental posters pertaining to employment, you shall have your employees sign an acknowledgement of the orientation and training date and the following:

"You are an employee of the (your business entity name). Deli Delicious Franchising Inc., ("DDF") requires franchisees to be aware of and comply with DDF brand standards, but does not dictate, direct or control the process of recruiting, interviewing, hiring, discipline, supervision, benefits administration, wages, scheduling, pay days, pay periods, assignments, leaves of absences, working conditions, compliance with any and

all employment related rules and regulations, or the day to day operation of (business entity's) business. As an employee of this (business entity), you must report any suggestions, comments, demands, and claims by customers to your employer.”

All marketing and promotion of your Franchise by you in any medium must be conducted in a professional and dignified manner and must conform to our specified quality standards and requirements. You must submit samples of all advertising or promotional plans and materials that you desire to use to us for approval if such has not been prepared or previously approved by us. We will respond within 30 days of receipt of this material as to whether it is approved. If we have not responded within that time frame it will be considered a disapproval. You may not use any marketing or promotional materials that either have not been approved or which we have disapproved after a prior approval.

It is estimated that your required initial expenditures to us or the vendors that we specify or approve will not be more than 90% of your total initial purchases. During the operation of a Deli Delicious™, required purchases from us or the vendors that we specify or approve are estimated not to be more than 90% of your overall purchases to operate your restaurant.

We do not provide material benefits (for example renewal or additional franchises) to you based solely on your use of designated or approved sources. We do not belong or require you to belong to any purchasing or distribution cooperatives, although we retain the right to establish them.

When you decide to open a location for your franchise under a lease, per the Franchise Agreement, you must submit the proposed lease to us for approval before it is signed. We have the option to require that the lease (i) be collaterally assigned to us by a collateral assignment agreement in a form and substance reasonably acceptable to us in order to secure performance of your liabilities and obligations to us or (ii) contain the following terms and conditions:

1. The lessor must agree that without its consent, the lease and your right, title and interest under the lease may be assigned by you to our designee or us.
2. The lessor must provide written notice to us (at the same time it gives such notice to you) of any default by you under the Lease and we must have, after the expiration of the period during which you may cure such default, an additional 15 days to cure, at our sole option, any such default and, upon the curing of such default, we shall have the right to enter upon the leased premises and assume your rights under the Lease as if the Lease had been assigned by you to us.
3. You are required to furnish copies of all insurance policies required by the Franchise Agreement to us, or such other evidence of insurance coverage and payment of premiums as we request or permit.

Before you open a Deli Delicious™ restaurant for business, you must obtain the insurance coverage for the Restaurant as specified below. The insurance coverage must be maintained during the term of the Franchise Agreement and provide evidence of insurance to us that insurance has been obtained from a responsible carrier or carriers acceptable to us. DDF must be listed as an additional insured on all policies, where applicable.

1. Comprehensive General Liability Insurance, including broad form contractual liability, broad form property damage, personal injury, advertising injury, dram shop liability, completed operations, products

liability and fire damage coverage, in the amount of \$1,000,000 per occurrence and \$2,000,000 aggregate;

2. Product Liability Insurance that covers you for damages that result in injury from products that you provide with a minimum with a minimum policy limit of \$1,000,000 per occurrence and \$2,000,000 aggregate or an amount we reasonably specify;
3. Employers Liability Insurance with minimum limits of \$1,000,000 per occurrence;
4. "All Risks" coverage (optional) for the full cost of replacement of the business premises and all other property in which we may have an interest with no coinsurance clause;
5. Business Interruption insurance (optional) in such amount as will reimburse you for direct or indirect loss of earnings attributed to all perils commonly insured against by prudent business owners (including lost royalties, national advertising and other fees due to us and/or our affiliates), or attributable to prevention of access to the Restaurant, with coverage for a period of interruption of 180 days and such longer period as we may specify periodically.
6. Automobile liability coverage (optional), including coverage of owned, non-owned and hired vehicles, with coverage in amounts not less than \$2,000,000 combined single limit;
7. Crime insurance (optional) for employee dishonesty in the amount of \$10,000 combined single limit;
8. Workers' compensation insurance in amounts provided by applicable law or, if permissible under applicable law, any legally appropriate alternative providing substantially similar compensation to injured workers, subject to the conditions set forth in the Franchise Agreement.
9. Tenant's liability insurance;
10. Any other Insurance required by the state or locality in which the Restaurant is located and operated, in such amounts as required by statute; and
11. Other insurance coverage, as we or the landlord may reasonably require.

You may, after obtaining our written consent, elect to have reasonable deductibles under the coverage required under paragraphs 1 - 3 described above. Also, related to any construction, renovation or remodeling of the Restaurant, you must maintain builder's risks insurance and performance and completion bonds in forms and amounts, and written by a carrier or carriers, satisfactory to us. All of the policies must name us, as additional insured and must include a waiver of subrogation in favor of all parties. The policies must contain certain clauses approved by us and waivers approved by us as outlined in the Operations Manual and must be "occurrence" coverage rather than "claims made" coverage.

All insurance coverage shall be taken out in your name and shall name us an additional insured and be placed with insurers designated by us or acceptable by us. You must furnish us with certified copies of each of the insurance policies described above on the earlier of your opening of the Restaurant or 60 days following the date that the Franchise Agreement is executed. You must purchase "A" rating insurance policies. Each such policy shall provide that it cannot be canceled without 30 days' prior written notice to us and that we shall receive at least 30 days' prior written notice of its expiration. You shall promptly refer all claims or potential claims against you or us to each of us and our insurer.

The cost of insurance purchased in accordance with our specifications will represent approximately 1% of your total purchases in connection with the establishment of your business. We estimate that the cost of such insurance will be approximately 2% of your total purchases in the operation of your business. These percentages do not include workers' compensation insurance that will vary with the payroll amount and category of employees.

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.

<u>Obligation</u>	<u>Section In Agreement</u>	<u>Disclosure Document Item</u>
(a) Site selection and acquisition/lease	Sections XII.S and XX.C. of Franchise Agreement	Items 7, 11 and 12
(b) Pre-opening purchases/leases	Section VIII of Franchise Agreement	Item 7 and 8
(c) Site development and other pre-opening requirements	Sections VIII, X.E, XII.T., XX.C. of Franchise Agreement	Items 6, 7, 11
(d) Initial and ongoing training	Section XX.A. of Franchise Agreement	Item 11
(e) Opening	Section IX.A. of Franchise Agreement	Item 11
(f) Fees	Sections IX and X of Franchise Agreement	Items 5, 6 and 7
(g) Compliance with standards and policies (Operations Manual)	Sections XII.A., XII.H. of Franchise Agreement	Item 8, 11 and 16
(h) Trademarks and proprietary information	Sections XV and XVI of Franchise Agreement	Items 13 and 14
(i) Restrictions on products/services offered	Section XII.I. of Franchise Agreement	Items 8 and 16
(j) Warranty and customer service requirements	None	None
(k) Territory development	Section VI of Franchise Agreement	Item 12
(l) On-going product/services purchases	Section XII.I. of Franchise Agreement	Item 8
(m) Maintenance, appearance and remodeling requirements	Section XII.E. of Franchise Agreement	Item 11

(n) Insurance	Section XIII of Franchise Agreement	Items 6 and 7
(o) Advertising	Sections X.B., X.C., X.D Items 6, 7 and 11 of Franchise Agreement	Items 6, 7, and 11
(p) Indemnification	Section XVIII of Franchise Agreement	Item 6
(q) Owner's participation/ management/staffing	Sections XII.F., XII.K. of Franchise Agreement	Items 11 and 15
(r) Records/reports	Section XIV of Franchise Agreement	Item 6 and 11
(s) Inspections/audits	Sections XII.Q., XIV.B. of Franchise Agreement	Item 6 and 11
(t) Transfer	Section XXII of Franchise Agreement	Item 6 and 17
(u) Renewal	Section VII.B. of Franchise Agreement	Item 6 and 17
(v) Post-termination Obligations	Section XXIV of Franchise Agreement	Item 17
(w) Non-competition covenants	Section XIX of Franchise Agreement	Item 17
(x) Dispute Resolution	Section XXV.C. and XXV.D of Franchise Agreement	Item 17

Item 10 **FINANCING**

Neither we, nor our affiliate currently offers, directly or indirectly, any financing arrangements to you, nor do we guarantee your note, lease, or any other obligation.

Item 11 **FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS & TRAINING**

Except as listed below, we need not provide any assistance to you under the Franchise Agreement.

Before you open your Restaurant, we will:

- (1) Not unreasonably withhold our acceptance of a site for your business operations that meets our requirements. We must accept the site if we feel that it meets or exceeds our quality standards, but our acceptance does not ensure that your business will be profitable at the approved location. The factors that consider in acceptance of the site include foot traffic visibility, complementary tenant mix in the shopping center, demographically dense primary retail trade populace, reasonable rent, adequate square footage, proper exposure within the demographic trade area, a retail-oriented shopping center

and physical characteristics of the premises such as size and layout. On-site evaluations will be performed as we deem necessary or in response to your reasonable request for site approval. We reserve the right to charge a reasonable fee for each on-site evaluation and you will be responsible for the transportation, room and board and miscellaneous expenses incurred by our personnel during these visits. We evaluate each proposed site and accept, or do not accept, each one on a case-by-case basis (Franchise Agreement, Sections XII.S and XX.C).

- (2) Enter the accepted site on your Franchise Agreement. However, the acceptance of a location and entering it on your Franchise Agreement by us is conditioned upon our determination, in our reasonable judgment, that:
 - (i) the site which you have submitted for the Restaurant is a suitable site based upon criteria we establish periodically; and
 - (ii) you and your owners are in compliance with the Franchise Agreement; and
 - (iii) The acceptance of your plans and our authorization to open your Deli Delicious restaurant is to assure that you comply with our specifications, and as such shall not be construed as any representation whatsoever that the prepared plans, engineering, construction, equipment, tenant improvement is or will be free of any defect.
- (3) Approve the lease for the business premises (Franchise Agreement, Sections XII.S and XX.C). We have the option to require that the lease (i) be collaterally assigned to us by a collateral assignment agreement in a form and substance reasonably acceptable to us in order to secure performance of your liabilities and obligations to us or (ii) contain the following terms and conditions:
 - a. The lessor must agree that without its consent, the lease and your right, title and interest under the lease may be assigned by you to our designee or us.
 - b. The lessor must provide written notice to us (at the same time it gives such notice to you) of any default by you under the Lease and we must have, after the expiration of the period during which you may cure such default, an additional 15 days to cure, at our sole option, any such default and, upon the curing of such default, the right to enter upon the leased premises and assume your rights under the Lease as if the Lease had been assigned by you to us.

However, we do not provide any assistance concerning confirming your premises to local building codes, and zoning ordinances.

- (4) Furnish any mandatory specifications, prototypical architectural, interior and exterior design guidelines, floor plans and layouts to you for the Restaurant at the accepted location (Franchise Agreement, Section XX.D).
- (5) Provide you with specifications for all kitchen equipment, layout, signs, furnishings and fixtures (Franchise Agreement, Section XX.D).
- (6) Provide you with a list of our approved vendors and suppliers for all food, ingredients, non-food items,

retail products and restaurant supplies carried as inventory, signage, kitchen equipment and uniforms. You will be responsible for these expenses as these expenses are necessary for the operation of your Restaurant (Franchise Agreement, Sections XII.I, XX.H and XX.I). We are not responsible for the delivery or installation of any non-food retail products, signage, kitchen equipment, or uniforms.

- (7) Provide you with specifications, vendors and suppliers for the POS system, computers, software, phone system, credit/debit card processing equipment, security and sound systems necessary for the operation of your Restaurant. You are required to purchase the items listed above from us and/or our approved vendors, suppliers or affiliates (Franchise Agreement, Section XX.H). We are not responsible for the delivery or installation of any POS system, computers, software, phone system, credit/debit card processing equipment, security and sound systems necessary for the operation of the Restaurant.
- (8) Provide you with specifications and standards, and provide general guidance. We may advise you of operating problems of a Deli Delicious™ Franchise disclosed by reports submitted to us or inspections made by us. We may furnish to you such guidance and assistance in connection with the operation of your Restaurant, as we deem appropriate. Such guidance and advice will include suggested pricing for menu items, products and services; methods and operating procedures utilized by other Deli Delicious™ Franchises including new menu items, products, services, purchasing and using vendors, ongoing, offsite and onsite training, advertising and promotional programs, bookkeeping, accounting or inventory control methods and general operating procedures. Additional guidance and assistance may be made available to you at your written request and in our sole discretion at fees and charges established by us (Franchise Agreement, Section XX.A, XX.E and XX.K).
- (9) Offer certain training programs designed to assist you and your business management staff in the operation of your Restaurant. We will also provide continuing education to any new manager of your Restaurant. We may require that you (or if you are a corporation, a limited liability company or partnership, then its officer or shareholder, member managing member, or managing partner) and any manager(s), or assistant manager(s) complete supplemental and refresher training programs during the term of the Franchise Agreement (Franchise Agreement, Section XX.A).
- (10) Loan to you during the term of the Franchise Agreement one copy of our confidential Pre-Opening and Operating Manuals, which may include one or more manuals and other written materials (collectively, 'the Operating Manual') for the operation of a Deli Delicious™ restaurant, containing mandatory and suggested specifications, standards and operating procedures required by us and information relative to your other obligations under the Franchise Agreement. We have the right to add to, and otherwise modify, the Operating Manual to reflect changes in authorized products and services, as well as changes in specifications, standards and operating procedures of a Deli Delicious™ restaurant. You must keep the Operating Manual confidential and current, and may not copy any part of the Operating Manual. The table of contents of the Operations Manual as of our last fiscal year end is included with this Disclosure Document as Exhibit 5 (Franchise Agreement, Section XX.G). If you lose or misplace the Operations Manual there is a \$1,500 replacement fee.
- (11) Provide you with a web page that is location specific only. This web page will have contact information and directions to the Restaurant housed within the corporate website (Franchise Agreement, Sections IX.C and XX.B).

- (12) Approve or disapprove samples of all local advertising and promotional materials not prepared or previously approved by us which are submitted by you (Franchise Agreement, Section X.C and XX.J).
- (13) Provide up to 5 days of pre-opening/grand opening assistance to you and your staff at your location. Such assistance will be provided to you as part of our initial franchise training program and at our cost (Franchise Agreement, Section XX.A).

During your operation of the Restaurant, we may:

- (1) Provide additional on-site supervision and assistance as we deem necessary and in our discretion. Additional visits are for the purpose of advising you with respect to product, services and technical matters related to a Deli Delicious™ restaurant and also with respect to food preparation, operational and sales matters. You will be responsible for the transportation, room and board and miscellaneous expenses incurred by our personnel during the visits, which will take place per the terms of the Franchise Agreement, or at your request, and at times and dates selected by us (Franchise Agreement, Section XX.A).
- (2) Inspect the operation and inventory of your Restaurant and advise you of the results for each inspection, at our cost. We will limit our inspections to two per year at our discretion. If you fail the inspection twice in any twelve-month period you will be responsible for the costs of the inspection (as described above in Item 8). If we have not inspected your Restaurant in the past twelve months and you would like to have an inspection performed, you will need to notify us in writing and we will perform the inspection within three months of your request. Any inspections that you request, the cost of the inspection will be at your expense (Franchise Agreement Sections X.H, XII.I, XII.Q and XX.A).
- (3) Provide to you and your personnel, Deli Delicious™ Franchise Continuing Education meetings at locations designated by us (Franchise Agreement, Section XX.A).
- (3) Conduct quarterly meetings or an annual convention at such place as shall be designated by us (Franchise Agreement, Section XX.A).
- (4) Provide, free of charge, answers to your questions or your staff (during regular business hours, Pacific Time Zone). In addition, you will be able to send us questions and suggestions using Internet email (Franchise Agreement, Sections XX.A).
- (5) Offer a program whereby Franchisees can receive a referral fee of 10% of the then-current franchise fee in cash, services or product credit for referring a third party franchise prospect to us, who ultimately becomes a Deli Delicious™ Franchisee. You are authorized only to identify the prospect to our company franchise sales staff. Franchisee is not authorized to act as our agent or franchise broker and is not instructed to provide any information to prospects other than what we approve and complies with law. If you are entitled to receive a referral fee, notice will be given to the prospective franchisee receiving the Disclosure Document. We retain the right in our sole discretion to modify or terminate this referral program at any time with or without notice.

During your operation of the Restaurant we will:

- (1) Intentionally Deleted.

- (2) Continue to offer at no additional charge advice, guidance and experience to you, answer your questions and provide ongoing consultation (Franchise Agreement, Section XX.A).
- (3) Provide a telephone hotline, free of charge, to answer questions from you or your staff (during regular business hours Pacific Time Zone). You will be able to contact us for questions, suggestions and guidance (Franchise Agreement, Section XX.A).
- (4) Review and approve advertising that you submit to us (Franchise Agreement, Section XX.J).
- (5) Provide you with vendor, supplier and product guidelines for your Restaurant. All products will be made available in quantities that we believe are commercially reasonable to sufficiently to meet your customer demands and at a reasonable cost (Franchise Agreement, Sections XII.I, X.II.H, XX.E, XX.H and XX.I).
- (6) Provide you with suggested prices for menu items, services and retail products. We will establish minimum and maximum prices you can charge to the extent allowed by law. (Franchise Agreement Section XX.K).
- (7) Provide you with all update and upgrade requirements for your POS system and computer systems in response to changes in the Operations Manual, or changes in our policies that are communicated to you in writing. We shall have independent access to all information that you store in any POS and computer system (Franchise Agreement, Section XII.U and XX.A).
- (8) Provide continuing education to any new manager of your business as noted in paragraph 15 (v) below. We may require that you (or if you are a corporation or partnership, a managing partner or shareholder) and any manager(s), or assistant manager(s) to complete supplemental and refresher training programs during the term of the Franchise Agreement (Franchise Agreement, Section XX.A).
- (9) Offer to you guidance in establishing and using administrative, bookkeeping, and accounting procedures in accordance with our Operations Manual, and various policies communicated by us to you in writing from time to time (Franchise Agreement, Section XX.A).
- (10) Reserve the right at our discretion to institute, maintain, and administer a National Advertising Fund (referred to as the “Fund”) to support ongoing technology and new product development to be made available to Franchisees, and such national advertising as we, in our sole discretion, may deem appropriate to promote the Deli Delicious™ name to benefit all Franchised businesses as described in Item 6. We will direct all such programs and will have sole discretion over the creative concepts, materials, and endorsements and media used in such programs, and the placement or allocation of such programs. We reserve the right to determine in our sole discretion the composition of all geographic territories and market areas for the implementation and development of such programs (Franchise Agreement, Section X.B).
 - (i) You will pay us 2.5% of weekly Gross Revenue for National Advertising contribution for the National Advertising contribution, as designated in the Franchise Agreement. We may raise, discontinue or reduce the contribution, but your total contribution will not exceed 3.5% of your Gross Revenue in any calendar year. Contributions are due by noon on Monday, for Gross Revenues of the prior week, after the first full week after the Franchise Agreement is effective and after initial training is completed then continues for the term of

your franchise. Contributions to the fund are determined on a uniform basis. Refer to Item 6 for the definition of Gross Revenue.

- (ii.) The contributions will be accounted for separately from our other funds and will not be used to defray any of our general operating expenses, except for such reasonable salaries, administrative costs, travel expenses, payroll, insurance expenses and overhead as we may incur in activities related to the administration of the Fund and its programs, including conducting evaluation of new technologies, menu items, product development, market research, preparing advertising, promotion and marketing materials, and collecting and accounting for contributions to the Fund. Usage of the Fund will include ongoing development of the national website and development of new products to be made available to Franchisees. The media in which advertisements may be disseminated include print ads, signs, billboards, radio and television and may be conducted on a regional or national basis. The advertisements may be developed by a local or national advertising agency, or in the future possibly by an in house advertising department. We may spend, on behalf of the Fund, in any fiscal year an amount greater or less than the aggregate contribution of all Deli Delicious™ Franchises in that year, and the Fund may borrow from us or others to cover deficits or invest any surplus for future use.
- (iii.) In the future, we may form a franchisee-elected Franchisee Advisory Council or cooperative whose sole purpose is to advise on National Advertising Fund usage and advertising policies. Any future Franchisee Advisory Council will act purely on an advisory basis. We are responsible for administering the Franchisee Advisory Council. If one is formed we will have the power to select and approve the members and to form, change, dissolve or merge the Advertising Council as described below.
- (iv.) Neither we nor the Franchise Advisory Council undertake any obligation to ensure that expenditures by the Fund for any geographic area are proportionate or equivalent to contributions to the Fund by Franchises operating in such geographic area or that you or your Restaurant will benefit directly or in proportion to your contribution to the Fund. Neither the Fund nor we shall be liable to you with respect to the maintenance, direction, or administration of the Fund, including without limitation, with respect to contributions, expenditures, investments or borrowings, except for acts constituting willful misconduct. When the Fund is established and activated, all Deli Delicious™ Franchises and company owned DDF businesses, or any of our shareholders or officers must contribute to the Fund in the same proportion as all Franchisees.
- (v.) All franchisees and any Franchisor-owned units contribute to the National Advertising Fund on the same basis. Any units we own will vote in the same manner as franchisee members. We administer the fund, which is not audited. If contributions paid into the fund are not spent in the fiscal year in which they accrue, we can use the remaining amounts for the same purposes in future years. All interest earned on monies contributed to the Fund will be used to pay advertising and technology development costs before other assets of the Fund are expended. Fund contributions are not used to sell additional franchises. We will prepare an annual un-audited statement of monies collected and costs incurred by the Fund and furnish it to you upon written request. All financial statements will be available 120 days after the end of our fiscal year. The National Advertising Fund has not been

established before the date of this disclosure. Financial Statements provided to Franchisor are used only for review of that franchisee and as required in this Franchise Agreement.

- (vi.) We expect to receive advertising and promotional allowances and fees from third party vendors and advertisers who enter into cooperative advertising programs with franchisees and us. For example, suppliers may pay promotional allowances for joint advertising promotional material. We may disclose the identity of vendors who pay the promotional allowances to you upon request. In addition, if we require you to buy items from a vendor who pays these allowances, we may place the funds in the National Advertising fund or spend it on related promotions and programs. We may use the funds to pay for market research, advertising materials, advertising grants to franchisees, up to 33% of our overhead and payroll costs, and up to 100% of the direct advertising administrative and management costs. Our obligation to provide advertising and marketing will be limited in cost to the amount of contributions and promotional allowances from third parties actually paid into the National Advertising fund.

During the last fiscal year, which ended December 31, 2021, we collected \$481,194.32 in contributions to the National Advertising Fund. Of that amount, \$430,175 was spent by the Advertising Fund as follows:

Internet/Digital (39.2%),
Administrative (36.1%),
Promotional prints (5.4%),
Television (5.2%),
Gift cards (4.1%),
Online ordering (3.5%),
Insurance (2.1%),
Sponsorship (1.5%),
Radio (1.4%)
Other miscellaneous expenses (1.5%).

- (11) We do not now, but may require you to join, participate in and pay into, one or more franchisee marketing councils for your region, determined by the penetration area of local advertising media used (for example, the area of a regional newspaper's circulation). We may also require you to participate in a Regional/Local Advertising Cooperative Program that we administer, as described in Item 12. Franchisee councils may be established and administered by a majority vote of the franchisees in that region. Their purpose is solely to develop and implement cooperative advertising and special promotions within their regions. Franchisees are responsible for administering any franchise marketing council. The amount of contribution and type of advertising or promotions and the use of governing written documents will be set by majority vote of the members of each council but may not exceed 1.5% of your Gross Revenue. We will be able to review and approve or disapprove the amount of contribution, the franchisees that will be required to join, regions covered; any governing documents (which will be available for your review), and all advertising and promotions. The council must prepare annual un-audited financial statements, which must be available for you and our review by 120 days after our fiscal year end. We have the power to require councils to be formed; changed; dissolved; or merged. We cannot predict how a franchisee marketing council will use the funds available to it, including its expenditures on production, media placement, and administrative expenses, because this is a new franchise offering.

- (12) You must spend at least 1% of your Gross Revenue each year on local advertising and promotion, in addition to the 2.5% National Advertising contribution you pay to us. Such local advertising may include flyers, team sponsorships, cross promotions with other retailers, cash register tape advertising, etc. You will also spend at least \$3,000 for an Express Model and a minimum of \$6,000 for a Standard Model on "grand opening" promotion within three months of opening which is in addition to fees paid under the local advertising program. You must report your quarterly advertising expenditures to us by the 10th day after the end of each quarter, or at times, on forms, and in a manner we determine.

You will not use any independent advertising or sales promotion programs in any media (including electronic) without our prior review and written approval. We will approve or disapprove materials you submit to us within thirty business days. You will make reasonable efforts to participate in and cooperate with all advertising programs selected by us or by any approved group of franchisees, except that you need not follow or maintain any sales price or suggested pricing. You are responsible for any expenses of this independent advertising.

- (13) We estimate that there will be an interval of 180 days between the signing of the Franchise Agreement and the opening of your Deli Delicious™ Franchise. Factors that may affect this length of time include obtaining a location that is approved by us for your Deli Delicious™ restaurant, completion of your pre-market entry study to determine any customization of products and services to be offered through your Restaurant. You have 180 days from the signing of this Agreement to acquire or lease, at your expense, commercial real estate that is properly zoned for the use of your Deli Delicious™ restaurant under the Franchise Agreement. You must submit to us, in the form we specify, a copy of the location plan and other such information or materials we may require, together with an option contract, letter of intent, or other evidence of satisfactory to us which confirms your favorable prospects for obtaining the location. We will have 30 days following receipt of this information and materials from you to approve or disapprove the proposed location of your Deli Delicious™ restaurant. If we do not approve a proposed location by written notice to you within this 30-day period, the site will be deemed disapproved. Failure to acquire or lease a location within the 180-day period will constitute a default under the Franchise Agreement, for which we may terminate the Franchise Agreement.
- (14) You are required to purchase a computer, software, two POS phone systems, security and sound systems. Because the operations of different franchisees vary and the life of equipment varies, we cannot estimate the costs of update, or upgrading your computer systems. We are not responsible to update, upgrade, or maintain your computer software, phone, and POS systems. We cannot estimate the future costs of the software and computer system or required service or support, and although these costs might not be fully amortizable over this Agreement's remaining term, you agree to incur the costs of obtaining the software and computer system (or additions and modifications) and required service and support. We have no obligation to reimburse you for any software or computer system costs. We will provide you with specifications for our approved POS software and hardware system, along with the approved list of providers. You must only use a POS system that is approved by us. We will have independent access to the information generated or stored in the computer system.
- (15) Before the opening of your Franchise, yourself, any proposed manager and/or key personnel you designate are required to attend the 14-day DDF Training Program at our corporate headquarters in Fresno, California. In certain circumstances, additional hands-on training may be necessary based on your need. The Training Program for yourself and your manager is included in your Initial Franchise Fee. You are responsible for all costs associated with attending the training program such as travel, room and board.

- (i.) It is required that you (or your managing partner, managing member, member, or shareholder) has successfully obtained a ServSafe® Food Protection Manager certification in your home state. ServSafe® is food handling and safety training that is necessary for the operation of your business. Such courses can be taken in a classroom setting or in some states can be completed over the Internet.
- (ii.) You (or your managing partner, managing member, member or shareholder) are required to pass our final examination with a minimum score of 90% which is given at the end of the 14-day training program. If you (or your managing partner or shareholder) does not meet this requirement, then you (or your managing partner or shareholder) must remain for an additional five days to retake the training at your cost (Franchise Agreement Section XII.V). If we determine that any proposed manager is not qualified to manage a Deli Delicious™ restaurant, we will notify you, and you may then select and enroll a substitute manager in our Training Program. If, during the Training Program we determine, in our sole discretion, that you (or your managing partner, managing member, member or shareholder) are not qualified to manage a Deli Delicious™ restaurant, we have the right to terminate the Franchise Agreement and we will refund the Initial Franchise Fee, minus our demonstrated and itemized expenses, without interest.
- (iii.) One of our company-owned outlets, our affiliates or an existing franchisee may also make an optional (or in the future a mandatory) hands-on work experience available to you at its Deli Delicious™ restaurant. Currently neither we or our company-owned outlets or affiliates, nor the host franchisee plan to charge you for any hands-on work experience you attend, but we have the right to do so in the future.
- (iv.) After the completion of the DDF Training Program by you and your key personnel, we will provide training to any new manager of your Restaurant at your request for which an additional training fee of up to \$300 per person per day plus travel, lodging and meal expenses may be required. The trainee(s) will be responsible for all costs related to attending training such as travel, room and board. In addition, we have the right to require that you (or such managing partner, member or shareholder) and any manager(s), assistant manager(s) and staff complete supplemental and refresher training programs during the term of the Franchise Agreement, to be furnished at our corporate headquarters in Fresno, California, at no charge.
- (v.) After the opening of your Franchise, we will provide to you and your personnel, access to information and support. Support will also be available from DDF professionals, and we may provide continuing education sessions at locations designated by us but most likely at our headquarters. Continuing education sessions may have a registration charge to you and you are responsible for costs associated with attending the meetings such as travel, room and board. The programs will normally not exceed one full day and we expect to at least have quarterly programs subject to special need. The content will cover particular aspects including but not limited to food preparation, menu items, customer service standards, sales and marketing, administration and so forth. We may conduct an annual convention at such place as shall be designated by us for all Franchisees but will most likely be at our headquarters. A registration fee for each participant may be required which we will work in good faith to maintain at our cost and you will be responsible for costs associated with

attending the convention such as travel, room and board. The fees charged above may be increased a reasonable amount based on reasonable criteria.

- (vi.) No later than 30 days before the date you anticipate opening a Restaurant, we will provide training for you as noted in the following training schedule. This training curriculum is fully detailed in the Deli Delicious™ Operations Manual and will change periodically. The DDF training team will include directors from our staff from the Deli Delicious™ Fresno corporate office, members of our website development team, members from our approved suppliers and service providers.

TRAINING SCHEDULE: AT CORPORATE OFFICES

The Deli Delicious™ Franchise Training Program includes a Pre-Opening Manual, Operations Manual, hands-on training, and demos. This training curriculum is fully detailed in the Operations Manual and will change periodically. You are required to attend all training classes and related meetings.

Training Program Deli Delicious™ Franchisees

The Operations Manual will detail all aspects of Franchise operations presented in training and serve as an ongoing reference. Updates to the Operations Manual will be made available to you through various means including online. All of the training sessions will be taught by a combination of Ali Nekumanesh and Hesam Hobab whose backgrounds are described in Item 2 above.

Subject	When	Classroom Hours	On The Job Training	Instruction	Location
The Deli Delicious™ System	Day 1	2 Hours		Presentation, demos and examples	Corporate headquarters in Fresno, California or as we otherwise specify.
Deli Delicious™ Standards and Product Overview	Day 1	3 Hours		Presentation, Operations Manual and Various Speakers	Corporate headquarters in Fresno, California or as we otherwise specify
Safety, Health, Sanitation, Cleanliness and Personal Hygiene Requirements	Days 1 and 3	2 Hours	2 Hours	Presentation, Operations Manual, Demos, and Various Speakers	Corporate headquarters in Fresno, California or as we otherwise specify
Kitchen Equipment Specifications and Operations	Days 2, 5, 6, 8 and 11	4 Hours	8 Hours	Operations Manual, Kitchen Training, Demos and Various Speakers	Corporate headquarters in Fresno, California or as we otherwise specify
Menu Overview and Pricing	Day 2	4 Hours		Presentation, Operations Manual and Various Speakers	Corporate headquarters in Fresno, California or as we otherwise specify
Food Preparation and Recipes	Days 2, 3, 5, 6, 8, 11 and 13		35 Hours	Operations Manual, Kitchen Training, Demos and Various Speakers	Corporate headquarters in Fresno, California or as we otherwise specify
Daily Restaurant Operations and Checklists	Days 4, 7 and 10		10 Hours	Presentation, Operations Manual and Various Speakers	Corporate headquarters in Fresno, California or as we otherwise specify
Counter Service, Delivery and Catering	Days 4 and 7		4 Hours	Presentation, Operations Manual, Floor Time and Various Speakers	Corporate headquarters in Fresno, California or as we otherwise specify
POS Procedures, and General Knowledge	Days 4, 7, 10 and 12	2 Hours	4 Hours	Presentation, Operations Manual, Floor Time and Various Speakers	Corporate headquarters in Fresno, California or as we otherwise specify

Subject	When	Classroom Hours	On The Job Training	Instruction	Location
Customer Service and Handling Complaints	Days 4 and 7	2 Hours	2 Hours	Presentation, Various Speakers, Demos and Floor Time	Corporate headquarters in Fresno, California or as we otherwise specify
Product Knowledge, Ordering, Inventory, Pars and Food Cost	Days 3, 5, 6, 8 and 13	4 Hours	10 Hours	Presentation, Operations Manual, Floor Time and Various Speakers	Corporate headquarters in Fresno, California or as we otherwise specify
Merchandising, Displays, Product Sales and Promotions	Day 7		3 Hours	Presentation, Sales and Training Workshops	Corporate headquarters in Fresno, California or as we otherwise specify
Opening and Closing Procedures	Days 4, 7 and 10		4 Hours	Presentation, Operations Manual and Various Speakers	Corporate headquarters in Fresno, California or as we otherwise specify
Marketing and Promotions	Day 8	2 Hours		Continuation of Sales Training, Marketing Plan and Creation	Corporate headquarters in Fresno, California or as we otherwise specify
Security Training	Days 7 and 10		4 Hours	Presentation, Operations Manual, Floor Time and Various Speakers	Corporate headquarters in Fresno, California or as we otherwise specify
Staffing Your Business	Days 7, 8, 9 and 14	6 Hours		Presentation, Operations Manual and Floor Time	Corporate headquarters in Fresno, California or as we otherwise specify
Management and Employer Guidelines	Day 9	4 Hours		Presentation and Operations Manual	Corporate headquarters in Fresno, California or as we otherwise specify
Business Plan Review	Day 8 and 9	2 Hours		Business Plan Workshop	Corporate headquarters in Fresno, California or as we otherwise specify
Administrative and Bookkeeping Responsibilities	Day 8 and 10	6 Hours		Presentation, Operations Manual and Various Speakers	Corporate headquarters in Fresno, California or as we otherwise specify
Follow Up and Review of previous topics (as needed)	Day 14		4 Hours	Various Speakers, Floor Time and Open Discussion	Corporate headquarters in Fresno, California or as we otherwise specify
Totals		43 Hours	90 Hours		

Item 12 **TERRITORY**

You must operate your single Franchise within the specific location identified in your Franchise Agreement. . You will not receive an exclusive territory. You may face competition from other franchisees, from outlets that we own, or from other channels of distribution or competitive brands that we control. If we do provide you with a territory (“Territory”) it will not exceed a two (2) mile radius although we may change that to a larger or smaller area if we believe it is appropriate given the nature of the area. We will provide you with an estimate of the size of the Territory at the time you sign the Franchise Agreement. If we grant you a Territory we will use certain demographic information such as MapQuest or a similar mapping program to help us decide on the Territory.

We cannot establish either a company-owned Franchise nor license another to locate a Deli Delicious™ Franchise within any area identified in your Franchise Agreement as the Territory during the term of the Franchise Agreement.

Regardless of the type of territory we grant, you will not be restricted as to the geographic area into which you may go to solicit business. You may not conduct business at any other site or sites other than the accepted Franchise site

or sites that have been entered in your Franchise Agreement or made part of by an addendum attached to your Franchise Agreement. You may not relocate your Deli Delicious™ Franchise without our written consent, which we will not unreasonably withhold or delay.

Your Territory, if any, is determined by high foot traffic visibility, market demographics, market penetration of the System and similar businesses, complementary tenant mix in a shopping center, the availability of appropriate sites, adequate square footage, reasonable rent, business potential or other conditions important to the successful operation of a Deli Delicious™ restaurant, as DDF deems appropriate and as identified in your Franchise Agreement. We will not alter any Territory even if there is an increase or decrease in the conditions described above or will it be affected by your sales volume. Certain locations, such as a readily definable marketplace (e.g. hotels, airports, casinos, train stations, universities, stadiums, etc.) or major metropolitan areas may have smaller territories of densely populated areas. We must accept the location for your Deli Delicious™ restaurant within your defined Territory in writing before opening. Establishment of additional Restaurants within your Territory requires our written acceptance.

You must submit a separate application for each franchised business to be established by you. You must pay the fee for each additional acquisition mentioned in Item 5, and are in compliance with all of the terms and conditions of the franchise agreement. We must approve the location of any additional Deli Delicious™ restaurant as mentioned in Items 11 and 12 above.

You may accept business and provide products and services to customers who live outside your Territory even if such customers may live within another franchisee's Territory so long as the products and services that you are providing are being sold and performed within your defined Territory. We and other franchisees reserve the same right to provide products and services to people who may live within your defined Territory.

We reserve the right to issue binding policies to coordinate Regional/Local Advertising Cooperative Programs. For example, we intend to require that all franchisees within close proximity to food expos participate in the cost and benefit of the show. We intend to direct and coordinate all franchisee Internet advertising. All such programs and policies are our proprietary trade secrets. In such programs, we may require the customer that is acquired through such programs, to be served by the closest or other franchisee and may or may not require franchisees serving the customer to pay a reasonable referral fee.

We expressly reserve all other rights including the rights to:

- (1) To advertise, offer and promote the menu items, products and services of the System through the Internet, World Wide Web and/or other similar venues no matter where the customer is based to fulfill customer orders and services in your Territory.
- (2) Sell or distribute anywhere any menu items, products or services to customers located anywhere through any alternative or other channel of distribution, other than local facilities providing food and non-food products and services under the Marks and System. We have this right whether or not we are using the Marks or System or are acting inside or outside the Territories designated on your Franchise Agreement.
- (3) Implement Regional/Local Advertising Cooperative programs which may allow us or others to solicit or sell to customers anywhere. We also reserve the right to issue mandatory policies to coordinate such Regional/Local Advertising Cooperative programs.

- (4) Distribution of branded products and services through any outlet located anywhere (including, by way of illustration, sales through, grocery stores, college campuses, special events, military bases and installations, airports and/or electronic means and similar venues).
- (5) Own and/or operate ourselves or authorize others to own and/or operate (a) any business located outside the Territory as designated on your Franchise Agreement, whether or not using the Marks and/or System, (b) any business anywhere, whether using the Marks and /or System or not, which is not substantially similar to the business franchised to you under the Franchise Agreement and/or (c) any business anywhere which does not use the Marks.
- (6) Acquire, merge, affiliate with or engage in any transaction with other businesses (whether competitive or not), with units located anywhere, including arrangements in which we are acquired, and/or company-owned, franchised or other businesses (including your Deli Delicious™ restaurant) are converted to another format, maintained under the DDF System or otherwise. Each Deli Delicious™ restaurant awarded to you will fully participate in any conversion subject to any person/entity merging with, or acquiring us, reimbursing you for reasonable costs directly related to the conversion.
- (7) Except for those franchisees who have a territory, sell or open a company owned Franchised Business within your Territory, if any, and sell a franchise to someone who will open a Franchised Business within your Territory.

We are not responsible for paying any compensation to you concerning the sale of our menu items, products and services by use over the Internet, World Wide Web, other similar venues, by alternative means of distribution, Regional/Local Advertising Cooperative programs, outlets, businesses that are not substantially similar to the franchised business, or any business that does not use the Marks.

Item 13 **TRADEMARKS**

Under the Franchise Agreement, we grant you the nonexclusive right to use the Marks in connection with the operation of your Franchise. Our primary trademark is “Deli Delicious™” as it appears on the first pages of this disclosure. We have the right to use and to license others to use the Marks and under any other trade name, trademarks, service marks and logos currently used or that may hereafter be used in the operation of the Restaurant. You must use the Marks only for the operation of your Franchise and in the manner authorized by us.

The marks “Deli Delicious” (word mark), “Deli D” (word mark), and “Deli D” (design logo) were all approved by the US Patent and Trademark Office (referred to as “USPTO”) on September 21, 2010, Registration No. 3849634, 3849635 and 3849636 respectively. The marks “Deli Delicious – Premium Deli Sandwiches” and “Deli Delicious” were also approved and registered on the principal register of the USPTO” on December 27, 2016 with Registration No. 5107831 and on December 20, 2016 with Registration No. 5103239. In addition, the mark “Sizzle Station” was also approved and registered on the principal register of the USPTO on June 11, 2019 Registration No. 5777161. We also claim common law rights in our trademarks based on our prior use. If our right to use the trademarks is challenged, you may have to change to an alternative trademark, which may increase your expenses.

There are no presently effective determinations of the USPTO, the Trademark Trial and Appeal Board, the trademark administrator of any state or any court, nor any pending interference, opposition or cancellation proceeding or material litigation involving the Marks.

By “trademarks” we mean trade names, trademarks, service marks, logos, and commercial symbols used to identify the business and certain foreign marks. There are no other agreements currently in effect that significantly limit our rights to use or license others to use the trademarks and service marks in any manner material to the franchise.

You must notify us immediately in writing of any apparent infringement of or challenge to your use of any Mark, or claim by any person of any rights in any Mark or any similar trade name, trademark or service mark of which you become aware. We have the sole discretion to take such action as we deem appropriate and the right to exclusively control any litigation, USPTO proceeding or other administrative proceeding.

We are not obligated by the Franchise Agreement to protect any rights granted to you to use the Marks or protect you against claims of infringement or unfair competition with respect to them. Although we are not contractually obligated to protect the Marks of your right to use them, as a matter of corporate policy, we intend to defend the Marks vigorously.

You may not, without our written consent, in our sole discretion, commence or prosecute, or seek leave to intervene in, any litigation or other proceeding, including any arbitration proceeding, in which you purport to enforce any right or recover any element of damage arising from the use or infringement of any of the Marks or unfair competition.

If it becomes advisable at any time, in our sole discretion, to modify or discontinue use of any Mark, and/or use one or more additional or substitute trademarks or service marks, you must comply with our directions with respect to a reasonable time after notice by us. You, in connection with the use of a new or modified Mark, may be required, at your own expense, to remove existing signs from your Deli Delicious™ restaurant, and to purchase and install new signs. We have no liability to you.

There are no infringing uses actually known to us at the time of this agreement that could materially affect your use of the Marks in the state of California or in any other state. You should understand that there could be other businesses using trademarks, trade names or other symbols similar to our Marks with superior rights to our rights. Before starting business, you should research this possibility, using telephone directories, trade directories, Internet directories, or otherwise in order to avoid the possibility of having to change your business name.

All your usage of the Marks granted under the Franchise Agreement is nonexclusive, and we retain the right, among others: (a) to use the Marks in connection with selling menu items, products and services; (b) to grant other licenses for the Marks, in addition to those licenses already granted to existing franchisees; (c) to develop and establish other systems using the same or similar Marks, or any other proprietary marks, and to grant licenses or franchises in those systems without providing any rights to you.

All your usage of the Marks and any goodwill you establish is to our exclusive benefit and you retain no right or rights in the Marks on the termination or expiration of your Franchise Agreement. You may not use the marks as a part of any corporate or trade name, nor may you use any trade name, trademark, service mark, emblem or logo other than the Marks, as we may designate periodically. You must prominently display the Marks on such items and in the manner we designate. You also agree to prominently display at your restaurants at all times and specifically at our request, any materials, POP or advertisements to promote the franchise, the system and its Trademarks and Brand. You must obtain such fictitious or assumed name registrations as we require or under applicable law. You must identify yourself as the owner of your Franchise by placing your personal or legal entity name on all business materials and documents including all employee related materials, on all checks, invoices,

receipts and contracts whether they bear the Marks or not and on all printed materials your name must be followed by the phrase "A franchise of Deli Delicious™" or such other phrase as we occasionally direct.

Item 14

PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

We claim copyright and trade secret protection of the Deli Delicious™ with respect to our menu items, recipes, products, systems, manuals and all related materials including advertisement and promotional materials although such materials may not have been registered with the United States Copyright Office. These materials are considered proprietary and confidential and are considered our property and may be used by you only as provided in your Franchise Agreement. We reserve the right to register any of our copyrighted materials at any time we deem appropriate. We also reserve the right to renew any and all such copyright registrations at our discretion.

There currently are no effective determinations of the Copyright Office or any court regarding any of the copyrighted materials. There are no agreements in effect that significantly limit our right to use or license the copyrighted materials. There are no infringing uses actually known to us, which could materially affect your use of the copyrighted materials in any state.

You must notify us immediately in writing of any apparent infringement of or challenge to your use of our copyrighted materials, patents, or trade secrets, or claim by any person of any rights in any copyright, trade secret, or patent which you become aware. We have the sole discretion to take such action, as we deem appropriate and the right to exclusively control any litigation, Copyright Office proceeding or other administrative proceeding.

We are not obligated by the Franchise Agreement, or any other agreement, to protect any rights granted to you to use the copyrights, trade secret, or patents, or participate in your defense, protect you against claims of infringement with respect to them. If you are required to modify any of the materials provided to you by us, because of a claim of copyright infringement, trade secret infringement, or patent infringement, you must do so at your own expense.

We possess certain confidential information including product knowledge, specifications, ingredients, formulas, any and all recipes, procedures for food preparation, food preparation, methods and techniques; technology, pricing and cost information, operational procedures, forms, record keeping and reporting methods, signage, sales, merchandising, advertising and marketing materials, systems and knowledge of, and experience in, the operation and franchising of Deli Delicious™ (the "Confidential Information"). We will disclose Confidential Information to you during the DDF franchise training program, seminars, workshops, continuing education sessions, and conventions sponsored by us; in the Pre-Opening Manual and Operating Manual, and in guidance furnished to you during the term of your Franchise Agreement.

If you or your managing partners, managing members, members or shareholders, develop any new menu item, product, concept, process or improvement in the operation or promotion of your Deli Delicious™ restaurant, you are required to promptly notify DDF with all necessary related information, without compensation. You and your managing partners, managing members, members or shareholders acknowledge that any such menu item, product, concept, process or improvement will become the property of DDF and DDF may use or disclose such information to other franchisees as it deems appropriate.

The Franchise Agreement provides that you will not acquire any interest in the Confidential Information other than the right to utilize it in the development and operation of your Deli Delicious™ restaurant during the term

of your Franchise Agreement, and that the use or duplication of the Confidential Information in any other business would constitute unfair competition. You also agree that the Confidential Information is proprietary to us and is disclosed to you solely on the condition that you (1) will not use the Confidential Information in any other business or capacity; (2) will maintain the absolute confidentiality of the Confidential Information during and after the term of your Franchise Agreement; (3) will not make unauthorized copies of any portion of the Confidential Information disclosed in written or electronic form; and (4) will adopt and implement all reasonable procedures required by us to prevent unauthorized use or disclosure of the Confidential Information, including without limitation, restrictions on disclosures to employees of your Franchise and any other business(es) owned by you and any partner(s), and the use of nondisclosure and noncompetition clauses in employment agreements with such persons.

Item 15

OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS

The Franchise Agreement provides that a Deli Delicious™ Franchise must at all times be under your direct, day-to-day, full time supervision (or if you are incorporated, a limited liability company (“LLC”) or are a partnership, then a managing shareholder, managing member, member or partner of the corporation, LLC or partnership, approved by us) or the non-owner manager of your Franchise who is approved by us. This person must have successfully completed the DDF Training Program.

You (or your managing partner, managing member, member or shareholder) must use his or her best efforts in the operation of the Deli Delicious™ business. You are required to attend all franchisee meetings held at our corporate office. Currently there are four required meetings per year.

You are required to retain a restaurant manager (“Manager”) for the operation and management of your Deli Delicious™ restaurant. The Manager may, but need not, be you or one of the managing partners, members or shareholders of the Business. The Manager must meet all of DDF’s standards and criteria for such positions as set forth in the Operations Manual. These individuals must also satisfy the applicable training requirements as outlined in the Franchise Agreement (Franchise Agreement Section XII.F).

Each of your employees, service providers, agents, principals and affiliates must sign a confidentiality agreement containing substantially the same protections as provided in the form agreement contained in the Operations Manual (although you are responsible for ensuring its adequacy and enforceability under local law). Our approval of a manager other than you is conditioned upon the manager entering into a confidentiality and restriction of like business agreement containing covenants like those contained in the Franchise Agreement and Schedule 9 of the Franchise Agreement against engaging in competing businesses and use/disclosure of our confidential business information during the tenure of employment with you and for a period of 5 years following employment by you. You will provide us with copies of the same upon request. No-poaching provisions in contracts are against California public policy. Therefore, we will not enforce in California any no-poaching provision in your Franchise Agreement.

You may not employ any individual who is at the time or was at any time during the prior 6 months employed in a managerial or administrative position by DDF or any of its affiliates or by another franchisee of DDF without the prior written consent of DDF. As a condition to such consent, you may be required to compensate the former employer for the reasonable costs and expenses incurred by the employer in connection with the training of any replacement employee.

If you are a corporation, LLC or partnership, each shareholder, member or partner must personally guarantee your obligations under the Franchise Agreement, and also agree to be personally bound by, and personally liable for the breach of, every provision of the Franchise Agreement, agree to be bound by the confidentiality provisions and noncompetition provisions of the Franchise Agreement and agree to certain restrictions on their ownership interests. The required Guaranty of Obligations is attached as Schedule 5 of the Franchise Agreement.

Item 16

RESTRICTIONS ON LOCATION & WHAT THE FRANCHISEE MAY SELL

Due to the differing nature of markets across the United States, and because the size of each individual Restaurant will vary, a Franchisee will have a wide variety of possible sites to choose from which to conduct their business operations with the approval of the Franchisor. You may not use the Deli Delicious™ restaurant premises for any other purpose than the operation of Deli Delicious™ business, unless otherwise approved by us in writing. Alternative operation sites that may be approved can include for example, incorporating your Franchise operations within the premises of an existing complimentary business.

You must comply with all of our standards and specifications relating to the purchase of all food, food products and beverage items, ingredients, menu items, supplies, materials, furniture and fixtures, décor items, signs, uniforms, printed advertising materials, equipment (including POS system and merchant services), kitchen equipment and other retail items used or sold at the Restaurant (see Item 8).

You are required to offer for sale only Deli Delicious™ approved menu items, products and services specified by us including sandwiches, salads, side dishes, prepackaged food, beverages, selling apparel and retail items in addition to offering delivery and catering services as expressly authorized by us in writing or in the Operations Manual, or developed by us as a result of your pre-market entry study (included in your Pre-Opening Manual) to meet the needs of your unique market, and any updates to be incorporated in the Operations Manual periodically. You must prepare all food items with our recipes and procedures for preparation contained in the Operations Manual or other written instructions, including the measurements of ingredients. You must not deviate from our standards and specifications by the use or offer of non-conforming items or differing amounts of any item without first obtaining our written consent. You must discontinue selling and offering for sale any menu item, product or service that we may disapprove in writing at any time. We will suggest pricing strategy and will establish minimum and maximum prices at which you may sell menu items, products or services that you charge customers to the extent allowed by Small Business Association requirements and applicable federal and state laws. Under California law, an agreement between a seller and a buyer regarding the price at which the buyer can resell a product (known as vertical price-fixing or resale price maintenance) is illegal. Therefore, requirements on franchisees to sell goods or services at specific prices set by the franchisor may be unenforceable. We may change the types of menu items, products and services we authorize. There are no limits on our right to do so. You may not offer for sale any menu items, products or services not specifically approved by us in writing.

You must participate in any gift certificate or gift card program we establish. You may not create or issue your own gift certificates or cards.

You must maintain proper permits and licenses to operate a Deli Delicious™ restaurant and provide product and services in your area. You must not engage in any trade, practice or other activity that is harmful to our goodwill or reflects unfavorably on our reputation, that constitutes deceptive or unfair competition, or that is in violation of any applicable law.

We place no restrictions upon your ability to sell products to customers provided you do so from your

Franchise location in accordance with our standards (see Item 12).

Item 17
RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION
THE FRANCHISE RELATIONSHIP

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

Provision	Franchise Agreement	Summary
a. Term of the Franchise Agreement.	FA Section VII.A.	FA- 15 years
b. Renewal or extension of the term.	FA Section VII.B.	FA- 15-year renewal if you meet certain term requirements.
c. Requirements renew	FA Section VII.B.	FA - Written notice for you to renew, full compliance, sign then current form or new Agreement and pay renewal fee. You may be asked to sign a new franchise agreement that may differ materially from the current Franchise Agreement.
d. Termination by you.	Section XXIII.D.	FA - If we have materially failed to comply with terms of Franchise Agreement after 30 days’ notice.
e. Termination by us without cause.	None	We cannot terminate your FA without cause.
f. Termination by us with cause.	FA -Section XXIII C. FA- Section XIV B	FA - We can terminate if you breach a material provision of the Franchise Agreement, fail to open the business.
g. “Cause” defined as which cannot be cured.	FA- Sections XXIII.C.	Abandonment of Restaurant; surrender of control; misrepresentation or omission in application; felony conviction; unauthorized assignment improper assignment upon death or disability; loss of possession of Restaurant; unauthorized use of Confidential Information; failure to pay taxes or liens; dishonest or unethical conduct; assignment for benefit of

creditors; bankruptcy; quota repeated violations; failure to pay taxes or liens; dishonest or unethical conduct; assignment for benefit of creditors; bankruptcy; quoted repeated violations.

h. "Cause" defined; defaults which can be cured.

FA- Section XXIII.D.

FA-Violation of health or safety laws upon 36 hrs notice; 5 days for failure to pay amounts owed; 30 days for all other defaults.

i. Your obligations on termination / non-renewal

FA- Section XXIV

FA -Cease operating franchised business cease use of confidential information and Marks; deliver property containing the Marks; cancel assumed or similar name registrations; pay outstanding amounts and damages; deliver manuals; assign phone numbers; comply with covenants.

j. Assignment of contract by us.

FA- Section XXII.C.

No restriction on our right to assign.

k. "Transfer" by you- definition.

FA- Section XXII.B.

Includes transfer of the contract and business assets by you.

l. Our approval of transfer by you.

FA- Section XXII.C and XXII.E

FA-We have the right to approve all transfers by you

m. Conditions of our approval of transfer.

FA- Section XXII.C and XXII.E.

FA- Full compliance; transferee qualifies; all amounts due are paid in full; completion of training by transferee; transfer fee paid; transferee agrees to be bound by all terms of Franchise Agreement; you sign and deliver other required documents including a release, the transferee does not operate a similar business to us, the transferee shall upgrade the business you remain liable for all obligations incurred prior to transfer, transferee meets our qualifications, transferee must comply with all leases and laws, transferee must obtain sublease from you and approval by the landlord, you must obtain the consent of all of your lenders, you must continue to comply with all non-competition covenants, and you must submit copies of all agreements to us

n. Our right of first refusal to acquire your business.	FA- Section XXII.C and XXII.E	FA - We have the right to match any offers.
o. Our option to purchase your business upon termination or non-renewal.	FA- Section XXIV.F and XXIV.F.	FA- Purchase for fair market value determined by appraisal if parties are unable to agree.
p. Your death or disability.	FA- Section XXII.D.	FA - Franchise must be assigned to approved buyer within 120 days.
q. Non-competition covenants during the term of the Franchise.	FA- Section XIX C.	FA - No involvement in any competitive business anywhere in the US other than existing business.
r. Non-competition covenants after the franchise is terminated (but not upon expiration).	FA- Section XIX.C.	FA - No interest in competing business for 5 years within 25 miles of any company owned outlet or other franchises.
s. Modification of the Agreement.	FA- Section XXV.K.	FA - No modification except by written agreement, Operations manuals are subject to change.
t. Integration / merger clause.	FA- Section XXV.J	FA - Only terms of the Disclosure Document and Agreement are binding.
u. Dispute resolution by arbitration.	FA- Section XXV.D.	FA - Arbitration and mediation in Fresno County, State of California (subject to state law).
v. Choice of forum.	FA- Section XXV.H.	FA -Litigation in Fresno County State of California (subject to state law).
w. Choice of law.	FA- Section XXV.H.	FA - State of California laws apply (unless prohibited by laws of state where Franchise is located).

Item 18
PUBLIC FIGURES

We currently use Jose Ramirez as a public figure to promote our Franchise.

Item 19
FINANCIAL PERFORMANCE REPRESENTATIONS

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

We do not make any representations about a franchisee’s future financial performance or the past financial performance of company-owned or franchised outlets. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor’s management by contacting Mohammad Hobab, 2495 West Shaw Ave., Fresno, California 93711, (877) 306-7079, the Federal Trade Commission, and the appropriate state regulatory agencies.

Item 20
OUTLETS AND FRANCHISEE INFORMATION

TABLE No. 1
System wide Outlet Summary
For Fiscal Years 2019 thru 2021

Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
Franchised	2019	52	51	-1
	2020	51	49	-2
	2021	49	44	-5
Company- Owned	2019	0	0	0
	2020	0	0	0
	2021	0	0	0
Total Outlets	2019	52	51	-1
	2020	51	49	-2
	2021	49	44	-5

TABLE No. 2
Transfers of Outlets from Franchisees to New Owners (other than Franchisor)
For Fiscal Years 2019 thru 2021

State	Year	Number of Transfers
CA	2019	4
	2020	6
	2021	0
Total	2019	4
	2020	6
	2021	0

TABLE No. 3
Status of Franchise Outlets
For Fiscal Years 2019 thru 2021

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations Other Reasons	Outlets at End of the Year
CA	2019	52	2	2	0	0	1	51
	2020	51	1	0	0	0	3	49
	2021	49	2	1	1	0	5	44
Totals	2019	52	2	2	0	0	1	51
	2020	51	1	0	0	0	3	49
	2021	49	2	1	1	0	5	44

TABLE No. 4
Status of Company-Owned Outlets
For Fiscal Years 2019 thru 2021

State	Year	Outlets at Start of Year	Outlets Opened	Outlets Reacquired From Franchisees	Outlets Closed	Outlets Sold to Franchisees	Outlets at End of the Year
CA	2019	0	0	0	0	0	0
	2020	0	0	0	0	0	0
	2021	0	0	0	0	0	0
Totals	2019	0	0	0	0	0	0
	2020	0	0	0	0	0	0
	2021	0	0	0	0	0	0

* “Company-owned Outlets” includes any non-franchised restaurant owned and operated by us, the Franchisor, or through our Affiliate. These restaurants are not part of the Franchise System and may be sold to others or to a franchisee in the future.

** Our fiscal year end is December 31.

TABLE No. 5
Projected New Franchised Outlets
As of December 31, 2021

State	Franchise Agreements Signed But Outlet Not Opened	Projected New Franchised Outlet in the Next Fiscal Year	Projected New Company Owned Outlets in the Current Fiscal Year
California	1	3	0
Nevada	0	0	0
Totals	1	3	0

A list of the names of all Franchisees and the addresses and telephone numbers of their Deli Delicious™ business are listed as Exhibit 7 to this Disclosure Document. A list of the name and last known home address and telephone number of every Franchisee who has had their franchise terminated, cancelled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the Franchise Agreement during Fiscal Year 2021 or who has not communicated with us within 10 weeks of our application date is attached as Exhibit 8.

Item 21
FINANCIAL STATEMENTS

Our audited financial statements for the period ending December 31, 2019, December 31, 2020, and December 31, 2021 and interim unaudited financials for the period of January 1, 2022 to July 31, 2022 are attached to this Disclosure Document as Exhibit 9. Our fiscal year end is December 31.

Item 22
CONTRACTS

The following agreements are attached as exhibits to this Disclosure Document:

Franchise Agreement - Exhibit 1
List of State Agencies/Regulators – Exhibit 2
Franchise Disclosure Questionnaire- Exhibit 3
State Addenda- Exhibit 4
Operating Manuals Table of Contents - Exhibit 5
Option Agreement – Exhibit 6
List of Franchisees - Exhibit 7
Franchisees Who Have Left the System - Exhibit 8
Financial Statements - Exhibit 9
Receipt

Item 23
RECEIPT

Included as the last document of this Disclosure Document and/or as a separate executable form, is a Receipt to be signed by you. This Receipt must be signed and dated and delivered to us at least 14 calendar days before signing of the Franchise Agreement or payment of any fee by you.

EXHIBIT 1

FRANCHISE AGREEMENT

Between

Deli Delicious Franchising, Inc.

and

Franchisee

Deli Delicious

FRANCHISE AGREEMENT

Between

Deli Delicious Franchising, Inc

2495 West Shaw Ave.

Fresno, CA 93711

Direct: (877) 306-7079

Fax: (559) 435-5213

Web: www.Deli-Delicious.com

and

Collectively referred to as “Franchisee”

Deli Delicious Franchising, Inc
FRANCHISE AGREEMENT

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Deli Delicious

Deli Delicious Franchising, Inc FRANCHISE AGREEMENT

PARTIES

THIS FRANCHISE AGREEMENT (“Agreement”) is made by and between Deli Delicious Franchising, Inc., a California corporation, hereinafter known as “DDF” or “Franchisor” and Franchisee, hereinafter known as “you” or “Franchisee.” For ease of reference, Deli Delicious Franchising, Inc. will also be referred to as “we”, “us” or “our” in this Agreement. The persons signing as Franchisee or Guarantors may be referenced to herein individually as “you” or “yours” or collectively as “Franchisee.” To evidence the agreement and understanding between the parties the following is provided:

RECITALS

WHEREAS, Franchisor has the right to license a system or business program, including expertise for conducting and operating a business under the mark Deli Delicious™ and design; and

WHEREAS, Franchisor is the exclusive owner of its certain trade names, trademarks, logos, service marks and other property in connection with the operation of a Deli Delicious™ restaurant and has developed expertise (including confidential information) and a unique, distinctive and comprehensive system (“System”) for the establishment and operation of restaurant offering a large variety of deli sandwiches made with fresh ingredients for customers seeking an alternative to fast food; and

WHEREAS, Franchisor authorizes for use, the Deli Delicious™ trade name(s), mark(s) and the stylized logo, emblems for a service-oriented business operating as a restaurant that offers deli sandwiches, salads, side dishes, beverages, pre-packaged food products, apparel and merchandise (hereinafter referred to as “Products”), in addition to offering delivery, catering and other services approved by DDF (hereinafter referred to as “Services”) at any Deli Delicious™ franchised location and other locations at DDF's discretion (hereinafter referred to as the “Franchise” or “Business”); and

WHEREAS, Franchisor has devised a uniform system for the establishment and operation of a restaurant providing deli sandwiches under the business model known as Deli Delicious™ (the “System”). A Deli Delicious™ Business is the operation of a restaurant either in the form of a small restaurant (“Express Model”) or a standard restaurant (“Standard Model”) that is devoted to the preparation and sale of over forty different kinds of fresh, high quality deli sandwiches. The Express Model is a non-traditional restaurant in locations like a hotel, airport, casino, train station,

university, stadiums or convenience stores that sells products made on site. The Standard Model is a permanent, in-line or stand-alone structure and both models are full service restaurants providing counter service, takeout and limited seating. Deli Delicious™ offers an alternative to fast food by providing customers with deli sandwiches made from fresh ingredients incorporating our proprietary recipes all complimented by side dishes and beverages in a casual dining environment. A Deli Delicious™ Franchise will offer customers a variety of food products and services that include but are not limited to: Offering over forty different kinds of deli sandwiches, fresh salads, and a variety of side dishes, desserts and beverages. Additional services are customizable as a franchisee may also offer: Catering, delivery services, private party accommodations, prepackaged food items and sauces for retail sale, apparel and other restaurant related products or services that are approved by us.

WHEREAS, We identify our System by means of certain trade names, service marks, trademarks, logos, emblems, trade dress, and other indicia of origin, including but not limited to the mark “**Deli Delicious**”™ and “**Deli D**” along with such other trade names, service marks, trademarks and trade dress as are now designated (and may in the future be designated by us in writing) for use in connection with the System (the "Names and Marks"); and

WHEREAS, We continue to develop, use, and control the use of such Names and Marks to identify for the public the source of services and products marketed thereunder and under our System, and to represent the System's high standards of consistent quality, appearance, and service; and

WHEREAS, Franchisor has established substantial goodwill and business value in its Names and Marks, expertise and System; and

WHEREAS, Franchisee desires to obtain a franchise from Franchisor for the right to use the Names and Marks and the expertise for operating an Deli Delicious™ franchised business, and to obtain the benefits and knowledge of Franchisor's System including, but without limitation, product knowledge and specifications, ingredients, formulas, recipes, food preparation, formats, procedures, operating methods, inventory specifications, technology, business design, qualification of vendors and suppliers, equipment specifications, advertising, merchandising, sales techniques and materials, control systems, bookkeeping and accounting methods, and in general a style, method and procedure of business operation utilizing the Names and Marks as a Franchisee of Franchisor; and

WHEREAS, Franchisee recognizes the benefits to be derived from being identified with and licensed by Franchisor, and Franchisee understands and acknowledges the importance of our high standards of quality, appearance, and service and the necessity of operating a Deli Delicious™ restaurant in conformity with our standards and specifications.

NOW, THEREFORE, in consideration of the foregoing recitals and other good and valuable consideration, the receipt and sufficiency of which is hereby mutually acknowledged, the parties hereto, intending to be legally bound, do hereby agree as follows:

I. **FRANCHISEE'S ACKNOWLEDGEMENT OF BUSINESS RISK AND ABSENCE OF GUARANTEE**

Franchisee (and the owner of Franchisee (“Owner”) who shall hereafter be either the managing partner if Franchisee is a partnership, the designated shareholder if Franchisee is a corporation, or the managing member or designated non-member manager/manager if Franchisee is a limited liability company, with the term “Owner” to include more than one person where applicable) hereby represents that it has conducted an independent investigation of the Franchisor's Business and System and recognizes that the business venture contemplated by this Agreement involves business risks, and that its success will depend upon Franchisee's abilities as an independent businessperson. Franchisor expressly disclaims the making of, and Franchisee acknowledges that it has not received any, warranty or guarantee, express or implied, as to the potential volume, profits, revenues, income, or success of the Business contemplated by this Agreement. Franchisee acknowledges that Franchisee has been given the opportunity to clarify any provision of this Agreement that Franchisee may not have initially understood and that Franchisor has advised Franchisee to have this Agreement reviewed by an attorney. Franchisee hereby releases Franchisor, its affiliated companies and agents from liability based on such representations or agreements, to the extent permitted by law.

The Franchisee acknowledges that Franchisor has not made, and does not hereby make, any representation or warranty as to potential revenues, income, profits, volume or success of the Franchise or merchantability, performance, condition, fitness or suitability for the Franchisee's purposes of any component of the System, or any other representation or warranty with respect to the System. We shall not be liable to you for, nor shall your obligations hereunder be affected by, any loss, claim, liability, cost, damage or expense of any kind caused, or alleged to be caused, directly or indirectly, by the System, or by an inadequacy of the System for any purpose, or by any defect in, the use or maintenance of, any repairs, servicing or adjustments of, or any interruption or loss of service or use of, the Business, or any loss of business, profits, consequential, exemplary, incidental, punitive, special, or other damage of any nature.

II. **FRANCHISEE'S ACKNOWLEDGMENTS CONCERNING RECEIPT AND THOROUGH EVALUATION OF AGREEMENT**

Franchisee acknowledges having received, read, and understood this Agreement, including the Franchise Disclosure Document and attachments thereto. You further acknowledge that we have accorded you ample time and opportunity to consult with independent legal counsel and other advisors of your own choosing concerning the potential benefits and risks of entering into this Agreement. You acknowledge that you have received a completed copy of this Agreement, attachments referred to herein, and agreements relating hereto, as well as the balance of the Franchise Disclosure Document if any, at least 14 calendar days prior to the date on which this Agreement was executed.

Franchisee acknowledges that it has read and understands this Agreement, the Schedules and any agreements relating thereto, and that Franchisee has been advised by our representative to consult with an attorney or advisor of Franchisee's own choosing about the potential benefits and risks of entering into this Agreement prior to its execution.

Franchisee acknowledges that any statements, oral or written, by us or our agents preceding the execution of this Agreement were for informational purposes only and do not constitute any representation or warranty by us. The only representations, warranties and obligations we have made are those specifically set forth in the Franchise Disclosure Document and this Agreement. Franchisee must not rely on, and the parties do not intend to be bound by, any statement or representation not contained therein.

Franchisee acknowledges that we will not provide or designate locations for Franchisee, will not provide financial assistance to Franchisee, and have made no representation that we will buy back from Franchisee any ingredients, products, supplies or equipment purchased by Franchisee in connection with a Deli Delicious™ restaurant.

III. **ACTUAL, AVERAGE, PROJECTED OR FORECASTED FRANCHISE SALES, PROFITS OR EARNINGS**

We do not make or present and have not prepared “Earning Claims” and have not made them as an exhibit to the Franchise Disclosure Document.

Franchisee, and each party executing this document hereto, acknowledges that neither Franchisor nor any officer, director, employee, shareholder, or agent of Franchisor has made, and Franchisee has not received or relied upon, any express or implied oral, written, or visual information, representations, assurances, warranties, guarantees, inducements, promises or agreements concerning the actual, average, projected or forecasted franchise sales, revenues, profits, income, earnings or likelihood of success that Franchisee might expect to achieve from operating the Business.

IV. **RELATIONSHIP OF THE PARTIES**

A. **Franchisee is an Independent Business Owner**

During the term of this Agreement, and any renewals or extensions hereof, the Franchisee shall hold itself out to the public as an independent business owner operating its business pursuant to a franchise from the Franchisor. Franchisee agrees to take such affirmative action as may be necessary, including, without limitation, exhibiting multiple public notices of that fact, the content and display of which Franchisor shall have the right to specify. You must identify yourself as the owner of your Franchise by placing your personal or legal entity name on all business materials and documents including all employee related materials, on all checks, invoices, receipts and contracts and other documents whether they bear the Marks or not and on all printed materials your name must be followed by the phrase "A franchise of Deli Delicious™" or such other phrase as we occasionally direct.

B. **Franchisor Is Not In A Fiduciary Relationship With Franchisee**

It is understood and agreed by the parties hereto that this Agreement does not establish a fiduciary relationship between them, and that nothing in this Agreement is intended to constitute

either party as an agent, legal representative, subsidiary, joint venture, partner, employee, or servant of the other for any purpose whatsoever.

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

The Franchisee represents, warrants and agrees as follows: the Franchisee is duly organized and is in good standing in all jurisdictions where legally required in order to carry on its business, has duly authorized the execution, delivery and performance of this Agreement and all other documents contemplated hereby, which are, or upon signing, will be binding on the Franchisee, do not and will not contravene any other instrument or agreement to which the Franchisee is party and there is no pending litigation, tax claim, proceeding or dispute that may adversely affect the Franchisee's financial condition or impair its ability to perform its obligation under the terms of this Agreement.

It is understood that Franchisee will have sole responsibility for its employees and all acts of its employees, and all employment-related decisions involving wages, benefits, hours of work, scheduling, hiring, firing, discipline, supervision, record keeping and all other terms and conditions of employment.

We have no right or obligation to you with regards to the following: employee recruiting, hiring, retention, termination, hours worked by your employees, wages paid to your employees; your compliance with the federal, state, municipal laws and regulations relating to employment issues of any kind.

You are required to use your corporate name rather than DDFI trademark on employment-related materials such as applications, handbooks and paychecks.

You are required to have your employees sign acknowledgements that you as the franchisee, not DDFI as the franchisor is, their employer.

You as the franchisee and DDFI as the franchisor are not and do not intend to be partners, associates, or joint employers in any way, and we shall not be construed to be jointly liable for any of your acts or omissions under any circumstances. We have no relationship with your employees, and you have no relationship with our employees.

You are solely responsible for all labor and employment-related matters and decisions related to your business, including hiring, firing, promoting, demoting, and compensating (including through wages, bonuses, or benefits) your employees. You must ensure that your employees are qualified to perform their duties in accordance with our Brand Standards.

We do not require you to implement any employment-related policies or procedures or security-related policies or procedures that we (at our option) may make available to you in the Manuals or otherwise for your optional use. You shall determine to what extent, if any, these policies and procedures may be applicable to your operations at your business.

V. **FRANCHISE GRANT**

Franchisor hereby grants to Franchisee, upon the terms and conditions herein contained and subject to the License Agreement, the right, license, and privilege, and Franchisee hereby accepts a franchise under the terms and conditions set forth herein for the right to operate a Business as set forth in Section VI (referred to as the "Territory"), with the right to use solely in connection therewith the Franchisor's Names and Marks, products, its advertising and merchandising methods, and Franchisor's System, as they may be changed, improved and further developed from time to time only at the Accepted Location as set forth in Section VI and provided the Franchisee shall adhere to the terms and conditions hereof.

Except as provided in this Agreement, Franchisee shall be free to use the materials provided by Franchisor in the manner that Franchisee, in Franchisee's sole and absolute discretion, deems most appropriate for the operation of a Deli Delicious™ Franchise, provided that Franchisee shall not violate any applicable law, regulation, or provision of this Agreement in exercising such discretion.

VI. **AREA OR TERRITORY**

The Franchise Location (referred to as the "Restaurant") shall be: within the State of _____ in the county of _____. If the actual Franchise Business address has not yet been chosen, then you will be provided a specific geographical area designated as: _____ within which your Franchised Business shall be located, and your final Territory will be defined based on the actual Franchise Business address once chosen.

The exact accepted location for your Restaurant is:

If the parties do not select a territory and/or the exact location prior to the signing of this Franchise Agreement, then they shall agree to it at a later date, under the terms of this Agreement. We may grant you a territory where we will be restricted from selling franchises, as discussed elsewhere, not to exceed a radius of two (2) miles from the location of the Business based on certain information such as MapQuest or a similar mapping program. If we do not grant you a territory then your Territory will be the location of the Franchised Business.

The size of the territory, if any, (as described above), will be determined by high foot traffic visibility, market demographics, market penetration of the System and similar businesses, complementary tenant mix in a shopping center, the availability of appropriate sites, adequate square footage, reasonable rent, business potential or other conditions important to the successful

operation of a Deli Delicious™ restaurant, as we deem appropriate. Certain locations, such as a readily definable marketplace (like hotels, airports, casinos, train stations, universities, stadiums, etc.) or major metropolitan areas may have smaller territories of densely populated areas

A territory does not include any Shopping Malls whether or not located within the Territory granted to Franchisee. Franchisor shall have the right to establish and to grant franchises to others to establish a Deli Delicious™ restaurant in Shopping Malls without geographic restriction. For this Agreement, a “Shopping Mall” means any retail shopping center containing two or more anchor retail department stores. Current examples of anchor retail department stores include but is not limited to: Sears, Macy’s, JCPennys, Nordstrom, Neiman Marcus, Bloomingdales, Saks Fifth Avenue, Dillard’s, K-Mark, Wal-Mart, Kohls, Ross Stores, Best Buy, Home Depot, Office Depot, Office Max or other similarly large retail stores. Franchisee acknowledges that this list of examples is not complete, that some of these stores will go out of business, some will merge and new stores will be established. Franchisor shall have the right to determine the nature of stores comprising anchor retail department stores in its sole and absolute discretion.

Franchisee shall not relocate a Deli Delicious™ restaurant without our express prior written consent (specified in Section XXII.A). In no event shall Franchisor’s approval of a location be interpreted as a guarantee of success for such location. During the term of this Agreement, we shall not establish or license another party or entity (including our self or our affiliate) to establish, a Deli Delicious™ restaurant within any territory other than a Shopping Mall, outlined above unless Franchisee decides to open additional Restaurants and buys the rights to additional Franchises (a separate Franchise Agreement is required for each additional Restaurant as defined in Section IX.D of this Agreement).

You must operate your Restaurant within the specific Territory, if any, as identified in Section VI. You may not conduct business at any other location except as agreed to by an addendum attached to this Agreement. You are not restricted as to the geographic area into which you may solicit business. You may accept business and provide Products and Services to customers who live outside your Territory even if such customers live within another franchisee’s Territory, so long as the Products and Services that you are providing are being performed within your defined Territory.

We may, from time to time, establish certain programs for the benefit of franchisees and the System whereby Deli Delicious™ franchisees will be permitted to offer, sell or donate product and services in accordance with the specifications described in any particular program established by us.

Your rights in the Territory are exactly (and only) as expressly set forth in this Section VI. Except as expressly provided in this Agreement, you have no right to exclude, control or impose conditions on the location, operation, or otherwise of present or future Deli Delicious™ (or any other brand) units or distribution channels of any type, franchised or company-owned, regardless of their location or proximity to the Restaurant and whether or not they provide services or products to customers within the Territory. You do not have any rights with respect to other and/or related businesses, services and/or products, in which we or any Franchisor-related persons or entities may be involved, now or in the future.

We and the Franchisor-Related Persons/Entities expressly reserve all other rights, and can (along with anyone we designate):

- 1) Own and/or operate ourselves, and/or authorize others to own and/or operate:
 - a) Any kind of business in the Territory, except for any business which is or directly competes with an Deli Delicious™ restaurant, whether or not using the Deli Delicious™ Marks and System; and
 - b) Any kind of business outside of the Territory, including, without limitation, Deli Delicious™ restaurants, whether or not using the Deli Delicious™ Marks and System;
- 2) Sell Deli Delicious™ brand (or any other brand) products and services (whether or not competitive) to customers located anywhere (including within the Territory) using any channel of distribution (including, but not limited to, grocery stores, wholesale markets, convenience stores, specialty stores, retail locations at military bases or installations, airports, and college campuses, at special events and other similar venues and other channels of distribution such as television, mail, catalog sales, wholesale to unrelated retail outlets or over the Internet) other than the Deli Delicious™ restaurant located in the Territory.
- 3) Develop or become associated with other concepts (including dual branding and/or other franchise systems), whether or not using the Deli Delicious™ System and/or the Marks, and award franchises under such other concepts for businesses located and/or operating anywhere.
- 4) Acquire, be acquired by, merge, affiliate with or engage in any transaction with other businesses (whether competitive or not), with units located anywhere. Such transactions may include (but are not limited to) arrangements involving competing outlets and brand conversions (to or from the Deli Delicious™ Marks and System). You agree to participate at your expense in any such conversion as instructed by us.
- 5) We may choose in our Business Judgment (as defined in Section XXI of this Agreement) to offer or provide services and/or products through the Internet, World Wide Web and other similar venues (no matter where the customer is located), or in any other form of media, or technology, whether now known or hereinafter invented, by all means, methods, and processes, whether now known or hereinafter invented. The Internet is a channel of distribution we reserve to ourselves exclusively, and Franchisee may not independently market on the Internet or conduct e-commerce without our prior written consent.
- 6) Acquire any web sites utilizing a domain name incorporating one or more of the words Deli Delicious™ or Deli D™. Franchisee shall not establish a web site

on the Internet using any domain name containing the words "Deli Delicious™" or "Deli D™" or any variation thereof. The Franchisee acknowledges that we shall designate in the title and interest in and to such domain names, as we shall designate in the Operations Manual. We retain the right to pre-approve Franchisee's use of linking and framing between the Franchisee's web pages and all other web sites. The Franchisee shall within 5 days, dismantle any blogs, frames and links between the Franchisee's web pages and any other web sites, if and as requested by Franchisor.

This Agreement does provide Franchisee with options, rights of first refusal or similar rights to acquire additional franchises in other areas or areas contiguous to the Territory. Franchisee's Territory may be altered during the initial term only by mutual consent in writing from both Franchisee and Franchisor, except at time of transfer or renewal.

VII. TERM AND RENEWAL OF AGREEMENT

A. Term

The franchise herein granted for an express model or standard model of a Deli Delicious™ restaurant, shall be for a term of 15 years commencing from the date of execution and acceptance (the "Effective Date") of this Agreement by us and subject to earlier termination as herein provided.

B. Renewal

Franchisee may, at its option, renew this Franchise for additional periods of 15 years each, provided we are still offering franchises at that time, and further subject to the following conditions, all of which must be met prior to renewal:

1. Franchisee shall give us written notice of its election to renew not more than 12 months and not less than 6 months prior to the end of the then current term;
2. Franchisee must not be in default under any provision of the Agreement, any amendment hereof or successor hereto, or any other agreement between us and Franchisee, and Franchisee shall have complied with all the terms and conditions of all such agreements during the terms thereof;
3. Franchisee's right to renew is contingent on satisfactory performance of and full compliance with this Agreement and any renewal agreement. We may refuse to renew or extend the franchise if: (a) Franchisee has failed to use its best efforts to operate the franchised business to our satisfaction; (b) Franchisee has failed more than six inspections for the Restaurant over the course of this Agreement; (c) the franchise is terminable by law or under this Agreement; (d) Franchisee fails to give timely written notice of its exercise of its renewal option; (e) we are withdrawing from franchising in the geographic market Franchisee serves; (f) Franchisee fails to satisfy our then-current standards for new franchisees or (g) Franchisee is in default of this Agreement.

4. Franchisee shall complete to our satisfaction such maintenance, upgrades and renovation of the Restaurant, at Franchisee's sole expense, as we may reasonably require in writing;
5. Franchisee shall present evidence satisfactory to Franchisor that Franchisee has the right to remain in possession of the Restaurant premises or obtain Franchisor's consent to a new location for the operation of the Deli Delicious™ restaurant for the duration of the renewal term of this Agreement;
6. Franchisee shall have satisfied all monetary obligations owed by Franchisee to us and our affiliates, if any, and shall have timely met these obligations throughout the previous term;
7. Franchisee shall execute, before the renewal term, our then-current form of Agreement, which agreement shall supersede this Agreement in all respects, and the terms of which may differ from the terms of this Agreement. Franchisee shall pay us renewal fee of 50% of the then-current franchise fee for the area outlined in Section VI, or Territory, above.
8. Franchisee shall comply with Franchisor's then-current qualification and training requirements; and
9. Franchisee must execute a general release, in a form prescribed by Franchisor as described in Section XXIII.D of this Agreement, of any and all claims against Franchisor and its affiliates, and their respective officers, directors, agents and employees, if such release is not in conflict with any local, state or federal laws.
10. Franchisee shall upgrade, remodel and/or refurbish the Restaurant (both inside and outside) in order to meet our then-current standards. Graphics, signs, menu boards and all kitchen equipment located at the Restaurant must be updated to meet our then-current requirements. All remodeling, modernization, redecoration, or replacements will be completed at Franchisee's expense in accordance with our specific standards and specifications.

VIII. FRANCHISEE'S INITIAL INVESTMENT

The Franchisee's initial investment will vary depending upon the location, number of Products and Services the Restaurant offers, time of year when Franchisee starts business, implementation of a marketing plan, Franchisee's management skills, economic conditions, competition in the surrounding area and other factors.

Franchisee hereby certifies that he or she has reviewed the estimated initial investment and start-up costs as detailed in the Franchise Disclosure Document, and has sufficient cash resources available to meet said expenses. These start-up costs include the franchise fee.

IX. FRANCHISEE'S INITIAL FRANCHISE FEE

A. Time Limit for Starting Business

The Franchisee shall maintain the Restaurant in accordance with the provisions and requirements of Section XII hereof, and must open the franchise for business within 240 days of the date of execution of this Agreement (the "Opening Date"). The opening requires that Franchisee has qualified for and has obtained all necessary licenses needed to perform its services. Franchisor may at its sole option, grant Franchisee one 90-day extension past the allotted time within which to open the Restaurant. Upon either of the above events Franchisor may, at its sole discretion, terminate the franchise and retain all fees paid.

The initial Franchise Fee is fully earned on payment, and is allocated to training and other services to be rendered to Franchisee before opening. The franchise fee is uniform as to all persons currently acquiring a Deli Delicious™ restaurant and is nonrefundable. If Franchisor and Franchisee cannot agree on a Franchised Business location or Territory within 240 days of the Effective Date of this Agreement, Franchisor may terminate, in its sole discretion, the Franchise Agreement and retain the initial Franchisee Fee.

During the term of this Agreement, the accepted Territory shall be used exclusively for the purpose of operating a franchised Deli Delicious™ restaurant. In the event the Restaurant shall be damaged or destroyed by fire or other casualty, or be required to be repaired, Franchisee shall commence the required repair of the Restaurant within 30 days from the date of such casualty or notice of such governmental requirement (or such lesser period as shall be designated by such governmental requirement), and shall complete all required repairs as soon as possible thereafter, in continuity, but in no event later than 90 days from the date of such casualty or requirement of such governmental notice. The minimum acceptable appearance for the restored Restaurant will be that which existed just prior to the casualty; however, every effort should be made to have the restored Restaurant include the then-current image, design and specifications of a Deli Delicious™ restaurant.

As between us and the Franchisee, the Franchisee shall bear the entire risk of any damage, loss, theft or destruction to the Restaurant from any cause whatsoever or requisition of the Restaurant by any governmental entity or the taking of title to the Restaurant by eminent domain or otherwise (collectively, "**Loss**"). The Franchisee shall advise us in writing within 10 days of any such Loss. No such Loss shall relieve the Franchisee of the obligation to pay Royalty Fees and all other amounts owed hereunder. In the event of any such loss, we, at our option, may: (a) if the loss has not materially impaired the Restaurant (in our reasonable Business Judgment), require that the Franchisee, upon our demand, place the Restaurant in good condition and repair reasonably satisfactory to us as mentioned above; or (b) if the loss has materially impaired the Restaurant and it is substantially destroyed, (in our reasonable and sole judgment), require the Franchisee, upon our demand, to pay us our anticipated return, which shall consist of the following amounts: The royalty fees, which is an average based on the last 12 months of Gross Revenues, (and other amounts) then due and owing under this agreement. Upon our full receipt of such amounts, this Agreement shall terminate. The Franchisee shall be relieved of all obligations under this Agreement, and the Franchisee must return to us the System and the Materials. Notwithstanding

clause (b) above, the Franchisee may, at its option, continue to pay royalty fees under this Agreement, without interruption and replace any of the damaged components in the Restaurant with components of identical model, manufacturer and condition.

It is understood and agreed that, except as expressly provided herein this franchise includes no right of Franchisee to sub franchise.

B. Cooperation Required

Franchisee shall cooperate reasonably with Franchisor to ensure that the various actions occur, which is necessary to obtain acceptance by Franchisor of the Business location. In particular, Franchisee shall furnish any pertinent information as may be reasonably requested by Franchisor regarding Franchisee's business and finances.

C. Initial Franchise Fee

By executing this Agreement, the applicant agrees to become a Franchisee and pay an Initial Franchise Fee in the amount of \$25,000 for a Deli Delicious™ express model business and \$30,000 for a Deli Delicious™ standard model business. This Initial Franchise Fee includes a license to operate a Deli Delicious™ restaurant at a specific address or such address within a territory that is up to 2 miles driven in any direction from the Restaurant, determined by business potential and boundaries (except Territory does not include any Shopping Mall) as described in Section VI of this Agreement. The Initial Franchise Fee includes a web page that is location specific and housed within our corporate website, a 14-day initial training program, and manuals and up to 5 days of on-site pre-opening and opening supervision.

D. Expansion of the Franchisee's Licensed Region

If Franchisee desires to establish and operate additional Deli Delicious™ restaurants, we may in our sole discretion, grant Franchisee a license to operate additional Restaurants for a reduced Franchise Fee of \$10,000 for an express model and \$12,500 for a standard model for each additional Restaurant. Franchisee must satisfy our then-current qualifications at the time of the purchase of the option and also at the time of exercising the option. Some of the requirements include: (i) Franchisee has completed all training phases, (ii) Franchisee is fully compliant with all requirements both under the Franchise Agreement then being used by the Franchisor to sell to new buyers and the Franchise Agreement to be used for the option purchase, if different, (iii) Franchisee demonstrates financial ability to own and operate the franchise with reasonable success and (v) The option agreement has an expiration date as to when it no longer provides the right to purchase a franchise. Franchisee must execute our then-current franchise agreement. Expansion of a Franchisee's region may be determined with this Agreement for each additional franchise, or made available to a Franchisee at a later date if available. If the Franchisee wishes to obtain an option to purchase the initial or additional franchise then a non-refundable option payment of \$12,500 is required with the execution of this Agreement. The option payment will be credited towards the Initial Franchise Fee of \$25,000 for an Express Model or \$30,000 for a Standard Model (for an initial purchase) or credited against \$10,000 for an additional Express Model Franchises or \$12,500 for an additional Standard Model Franchises if the Franchise Agreement is executed on or before the expiration date of this Agreement.

E. Total Initial Franchisee Fee and Payment

The Total Initial Franchise Fee per this Agreement is due upon execution of the Agreement, and the receipt of which is hereby acknowledged by us for the Franchisee's license to conduct business in the Territory noted in Section VI of this Agreement.

The Total "Initial Franchise Fee" shall be \$_____ calculated as follows:

\$25,000	The Initial Franchise Fee for a Deli Delicious™ express model.
\$30,000	The Initial Franchise Fee for a Deli Delicious™ standard model
+ \$_____	Option Fee of \$12,500 for any additional standard or \$10,000 for an express model Deli Delicious™ restaurants (Exhibit 6).
= \$_____	Equal the Total Initial Franchise Fee.

The Initial Franchise Fee is uniform as to all persons currently acquiring a Deli Delicious™ restaurant, and is nonrefundable, except our Affiliate may sell its businesses on some different terms. The Initial Franchise Fee shall be paid in a lump sum in U.S. funds and shall be deemed fully earned and nonrefundable in consideration of administrative and other expenses incurred by us in granting this franchise and for our lost or deferred opportunity to franchise others, except as described above in Section IX.A.

We hereby reserve the right to refund the Total Initial Franchise Fee, minus our demonstrated and itemized expenses without interest, if during our initial 14-day franchise training program we determine, in our sole discretion, that you (or your Owner as defined in Section I, above) are not qualified to manage a Deli Delicious™ restaurant.

X. **OTHER FEES**

A. Royalty Fees

In addition to the Total Initial Franchise Fee described in Section IX above, the following recurring or isolated payments are required to be made by the Franchisee: The Franchisee shall pay to us a weekly Royalty Fee of 6% of total Gross Revenue, commencing with the first day business is open and due on the 10th day of the following month thereafter for the term of this Agreement. The royalty may be increased by us at each anniversary of the Effective Date of this Agreement by a factor not more than the adjusted U.S. Department of Labor Consumer Price Index (based on a California index we choose) and such increase will not be more than a 2% increase over the term of our Franchise Agreement. If we increase the minimum royalty amount, Franchisee will be given 60 days' notice prior to any such increase.

As used in this Agreement, "Gross Revenue" shall include all revenue accrued from the sale of all products and performance of services in, at, upon, about, through or from the Business, whether for cash or credit and regardless of collection in the case of credit, and income of every

kind and nature related to the Business including fair market value for any product or service Franchisee receives in barter or exchange for Franchisee's products and/or services, insurance proceeds and/or condemnation awards for loss of sales, income, revenues, profits or business; and all revenue from Uber Eats, Door Dash and any similar third party service providers. Provided, however, that "Gross Revenue" shall not include revenues from any sales taxes or other add on taxes collected from customers by Franchisee for transmittal to the appropriate taxing authority, (provided the retail value of any complimentary services or trade-outs from Gross Revenue is limited to a maximum of 2% of Gross Revenue in the aggregate), and the amount of cash refunds to, and coupons used by customers, provided such amounts have been included in Gross Revenue. The sale and delivery of products and services away from the Business is by our written approval only. Should we approve such sales in writing, these sales will be included in computing Gross Revenue.

The Royalty Fee is uniform as to all persons currently acquiring a Deli Delicious™ Franchise, and is nonrefundable. The Royalty Fee shall be payable by the Franchisee and received by the Franchisor on or before the 10th day of each month for the prior month's Gross Revenue and is to be received when and how specified by Franchisor in writing.

Any payment or report not actually received by us on or before the specified date shall be deemed overdue. If any payment is overdue, in addition to the right to exercise all rights and remedies available to us under this Agreement, Franchisee shall pay us, in addition to the overdue amount, (i) a late charge of 10% of the amount overdue, plus (ii) interest on such amount from the date it was due until paid, at the lower of the rate of 18% percent per annum or the maximum rate allowed by the laws of the State in which Franchisee's business is located or any successor or substitute law (referred to as the "Default Rate"). This late charge and interest charge shall not only apply to royalty payments, but all National Advertising Fees and any other fee under this Agreement due Franchisor which is past due.

B. National Advertising Fee

Franchisee will pay a National Advertising Fee equal to 2.5% of the Franchisee's Gross Revenues commencing immediately upon the date the business is open and continuing for the term of the Agreement. The National Advertising Fee can be increased based on the CPI in the same manner as the Royalty Fee, above, but the total contribution shall not exceed 3.5% of Franchisee's Gross Revenue. These fees are to be received by the Franchisor on or before the 10th day of each month for the prior month's Gross Revenue. These fees will be deposited into our National Advertising Account (the "Fund") for ongoing technology and new product development, and such national advertising or public relations programs as we, in our sole discretion, may deem appropriate to promote the mark Deli Delicious™. The Fund may also be used for local Franchisee group advertising or marketing and Franchisee advisory council expenses; local, regional, national or international advertising or marketing; administration of advertising and marketing (including salaries, accounting, collection, legal and other costs), related expenses and any media or agency costs. We will direct all such programs, and will have sole discretion over the creative concepts, materials, endorsements and media used in such programs, and the placement or allocation of such programs. We reserve the right to determine in our sole discretion the composition of all geographic territories and market areas for the implementation and development of such programs.

Restaurants owned or operated by Franchisor and/or its affiliates or their franchisees will contribute on the same basis to the fund.

Franchisor may disclose the identity of vendors who pay promotional allowances to Franchisor upon request and only after Franchisee's signing an appropriate non-disclosure agreement. If Franchisor requires Franchisee to buy items from a vendor who pays these allowances, Franchisor may place all or some of the allowances in the Fund or spend them directly on related advertising. This does not apply to fees Franchisor receives from purchases made by Franchisee which are not required to be made from a specified source and such fees will not be put into the Fund. Franchisor is not obligated to spend more on advertising and marketing than the amount of the Fund. Any unspent balance in the Fund at the end of the year may be carried over to later years and used for the purposes described in this Agreement.

C. Local Advertising

Franchisee will spend a minimum of 1.5% of its monthly Gross Revenue on local advertising and promotion, in addition to payment of the National Advertising Fee required above. Franchisor shall have the right to approve or disapprove any advertising proposed for use by Franchisee. Franchisee will spend at least \$3,000 for an express model and \$6,000 for a standard model on "grand opening" marketing and promotion within 3 months of opening. You are required to report a detailed account of all in-store and local marketing, including associated costs, on a Quarterly basis using our approved form.

The Franchisee agrees to create a local advertising and marketing plan by which Franchisee shall place local advertising in any media it desires, provided that such advertising conforms to the standards and requirements of Franchisor as set forth in our Operations Manual or otherwise designated by Franchisor. Examples of such local advertising may include flyers, team sponsorships, cross promotions with other retailers, cash register tape advertising, etc. Franchisee shall not advertise the Restaurant in connection with any other business, except with Franchisor's prior written approval. Franchisee shall obtain Franchisor's prior approval of all unapproved advertising and promotional plans and materials that Franchisee desires to use 30 days before the start of any such plans. Franchisee shall submit such unapproved plans and materials to Franchisor (by personal delivery or through the mail, return receipt requested). Franchisee shall not use such plans or materials until they have been approved by Franchisor and shall promptly discontinue use of any advertising or promotional plans and material upon the request of Franchisor. Any plans or materials submitted by Franchisee to Franchisor, which have not been approved or disapproved in writing, within 30 days of receipt, by Franchisor, shall be deemed not approved.

Costs and expenditures incurred by the Franchisee in connection with any of the following shall not be included in Franchisee's expenditure on Local Advertising for purposes of this Section, unless approved by in advance by the Franchisor in writing:

1. Incentive programs for employees or agents of Franchisee, including salaries or expenses for attendance at advertising meetings or activities;
2. Research expenditures;

3. Salaries and expenses of any employee of the Franchisee, including salaries or expenses for attendance at advertising meetings or activities;
4. Charitable, political or other contributions or donations;
5. Items in the Restaurant consisting of fixtures or equipment; and
6. Seminar and educational costs and expenses of employees of the Franchisee.

Franchisee will not independently advertise or promote in any media (including electronic) without Franchisor's prior written approval, except when using materials previously approved by Franchisor. Franchisee will participate in at its own expense and cooperate with all advertising and promotional programs Franchisor or any advertising group of franchisees selects, including Regional/Local Advertising Cooperative Programs. Franchisee is not required to follow or maintain any sales price, except that Franchisor may set minimum and maximum sales prices at which Franchisee may offer menu items, products or services to the extent allowed by applicable federal and state laws.

Franchisee's failure to pay required advertising contributions is a material breach of this Agreement, subjecting Franchisee to all remedies at law and as set forth in this Agreement. Franchisor may delete Franchisee from advertising or marketing without notice if Franchisee fails to timely remit its National Advertising Fee.

D. Franchise Advertising Committee

Franchisor currently has a Franchise Advertising Committee who meet regularly and advise on various advertising programs. The Committee will be administered by Franchisor. The purpose of the Council will be solely to advise on what type of advertising programs shall be run.

E. Electronic Funds Transfer

Franchisor reserves the right to require Franchisee to remit fees and other amounts due to Franchisor hereunder via electronic funds transfer or other similar means utilizing a Franchisor approved computer system or otherwise. If Franchisor notifies Franchisee to use such payment method, Franchisee agrees to comply with procedures specified by Franchisor and/or perform such acts and deliver and execute such documents including authorization, the attached Schedule 1 "Authorization Agreement For Prearranged Payments" for direct debits from Franchisee's business bank operating account, as may be necessary to assist in or accomplish payment by such method. Under this procedure Franchisee shall authorize Franchisor to initiate debit entries and/or credit correction entries to a designated checking or savings account for payments of fees and other amounts payable to Franchisor and any interest and related processing fees charged due thereon. Franchisee shall make funds available to Franchisor for withdrawal by electronic transfer no later than the due date for these payments. If Franchisee has not timely reported the Restaurant's Gross Revenue to Franchisor (as defined in Section X.A) for any reporting period, then Franchisor shall be authorized, at Franchisor's option, to debit Franchisee's account in an amount equal to (a) the fees transferred from Franchisee's account for the last reporting period for which a report of the

Restaurant's Gross Revenue was provided to Franchisor as required hereunder or (b) the amount due based on information retrieved from the Franchisor's approved computer system.

F. Application of Payments

Any payment you make may be applied by us, at our option, to any of your past due indebtedness to us regardless of your written or orally expressed intention. Once so applied, we will not alter the manner in which that payment has been applied. We are not required to accept payments after they are due or to extend credit or otherwise finance your operations. Failure to fully and timely pay all amounts due under this Agreement or any other agreement related to your franchise may result in the suspension of your access to our services, brand, products and/or support and may also be deemed good cause for termination of the Agreement. All fees due under this Agreement are non-refundable.

If you are delinquent more than three (3) times in any continuous twelve (12) month period during the term of this Agreement in the payment of your royalty, advertising fee or other fees, or of other sums due to us, or fail to report your sales on a timely basis and otherwise in accordance with this Agreement, we may require you to implement a system prescribed by us permitting us to unilaterally estimate and draw down the amounts owed by you, which system may include EFT systems, automatic debits, use of pre-authorized checks, other instruments or authority or any other arrangement we may prescribe. We may base our estimates of royalties, advertising fees and similar payments, on your historically reported Adjusted Gross Sales. You will promptly implement such system in strict accordance with our policies and procedures.

G. Pre- Opening Expenditures

The Franchisor will advise the Franchisee regarding the preparation and placement of such pre-opening advertising. This advertising may include but is not limited to: Any telephone, email, Internet, domain name, electronic network, directory and listings of the Restaurant. All items mentioned are the Franchisor's property and on termination will revert to the Franchisor. Franchisee agrees to execute any and all documents needed to perfect such reversions.

H. Product, Equipment and Vendor Assessment Fee

Franchisee will pay an assessment fee for our approval of any product, piece of equipment and/or vendor, which may also require third party testing. The assessment fee is \$100 for a single product and/or vendor that Franchisee wishes to use and/or substitute in the Restaurant. Franchisee is responsible for a fee of \$300 for up to 20 different products under the same vendor that Franchisee wishes to offer in the Restaurant. The assessment fee for any piece of equipment (such as kitchen equipment) testing is a minimum of \$100 per piece or any reasonable amount we determine from time to time. We may waive these fees if the equipment pieces, products and/or vendors Franchisee selects meet our requirements and make it on our approved list of equipment, products and vendors for all Franchise locations.

Franchisee must obtain our written approval for the use of such products, equipment and/or vendors in the Restaurant (Section XII.I of this Agreement). Franchisor will have 30 days

following the receipt of Franchisee's written request to approve or disapprove proposed products, equipment and/or vendors. If Franchisor does not approve the proposed products, equipment and/or vendors by written notice to Franchisee within this 30-day period, all such items will be deemed disapproved. Franchisee also acknowledges that the cost for third party testing is Franchisee's responsibility.

I. Product Testing and Inspection Fees

Franchisee will be required to pay for the cost of testing any Product in the Franchisee's Restaurant if testing the Product determines that such Product does not meet our specifications as described in Section XII.I. All testing will be performed by an independent laboratory.

In addition, to maintain the highest degree of quality and service, we reserve the right to charge Franchisee a \$1,500 re-inspection fee if we inspect Franchisee's Restaurant and Franchisee does not pass the inspection. The foregoing shall be in addition to any other remedies Franchisor may have pursuant to this Agreement.

XI. FINANCING ARRANGEMENTS

Franchisee hereby acknowledges that financing is the responsibility of the Franchisee. The Franchisor does not finance or guarantee the obligations of the Franchisee for a Deli Delicious™ restaurant. The Franchise Fee is due and payable upon execution of this Agreement and as set forth in Section IX.C of this Agreement.

There are no waivers of defense by the Franchisee in either this Franchise Agreement or other documents evidencing obligations to the Franchisor.

XII. GENERAL OBLIGATIONS OF FRANCHISEE

A. Follow Operations Manual and Directives of Franchisor

Franchisee agrees that use of Franchisor's System and adherence to our Operations Manual (the "Manual"), and to Franchisor's standardized design and specifications for decor and uniformity of the Restaurant are essential to the Franchisor's trademarks and service marks, as well as the image and goodwill thereof. Franchisee acknowledges that directives of the Franchisor shall not be construed as employee management directives. You the Franchisee have absolute discretion and control with regards to the management and administration of employment policies and procedures relating to your staff. Franchisee shall cooperate and assist Franchisor with any customer or marketing research program, which Franchisor may institute from time to time. Franchisee's cooperation and assistance shall include, but not be limited to, the distribution, display and collection of customer surveys, customer comment cards, questionnaires, evaluations and similar items. In order to further protect the System, our trademarks, our service marks, and our goodwill, Franchisee shall:

1. Operate the Restaurant and use our Manual(s) solely in the manner prescribed by Franchisor;

2. Comply with such requirements respecting any service mark, trade name, trademark, or copyright protection and name registrations as Franchisor may, from time to time, direct;
3. Follow the methods of operation, food preparation, presentation of Products and Services so as to conform to the specifications and standards of Franchisor in effect from time to time;
4. Use only such amounts and types of products, ingredients and supplies so as to conform to Franchisor's specifications. This includes Franchisor's inventory requirements and terms of any auto-ship programs as detailed in the Operations Manual that is in effect and may be revised by Franchisor, at Franchisor's sole discretion, from time to time;
5. Sell from the Restaurant all Products and menu items specified by Franchisor and not sell or offer for sale any other products or menu items of any kind or character without first obtaining the express written approval of Franchisor, which shall be at the full discretion of the Franchisor who shall have the sole right of decision in regards to all products and menu items to be sold in the Restaurant. Franchisor shall approve or deny Franchisee's request, which approval is in our sole discretion, within 30 days of receipt of Franchisee's written request. If Franchisor fails to respond to Franchisee's request within said 30-day period, the request shall be deemed denied. Franchisor shall have the right to not approve any product or menu item for any reason whatsoever or for no reason whatsoever;
6. Discontinue selling or offering any product, menu item, program or service for sale and/or using any products or ingredients Franchisor may, in its absolute discretion, delete from its standards and specifications for any reason whatsoever or for no reason whatsoever;
7. Maintain in sufficient supply and use at all times, only such products, ingredients, beverages, supplies, kitchen equipment and methods of service as to conform to our standards and specifications; and to refrain from deviating by using non-conforming items or methods without our prior written consent;
8. Purchase products, ingredients, beverage items, packaging materials, supplies, retail items, furnishings, fixtures and kitchen equipment as may be required by us, for the appropriate handling and selling of any Product and/or Service that become(s) approved for offering in the System. Franchisees must obtain Franchisor's prior written approval of Franchisee's supply sources for products the Franchise Business intends to use or sell to customers (see, Section XIII of this Agreement). Franchisor shall approve or deny Franchisee's request, which approval is in Franchisor's sole discretion, within 30 days of receipt of Franchisee's written request. If Franchisor fails to respond to Franchisee's request within said 30-day period, Franchisee's request shall be deemed denied. Franchisee will be required to purchase bread, pickles, seasoned meats (chicken

and steak), certain spices and ingredients either from Franchisor, its affiliates or approved vendors or suppliers. Franchisee will act for itself in obtaining other products, ingredients, supplies, furnishings, fixtures, kitchen equipment or services. Franchisee will repair or replace obsolete or mechanically impaired kitchen equipment with equipment that meets Franchisor's specifications;

9. Require uniform dress or identifying badges for franchise staff, conforming to such specifications as to color, design, etc. as Franchisor may designate, from time to time, to be worn by all of Franchisee's employees at all times while in attendance at the Restaurant, and to cause all employees to present a clean, neat appearance and render competent and courteous service to customers, as may be further detailed in the Operations Manual. Franchisor is not in an employer/employee relationship with you. You are responsible for the management of your employees and their affairs at all times;
10. Maintain a clean and attractive appearance, give prompt, courteous and efficient service by operating the Restaurant in strict compliance with the policies, practices and procedures contained in the Operations Manual;
11. Permit us or our agents, at any reasonable time, to remove from the Restaurant samples of products without payment therefore, in amounts reasonably necessary for testing by us to determine whether said samples meet our then-current standards and specifications. In addition to any other remedies we may have under this Agreement, we require Franchisee to bear the cost of such testing if the supplier of the product has not previously been approved by us, or if the sample fails to conform to our specifications;
12. Not to install or permit to be installed on or about the Restaurant premises, without our prior written consent, any signage or signage designs not previously approved as meeting our standards and specifications;
13. Identify yourself as the owner of an independently owned and operated Deli Delicious™ restaurant (in the manner we prescribe) in conjunction with any use of the Proprietary Marks including, without limitation, receipts, on invoices, release forms, order forms, and stationery, as well as at such conspicuous locations as we may designate in writing at the Deli Delicious™ restaurant.
14. Comply with our qualification requirements for all hiring employees (described in Sections XII.F and XX.E of this Agreement) as necessary to operate the Restaurant at maximum capacity during the development and growth stages of the Restaurant as recommended by us in the Operations Manual, and to comply with all applicable laws with respect to such services;
15. Not engage in any services, programs, trade practice or other activity, offer or sell any menu item or product which Franchisor determines to be inconsistent with the Franchisor's quality standards, harmful to the goodwill, or to reflect unfavorably

on the reputation of Franchisee or us the Franchised Business, or the products and services sold thereof; or which constitutes deceptive or unfair competition, or otherwise is in violation of any applicable laws. The above limitations are closely related to our business image, purpose and marketing strategy, and therefore any change there from would fundamentally change the nature of the business;

16. Any advertising and promotion by Franchisee in any medium shall be conducted in a dignified manner and shall conform to our quality standards and requirements as set forth in the Operations Manual.
17. Promptly pay when due all taxes, fees, debts, expenses and assessments of the Business, including payroll taxes. Franchisee will not permit a tax sale or seizure by levy of execution or similar writ or warrant to occur.
18. Recognize that preservation of the System and the health of the Deli Delicious™ franchise network depend upon uniformity of all Product and Service offerings. Franchisee agrees that we will establish, from time to time, minimum and maximum pricing for certain menu items, Products and Services for promotional periods of time for any or all Deli Delicious™ franchises to the extent permitted by federal and state laws and regulations.
19. Participate in market research, testing, product and service development programs, and participate in, and pay all dues assessed for, advisory councils (not currently in effect) if applicable.
20. Franchisee will be required to use and honor only system-wide gift cards, certificates and checks that we designate. All such gift cards, certificates and checks may be obtained from us or an approved supplier; and
21. Franchisee must accept credit and debit cards, and other payment systems and check verification services as specified by us, and which we may change from time to time.
22. Operate the Restaurant at all open hours, staffed with an approved operator or manager. We reserve the right to approve or reject the operator or manager.
23. You agree to prominently display at your restaurants at all times and specifically at our request, any materials, POP or advertisements to promote the franchise and its Trademarks. You agree to prominently display at your restaurants at all times, at our request, any point of purchase or advertisements to promote the Franchisor or its Trademark or Brand. . You must identify yourself as the owner of your Franchise by placing your personal or legal entity name on all business materials and documents including all employee related materials, on all checks, invoices, receipts, contracts and other documents whether they bear the Marks or not and on all printed materials your name must be followed by the phrase "A franchise of Deli Delicious™" or such other phrase as we occasionally direct.

24. In addition to constantly maintaining and properly displaying all required federal and state governmental posters pertaining to employment, you shall have your employees sign an acknowledgement of the orientation and training date and the following:

You are an employee of the (your business entity name). Deli Delicious Franchising Inc., (“DDFI”) requires franchisees to be aware of and comply with DDFI brand standards, but does not dictate, direct or control the process of recruiting, interviewing, hiring, discipline, supervision, benefits administration, wages, scheduling, pay days, pay periods, assignments, leaves of absences, working conditions, compliance with any and all employment related rules and regulations, or the day to day operation of (business entity’s) business. As an employee of this (business entity), you must report any suggestions, comments, demands, and claims to your employer.

25. -You or your designated and approved manager must be available to meet with us for inspection we make of your Premises and afterward to review the results of our inspection. We may also review at that time or another time your business plan and financials. The meeting will be calendared at least 60 days in advance of our visit.
26. You are required to attend the all Franchisee Meetings (there will be up to 3 meetings per year) held at our corporate office. If you are a Multi-unit franchisee or plan to become one, you are required to attend DDFI’s Annual Multi-Unit Meeting.
27. You must submit a copy of the executed lease to us prior to beginning any work on the selected and accepted site. You must submit the renewal of any lease to us at least 270 days prior to the expiration of the term of the lease.

B. Operate Franchised Business Only

Franchisee shall use the DDF System and the Names and Marks provided to Franchisee by Franchisor for the operation of the Restaurant and shall not use them in connection with any other line of business or any other activity. Neither Franchisee, nor any of its employees, may conduct any business at the Restaurant other than that authorized pursuant to this Agreement, without the prior written approval of Franchisor. Neither Franchisee, nor any of its employees, may conduct any activity at the Restaurant or in connection therewith which is illegal or which could result in damage to the Names and/or Marks or the reputation and goodwill of Franchisor. Franchisee will not allow the franchised business to be used for any immoral, unethical, unauthorized or illegal purpose.

If Franchisee has a separate entity offering services and/or products that includes but is not limited to: Gas stations, liquor stores, convenience stores, specialty retail or food stores, snack shops and other food or beverage related products or services offering similar products and services

of an Deli Delicious™ restaurant, Franchisee must conduct all business through the Deli Delicious™ restaurant unless otherwise approved by us in writing. Franchisee must disclose to us any pre-existing businesses and agree to sign and deliver to us, along with a signed copy of this Agreement, the attached Schedule 2 “Pre Existing Businesses.”

C. Comply With Laws

Franchisee shall comply with all federal, state and local laws, regulations, zoning laws, transportation laws, fire codes, health and safety ordinances and shall obtain and at all times maintain any and all governmental licenses, permits, industry specific licenses or certificates, or that may be required for full and proper operation of the Restaurant franchised under this Agreement in Franchisee’s state of operation. Franchisee agrees to keep Franchisee and its employees informed of, and to comply with all laws, regulations and rulings issued by the U.S. Food and Drug Administration and any other applicable State and local health agency. Franchisor’s quality standards may exceed any and all of the requirements of said laws. Copies of all subsequent inspection reports, with the conduct of an Deli Delicious™ restaurant which indicates the Franchisee’s failure to meet or maintain governmental standards, or less than substantial compliance by the Franchisee with any applicable law, rule or regulation, shall be forwarded to the Franchisor within 5 days of the Franchisee’s receipt thereof.

It is Franchisee’s sole responsibility and absolute obligation to research all applicable federal, State and local laws and regulations governing the operation of a Deli Delicious™ restaurant. Franchisee must secure and maintain in force all required licenses, permits and certificates relating to the operation of a Deli Delicious™ restaurant and must at all times operate the Restaurant in full compliance with all applicable laws, ordinances and regulations (including without limitation, fictitious name registrations, sales tax permits, fire clearances, health permits, certificates of occupancy, truth in advertising, occupational hazards, health, laws relating to non-discrimination in hiring and accessibility, local labor regulations including minimum age and minimum wage laws, worker’s compensation, unemployment insurance and any permits, certificates or licenses required by environmental law, rule or regulation). In addition, Franchisee must comply consumer protection laws and regulations concerning food preparation, baking, handling and storage, “Truth in Menu” concerning menu item names and product labeling, nutritional claims, access to the Restaurant by persons with disabilities (under the federal Americans with Disabilities Act). Franchisee must investigate local zoning rules as they may limit where Franchisee can locate a Restaurant and such rules may affect design features, including the building facade and signs. Franchisor makes no representations or assurances as to what (if any) zoning rules, licenses, permits, authorizations or otherwise will be required for Franchisee in the Franchisee’s Territory in connection with a Deli Delicious™ restaurant. It is Franchisee’s sole responsibility to identify and obtain all authorizations necessary for operation. Franchisee agrees to maintain high standards of honesty, integrity, fair dealing and ethical conduct in all business activities.

Franchisee shall agree to comply and/or assist us in our compliance efforts, as applicable, with any and all laws, regulations, Executive Orders or otherwise relating to antiterrorist activities, including without limitation the U.S. Patriot Act, Executive Order 13224 and related U.S. Treasury, Export Control, and/or other regulations. In connection with such compliance efforts, Franchisee

agrees not to enter into any prohibited transactions and to properly perform any currency reporting and other activities relating to the Franchise Business as may be required by law or regulation. Franchisee is solely responsible for ascertaining what actions must be taken by Franchisee to comply with all such laws, orders and/or regulations, and specifically acknowledge and agree that Franchisee's indemnification responsibilities as provided in Section XVIII pertain to Franchisee's obligations hereunder. Franchisee agrees to sign and deliver to us, along with a signed copy of this Agreement, the attached Schedule 3 "Executive Order 13224 and Related Certifications".

The Deli Delicious™ restaurant is designed, constructed and operated in compliance with all local, state and federal laws, including (without limitation) the American with Disabilities Act ("ADA"). Franchisee agrees to execute and deliver to us an ADA Certification in the form attached to this Agreement as Schedule 4 before Franchisee opens the Deli Delicious™ restaurant to confirm and certify that Franchisee's Deli Delicious™ restaurant and any proposed renovations comply with the ADA requirements.

You must adhere to all local, state and federal Labor Codes, Rules and Regulations in the management and control of your Human Resources, Employees, Contractors, Suppliers, etc. In your relationship with us, we have no authority or control relating to the administration, management, and control of your human resource activities, including selection, hiring, training, scheduling, working conditions, benefit programs, wage and hour administration, and full compliance with all Local, State and Federal requirements as they relate to the management of your employees.

D. Maintain Confidentiality of Proprietary Information

Neither Franchisee nor any of its owners, managers, members, partners, shareholders, officers, directors, agents, or employees, except as required in the performance of the duties contemplated by this Agreement, may disclose or use at any time, whether during the terms of this Agreement or thereafter, any confidential and proprietary information disclosed to or known by Franchisee or any such person as a result of this Agreement. Such information, includes, but shall not be limited to, confidential matters, trade secrets, product knowledge, specifications, ingredients, formulas, recipes, food preparation, business strategy, methods and techniques, technology, equipment specifications, operational procedures, pricing and cost information, forms, record keeping, recruiting techniques, employee retention programs, restaurant design, décor, proprietary information conceived, originated, discovered, or developed by Franchisee or by any employee of Franchisee which is not generally known in the trade or industry about Franchisor's products or services, including information relating to discoveries, ideas, manufacturing, purchasing, inventory, accounting, engineering, website development and design, marketing, advertising programs, merchandising or selling of products and services (collectively referred to as "Confidential Information" and further defined in Section XVI.A of this Agreement).

Franchisee further acknowledges that the Confidential Information was unknown to Franchisee prior to negotiation for and execution of this Agreement and that the unique and novel combination of "know how" and methods developed by us and licensed to you for the operation of a Deli Delicious™ restaurant are particular to the food industry conducted by a Deli Delicious™ restaurant. Franchisee agrees to take all steps necessary, at Franchisees expense, to protect against

the disclosure and dissemination of the Confidential Information to any other person both during the term of this Agreement and subsequent to the termination or expiration of this Agreement without our prior written consent.

E. Maintain and Renovate Business

Franchisee shall at all times maintain the Restaurant in a clean, orderly condition and in first class repair in accordance with all maintenance and operating standards set forth in the Operations Manual. Franchisee shall make, at Franchisee's expense, all additions, repairs, replacements improvements and alterations that may be determined by Franchisor to be necessary so that the facilities (including the kitchen equipment) which are viewed by the public will conform to the uniform corporate image, as may be prescribed by Franchisor from time to time. Franchisee shall undertake and complete such additions, repairs, replacements, improvements and alterations within the time and under the terms and conditions, which may be reasonably specified by Franchisor.

If at any time, in our sole and absolute discretion, the general state of repair, appearance or cleanliness of the Restaurant or its fixtures, furnishings, kitchen equipment or signs does not meet our standards, we have the right to notify Franchisee, specifying the action Franchisee must take to correct the deficiency. If Franchisee does not initiate action to correct such deficiencies within 10 days after Franchisee receives our notice, and then does not continue in good faith and with due diligence, a bona fide program to complete any required maintenance and refurbishing, we have the right, in addition to all other remedies, to enter the premises of the Restaurant and do any required maintenance or refurbishing on Franchisee's behalf, and Franchisee agrees to reimburse us on demand for any expenses we incur.

At our request, which shall not be made more than once every 3 years (or as described above), Franchisee shall refurbish the Restaurant at its expense, to conform to the Restaurant design, trade dress, color schemes, and presentation of trademarks and service marks consistent with our designated image, including, without limitation, remodeling, redecoration and modifications to existing improvements which shall not exceed \$24,000 for each (3) year period. Franchisee shall have 9 months after receipt of Franchisor's written notice within which to complete the refurbishing of the Restaurant.

F. Maintain Competent Staff

Franchisor will create, and make available to Franchisee and its Owners training programs and other selected training materials, as Franchisor deems appropriate. Franchisee must staff a position to have day-to-day supervision for the operation and management of the Restaurant (referred to as "Manager"). Franchisee's Restaurant must be personally managed on a full-time basis by a Manager who has successfully completed our mandatory training and meets our then-current standards. The Manager may, but need not, be you or one of the owners of the Restaurant. Franchisee must train a replacement Manager (who Franchisor may disapprove in its sole and absolute discretion) in accordance with Franchisor's training program. Replacement Managers or staff may attend Franchisor's training program for a fee and subject to space availability. Currently the fee is \$300 per person per day as described in Section XX.A of this Agreement and may be increased.

Franchisee acknowledges that it is Franchisee's sole and absolute responsibility to hire employees ("Employees") in an effort to service customers according to our guidelines and standards as outlined in the Operations Manual and Section XX.E of this Agreement. This includes ensuring that Franchisee and Manager (Employees only if required by local health department regulations) are ServSafe® certified and that the certifications are renewed each year or as applicable. ServSafe® is food handling and safety training that is necessary for the operation of a Deli Delicious™ restaurant.

Franchisee will be responsible for all staffing expenses (Section XX.E of this Agreement). Franchisee must maintain a fully trained competent staff as necessary, capable of rendering courteous quality service in a manner in keeping with the quality standards set by Franchisor. Any training and any required certifications and licenses to maintain a staff are the responsibility of the Franchisee.

Franchisee must operate the Restaurant at all open hours. In your absence, a shift manager must be present. Franchisee will keep us advised, in writing, of all management and non-management personnel involved in the operation of the Restaurant.

G. Open Business Within Time Limit

Time is of the essence. The Franchisee must open a Deli Delicious™ location for its Franchise within 240 days after execution of this Agreement after having obtained Franchisor's approval prior to opening. Prior to opening, Franchisee shall complete, to Franchisor's satisfaction, all preparations of the Restaurant, in accordance with specifications set forth in the Pre-Opening and Operations Manual, and as required by local governmental agencies, including installation of furnishings, the purchase of kitchen equipment, the acquisition of supplies and inventory; and completion of training, and provision to us of all required local information, artwork and photos necessary for the corporate website. If you have not opened your Deli Delicious restaurant by the agreed upon start date, you will pay us the minimum royalty of Two Hundred dollars (\$200) per week or fraction thereof until such time as your Deli Delicious restaurant is opened. Our acceptance of such fee, or any other fees paid by you is not a waiver of any default by you, or our acceptance of your failure to open your franchised restaurant.

H. Operate Restaurant in Strict Conformity to Requirements

Franchisee shall operate the Restaurant in strict conformity with such quality standards, techniques, operational procedures, recipes, food preparation and menu offerings as Franchisor may from time to time prescribe in the Operations Manual, or otherwise in writing, and shall not deviate without Franchisor's prior written consent. Franchisee further agrees to offer its customers all Products, menu items, Services and customer service and/or customer retention programs which Franchisor will prescribe, to offer its customers only those Products, Services and programs which meet Franchisor's standards of quality and which Franchisor has approved in writing to be offered in connection with the Restaurant's operations. Franchisee agrees to discontinue offering any Products, menu items, Services, customer service and/or programs, which Franchisor may, in its sole discretion, disapprove in writing at any time.

Franchisee agrees that all food and menu items must be prepared in accordance with recipes, cooking techniques and processes developed by the Franchisor. Franchisee acknowledges that such recipes, cooking techniques and processes are integral to the System and failure to adhere to such recipes, cooking techniques and processes shall be detrimental to the System. Franchisee must not deviate from Franchisor's recipes, cooking techniques, processes, standards and specifications by the use of non-conforming items or differing amounts of any item without first obtaining Franchisor's written consent.

Franchisee agrees to fully comply with all mandatory specifications, standards, operating procedures and rules in effect which may change from time to time relating to the safety, maintenance, cleanliness, sanitation, function and appearance of the Restaurant and its equipment, fixtures, décor, signs and service agreements.

If Franchisee does not provide customers with satisfactory service and/or fails to resolve customer complaints at the time a complaint is registered or if Franchisee violates operating standards or this Agreement, Franchisor may, in addition to its other remedies, make the customer happy and bill the Franchisee or customer for its Products or Services. Franchisee shall reimburse Franchisor for any expense incurred. Franchisee shall promptly notify Franchisor by telephone and in writing of all (i) food related illness, (b) safety or health violation, (c) claims exceeding one thousand dollars, and (d) any other material claims against or losses suffered by Franchisee relating to customer service. In addition, there may be other System oriented programs designed to promote to the public the quality care, Products and Services provided by a Deli Delicious™ restaurant that the Franchisor may wish to implement on a system-wide basis and advertise and market. Franchisee shall be required to participate in the then-current Product or menu item specials or promotions as may be developed by and as may be modified periodically by the Franchisor, in its sole discretion.

Franchisee shall offer for sale, and will honor for customers, any incentive, coupon, or customer loyalty programs, which Franchisor may institute from time to time, and Franchisee shall do so in compliance with Franchisor's standards and procedures for such programs. These programs may include, without limitation, membership programs, repetitive use programs, co-op programs and other local and national activities. Franchisee's full and complete participation in such programs are required.

Franchisee's full and complete participation in such programs are required. Except as otherwise provided herein, compliance and participation shall be at Franchisee's expense.

Any vehicle used by Franchisee in connection with the operation of the Restaurant shall meet Franchisor's image and other standards. Franchisee shall place such signs and décor items on the vehicle as Franchisor requires and shall at all times, keep such vehicle clean and in good working order. Franchisee shall not permit anyone to operate a vehicle used in connection with the Restaurant who is under the age of 18 years of age or who does not possess a valid drivers' license under the laws of the state in which the Restaurant is located. Franchisee shall require each person who operates a vehicle in connection with the Restaurant to comply with all laws, regulations and rules of the road and to use due care and caution in the operation and maintenance of motor vehicles. Franchisee should verify that the driver has adequate liability insurance or that the driver is covered

under the Franchisee's policy. Except as noted above, Franchisor does not set forth any standards or exercise control over any motor vehicle utilized by Franchisee.

Franchisor will, periodically, make suggestions to Franchisee with regard to pricing policies. We retain the right to establish minimum and maximum prices Franchisee may charge for the Products and Services offered in the Franchised Business to the extent allowed by applicable laws and regulations, but will exercise that right only as set forth in the Operations Manual or otherwise by us in writing. Any list or schedule of prices we furnish to Franchisee, unless otherwise stated as the established minimum or maximum price guideline, may be treated as a recommendation only and failure to except or implement any such suggestion will not in any way affect the relationship between Franchisee and us.

I. Use of Approved Products, Vendors, Suppliers and Kitchen Equipment

Franchisor may derive income through markups of the prices charged to you for products, ingredients, services and kitchen equipment we supply. Currently the Franchisor and/or its affiliates are the only approved supplier for bread, seasoned meats (chicken and steak) and pickles. The breads are made by the Franchisor or its affiliate and based on its proprietary recipe. Other products Franchisor may offer and/or designate approved vendors and suppliers to offer, will include but are not limited to: ingredients, pre-packaged food items, DDF branded products, beverage products, kitchen equipment, POS system, packaging materials, restaurant supplies, retail items, apparel, printed materials and vendor co-branding or affinity programs. Franchisee agrees that Franchisor may periodically and upon written notice, add to, modify or change such approved products, affiliates, vendors and suppliers. Franchisor will provide Franchisee with written notice that a product is available for use and at Franchisor's sole discretion, may determine that such product is an essential element of a Deli Delicious™ restaurant.

Franchisor may derive income through license fees, promotional fees, advertising allowances, rebates or other monies paid by approved vendors and/or suppliers. Franchisor does not know the precise basis of these payments because Franchisor has never previously collected them. If Franchisor requires Franchisee to buy from Franchisor, the product's price and quality will be comparable to similar products from other sources. If Franchisor requires Franchisee to buy products or services from a vendor that pays such allowances, Franchisor may spend a portion of such fees on related advertising or place them in the advertising account Fund as described in Section X.B of this Agreement. If Franchisor does not require the purchase, Franchisor need not place such fees in a separate account or use them on advertising. In addition, Franchisee acknowledges that:

1. Franchisee acknowledges that we have spent considerable time designing the decoration and outfitting of a Deli Delicious™ restaurant with signage, furnishings, fixtures and kitchen equipment. This is part of our trade dress, as well as a part of our quality standards. Franchisee must purchase such items from us and/or our affiliates or approved vendors as specified in the Operations Manual and Section XII.V of this Agreement.

2. To insure the consistent high quality and uniformity of Product and Services provided by Deli Delicious™ franchised businesses, Franchisee must purchase all products, ingredients, beverage items, supplies fixtures, furnishings and kitchen equipment (including two POS and computer systems) for use in the operation of a Deli Delicious™ restaurant, from us and/or our affiliates or those approved vendors (including manufacturers, distributors and other sources) who demonstrate to Franchisor's continuing satisfaction an ability to meet Franchisor's standards and specifications.
3. In approving any vendor or supplier, Franchisor may consider factors such as: quality, composition, performance, technical specifications, delivery, durability, safety, service maintenance programs, determination of quality control, value, customer service strength, prompt attention to complaints, the supplier's financial strength and capacity to supply Franchisee needs promptly, reliably, and cost effectively. All vendors and suppliers must be approved in writing by Franchisor and not thereafter disapproved. If Franchisee desires to purchase unapproved products, ingredients, supplies or kitchen equipment from unapproved vendors or suppliers, Franchisee must submit to Franchisor a written request for such approval. Franchisor will respond to Franchisee request within 30 days from the date the request is received. If Franchisor does not approve such products, vendors or suppliers by written notice to Franchisee within this 30-day period, the product, vendor or supplier will be deemed disapproved. Franchisor shall have the right to require, as a condition of its approval and review, that its representatives are permitted to inspect the facilities of the proposed vendor or supplier and that the proposed item is delivered to Franchisor or its designee for testing. The cost of such inspection and testing shall be paid by Franchisee or vendor or supplier and Franchisor shall not be liable for damage to or for the return of any sample. Franchisor reserves the right to re-inspect the facilities and to retest the products, ingredients, supplies and kitchen equipment of any approved vendor or supplier and to revoke any approval if the vendor or supplier fails to continue to meet Franchisor's high standards.
4. Franchisee will not make any claims against us with respect to any vendor and/or related Products, supplies or kitchen equipment (and/or our designation of, or our relationship with, any vendor/supplier/products). Claims with respect to any vendor-related and/or similar matters shall be made only against the vendor in question. Franchisee will provide us with written notice prior to taking any action in connection with such a claim. Franchisor will use diligent efforts to assist Franchisee in resolving any disputes with vendors approved and/or designated by us. THE FRANCHISOR MAKES NO WARRANTIES REGARDING ANY VENDOR PRODUCTS OR SUPPLIES, AND HEREBY DISCLAIMS THE IMPLIED WARRANTY OF MERCHANTABILITY, THE IMPLIED WARRANTY OF FITNESS FOR A PARTICULAR PURPOSE, THE IMPLIED WARRANTY OF QUALITY OF COMPUTER PROGRAMS, THE IMPLIED WARRANTY OF SYSTEM INTEGRATION, AND THE IMPLIED WARRANTY OF INFORMATION CONTENT. FRANCHISOR MAKES NO WARRANTY THAT ANY VENDOR PROVIDED SOFTWARE WILL BE BUG FREE, VIRUS FREE, OR FREE OF

TROJAN HORSES OR WORMS. FRANCHISEE HEREBY AGREES THAT SUCH DISCLAIMER IS AN ESSENTIAL PART OF THE BARGAIN, AND THAT THE FRANCHISOR WOULD NOT HAVE ENTERED INTO THIS TRANSACTION ABSENT SUCH DISCLAIMER. Any claims with respect to any vendor-related and/or similar matters shall be made only against the vendor in question. Franchisee will provide us with written notice prior to taking any action in connection with such a claim. Franchisor will use diligent efforts to assist Franchisees in resolving any disputes with vendors approved and/or designated by us.

5. Franchisee may be required to sell, or otherwise dispense, only "Deli Delicious™" products, menu items and services, which may, from time to time, be specified in writing, designated and approved for sale by Franchisor. Such vendors may include or be limited to us and/or our affiliates. Franchisee is required to offer for sale any and all proprietary products developed by Franchisor, which will be listed in the Operations Manual. The "Proprietary Products" bearing the Deli Delicious™ Names and Marks and/or as specified in the Operations Manual, must be purchased by the Franchisee directly from the Franchisor, affiliates or approved vendors and supplies, unless the Franchisee has submitted and received written approval from the Franchisor to use an alternate supplier as specified below. Franchisor shall approve or deny Franchisee's request, which approval is in Franchisor's sole discretion, within 30 days of receipt of Franchisee's written request. If Franchisor fails to respond to Franchisee's request within said 30 day period, Franchisee's request shall be deemed denied.
6. Franchisee acknowledges and agrees that Franchisee's Restaurant will feature certain menu items and Products associated with a Deli Delicious™ restaurant and that Franchisor has and may continue to develop for use in the System certain menu items and Products that are prepared from Franchisor's proprietary recipes that bear the Marks. Because of the importance of quality and uniformity of production and the significance of such menu items and Products in the System, it is to the mutual benefit of the parties that Franchisor closely controls the production and distribution of such Products. Accordingly, Franchisee agrees that with respect to such Products, whether or not such Products are proprietary, Franchisee shall use only Products manufactured by or on behalf of Franchisor and shall purchase solely from Franchisor and/or its affiliates.
7. Franchisor reserves the right to require Franchisee to purchase designated Proprietary Products, from Franchisor, its affiliates or sources designated and/or approved by DDF to the extent permitted by law. This includes without limitation: Bread, seasoned meats, pickles, ingredients, pre-packaged food items, beverages, apparel, packaging materials, retail items, paper items, promotional materials and display items (Franchisor does not currently have all such items, but may in the future). Franchisee must submit to us in writing for any product Franchisee wishes to incorporate into the Business that is not already on the approved product list as specified in the Operations Manual. Franchisor has the right in its discretionary determination of quality, accuracy of product claims, composition, value, appearance, customer service strength, prompt attention to complaints and other factors that may change periodically to disapprove

any product Franchisee requests for approval in writing from Franchisor. Franchisor shall approve or deny Franchisee's request, which approval is in Franchisor's sole discretion, within 30 days of receipt of Franchisee's written request. If Franchisor fails to respond to Franchisee's request within said 30 day period, Franchisee's request shall be deemed denied. Franchisor may require Franchisee's vendors to sign Franchisor's pre-approved Confidentiality and Nondisclosure Agreement, guarantee Franchisor's level of quality, and produce sufficient samples to allow Franchisor to test the samples at Franchisee's expense.

8. Franchisee acknowledges that Franchisee is required to equip and stock the Restaurant with an inventory of products, supplies and kitchen equipment required and approved by us and to maintain such inventory of products, supplies and equipment that will permit operation of the Restaurant at maximum capacity. In addition, Franchisor may require Franchisee to maintain in inventory a minimum representation of Deli Delicious™ branded merchandise. "Minimum Representation" shall be defined as the continuous maintenance of an amount of Deli Delicious™ brand merchandise meeting requirements as defined in the Operations Manual. Franchisee shall at all times comply with Franchisor's Minimum Representation requirements and the terms of any auto-ship requirements instituted by Franchisor and as specified in the Operations Manual. Further, Franchisee shall limit its "non proprietary" purchases of items such as cleaning supplies napkins and straws to no more than 10% of outside purchases/inventory.
9. Franchisee shall not make any changes to the Proprietary Products or any third party products including changing the containers, packaging, labeling, promotional materials, advertising, cartons or the like without Franchisor's prior written approval, which may be withheld in the sole discretion of the Franchisor.
10. Franchisee shall not manufacture or produce any product that is similar to, or competes with any Franchisor's Product, Proprietary Product or third party product and/or any product offered or sold in the Restaurant or in any channel of distribution selling similar products without the advanced written consent of the Franchisor, which may be granted or denied in Franchisor's sole discretion. Violation of this Section XXII.I shall be grounds for immediate termination of this Agreement.
11. Franchisee must inspect all Products promptly upon receipt and may reject any Product that fails in any material respect to conform to manufacturer's description. Any Product that has not been rejected within 48 hours upon receipt shall be considered accepted. Rejected Products must be returned to the manufacturer within 3 days of the date on which manufacturer authorizes the return or as manufacturer specifies. Franchisor reserves the right to take whatever action Franchisor deems necessary, in Franchisor's sole discretion, to prevent Franchisee from selling any unauthorized Product including seeking injunctive relief or shall be grounds for immediate termination as specified in Section XXIII.C of this Agreement.

12. Notwithstanding anything to the contrary contained in this Agreement, Franchisee acknowledges and agrees that, at Franchisor's sole option, Franchisor may establish one or more strategic alliances or preferred vendor programs with one or more nationally or regionally-known suppliers who are willing to supply all or some Deli Delicious™ restaurants with some or all of the Products, ingredients, supplies and kitchen equipment that Franchisor requires for use and/or sale in the development and/or operation of the Restaurant. In this event, Franchisor may limit the number of approved vendors with whom Franchisee may deal, designate sources that Franchisee must use for some or all products and other products and services, and/or refuse any of Franchisee's requests if Franchisor believes that this action is in the best interests of the System. Franchisor shall have unlimited discretion to approve or disapprove the vendors or suppliers who may be permitted to sell products, ingredients, supplies and kitchen equipment to Franchisee.
13. Franchisee shall not, without Franchisor's express written permission, which may be granted or denied in Franchisor's sole discretion, sell, transfer, deliver or become an exclusive distributor for any third party vendor or obtain exclusive distribution rights for any Deli Delicious™ Product, ingredients, supplies or kitchen equipment.
14. Franchisor may set standards or specifications for leases, real estate, fixtures, kitchen equipment and supplies, POS systems, computer and software programs, advertising, communication and Internet or network access services, supplier or vendor programs, trademark usage, trade dress, dress code, Regional/Local Advertising Cooperative Programs and other goods and services at its discretion, including its subjective determinations relating to quality, value and appearance. All such information that you store in any POS System or Computer System shall become the Franchisor's confidential and proprietary information, and subject to all of the terms and conditions of this Agreement regarding the Franchisor's Confidential information.
15. Franchisee shall play what is referred to as "Retail Radio" while open, which first must be approved by the Franchisor.

Nothing in this Agreement shall be construed to be a promise or guarantee by Franchisor as to the continued existence of a particular product, nor shall any provision herein imply or establish an obligation on the part of the Franchisor and its affiliates to sell Products, ingredients, supplies or kitchen equipment to Franchisee if Franchisee is in arrears on any payment to Franchisor, its affiliates, or any other designated vendor or approved supplier, or otherwise is in default under this Agreement. If Franchisee fails to pay in advance in full for each shipment of products purchased (if applicable), Franchisor or its affiliates shall not be obligated to sell products, ingredients, supplies or kitchen equipment to Franchisee.

J. Use Approved Design and Signage

In operating a Deli Delicious™ Restaurant, Franchisee must adhere to Franchisor signage standards, and utilize signage designs in accordance with the standards and specifications recommended by Franchisor, or that will continue to be recommended by Franchisor. Franchisee

may use an approved supplier for signage, or submit an alternate supplier to Franchisor for approval. Franchisee shall purchase or lease, subject to local building codes and regulations, such signs that provide maximum displays of the Names and Marks of Franchisor. Upon renewal of this Agreement, Franchisee shall be totally responsible for obtaining and equipping the Restaurant with the signage that is approved for use by Franchisor at the time of the renewal of this Agreement. The color, size, design and location of said signs shall be as specified and/or approved by us. Franchisee shall not place additional signs, décor items, posters, newspaper racks, video games, juke boxes, gaming machines, gum machines, games, rides, vending machines or other similar devices and décor items in the Restaurant without our prior written consent.

K. Participation in the Operation of the Restaurant

Franchisee agrees to participate in the day-to-day operation of a Deli Delicious™ restaurant. Franchisee may assign the supervision of the Restaurant to an Owner or Manager once approved by Franchisor. Franchisee agrees that the Manager will supervise all Employees and administrative staff. The Manager will also be responsible for providing continuing guidance, oversight, day-to-day management, instruction and properly process all reports or complaints.

Franchisee shall at all times faithfully, honestly and diligently perform all obligations hereunder and continuously exert best efforts to promote and enhance the business of the Restaurant. Franchisee or an approved Manager shall assume such responsibilities on a full time basis and shall not engage in any other business or other activity, directly or indirectly that requires any significant management responsibility, time commitments or otherwise conflicts the Franchisee's participation in the business. Franchisee and the designated Manager must attend all of Franchisor's Phase IV and V training modules and workshops at Franchisor's support office. Franchisees are required to attend all DDF franchisee meetings.

L. Use Approved Uniform Dress

Franchisee will require its employees to wear uniform dress bearing the corporate trademark, or service mark, while working at the Restaurant, and such shall be of such design and color as Franchisor may prescribe from time to time, as set forth in the Operations Manual.

M. Maintain Regular Business Hours

Franchisee's Deli Delicious™ restaurant must be open at a minimum 10am-8pm Monday thru Saturday each week, except holidays we designate or alternative hours approved by us in writing for both an express and standard model. Minimum Sunday hours of operation are 10am-8pm or may vary depending on the demographics of the Territory, requirements of Franchise's lease or the hours approved by us in writing. If Franchisee's Restaurant is in a shopping mall, Franchisee must be open during all normal mall hours. Any variance from this provision must be authorized by us in writing. It is required that the Franchisee maintain a telephone answering system for the Deli Delicious™ restaurant to take messages.

N. Maintain Uniform Operating Standards

Franchisee understands and acknowledges that every detail of the design and operation of the Restaurant is important to the Franchisee, Franchisor and other franchisees in order to develop and maintain uniform operating standards, to increase the demand for the Products and Services sold by the Restaurant under our System, and to protect Franchisor's reputation and goodwill.

Franchisee acknowledges and agrees that the System must continue to evolve in order to reflect changing market conditions and meet new and changing customer demands. As a consequence, changes, modifications and variations to the System's standards, menu items, Products and programs offered may be required from time to time to preserve and enhance the public image of the System and enhance the operational efficiency of all franchises.

Franchisee, therefore agrees that we may periodically and upon written notice, add to, modify or change the System, including without limitation the adoption and use of new or modified trademarks, service marks, menu items, recipes, ingredients, food preparation and techniques, Products, Services, restaurant supplies, uniforms, signs, menu boards, kitchen equipment, POS and computer systems, proprietary software, non-proprietary software, methodologies, employee qualification requirements and sales strategies. Franchisee promises to promptly accept, implement, use and display in the operation of the Restaurant, all such additions, modifications and changes at Franchisee's expense.

Franchisor will not require Franchisee to make any changes, modifications and variations to the System that are not required of all Franchisees; further Franchisor will periodically meet with representative groups of franchisees and solicit their input prior to the implementation of any material change or modification. Franchisee's failure to comply with modifications to the System within 120 days of such written notice is an incurable default as described in Section XXIII.C of this Agreement provided this requirement does not include the periodic obligation to refurbish the Restaurant.

O. Telephone Number of Restaurant and Web Site

Franchisee understands and agrees that the telephone number(s) and URL address for the Restaurant (and any cell phone numbers) constitute a part of the System and are subject to the restrictions of this Agreement. Accordingly, Franchisee shall not change the telephone number(s) or URL address for the Restaurant without prior notice and written approval by Franchisor. Franchisee shall advertise and publicize the telephone number(s) and URL address for the Restaurant in the manner prescribed by Franchisor. As stated above, all telephone numbers, URL, Internet or similar connections, directory and listings for the Restaurant are the Franchisor's property and upon termination will revert to the Franchisor.

P. Disclose Discoveries and Ideas to Franchisor

Franchisee shall promptly disclose to Franchisor all products, discoveries, operational procedures, recipes, food preparation methods, techniques, inventions or ideas, whether patentable or not, relating to Franchisor's business, which are conceived or made by Franchisee or any Owner, agent, or employee of Franchisee solely or jointly with others, during the term of this Agreement, whether or not Franchisor's facilities, materials, or personnel are utilized in the

conception or making of such discoveries or ideas. Franchisee hereby acknowledges and agrees that all such products, discoveries, operational procedures, recipes, food preparation methods, techniques, inventions or ideas are the exclusive property of Franchisor and that Franchisor shall have no obligation to Franchisee. The Franchisee, its officers, directors, managers, members, partners, and shareholders agree to execute all documents deemed reasonably necessary by the Franchisor to assign all such patent, trade secret, trademark, and copyright rights in any Franchisee discovery or idea to the Franchisor. The purpose of this clause is to ensure that ideas for improvements to the System that may be generated by Franchisees within the System will be distributed to the other Franchisees as a benefit of belonging to the System. The Franchisee agrees to execute all documents that the Franchisor deems are reasonably necessary to carry out such transfer of intellectual property rights to the Franchisor.

Q. Permit Franchisor to Enter Restaurant

Franchisee shall permit Franchisor and its agents or representatives to enter the Restaurant during normal business hours for the purpose of conducting inspections without notice to Franchisee and inspect the operations of the Restaurant. In addition, Franchisee shall permit Franchisor or its agents, to remove samples of food or non-food items from the Restaurant, without payment, in amounts reasonably necessary for testing by Franchisor or an independent laboratory to determine whether such samples meet Franchisor's then-current standards and specifications. Franchisee shall cooperate fully with Franchisor's representatives in such inspections by rendering such assistance as they may reasonably request, and, upon notice from Franchisor or its agents, and without limiting Franchisor's other rights under this Agreement, shall take such steps as may be deemed necessary to immediately correct any deficiencies detected during such inspections. In the event Franchisee fails or refuses to correct immediately any deficiency detected during such inspection, Franchisor shall have the right to make or cause to be made such changes as may be required, at the expense of Franchisee, which expense Franchisee agrees to pay upon demand. In addition, to maintain the highest degree of quality, if Franchisee fails an inspection, Franchisee will also be responsible for a \$1,500 re-inspection fee (as described in Section X.H). The foregoing shall be in addition to any other remedies Franchisor may have pursuant to this Agreement.

R. Additional Requirements for Corporate Franchisee

If Franchisee is or becomes a corporation, limited liability company, general or limited partnership or other organization or entity, the following requirements shall apply:

1. Franchisee shall confine its activities to the establishment and operation of the Restaurant;
2. Franchisee's Certificate, Articles of Incorporation, Articles of Organization, Certificate of Formation, Shareholders Agreement, Operating Agreement, and/or Bylaws (or comparable governing documents) shall at all times provide that its activities are confined exclusively to the operation of the Restaurant and that the issuance, redemption, purchase for cancellation and transfer of voting stock, voting membership units, or other ownership interest therein, is restricted by the terms of this Agreement. Franchisee shall furnish us promptly upon request copies of Franchisee's Articles of Incorporation, Articles of Organization, Certificate of Formation, Bylaws, Operating Agreement, Partnership Agreement, Shareholders

Agreement, and other governing documents, and any other documents we may reasonably request, and any amendments thereto, from time to time;

3. Franchisee shall maintain a current list of all owners of record and beneficial owners of any class of voting stock or other ownership interest in Franchisee and shall furnish such list to Franchisor upon request;
4. Franchisee shall maintain stop transfer instructions against the transfer on its record of any equity securities (voting or otherwise) or the certificate of any other entity evidencing ownership except in accordance with the provisions of Section XXI. All securities or other ownership interests issued by Franchisee shall bear the following legend, which shall be printed legibly and conspicuously on each stock certificate or other evidence of ownership interest:

THE TRANSFER OF THESE SECURITIES IS SUBJECT TO THE TERMS AND CONDITIONS OF THIS FRANCHISE AGREEMENT WITH DELI DELICIOUS FRANCHISING, INC AS OF THE SIGNING DATE. REFERENCE IS MADE TO SAID AGREEMENT AND TO THE RESTRICTIVE PROVISIONS OF THE ARTICLES AND BYLAWS OF THIS CORPORATION;

5. All owners of Franchisee shall jointly and severally guarantee Franchisee's performance hereunder and shall bind themselves to the terms of this Agreement, provided, however, that the requirements of this Section XII.R. shall not apply to any corporation registered under the Securities Exchange Act of 1934 (hereinafter known as a "Publicly-Held Corporation");
6. Franchisee shall maintain a current list of all general and limited partners, managing members, members, and all owners of record and all beneficial owners of any class of voting stock, membership units, or partnership units of the Franchisee's restaurant and shall furnish the list to Franchisor promptly upon request, from time to time; and
7. Each individual who or entity which holds a 10% or greater ownership or beneficial ownership interest in the Franchisee's business, directly or indirectly, (including each individual holding a 50% or greater interest in any limited liability company, partnership or corporation which has a 10% or greater interest in the Franchisee's business) shall enter into a continuing guaranty agreement, in the form attached hereto as Schedule 5 as such form may be amended or modified by us, from time to time (if such guaranty agreement is to be executed subsequent to the date hereof in accordance with the terms of this Agreement).

S. Site Selection

Franchisee assumes all costs, liability, expense, and responsibility for locating, obtaining, and developing a site for the Restaurant to be established under the Franchise Agreement and for equipping the Restaurant. A typical Deli Delicious™ restaurant has approximately 600-900 square feet of space for an express model and 1,300- 2,500 square feet of space for a standard model. The space for a Deli Delicious™ express model may need general construction related to bringing the utility hook-up from the host facility to the designated area for connection. The space for a standard model must be enclosed and separate from other businesses with its own locking door. Whether it is for a Deli Delicious™ express model or standard model, Franchisor highly recommends that Franchisee finds a space needing minimal leasehold improvements. Franchisee may buy or lease the required real property and improvements from any source and on terms approved by Franchisor in writing. Franchisee will deliver to Franchisor a copy of any lease for Franchisor's review at least 10 days before execution. On the execution of any lease for the Restaurant, Franchisee will deliver to Franchisor a copy of the executed lease and an option to assume the lease executed by the lessor in favor of Franchisor in a form acceptable to Franchisor. All improvements to the Restaurant must be approved by the Franchisor.

FRANCHISEE ACKNOWLEDGES THAT OUR ACCEPTANCE OF A PROSPECTIVE SITE AND THE RENDERING OF ASSISTANCE IN THE SELECTION OF A SITE DOES NOT CONSTITUTE A REPRESENTATION, PROMISE, WARRANTY, OR GUARANTEE BY US THAT A DELI DELICIOUS™ RESTAURANT OPERATED AT THAT SITE WILL BE PROFITABLE OR OTHERWISE SUCCESSFUL. FRANCHISEE FURTHER ACKNOWLEDGES THAT OUR APPROVAL OF THE PLANS, DRAWINGS, SPECIFICATIONS AND OUR AUTHORIZATION TO OPEN THE DELI DELICIOUS RESTAURANT IS SIMPLY TO ASSURE THAT YOU COMPLY WITH OUR THEN EXISTING STANDARDS, AND AS SUCH SHALL NOT BE CONSTRUED AS A REPRESENTATION OR WARRANTY THAT THE ENGINEERING, DRAFTING, CONSTRUCTION AND TENANT IMPROVEMENTS COMPLY WITH ANY LAWS OR IS FREE OF ANY DEFECT.

Franchisee acknowledges that we have spent considerable amount of time choosing the creating the decoration and outfitting the Deli Delicious™ restaurant. It is part of our trade dress. You acknowledge and agree that the design, layout and other characteristics of the Restaurant constitute and/or contain Confidential Information and/or Trade Secrets of ours. You agree that the Restaurant shall be maintained and operated as follows:

1. You will maintain the Restaurant and every component of the kitchen equipment in good order and repair at all times as specified in the Operations Manual;
2. You will keep the Restaurant fully insured as specified in the Operations Manual;
3. You will keep the Restaurant at all times in a clean and tidy condition and free of any advertising and promotional material other than that required by law or the Operations Manual, and will exhibit such signage, colors and logos in the Restaurant and upgrade or review the same as specified in the Operations Manual;
4. You will not alter or in any way amend the appearance of the Restaurant, furnishings, fixtures or any fittings and equipment contained within the Restaurant as specified in the Operations Manual;
5. You will maintain and upgrade the Restaurant, POS systems, Deli Delicious Radio Broadcast System, any other on-line or internet based systems, computer systems

and all kitchen equipment as specified from time-to-time in the Operations Manual so as to always use our then-current specifications;

6. You shall meet and maintain the highest level of health standards and ratings applicable to the operation of the Restaurant. You shall furnish to Franchisor, within 5 days after receipt thereof, a copy of all inspection reports, warnings, citations, certificates and/or ratings resulting from inspections conducted by any federal, state or municipal agency with jurisdiction over the Restaurant; and
7. You may be required to use only approved service providers for repairs and maintenance of any furnishing, fixtures, signage and equipment in the Restaurant.

Franchisee agrees to submit any lease and all site-related documents to us for our review prior to execution (as mentioned above in Section XII.S). Franchisee shall use commercially reasonable efforts to arrange for the inclusion of provisions in Lease Addendum or other appropriate site-related documents which:

1) Permit you to operate a Deli Delicious™ restaurant in accordance this Agreement and the Manuals;

2) Provide that the site will be used only for the operation of a Deli Delicious™ restaurant and prohibit Franchisee from assigning or modifying any of Franchisee's lease rights or extending the term without our prior written consent;

3) Require the lessor to concurrently provide us with a copy of any written notices (whether of default or otherwise) to Franchisee under the lease and give us the right to cure any default if we so choose, and for the lessor to provide us on request with sales and other operations information related to the Deli Delicious™ restaurant;

4) Provide us with a right to take assignment and possession of the Deli Delicious™ restaurant, without the lessor's consent or any additional consideration. If we exercise this right and you're in good standing, we'll sign a sublease with Franchisee for the same rent we're paying. In any case, we won't have any liability for any obligations incurred prior to our occupancy. Franchisee agrees to take whatever actions are necessary to accomplish such assignment and will, when Franchisee signs this Agreement, also sign the Collateral Assignment of Lease attached as Schedule 6. If Franchisee loses lease rights to the site in connection with any early termination including bankruptcy, the lessor will, on our request, enter into a new lease with us on essentially the same terms as the terminated lease;

5) Provide that the lessor consents to the use of the Marks, Trade Dress and other aspects of the System, as modified from time-to-time, and give us the right to enter the premises during normal business hours for purposes of inspection, to take steps to protect the Marks and Trade Dress and/or prevent/cure any default.

Franchisee won't execute a lease or sublease, or any modification or amendment, without our prior written consent, which we may grant, condition or withhold in our Business Judgment. Franchisee will deliver a copy of the signed lease or sublease to us within 5 business days after it is signed.

T. Development and Construction of Restaurant

Franchisee must select and employ licensed contractors reasonably acceptable by us for the complete build out and/or any leasehold improvements. Franchisee is solely responsible for the selection and work of any contractor selected and/or employed by Franchisee, even if referred by us, and for the preparation of architectural and working drawings necessary to complete construction and/or build out at the approved Restaurant. Franchisee must be in full and strict compliance with any interior and exterior guidelines and/or specifications approved by us. Franchisor reserves the right to receive rebates, commissions or other forms of consideration from designated or approved suppliers involved in the construction or fixturing of the Restaurant and to use such rebates, commissions or other consideration in any way Franchisor deems appropriate in Franchisor's sole discretion, without obligation to share or remit any portion of such rebates, commissions or other consideration to Franchisee.

We would expect as part of your business plan that a Deli Delicious™ restaurant may need only minimal leasehold improvements as described in the two charts in Item 7. Franchisee shall be responsible for obtaining all zoning classifications, health, sanitation, clearances, permits and certifications which may be required by state or local laws, ordinances, or regulations or which may be necessary or advisable owing to any restrictive covenants relating to Franchisee's location. The Franchisee may only use contractors for the build out, who are licensed, bonded, and insured in accordance with the laws and regulations of the Franchisee's state. After having obtained such approvals and clearances, Franchisee shall submit to Franchisor, for Franchisor's approval, final plans for construction based upon the preliminary plans and specifications. Once approved by Franchisor, such final build out plans shall not thereafter be changed or modified without the prior written permission of Franchisor. Any such change made without Franchisor's prior written permission shall constitute a material default under this Agreement and Franchisor may withhold its authorization to open the Restaurant until the unauthorized change is rectified (or reversed) to Franchisor's reasonable satisfaction.

Franchisee shall construct, furnish, and open the Restaurant according to the requirements contained herein, and Franchisee shall open the Restaurant not later than 240 days from the Effective Date. Time is of the essence. During the time of construction or remodeling, Franchisee shall provide Franchisor or its designated representative with periodic reports regarding the progress of the construction and/or remodeling as may be reasonably requested by Franchisor or its representatives. In addition, Franchisor or its representatives may make on-site inspections as it may be reasonably necessary to evaluate such progress. Prior to opening for business, Franchisee shall comply with all pre-opening requirements set forth in this Agreement (including without limitation those with respect to the Grand Opening program), the Operations Manual, and/or elsewhere in writing by Franchisor.

Franchisee shall not open the Restaurant until Franchisor has determined that all construction has been substantially completed, and that such construction conforms to Franchisor's quality standards including, but not limited to, materials, quality of work, signage, decor, paint, and equipment, and Franchisor has given written Franchisee approval to open, which approval shall not be unreasonably withheld. Franchisor's approval to open the Restaurant does not constitute a waiver of Franchisor's right to require Franchisee to conform the Business to Franchisor's quality standards.

U. Computer Hardware and Software Systems

Franchisee agrees to purchase, use, maintain and update at Franchisee's expense the POS systems, software, computer and other phone or security systems meeting our specifications, as we may modify them. If required by us, you agree to maintain your systems on-line to allow us to access system data and information. You agree to comply with our then-current Terms of Use and Privacy Policies and any other upgrade requirements regarding all POS, computer and other phone or security systems, including Internet usage. Supplier and/or licensor charges for use, maintenance, support and/or updates of and to the required systems are payable by you upon receipt.

Neither we nor our affiliates, will have any liability and/or obligation (and neither you or any managing partners or shareholders will make any claims) about any failures, errors or any other occurrences relating to any POS, computer or system hardware or software without an express written warranty from us, even if recommended or specified by us. Franchisee acknowledges and agrees that Franchisee is solely responsible for protecting itself from these problems. Franchisee must also take reasonable steps to verify that Franchisee's suppliers, lenders, landlords, customers, and governmental agencies on which Franchisee rely, are reasonably protected. This may include taking reasonable steps to secure Franchisee's systems, including, but not limited to, firewalls, access code protection, anti-virus systems and use of backup systems.

The Franchisee may not modify, reverse engineer, decompile, or disassemble the POS system or any software. The software is licensed only to the Franchisee, its Office Manager, shareholders, managing member, member, or partners. The Franchisee may not transfer the software outside of its Territory. All such licensee Software constitutes the Franchisor's confidential information, and intellectual property.

FRANCHISOR HEREBY DISCLAIMS THE IMPLIED WARRANTY OF MERCHANTABILITY, THE IMPLIED WARRANTY OF FITNESS FOR A PARTICULAR PURPOSE, THE IMPLIED WARRANTY OF ACCURACY OF INFORMATIONAL CONTENT, THE IMPLIED WARRANTY OF QUALITY OF COMPUTER PROGRAMS, AS WELL AS THE IMPLIED WARRANTY OF SYSTEM INTEGRATION. FRANCHISOR MAKES NO WARRANTY THAT ANY VENDOR PROVIDED SOFTWARE WILL BE BUG FREE, VIRUS FREE, OR FREE OF TROJAN HORSES OR WORMS. FRANCHISEE HEREBY AGREES THAT SUCH DISCLAIMER IS AN ESSENTIAL PART OF THE BARGAIN, AND THAT THE FRANCHISOR WOULD NOT HAVE ENTERED INTO THIS TRANSACTION ABSENT SUCH DISCLAIMER. FRANCHISEE FURTHER AGREES TO WAIVER ALL CAUSES OF ACTION, CLAIMS, DAMAGES, DEMANDS, AND EXPENSES THAT IT MAY

HAVE AGAINST THE FRANCHISOR ARISING OUT OF THE OPERATION OF ANY HARDWARE OR SOFTWARE. RATHER THE FRANCHISEE AGREES TO MAKE ALL SUCH CAUSES OF ACTION, CLAIMS, DAMAGES, DEMANDS, AND EXPENSES ONLY AGAINST THE MANUFACTURER/DEVELOPER OF THE HARDWARE OR SOFTWARE.

V. Training

Prior to Franchisee's opening of the Restaurant to the public, Franchisee, its Owner, or Manager shall complete to our satisfaction a minimum 14 day training program required by this Agreement. At our option, key personnel subsequently employed by Franchisee shall also complete the training program. In addition, Franchisee, managing partner, managing member, member, shareholder or Manager must pass our final examination with a minimum score of 90% which is given at the end of the training program. If Franchisee, managing partner, managing member, member, shareholder or Manager does not pass this examination, then Franchisee, managing partner, shareholder or Manager must remain for an additional 5 days to retake the training at Franchisee's cost. If we determine that any proposed manager is not qualified to manage a Deli Delicious™ restaurant, we will notify Franchisee, and Franchisee may then select and enroll a substitute manager in our training program at your cost. In addition, if, during the training program we determine, in our sole discretion, that Franchisee (or Franchisee's managing partner, member, shareholder or substitute manager) are not qualified to manage a Deli Delicious™ restaurant, we have the right to terminate the Franchise Agreement (Section XIII.C of this Agreement). As part of the initial training there is no charge for the training of the Franchisee which may consist of up to three individuals, being owners, the first manager, or key personnel, but thereafter it is \$300 per person per day subject to periodic reasonable increase.

It is required that Franchisee (or Franchisee's managing partner or shareholder) has successfully obtained a ServSafe® Food Protection Manager certification in Franchisee's home state. ServSafe® is food handling and safety training that is necessary for the operation of a Deli Delicious™ restaurant. Such courses can be taken in a classroom setting or in some states can be completed over the Internet.

We may, at our discretion, make available additional training programs, ServSafe® certification programs, seminars, as well as refresher courses available to the Franchisee and/or Franchisee's designated individual(s) from time to time as described in Section XX.A of this Agreement. Franchisor reserves the right to impose a reasonable fee for such additional training programs. Franchisee is responsible for any all costs associated with training including travel, food, accommodations and all other related expenses. We may, at any time, discontinue additional management training programs and decline to certify Franchisee and/or Franchisee's designated individual(s) who fail to demonstrate an understanding of the management training acceptable to us. If the training of the Franchisee or Franchisee's designated individual is discontinued by us, Franchisee shall have 30 days to present an alternative acceptable candidate for management training to Franchisor. If Franchisee's new candidate does not adequately complete the management training, then we shall have the option of terminating this Agreement. We shall provide instructors and training materials for all required training programs; and Franchisee or its employees shall be responsible for all other expenses incurred by Franchisee, its employees, or

agents in connection with any training programs, including, without limitation, the cost of transportation, lodging, meals, and wages.

W. Ongoing Training and Support.

The Franchisee will have access to our personnel for questions, ongoing training and support by phone and e-mail. Franchisor will continue to consult with and advise Franchisee; provide a telephone help hotline, free of charge, to answer any questions from Franchisee or its staff (Section XX.A of this Agreement), provide the Manual specifications, approved vendors and suppliers, product guidelines, marketing updates as they become available; review advertising and vendor and supplier approval requests; and administer the National Advertising Fund. We hold regular on-going training and development workshops, which you and your Manager are required to attend.

XIII. SPECIFIC OBLIGATIONS OF FRANCHISEE RELATING TO INSURANCE

A. Overall Coverage Required

Before Franchisee opens a Deli Delicious™ restaurant, Franchisee must purchase insurance coverage from a responsible carrier and maintain such insurance throughout the duration of the initial term of the Franchise Agreement and any renewal terms. Franchisee will procure and maintain general comprehensive liability insurance with a minimum policy limit of \$1,000,000 per occurrence and \$2,000,000 aggregate (this policy should include general tort, premises damage, personal injury, and personal injury and the advertising injury coverage should be at least \$1,000,000 and the product liability should be at least \$1,000,000) or an amount specified by the landlord and/or Franchisor. In addition, Franchisee will procure and maintain Product Liability Insurance that covers Franchisee for damages that result in injury from products that Franchisee sells or distributes with a minimum policy limit of \$1,000,000 per occurrence and \$2,000,000 aggregate or an amount specified by Franchisor.

Franchisee also will procure and maintain “All Risks” coverage for the full cost of the replacement of the business premises, employer liability insurance in amounts not less than \$1,000,000 per occurrence and statutory workers’ compensation insurance with limits of greater than \$100,000 or the minimum limits required by law. If Franchisee should choose to operate a vehicle for the operation of a Deli Delicious™ restaurant then automotive liability insurance, including coverage of owned, non-owned and hired vehicles with minimum coverage in amounts not less than \$2,000,000 combined single limit (bodily injury and property damage). You must purchase an EPL Policy (Employment Practices Liability Policy) which cost will vary depending on the number of employees, work environment and other factors carriers consider.

For any construction, renovation, refurbishment or remodeling of the site, Franchisee must require that the general contractor maintain, with an approved insurer, commercial general liability insurance (with comprehensive automobile liability coverage for both owned and non-owned vehicles, builders risk, product liability and independent contractor’s coverage) with limits of no less than \$1,000,000 per claim, naming you and us as additional insured, as their interests may appear, together with workers’ compensation and employer’s liability insurance as required by law.

It is Franchisee's responsibility to obtain certificates of insurance from the contractor prior to the initiation of any construction.

To the extent available, Franchisor may require Franchisee to obtain business interruption, crime insurance as well as other disability benefits type insurance as may be required by the statute or rule of each State, with policy limits of \$1,000,000 or in the amount Franchisor specifies.

All insurance policies will name Franchisor as additional named insured with waiver of subrogation against Franchisor. Franchisor may establish minimum standards for coverage to be met by underwriters for insurance. Before beginning operations, Franchisee will obtain any other liability insurance required by law, provide Franchisor with certificates of insurance within 10 days of issuance, and maintain all required insurance during the term of this Agreement. Franchisee shall also furnish Franchisor with certificates and endorsements evidencing insurance coverage within 10 days after each of the following events (i) at all policy renewal periods, no less often than annually and (ii) at all instances of any change to, addition to or replacement of any insurance. Lapses, alterations, or cancellations require immediate notice to Franchisor and may be deemed a material breach of this Agreement. If Franchisee fails to obtain the required insurance and to keep the same in full force and effect, Franchisor may, but shall not be obligated to, pay the premiums or acquire insurance, and bill Franchisee. Franchisee shall reimburse Franchisor for the full cost of such insurance, along with a reasonable service charge to compensate Franchisor for the time and effort expended to secure such insurance. Franchisor may change these insurance requirements on reasonable notice to Franchisee.

Franchisee's insurance will cover all claims for injury, damage and death or otherwise, arising directly or indirectly out of the franchised business.

Franchisee shall notify Franchisor immediately in writing of any event that could materially affect Franchisee or the franchised business, and no later than the date on which Franchisee notifies its insurance carrier. Franchisor's insurer or Franchisor shall have the right to participate in discussions with Franchisee's insurance company or any claimant (with Franchisee's insurance company) regarding any claim. Franchisee agrees to adopt our reasonable recommendations to Franchisee's insurance company regarding the settlement of any claims.

Franchisor makes no representation or warranty to Franchisee that the amount of insurance to be carried by Franchisee under the terms of this Agreement is adequate to fully protect Franchisee's interest. If Franchisee believes that the amount of any such insurance is insufficient, Franchisee is encouraged to obtain, at its sole cost and expense, such additional insurance as it may deem desirable or adequate. Franchisee acknowledges that Franchisor shall not, by the fact of approving, disapproving, waiving, accepting, or obtaining any insurance, incur any liability for or with respect to the amount of insurance carried, the form or legal sufficiency of such insurance, the solvency of any insurance companies or the payment or defense of any lawsuit in connection with such insurance coverage, and Franchisee hereby expressly assumes full responsibility therefore and all liability, if any, with respect thereto.

Franchisee's compliance with insurance requirements shall not relieve Franchisee of its liability under the indemnity provisions of this agreement. Obligations to maintain insurance

coverage will not be affected by reason of any separate insurance maintained by us, nor will the maintenance of such insurance relieve Franchisee of any obligations under this Agreement.

XIV. SPECIFIC OBLIGATIONS OF FRANCHISEE RELATING TO ACCOUNTING AND RECORDS

A. Bookkeeping, Accounting and Records

Franchisee acknowledges that the maintenance of accurate financial records and the preparation of financial statements on a timely basis, are essential to the efficient operation of the Restaurant. Franchisee agrees to hire a qualified bookkeeper and/or CPA who will maintain the financial records of the Franchisee and who will attend the Restaurant not less than once every two weeks for that purpose. The required quarterly and annual financial records must be prepared by a Certified Public Accountant. Financial Statements provided to Franchisor are used only for review of that franchisee and as requires in this Franchise Agreement.

Franchisee shall maintain during the term of this Agreement, and shall preserve for a minimum of 3 years, full, complete accurate records of sales, payroll, and accounts payable in accordance with the standard accounting system described by Franchisor in the Operations Manual or otherwise specified in writing. Franchisee will keep its books and records related to this business separate from any other business owned by Franchisee or its principals. Any such separate business will be conducted by a separate entity.

Franchisee will provide Franchisor all hard copy and electronic reports Franchisor prescribes. On or before the 10th and the last day of each month, or daily if Franchisor requires, Franchisee will deliver or provide electronic access to business records, including an itemized report of Franchisee's Gross Revenue for the prior period on a form Franchisor prescribes, which will include payment for that period's fees due, and may include, to the extent that Franchisor requires:

1. Franchisee's certification or records of Gross Revenue for the month, week, day or period reported; and/or
2. Copies of any sales reports and customer receipts with updated location information in any format Franchisor specifies; and/or
3. Copies of all invoices for purchases of products, supplies, kitchen equipment or inventory;
4. Copies of all merchant account printouts received from the Franchisee's merchant account banking provider (i.e. records of credit and debit card transactions).
5. Copies of all bank deposits, and bank deposit records made by the Franchisee.

Franchisee will be required to obtain specified POS systems, computer hardware and/or software, including, without limitation, a license to use proprietary software developed by us, or any of our vendors. Franchisee agrees to pay all costs in connection with obtaining, maintaining,

upgrading, etc. the hardware and software and other systems (and additions, modifications, maintenance or support). We have the right to charge a reasonable fee for the license, modification, maintenance and/or support of proprietary software that we may license to Franchisee and other goods and services that we furnish to you related to the computer and other systems.

Franchisee will adopt a fiscal year as designated by us and prepare all financial reports in accordance with U.S. generally accepted accounting principles, consistently applied. Franchisee must deliver to Franchisor on a quarterly basis, accounting, tax and other information or copies of documents, as Franchisor requests. The information to be provided for the first quarter of the fiscal year and the previous fiscal year report must be delivered no later than April 30. In the event the Franchisee fails to submit the required financial statements on timely basis, at franchisees expense, the Franchisor shall have the right to hire an independent CPA to prepare and submit the required financial statements when due.

B. Franchisor's Right to Audit

Franchisor or its agents may enter the Franchisee's location to examine or audit Franchisee's business at any reasonable time without notice. Franchisor will bear the cost of the audit, unless Franchisee fails to report as required or understates Gross Revenue by 2% or more for any reported time period, in which case Franchisee will pay the audit costs plus interest at 1.5% per month for all understated Gross Revenue as specified in the Operations Manual. Franchisee will immediately pay Franchisor all sums owed. Franchisor also is entitled to other remedies provided in this agreement or by law.

In addition to the cost of the audit described above, Franchisee shall reimburse Franchisor for any and all costs and expenses relating to the inspection (including, without limitation, travel, lodging and wage expenses and reasonable accounting and legal costs), and, at Franchisor's discretion, submit audited financial statements prepared, at Franchisee' expense, by an independent certified public accountant satisfactory to Franchisor. If an inspection discloses an understatement in any payment to Franchisor of 4% or more during any reporting period, such act or omission shall constitute grounds for immediate termination of this Agreement, as set forth in Section XXIII.C. The foregoing remedies shall be in addition to any other remedies we may have pursuant to this Agreement and as provided at law and in equity.

C. Method of Payment

All payments Franchisee makes to Franchisor will be by any method Franchisor specifies, including cash, check, certified check, money order, credit card, automatic pre-authorized payment plan, Internet, or electronic funds transfer (as described in Section X.D of this Agreement). All payments to Franchisor and dollar amounts stated in this agreement are in United States dollars unless otherwise expressed. If a conversion of royalties or other payments from another currency is made, the conversion shall be made as of the date the payment is due, or the date the payment is actually made, whichever is more beneficial to Franchisor. Franchisee is responsible for any fees associated with payment methods other than cash or check.

D. Submission of Financial Statements

Franchisee will provide Franchisor with a copy of Franchisee's annual financial statements including a profit and loss statement and a balance sheet and containing complete notes and disclosures. Such statements will be prepared in accordance with U.S. generally accepted accounting principles, by an independent accountant, and will be delivered to Franchisor within 90 days after Franchisee's fiscal year end.

E. Disclosure of Financial Statements

Franchisee hereby grants us permission to release to Franchisee's lenders or prospective lenders, any financial and operational information relating to Franchisee and/or the Business; however, we have no obligation to do so.

XV. **SPECIFIC OBLIGATIONS OF FRANCHISEE RELATING TO USES OF NAMES AND MARKS**

A. Names and Marks are Owned by Franchisor

Franchisor warrants with respect to the proprietary Names and Marks that:

1. Deli Delicious Franchising, Inc., a California corporation, is the exclusive owner of the Names and Marks to establish Deli Delicious™ franchises in the United States.
2. Franchisor is taking and will take such steps as are reasonably necessary to preserve and protect the ownership and validity of such Names and Marks; and
3. Franchisee acknowledges that there may be third party pre-existing users or applicants/registrants of trademarks, trade names, or business names similar to the Marks. Franchisor and Franchisee shall investigate such use, applications, or registrations, if any, and Franchisor shall in its sole discretion decide on the appropriate action to be taken. Any unsuccessful challenge made by Franchisor shall not constitute a ground for the termination of this Agreement. In the event Franchisor determines in its sole judgment that challenging any such third party's use of the Marks will not likely be successful, or would not be economically feasible to achieve, or if Franchisee shall be required to cease using the Marks (or any of them) by court order, or as a result of any settlement of any such trademark claim by a prior registrant or any pre-existing user, or any other such trademark claim, or if Franchisor shall deem it necessary or appropriate to change the name of the Franchise in order to mitigate any potential exposure or damages arising under any trademark claim, Franchisee shall promptly change the name of its Franchise, and thereafter utilize an alternative name established by Franchisor. Franchisor shall not otherwise be liable for any losses or any consequential damages, including lost future profits, or loss of revenue, resulting from or arising out of any trademark claim(s).

4. Franchisor will use and permit Franchisee and other franchisees to use the Marks in compliance with the System and standards attendant thereto, which underlie the goodwill associated with and symbolized by the Marks.

B. Franchisee is Licensed to Use Names and Marks

With respect to Franchisee's franchised use of the Names and Marks pursuant to this Agreement, Franchisee agrees that:

1. Franchisee shall use only the Names and Marks as are approved in writing by Franchisor for Franchisee's use, and shall use them only in the manner authorized and permitted by Franchisor and that in any use whatsoever of the Names and Marks of Franchisor that the Names and Marks are identified as being registered to or owned by Franchisor;
2. Franchisee shall use the Names and Marks only in connection with the operation of the Restaurant and in advertising for the Restaurant conducted at or from the Franchisee website and accepted Restaurant location;
3. Franchisee shall use and display, as Franchisor may require in the operation of the Restaurant, a notice in the form approved by Franchisor indicating that Franchisee is a "Franchise" of Deli Delicious Franchising, Inc. and that the Names and Marks are used by Franchisee under such Franchise. Franchisee must indicate to third parties that it is "independently owned and operated" and that Franchisor owns the Marks and Franchisee uses them under a license;
4. Unless otherwise authorized or required by Franchisor, Franchisee shall operate and advertise the Restaurant under the Name and Mark "Deli Delicious™".
5. Franchisee's right to use the Names and Marks is limited to such usages as are authorized under this Agreement, and any unauthorized use shall constitute an infringement of Franchisor's rights and material breach of this Agreement;
6. Franchisee must obtain Franchisor's approval for any use of any item of printed material of any kind bearing any of the Names and Marks, unless Franchisor supplied the item. Franchisor shall approve or deny Franchisee's request, which approval is Franchisor's sole discretion, within 30 days of receipt of Franchisee's written request. If Franchisor fails to respond to Franchisee's request within said 30 day period, Franchisee's request shall be deemed denied. Franchisee shall use such notices of Trademark registrations and copyrights as Franchisor specifies.
7. Franchisee shall not use the Names and Marks to incur any obligations or indebtedness on behalf of Franchisor;

8. Franchisee shall not use the Names and Marks or any part thereof as part of its corporate or other legal name;
9. Franchisee shall not use the Names and Marks or any part thereof in any form on the Internet, including but not limited to, addresses, domain names, URLs, links, metatags, locators and search techniques;
10. Franchisee shall comply with Franchisor's instructions in filing and maintaining the requisite trade name or fictitious name registration, and shall execute any documents deemed necessary by Franchisor or its counsel to obtain protection for the Franchisor Names and Marks or to maintain their continued validity and enforceability; and
11. In the event any litigation involving the Names and Marks is instituted or threatened against Franchisee, Franchisee shall promptly notify Franchisor and shall cooperate fully with Franchisor in defending such litigation. Franchisee agrees to execute any and all instruments and documents, render such assistance, and do such acts or things as may, in the sole opinion of Franchisor, reasonably be necessary or advisable to protect and maintain the interests of Franchisor or any other interested party in the Names and Marks. Other than what is stated in this Agreement, Franchisor is not obligated to protect Franchisee's right to use the Trademarks or protect Franchisee against claims of infringement or unfair competition with respect to them and may direct Franchisee not to use the Trademark or to change the trademarks at Franchisee's expense. The Franchisor will control any and all such litigation, arbitration, and mediation involving the Franchisor's trademarks. The Franchisee has no authority to institute any litigation, file and arbitration, or institute any request for mediation regard the Franchisor's trademarks, nor does the Franchisee have any authority to enter into any settlement negotiations; and
12. During the term of this Agreement and any renewal, Franchisee shall identify itself as the owner of the Restaurant in conjunction with any use of the Names and Marks, including, but not limited to, on receipts, invoices, order forms and contracts, as well as at such conspicuous locations on the premises of the Restaurant as we may designate in writing. The form and content of such identification shall comply with standards set forth in the Operations Manual.
13. Franchisee further agrees to follow all of the Franchisor's quality standards that are inherent in the Franchisor Names and Marks. Such quality standards are contained in the Operations Manual, as well as various policy statements issued by the Franchisor, and may be changed from time to time at the Franchisor's sole discretion.

C. Franchisee Will Not Challenge Franchisor's Rights In Its Names and Marks

Franchisee expressly understands and acknowledges that:

1. As between the parties hereto, Franchisor is the owner of all right, title, and interest in and to the Names and Marks and the goodwill associated with and symbolized by them;
2. The Names and Marks are valid and serve to identify the Deli Delicious Franchising, Inc. System and those who are franchised under the System;
3. Franchisee shall not directly or indirectly contest the validity or the ownership of the Names and Marks;
4. Franchisee's use of the Names and Marks pursuant to this Agreement does not give Franchisee any ownership interest or other interest in or to the Names and Marks, except the non-exclusive Franchise granted herein;
5. Any goodwill arising from Franchisee's use of the Names and Marks in its Restaurant under the System shall inure solely and exclusively to Franchisor's benefit, and upon expiration or termination of this Agreement and the Franchise herein granted, no monetary amount shall be assigned as attributable to any goodwill associated with Franchisee's use of the System or the Names and Marks;
6. Franchisor reserves the right to substitute different Names and Marks for use in identifying the System, the Restaurant and other franchised businesses operating there under; and
7. Franchisee hereby agrees to comply, at Franchisee's expense, with any directions from us to discontinue, modify, substitute or add Names and Marks. Franchisor cannot and does not make any guaranty that a modification, discontinuance or otherwise will not be required for any reason. In such event, Franchisor has no liability to Franchisee. Franchisee agrees to make no claim in connection with any modification, discontinuance or other action, and/or with any dispute regarding the Names and Marks. There is always a possibility that there might be one or more businesses using a name and/or marks similar to Franchisor with superior rights;
8. Franchisee hereby agrees not to register or attempt to register the Names and Marks in Franchisee's name or that of any other firm, person or corporation.
9. The right and license of the Names and Marks granted to Franchisee is nonexclusive, and we thus have and retain the rights, among others:
 - a. To use the Names and Marks and itself in connection with selling Products and Services;
 - b. To use the Names and Marks to market on the Internet, including all use of web sites, domain names, URL's, linking, advertising and co-branding arrangements. Franchisee may not establish a presence on the Internet except as Franchisor may specify and only with Franchisor's prior written

consent. Franchisor retains the right to approve any linking to or other use of the Deli Delicious™ web site;

- c. To grant other licenses for the Names and Marks, in addition to those licenses already granted to existing franchisees; and
 - d. To develop and establish other systems using similar Names and Marks, or any other proprietary marks, and to grant licenses or franchises thereto at any location(s) whatsoever without granting any rights therein to Franchisee, provided any such system shall not be established in the Territory or may it operate a business substantially similar as Franchisee's.
10. Franchisee understands and acknowledges that Franchisor has the unrestricted right to engage, directly or indirectly, through its or their employees, representatives, licensees, assigns, agents and others, at wholesale, retail and otherwise, in the production, distribution and sale of Products and/or menu items bearing the Names and Marks licensed or other names or marks, including without limitation, products included as part of the System. Franchisee shall not under any circumstances engage in any wholesale trade or sale of System Products for resale.

D. Ownership of Intellectual Property

Franchisee acknowledges that we are the exclusive owner of the Intellectual Property, the Names and Marks, all intellectual property associated with the Names and Marks and the System, all employees, and customer lists and all customer phone listings/addresses/URLs held by Franchisee. The use of any or all of the foregoing intellectual property shall not create in Franchisee or any of its Owners, agents, or employees, title or interest in or to any of it except as expressly provided in this Agreement. Neither Franchisee nor any of its Owners, shareholders, managing member, members, or partners shall directly or indirectly assert any right, title or interest in or to any of the Marks or any other part of the Intellectual Property other than as provided for in this Agreement.

XVI. **SPECIFIC OBLIGATIONS OF THE FRANCHISEE RELATING TO CONFIDENTIALITY OF PROPRIETARY INFORMATION**

A. Franchisee Shall Learn Proprietary Matters

Franchisee acknowledges that it will obtain knowledge of proprietary matters, techniques and business procedures of Franchisor that are necessary and essential to the operation of the Franchise, without which Franchisee could not effectively and efficiently operate such restaurant, including, without limitation, knowledge regarding the System, product knowledge, specifications, ingredients, formulas, recipes, food preparation, restaurant design, décor, business strategies, methods and techniques, pricing and cost information, technology, equipment specifications, operational procedures, service standards, hiring standards, employee retention programs and the Operations Manual. Franchisee further acknowledges that such proprietary information was not known to Franchisee prior to execution of this Agreement and that the methods of Franchisor are

unique and novel to the System. As used herein, Confidential Information shall also mean confidential information concerning:

1. Persons, corporations or other entities, which are, have been or become Franchisees of the System and any investors therein;
2. Persons, corporations or other entities, which are, have been or become customers of the Restaurant;
3. The terms of and negotiations relating to past or current Franchise Agreements with respect to the System;
4. The operating procedures of the System, including without limitation: product knowledge and specifications, food preparation, kitchen equipment, safety, operational procedures, restaurant management, inventory tracking, bookkeeping, accounting systems and procedures, advertising programs, promotional and marketing methods, personnel hiring, training and retention programs, the use of manufacturers, suppliers and equipment and lists of vendors and suppliers;
5. The economic and financial characteristics of the System and Franchisees, including without limitation: pricing and cost information, profitability, earnings and losses, and capital and debt structures;
6. The Products and Services offered to customers of a Deli Delicious™ restaurant, including, without limitation, the scope of menu items and products offered, services performed and services refused; and
7. All documentation of the information listed in Sections XVI.A.1 through XVI.A.7 including, without limitation, our training program and Operations Manual. During the term of this Agreement and for a period of 5 years, following the expiration or termination of this Agreement, Franchisee agrees not to divulge, directly or indirectly, any Confidential Information, without the prior written consent of Franchisor. Nothing contained herein shall be construed so as to require Franchisee to divulge any secret processes, formulas, or the like.

B. Franchisee's Employees Will Not Disclose Confidential Information

Franchisee must keep the Methods of Operations (confidential information found in the Manuals and other documents) and Manuals confidential and not disclose them except to Franchisee's employees, agents and representatives, as must have access to it in order to operate the Deli Delicious™ restaurant. Franchisee must follow all Franchisor's security procedures, which include the execution and delivery to Franchisor of approved nondisclosure agreement from each such employee, agent or representative within one week after they are hired. These agreements state that such person shall not during the course of his employment, representation, or agency with Franchisee, or for a period of 5 years thereafter, use, divulge, disclose or communicate, directly or

indirectly, in any form or manner, to any person, firm or corporation, any of the Confidential Information of Franchisor.

The Manuals are and remain the exclusive property of Franchisor. Franchisor will loan Franchisee one copy (hard copy) for the term of this Agreement. Franchisee must return the Manuals to Franchisor at the termination or expiration of this Agreement for any reason, or at any other time at Franchisor's request. The Manuals contain mandatory and suggested specifications, standards and operating procedures that Franchisor prescribes for franchised businesses, and contain information about Franchisee's other obligations under this Agreement. Franchisor may change or add to the Manuals to reflect changes in its image, specifications, and procedures and Methods of Operation, and will lend Franchisee copies of any changes or additions. However, Franchisor will not make by change that will change Franchisee's fundamental status and rights under this Agreement. Franchisee cannot copy any part of the Manuals (except for designated training sections), either physically or electronically. If Franchisee's copy or the Manuals are lost, destroyed or significantly damaged, Franchisee must obtain a replacement from Franchisor, at its then-applicable charge, defined as \$5,000 as set forth in Section XX.G.

C. Injunctive Relief is Available to Franchisor

Franchisee acknowledges that any failure to comply with the requirements of this Section XVI will cause Franchisor irreparable injury, and Franchisor shall be entitled to obtain specific performance of, or an injunction against any violation of, such requirements; Franchisee waives any requirements for the posting of any bond(s) relating thereto. Franchisee agrees to pay all court costs and reasonable attorneys' fees incurred by Franchisor in obtaining specific performance of, or an injunction against, violation of requirements of this Section XVI. The foregoing remedies shall be in addition to any other legal or equitable remedies, which Franchisor may have.

D. Franchisor's Patent Rights and Copyrights

Franchisor does not own rights in or to any patents that are material to the Franchise at this time. However, Franchisor claims copyright protection for all recipes, the Operations Manual and certain marketing, promotion, sales and operations literature. The Franchisee acknowledges that the Franchisor's copyright protection for the Operations Manual, marketing, sales, and promotional literature extends to all media, whether now known or hereinafter invented, including complete and entire interactive rights and rights to derivative works. Furthermore, Franchisor claims rights to certain trade secrets and Confidential Information as discussed above.

E. Franchisee Shall Not Contest The Franchisor's Ownership Right To Any Confidential Information, Trade Secrets, Patents or Copyrights

Franchisee expressly understands and acknowledges that:

1. The Franchisor's confidential information, trade secret, copyright, and patent rights are valid;

2. Franchisee shall not directly or indirectly contest the validity or the ownership of the Franchisor's confidential information, trade secrets, copyrights and patents;
3. Franchisee's use of the Franchisor's confidential information, trade secrets, copyrights and patents does not give Franchisee any ownership interest or other interest in or to the confidential information, trade secret, copyright and patent rights, except the non-exclusive Franchise granted herein;
4. Any goodwill arising from Franchisee's use of the Franchisor's confidential information, trade secret, copyright and patent rights in its Restaurant under the System shall inure solely and exclusively to Franchisor's benefit, and upon expiration or termination of this Agreement and the Franchise herein granted, no monetary amount shall be assigned as attributable to any licensed confidential information, trade secrets, copyrights, and patents;
5. Franchisor reserves the right to substitute different confidential information, trade secrets, copyrights, and patents for use in operating and maintaining the System.
6. Franchisee hereby agrees to comply, at Franchisee's expense, with any directions from us to discontinue, modify, substitute or add any new confidential information, trade secrets, copyrights, and patents. Franchisor cannot and does not make any guaranty that a modification, discontinuance or otherwise will not be required for any reason. In such event, Franchisor has no liability to Franchisee. Franchisee agrees to make no claim in connection with any modification, discontinuance or other action, and/or with any dispute regarding any licensed confidential information, trade secrets, copyrights, and patents.
7. Franchisee hereby agrees not to register or attempt to register any copyrights or patents in Franchisee's name or that of any other firm, person or corporation.
8. The right and license of the confidential information, trade secrets, copyrights, and patents granted to Franchisee is nonexclusive, and Franchisor thus has and retains the rights, among others:
 - a. To use the trade secrets, confidential information, patents, and copyrights and itself in connection with selling products and services;
 - b. To use the trade secrets, confidential information, copyrights, and patents to market on the Internet, including all use of web sites, domain names, URL's, linking, advertising and co-branding arrangements.
 - c. To grant other licenses for the trade secrets, confidential information, copyrights, and patents, in addition to those licenses already granted to existing franchisees; and

- d. To develop and establish other systems using similar trade secrets, confidential information, patents, and copyrights, and to grant licenses or franchises thereto at any location(s) whatsoever without providing any rights therein to Franchisee, provided any such system shall not be established in a Territory or may it operate a business substantially similar as Franchisee's.
9. Franchisee understands and acknowledges that Franchisor has the unrestricted right to engage, directly or indirectly, through its or their employees, representatives, licensees, assigns, agents and others, at wholesale, retail and otherwise, in the production, distribution and sale of Products and/or menu items bearing the trade secrets, confidential information, patents, and copyrights licensed, including without limitation, products included as part of the System.

XVII. SPECIFIC OBLIGATIONS OF FRANCHISEE RELATING TO TAXES, PERMITS AND LAWSUITS

A. Franchisee Must Notify Franchisor of Lawsuits

Franchisee shall notify Franchisor in writing within 5 days of notice of the commencement of any action, suit, or proceeding against Franchisee, and of the issuance of any inquiry, subpoena, order, writ, injunction, award or decree of any court, agency, or other governmental instrumentality, which arises out of, concerns, or may affect the operation or financial condition of the Restaurant, including, without limitation, any criminal action or proceedings brought by Franchisee against its employees, customers, or other persons. The Franchisee shall give us advance written notice of Franchisee's intent to institute legal action against us, specifying the basis for such proposed action, and shall grant us 30 days from receipt of said notice to cure the alleged act upon which such legal action is to be based.

B. Franchisee Must Comply With Laws

Franchisee shall, at Franchisee's expense, comply with all federal, state and local laws, rules, regulations and ordinances and shall timely obtain and shall keep in force as required throughout the term of this Agreement all permits, certificates and licenses necessary for the full and proper conduct of the Restaurant, including, without limitation, any required permits, licenses (including occupational licenses) to do business, fictitious name registrations, sales tax permits, health permits, certificates of occupancy and fire clearances (as specified in Section XII.C of this Agreement). We make no representations or assurances as to what licenses, permits, authorizations or otherwise may be required in connection with your Deli Delicious™ Restaurant. It is Franchisee's sole responsibility to identify and obtain all authorizations necessary to the Restaurant. Franchisee must maintain high standards of honesty, integrity, fair dealing and ethical conduct in all business activities. Franchisee must notify us in writing within 5 days of the commencement of any proceeding and/or of the issuance of any governmental order or action impacting the Restaurant.

In the marketing and operation of a Deli Delicious™ restaurant, Franchisee will use each of, and only, the marketing and promotional items, forms and other materials as are designated by us periodically. However, the Franchisee may use its Landlord's lease, as long as the lease contains all of the terms and conditions required by this Agreement, and the Franchisee may execute its lender's standard promissory note, personal guaranty, and security agreement provided that the terms and conditions of any promissory note, personal guaranty, and security agreement do not affect or impair this Agreement, or any of the Franchisor's rights or remedies under this Agreement. If the Franchisee has two or more shareholders, members, or partners, the Franchisee must submit a copy of its Operating Agreement, Partnership Agreement, or Shareholders Agreement and bylaws, as applicable for the Franchisor's review prior to execution.

C. Franchisee Must Pay Taxes Promptly

Franchisee shall promptly pay when due all taxes levied or assessed, including, without limitation, unemployment and sales taxes, and all accounts and other indebtedness of any kind incurred by Franchisee in the conduct of the Restaurant. Franchisee shall pay Franchisor an amount equal to any sales tax, gross receipts tax or similar tax imposed on Franchisor with respect to any payments to Franchisor required under this Agreement, unless tax is credited against income tax otherwise payable by Franchisor.

D. Franchisee May Contest Tax Assessments

In the event of any bona fide dispute as to any liability for taxes assessed or other indebtedness, Franchisee may contest the validity or the amount of the tax or indebtedness in accordance with procedures of the taxing authority or applicable law. However, in no event shall Franchisee permit a tax sale or seizure by levy of execution or similar writ or warrant, or attachment by a creditor to occur against the site of the Business, or any improvements thereon.

XVIII. SPECIFIC OBLIGATION OF FRANCHISEE RELATING TO INDEMNIFICATION

Franchisee understands and agrees that nothing in this Agreement authorizes Franchisee to make any contract, agreement, warranty or representation on Franchisor's behalf, or to incur any debt or other obligation in Franchisor's name or the name of any of Franchisor's officers, directors, shareholders and employees. Franchisee further understands and agrees that Franchisor, and its officers, directors, shareholders and employees, shall in no event assume liability for, or be deemed liable as a result of, any such action, or by reason of any act or omission of Franchisee in its conduct of the Restaurant claims arising as a result of injury, illness or death of persons directly or indirectly resulting from the operation of the Restaurant, claims arising from maintenance and operation of vehicles or any claim arising out of any lease or other contractual obligation entered into by Franchisee or judgment arising there from against Franchisee.

For the purposes of this indemnification, the terms "claim, loss or obligation" will include actual and consequential damages; compensatory, exemplary or punitive damages; fines and penalties; attorneys' fees; experts' fees; court costs; costs associated with investigating and defending against claims; settlement amounts; judgments, compensation for damages to

Franchisor's reputation and goodwill; and all other costs associated with any of the foregoing claims, losses or obligations.

Franchisee and each of its Principles (Section XIX.B) shall indemnify and hold Franchisor and Franchisor's officers, directors, shareholders and employees harmless against all fines, suits, proceedings, claims (including but not limited to, any claims of vicarious or other liability), demands, actions, losses, damages, costs, expenses, fees (including legal fees, disbursements and related expenses), penalties and/or any other liability of any kind or nature, however arising, growing out of or otherwise connected with and/or related to any act, error and/or omission of yours (including the ownership, operation and/or management of Franchisee's Deli Delicious™ restaurant) and/or of any service provider, vendor, supplier or other agent/independent contractor of Franchisee, affiliates or staff in connection with, Franchisee's operation of the Restaurant. This indemnity will also apply to claims that Franchisor was negligent or failed to train, supervise or discipline Franchisee, and to claims that Franchisee or Franchisee's Employees are agents of the Franchisor or part of a common enterprise with Franchisor. Further, this indemnification is intended to also apply to claims against Franchisor from a 3rd party.

Franchisor may elect (but under no circumstance will be obligated) to undertake or assume the defense of any such claim and will have the right to control all litigation, including selection and management of counsel, and defend and/or settle any claim, against and/or including us and/or the Franchisor-related persons/entities, or affecting our and/or their interests with no obligation to you and without affecting our rights under this indemnity or otherwise. Franchisee may appoint separate independent counsel to represent Franchisee's interest in such suits, proceedings, claims, etc., all at Franchisee's expense. Franchisee's indemnification obligations described above will continue in full force and effect after, and notwithstanding, the expiration of this Agreement.

So long as we act in compliance with the requirements of this Agreement, we will have no liability for the exercise of our discretion in accordance with the provisions of this Agreement.

XIX. MISCELLANEOUS COVENANTS OF FRANCHISEE

A. Covenants are Independent

The parties agree that each covenant herein shall be construed to be independent of any other covenant or provision of this Agreement. If all or any portion of the covenants in this Agreement is held to be unenforceable or unreasonable by a court or agency having competent jurisdiction in any final decision to which Franchisor is a party, Franchisee expressly agrees to be bound by any lesser covenant subsumed within the terms of such covenant that imposes the maximum duty permitted by law, as if the resultant covenant were separately stated in and made a part of this Agreement.

B. Franchisee's Principles

The term "Franchisee's Principles" shall include, collectively and individually, Franchisee's spouse, if Franchisee is an individual, all managing partners, general partners, managing members, members, managers, shareholders officers, directors, and other operational

personnel whom we designate as Franchisee's Principles and all holders of an ownership interest in any entity directly or indirectly controlling Franchisee, and any other person or entity controlling, controlled by or under common control with Franchisee. The initial Franchisee's Principles shall be listed on Schedule 7 of this Agreement.

C. Franchisee Will Not Compete Against Franchisor

Franchisee specifically acknowledges that, pursuant to this Agreement, Franchisee will receive valuable specialized training and confidential information, including, without limitation, information regarding product knowledge and specifications, food preparation, recipes, formulas, ingredients, menu items, technology, equipment specifications, restaurant design and décor, operational procedures, strategies, techniques, methods, service standards, pricing and cost information, advertising programs, merchandising, sales, customer retention programs, customer service, hiring and employee retention, our promotional and marketing methods and the System, all of which constitute our confidential and proprietary information. Franchisee covenants that, during the term of this Agreement, except as otherwise approved in writing by us, Franchisee shall not, either directly or indirectly, for itself, or through, on behalf of, or in conjunction with, any person, persons, or legal entity, employ or seek to employ any person who is at that time employed by us or by any of our other Franchisees or affiliates, or otherwise directly or indirectly induce such person to leave his or her employment.

Franchisee covenants that, except as otherwise approved in writing by us, Franchisee shall not, during the term of this Agreement and for a continuous uninterrupted period commencing upon the expiration or termination of this Agreement, regardless of the cause for termination, and continuing for 5 years thereafter, either directly or indirectly for itself, or through, on behalf of, or in conjunction with, any person, persons, or legal entity, own, maintain, operate, engage in, be employed by, or have any interest in any business featuring the overall Deli Delicious™ restaurant concept with similar decor or offers a line of Products, menu items and Services similar to a Deli Delicious™ restaurant within a 25 mile radius of the restaurant location designated hereunder, or within a 25 mile radius of any other Deli Delicious™ restaurant in existence or planned as of the time of termination or expiration of this Agreement, as identified in the Franchise Disclosure Document in effect as of the date of expiration or termination of this Agreement.

The unenforceability of all or part of this covenant not to compete in any jurisdiction will not affect the enforceability of this covenant not to compete in other jurisdictions, or the enforceability of the remainder of this Agreement. This covenant not to compete is given in part in specific consideration for access to trade secrets provided as a part of Franchisor's training or ongoing support programs. In any jurisdiction in which the covenant contained in this Section XIX or any part of it is not enforceable in whole or in part in Franchisor's judgment, Franchisee hereby grants Franchisor an option to purchase Franchisee's restaurant on expiration or termination of this Agreement Franchisor will exercise this option by giving 30 days' written notice to Franchisee (Sections XXII.C and XXII.E). On termination or expiration, Franchisee will deliver to Franchisor a list of these assets (as described in Section XXIV.F) and their cost as well as receipts evidencing their cost. Franchisee must relinquish possession on receipt of payment, but no later than 90 days after expiration or termination. Franchisee's other post termination obligations under this Agreement and by law remain in effect on termination or expiration of this Agreement. If

Franchisee is subject to a lease of the premises that provides the right to Franchisor to assume the lease and possession, Franchisee shall cooperate and abide by such lease terms.

D. Exception to Covenant Not to Compete

Section XIX.B. Hereof shall not apply to ownership by Franchisee of less than a 5% beneficial interest in the outstanding equity securities of any publicly-held corporation. As used in this Agreement the term “publicly-held corporation” shall be deemed to refer to a corporation which has securities that has been registered under the Federal Securities Exchange Act of 1934.

E. Franchisee Will Not Divert Business

During the term of this Agreement and for a period of 5 years following the expiration or termination of this Agreement, Franchisee covenants that it, its officers, directors, shareholders, managers, members, or partners will not, either directly or indirectly, for itself, or through, on behalf of, or in conjunction with any person, persons, or legal entity:

1. Solicit, service, sell or attempt to divert business directly or indirectly to any competitor by direct or indirect inducement or otherwise, or any customers of its Restaurant or any other Franchisee including Franchisor owned restaurants under the Deli Delicious™ Names and Marks with which or with whom Franchisee has had contact during the term of this Agreement to any competitor by direct or indirect inducement or otherwise; or
2. Do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Names and Marks or the System or both; or
3. Franchisee is not prohibited from contacting employees of other companies or other franchisees or the Franchisor, to discuss employment opportunities anywhere. Further, no employee of a franchisee shall be prohibited or fined in any manner, for leaving his or her employment to work for a competitor of the Franchisor or a franchisee.

F. Franchisor Is Entitled to Injunctive Relief

In addition to any and all other remedies and damages to which it is entitled, in order to protect its Trademarks, Products, recipes, menu items, technology, methods of operation, techniques, proprietary materials and rights, and goodwill, Franchisor may seek a permanent injunction and the preliminary or temporary equitable relief Franchisor deems necessary, to restrain the violation of this Agreement by Franchisee or any persons, parties, and entities acting for Franchisee. Franchisee agrees that Franchisor may obtain the injunctive relief and enter it in any court or arbitration forum that Franchisor deems appropriate.

In recognition of the difficulty in determining on an expedited basis the value of, and the necessity of Franchisor to avoid irreparable harm and to protect, Franchisor's Names and Marks, Products, recipes, menu items, methods of Operation, techniques, proprietary materials and rights,

and goodwill, Franchisee waives, to the extent permitted by law, the right to interpose the defense that Franchisor has an adequate remedy at law. Franchisee further waives any requirement that Franchisor post a bond or other security, to the extent permitted by law.

G. Covenants Are Enforceable Independent of Claims and Set Offs

Franchisee expressly agrees that the existence of any claim it may have against Franchisor, whether or not arising from this Agreement, shall not constitute a defense to the enforcement by Franchisor of the covenants of this Section XIX. Franchisee further agrees that Franchisor shall be entitled to set off any amounts owed by Franchisor to Franchisee against any loss or damage to Franchisor resulting from Franchisee's breach of this Section XIX. Franchisee agrees to pay all damages, costs and expenses (including reasonable attorney's fees) incurred by us in connection with the enforcement of this Section XIX.

XX. **OBLIGATIONS OF THE FRANCHISOR: SUPERVISION, ASSISTANCE OR SERVICES**

The Franchisor shall provide the Franchisee with the following assistance and services:

A. The Training Program

Franchisor will provide the initial training program at its headquarters or another location of its choice. Initial training will take place after Franchisee pays the initial Franchisee fee, but before Franchisee opens the Restaurant. Franchisor will provide this initial training (fourteen-day minimum training program for a Deli Delicious™ Restaurant) without charge for up to three individuals, being the owners, your first manager or key personnel as designated by Franchisee within 30 days of the date Franchisee anticipates opening the Restaurant. Franchisee must make arrangements for the initial training of self and staff at the time the Franchise Agreement is signed. Franchisee will, however, be responsible for travel, accommodation and other costs for all its attendees. Franchisee must satisfactorily complete the training and pass Franchisor's final examination with a minimum score of 90% which is given at the end of the training program. If Franchisee fails the final examination then Franchisee and/or its Owners must retake the training program for 5 additional days at Franchisee's expense as described in Section XII.V of this Agreement. If Franchisee and its Owners have not obtained ServSafe® certifications and completed the initial training program to Franchisor's satisfaction within 30 days of prior to opening the Restaurant for operation, Franchisor may terminate this Agreement as described in Section XXIII C. Any Manager designated by Franchisee must be trained by Franchisor within 30 to 90 days of first employment, at Franchisee's cost as provided below.

As part of the initial training program, Franchisor will provide Franchisee with product knowledge, specifications, ingredients, formulas, recipes, food preparation, methods and techniques, operational procedures in addition to merchandising and customer retention programs that have been developed by us (or our affiliates) and are required in the operation of each Restaurant. Franchisor will provide up to 5 days of pre-opening and/or grand opening supervision and assistance at Franchisee's restaurant as part of the initial training program at Franchisor's cost. Dates must be mutually agreed upon by Franchisee and Franchisor. Such assistance shall be completed after the initial 14 day training has been completed to Franchisor's satisfaction and either before or at the time the Restaurant is opening for operation. Any and all traveling, living and other

expenses incurred by the Franchisor shall be paid by Franchisee. Additional support requested by Franchisee will be subject to the training charges as described in Section XX.A.

Franchisor may reasonably require Franchisee and/or its Owners to receive or attend and complete to Franchisor's satisfaction additional or advanced training from time to time. Any such training within 30 days of the date Franchisee anticipates opening a Restaurant will be at no charge to Franchisee. Thereafter, Franchisee must pay for such training at Franchisor's actual cost of up to \$300 per person per day, with a maximum of \$7,500. Franchisee must also pay travel, food, and accommodations and all other related expenses. Franchisor will attempt to use distance learning techniques where possible, to minimize these costs.

Depending on availability, Franchisor may provide additional training to Franchisee for Franchisee's Owners or Manager at Franchisee's request. Franchisee will pay Franchisor the charges that Franchisor reasonably determines, currently estimated at \$300 per day, plus travel, meals and accommodations, with a maximum of \$7,500. Franchisee will be responsible for travel and accommodation expenses of trainees.

Franchisor offers training resources, such as an Operations Manual, to assist franchisees at their business location. Franchisee shall give Franchisor not less than 30 days' notice of when Franchisee is available for training. Training dates must be mutually agreed upon by Franchisee and Franchisor.

- (i.) Franchisor shall also offer additional training resources to the Franchisee to be determined by Franchisor, for the operation, advertising and promotion of the Restaurant including refresher training programs, seminars, workshops, annual conference and information available through the franchise website for the benefit of the Franchisee and the Franchisee's employees. Franchisor may charge a reasonable fee for additional training if deemed appropriate (distinct from Continuing Education). It is estimated not to exceed \$300 per day per person adjusted to the current per diem fee and include our travel, lodging and meals. Any and all traveling, living and other expenses incurred by the Franchisee or Franchisee's representatives or employees attending Franchisor's training shall be paid by Franchisee.
- (ii.) The Franchisor may conduct an annual conference at such place as shall be designated by it for all Franchisees but initially will most likely be the Franchisor's headquarters. A registration fee for each participant may be required not to exceed \$1,000 per person and our expenses and Franchisee will be responsible for costs associated with attending the conference such as travel, room and board. Franchisor reserves the right to increase the fee a reasonable amount based on reasonable criteria.
- (iii.) Franchisor may provide Continuing Education sessions at locations designated by it but most likely at our headquarters. It estimated that a fee for this will not exceed \$300 per day per person, adjusted to the current

per diem fee and include our travel, lodging and meals. The Franchisee is also responsible for costs associated with attending the meetings such as travel, room and board. The programs will normally not exceed a full day and it is expected to at least have quarterly programs subject to special needs. The content will cover particular aspects the franchise including but not limited to changes in menu offerings, food preparation, sanitation, safety, employee hiring and retention, locating sales and marketing, administration and so forth. We reserve the right to increase the per day fee a reasonable amount based on reasonable criteria.

Franchisor shall also offer additional training resources to the Franchisee to be determined by Franchisor, for the operation, employee retention, advertising and promotion of the Restaurant including refresher product training programs, certification programs, seminars, workshops, annual convention and information available through the franchise website for the benefit of the Franchisee and the Franchisee's employees. Franchisor may charge a reasonable fee for additional training if deemed appropriate. Any and all traveling, living and other expenses incurred by the Franchisee or Franchisee's representatives or employees attending our training shall be paid by the Franchisee.

Franchisor will provide guidance in the operation of your Deli Delicious™ restaurant. This guidance can be furnished in whatever manner we consider appropriate in our Business Judgment, including electronically via an Internet portal, free of charge, to answer questions from you and your staff (during regular business hours Pacific Time zone). Franchisor will conduct, when and as frequently as Franchisor deems advisable, but not more frequently than twice a year, on-site inspections of the Restaurant and evaluations of management and operations in order to assist the Franchisee and maintain System standards, quality, appearance and service. If Franchisor has not inspected the Restaurant in the past 12 months and Franchisee would like to have an inspection performed, Franchisee must notify Franchisor in writing and Franchisor will perform an inspection within 3 months of Franchisee's request. Any inspection that Franchisee requests, the cost of the inspection will be at Franchisee's expense. Guidance may also be furnished in writing, telephonically, through training programs and/or on site consultations, web based computer training, among other methods. On site consultations are subject to additional training fees as mentioned above.

Franchisor may, from time to time, provide to Franchisee, at Franchisee's expense, such advertising and promotional plans and materials for local advertising as described in Section X.E. of this Agreement and may direct the discontinuance of such plans and materials, from time to time. All other advertising and promotional materials that Franchisee proposes to use must be reviewed and approved by Franchisor, pursuant to Section X.C.

Franchisor may provide such bulletins, brochures, manuals and reports, if any, as may from time to time be published by or on our behalf regarding our menu items, products, plans, policies, developments and activities. In addition, we may provide such communication concerning membership specials or promotions, new developments, techniques and improvements to the System that we determine are relevant to the operation of the Restaurant and communication with other franchisees by means of an Internet portal. Franchisor may also establish a Franchisee elected peer group whose main purpose will be to mentor, support each other and regularly communicate to Franchisees.

Franchisor will offer guidance to Franchisee in establishing and using administrative, bookkeeping and accounting procedures for the operation of the Restaurant. Such guidelines will be provided during the initial franchise training program and must be performed in accordance with our standards as outlined in the Operations Manual. Any and all expenses relating to administrative, bookkeeping and accounting necessary for the operation of a Deli Delicious™ restaurant is the Franchisee's responsibility.

Franchisor shall provide the specifications and upgrade requirements, if any, for a standardized POS or computer system for accounting, cost management and inventory control. Franchisor will provide Franchisee with all update and upgrade requirements for a POS system or standardized computer systems in response to changes in the Operations Manual, or changes in Franchisor's policies that are communicated to Franchisee in writing. The cost for such updates and/or upgrades is Franchisee's responsibility.

Franchisor will provide a telephone help hotline, free of charge, to answer any questions from Franchisee or its staff (during regular business hours, Pacific Time zone). Franchisee will also be able to send us questions and suggestions using Internet email or internal Internet portal as described above. Franchisor will consult with Franchisee at no additional charge regarding policies, sales, marketing and operational issues.

All obligations of Franchisor under this Agreement shall benefit only the Franchisee, and no other party is entitled to rely on, enforce, benefit from or obtain relief for breach of such obligations, either directly or by subrogation.

Two Restaurant Performance Evaluations will be made on an annual basis at our discretion.

B. Web Page

Franchisor will provide to Franchisee a Deli Delicious™ URL (referred to as "web page") housed within the corporate web site that will list the Restaurant location and contact information only for customers. The Franchisee agrees that the Franchisor owns all copyright, trademark, domain name, and other intellectual property rights to the Web Page, URL, and domain name, in all media, whether now known or hereinafter invented, including complete and entire interactive rights, and rights to derivative works. Franchisee may be limited access to customize parts of the web page, the look is to remain consistent as specified in the Operations Manual. Any customization done by the Franchisee shall constitute a work for hire, and the Franchisor shall own all copyright, trademark, domain name, and other intellectual property rights to the customizations in all media whether now known or hereinafter invented, including complete and entire interactive rights and rights to derivative works. In the event that a court of competent jurisdictions holds that such customizations are not works for hire, then the Franchisee agrees to assign all copyright, trademark, domain name, URL, and other intellectual property rights to the Franchisor. The Franchisee agrees to execute all documents deemed necessary by the Franchisor to carry out such assignment. Franchisee agrees and acknowledges that maintenance and any service charges for the web page is Franchisee's responsibility.

C. Site Selection

The Franchisee has the responsibility for selecting a site for the Restaurant. The Franchisor will review and approve or disapprove the location of the Restaurant and will not unreasonably withhold its approval. Franchisor shall have the right, but not the obligation, to inspect the Deli Delicious™ restaurant prior to opening.

The Franchisor does not represent that Franchisor has any special expertise in selecting sites. Franchisor approval of a site is not a representation or warranty that the Deli Delicious™ restaurant will be profitable or that Franchisee's sales will attain any predetermined levels. Approval is intended only to indicate that the proposed site meets our minimum criteria for identifying sites. Franchisee agrees that Franchisor approval or disapproval of a proposed site does not impose any liability on Franchisor. Franchisor's approval is subject to the Landlord's approval of the terms of our lease rider and Schedule 6.

D. Restaurant-Layout and Design

Provided that Franchisee leases a space in an existing building, the Franchisor will assist the Franchisee in the review of the layout and design of the Restaurant prior to the Franchisee signing a lease. The complete build out, costs of leasehold improvements, signs, furniture and fixtures for finishing out a Restaurant are the responsibility of the Franchisee.

Franchisor shall make available, at no charge to Franchisee, prototype architectural plans and specifications (if applicable) for the construction of a Deli Delicious™ restaurant and for the exterior and interior design, floor plans and layout, fixtures, furnishings, kitchen equipment, signs and menu boards. Franchisee acknowledges that such specifications shall not contain the requirements of any federal, state or local law, code, ordinance, or regulation (including without limitation those concerning the Americans with Disabilities Act (the "ADA") or similar rules governing public accommodations or commercial facilities for persons with disabilities), compliance with all of which shall be Franchisee's responsibility and at Franchisee's expense. Franchisee shall adapt, at Franchisee's expense, the standard specifications to the Restaurant location, subject to Franchisor's approval, as provided in Section XII.T of this Agreement, which will not be unreasonably withheld, provided that such plans and specifications conform to Franchisor's general criteria.

Franchisee understands and acknowledges that Franchisor has the right to modify the prototype architectural plans and specifications as Franchisor deems appropriate, periodically (however Franchisor will not modify the prototype architectural plans and specifications for the Restaurant developed pursuant to this Agreement once those prototype architectural plans and specifications have been given to Franchisee).

E. Hiring Employees and Retention Program

Franchisee understands and acknowledges that it is Franchisee responsibility to hire employees (defined as Employees in Section XII.F of this Agreement) capable of rendering courteous quality service in a manner in keeping with the standards set by Franchisor.

Franchisor or its affiliates may generate income by making trained and qualified Employees available to Franchisees. Failure of Franchisee to properly qualify and hire Employees per Franchisor's standards will be considered a breach of this Agreement and Franchisor may terminate, in its sole discretion the Agreement (Section XXIII.C of this Agreement).

F. No Warranties Other Than in Writing

With respect to any Product, Service and equipment provided by us or our affiliates and/or any person/company referred/approved by us or our affiliates, other than specific written warranties expressly provided in connection with such items, such items are provided without any warranties, express or implied, the warranties of merchantability and suitability for a particular purpose being expressly disclaimed.

Franchisor is not liable for any guarantee or warranty the Franchisee or any Owner or employees of Franchisee make to a customer or third party. Franchisee will fully comply with any Franchisor customer guarantee program (currently not in effect). Franchisee will not misrepresent or omit or fail to state any warranty or guarantee.

FRANCHISOR HEREBY DISCLAIMS THE IMPLIED WARRANTY OF MERCHANTABILITY, THE IMPLIED WARRANTY OF FITNESS FOR A PARTICULAR PURPOSE, THE IMPLIED WARRANTY OF QUALITY OF COMPUTER PROGRAMS, THE IMPLIED WARRANTY OF ACCURACY OF INFORMATIONAL CONTENT, AND THE IMPLIED WARRANTY OF SYSTEM INTEGRATION. THESE DISCLAIMERS OF WARRANTIES ARE THE BASIS FOR THE BARGAIN, AND THE FRANCHISOR WOULD NOT HAVE ENTERED INTO THIS AGREEMENT WITHOUT DISCLAIMING ALL OF THE ABOVE WARRANTIES.

G. Operations Manuals

Franchisor will continue its efforts to improve on the methods of operations. Franchisor will lend Franchisee the confidential Operations Manual for the initial Franchisee training session and if Franchisee satisfactorily completes training, for the term of this Agreement. If the copy of the Operations Manual loaned to you is lost, stolen or destroyed before you return it to us, you must pay us a replacement fee of \$1,500.

Franchisee shall at all times treat the Operations Manual, any of our written directives, any business plans and specifications, and any other manuals created for or approved for use in the operation of a Deli Delicious™ restaurant, and any supplements thereto, and the information contained therein, in trust and as confidential information, and shall use all reasonable efforts to maintain such information as secret and confidential. The Franchisee further agrees that the Operations Manual is a trade secret of the Franchisor. Franchisee shall not at any time copy, duplicate, record, or otherwise reproduce the foregoing materials, in whole or in part, nor otherwise make the same available to any unauthorized person.

The Operations Manuals, written directives, other manuals and materials, and any other confidential communications provided or approved by us, shall at all times remain the sole property

of the Franchisor and shall at all times be kept and maintained in a secure place on the Franchisee's Restaurant premises.

Franchisor may from time to time revise the contents of the Operation Manuals and the contents of any other manuals and materials created or approved for use in the operation of the Restaurant, and Franchisee expressly agrees that each new or changed standard shall be deemed effective upon receipt by Franchisee or as specified in such standard.

Franchisee shall at all times ensure that its copy of the Operation Manuals is kept current and up-to-date; and, in the event of any dispute as to the contents of the Operation Manuals, the master copy of the Operation Manuals maintained by Franchisor at Franchisor's corporate offices shall be controlling.

Any suggestions the Franchisee may have concerning the improvement of the Products, Services, restaurant facilities, service format and advertising are encouraged and shall be considered by Franchisor when adopting or modifying the standards, specifications and procedures for the System.

H. Selecting Vendors and Suppliers

Franchisor shall provide Franchisee a list of approved vendors and suppliers that may include or be limited to us or our affiliates for all Products, kitchen equipment, signage, POS and computer systems, software, phone systems, sound systems, inventory and restaurant supplies. Franchisee may submit in writing alternate vendors or suppliers to Franchisor for approval as described in Section XII.I of this Agreement.

I. Availability of Products, Kitchen Equipment and Supplies

We will use commercially reasonable efforts to ensure that authorized vendors and suppliers, which may include or be limited to us and our affiliates, maintain a reasonable supply of products, ingredients, kitchen equipment and supplies for purchase by you. We require that the Franchisee purchase certain products such as bread, seasoned meats (chicken and steak) and pickles from us and/or our affiliates (Section XII.I). We will provide you with a list of our approved vendors and suppliers for other food and non-food products, ingredients, restaurant supplies, kitchen equipment and retail items as you are responsible for acquiring such items necessary for the operation of a Deli Delicious™ restaurant. All items that are provided by us or our affiliates will be competitively priced, taking into account equivalent quality and other considerations as specified in the Operations Manual.

Franchisor reserves the right to establish minimum and maximum pricing for menu items and certain Products from time to time based on competition prevalent within the food industry (Section XX.K), subject to federal and state laws and regulations. Franchisor shall publish inventory and minimum representation requirements in the Operations Manual and such requirements may be amended from time to time by the Franchisor and in the Franchisor's sole discretion.

Franchisor reserves the right to implement a centralized purchasing system for Franchisees and to negotiate prices and terms with vendors and suppliers and to receive rebates or other financial incentives from such purchases by Franchisees. Franchisor may utilize such rebated funds in any manner it chooses in Franchisor's sole discretion which may include contribution of a portion to the advertising Fund. Franchisor reserves the right to require Franchisees to purchase all Products, kitchen equipment and restaurant supplies through Franchisor's proprietary business to business intranet portal.

J. Advertising and Promotion

The Franchisor shall develop and provide creative materials for local and regional advertising and make such advertising materials available to its Franchisees for publication or distribution in the Franchisee's market area at Franchisee's own expense. The Franchisor shall provide specific guidelines for advertising initiated by individual Franchisees and shall reserve the right to disapprove any advertising, which, in the Franchisor's opinion, is not in accordance with these guidelines. However, no approval shall be unreasonably withheld or denied. Immediately upon notification to do so, Franchisee shall discontinue any advertising that would, in the Franchisor's opinion, be detrimental to any franchisee or any part of the System or the Franchise.

K. Suggested Pricing for Menu Items, Products and Services

Franchisor shall provide Franchisee with guidance and suggested pricing for menu items, Products and Services offered by its Franchisees. Franchisor reserves the right to establish minimum and maximum pricing for menu items, any given Product or Service nationwide unless prohibited by either applicable federal or state law. Suggested pricing for menu items, Products and Services may vary from region to region to the extent necessary in order to reflect differences in costs and other factors applicable to such regions. If Franchisee elects to offer any menu item, Product or Service at any price recommended by us, Franchisee acknowledges that we have made no guarantee or warranty that offering such menu item, Products or Services at the recommended prices will enhance Franchisee's sales, income, revenue, or profits.

Franchisor will provide to Franchisee a sample set of forms including standard brochures and various operational forms for use in a Deli Delicious™ restaurant. Franchisor does not warrant the completeness, legality or enforceability of any agreements or forms. Franchisee must retain its own counsel to review and revise such agreements and forms to comply with applicable federal and state laws.

Franchisor will continue to research and develop new menu items, ingredients, Products, kitchen equipment and Services as we deem appropriate and in its sole discretion. Franchisor may conduct market research and testing to determine consumer trends and salability of new menu items, Products and Services. If Franchisor chooses Franchisee, and if Franchisee agrees, Franchisee will participate in a market research program to test marketing new menu items, Products and Services in the Restaurant and provide us with timely reports and other relevant information regarding that market research. If Franchisee participates in any test marketing, Franchisee agrees to purchase, at Franchisee's expense, a reasonable quantity of products or services being tested and to effectively promote and make a good faith effort to sell them.

Franchisee shall participate in and comply with all sales and promotional programs and/or product promotions promulgated by us periodically.

L. Business Planning Assistance

After Franchisee signs this Agreement, Franchisor will review and comment on any business plan and pro forma financial projections Franchisee prepares. Franchisor does not represent that Franchisor has any special expertise in reviewing or developing business plans. Franchisor's review and commentary of a business plan or financial pro forma is not a representation or warranty that the Franchisee's Restaurant will be profitable or that Franchisee's sales will attain any pre-determined levels, or that the Franchisee's income or revenues will increase. Franchisor's review and commentary is intended only to provide information sharing to Franchisee and Franchisee agrees that such review and commentary does not impose any liability on Franchisor.

XXI. VARYING STANDARDS

Because complete and detailed uniformity under many varying conditions may not be possible or practical, Franchisor specifically reserves the right and privilege, at its sole and absolute discretion and as it may deem in the best interests of all concerned in any specific instance, to vary standards for any Franchisee based upon the peculiarities of a particular Restaurant or circumstance, site location requirements, business potential, demographic trade areas, existing retail trade populace, or any other condition which Franchisor deems to be of importance to the successful operation of such Franchisee's restaurant. Franchisee shall not have any right to object to a variation from standard specifications and practices granted to any other Franchisee and shall not be entitled to require Franchisor to grant to Franchisee a like or similar variation.

Franchisee acknowledges that when we use the phrases "sole and absolute discretion", "sole discretion" and/or "Business Judgment", whether in this Agreement or another context, you and we agree that we have the wholly unrestricted right to make decisions and/or take (or refrain from taking) actions except that we will not do so arbitrarily. We shall use our judgment in exercising such discretion based on our assessment of the interests we consider appropriate and will not be required to consider Franchisees individual interests or the interests of any other Franchisee(s). You, we and all other franchisees have a collective interest in working within a franchise system with the flexibility to adjust to business conditions, including but not limited to the competitive environment, new regulatory developments and emerging business opportunities. Therefore, you and we agree that the ultimate decision-making responsibility for the System must be vested in us. So long as we act in compliance with the requirements of this Agreement, we will have no liability for the exercise of our discretion in accordance with the provisions of this Agreement.

XXII. **RELOCATION, ASSIGNMENT, TRANSFER, SALE OR REPURCHASE OF FRANCHISED BUSINESS**

A. **Relocation**

Any relocation (1) shall be to a location only after the address of the new location is provided us (2) requires our prior written consent, which we may grant, condition or withhold in our Business Judgment (and may be withheld, in any case, if you are not in good standing), (3) will be at your sole expense and (4) will require that you (and each Owner) sign a general release.

B. **Assignment by Franchisee**

Franchisee will not voluntarily or involuntarily transfer or encumber any interest in or ownership or control of Franchisee, the Restaurant or this Agreement, except in the ordinary course, of the franchised business, or make any lease or sublease of any property Franchisee is leasing in connection with the Restaurant, without Franchisor's prior written consent, which will not be unreasonably withheld. Any attempted transfer of any interest in the Restaurant without Franchisor's prior written consent will be a default under the terms of this Agreement, and will be voidable by Franchisor. In granting any such consent, the Franchisor may impose reasonable conditions, including, without limitation, the following:

1. Franchisee must be in full compliance with the terms of this Franchise Agreement, including being paid in full on all fees due and having settled all outstanding accounts with Franchisor, Franchisor's affiliates and all suppliers;
2. The proposed transferee (or its Owners directors and officers) must meet the then-applicable standards of Franchisor;
3. The proposed transferee (or its Owners, directors and officers) must not operate a franchise, license or other business offering services similar to those offered by a Deli Delicious™ Business;
5. Transferee provides Franchisor a waiver and release with respect to liability for any financial data, earnings claims, representations and other information Franchisee or its representatives provided the transferee;
6. Franchisor shall charge Franchisee a transfer fee of \$7,500 for Franchisor's legal, accounting and other expenses we incur in connection with the transfer;
7. Transferee must pay for and successfully complete the training programs then required of new Franchisees at a cost of \$300 per person per day, subject to increase from time to time;
8. Franchisee shall have substantially complied with all of the terms and provisions of this Agreement, any amendment hereof or successor hereto, or any other

agreements between the Franchisee and our subsidiaries or affiliates and, at the time of transfer, shall not be in default;

9. Franchisee shall have executed a general release under seal, in a form satisfactory to us (or Franchisor's counsel as a condition to its approval of assignment or other transfer of the Franchise) of any and all claims against us and our officers, directors, shareholders, and employees, in their corporate and individual capacities, including, without limitation, claims arising under federal, state, and local laws, rules, and ordinances;
10. The transferee (and, if the transferee is other than an individual, such principals and/or owners of a beneficial interest in the transferee as we may request) shall enter into a written assumption agreement, in a form satisfactory to us, assuming and agreeing to discharge all of Franchisee's obligations under this Agreement up to the date of the Agreement and any new franchise agreement.
11. The transferee must meet Franchisor's subjective and objective standards, including experience, talent, skills, educational, managerial, business, and financial capacity; has the aptitude and ability to conduct the Restaurant; and has adequate financial resources and capital to operate the Restaurant;
12. The transferee (and, if the transferee is other than an individual, such principals and/or owners of a beneficial interest in the transferee as we may request) shall execute and agree to be bound by the then current form of this Agreement, which form may contain provisions that materially alter the rights or obligations under this Agreement. Alternatively, we may in our sole discretion require the transferee to sign a standard form franchise agreement then being used by us, but, for a term ending on the expiration date of this Agreement and with such renewal term, if any, as may be provided by this Agreement. In addition to the then current franchise agreement being used by us, the transferee shall sign all other ancillary agreements as we may require for the Restaurant, which agreements shall supersede this Agreement in all respects and the terms of which Agreements may differ from the terms of this Agreement, including, without limitation, a higher Franchise Fee, percentage royalty rate, and advertising contribution;
13. The transferee, at its expense, shall upgrade the Restaurant to conform to the then-current standards and specifications of the new entry System and shall complete the upgrading and other requirements within the time specified by us;
14. Franchisee shall remain liable for all of the obligations to us in connection with the Restaurant prior to the effective date of the transfer and shall execute any and all instruments reasonably requested by us to evidence such liability;
15. Franchisee shall agree to remain obligated under the covenants against competition of this Agreement as if this Agreement had been terminated on the date of the transfer;

16. Franchisee must obtain and submit satisfactory evidence of transfer or consent of lenders, lessors and governmental authorities for all material permits, approvals and licenses;
17. Franchisee may transfer its rights and obligations under this Agreement to a wholly owned or eighty percent (80%) entity, which must promptly agree in writing to be bound by this Agreement. Franchisee must promptly agree in writing to personally guarantee the obligations of the entity under this Agreement. Franchisee's transfer of an aggregate of more than twenty percent (20%) in the entity in one or more transfers is a material breach of this Agreement;
18. The transferee shall agree to a sublease or to a transfer and assignment, and assumption of the lease of the Restaurant from the original Franchisee, and shall obtain the landlord's approval if required prior to any transfer or sublease, if applicable;
19. The transfer must be completed in compliance with the terms of any applicable leases and other agreements and with all applicable laws, including but not limited to licensing and operations-related laws and/or laws governing franchise sales;
20. Franchisee agrees that we may (but are not required to) discuss with you and/or the proposed transferee any matters related to any transfer and/or proposed transfer at any time which we consider to be appropriate in our Business Judgment without liability (including our opinion of the terms of sale, performance of the Franchise, etc.). Franchisee expressly consents to any such discussions by us and we may contact any proposed transferee directly regarding such matters or otherwise;
21. Neither Franchisee nor any transferee shall rely on us to assist in the evaluation of the terms of any proposed transfer. Franchisee acknowledges and agrees that an approval of a proposed transfer shall not be deemed to an approval of the terms, nor any indication as to any likelihood of success or economic viability; and
22. Franchisee will agree with transferee not to compete after the transfer in accordance with restrictions acceptable to us and substantially similar to those described in Section XIX.B of this Agreement.
23. Franchisor has the right to reject any proposed purchase of the assets of the Franchised business or the stock, membership units, or partnership units of the Franchised business on the grounds that the proposed Franchisee has in the sole opinion of the Franchisor taken on too much debt.
24. Franchisor reserves the right to reject any proposed sale based on Franchisor's determination, in Franchisor's sole discretion, that the purchase price or purchase terms agreed to between Franchisee and any prospective buyer is excessive or will not enable the buyer to succeed as a franchisee in the System and by requesting

Franchisor's assistance Franchisee waives any liability claims it may have against Franchisor for such rejection.

In addition, the Franchisee must submit copies of the draft Asset Purchase Agreement or Stock (Membership Unit) (Partnership Unit) Purchase Agreement, all draft Promissory Notes, and Security Agreements, bond issuance agreements, commercial paper, trust indenture agreements, convertible debt agreements, warrant agreements, option agreements, regardless of whether they are Franchisee financed or Lender financed.

Franchisee acknowledges and agrees that Franchisor will not become involved in the transfer of any real estate included or contemplated in Franchisee's transfer terms and that Franchisor will not be responsible for any loss or gain resulting from any transfer, failure to sell or delay of the transfer of the real estate. Any such loss or gain shall be incidental, consequential, contingent and not part of the transfer of the Restaurant and this Agreement. Franchisee may only transfer the Restaurant and this Agreement individually and not part of a transfer of multiple Franchise Agreements and Restaurants that Franchisee owns, unless Franchisor grants written permission. Franchisor will not be liable for failure to allow a transfer of more than one Restaurant under the same sale.

Franchisee further acknowledges that Franchisor has legitimate reasons to evaluate the qualifications of potential transferees and to analyze and critique the terms of their purchase contract with the Franchisee. Franchisee also acknowledges that Franchisor's contract with potential transferees for the purpose of protecting its business interests will not constitute improper or unlawful conduct. Franchisee expressly authorizes Franchisor to investigate any potential transferee's qualifications, to analyze and critique the proposed transfer terms with the transferee and to withhold consent to economically questionable transactions. Franchisee and its Principals waive any and all claims that actions taken by Franchisor or its representative in relation to the proposed transfer to protect the Franchisor business interests constitute tortious interference with contractual or business relationships.

C. Assignment by Franchisor and Right of First Refusal

Franchisor has an unrestricted right to purchase, transfer or assign all or part of its rights or obligations under this Agreement to any transferee or other legal successor to the interests of Franchisor and will give Franchisee 30 days' written notice of Franchisor's decision to exercise Franchisor's right of first refusal.

We have a right of first refusal regarding any proposed transfer subject to this Agreement, excluding only those transfers that are subject to Section XXII.B. For each non-excluded proposed transfer, during the term of this Agreement, if Franchisee, or any Owner of Franchisee wishes to sell or otherwise transfer an interest in this Agreement, a Deli Delicious™ restaurant, or an ownership interest in Franchisee, then Franchisee will comply with the requirements of Sections XXII.B, XXII.C, XXII.E, XXII.F and XXIV.F of this Agreement.

Franchisee will notify us within 10 business days after Franchisee has commenced discussions or communications even if preliminary, regarding such a sale or other transfer and then

send us written updates of the status of such discussions or communications every 60 days thereafter unless and until such discussions or communications have ceased, in which case Franchisee must notify us in writing within 5 business days that such discussions or communications have ceased. At our option, we may require you to send us, by certified mail or other receipted delivery, copies of any materials or information sent to the proposed buyer or transferee regarding the possible transaction. Before moving forward with any such transaction, Franchisee or its Owners agree to obtain from a responsible and fully disclosed buyer, and then send us, a true and complete copy of a bona fide, executed written offer (which may include a letter of intent) relating exclusively to an interest in you, in this Agreement and the Deli Delicious™ restaurant. The offer must include details of the payment terms of the proposed sale and the sources and terms of any financing for the proposed purchase price. To be valid, the bona fide offer with the proposed purchase price must be in a dollar amount, and the proposed buyer must submit with its offer an earnest money deposit equal to 25% of the then-current Franchise Fee (if a proposed disposition is part of a transaction involving additional Deli Delicious™ restaurants, operating under other Franchise Agreements or license agreements with us, the proposed buyer must pay you this earnest money deposit for each Deli Delicious™ restaurant, involved).

If we do not exercise our right of first refusal, the Franchisee or its Owners may complete the transfer to the proposed buyer on the original offer's terms, but subject to our approval of the transfer as provided in Section XXII.B above and further provided, after the transfer, the Deli Delicious™ restaurant must continue to operate as an Deli Delicious™ restaurant. This means that, even if we do not exercise our right of first refusal, if the proposed transfer otherwise would not be allowed under Section XXII.B and Section XXII.C above, you or your Owners may not move forward with the transfer at all. If, after the transfer, Franchisee no longer continues to operate a Deli Delicious™ restaurant, or any other type of materially related business, then Franchisee may complete the sale (with our approval) to the proposed buyer as long as Franchisee complies with Section XXII.E and Section XXII. F of this Agreement.

D. Transfer Upon Death or Mental Incapacity

Upon the death or mental incapacity of any person with an interest in the Deli Delicious™ restaurant, the executor, administrator, or personal representative of that person must transfer his interest to a third party approved by Franchisor within 6 months after death or mental incapacity. These transfers, including, without limitation, transfers by devise or inheritance, will be subject to the same restrictions and conditions as any inter vivos transfer. However, in the case of a transfer by devise or inheritance, if the heirs or beneficiaries of any deceased person are unable to meet the conditions of this Agreement, the personal representative of the deceased Franchisee shall have a reasonable time to dispose of the deceased's interest in the Restaurant, which disposition will be subject to all the terms and conditions for transfer contained in this Agreement. If the interest is not disposed of within a reasonable time, Franchisor may terminate this Agreement.

Pending assignment, upon the death of the Principal, or in the event of any temporary or permanent mental or physical disability of the Principal, a manager shall be employed for the operation of a Deli Delicious™ restaurant that has successfully completed Franchisor's training courses to operate the Business for the account of Franchisee. If after the death or disability of the Principal, the Restaurant is not being managed by such trained manager, Franchisor is authorized

to appoint a manager to maintain the operation of the Restaurant until an approved transferee will be able to assume the management and operation of the Restaurant, but in no event for a period exceeding 90 days without the approval of the personal representative of the Principal; such manager shall be deemed an employee of the Franchisee. All funds from the operation of the Restaurant during the period of management by such appointed or approved manager shall be kept in a separate fund and all expenses of the Restaurant, including compensation of such manager, other costs and travel and living expenses of such appointed or approved manager (the "Management Expenses"), shall be charged to such fund. As compensation for the management services provided, in addition to the Fees due, Franchisor shall charge such fund the full amount of the direct expenses incurred by Franchisor during such period of management for and on behalf of Franchisee, provided that Franchisor shall only have a duty to utilize reasonable efforts and shall not be liable to Franchisee, the Principal or personal representative of the Principal, or any person or entity having an interest therein for any debts, losses or obligations incurred by the Business, or to any creditor of Franchisee or the Principal during any period in which it is managed by a Franchisor-appointed or approved manager.

Within 30 days after law transfers the franchise to Franchisee's heirs or successors or the heirs or successors of Franchisee's Owner, the heirs or successors must notify Franchisor in writing and make application for approval of assignment of the franchise. The application for assignment is subject to the same conditions, procedures and costs as assignment of any other franchise except that there will be no transfer fee.

E. Sale of Franchised Business

If Franchisee (or its shareholders, managing partners, managing members, members, or owners) desire to sell the Deli Delicious™ franchised business or any more than twenty percent (20%) of the stock, membership units, or partnership units, whether one time or in the aggregate, then within 10 business days after receipt by Franchisee (or its heirs, estate, guardian, trustee or assigns) of a bona fide offer acceptable to Franchisee to buy all or part of the franchised business, Franchisee will notify Franchisor of the offer in writing, enclosing a signed copy of the offer. Franchisor or its assignee may then purchase (exercise its right of first refusal as described in Section XXII.C) and acquire the franchised business and Franchisee's rights under this Agreement at the price and on the same terms and conditions as offered to Franchisee. Franchisor may substitute cash for any other form of consideration contained in the offer and, at Franchisor's option, may pay the entire purchase price at closing. Franchisor may exercise this right to purchase in writing within 30 days after receiving Franchisee's notice.

If Franchisor does not exercise its right to purchase within 30 days, Franchisee may thereafter sell the franchised business to a third party, but not at a lower price or on more favorable terms than disclosed to Franchisor in writing. Sale is subject to Franchisor's prior written approval as specified in this Agreement. If Franchisee does not sell the franchised business to the assignee within 90 days from the date it is offered to Franchisor, then Franchisee must again extend the first right of refusal to Franchisor before transfer to a third party.

To enable Franchisor to determine whether it will exercise its option, Franchisee or an Owner shall provide such information and documentation, including financial statements, as Franchisor may require (as noted below). In the event that Franchisor elects to purchase said interest, closing on such purchase must occur within 90 days from the date of notice to the seller of

the election to purchase said Interest by Franchisor. Failure of Franchisor to exercise the option afforded by this Section XXII.D shall not constitute a waiver of any other provision of this Agreement, including all of the requirements of this Section XXII.B, with respect to a proposed transfer of any interest. Any subsequent change in the terms of any offer prior to closing shall constitute a new offer subject to the same rights of first refusal by Franchisor as in the case of an initial offer.

We may, by delivering written notice to Franchisee or its Owners within 30 days after we receive both an exact copy of the offer and the Preliminary Due Diligence Package (the date on which we have received the exact copy of the offer and the Preliminary Due Diligence Package is called the "Trigger Date"), notify Franchisee of our non-binding preliminary intent to purchase or not to purchase the interest proposed to be sold. The "Preliminary Due Diligence Package" is information and copies of documents (where applicable) that Franchisee compiles and consists of Franchisee's Deli Delicious™ financial statements (including monthly revenue information) for the preceding 3 years, a copy of the Deli Delicious™ current lease (if we do not already have it), information about the number and compensation of employees working at the Deli Delicious™ restaurant, the Franchisee's merchant account printouts for the past three years, the Franchisee's bank deposits for the past three years and a description of competing sandwich shops as well as quick service food and beverage establishments offering similar services and products operating within the Territory, if any. If we notify you within 30 days after the Trigger Date (the "First Notice Deadline") that we are preliminarily interested in exercising our right of first refusal, we will have an additional 30 days after the First Notice Deadline both to conduct our due diligence and then to notify you of either our binding intent to exercise our right of first refusal or our decision not to exercise this right. This additional period is called the "Due Diligence Deadline". If we elect to purchase the interest proposed to be sold for the price and on the terms and conditions contained in the offer:

- 1) We may substitute cash for any other form of payment proposed in the offer (such as ownership interests in a privately-held entity);
- 2) Our credit will be deemed equal to the credit of any proposed buyer (meaning that, if the proposed consideration includes promissory notes, our designee or we may provide promissory notes with the same terms as those offered by the proposed buyer, except as to subordination. Regarding subordination, you acknowledge and agree that our obligations under the promissory notes then outstanding to any and all lenders, are senior to the equity rights of our owners in us);
- 3) We will have an additional 30 days after the Due Diligence Deadline to close; and
- 4) Franchisor must receive, and Franchisee agrees to provide all customary representations and warranties given a seller of assets of a similar business or the ownership interests in a similar legal entity, as applicable, including, without limitation, representations and warranties regarding:
 - (i) Ownership and condition of and title to ownership interests and/or
 - (ii) Liens and encumbrances relating to ownership interests and/or assets; and

- (iii) Validity of contracts and the liabilities, contingent or otherwise, of the entity whose ownership interests are being purchased;
- (iv) All equipment and inventory is in good working condition, and suitable for sale;
- (v) No litigation or administrative proceedings pending against the Franchisee, or any of its officers, directors, shareholders, members, or partner arising out of the Franchisee's business;
- (vi) There are no notices from any federal, state, or local governmental authority to make any changes to the business;
- (v) The Franchisee has the authority to sell the assets of its business, including a copy of all director, shareholder, member, or partner resolutions;
- (vi) The Franchise will comply with the Bulk Sales Act and similar acts in other states, if it is required under the laws of the Franchisee's state;
- (vii) There will be no material adverse change in the operation of the Franchisee's business between the Date of Signature of any Asset Purchase Agreement, and the Date of Settlement and;
- (viii) The Franchisee will not enter into any transaction between the Date of Signature and the Date of Settlement other than in the ordinary course of business.

If Franchisee does not complete the sale to the proposed buyer within 90 days after Franchisor notifies Franchisee that Franchisor does not intend to exercise its right of first refusal (whether or not the First Notice Deadline or the Due Diligence Deadline has expired), or if there is a material change in the terms of the sale (which Franchisee must communicate promptly to Franchisor), Franchisor will have an additional right to accept the sale during the 30 day period following either the expiration of that 90 day period or our receipt of notice of the material change(s) in the sale's terms, either on the terms originally offered or the modified terms, at Franchisor's option. If the Franchisor once again does not do so, but Franchisee does not complete the sale to the proposed buyer within an additional 90 days Franchisor notifies Franchisee of that fact, then any proposed sale or transfer thereafter once again must comply with all of the provisions of this Section XXII.E, as though there had not previously been a proposed sale or transfer.

In addition to its other obligations such as obtaining the prior written approval of Franchisor, if Franchisee sells or offers to sell ownership interests, the sale of which is regulated by any applicable law, Franchisee must: (i) fully comply with all applicable laws and regulations, (ii) disclose to offerees and purchasers that neither Franchisor nor its employees, affiliates or agents are an issuer or underwriter, or are in any way liable or responsible for the offering, (iii) ensure that Franchisor has a reasonable time to review any reference to Franchisor or its franchisees in any prospectus or offering documents before their distribution or use, (iv) pay Franchisor actual legal

costs incurred for its review, (v) indemnify Franchisor, its officers, directors, employees, affiliates, and agents from any liability, cost, damage, claim, fine, penalty, and expense and from ongoing obligations to shareholders and to governmental agencies arising out of or relating to the offer, sale or continuing investment, and (vi) sign such further indemnities and provide such further assurances as Franchisor may reasonably require and (vii) disclose the Franchisor's ownership rights to all trademarks, service marks, trade names, logos, trade secrets, copyrights, and patents .

If any provision of this Agreement is inconsistent with a valid applicable law, the provision will be deemed amended to confirm to the minimum standards required. Franchisor and Franchisee may execute an addendum setting forth certain of these amendments applicable in certain jurisdictions, so long as and to the extent that then applicable laws referred to in the addenda remain in effect.

F. Resale Assistance of Franchised Business

Franchisee may, at any time, request Franchisor's assistance in locating a buyer for a Deli Delicious™ restaurant. Franchisor may, at Franchisor's option, provide such assistance in accordance with the policies and procedures as set forth in the Operations Manual. Franchisor reserves the right to charge Franchisee a fee ("Resale Fee") to cover Franchisor's reasonable costs and expenses (including the time committed by Franchisor's employees) incurred in providing such assistance. If Franchisor elects to assist Franchisee in finding a buyer for the Restaurant in any way, Franchisor makes no promises or commitments to Franchisee that a buyer will be located or that anyone will be willing to purchase the Restaurant at a price acceptable to Franchisee. Provided that the Franchisor is not acting as a "business broker", or merger & acquisition consultant. If the laws of the Franchisee's state require that the Franchisor register as a "business broker" in order to provide such requested assistance, the Franchisee agrees to be responsible for all such registration fees.

XXIII. TERMINATION OF FRANCHISE

A. Impact of Statutes Upon Franchise Agreement

The California Franchise Relations Act (Business and Professions Code, Section 20000 through 20043), became effective October 1, 1982. This Act provides certain rights to Franchisees located in California, including: (1) limitations on Franchisor's ability to terminate a franchise except for good cause; (2) restrictions on Franchisor's ability to deny renewal of a franchise; (3) circumstances under which Franchisor may be required to purchase certain inventory of Franchisees when a franchise is terminated or not renewed in violation of the statute; and (4) provisions relating to arbitration. To the extent that the provisions of this Franchise Agreement are inconsistent with the terms of the Act, the terms of the Act control in California.

Termination or modification of a lease or contract upon the bankruptcy of one of the parties may be unenforceable under the Bankruptcy Act of 1978, Title II, U.S. Code, as amended.

If Franchisor violates a material and substantial provision of the Agreement and fails to remedy or to make substantial progress toward curing the violation within 60 days after receiving

written notice from Franchisee detailing Franchisor's alleged default, Franchisee may terminate this Agreement if so permitted under applicable law. On termination or expiration, all of Franchisee's post-termination obligations, including covenant not to compete, non-disclosure, return of the Operations Manual and other proprietary materials, and indemnity, will remain in force and effect or come into effect if another already affective. The breach or default under the Franchise Agreement that results in termination will allow the Franchisor to be entitled to its royalties and marketing fund contributions and other fees for the remainder of the term of this Agreement and to all other applicable remedies.

B. Termination By Franchisor With Right to Cure

Franchisor may terminate this Agreement by written notice to Franchisee for Franchisee's failure to substantially comply with the lawful requirements of the Franchise Agreement or any other agreement between Franchisee and Franchisor or its affiliates, if Franchisee fails to cure the breach within the 60 days after written notice (provided that this Agreement does not prescribe a different cure period for such breach).

C. Termination of Franchise Without Cure

Notwithstanding the foregoing, Franchisee shall be deemed to be in breach and Franchisor, at its option, may terminate this Agreement and all rights granted under it without affording Franchisee any opportunity to cure the breach, effective immediately upon Franchisor notifying Franchisee in writing of such breach, if Franchisee does any of the following:

1. Fails to construct the Deli Delicious™ restaurant within the time limits as provided in Section IX.A above;
2. Fails to attend and satisfactorily complete the initial training program and does not obtain food handling and safety training certification within 30 days of the date Franchisee anticipates opening a Restaurant;
3. If Franchisor determines, in its sole discretion, that the Franchisee its Owners or Manager has failed the initial training program and is deemed not qualified to manage an Deli Delicious™ restaurant;
4. Abandons, surrenders, or transfers control of the operation of the Deli Delicious™ restaurant or fails to continuously and actively operate the Restaurant for 3 consecutive days, unless precluded from doing so by damage to the premises of the Business due to war, act of God, civil disturbance, natural disaster, labor dispute or other events beyond Franchisee's reasonable control;
5. Consistently fails or refuses to submit when due for a reasonable time thereafter any financial statement, tax return or schedule, or after 10 days written notice fails to pay when due Royalty Fees, or any other payments due Franchisor or its affiliate

- or owed to third parties including government agencies, purveyors and employees;
6. Operates the Restaurant in a manner that violates any federal, state, or local law, rule, regulation or ordinance (which includes failure to hire and train qualified Employees to provide services to customers);
 7. Fails, for a period of 15 days after notification of non-compliance by appropriate authority, to comply with any federal, state or local law, ordinance or regulation applicable to the operation of a Deli Delicious™ restaurant;
 8. Violates any health, safety or sanitation law, ordinance or regulation, or operates a Deli Delicious™ restaurant in an unsafe manner; and does not begin to cure the violation immediately and to correct the violation within 72 hours after Franchisee receives notice from us or another party;
 9. Makes a material misrepresentation, untruthful statement or omission on the application for the Franchise or in any subsequent material writing to the Franchisor;
 10. Transfers, assigns or sub-franchises this Agreement without having the prior written consent of Franchisor, as set forth herein;
 11. Discloses or divulges the contents of the Operations Manual, Training Materials or any other Confidential Information provided to Franchisee by Franchisor;
 12. Fails to comply with modifications to System standards as required by us within a 120-day period from the time of written notice by Franchisor;
 13. Engages in any other activity, which has a material adverse effect on Franchisor or the Names and Marks;
 14. Exhibits a reckless disregard for the physical or mental wellbeing of employees, customers, Franchisor or its representatives, or the public at large, including battery, assault, sexual harassment or discrimination, racial harassment or discrimination, alcohol or drug abuse or other forms of threatening, outrageous or unacceptable behavior as determined in our sole and absolute discretion;
 15. Sells any product (including offering additional menu items) or providing any service in the Restaurant which has not been approved in writing by Franchisor;
 16. Fails or refuses to remove any Product, menu item or other items from the Restaurant deemed to constitute a violation of this Agreement by Franchisor;
 17. Manufactures, produces or distributes any Product or menu item that is similar to, or competes with any of our Products, menu items, Proprietary Product or third party product, or any such item or product offered or sold in grocery stores,

wholesale markets, convenience stores, specialty retail or food stores and/or in any channel of distribution selling similar Products or menu items without the advanced written consent of the Franchisor;

18. Fails or refuses to comply with Franchisor's inventory requirements or minimum representation requirements as set forth in the Operations Manual;
19. Fails to comply with the terms of any auto-ship programs as set forth in the Operations Manual;
20. Uses the Names and Marks or any part thereof in any form on the Internet, including but not limited to, addresses, domain names, URLs, links, metatags, locators, search techniques and co-branding arrangements without Franchisor's prior written consent;
21. Is convicted of a felony, plead guilty or has pleaded nolo contendere or no contest to (i) a felony or (ii) any crime that that is likely to adversely affect the reputation of the Franchisor which includes its brand and trademark(s). ;
22. Engages in dishonest or unethical conduct, or conduct that is materially detrimental to the franchise or the system;
23. Fails to discharge within a reasonable time any valid lien placed against the property of the business;
24. Makes an assignment for the benefit of creditors or an admission of the Franchisee's inability to pay its obligations as they become due;
25. Commits a default under any loan from or equipment lease with Franchisor, its affiliates, or a third party and fails to cure that default by the date specified by the lender or equipment lessor;
26. Files a voluntary petition in bankruptcy or any pleading seeking any reorganization, arrangement, disposition, adjustment, liquidation, dissolution or similar release under any law, or admitting or failing to contest the material allegations of any such pleading filed against him, or is adjudicated bankrupt or insolvent, or a receiver is appointed for a substantial part of the assets of the Franchisee or the Business, or the claims of creditors of Franchisee or the Business are abated or subject to a moratorium under any laws;
27. Becomes insolvent or makes a general assignment for the benefit of creditors;
28. If 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 consented to by Franchisee;

29. If a receiver or other custodian (permanent or temporary) of the Restaurant, Franchisee, or Franchisee's assets or property, or any part thereof, is appointed by any court of competent jurisdiction or by private instrument or otherwise;
30. If proceedings for a composition with creditors under any state or federal law should be instituted by or against Franchisee.
31. If a final judgment remains unsatisfied or of record for 30 days or longer (unless a supersedeas bond is filed); or if Franchisee is dissolved or is wound up;
32. If execution is levied against Franchisee's business or property or against any ownership interest in Franchisee;
33. If any real or personal property of Franchisee's Restaurant shall be sold after levy by any sheriff, marshal, or constable;
34. If, in violation of the terms of Sections XII, XVI and/or XX hereof, Franchisee, its Owners, principals, representatives, agents or employees disclose or divulge the contents of the Operation Manual(s) or other confidential information provided to Franchisee by us, or if Franchisee maintains false books or records, or submits any false reports to us;
35. If any inspection of Franchisee's records discloses an under-statement of payments due to us of 4% or more for any reporting period; and
36. If Franchisee's Restaurant has 6 or more unresolved customer complaints with respect to a Deli Delicious™ restaurant in any 12 month period.
37. Materially defaults on its lease such that it will likely interfere with its operations unless within 10 days of the breach Franchisee disputes the claim and takes the appropriate action to do so.
38. Fails to make substantial and continuing efforts to operate based on the required standards.
- D. Termination of Franchise With Cure.

Notwithstanding anything to the contrary in this Agreement, we reserve the right to grant to Franchisee in our Business Judgment an extended cure period for any breach. Franchisee acknowledges that our decision to grant such an extended cure period shall not operate as a waiver of any of our rights and that we can choose to condition such any such an extension upon the signing of a general release by Franchisee, each Owner and principle of Franchisee. A copy of our general release language as currently used by us (which is subject to change) is attached as Schedule 8 and is approved by Franchisee.

E. Termination By Franchisee

If Franchisee is in compliance with this Agreement and Franchisor breaches this Agreement and fails to cure such breach within 30 days after written notice thereof is delivered to Franchisor, then Franchisee may terminate this Agreement and the franchise effective 30 days after delivery to Franchisor of notice. Any termination of this Agreement and the franchise by Franchisee, without complying with the foregoing requirements, or for any reason other than breach of this Agreement by Franchisor and Franchisor's failure to cure such breach within 30 days after receipt of written notice thereof, shall be deemed a termination by Franchisee without cause.

THE PARTIES ACKNOWLEDGE THAT, IN THE EVENT THAT THE TERMS OF THIS AGREEMENT REGARDING TERMINATION OR EXPIRATION ARE INCONSISTENT WITH APPLICABLE STATE OR FEDERAL LAW, SUCH LAW SHALL GOVERN FRANCHISEE'S RIGHTS REGARDING TERMINATION OR EXPIRATION OF THIS AGREEMENT.

XXIV. FRANCHISEE'S OBLIGATIONS UPON TERMINATION OR EXPIRATION

A. Franchisee Shall Cease Using Names and Marks

Franchisee further agrees that, upon termination or expiration of this Agreement, Franchisee shall immediately and permanently cease to use, by advertising, or any manner whatsoever, any confidential methods, trade secrets, techniques, procedures, descriptions of Products and Services associated with Franchisor and the Names and Marks and any proprietary marks and distinctive forms, slogans, symbols, signs, logos or devices associated with the System. In particular, Franchisee shall cease to use, without limitation, all signs, menu boards, advertising materials, forms and any other articles, which display the Names and Marks. Franchisee shall make or cause to be made, at its expense, changes directed by us in signs, building and structures so as to effectively distinguish the surviving business entity, if any, from its former appearance as a Deli Delicious™ restaurant, and from other existing Deli Delicious™ restaurants. Franchisee shall comply with the covenant not to compete and the agreement to maintain the confidentiality of proprietary information, as well as return all information that is considered to be confidential information under the terms and conditions of this Agreement back to the Franchisor.

B. Franchisee Shall Cease Operating Restaurant

Upon termination or expiration of this Agreement Franchisee shall immediately cease to operate the Deli Delicious™ restaurant under this Agreement, and shall not thereafter, directly or indirectly, represent itself to the public or hold itself out as a present or former Franchisee of Franchisor.

Upon termination or expiration of this Agreement Franchisee must immediately tender all new and unexpired inventories of Franchisor's branded products to Franchisor and/or Franchisor's designated affiliates or destroy, if notified by Franchisor in writing to do so, all inventory of Franchisor's branded products in a timely manner as in accordance with the terms of the Operations Manual and as specified in Section XXIV.F of this Agreement.

C. Franchisee May Not Adopt Confusingly Similar Names and Marks

Franchisee agrees, in the event it continues to operate or subsequently begins to operate any other business, not to use any reproduction, counterfeit, copy or colorable imitation of the Names and Marks, either in connection with such other business or in the promotion thereof, which is likely to cause confusion, mistake or deception, or which is likely to dilute Franchisor's exclusive rights in and to the Names and Marks, and further agrees not to utilize any designation of origin or description or representation which falsely suggests or represents an association or connection with Franchisor or a former association or connection with Franchisor.

D. Franchisee Shall Cancel Assumed Names and Transfer Phone Numbers

Franchisee further agrees that upon termination or expiration of this Agreement, Franchisee shall take all action necessary to cancel all assumed names or equivalent registrations relating to its use of any or all of the Names and Marks. Franchisee shall take all actions necessary to transfer all phone numbers, addresses, domain names, listings and location contacts for the Restaurant to Franchisor or its designee, including but not limited to authorizing all telephone, Internet, email, electronic network, directory and listing entities to effectuate the same.

E. Franchisee Must Return Operations Manuals and Other Materials; financial information.

Franchisee further agrees that upon termination or expiration of this Agreement, it will immediately return to Franchisor all copies of the Operation Manual, training materials and any other materials, which have been loaned to Franchisee by Franchisor. If the copy of the Operations Manual or any other manual loaned to you is lost, stolen or destroyed before you return it to us, you must pay us a replacement fee of \$5,000. Franchisee further agrees to turn over to Franchisor all items containing any of the Trademarks, all customer lists, lists of prospective customer and contracts for the franchised business.

Any financial information you receive about us or any of the other franchisees is given to you in confidence and should not be shared with any other person except your advisors.

F. Franchisor May Purchase Assets

Franchisor shall have the first right of refusal to purchase or assume Franchisee's interest in the Restaurant, or in its assets on the same terms as those contained in a bona fide offer from a third party although this provision is intended to apply to an event of termination or expiration of the Agreement. As used in this Section, "Assets" means leasehold improvements, Products, kitchen equipment, office equipment, furnishing, fixtures, signs, menu boards, inventory (non-perishable products, materials and supplies) and the lease or sublease for the Restaurant. This right is governed by time limits and procedures described in this Agreement with respect to Franchisor's right of refusal in the event of an assignment by Franchisee (i.e. which is where a third party buyer makes an offer). If Franchisor exercises its right of first refusal, Franchisee must transfer Franchisee's interest in the franchised business and in the Assets.

Franchisor shall have the right (but not the duty), to be exercised by notice of intent to do so within thirty (30) days after termination or expiration, to purchase any or all inventory, kitchen equipment, products, supplies, signs, menu boards, advertising materials and items bearing

Franchisor's Names and Marks, at fair market value (less the amount of any outstanding liens or encumbrances). If the parties cannot agree on a fair market value within a reasonable time, the fair market value of such items 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 binding. The cost of the third appraiser shall be shared equally by the parties and each party must pay for the costs of the appraiser that that party has chosen. If Franchisor elects to exercise any option to purchase as herein provided, it shall have the right to set off all amounts due from Franchisee, and the cost for the appraisal, if any, against any payment.

G. Franchisee Must Pay Monies Owed to Franchisor

Franchisee shall pay to Franchisor, within 15 days after the effective date of termination or expiration of this Agreement, such Royalty Fees, National Advertising Fund contributions, payments for inventory, equipment or merchandise, or any other sums owed to Franchisor by Franchisee, which are then unpaid. Franchisee shall pay to Franchisor all damages, costs, and expenses, including reasonable attorney's fees, incurred by Franchisor in obtaining injunctive or other relief for the enforcement of any provisions of Section XIX.

Franchisee must pay to the Franchisor all Royalty Fee payments that the Franchisor would have received, if this Agreement remained in effect until its scheduled expiration date. This payment shall be calculated based on the average monthly royalty payment and average monthly National Advertising Fund contribution owed to the Franchisor during the previous 12 months. Such payment shall be due to the Franchisor within 15 days after the effect Date of Termination.

Except as otherwise provided in this Agreement, Franchisee shall retain whatever interest it may have in the Assets of the franchised business.

H. State and Federal Law

Franchisor and Franchisee both acknowledge that, in the event that the terms of this Agreement regarding termination or expiration are inconsistent with applicable state or federal law, such law shall govern Franchisee's rights regarding termination or expiration of this Agreement.

XXV. ENFORCEMENT

A. Franchisee May Not Withhold Payments Due Franchisor

Franchisee agrees that he or she will not withhold payments of any Royalty Fees or any other amounts of money owed to Franchisor for any reason, on grounds of alleged nonperformance by Franchisor of any obligation. All such claims by Franchisee shall, if not otherwise resolved by Franchisor and Franchisee, be submitted to arbitration as provided in this Agreement. The Franchisee has no right of offset, or set off to any amounts due and owing to the Franchisor.

B. Severability and Substitution of Valid Provisions

All provisions of this Agreement are severable, and this Agreement shall be interpreted and enforced as if all completely invalid or unenforceable provisions were not contained herein, and any partially valid and enforceable provisions shall be enforced to the extent valid and enforceable. If any applicable law or rule requires a greater prior notice of the termination of this Agreement than is required hereunder, or requires the taking of some other action not required hereunder, the prior notice or other action required by such law or rule shall be substituted for the notice or other requirements.

C. Mediation

The parties agree to mediate any dispute or claim arising between them out of this Agreement (and attachments) or any resulting transaction before resorting to arbitration. Mediation fees, if any, shall be divided equally among the parties involved. If, for any dispute or claim to which this paragraph applies, any party commences an action without first attempting to resolve the matter through mediation or refuses to mediate after a request has been made, then that party shall not be entitled to recover attorney's fees. This mediation provision applies whether or not the arbitration provision is initiated.

D. Arbitration

Except as Franchisor elects to enforce this Agreement by judicial process, injunction, or specific performance (as provided above), all disputes and claims relating to any provision hereof, any specification, standard or operating procedure, or any other obligation of Franchisee prescribed by Franchisor, or any obligation of Franchisor, or the breach thereof (including, without limitation, any specification, standard or operating procedure or any other obligation of Franchisee or Franchisor, which is illegal or otherwise unenforceable or voidable under any law, ordinance, or ruling) shall be settled by mandatory binding arbitration in Fresno County, California, in accordance with the U.S. Arbitration Act, if applicable, and the Rules of the American Arbitration Association (in accordance with the rules relating to the arbitration of disputes arising from franchise and license agreements, if any, or otherwise in accordance with the general rules of commercial arbitration), provided that at the option of Franchisor or Franchisee the arbitrator shall be selected from a list of retired federal or state judges supplied by the American Arbitration Association or attorney with twenty years or more franchise experience (if obtainable, or otherwise in accordance with the customary procedures for selecting an arbitrator).

The party discovering an arbitrable claim will have 1 year from the date of discovery in which to settle the claim or to commence arbitration on it but no later than 2 years of the date the claim arose. Otherwise the claim or demand will be deemed abandoned and shall be barred. The arbitrator shall allow discovery in accordance with the California Rules of Civil Procedure and may apply the sanctions relating to noncompliance with discovery orders therein provided. The arbitrator shall issue a written opinion explaining the reasons for his or her decision and award and the arbitrator shall have the right to award or include in the award the specific performance of this Agreement. Judgment upon the award of the arbitrator will be entered in any court having competent jurisdiction thereof or of the Franchisor or Franchisee. During the pendency of any

arbitration proceeding hereunder, Franchisee and Franchisor shall fully perform their respective obligations pursuant to the terms and conditions of this Agreement. Arbitration fees shall be shared equally as each party shall bear its own costs and expenses.

This arbitration provision shall not apply to any of the following: any action for injunctive or other provisional relief including but not limited to enforcement of liens, security agreements, or attachment, as Franchisor deems to be necessary or appropriate to compel Franchisee to comply with Franchisee's obligations to Franchisor and/or to protect the Names and Marks or any claim or dispute involving or contesting the validity of any of the Names and Marks or any claim or dispute involving any of the confidential information, trade secrets, or copyrights provided by the Franchisor to the Franchisee under this Agreement.

The parties agree that any claims will be arbitrated, litigated, or otherwise resolved on an individual basis, and waive any right to act on a class-wide basis or to combine their claim with any other claimant.

E. Dispute Resolution Program

Without limiting any of the foregoing, Franchisor reserves the right, at any time, to create a dispute resolution program and related specifications, standards, procedures and rules for the implementation thereof to be administered by Franchisor or its designees for the benefit of all Franchisees conducting business under the System. The standards, specifications, procedures and rules for such dispute resolution program shall be made part of the Manuals and if made part of the Manuals, on either a voluntary or mandatory basis, Franchisee shall comply with all such standards, specifications, procedures and rules in seeking resolution of any claims, controversies or disputes with or involving Franchisor or other Franchisees, if applicable under this program. If such dispute resolution program is made mandatory, then Franchisee and Franchisor agree to submit any claims, controversies or disputes arising out of or relating to this Agreement (and attachments) for resolution in accordance with such dispute resolution program prior to seeking resolution of such claims, controversies or disputes in the manner described above or if such claim, controversy or dispute relates to another Franchisee, Franchisee agrees to participate in the program and submit any such claims, controversies or disputes in accordance with the program's standards, specifications, procedures and rules, prior to seeking resolution of such claim by any other judicial or legally available means.

F. Rights of Parties Are Cumulative

The rights of Franchisor and Franchisee are cumulative, and the exercise or enforcement by Franchisor or Franchisee of any right or remedy shall not preclude the exercise or enforcement by Franchisor or Franchisee of any other right or remedy hereunder which Franchisor or Franchisee is entitled by law to enforce by the provisions of this Agreement or of the Operations Manual.

G. Judicial Enforcement, Injunction and Specific Performance

Franchisor shall have the right to enforce by judicial process its right to terminate this Agreement for the causes enumerated in Section XXIII of this Agreement, to collect any amounts owed to Franchisor for any unpaid Royalty Fees, or other unpaid charges due hereunder, arising

out of the business conducted by Franchisee pursuant hereto, and to pursue any rights it may have under any trademark law, unfair competition law, copyright law, trade secret law, patent law, leases, subleases, sales, purchases, or security agreements or other agreements with Franchisee. Franchisor shall be entitled, without bond, to the entry of temporary or permanent injunctions and orders of specific performance enforcing any of the provisions of this Agreement. If Franchisor secures any such injunction or orders of specific performance, Franchisee agrees to pay to Franchisor an amount equal to the aggregate costs of obtaining such relief, including, without limitation, reasonable attorneys' fees, costs of investigation, court costs, and other litigation expenses, travel and living expenses, and any damages incurred by Franchisor as a result of the breach of any provision of this Agreement.

H. California Law Applies

Except to the extent governed by the U.S. Trademark Act of 1946 (Lanham Act, 15 U.S.C., Section 1051 et. seq.) or the U.S. Arbitration Act, this Agreement shall be governed by the laws of the State of California, and venue for mediation, arbitration or litigation shall lie in Fresno County, California, or in the United States District Court of California.

I. Attorney Fees

In the event that Franchisor incurs any expenses (including but not limited to reasonable attorney's fees and reasonable expert witness fees) in enforcing the provisions of this Agreement (by legal proceedings or not), the prevailing party shall be entitled to recover such expenses directly from the other. In any legal proceedings between the parties hereto arise under this Agreement, the prevailing party shall be entitled to recover reasonable attorneys' fees and court costs from the other party.

J. Binding Effect

This Agreement is binding upon the parties hereto and their respective permitted assigns and successors in interest.

K. There Are No Unwritten Agreements; Operation Manual(s) are Subject to Change.

This instrument contains the entire Agreement between the parties relating to the rights herein granted and the obligations herein assumed. The Franchisor's Operation Manual(s) may be amended at any time by Franchisor, however, and Franchisee shall adapt its methods or procedures to comply with the requirements thereof.

L. Entire Agreement

This Agreement and all exhibits to this Agreement constitute the entire agreement between the parties. Nothing in this or in any related agreement, however, is intended to disclaim the representations we made in the franchise disclosure document that we furnished to you. Except for those acts permitted to be made unilaterally by Franchisor hereunder, no amendment, change, or

variance from this Agreement shall be binding on either party unless mutually agreed to by the parties and executed by their authorized officers or agents in writing.

M. Force Majeure

Except for monetary obligations or as otherwise specifically provided in this Franchise Agreement, if either party to this Agreement shall be delayed or hindered in or prevented from the performance of any act required under this Agreement by reason of strikes, lock-outs, labor troubles, inability to procure materials, failure of power, restrictive governmental laws or regulations, riots, insurrection, war, or other causes beyond the reasonable control of the party required to perform such work or act under the terms of this Agreement not the fault of such party, then performance of such act shall be excused for the period of the delay, but in no event to exceed 90 days from the stated time periods as set forth in this Franchise Agreement.

N. **Defining the Franchisee.** If you have formed an entity that is allowed to be party under this Agreement, that entity will be a signatory as well as all of its Owners (as defined earlier).

O. **Singular and Collectively.** If you sign this Agreement as an individual then it will apply to you personally, and if more than one person or entity sign this Agreement it will apply to all of you collectively and all will be severally and jointly liable for all obligations.

XXVI. APPROVALS AND WAIVERS

Whenever this Agreement requires the prior approval or consent of Franchisor, Franchisee shall make a timely written request to Franchisor therefore, and such approval or consent shall be obtained in writing.

Franchisor makes no warranties or guarantees upon which Franchisee may rely, and assumes no liability or obligation to Franchisee, by providing any waiver, approval, consent, or suggestion to Franchisee or in connection with any consent, or by reason of any neglect, delay, or denial of any request therefore.

No failure of Franchisor to exercise any power reserved to it by this Agreement or to insist upon strict compliance by Franchisee with any obligation or condition hereunder, and no custom or practice of the parties at variance with the terms hereof, shall constitute a waiver of Franchisor's right to demand exact compliance with any of the terms herein. Waiver by Franchisor of any particular default or breach by Franchisee shall not affect or impair Franchisor's rights with respect to any subsequent default or breach of the same, similar or different nature, nor shall any delay, forbearance, or omission, breach or default by Franchisor to exercise any power or right arising out of any breach or default by Franchisee of any of the terms, provisions, or covenants hereof, affect or impair Franchisor's right to exercise the same, nor shall such constitute a waiver by Franchisor of any preceding breach by Franchisee of any terms, covenants or conditions of this Agreement.

XXVII. AUTHORITY

Franchisee or, if Franchisee is a corporation, limited liability company, or partnership, the individuals executing this Agreement on behalf of such entity warrant to Franchisor, both individually and in their capacities as owners or officers, that all of them have read and approved this Agreement, including the restrictions which this Agreement places upon their right to transfer

their respective interests in the entity which owns the franchised business, as set forth in Section XXII.

XXVIII. REPRESENTATIONS AND WARRANTIES BY THE FRANCHISEE

Franchisee acknowledges and warrants that it has received a complete and final copy of this Agreement, Franchisor's Disclosure Document and applicable exhibits, in a timely fashion as required; and that before signing this Agreement, Franchisee was given ample opportunity to review and examine Franchisor's Disclosure Document and was furnished with copies of the documents. **NO ORAL, WRITTEN OR VISUAL CLAIM OR STATEMENT THAT CONTRADICTS THE DISCLOSURE DOCUMENT WAS MADE.**

FRANCHISEE ACKNOWLEDGES THAT FRANCHISEE, ALL ITS OWNERS HAVE BEEN ADVISED TO HAVE THIS AGREEMENT AND ALL OTHER DOCUMENTS REVIEWED BY AN ATTORNEY AND THAT FRANCHISEE AND ALL OWNERS HAVE READ, UNDERSTOOD, HAD AN OPPORTUNITY TO DISCUSS AND AGREED TO EACH PROVISION OF THIS AGREEMENT. THE FRANCHISEE AND ALL ITS OWNERS AGREE THAT THERE HAS BEEN NO PRESSURE OR COMPULSION BY FRANCHISOR TO SIGN THIS AGREEMENT.

FRANCHISEE ACKNOWLEDGES AND AGREES THAT THE SUCCESS OF THE BUSINESS VENTURE CONTEMPLATED TO BE UNDERTAKEN BY FRANCHISEE AND ITS OWNERS IS SPECULATIVE AND WILL BE DEPENDENT ON PERSONAL EFFORTS AND SUCCESS IS NOT GUARANTEED. FRANCHISEE AND ITS OWNERS ACKNOWLEDGE AND REPRESENT THAT THEY HAVE ENTERED INTO THIS AGREEMENT AND MADE AN INVESTMENT ONLY AFTER MAKING AN INDEPENDENT INVESTIGATION OF THE OPPORTUNITY, INCLUDING HAVING RECEIVED A LIST WITH THE UNIFORM FRANCHISE DISCLOSURE DOCUMENT OF OTHER CURRENTLY AND PREVIOUSLY OPERATED DELI DELICIOUS™ FRANCHISES.

EXCEPT WITH RESPECT TO FRANCHISEE'S OBLIGATION TO INDEMNIFY FRANCHISOR PURSUANT TO THIS AGREEMENT AND CLAIMS FRANCHISOR BRINGS AGAINST FRANCHISEE ARISING FROM ITS UNAUTHORIZED USE OF THE MARKS OR UNAUTHORIZED USE OR DISCLOSURE OF ANY CONFIDENTIAL INFORMATION, FRANCHISOR AND FRANCHISEE AND OUR RESPECTIVE AFFILIATES WAIVE TO THE FULLEST EXTENT PERMITTED BY LAW ANY RIGHT TO CLAIM FOR ANY PUNITIVE OR EXEMPLARY DAMAGES AGAINST THE OTHER (INCLUDING THEIR RESPECTIVE OFFICERS, DIRECTORS, SHAREHOLDERS, EMPLOYEES, AGENTS AND AFFILIATES) AND AGREE THAT, IN THE EVENT OF A DISPUTE, THE PARTY MAKING A CLAIM WILL BE LIMITED TO EQUITABLE RELIEF AND TO RECOVERY OF ANY ACTUAL DAMAGES IT SUSTAINS.

FRANCHISOR AND FRANCHISEE IRREVOCABLY WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM, WHETHER AT LAW OR IN EQUITY, BROUGHT BY EITHER PARTY.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed and delivered this Deli Delicious Franchising, Inc. Franchise Agreement in duplicate on this date _____ / _____ 20_.

FRANCHISOR:

Deli Delicious Franchising, Inc.

Signed: _____

Name: _____

Title: _____

Dated: _____

FRANCHISEE:

Signed: _____

Name: _____

Date: _____

Signed: _____

Name: _____

Date: _____

Signed: _____

Name: _____

Dated: _____

SCHEDULE 1
DELI DELICIOUS FRANCHISING, INC.
AUTHORIZATION AGREEMENT FOR PREARRANGED PAYMENTS
(DIRECT DEPOSIT)

BY _____ AND BETWEEN Deli Delicious Franchising, Inc.
 AND _____ ("FRANCHISEE")
 DATED _____ 20__.

The undersigned depositor ("DEPOSITOR") hereby authorizes Deli Delicious Franchising, Inc. ("COMPANY") to initiate debit entries and/or credit correction entries to the undersigned's checking and/or savings account(s) indicated below and the depository designated below ("DEPOSITORY") to debit such account pursuant to COMPANY's instructions.

DEPOSITORY	Branch
Address	City, State and Zip Code
Bank Transit/ABA Number	Account Number

This authority is to remain in full force and effect until DEPOSITORY has received joint written notification from COMPANY and DEPOSITOR of the DEPOSITOR's termination of such authority in such time and in such manner as to afford DEPOSITORY a reasonable opportunity on which to act. If an erroneous debit entry is initiated to DEPOSITOR's account, DEPOSITOR shall have the right to have the amount of such entry credited to such account by DEPOSITORY, if (a) within 15 calendar days following the date on which DEPOSITORY sent to DEPOSITOR a statement of account or a written notice pertaining to such entry or (b) 45 days after posting, whichever occurs first, DEPOSITOR shall have sent to DEPOSITORY a written notice identifying such entry, stating that such entry was in error and requesting DEPOSITORY to credit the amount thereof to such account. These rights are in addition to any rights DEPOSITOR may have under federal and state banking laws.

DEPOSITOR	DEPOSITORY
By: _____	By: _____
Title: _____	Title: _____
Date: _____	Date: _____

SCHEDULE 2
DELI DELICIOUS FRANCHISING, INC.
PRE-EXISTING BUSINESSES

1. As a condition Precedent to the effectiveness of the Franchise Agreement and in consideration of the terms and conditions of the Franchise Agreement

2. Franchisee represents and warrants to Franchisor as follows:

2.1 Entities owned by [Franchisee and or affiliates of Franchisee] currently operate a business known as, ("Pre - Existing Business").

2.2 Any and all existing franchise agreements, stockholder agreements, partnership agreements, option agreements or any other third party rights relating to the Pre – Existing Business, do not contain any covenants, terms and conditions which do now, or may in the future, prohibit the execution of the Franchise Agreement and the participation of any of the owners, managers or employees of the Franchisee in the Franchised Business and

2.3 Other than the consents of Franchisee and Franchisor there is no other third party consent required for the acquisition of the franchise to be legally binding and effective, and

2.4 There are no existing restrictive covenants, other than those which the Pre - Existing Business has waived, binding on Franchisee or any of its partners, owners, agents, representatives or employees that would be breached by the acquisition and operation of the Franchised Business obligations of Franchisee to Franchisor, and

2.5 The Pre- Existing Business provides the following goods and services to its customers at the following locations:

2.5.1 Goods and services of Pre-Existing Business(es)

2.5.2 Location(s) of Pre-Existing Goods Business(es)

and from the date hereof will continue to operate as [an independent organization] and shall not carry out any other businesses directly or indirectly competing with the Franchised Business, and

2.6 Franchisee shall convert the Pre-Existing Business which does directly or indirectly compete with the Franchised Business to Franchised Business and shall hence forth operate that business as Franchised Business under the trade name "Deli Delicious™" any and all existing and future business that is business carried out or to be carried out by DDF franchisees and is operated using the System or any part of the System from time to time is Franchised Business that will be operated by the Franchisee, and

2.7 Franchisee agrees that any business currently operated or to be operated by any affiliate of Franchisee outside of the Franchised Business which later becomes a part of the Franchised Business shall be folded into the Franchised Business, and

2.8 Franchisee shall indemnify, defend and hold harmless Franchisor and its Affiliates, against all losses, costs, proceedings, judgments, liabilities, expenses, court costs, and reasonable fees of attorneys and other professionals, arising out of or resulting from any breach of the representations and warranties set out in this Exhibit or in connection with any willful or negligent act or omission of Franchisee or Franchisee's employees or agents, including but not limited to such act or omission that contributes to any economic, bodily injury, sickness, disease or death. This indemnity shall survive termination of the Franchise Agreement.

FRANCHISEE:

Signed: _____

Printed Name: _____

Title: _____

Date: _____

SCHEDULE 3
DELI DELICIOUS FRANCHISING, INC.
EXECUTIVE ORDER 13224 AND RELATED CERTIFICATIONS

If the Franchisee is an individual or individuals, the Franchisee certifies that he/she/they are not, nor to my/our best knowledge have I/us been designated, a terrorist and/or a suspected terrorist, nor am I/us associated and/or affiliated in any way with any terrorist and/or suspected terrorist person and/or organization, as defined in U.S. Executive Order 13224 and/or otherwise.

If the Franchisee is a company, the person(s) signing on behalf of the Franchisee certify(ies) that, to the Franchisee's and such person's best knowledge, neither the Franchisee, such person, and/or any owners, officers, board members, similar individuals and/or affiliates/associates of the Franchisee have been designated, a terrorist and/or a suspected terrorist, nor is the Franchisee or any such persons and/or affiliates/associates owned, controlled, associated and/or *affiliated* in any way with any terrorist and/or a suspected terrorist person and/or organization, as defined in U.S. Executive Order 13224 and/or otherwise.

Franchisee agrees to fully comply and/or assist Franchisor in its compliance efforts, as applicable, with any and all laws, regulations, Executive Orders or otherwise relating to antiterrorist activities, including without limitation the U.S. Patriot Act, Executive Order 13224, and related U.S. Treasury, Export Control, and/or other laws and regulations, including properly performing any currency reporting and other obligations, whether relating to the Franchise or otherwise, and/or required under applicable law. The indemnification responsibilities provided in the Franchise Agreement cover the Franchisee's obligations hereunder.

FRANCHISEE:

Signed: _____

Printed Name: _____

Title: _____

Date: _____

SCHEDULE 4
DELI DELICIOUS FRANCHISING, INC.
ADA & RELATED CERTIFICATIONS

Deli Delicious Franchising, Inc. ("Franchisor") and _____
("Franchisee") are parties to a franchise agreement dated, _____20_(the "Franchise
Agreement") for the operation of a Deli Delicious™ restaurant (the "Restaurant").

In accordance with Section XII.C of the Franchise Agreement, Franchisee certifies to Franchisor that the Restaurant and its adjacent areas comply with all applicable federal, state and local accessibility laws, statutes, codes, rules, regulations and standards, including but not limited to the Americans with Disabilities Act and all local zoning regulations, ordinances, and building codes. Franchisee acknowledges that it is an independent contractor and the requirement of this certification by Franchisor does not constitute ownership, control, leasing or operation of the Restaurant. Franchisee acknowledges that Franchisor has relied on the information contained in this certification. Furthermore, Franchisee agrees to indemnify Franchisor and each and all of the Franchisor-Related Persons/Entities, in connection with any and all claims, losses, costs, expenses, liabilities, compliance costs, and damages incurred by the indemnified party(ies) as a result of any matters associated with Franchisee's compliance (or failure to comply) with the Americans with Disabilities Act, all local zoning, ordinances, and regulations and building codes and otherwise, as well as the costs, including attorneys' fees, related to the same.

FRANCHISEE:

Signed: _____

Printed Name: _____

Title: _____

Date: _____

SCHEDULE 5
DELI DELICIOUS FRANCHISING, INC.
FRANCHISE AGREEMENT: INDIVIDUAL GUARANTY
(USE FOR CORPORATE, PARTNERSHIP OR OTHER ENTITY FRANCHISEE)

This Guaranty is to the Franchise Agreement between Deli Delicious Franchising, Inc. (“Franchisor”) and _____ (“Franchisee”) dated the _____ day of _____, 20____.

1. The undersigned agree, individually and on behalf his or her martial community, to personally and unconditionally guarantee the performance of Franchisee under the Franchise Agreement and to perform all obligations under this Agreement on default by Franchisee. The undersigned further agree to pay any judgment or award against Franchisee obtained by Franchisor. Guarantors are also bound by covenants of the Agreement that by their nature or terms survive the expiration or termination of the Agreement, including but not limited to non-competition, indemnity and non-disclosure provisions.
2. Guarantors have consulted legal counsel of their own choosing as to their responsibilities and liabilities under this Guaranty.
3. Guarantors agree that:
 - (a) Liability under this Guaranty is joint and several;
 - (b) Each will render any payment or performance required under this Guaranty on demand, if Franchisee fails or refuses punctually to do so;
 - (c) Each will individually comply with the provisions and all subsections of the Agreements and associated documents;
 - (d) Liability is not contingent or conditioned on Franchisor’s pursuit of any remedies against Franchisee or any other persons; and
 - (e) Liability is not affected by any extension of time, acceptance or part performance, release of claims, or other compromise that Franchisor may grant.
 - (f) Each waives acceptance by Franchisor; waives notice of demand, and waives protest and notice of default, except as may be required by the Franchise Agreement.

Dated on the _____ date of _____ 20____.

(Set forth the name, address and percentage ownership of each owner of Franchisee, their spouse and their percentage ownership, if applicable):

<u>NAME</u>	<u>ADDRESS</u>	<u>PERCENTAGE</u>
_____ Signed	_____ _____	_____
_____ Printed	_____ _____	
_____ Signed	_____ _____	_____
_____ Printed	_____ _____	
_____ Signed	_____ _____	_____
_____ Printed	_____ _____	
_____ Signed	_____ _____	_____
_____ Printed	_____ _____	

SCHEDULE 6
DELI DELICIOUS FRANCHISING, INC.
COLLATERAL ASSIGNMENT OF LEASE

Franchisee: _____

Franchisor: Deli Delicious Franchising, Inc.

Date of this Collateral Assignment of Lease (the "Assignment"):

The Franchisee, to effect various provisions of that certain Franchise Agreement dated _____, 20__, by and between Franchisee and Franchisor (the "Franchise Agreement"), hereby collaterally assigns to Franchisor (subject to the terms and conditions below) all of Franchisee's right, title and interest in, to and under that certain lease (the "Lease") dated _____ 20__, between Franchisee and _____, ("Landlord"), for that property commonly known as: _____ (the "Premises"), a copy of which Lease is attached to this Assignment.

NOW, THEREFORE, for and in consideration of the mutual covenants herein contained, the sum of Ten Dollars (\$10.00) and other good and valuable considerations, the receipt and sufficiency of which are hereby acknowledged, and notwithstanding anything in the Lease to the contrary, it is hereby agreed as follows:

No material modification or amendment of the Lease shall occur or be effective without the prior written consent of Franchisor. Franchisee may not assign the Lease or sublease the Premises, and Landlord will not consent or allow Franchisee to assign the Lease or sublease the Premises without Franchisor's prior written consent, which shall not be unreasonably withheld.

Except as provided in the Franchise Agreement, Franchisor will not take possession of the Premises under this Assignment until and unless there is an uncured default by Franchisee under either (a) the Lease or (b) the Franchise Agreement, which includes a termination, cancellation, rescission or expiration of the Franchise Agreement. In such event(s), the Franchisor (or Franchisor's designee) may (but has no obligation to) take possession of the Premises and assume the Franchisee's rights under the Lease, and, in such event, Franchisee will have no further right, title or interest in or under the Lease or to the Premises, all such rights thereby passing to Franchisor or Franchisor's designee, without the Landlord's further consent. Franchisee will fully cooperate therewith, and do all acts necessary or appropriate thereto. Franchisor will have no liabilities or obligations of any kind arising

from, or in connection with, this Assignment, the Lease, the Premises or otherwise until and unless Franchisor takes possession of the Premises pursuant to this Assignment and, in any event, Franchisor will be responsible for all then existing obligations accruing with respect to the Lease after the date of such express assumption. Upon taking possession of the Premises, Franchisor shall be obligated from that date forward to perform all of the duties and obligations of Franchisee under the Lease. Franchisor shall notify Landlord, in writing, within twenty (20) days of taking possession of the Premises.

In order to protect Franchisor's interest in this Agreement, without Franchisor's written consent to the contrary, Franchisee will not allow, permit any surrender, termination, amendment or modification of the Lease, and will also elect and exercise all options to extend the term or renew it. Further, Franchisee shall not reject but assume in bankruptcy, the Lease not less than thirty (30) days prior to the last day that said rights must be exercised. If the Franchisee does not accept the Lease, Franchisor may, to the extent consistent with the United States Bankruptcy Code (but has no obligation to do so) take such actions for the account of Franchisee to cause the Lease to be accepted, without any liability to the Franchisor. Failure of the Franchisor to exercise any remedy hereunder shall not be a waiver of any of its rights. The rights and remedies of the Franchisor under this Assignment are in addition to those which the Franchisor has under the Franchise Agreement or otherwise. This Assignment shall bind, and benefit, Franchisor and Franchisee, and their respective successors and assigns. With respect to Franchisor and Franchisee the dispute resolution provisions (including, but not limited to, mediation, binding arbitration, waiver of jury trial and limitation of damages) of the Franchise Agreement shall apply to this Assignment, and/or any matter related in any way to it, but the Franchisor may, in any event and at its option, proceed with any action in court for possession of the Premises and any related remedies. If there is more than one Franchisee, their obligations are joint and several. As between Landlord and Franchisor and/or Franchisee, the dispute resolution provisions of the Lease shall apply.

In the event Franchisee shall fail to perform or observe any of the terms, conditions or agreements in the Lease, Landlord shall give written notice thereof to Franchisor at the same time it provides notice to Franchisee, and Franchisor shall have the right (but not the obligation) to cure such default. Landlord shall not take any action with respect to such default under the Lease, including without limitation any action in order to terminate, rescind or avoid the Lease, for a period of fifteen (15) days following expiration of any cure period Franchisee may have under the Lease with respect to such default and only then if Landlord has provided written notice of such breach to Franchisor as specified above provided, however, that in the case of any default which cannot with diligence be cured within said additional fifteen (15) day period, if Franchisor shall proceed promptly to cure such default and thereafter prosecute the curing of such default with diligence and continuity, the time within which such default may be cured shall be extended for such

period as may be necessary to complete the curing of such default with diligence and continuity.

Landlord will recognize and accept the performance by Franchisor of any act or thing required to be done by Franchisee under the terms of the Lease and will accept such performance as if it were performed by Franchisee.

Landlord agrees that in any case commenced by or against Franchisee under the United States Bankruptcy Code, the Franchisor shall have standing to appear and act as a party to the Lease for purposes of the Bankruptcy Code, (but shall not have any obligations under the Lease unless Franchisor expressly assumes the Lease). Landlord shall, during Franchisee's bankruptcy case, serve on the Franchisor a copy of all notices, pleadings or documents which are given to Franchisee, and service shall be in the same manner as given to Franchisee. If the Lease or Franchisee's rights under the Lease are terminated, whether by reason of default of Franchisee or Landlord, rejection of the Lease in any bankruptcy case, voluntary surrender and acceptance, or otherwise, then Landlord shall give written notice of such termination to Franchisor. Franchisor or its nominee shall have the option, exercisable by written notice to Landlord delivered not later than the 30th day after written notice that the termination has occurred, to receive from Landlord a new lease of the Premises on the same terms and conditions as the Lease, for the remaining term of the Lease (that is, the portion of the term that would remain absent the termination and the conditions or events causing the same), and such same terms and conditions shall include any extension rights provided for in the Lease.

Any notice or other communication required or permitted to be given under this Assignment shall be in writing and addressed to the respective party as set forth below. Notices shall be effective (i) on the next business day if sent by a nationally recognized overnight courier service, (ii) on the date of delivery by personal delivery and (iii) on the date of transmission if sent by facsimile during business hours on a business day (otherwise on the next business day) (with receipt of confirmation). Any party may change the address at which it is to receive notices to another address in the United States at which business is conducted (and not a post-office box or other similar receptacle), by giving notice of such change of address in accordance with this provision.

Notices to Franchisor, Franchisee or Landlord shall be addressed as follows:

Landlord: _____

This Assignment may be executed in one or more counterparts, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same instrument.

If any portion or portions of this Assignment shall be held invalid or inoperative, then all of the remaining portions shall remain in full force and effect, and, so far as is reasonable and possible, effect shall be given to the intent manifested by the portion or portions held to be invalid or inoperative.

This Agreement shall be governed by and construed in accordance with the laws of the State of _____.

IN WITNESS WHEREOF, the Parties hereto have executed this Assignment under as of the date first above written.

FRANCHISEE:

Signature

Signature

Printed Name

Printed Name

LANDLORD

FRANCHISOR:

Deli Delicious Franchising, Inc.

by _____

by _____

its _____

its _____

SCHEDULE 7
DELI DELICIOUS FRANCHISING, INC.
STATEMENT OF OWNERSHIP INTERESTS AND PRINCIPLES

- A. The following is a list of all managing partners, managing members, member, shareholders, partners or other investors in Franchisee, including all investors who own or hold direct or indirect interest in Franchisee and a description of the nature of their interest.

<u>Name</u>	<u>Percentage of Ownership/Nature of Interest</u>
_____	_____
_____	_____

- B. In addition to the persons listed in paragraph A., the following is a list of all Franchisee's Principals described in and designated pursuant to Section XIX.B of the Franchise Agreement. Unless designated as a Controlling Principal, each of Franchisee's Principals shall execute the Confidentiality Agreement in the form set forth in Schedule 9.

SCHEDULE 8
DELI DELICIOUS FRANCHISING, INC.
CURRENT FORM OF GENERAL RELEASE LANGUAGE
(SUBJECT TO CHANGE BY FRANCHISOR)

Release-General Provisions The Franchisee(s), jointly and severally, hereby release and forever discharge each and all of the Franchisor-Related Persons/Entities (as defined below) of and from any and all causes of action, in law or in equity, suits, debts, liens, defaults under contracts, leases, agreements or promises, liabilities, claims, demands, damages, losses, costs or expenses, of any nature whatsoever, howsoever arising, **known or unknown**, fixed or contingent, past or present, that the Franchisee(s) (or any of them) now has or may hereafter have against all or any of the Franchisor-Related Persons/Entities by reason of any matter, cause or thing whatsoever from the beginning of time to the date hereof (the "Claims"), it being the mutual intention of the parties that this release be unqualifiedly general in scope and effect and that any Claims against any of the Franchisor-Related Persons/Entities are hereby forever canceled and forgiven.

THE FRANCHISEE(S) ACKNOWLEDGE THAT THEY ARE FAMILIAR WITH THE PROVISIONS OF CALIFORNIA CIVIL CODE SECTION 1542, THIS PROVIDES THE FOLLOWING:

"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."

THE FRANCHISEE(S), BEING AWARE OF THIS CODE SECTION, HEREBY EXPRESSLY WAIVE ALL OF THEIR RIGHTS THEREUNDER AS WELL AS UNDER ANY OTHER STATUTES OR COMMON LAW PRINCIPLES OF SIMILAR EFFECT OF ANY APPLICABLE JURISDICTION, INCLUDING, WITHOUT LIMITATION, CALIFORNIA AND/OR JURISDICTIONS OF FRANCHISEE(S)' RESIDENCE AND LOCATION OF FRANCHISED UNITS.

The Franchisee(s) expressly assume the risk of any mistake of fact or fact of which they may be unaware or that the true facts may be other than any facts now known or believed to exist by Franchisee(s), and it is the Franchisee(s) intention to forever settle, adjust and compromise any and all present and/or future disputes with respect to all matters from the beginning of time to the date of this document finally and forever and without regard to who may or may not have been correct in their understanding of the facts, law or otherwise. All releases given by the Franchisee(s) are intended to constitute a full, complete, unconditional and immediate substitution for any and all rights, claims, demands and causes of action Whatsoever which exist, or might have existed, on the date of this document. The Franchisee(s) represent and warrant that they have made such independent investigation of the facts, law and otherwise pertaining to all matters discussed, referred to or released in or by this document as the Franchisee(s), in the Franchisee(s) independent judgment, believe necessary or appropriate. The Franchisee(s) have not relied on any statement, promise, or representation, whether of fact, law or otherwise, by the Franchisor-Related

Persons/Entities or anyone else, not expressly set forth herein, in executing this document and/or the related releases.

Franchisee(s) Initials: _____

No Assignment or Transfer of Interest. The Franchisee(s) represent and warrant that there has been, and there will be, no assignment or other transfer of any interest in any Claims that the Franchisee(s) may have against any or all of the Franchisor-Related Persons/Entities, all Claims having been fully and finally extinguished. The Franchisee(s) agree to forever indemnify and hold the Franchisor-Related Persons/Entities harmless from any liability, claims, demands, damages, losses, costs, expenses or attorneys' fees incurred by any of the Franchisor-Related Persons/Entities as a result of any person asserting any interest in any of the Claims and/or any voluntary, involuntary or other assignment or transfer thereof. It is the intention of the parties that this indemnity does not require payment by any of the Franchisor-Related Persons/Entities as a condition precedent to recovery against the Franchisee(s) under this indemnity.

Franchisee(s) Initials: _____

Attorney's Fees If the Franchisee(s), or anyone acting for, or on behalf of, the Franchisee(s) or claiming to have received, by assignment or otherwise, any interest in any of the Claims, commence, join in, or in any manner seek relief through any suit (or otherwise) arising out of, based upon or relating to any of the Claims released hereunder, or in any manner asserts against all or any of the Franchisor-Related Persons/Entities any of the Claims released hereunder, the Franchisee(s) agree to pay all attorneys' fees and other costs incurred by any of the Franchisor-Related Persons/Entities in defending or otherwise responding to said suit or assertion.

Franchisee(s) Initials: _____

"Franchisor-Related Persons/Entities" Franchisor, Franchisor's affiliates, any advertising fund, any franchisee Advisory Group and each of the following, whether past, current or future: companies and/or persons acting through and/or in concert with us and/or with any of the foregoing; partners, shareholders, officers, directors, agents, attorneys, accountants, and/or employees of ours and/or of any of the foregoing; and predecessors, successors and/or assigns of ours and/or of any of the foregoing.

Franchisee(s) Initials: _____

Date of Releases, Joint and Several Liabilities. The releases granted hereunder shall be deemed effective as of the date hereof. The liabilities and obligations of each of the Franchisee(s) (and any other person/entity providing releases to the Franchisor-Related Persons/Entities) shall be joint and several.

Franchisee(s) Initials: _____

FRANCHISEE:

Signed: _____

Printed Name : _____

Title: _____

Date: _____

SCHEDULE 9
DELI DELICIOUS FRANCHISING, INC.
CONFIDENTIALITY AND NON-COMPETE AGREEMENT

This Agreement is made and entered into _____ 20__, between Deli Delicious Franchising, Inc., a California corporation (hereinafter referred to as “Franchisor”), _____ (hereinafter referred to as “You”).

RECITALS:

WHEREAS, Franchisor has acquired the right to develop a unique system (the “System”) for the development and operation of businesses under the name and mark “Deli Delicious™” (“Restaurant”); and

WHEREAS, the System includes but is not limited to certain trade names, service marks, trademarks, symbols, logos, emblems, and indicia of origin, including, but not limited to the mark Deli Delicious™ and such other trade names, service marks, and trademarks as Franchisor may develop in the future to identify for the public the source of services and products marketed under such marks and under the System and representing the System’s high standards of quality, appearance and service standards; distinctive signage, exterior and interior design, décor and color scheme; uniform standards; confidential matters, trade secrets, product knowledge, specifications, ingredients, formulas, recipes, food preparation, business strategies, methods and techniques, technology, equipment specifications, operational procedures, pricing and cost information, forms, record keeping, recruiting techniques, employee retention programs, inventory control, record keeping and reporting methods, marketing, advertising and promotional programs; all of which may be changed, improved and further developed by FRANCHISOR from time to time and are used by Franchisor in the operation of the System (“Trade Secrets”); and

WHEREAS, the Trade Secrets provide economic advantages to Franchisor and are not generally known to, and are not readily ascertainable by proper means by Franchisor competitors who could obtain economic value from knowledge and use of the Trade Secrets; and

WHEREAS, Franchisor has taken and intends to take all reasonable steps to maintain the confidentiality and secrecy of the Trade Secrets; and

WHEREAS, Franchisor has granted you a limited right to manage and participate in the operation of a Restaurant using the System and the Trade Secrets for the period defined in the franchise agreement made and entered into _____, 20____ (“Franchise Agreement”) between you and Franchisor; and

WHEREAS, you and Franchisor have agreed in the Franchise Agreement on the importance to Franchisor and to you and other licensed users of the System of restricting use, access and dissemination of the Trade Secrets; and

WHEREAS, it will be necessary for You to have access to and to use some or all of the Trade Secrets in the management and operation of your Restaurant using the System; and

WHEREAS, you have agreed to obtain from your staff written agreements protecting the Trade Secrets and the System against unfair competition; and

WHEREAS, each member of your staff wishes to remain, or wishes to become your employee; and

WHEREAS, You will receive and use the Trade Secrets in the course of operating the Restaurant;

NOW, THEREFORE, in consideration of the mutual covenants and obligations contained herein, the parties agree as follows:

1. You and/or Franchisor shall disclose to You some or all of the Trade Secrets relating to the System.
2. You shall receive the Trade Secrets in confidence, maintain them in confidence and use them only in connection with the management and/or operation by you of Restaurant using the System for so long as you are licensed by Franchisor to use the System.
3. You shall not at any time make copies of any documents or compilations containing some or all of the Trade Secrets without Franchisor express written permission.
4. You shall not at any time disclose or permit the disclosure of the Trade Secrets except to your staff then only to the limited extent necessary to train or assist your other staff in the management or operation of a Restaurant using the System.
5. That all information and materials, including without limitation, drawings, specifications, techniques and complications of data which Franchisor shall designate as confidential shall be deemed the Trade Secrets for the purposes of this Agreement.
6. You shall surrender the Confidential Franchise Operations and Procedures Manual and such other manuals and written materials as Franchisor shall have developed (“Manuals”) described in the Franchise Agreement and any other material containing some or all of the Trade Secrets to you or Franchisor, upon request, or upon termination of the franchise by you, or upon conclusion of the use for which the Manuals or other information or material may have been furnished to You.
7. You shall not, directly or indirectly, do any act or omit to do any act that would or would likely be injurious or prejudicial to the goodwill associated with the Trade Secrets and the System.
8. The Manuals are loaned by Franchisor to you for limited purposes only and remain the property of Franchisor and may not be reproduced, in whole or in part, without Franchisor’s written consent.
9. To protect the goodwill and unique qualities of the System and the confidentiality and value of the Trade Secrets, and in consideration for the disclosure to You, You agree that You will not:

- a. Divert or attempt to divert, directly or indirectly, any business, business opportunity or customer of the Business to any competitor.
- b. Employ or seek to employ any person who is at the time employed by Franchisor or any franchisee or developer of Franchisor, or otherwise directly or indirectly induce such person to leave that person's employment except as may occur in connection with your employment of such person if permitted under the Franchise Agreement.

*c. Directly or indirectly, for himself or through, on behalf of or in conjunction with any person, partnership, limited liability company, or corporation, own, maintain, operate, engage in or have any financial or beneficial interest in (including interest in corporations, limited liability companies, partnerships, trusts, unincorporated associations or joint ventures), advise, assist or make loans to, any restaurant which is the same or is similar to the Restaurant including, but not limited to, convenience stores, specialty retail or food stores, sandwich shops, and other food or beverage related products or services which offers a line of products and services similar to a Deli Delicious™ restaurant.

10. In further consideration for the disclosure to You of the Trade Secrets and to protect the uniqueness of the System, You agree that for five (5) years following the earlier of the expiration, termination or transfer of all of your interest in the Franchise Agreement or the termination of the Franchise Agreement with you, You will not, without the prior written consent of Franchisor:

*May be deleted if Franchisor does not require you to sign this covenant. See Section XVI of the Franchise Agreement

a. Divert or attempt to divert, directly or indirectly, any business, business opportunity or customer of the Business to any competitor.

b. Employ or seek to employ any person who is at the time employed by Franchisor or any franchisee or developer of Franchisor's, or otherwise directly or indirectly induce such persons to leave that person's employment.

c. Directly or indirectly, for himself or through, on behalf of or in conjunction with any person, partnership, limited liability company, or corporation, own, maintain, operate, engage in or have any financial or beneficial interest in (including interest in corporations, partnerships, trusts, unincorporated associations or joint ventures), advise, assist or make loans to, any convenience stores, specialty retail or food stores, sandwich shops, and other food or beverage related products or service business which is the same as or similar to the Restaurant including, but not limited to, any which offers a line of products and services similar to a Deli Delicious™ which restaurant is, or is intended to be, located within a 25-mile radius of the location approved in the Franchise Agreement or of any Restaurant in existence or under construction as of the earlier of: the expiration or termination of, or the transfer of all or your interest in, the Franchise Agreement.

11. You undertake to use your best efforts to ensure that your staff acts as required by this Agreement.

12. You agree that in the event of a breach of this Agreement, Franchisor would be irreparably injured and be without an adequate remedy at law. Therefore, in the event of such a breach, or threatened or attempted breach of any of the provisions hereof, Franchisor shall be entitled to enforce this Agreement and shall be entitled, in addition to any other remedies which are available to it at law or in equity, including the right to terminate the Franchise Agreement, to a temporary and/or permanent injunction and a decree for the specific performance of the terms of this Agreement, without the necessity of showing actual or threatened harm and without being required to furnish a bond or other security.

13. You agree to pay all expenses (including court costs and reasonable legal fees) incurred by Franchisor and you in enforcing this Agreement.

14. Any failure by Franchisor or you to object or to take action with respect to any breach of this Agreement by You shall not operate or be construed as a waiver of or consent to that breach or any subsequent breach by you.

15. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF CALIFORNIA. THE PARTIES AGREE THAT ANY ACTION BROUGHT BY ANY PARTY AGAINST ANOTHER IN ANY COURT, WHETHER FEDERAL OR STATE, SHALL BE BROUGHT IN CALIFORNIA IN THE JUDICIAL DISTRICT IN WHICH FRANCHISOR HAS ITS PRINCIPAL PLACE OF BUSINESS; PROVIDED, HOWEVER, WITH RESPECT TO ANY ACTION WHICH INCLUDES INJUNCTIVE RELIEF, YOU OR FRANCHISOR MAY BRING SUCH ACTION IN ANY COURT IN STATE WHICH HAS JURISDICTION. THE PARTIES HEREBY WAIVE ALL QUESTIONS OF PERSONAL JURISDICTION OR VENUE FOR THE PURPOSE OF CARRYING OUT THIS PROVISION.

16. The parties agree that each of the above covenants shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of a covenant in this Agreement is held unreasonable or unenforceable by a court or agency having a valid jurisdiction in an unappealed final decision to which Franchisor is a party, you expressly agree to be bound by any lesser covenant subsumed within the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated in and made a part of this Agreement.

17. This Agreement contains the entire agreement of the parties regarding the subject matter hereof. This Agreement may be modified only by a duly authorized writing executed by all parties.

18. 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 or facsimile, telegram or telex, (provided that the sender confirms the facsimile, telegram or telex by sending an original confirmation copy by certified or registered mail or expedited delivery service within three (3) business days after transmission), to the respective parties.

If directed to Franchisor, the notice shall be addressed to:

Deli Delicious Franchising, Inc.
2495 West Shaw Ave.
Fresno, CA 93711
Attention: Mohammad Hobab
Facsimile: (559) 435-5213
Telephone: (877) 306-7079

If directed to You, the notice shall be addressed to:

Attention: _____
Facsimile: _____
Telephone: _____

Any notices sent by personal delivery shall be deemed given upon receipt. Any notices given by facsimile, telegram or telex shall be deemed given upon transmission, provided confirmation is made as provided above.

Any notices sent by expedited delivery service or certified or registered mail shall be deemed given 3 business days after the time of mailing. Any change in the above addresses shall effected by giving 15 days written notice of such change to the other party.

19. The rights and remedies of Franchisor under this Agreement are fully assignable and transferable and shall inure to the benefit of its successors, assigns and transferees. The respective obligations of you and your staff hereunder are personal in nature and may not be assigned by You or your staff, as applicable.

IN WITNESS WHEREOF, the undersigned have entered into this Agreement as witnessed by their signatures below.

Deli Delicious Franchising, Inc.

Printed Name: _____

Signature: _____

Title: _____

YOU:

Printed Name: _____

Signature: _____

Title: _____

EXHIBIT 2

DIRECTORY OF FEDERAL, STATE AND CANADIAN FRANCHISE REGULATORS

AGENTS FOR SERVICE OF PROCESS

EXHIBIT 2

DIRECTORY OF FEDERAL, STATE AND CANADIAN FRANCHISE REGULATORS

FEDERAL

FEDERAL TRADE COMMISSION

Division of Marketing Practices
Seventh and Pennsylvania Avenues, N.W. Room 238
Washington, D.C. 20580
202-326-2970

STATE FRANCHISE REGULATORS & AGENTS FOR SERVICE OF PROCESS

CALIFORNIA

Department of Financial Protection
and Innovation Commissioner of
Financial Protection and Innovation
320 West 4th Street, Suite 750
Los Angeles, CA 90013-2344
866-275-2677

CONNECTICUT

Banking Commissioner
44 Capitol Avenue
Hartford, Connecticut 06106
317-232-6685

FLORIDA

State Department of Agriculture and
Securities Division
P.O. Box 6700 Suite 7200
Tallahassee, FL 32314-6700
850-410-3754

HAWAII

Commissioner of Securities
1010 Richards Street
Honolulu, Hawaii 96813
808-586-2744

MINNESOTA

Director of Registration
Minnesota Department of Commerce
133 East Seventh Street
St. Paul, Minnesota 55101
612-296-2284

ILLINOIS

Illinois Attorney General
500 South Second Street
Springfield, Illinois 62706
217-782-4465

INDIANA

Chief Deputy Commissioner
Securities Divisions
302 West Washington Street Room E-111
Indianapolis, Indiana 46204

MARYLAND

Attorney General
Securities Division
200 St. Paul Place
Baltimore, Maryland 21202-2020
410-576-6360

MICHIGAN

Franchise Administrator
670 Law Building
Lansing, Michigan 48913
517-373-7117

SOUTH DAKOTA

Department of Labor and Regulation
Division of Securities
124 S. Euclid, Suite 104
Pierre, South Dakota 57501
605-773-4823

NEW YORK

NYS Department of Law
Investor Protection Bureau
28 Liberty St. 21st Fl
New York, NY 10005
212-416-8222

TEXAS

Registrations Unit
Secretary of State
P.O. Box 13193
Austin, Texas 78711-2697
1019 Brazos
Austin, Texas 78701

NORTH DAKOTA

Securities Commissioner
600 East Boulevard Avenue 5th Floor
Bismark, North Dakota 58505-0510
701-224-4712

VIRGINIA

Chief Examiner
State Corporation Commission
1220 Bank Street, 4th Floor
Richmond, Virginia 23219
804-371-9276

OREGON

Department of Insurance and Finance
Division of Finance & Corporate Securities
Securities Section
21 Labor and Industries Building
Salem, Oregon 97310
503-378-4387

WASHINGTON

Securities Administrator
150 Israel Rd. SW
Tumwater, Washington 98501
or P.O. Box 9033
Olympia, Washington 98507-9033
366-902-8706

RHODE ISLAND

Associate Director and Superintendent
of Securities
Division of Securities
233 Richmond Street, Suite 232
Providence, Rhode Island 02903-4232
401-277-3048

WISCONSIN

Commissioner of Securities or
Franchise Administrator
101 East Wilson Street
P.O. Box 1768
Madison, Wisconsin 53701
Commissioner 608-266-3431
Franchise Administrator 608-266-8559

CANADA

Director of Franchises
Alberta Securities Commission Agency
10025 Jasper Avenue, 21st Floor
Edmonton, Alberta T5J 3Z5

EXHIBIT 3

**FRANCHISE
DISCLOSURE
QUESTIONNAIRE**

EXHIBIT 3

FRANCHISE DISCLOSURE QUESTIONNAIRE

As you know, Deli Delicious Franchising, Inc ("we," "us" or "Franchisor") and you are preparing to enter into a Franchise Agreement for the operation of a Deli Delicious™ Franchised Business. The purpose of this Questionnaire is to determine whether any statements or promises were made to you that we have not authorized and that may be untrue, inaccurate, or misleading.

Please review each of the following questions carefully and provide honest and complete responses to each question.

1. Have all parties signing the Franchise Agreement today received the full Franchise Disclosure Document ("FDD"), which includes the Disclosure portion consisting of Item 1-23, the Franchise Agreement and all exhibits and schedules which are listed and attached to it, at least 14 days prior to today's signing of the Franchise Agreement?

Yes _____ No _____ Your Initials _____

2. What date did you receive the FDD and how was it delivered?

Delivery Date _____ How Delivered _____ Your Initials _____

3. Did you sign and return the Receipt for the FDD?

Yes _____ No _____ Your Initials _____

4. Do you understand all of the information contained in the FDD including the Franchise Agreement and each exhibit and schedule attached to it

Yes _____ No _____ Your Initials _____

If "No," what parts t do you not understand?
(Attach additional pages, if necessary)

5. Have you had ample opportunity to review the FDD, including all the exhibits and the schedules attached to it prior to today's signing of the Franchise Agreement?

Yes _____ No _____ Your Initials _____

6. Have you discussed the benefits and risks of operating a Franchised Business with an attorney, accountant or other professional advisor and if so, do you understand those risks?

Yes _____ No _____ Your Initials _____

7. Do you understand that the success or failure of your business will depend in large part upon your skills and abilities, competition from other businesses, interest rates, inflation, labor and supply costs, lease terms and other economic and business factors?

Yes _____ No _____ Your Initials _____

8. Has any employee or other person speaking on our behalf made any statement or promise concerning the revenues, profits or operating costs of a Franchised Business operated by us or our franchisees?

Yes _____ No _____ Your Initials _____

9. Has any employee or other person speaking on our behalf made any statement or promise concerning the Franchised Business that is contrary to, or different from, the information contained in the Disclosure Document?

Yes _____ No _____ Your Initials _____

10. Has any employee or other person speaking on our behalf made any statement or promise regarding the amount of money you may earn in operating a Franchised Business?

Yes _____ No _____ Your Initials _____

11. Has any employee or other person speaking on our behalf made any statement or promise concerning the total amount of revenue a Franchised Business will generate?

Yes _____ No _____ Your Initials _____

12. Has any employee or other person speaking on our behalf made any statement or promise regarding the costs you may incur (in operating a Franchised Business) that is contrary to, or different from, the information contained in the Disclosure Document?

Yes _____ No _____ Your Initials _____

13. Has any employee or other person speaking on our behalf made any statement or promise concerning the likelihood of success that you should or might expect to achieve from operating a Franchised Business?

Yes _____ No _____ Your Initials _____

14. Has any employee or other person speaking on our behalf made any statement, promise, or agreement concerning the advertising, marketing, training, support service or assistance that we will furnish you that is contrary to, or different from, the information contained in the Disclosure Document?

Yes _____ No _____ Your Initials _____

15. If you have answered "Yes" to any of questions 8 through 14, please provide a full explanation of your answer in the following blank lines. (Attach additional pages, if necessary, and refer to them below.)

If you have answered "No" to any of questions 8 through 14, please leave the following lines blank.

16. Do you understand that in all dealings with you, our officers, directors, employees and agents act only in a representative capacity and not in an individual capacity and such dealings are solely between you and the Franchisor?

Yes _____ No _____ Your Initials _____

17. Do you feel you have all the necessary information to make a decision to sign this Franchise Agreement today?

Yes _____ No _____ Your Initials _____

You understand that your answers are important to us and we will rely on them. By signing this Questionnaire, you are representing that you have responded truthfully to the above questions.

Franchise Applicant - Signature

Print Name

Date

EXHIBIT 4

STATE ADDENDA

EXHIBIT 4

STATE LAW ADDENDA TO FRANCHISE DISCLOSURE DOCUMENT AND FRANCHISE AGREEMENT

The following modifications are to the Deli Delicious Franchising, Inc Disclosure Document and will supersede, to the extent then required by applicable state law, certain portions of the Franchise Agreement dated _____, 20____.

I. FRANCHISOR/FRANCISHEE RELATIONSHIP STATUTES (Including Renewal and Termination Rights)

For franchises governed by laws of the following states:

CALIFORNIA, COLORADO, HAWAII, ILLINOIS, INDIANA, IOWA, MARYLAND,
MICHIGAN, MINNESOTA, NEW YORK, RHODE ISLAND, SOUTH DAKOTA, VIRGINIA,
WASHINGTON, WISCONSIN

These states have statutes that may supersede the Franchise Agreement in your relationship with the Franchisor, including the areas of termination and renewal of your franchise:

ARKANSAS	Stat. Section 70-807
CALIFORNIA	Bus. & Prof. Code Sections 20000-20043
CONNECTICUT	Gen. Stat. Section 42-133e et seg.
DELAWARE	Code, Tit. 6, Ch. 25, Sections 2551-2556
HAWAII	Rev. Stat. Section 482E-1
ILLINOIS	Rev. Stat. 815. ILCS 705/19 and 705/20
INDIANA	Stat. Sections 23-2-2.7 and 23-2-2.5
IOWA	Code Sections 523H.1523 thru H.17
MARYLAND	Commercial Code Ann. 11-1301
MICHIGAN	Stat. Section 19.854(27)
MINNESOTA	Stat. Section 80C.14
MISSISSIPPI	Code Section 75-24-51
MISSOURI	Stat. Section 407.400
NEBRASKA	Rev. Stat. Section 87-401
NEW JERSEY	Stat. Section 56:10-1
VIRGINIA	Code 13.1-517-574
WASHINGTON	Code Section 19.100.180
WISCONSIN	Stat. Section 135.03

These and other states may have court decisions that may supersede the Franchise Agreement in your relationship with the Franchisor, including the areas of termination and renewal of your franchise.

In addition,

Illinois franchisees should note that the conditions under which your franchise can be terminated, and your rights upon non renewal are governed by Illinois laws, Illinois Compiled status 815.719 and 815.720.

Indiana franchisees should note that Indiana Law provides that it is unlawful for a Franchise Agreement to contain certain provisions in the area of required purchases, modification, competition, increases in the price of goods on order termination and non renewal, covenants not to compete, and limitations on litigation. Indiana law also prohibits franchisors from engaging in certain acts and practices, including coercion, refusing delivery of goods or services, denying the surviving spouse or estate of the Franchisee an opportunity to participate in the ownership of the franchise, unreasonable competition, unfair competition, unfair discrimination among franchisees, and using deceptive advertising.

MINNESOTA law requires that with respect to the franchises governed by Minnesota law, the Franchisor will comply with Minnesota. Statute 80C.14 subdivisions 3, 4, and 5 which require except in certain specific cases, that a Franchisee be given 90 days' notice of termination (with 60 days to cure) and 180 days' notice for non-renewal of the Franchise Agreement.

Notwithstanding anything in this Agreement to the contrary, all Rhode Island located franchisees will be governed by the Rhode Island Franchise Investment Act.

If any of the provisions of this Franchise Disclosure Document or the Franchise Agreement are inconsistent with the relationship provisions of R.C.W. 19.100.180 or other requirements of the Washington Franchise Investment Protection Act, the provisions of the Act will prevail over inconsistent provisions of the Franchise Disclosure Document and the Franchise Agreement with regard to any franchise sold in Washington.

Chapter 135, Stats. Of the Wisconsin Fair Dealership Law supersedes any provisions of the Franchise Agreement that may be inconsistent with that law.

II. POST-TERM COVENANTS NOT TO COMPETE

For franchises governed by laws of the following states:

CALIFORNIA, CONNECTICUT, HAWAII, ILLINOIS, INDIANA, MARYLAND,
MICHIGAN, MINNESOTA, NEW YORK, NORTH DAKOTA, RHODE ISLAND,
SOUTH DAKOTA, VIRGINIA, WASHINGTON, WISCONSIN

These states have statutes which limit the Franchisor's ability to restrict your activity after the Franchise Agreement has ended.

California Business and Professions Code
Michigan Compiled Laws

Section 16,600
Section 445.771 et seq.

Montana Codes
North Dakota Century Code
Oklahoma Statutes
Washington Code

SECTION 30-14-201
Section 9-08-06
Section 15-217-19
Section 19.86.030

Other states have court decisions limiting the Franchisor's ability to restrict your activity after the Franchise Agreement has ended.

III. **TERMINATION UPON BANKRUPTCY**

For franchises governed by laws of the following states:

CALIFORNIA, CONNECTICUT, ILLINOIS, INDIANA, MARYLAND, MICHIGAN,
MINNESOTA, NEW YORK, VIRGINIA, WASHINGTON, WISCONSIN

A provision in the Franchise Agreement which terminates the franchise upon the bankruptcy of the franchise may not be enforceable under Title 11, United States Code Section 101.

IV. **LIQUIDATED DAMAGES PROVISIONS**

The following states have statutes which restrict or prohibit the imposition of liquidated damages provisions:

CALIFORNIA	Civil Code Section 1671
INDIANA	IC 232-2.5-2
MINNESOTA	Rule 2860.4400

State courts also restrict the imposition of liquidated damages. The imposition of liquidated damages is also restricted by fair practice laws, contract law, and state and federal court decisions.

For franchises governed by the laws of the state of MINNESOTA, liquidated damage provisions are void.

V. **STATE ADDENDUMS**

The following are Addendums for Franchises governed by the laws of the respective states as follows:

CALIFORNIA

The registration of this franchise offering by California Department of Financial Protection and Innovation does not constitute approval, recommendation or endorsement by the commissioner.

Neither FRANCHISOR nor any of the persons affiliated with FRANCHISOR set forth in Item 2 of the Disclosure Document are subject to any currently effective order of any National Securities Exchange, as defined in the Securities Exchange Act of 1934, 15 U.S.C.A. 78, *et seq.* suspending or expelling such persons from membership in such association or exchange.

California Business and Professions Code Sections 20000 through 20043 provide rights to the franchisee concerning termination, transfer or non-renewal of a franchise. If the Franchise Agreement contains a provision that is inconsistent with the law, the law will control.

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.

The Franchise Agreement requires application of the law of California. The Franchise Agreement restricts venue of arbitration and mediation of a dispute or claim to a forum outside the state of California.

The California Franchise Investment Law requires a copy of all proposed agreements relating to the sale of the franchise to be delivered together with the Disclosure Document.

Section 31125 of the California Corporation Code requires the franchisor to give the franchisee a disclosure document, in a form and containing such information as the Commissioner may by rule or order require, prior to solicitation of a proposed material modification of an existing franchise.

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 §§31 000 through 31516). Business and Professions Code §20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code §§20000 through 20043).

The Franchise Agreement requires litigation to be conducted in California but could change. Requirements of litigation in jurisdiction other than where your franchise is located or where you reside may not be enforceable. Prospective franchisees are encouraged to consult legal counsel to determine the applicability of California and federal laws (such as Business and Professions Code Section 20040.5, Code of Civil Procedure Section 1281, and the Federal Arbitration Act) to any provisions of the Franchise Agreement restricting venue to a forum outside of the State of California.

The Franchise Agreement may contain a liquidated damages clause. Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable.

Item 5 of the Disclosure Document is amended to include the following language:

"If Franchisor sells a multiple unit or other discounted franchise fee in California, it will comply with California Franchise Rule 310.100.2 regarding negotiated sales, to the extent applicable." The Franchise Agreement requires franchisee to execute a general release of claims upon renewal or transfer of the Franchise Agreement. California Corporations Code Section 31512 provides that any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with any provision of that law or any rule or order there under is void. Section 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code Section 31000-31516). Business and Professions Code Section 20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code Sections 20000 -20043).

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.)

The franchise agreement requires binding arbitration. The arbitration will occur in Fresno County, California with the costs being borne by the prevailing party.

OUR URL IS: www.Deli-Delicious.com. OUR WEBSITE HAS NOT BEEN REVIEWED OR APPROVED BY THE DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION. ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEBSITE MAY BE DIRECTED TO THE DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION AT www.dfpi.ca.gov.

DELI DELICIOUS FRANCHISING, INC:

FRANCHISEE:

By:

By:

Title:

Title:

Date:

Date:

ILLINOIS

Any provision in a Franchise Agreement that designates jurisdiction or venue in a forum outside the State of Illinois may not be enforceable and is amended to the extent required by Illinois law, except that a Franchise Agreement may provide for arbitrate in a forum outside of the State of Illinois.

The governing law or choice of law clause described in the Disclosure Document (including a risk factor on the cover page) and contained in the Franchise Agreement may not be enforceable under Illinois law. This governing law clause shall not be construed to negate the application for the Illinois Franchise Disclosure Act in all situations to which it is applicable.

Item 5 of the Disclosure Document and Section 4.1 of the Franchise Agreement are amended to provide that all initial franchise fees are deferred, or alternatively, deposited into escrow, until all Franchisor’s pre-opening obligations to franchisee have been met and the franchisee is open for business. This deferral requirement has been imposed by the Illinois Attorney general’s Office based upon Franchisor’s financial condition.

Illinois law requires that the Franchisor give you a copy of the Disclosure Document as registered with the Attorney General together with a copy of all proposed agreements relating to the sale of the franchise before the earlier of:

1. 14 days before our execution of a binding Franchise Agreement or other agreement, and
2. 14 days before the Franchisor receives any payment from you.

DELI DELICIOUS FRANCHISING, INC:	FRANCHISEE:
By:	By:
Title:	Title:
Date:	Date:

INDIANA

To the extent that Item 17 of the Disclosure Document and Section XVIII of the Franchise Agreement re inconsistent with the Indiana Deceptive Franchise Practice Law, which prohibits a prospective general release of any claims for liability imposed under it, the Indian Deceptive Franchise Practice Law may supersede such inconsistent terms.

To the extent that Item 17 of the Disclosure Document and Section XXIV and Schedule 8 of the Franchise Agreement are in conflict with Section 2.7-1(9) of the Indiana Deceptive Franchise Practice Law, prohibiting non-competition agreements exceeding 3 years or an area greater than the area granted in the Franchise Agreement, Indiana law shall prevail.

Section 2.7-1(10) of the Indiana Deceptive Franchise Practice Law, which prohibits limiting litigation brought for breach of the agreement, supersedes items in this Disclosure Document and Franchise Agreement, to the extent that such items are inconsistent with Section 27-1(10) of the Indiana Deceptive Franchise Practice Laws.

MARYLAND

Item 17 of Disclosure Document and Section XXII of the Franchise Agreement requiring that franchisee sign

a general release as a condition of purchase/renewal or assignment/transfer, may not be enforceable pursuant to the Maryland Franchise Registration and Disclosure Law, and are amended to the extent required by Maryland law. The requested release shall not apply to any liability under the Maryland Franchise Registration and Disclosure law.

Any provisions of the Disclosure Document or Franchise Agreement that require franchisee to disclaim the occurrence of or acknowledge the non-occurrence of acts that would constitute a violation of the Maryland

Franchise Registration and Disclosure Law 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.

Provisions in the Disclosure Document and Franchise Agreement requiring franchisee to file any lawsuit in a court in the State of California may not be enforceable under the Maryland Franchise Registration and Disclosure Law. Franchisees may sue in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law. Item 17 of the Disclosure Document and Section XXV of the Franchise Agreement are amended accordingly to the extent required by Maryland law.

To the extent that Franchise Agreement requires and the Disclosure Document discloses that a Franchisee must agree to a period of limitations of less than three years, this limitation to a period of less than three years shall not apply to any claims arising under the Maryland Franchise Registration and Disclosure Law.

Item 5 of the Disclosure Document and Sections IX(C) of the Franchise Agreement is amended to provide that the initial franchise fee and any other initial payments are due and payable when all Franchisor's pre-opening obligations to franchisee have been met.

On the next page is the form of release that will be request of Maryland franchisees as a condition to the franchisor's consent to the transfer of the franchise.

FORM OF RELEASE FOR MARYLAND FRANCHISEES

This Release is made on _____, 20__, between Deli Delicious Franchising, Inc., a California corporation ("Franchisor") and its officers, directors and agents ("Affiliates"), and _____ ("Franchisee").

RECITALS

- A.** Franchisor and Franchisee entered into a Franchise Agreement dated _____, 20 (the "Franchise Agreement") in which Franchisor granted franchisee the right to located, develop, and operate a Deli Delicious™ business (the "Franchised business"), and Franchisee assumed obligations to located, develop, and operate the franchised Business.
- B.** As a condition to Franchisor's consent to the transfer of the Franchised Business, Franchisee is willing to release franchisor from certain obligations arising from the Franchise Agreement and related agreements, and any claims franchisee may have against each Franchisee as described herein.

AGREEMENT

1. **RELEASE AND COVENANT NOT TO SUE**

Subject to the terms of this Release, and in consideration for the consent described above, Franchisee and the undersigned individual guarantors, if applicable, hereby release and discharge and hold harmless Franchisor, its principals, agents, shareholders, officers, directors, employees, successors, assigns, subsidiaries, and affiliated groups and each of them (“Affiliates”), from any and all losses, claims, debts, demands, liabilities, actions, and causes of action, of any kind, whether known or unknown, past or present, that any of them may have or claim to have against Franchisor or its Affiliates and any of them before or on the date of this release, arising out of or related to the offer, negotiation, execution, and performance of the Franchise Agreement, the operation of the Franchised Business, and all circumstances and representations relating to such offer, negotiation, execution, performance, and operation (collectively, “Released Claims”, except as specifically reserved:

Franchisee and guarantors agree that Released Claims shall specifically include any claim or potential claims under the Title 14 Sections 14-201 through 14-233 of the Maryland Annotated Code and laws otherwise governing relationships between franchisors and franchisees. Franchisee and guarantors hereby covenant and agree that none of them will bring any action against Franchisor or its Affiliates in connection with any Released Claim.

2. **NO ADMISSION**

Nothing contained in this Agreement shall be construed as an admission of liability by either party.

3. **NO ASSIGNMENT**

Each party represents and warrants to the other that it has not assigned or otherwise transferred or subrogated any interest in the Franchise Agreement or in any claims that are related in any way to the subject matter of this Release. Each party agrees to indemnify and hold the other fully and completely harmless from any liability, loss, claim, demand, damage costs, expense and attorneys’ fees incurred by the other as a result of any breach of this representation or warranty.

4. **ENTIRE AGREEMENT**

This Release embodies the entire agreement between the parties and supersedes any and all prior representations, understandings, and agreements with respect to its subject matter. There are no other representations, agreements, arrangements, or understandings, oral or in writing, and signed by the party against whom it sought to be enforced.

5. **FURTHER ACTS**

The parties agree to sign other documents and do other things needed or desirable to carry out the purpose of this Release.

6. **SUCCESSORS**

This Amendment and Release shall bind and insure to the benefit of the parties, their heirs, successors, and assigns.

7. **GOVERNING LAW; JURISDICTION**

This Release shall be construed under and governed by the laws of the State of California, and the parties agree that the courts of Fresno County, California, shall have jurisdiction over any action brought in connection with it, except to the extent that the Franchise Agreement is governed by the laws or venue provisions of another state.

8. SEVERABILITY

If any part of this release is held invalid or unenforceable to any extent by a court of competent jurisdiction, this Release shall remain in full force and effect and shall be enforceable to the fullest extent permitted, provided that it is the intent of the parties that it shall be entire, and if it is not so entire because it is held to be unenforceable, then this Release and the consent given as consideration for it shall be voided by frustration of its purpose.

9. VOLUNTARY AGREEMENT

Each party is entering into this Release voluntarily and, after negotiation, has consulted independent legal counsel of its own choice before signing it, is signing it with a full understanding of its consequences, and knows that is not required to sign this Amendment and Release. The parties acknowledge and agree that this Amendment and Release constitutes a release or waiver executed pursuant to a negotiated agreement between a Franchisee and a Franchisor arising after the Franchise Agreement has taken effect and as to which each part is represented by independent legal counsel.

Deli Delicious™ Franchisee

By _____

Its _____

By _____

Its _____

MICHIGAN

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

Each of the following provisions is void and unenforceable if contained in any documents relating to a franchise:

- A. A prohibition of 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 applied only if:
1. The term of the franchise is less than 5 years; and
 2. The Franchisee is prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising, or other commercial symbol in the same area subsequent to the expiration of the franchise or the franchisee does not receive at least 6 months advance notice of Franchisor's intent not to renew the franchise.
- E.** A provision that permits the Franchisor to refuse to renew a franchise on terms generally available to other Franchisees of the same class or type under similar circumstances. This section does not require a renewal provision.
- F.** A provision requiring that arbitration or litigation be conducted outside this state. This shall not preclude the Franchisee from entering into an agreement, at the time of arbitration, to conduct arbitration at a location outside this state.
- G.** A provision which permits a Franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause. This subdivision does not prevent a franchisor from exercising a right of first refusal to purchase the franchise. Good cause shall include, but is not limited to:
1. The failure of the proposed transferee to meet the Franchisor's then current reasonable qualifications or standards.
 2. The fact that the proposed transferee is a competitor of the Franchisor or Sub-Franchisor.
 3. The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.
 4. 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 bon 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 that 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 should be directed to:

State of Michigan
Department of Attorney General
Consumer Protection Division
Attn: Franchise
670 Law Building
Lansing, Michigan 48913
Phone: 517/373-7117

MINNESOTA

Minn. Stat. Sec. 80C.21 and Minn. Rule Part 2860.4400J, may prohibit us from requiring litigation to be conducted outside Minnesota. In addition, nothing in the Disclosure Document or Franchise Agreement can abrogate or reduce any of your rights as provided for in Minnesota Statutes, Chapter 80C, or your rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.

In accordance with Minnesota Rule 2860.440J, and to the extent required by law, the Disclosure Document and the Franchise Agreement are modified so that the Franchisor cannot require a franchisee to waive his or her rights to a jury trial or to waive rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction, or to consent to liquidated damages, termination penalties, or judgment notes; provided that this part shall not bar an exclusive arbitration clause.

Pursuant to Minn. Stat. Sec. 80c.12), to the extent required by this Minnesota law, the Franchise Agreement and Item 13 of the Disclosure Document are amended to state that the Franchisor will protect your right to use the primary trademark, service mark, trade name, logotype or other commercial symbol or indemnify our from any loss, costs or expenses arising out of any claim, suit, or demand regarding the use of the Franchisor's primary trade name.

All statements in the Disclosure Document and Franchise Agreement that state that Franchisor is entitled to injunctive relief are amended to read: "franchisor may seek injunctive relief" and a court will determine if a bond is required.

Minnesota Rule 2860.4400D prohibits the Franchisor from requiring a Franchisee to assent to a general release. The Disclosure Document and Franchise Agreement are modified accordingly, and to the extent required by law.

NEW YORK

FRANCHISE DISCLOSURE DOCUMENT

The cover page of the Franchise Disclosure Document will be supplemented with the following inserted at the bottom of the cover page:

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.

Item 3 of the Franchise Disclosure Document: Add the following:

- A. Neither we, our predecessors, a person identified in Item 2, nor an affiliate offering franchises under our principal trademark has an administrative, criminal, or civil action pending against the person alleging a felony, 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, or any pending actions other than routine litigation incidental to the business which are significant in the context of the number of franchisees and the size, nature, or financial condition of the franchise system or its business operations.
- B. Neither we, our predecessors, a person identified in Item 2, nor an affiliate offering franchises under our principal trademark 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, antifraud or securities law, fraud, embezzlement, fraudulent conversion, or misappropriation of property, or unfair or deceptive practices or comparable allegations.
- C. Neither we, our predecessors, a person identified in Item 2, nor an affiliate offering franchises under our principal trademark 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.

Item 4 of the Franchise Disclosure Document: Add the following language:

Neither we, our affiliates, predecessors, officers, nor general partner during the ten-year period immediately before the date of the Disclosure Document:

- A. Filed as debtor (or had filed against it) a petition to start an action under the U.S.

Bankruptcy Code;

- B. Obtained a discharge of its debts under the bankruptcy code; or
- C. Was a principal officer of a company or a general partner in a partnership that either filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code or that obtained a discharge of its debts under the U.S. Bankruptcy Code during or within 1 year after the officer or general partner held this position and or company or partnership.

Item 5 of the Franchise Disclosure Document: Add at the end of the last paragraph:

The purpose of the initial fee is to pay for the franchisor's training, sales, legal compliance, salary, and general administrative expenses, and profit.

Section XXV(K) of the Franchise Agreement and Item 17 of the Franchise Disclosure Document: Add the following at the end:

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

Item 17 of the Franchise Disclosure Document: Modify the first paragraph to read as follows:

THIS TABLE LISTS CERTAIN IMPORTANT PROVISIONS OF THE FRANCHISE AND RELATED AGREEMENTS PERTAINING TO RENEWAL, TERMINATION, TRANSFER, AND DISPUTE RESOLUTION. YOU SHOULD READ THESE PROVISIONS IN THE AGREEMENTS ATTACHED TO THIS DISCLOSURE DOCUMENT.

NORTH DAKOTA

I. Item 5 is amended by the addition of the following language to the original language:

Refund and cancellation provisions do not apply to franchises operating under the North Dakota franchise Investment Law. If the Company elects to cancel the Franchise Agreement, the Company will be entitled to a reasonable fee for its evaluation of you and related preparatory work performed and expenses actually incurred. This amount may not be more than fifty percent (50%) of the Franchise Fee.

II. Item 5, Note 1, the last paragraph shall be amended to read as follows:

If your Franchise Agreement is terminated, you may be required to continue royalty payments for so long as you or our assignee or successor continues to use our trademarks or systems in any way.

III. Item 5, Note 5, shall be amended to read as follows:

Note 5: You must protect, indemnify, and hold us harmless against any claims or losses arising out of your operation of the franchise business. Each party will bear its own

expenses of any litigation to enforce the agreement.

- IV.** Item 17 is amended by the addition of the following language to the original language:
- A.** A provision in the Franchise Agreement that terminates the Franchise Agreement on the bankruptcy of the franchisee may not be enforceable under Title II, U.S. Code, Section 101.
 - B.** The erosion of a general release on renewal, assignment, or termination does not apply to franchises operating under the North Dakota Franchise Investment Law.
 - C.** The North Dakota Century Code, Section 9-08-06 limits the franchisor's ability to restrict your ability to restrict your activity after the Franchise Agreement has ended.
 - D.** Under North Dakota law, liquidated damages provisions are void. State courts also restrict the imposition of liquidated damages. The imposition of liquidated damages is also restricted by fair practice laws, contract law, and state and federal court decisions. Thus, the provision requiring you to continue to pay amounts to franchisor if you elect to cancel the agreement may not be enforceable under North Dakota law.

- V.** Item 17 is amended to read as follows:

PROVISION	FRANCHISE AGREEMENT	SUMMARY
Your obligations on termination non-renewal	FA: XXIV	De-Identification, payment, non-disclosure, non-competition; you continue to pay royalties for so long as you use the trademarks if terminated for breach, unless you abandon the business, abide by post termination covenants, and release and indemnify us.

- VI.** Item 17: The Choice of Law and Arbitration sections are amended to read as follows:
- A.** The Franchise Agreement shall be governed by the laws of North Dakota.
 - B.** Except as specifically otherwise provided in the Franchise Agreement, all contract disputes that cannot be amicably settled will be determined by arbitration under the Federal Arbitration Act and in accordance with the rules of the American Arbitration Association. Arbitration will take place at an appointed time and place in the county and state in which your franchised business is located. However, nothing in the Franchise Agreement limits or precludes the parties from bringing an action in a court of competent jurisdiction for injunction or other provisional relief as needed or appropriate to compel a party to comply with its obligations or to protect the marks or the company's other property rights.
 - C.** The Choice of Forum section is amended to delete the following:

Any action will be brought in the state or federal courts in Fresno County, California.

FRANCHISE AGREEMENT

- I.** Article IX, concerning refunds of initial franchise fees and royalties, is amended to add the following:

Refund and cancellation provisions do not apply to franchisees operating under the North Dakota Franchise Investment Law. IF Franchisor elects to cancel this Franchise Agreement, Franchisor shall be entitled to a reasonable fee for its evaluation of Franchisees and related preparatory work performed and expenses actually incurred. This amount shall be no more than fifty percent (50%) of the franchise fee.

- II.** Sections XXIII and XXII, relating to termination and transfer, are amended to add the following:

The execution of a general release on renewal, assignment, or termination does not apply to franchises operating under the North Dakota Franchise Investment Law.

- III.** Section XXIII(H), providing for liquidated damages on termination of the Franchise Agreement, is hereby amended to read as follows:

- h. Pay to Franchisor royalty fees and other ongoing fees, and other amounts Franchisee owes to Franchisor, as though Franchisee were still an active Franchisee, for so long as Franchisee or its assignee or successor continues to use the trademarks in any way. Franchisor is also entitled to all other applicable remedies.

IV. Section XXV is amended to read as follows:

In any action to enforce this Agreement or to seek remedies on default by either party, each party shall bear its own expenses of litigation or enforcement.

V. A. Section XXV is amended to add the following:

THIS AGREEMENT AND THE RIGHTS OF THE PARTIES HEREUNDER TAKE EFFECT ON ACCEPTANCE AND EXECUTION BY THE COMPANY AND SHALL BE INTERPRETED AND CONSTRUED UNDER THE LAWS OF NORTH DAKOTA, EXCEPT TO THE EXTENT GOVERNED BY THE UNITED STATES TRADEMARK ACT OF 1946 (LANHAM ACT 15, U.S.C. SECTIONS 1015, ET. SEQ.).

- B. Section XXV (H) providing for exclusive jurisdiction in Fresno County, California is deleted.
- C. Paragraph XXV to the extent it provides for a limitation of one year on actions under the Franchise Agreement is hereby deleted.
- D. Section XXV to the extent it provides for a waiver of punitive or exemplary damages, and a waiver of jury trial, is deleted.

VI. The Arbitration section shall be deleted and amended to read as follows:

Except as specifically otherwise provided in this Agreement, the parties agree that all contract disputes that cannot be amicably settled shall be determined by arbitration under the Federal Arbitration Act as amended and in accordance with the rules of the American Arbitration Association or any successor thereof. Arbitration shall take place at an appointed time and place in the County and State in which Franchisee's franchised business is located. However, nothing contained herein shall be construed to limit or to preclude the parties from bringing any action in any court of competent jurisdiction for injunctive or other provisional relief as the parties deem to be necessary or appropriate to compel either party to comply with its obligations hereunder or to protect the marks or other property rights of franchisor.

VII. The Acknowledgement section is amended to add the following:

Franchisee acknowledges that Franchisee received a copy of this Franchise Agreement, the attachments hereto, if any, and agreements relating thereto, if any, at least seven (7) days prior to the date on which this Agreement was executed.

VIII. The Covenants section is amended to add the following:

Covenants not to compete on termination or expiration of the Franchise Agreement are generally unenforceable in the State of North Dakota except in limited instances as provided by law.

RHODE ISLAND

§19-28.1-14 of the Rhode Island Franchise Investment Act provides that:

A provision in a Franchise Agreement restricting jurisdiction of venue to a forum outside this state or requiring the application of the laws of another state are void with respect to a claim otherwise enforceable under this Act.

WASHINGTON

In any arbitration involving a franchise purchased in Washington, the arbitration site shall be either in Washington, in a place as mutually agreed upon at the time of the arbitration, or as determined by the arbitrator, to the extent required by Washington law.

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 cost in effecting a transfer.

ACKNOWLEDGEMENT

IT IS AGREED that the applicable foreign state law addendum, if any supersedes any inconsistent portion of the Franchise Agreement dated _____, 20____, and of the Franchise Disclosure Document, but only to the extent then required by applicable and enforceable state law, and only so long as such state law remains in effect.

FRANCHISOR: Deli Delicious Franchising, Inc

Signed: _____

Name: _____

Title: _____

Date: _____

FRANCHISEE

Signed: _____

Name: _____

Date: _____

Signed: _____

Name: _____

Date: _____

Signed: _____

Name: _____

Date: _____

EXHIBIT 5
OPERATIONS STANDARDS MANUAL
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Deli Delicious

OPERATIONS STANDARDS MANUAL

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EXHIBIT 6

OPTION AGREEMENT

EXHIBIT 6

FRANCHISE OPTION AGREEMENT

This Option Agreement is entered into as of _____, 20__ between Deli Delicious Franchising, Inc ("Franchisor") and _____ ("Optionee").

1. Grant of Option. Provided the Optionee has first received a Franchise Disclosure Document for at least 14 days, Optionee, at Franchisor's sole discretion, is hereby granted an option to purchase a Deli Delicious™ Franchise. It is not assignable or transferable and is personal to the Optionee. Any transfer or assignment will cause the Option to become void. The grant may be for the initial franchise which Optionee may purchase or it may apply to an additional franchise that Optionee may purchase after its initial purchase. Which choice is applicable is to be set forth below. If prior to exercise of the option, the Franchisor renews its registration with the state of California, Optionee will be delivered the new FDD and will be required to have such document for at least 14 days before it can exercise the option and pay any money or sign the Franchise Agreement.

2. Location. Optionee has the right to enter into a Franchise Agreement during the term of this Option Agreement for a Deli Delicious™ franchise to. The exact location of the franchise is chosen by Optionee, subject to Franchisor's approval, which will not be unreasonably withheld. The Franchisor will determine the projected territory, if any.

3. Option Fee. A non-refundable option payment of \$12,500 is required with the execution of this Agreement for an Express Model and a non-refundable option payment of \$15,000 for a Standard Model. The option payment will be credited towards the Initial Franchise Fee of \$25,000 for an Express Model or \$30,000 for a Standard Model. The option fee for any additional franchises purchased by using an Option will be the same fee as for an initial purchase. The franchise fee itself for additional franchises will be \$12,500 for the Express Model and \$15,000 for a Standard Model.

An Optionee must meet all of the requirements a new franchisee must meet including: (i) pass the background, credit, and criminal checks (ii) complete all training phases, (iii) be fully compliant with all requirements under the Franchise Agreement then being used by the Franchisor or which Franchisee will sign, if different, (iv) demonstrates financial ability to own and operate the franchise with reasonable success and (v) the option agreement has an expiration date at which time it no longer provides the right to purchase a franchise. You meet must these requirements at the time of the purchase of the option and maintain those requirements at the time you exercise this option.

No refund will be paid if the financial qualifications or background check of the owners cannot be met before a franchise is granted.

4. Term. This Option will have a term of 1 year (at which time it will expire) and begin on the date of this Agreement listed below. If Franchisor does not have a current registration to sell this franchise in the state of California at the time the Optionee elects to purchase, then the full amount of the option payment will be refunded.

5. Notices. All notices sent by one party to the other must be hand-delivered, sent by registered or certified mail, return receipt requested, or transmitted by facsimile, or sent via electronic means if the sender can verify receipt. They will be addressed to Franchisor at its office as above designated, or at the other address Franchisor designates in writing, and addressed to Optionee at the address Optionee designates in writing. Any notice is deemed given and received, when delivered, if hand-delivered; if sent by facsimile or electronic means, on the next business day after sent; and if mailed, on the third business day following the mailing.

6. Governing Law. This Agreement is valid when executed and accepted by Franchisor, and is governed by the laws of the State of California. This choice of laws will not affect the scope of the California franchise, business opportunity or related statutes, and nothing in this Agreement will be deemed to extend the scope of application of those laws.

The Option being purchased applies to either (check one):

- the right to buy an initial Franchise, or
- the right to buy an additional franchise

Selected Address _____

Dated _____, 20_____

Expiration Date _____

FRANCHISOR:
Deli Delicious Franchising, Inc.

Signed _____
Name _____
Title _____

OPTIONEE:

Signed _____
Name _____
Title _____

Signed _____
Name _____
Title _____

EXHIBIT 7

List of Franchisees

FRANCHISEES LIST

Hesam Hobab Stores #37 (open), #23 (open), #54 (open), #55 (open), #1 (open):

#37) 1321 Commerce Ave, #1321-1325
Atwater, CA. 95301
(209) 357- 1500

#23) 9801 Hageman Road #200
Bakersfield, CA. 93312
(661) 829-2559

#54) 9000 Ming Ave, #O5
Bakersfield, CA. 93311
Phone (661) 858-0335

#55) 515 Panama Lane
Bakersfield, CA. 93307
(661) 491-3134

#1) 5628 North Blackstone Ave.
Fresno, CA 93710
(559) 447-0666

**Phil Maroot and Becky Fraser
Store #26 (open):**

2195 Shaw Ave, Ste. C.
Clovis, CA. 93611
(559) 322-1183

**Will Cantrell
Stores #11 (open), #49 (open):**

#11) 950 Herndon Ave., #110
Clovis, CA 93612
(559) 325-3354

#49) 1990 N. Flower #118
Clovis, CA 93619
(559) 324-8863

**Charles (“Chuck”) Draxler
Store #68 (open):**

620 Woolomes Ave. #108
Delano, CA. 93215
(661) 725-2660

**Omar Sanchez
Stores #3 (open), #5 (open):**

#3) 2940 E. Nees Ave. #105
Fresno, CA. 93720
(559) 322-0990

#5) 1102 E. Champlain Dr. #109
Fresno, CA. 93720
(559) 433-0668

**Gurminder Grewal (“Gary”) & Arturo
Hernandez
Store #6 (open):**

2787 W. Shaw #110
Fresno, CA 93711
(559) 229-8777

**Simon Hakimi
Stores #2 (open), #9 (open):**

#2) 6735 North First #106
Fresno, CA 93710
(559) 448-9444

#9) 5050 N. Palm Ave.
Fresno, CA. 93704
(559) 444-0231

**Sam Namdarian
Store #8 (open):**

550 South Clovis Ave Ste. 108
Fresno, CA 93727
(559) 255-9070

**Sam Namdarian
Store #14 (open):**

2042 E. Cooper #105
Fresno, CA 93730
(559) 433-680

**Rudy Ang
Store #4 (open):**

7785 North Palm #106
Fresno, CA 93711
(559) 431-5252

**Alexander Petrosyam
Store #100 (open):**

920 E. Olive Ave.
Fresno, CA 93728
(559) 389-0708

**Vahid Misaghi
Stores #10 (open), #22 (open):**

#10) 6034 N. Figarden Dr.
Fresno, CA 93722
(559) 277-1099

#22) 6701 N. Milburn Ave, #120
Fresno, CA.93722
(559) 374-6431

**Jorwar Singh
Store #18 (open):**

4441 W. Ashlan Ave, Suite #102
Fresno, CA. 93722
(559) 271-1244

**Neda Zakeri Store
#12 (open):**

2041 E. Sielids
Fresno, CA 93726
(559) 222-3354

**Baljit Gill (“Steve”) & Lovey Singh
Store #17 (open):**

2685 E. Jensen #102
Fresno, CA 93725
(559) 264-1700

**Eric Sha
Store #29 (open):**

970 N Street
Fresno, CA. 93721
(559) 443-1111

**Gurminder Grewal (“Gary”) & Arturo
Hernandez
Store #24 (open):**

14053 W. Whitesbridge Ave.
Kerman, CA. 93630
(559) 846-5000

**Greg DeGrandis & Ali Iqbal &
Victor Gutierrez**
Stores #95 (open), #36 (open):

#95) 16608 S. Harlan Road
Lathrop, CA 95330
(209) 299-0001

#36) 3848 McHenry Ave. #105
Modesto, CA. 95356
(209) 521-6000

Scot & Mary Goble
Store #31 (open):

855 N. Lemoore Ave. #100
Lemoore, CA. 93245
(559) 423-5688

Hari Randhawa
**Stores #53 (open), #33 (open), #34
(open):**

#53) 1624 Howard Rd.
Madera, CA. 93637
(559) 395-4928

#33) 2602 W. Kettleman Lane #120
Lodi, CA. 95242
(209) 400-7900

#34) 570 W. Olive Ave.
Merced, CA. 95348
(209) 724-0305

Harmanpreet
SinghStore #16
(open):

2380 W. Cleveland Ave., Suite #6
Madera, CA 93637
(559) 637-3502

**Davinder Singh (“Ricky”) &
Manraj Singh**
Store #82 (open):

127 Spreckels Ave.
Manteca, CA. 95336

(209) 328-1312

Pavan Singh & Harpeet
**SinghStore #108 (open), #47
(open):**

#108) 110 General Stilwell Dr. #100
Marina, CA. 93933
(831) 423-0010

#47) 1380 E. Pacheco Blvd.
#B Los Banos, CA 93635
(209) 710-9117

Dave & Elaina Mitchell
Store #35 (open):

40208 Hwy. 41
Oakhurst, CA. 93644
(559) 683-3033

Sandeep Singh (“Saab”) & Jaswinder Kaur
Sodhi & Fateh Singh Sodhi
Stores #48 (open), #90 (open):

#48) 602 Academy Ave. #8
Sanger, CA. 93657
(559) 875-0147

#90) 3120 W. Floral Road
Selma, CA 93662
(559) 898-3041

Baljit Gill (“Steve”) & Lovey Singh
Store #25 (open):

1587 Hillman St.
Tulare, CA. 93274
(559) 746-9600

Harneek Singh
Store #19 (open):

5129 W. Walnut Ave.
Visalia, CA. 93277
(559) 372-7223

**Nelam Nagra & Harnek Singh
Store #61 (open):**

210 E. Acequia #B
Visalia, CA. 93291
(559) 747-2883

**Navjeet Chahal & Tajinder Gill
Store #119 (open):**

487 N J St,
Tulare, CA 93274
(559) 467-5028

**Tom Hutcheson
Store #115 (open):**

1973 Foothill Parkway
Corona, CA 92281
(951) 339-8444

**Hesam Hobab and Omar
Sanchez**

Store #120 (open):

5103 West Goshen
Visalia, CA 93291
(559) 372-8994

**Will Cantrell
Store #64 (not open):**

Location – TBD
2022 PROJECTED TO OPEN

**Hardeep Singh Gahunia & Jatinder Singh
Babnwait & Balwinder Singh
Store #107 (not open):**

Location – TBD
2022 PROJECTED TO OPEN

**Sandeep Chauhan
Store #111 (not open):**

Location – TBD
2022 PROJECTED TO OPEN

EXHIBIT 8

Franchisees Who Left The System In The Last Calendar Year

Daljit Singh Rakkar & Hardeep Badyal
Store #32
18555 Pistachio Dr.
#101
Madera, CA. 93637
(559) 674-4704

Mike Moghrabi & Amanveer Grewal
Store #97
1217 W. March Lane
Stockton, CA. 95207
(209) 451-1903

Azadwinder Chahal
Store #89
12 S. Main St.
Porterville, CA. 93257
(559) 221-0615

Justin Dervishian
Store #7
2633 E. Shaw, Suite
#103
Fresno, CA 93710
(559) 291-1454

Krikor Jalhayan (“Greg”)
Store #30
4021 W. Clinton Ave.
Fresno, CA. 93722
(559) 374-5875

Eric Sha & Russell Gil Joon Clark & Randy Chi*
Store #50
264 N. St.
Fresno, CA. 93721
(559) 840-2739

Eric Sha & Russell Gil Joon Clark & Randy Chi*
Store #28
2743 Countryside Drive
Turlock, CA. 95380
(209) 250-2781

*Franchisees did not leave the system, only the 2 stores listed were closed.

EXHIBIT 9

Financial Statements

CONSENT BY AUDITOR

As independent public accountants, we consent to the use of our report dated August 24, 2020, in the Franchise Disclosure Document of Deli Delicious Franchising, Inc. with the issuance date of September 4, 2020 for distribution to prospective franchisees and for filing with states requiring registration of franchise offers, sales, or both.

KAWANA & GONG, LLP
Certified Public Accountants

Fresno, CA
September 24, 2020

DELI DELICIOUS FRANCHISING, INC.

**REPORT ON EXAMINATION
OF
FINANCIAL STATEMENTS**

YEARS ENDED DECEMBER 31, 2019 AND 2018

CONTENTS

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FINANCIAL STATEMENTS:	
Balance sheets	2
Statements of income and retained earnings	3
Statements of cash flows	4 – 5
Notes to financial statements	6 – 17

Kawana & Gong, LLP

Certified Public Accountants
1827 E. Fir Avenue, Suite 103
Fresno, California 93720-3860

Tel. (559) 226-6664
Fax (559) 226-7174
www.kgllpcpas.com

INDEPENDENT AUDITOR'S REPORT

August 24, 2020

To the Board of Directors
and Stockholder of
Deli Delicious Franchising, Inc.

We have audited the accompanying financial statements of Deli Delicious Franchising, Inc. (a California corporation), which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of income, retained earnings, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Deli Delicious Franchising, Inc. as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Kawana & Gang, LLP

DELI DELICIOUS FRANCHISING, INC.

BALANCE SHEETS

ASSETS

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
CURRENT ASSETS:		
Cash	\$ 81,397	\$ 155,364
Accounts receivable:		
Trade	106,709	98,636
Related parties	272,060	237,973
Employees	17,750	18,071
Notes receivable -- current portion:		
Officers	49,903	24,391
Employees		12
Prepaid expenses	3,895	14,325
Refundable income taxes		316
TOTAL CURRENT ASSETS	<u>531,714</u>	<u>549,088</u>
PROPERTY AND EQUIPMENT - at cost:		
Furniture and fixtures	8,875	8,875
Vehicles	131,731	131,731
Computer equipment	16,363	16,363
Software	107	107
Machinery and equipment	12,356	12,356
Leasehold improvements	<u>118,715</u>	<u>118,715</u>
	288,147	288,147
Less accumulated depreciation	<u>149,060</u>	<u>111,296</u>
	139,087	176,851
OTHER ASSETS:		
Notes receivable -- due after one year:		
Officers	50,167	92,516
Intangible asset (net of amortization)	<u>9,884</u>	<u>4,991</u>
	<u>60,051</u>	<u>97,507</u>
	\$ <u>730,852</u>	\$ <u>823,446</u>

See accompanying notes to financial statements.

LIABILITIES AND
STOCKHOLDER'S EQUITY

	December 31,	
	2019	2018
CURRENT LIABILITIES:		
Line of credit	\$	\$ 397,711
Accounts payable:		
Trade	26,536	32,640
Accrued payroll	35,363	38,233
Credit card payable	26,023	25,232
Gift card liability	298,629	361,316
Payroll taxes payable	40,695	10,710
Incomes taxes payable	3,214	
Current maturities on long-term debt	89,182	147,956
TOTAL CURRENT LIABILITIES	519,642	1,013,798
 LONG-TERM DEBT, net of current portion	 574,555	 160,092
 STOCKHOLDER'S EQUITY:		
Common stock, no par value; authorized 1,000 shares; issued and outstanding 1,000 shares	60,000	60,000
Additional paid-in capital	24,875	24,875
Accumulated deficit	(448,220)	(435,319)
	(363,345)	(350,444)
	\$ 730,852	\$ 823,446

DELI DELICIOUS FRANCHISING, INC.

STATEMENTS OF INCOME AND RETAINED EARNINGS

	<u>Years Ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
SALES:		
Franchise royalties	\$ 1,496,835	\$ 1,516,962
Advertising income	516,598	399,609
Franchise fees		100,000
	<u>2,013,433</u>	<u>2,016,571</u>
EXPENSES:		
General and administrative expenses	1,697,773	1,915,030
Depreciation and amortization	39,029	39,590
	<u>1,736,802</u>	<u>1,954,620</u>
INCOME FROM OPERATIONS	276,631	61,951
OTHER INCOME (EXPENSES):		
Interest expense	(40,944)	(39,624)
Interest income	7,167	3,116
Marketing income	106,395	134,607
Other income	26,071	22,498
Transfer fees	28,000	18,750
Loss on sale of leased automobiles	(3,567)	
	<u>123,122</u>	<u>139,347</u>
INCOME BEFORE INCOME TAXES	399,753	201,298
INCOME TAXES	<u>7,397</u>	<u>2,980</u>
NET INCOME	392,356	198,318
ACCUMULATED DEFICIT, BEGINNING OF YEAR	(435,319)	(119,025)
SHAREHOLDER'S WITHDRAWALS	<u>405,257</u>	<u>514,612</u>
ACCUMULATED DEFICIT, END OF YEAR	\$ <u><u>(448,220)</u></u>	\$ <u><u>(435,319)</u></u>

See accompanying notes to financial statements.

DELI DELICIOUS FRANCHISING, INC.

STATEMENTS OF CASH FLOWS

	<u>Years Ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 392,356	\$ 198,318
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	39,029	39,590
(Increase) decrease in:		
Accounts receivable	(41,839)	(26,210)
Prepaid expenses	10,430	(8,367)
Refundable income taxes	316	(316)
Increase (decrease) in:		
Accounts payable	(6,104)	19,351
Accrued payroll	(2,870)	38,233
Credit card payable	791	8,560
Gift card liability	(62,687)	115,546
Payroll taxes payable	29,985	(7,463)
Income taxes payable	3,214	(1,709)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>362,621</u>	<u>375,533</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Collection of loans - notes receivable	16,849	17,279
Payment for loan fees	<u>(6,158)</u>	<u></u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	10,691	17,279
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term debt	2,000	161,902
Proceeds from long-term debt	61,588	
Principal payments - long-term debt	(105,610)	(48,510)
Shareholder's withdrawals	<u>(405,257)</u>	<u>(514,612)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(447,279)</u>	<u>(401,220)</u>

See accompanying notes to financial statements.

DELL DELICIOUS FRANCHISING, INC.

STATEMENTS OF CASH FLOWS

(Continued)

	Years Ended December 31,	
	<u>2019</u>	<u>2018</u>
NET DECREASE IN CASH	\$ (73,967)	\$ (8,408)
CASH, BEGINNING OF YEAR	<u>155,364</u>	<u>163,772</u>
CASH, END OF YEAR	\$ <u>81,397</u>	\$ <u>155,364</u>

SUPPLEMENTARY DISCLOSURE OF CASH FLOW
INFORMATION:

Cash paid during the year for:

Interest expense	\$ 40,944	\$ 39,624
Income taxes	\$ 4,070	\$ 5,005

SUPPLEMENTARY DISCLOSURE OF NONCASH
INVESTING AND FINANCING ACTIVITIES:

Loans refinanced:

Short-term debt outstanding balance	\$ (399,711)	\$
Long-term debt outstanding balance	(104,198)	
New long-term debt to refinance loans	<u>503,909</u>	
Proceeds from long-term debt to refinance loans	\$ <u> </u>	\$ <u> </u>

See accompanying notes to financial statements.

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

ORGANIZATION

Deli Delicious Franchising, Inc. (the “Company”), a California S corporation, was formed on August 27, 2008 to offer franchises to operate deli restaurants. The Company operates under the accrual method of accounting. The Company is currently in the process of acquiring franchisees to operate in various states. The Company has 1,000 shares of no stated value common stock authorized, issued, and outstanding as of December 31, 2019 and December 31, 2018, respectively.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Deli Delicious Franchising, Inc. is presented to assist in understanding the Company’s financial statements. The financial statements and notes are the representations of the Company’s management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements. Management has evaluated subsequent events through August 24, 2020, the date the financial statements were available to be issued.

Cash Equivalents

For purposes of the statement of cash flows, the Company considers all unrestricted investment instruments purchased with original maturities of three months or less to be cash equivalents. At December 31, 2019 and December 31, 2018, there were no cash equivalents.

Property and Equipment

Property and equipment are stated at cost. Expenditures for maintenance and repairs are expensed as incurred while renewals and betterments are capitalized. Depreciation is computed on the straight-line method over estimated useful lives.

Accounts receivable

Bad debts are charged to operations in the year in which the account is determined uncollectible. Trade receivables are due no more than 30 days after issuance of the invoice. Receivables past due more than 60 days are considered delinquent. All accounts receivables are considered by management to be fully collectible.

Compensated Absences

Compensated absences for sick pay and vacation time have not been accrued since they cannot be reasonably estimated. The Company’s policy is to recognize these costs when actually paid.

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Advertising

The Company follows the policy of charging the costs of advertising to expense as incurred. Advertising expense for the years ended December 31, 2019 and December 31, 2018 were \$379,555 and \$364,046, respectively.

Income Taxes

The Company has elected to be taxed as an S corporation under the provisions of the Internal Revenue Code. Accordingly, the financial statements do not include provision for federal income taxes because the Company does not incur federal income taxes. Instead, the stockholders are taxed on their proportionate share of the Company's taxable income. The state of California does impose a corporate level franchise tax on S corporations. A provision for this tax has been recorded.

The Company classifies interest related to the underpayment of income taxes and any related penalties as operating expenses in the Statement of Income. Penalties related to income taxes for the years ended December 31, 2019 and December 31, 2018 were \$203 and \$-0-, respectively.

The Company files income tax returns in the U.S. federal jurisdiction and the state of California. The Company's U.S. federal income tax returns from 2017 to the current year remain open to examination, while the California income tax returns from 2016 to the current year remain open to examination.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of risk consist principally of accounts receivable. Concentrations of credit risk with respect to accounts receivable contracts are due to the majority of customers being located within the Central Valley of California.

The Company maintains all of its cash accounts in one commercial bank located in Fresno, California. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2019 and December 31, 2018 there were no amounts in excess of the insured limits.

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE RECEIVABLE

	<u>Years Ended</u>	
	<u>December 31,</u>	<u>December 31,</u>
	<u>2019</u>	<u>2018</u>
Note receivable from Nate Gilbert, paid in monthly installments of \$128.94 including interest at 3%, secured by assets and goodwill of borrower and personal guaranty of signer. The loan matured September 18, 2018.	\$ _____	\$ _____ 12
		12
Less current portion	_____	_____ 12
	\$ _____	\$ _____

NOTES RECEIVABLE – OFFICERS

	<u>Years Ended</u>	
	<u>December 31,</u>	<u>December 31,</u>
	<u>2019</u>	<u>2018</u>
Note receivable from Mohammad Hobab (officer/ shareholder), paid in monthly installments of \$2,156.24, including interest at 3%, secured by assets and goodwill of borrower. The loan matures December 15, 2022.	\$ 100,070	\$ 105,019
Note receivable from Sahab Hobab (officer), paid in monthly installments of \$157.27, including interest at 4.75%, secured by assets and goodwill of borrower and personal guaranty of signer. The loan matures June 1, 2026.	_____	_____ 11,888
	100,070	116,907
Less current portion	_____ 49,903	_____ 24,391
	\$ _____ 50,167	\$ _____ 92,516

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

DEPRECIATION AND AMORTIZATION EXPENSE

Depreciation expense was computed as follows:

	Estimated Useful Years	Years Ended	
		<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Machinery and equipment	3 - 5	\$ 1,629	\$ 2,276
Furniture and fixtures	7	1,117	1,182
Vehicles	5	26,348	26,346
Computer equipment	5	2,733	3,097
Leasehold improvements	20	<u>5,937</u>	<u>5,937</u>
		37,764	38,838

Amortization expense was computed as follows:

Loan fees	30	<u>1,265</u>	<u>752</u>
Total depreciation and amortization expense		<u>\$ 39,029</u>	<u>\$ 39,590</u>

INTANGIBLE ASSET

Loan fees include costs to acquire long-term financing and are being amortized using the straight-line method over a 30-year life. Amortization expense was \$1,265 and \$752 for the years ended December 31, 2019 and 2018, respectively. The Company's intangible assets consisted of the following at December 31, 2019 and December 31, 2018:

	Years Ended	
	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Loan fees	\$ 13,677	\$ 7,519
Accumulated amortization	<u>(3,793)</u>	<u>(2,528)</u>
	<u>\$ 9,884</u>	<u>\$ 4,991</u>

LINE OF CREDIT

The Company negotiated a \$400,000 revolving line of credit with Fresno First Bank. Interest payments on any amount borrowed were due monthly at a rate equal to the Wall Street Journal Prime Rate. The line of credit expired on July 5, 2019. It was collateralized by inventory, chattel paper,

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

LINE OF CREDIT (continued)

accounts receivable, equipment, and general intangibles. The balance of this line of credit at the date of expiration was \$399,711. On September 10, 2019, the Company refinanced this outstanding balance with a long-term debt due on September 5, 2022. Under the old credit agreement, the Company was required to abide by certain covenants.

LONG-TERM DEBT

	<u>Years Ended</u>	
	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Note payable to Fresno First Bank, variable interest rate 2.75% over Prime Rate, current rate is 7.50%, due in current monthly installments of principal and interest of \$2,393.22, secured by inventory chattel paper, accounts receivable, equipment, general intangibles and fixtures. The loan matures November 24, 2024.	\$ 115,621	\$ 134,133
Note payable to Michael Cadillac, due in monthly installments of \$784.68, including interest at 4.94%, vehicle pledged as collateral. The loan matures November 18, 2021.	17,200	25,520
Note payable to Educational Employees Credit Union, due in monthly installments of \$555.42, including interest at 3.74%, vehicle pledged as collateral. The loan matures June 15, 2021.	9,706	15,882
Note payable to Michael Cadillac, due in monthly installments of \$403.13, 0% interest, vehicle pledged as collateral. The loan matures July 29, 2023.	17,738	22,575
Note payable to Fresno First Bank, variable interest rate nondisclosable loan. Due in monthly installments of principal and interest of \$5,937.61, secured by Real Estate Documents. The loan matures September 5, 2022.	493,912	

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

LONG-TERM DEBT (continued)

	<u>Years Ended</u>	
	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Note payable to Intuit, interest rate 7.95%, due in weekly installments of principal and interest of \$1,453.21, unsecured. The loan matures February 17, 2020.	\$ 8,060	\$
Note payable to ClassicPlan Premium Financing, Inc., annual interest rate 13.89%, due in monthly installments of principal and interest of \$509.81, unsecured. The loan matures April 9, 2020.	1,500	
Note payable to Fresno First Bank, variable interest rate 1.5% over Prime Rate, current rate is 7.00%, due in monthly installments of principal and interest of \$1,296.43, secured by inventory, chattel paper, accounts receivable, equipment, general intangibles and fixtures. The loan matured December 5, 2019.		109,508
Note payable to Michael Cadillac, due in monthly installment of \$429.61, including interest at 5.24%, vehicle pledged as collateral. The loan matured January 22, 2019.		430
	<u>663,737</u>	<u>308,048</u>
Less current portion	<u>89,182</u>	<u>147,956</u>
	<u>\$ 574,555</u>	<u>\$ 160,092</u>

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

LONG-TERM DEBT (continued)

Maturities of long-term debt for each of the next five years are as follows:

<u>Year Ending</u>	<u>Aggregate Obligations</u>
December 31, 2020	\$ 89,182
December 31, 2021	80,522
December 31, 2022	441,710
December 31, 2023	29,042
December 31, 2024	23,281
Thereafter	<u> </u>
	<u>\$ 663,737</u>

LEASE COMMITMENTS

Office Lease

The Company leases its office in Fresno, California (see note on Related Party Transactions).

Warehouse Lease

The Company leased a warehouse located at 4539 N. Brawley, Fresno, California on an operating lease with a three-year term. The lease expired in February 2019. For the years ended December 31, 2019 and December 31, 2018, rent of \$1,200 and \$14,300, respectively, was paid and expensed.

The Company also leases a warehouse located at 3658 W. Gettysburg, Fresno, California on an operating lease with a two-year term. For the years ended December 31, 2019 and December 31, 2018, rent of \$15,750 and \$3,600, respectively, was paid and expensed.

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

LEASE COMMITMENTS (continued)

Warehouse Lease (continued)

Future minimum warehouse lease payments are as follows:

<u>Year Ending</u>	<u>Aggregate Obligations</u>
December 31, 2020	\$ 12,150
December 31, 2021	
December 31, 2022	
December 31, 2023	
December 31, 2024	
Thereafter	_____
	<u>\$ 12,150</u>

Kitchen Lease

The Company leased a test kitchen on an operating lease with a month-to-month term. The lease ended in 2017. Rent paid in 2018 was for CAM charges for 2017. For the years ended December 31, 2019 and December 31, 2018, rent of \$- and \$2,084, respectively, was paid and expensed.

Vehicle Lease

Deli Delicious Franchising, Inc. leases automobiles on an operating lease with three-year terms. Automobile lease expense for the years ended December 31, 2019 and 2018 was \$13,357 and \$18,258, respectively.

Future minimum automobile lease payments are as follows:

<u>Year Ending</u>	<u>Aggregate Obligations</u>
December 31, 2020	\$ 6,000
December 31, 2021	
December 31, 2022	
December 31, 2023	
December 31, 2024	
Thereafter	_____
	<u>\$ 6,000</u>

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

CONTINGENCIES

Lawsuit

In 2019, a lawsuit was brought against the Company and selected management members (defendants) by a former employee (plaintiff). The plaintiff alleges that the Company has made defamatory statements about him that have caused him to suffer economic harm, professional and reputational harm, shame mortification and hurt feelings and is seeking general and special damages according to proof and punitive damages.

The Company's cross-complaint is that the plaintiff breached his duty of loyalty to Deli Delicious Franchising, Inc. by wrongfully taking and using the Company's confidential information for his personal, professional and economic benefit which has provided him with a wrongful advantage in competing with the Company and interferes with and harms the Company's contractual relations with its existing and prospective franchisees. The Company also contends that the plaintiff has published a series of false and defamatory statements to third parties which have cause the Company to suffer damages to its reputation and its ability to contract with new franchisees. The Company is seeking general and special damages according to proof and punitive damages.

The parties are in the discovery phase of the lawsuit. The Company is rigorously defending the plaintiff's complaint and vigorously prosecuting its cross-complaint.

It is not presently possible to determine the outcome of the lawsuit. An estimate of the loss or range of loss cannot be determined.

RELATED PARTY TRANSACTIONS

Sales and Purchases

The Company has routine business transactions with franchisees that are considered related parties. The Company has conducted the following routine business transactions with the related parties:

	<u>Years Ended</u>	
	<u>December 31,</u>	<u>December 31,</u>
	<u>2019</u>	<u>2018</u>
Sales	\$ 283	\$ 421
Advertising income	7,796	6,058
Royalties		18,173

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

RELATED PARTY TRANSACTIONS (continued)

Sales and Purchases (continued)

Accounts receivable-related parties as of December 31, 2019 and December 31, 2018 was \$272,060 and \$237,723, respectively.

Accounts payable-related parties as of December 31, 2019 and December 31, 2018 was \$-0- and \$-0-, respectively.

Lease Commitment

The Company leases its office building from the sole stockholder under a five-year operating lease commencing on November 24, 2015, with the option to renew for two times an additional five years under mutually agreeable terms. The lease calls for monthly payments of \$6,350, with a 3% increase each year, if exercised. Total rent expense incurred for the related party lease for the years ended December 31, 2019 and 2018 was \$76,200 and \$76,500, respectively.

Future minimum rental payments under the Company's operating lease are as follows:

<u>Year Ending</u>	<u>Aggregate Obligations</u>
December 31, 2020	\$ 76,200
December 31, 2021	76,200
December 31, 2022	76,200
December 31, 2023	76,200
December 31, 2024	76,200
Thereafter	<u>76,200</u>
	<u>\$ 457,200</u>

Notes Receivable

The Company had notes receivable due from officers in the amounts of \$100,070 and \$116,907 at December 31, 2019 and 2018, respectively (see notes on Notes Receivable – Officers).

FRANCHISING

In general, the Company's franchise agreements provide for the payment of a franchise fee for each opened franchised location. Franchisees pay royalty fees of 6% of gross revenues. The Company collects advertising fees for regional media, which are based on 2% of weekly gross revenues. Subject to approval and payment of their renewal fee, a franchisee may generally renew its

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

FRANCHISING (continued)

agreement upon expiration. The Company recognizes renewal fees as income when a renewal agreement becomes effective.

Initial franchise fees of \$25,000 for an express model or \$30,000 for a standard model are generally recognized when substantially all services or conditions relating to the franchise sale have been performed or satisfied by the Company. Services provided by the Company include assistance in site selection, franchisee and operator training, and implementation of an accounting and quality control system.

Franchise revenue consists of the following:

	<u>Years Ended</u>	
	<u>December 31,</u>	<u>December 31,</u>
	<u>2019</u>	<u>2018</u>
Franchise royalties	\$ 1,496,835	\$ 1,516,962
Advertising income	516,598	399,609
Franchise fees	<u> </u>	<u>100,000</u>
Total franchise revenue	<u>\$ 2,013,433</u>	<u>\$ 2,016,571</u>

As territory is assigned to each franchisee sold, the Company may reach the point where existing markets become saturated and initial franchising revenue declines. Unless new markets are entered into, franchise revenues after market saturation will come primarily from continuing and renewal fees for existing franchises. In 2019 and 2018, there were no territories granted. In 2019, two franchises were opened, three franchises were closed, and 51 franchises were in operation.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments, none of which are held for trading purposes, include cash, receivables, and loan payments. The Company estimates that the fair value of all financial instruments at December 31, 2019 does not differ materially from the aggregate carrying value of the financial instruments recorded in the accompanying balance sheet. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

CHANGE IN ACCOUNTING ESTIMATE

During 2019, the Company reduced its gift card liability by recognizing the sales on all gift cards that were (1) activated on or before December 31, 2017 and (2) have no usage activities after December 31, 2017. The change had the effect of increasing Advertising income for 2019 by \$91,840.

SUBSEQUENT EVENT

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. As a result, economic uncertainties have arisen which are likely to negatively impact net income. Other financial impact could occur though such potential impact is unknown at this time.

CONSENT BY AUDITOR

As independent public accountants, we consent to the use of our report dated March 31, 2021, in the Franchise Disclosure Document of Deli Delicious Franchising, Inc. with the issuance date of April 3, 2021 for distribution to prospective franchisees and for filing with states requiring registration of franchise offers, sales, or both.

Kawana & Gong, LLP

KAWANA & GONG, LLP
Certified Public Accountants

Fresno, CA
April 3, 2021

DELI DELICIOUS FRANCHISING, INC.

**REPORT ON EXAMINATION
OF
FINANCIAL STATEMENTS**

YEARS ENDED DECEMBER 31, 2020 AND 2019

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Kawana & Gong, LLP

Certified Public Accountants
1827 E. Fir Avenue, Suite 103
Fresno, California 93720-3860

Tel. (559) 226-6664
Fax (559) 226-7174
www.kgllpcpas.com

INDEPENDENT AUDITOR'S REPORT

March 31, 2021

To the Board of Directors
and Stockholder of
Deli Delicious Franchising, Inc.

We have audited the accompanying financial statements of Deli Delicious Franchising, Inc. (a California corporation), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of income, retained earnings, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Deli Delicious Franchising, Inc. as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Kawana & Gong, LLP

DELI DELICIOUS FRANCHISING, INC.

BALANCE SHEETS

ASSETS

	December 31,	
	<u>2020</u>	<u>2019</u>
CURRENT ASSETS:		
Cash	\$ 86,813	\$ 81,397
Accounts receivable:		
Trade	134,530	106,709
Related parties	297,604	272,060
Employees	11,379	17,750
Note receivable – current portion:		
Officers	73,720	49,903
Prepaid expenses	4,256	3,895
Refundable income taxes	5,293	
TOTAL CURRENT ASSETS	<u>613,595</u>	<u>531,714</u>
PROPERTY AND EQUIPMENT - at cost:		
Furniture and fixtures	8,875	8,875
Vehicles	105,979	131,731
Computer equipment	28,227	16,363
Software	107	107
Machinery and equipment	24,356	12,356
Leasehold improvements	118,715	118,715
	<u>286,259</u>	<u>288,147</u>
Less accumulated depreciation	155,345	149,060
	<u>130,914</u>	<u>139,087</u>
OTHER ASSETS:		
Note receivable – due after one year:		
Officers	25,459	50,167
Intangible asset (net of amortization)	7,079	9,884
	<u>32,538</u>	<u>60,051</u>
	<u>\$ 777,047</u>	<u>\$ 730,852</u>

See accompanying notes to financial statements.

LIABILITIES AND
STOCKHOLDER'S EQUITY

	December 31,	
	2020	2019
CURRENT LIABILITIES:		
Accounts payable:		
Trade	\$ 186,745	\$ 26,536
Accrued payroll	38,472	35,363
Credit card payable	19,902	26,023
Gift card liability	141,290	298,629
Payroll taxes payable	246,904	40,695
Contracts payable	2,129	
Incomes taxes payable		3,214
Current maturities on long-term debt	238,528	89,182
TOTAL CURRENT LIABILITIES	873,970	519,642
 LONG-TERM DEBT, net of current portion	 724,151	 574,555
 STOCKHOLDER'S EQUITY:		
Common stock, no par value;		
authorized 1,000 shares; issued and		
outstanding 1,000 shares	60,000	60,000
Additional paid-in capital	24,875	24,875
Accumulated deficit	(905,949)	(448,220)
	(821,074)	(363,345)
	 \$ 777,047	 \$ 730,852

DELI DELICIOUS FRANCHISING, INC.

STATEMENTS OF INCOME AND RETAINED EARNINGS

	<u>Years Ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
SALES:		
Franchise royalties	\$ 1,128,867	\$ 1,496,835
Advertising income	<u>487,815</u>	<u>516,598</u>
	1,616,682	2,013,433
EXPENSES:		
General and administrative expenses	1,866,401	1,697,773
Depreciation and amortization	<u>34,842</u>	<u>39,029</u>
	<u>1,901,243</u>	<u>1,736,802</u>
INCOME (LOSS) FROM OPERATIONS	(284,561)	276,631
OTHER INCOME (EXPENSES):		
Interest expense	(14,128)	(40,944)
Interest income	3,160	7,167
Marketing income	72,127	106,395
Other income	20,631	26,071
Transfer fees	11,500	28,000
Gain (loss) on sale of fixed assets	10,000	(3,567)
EIDL grant income	<u>10,000</u>	<u> </u>
	<u>113,290</u>	<u>123,122</u>
INCOME (LOSS) BEFORE INCOME TAXES	(171,271)	399,753
INCOME TAXES:		
Current tax expense	800	7,397
Prior years tax expense	<u>1,139</u>	<u> </u>
	<u>1,939</u>	<u>7,397</u>
NET INCOME (LOSS)	(173,210)	392,356

See accompanying notes to financial statements.

DELI DELICIOUS FRANCHISING, INC.

STATEMENTS OF INCOME AND RETAINED EARNINGS

	<u>Years Ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
ACCUMULATED DEFICIT, BEGINNING OF YEAR	\$ (448,220)	\$ (435,319)
SHAREHOLDER'S WITHDRAWALS	<u>284,519</u>	<u>405,257</u>
ACCUMULATED DEFICIT, END OF YEAR	\$ <u>(905,949)</u>	\$ <u>(448,220)</u>

See accompanying notes to financial statements.

DELI DELICIOUS FRANCHISING, INC.

STATEMENTS OF CASH FLOWS

	<u>Years Ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (173,210)	\$ 392,356
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	34,842	39,029
Gain on sale of assets	(10,000)	
(Increase) decrease in:		
Accounts receivable	(46,994)	(41,839)
Prepaid expenses	(5,654)	10,430
Refundable income taxes		316
Increase (decrease) in:		
Accounts payable	160,209	(6,104)
Accrued payroll	3,109	(2,870)
Credit card payable	(6,121)	791
Gift card liability	(157,339)	(62,687)
Payroll taxes payable	206,209	29,985
Contracts payable	2,129	
Income taxes payable	(3,214)	3,214
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>3,966</u>	<u>362,621</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Collection of loans - notes receivable	891	16,849
Proceeds from sale of property and equipment	10,000	
Purchases of property and equipment	(23,864)	
Payment for loan fees		<u>(6,158)</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(12,973)</u>	<u>10,691</u>

See accompanying notes to financial statements.

DELI DELICIOUS FRANCHISING, INC.

STATEMENTS OF CASH FLOWS

(Continued)

	<u>Years Ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term debt	\$	\$ 2,000
Proceeds from long-term debt	350,282	61,588
Principal payments - long-term debt	(51,340)	(105,610)
Shareholder's withdrawals	<u>(284,519)</u>	<u>(405,257)</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>14,423</u>	<u>(447,279)</u>
NET INCREASE (DECREASE) IN CASH	5,416	(73,967)
CASH, BEGINNING OF YEAR	<u>81,397</u>	<u>155,364</u>
CASH, END OF YEAR	\$ <u><u>86,813</u></u>	\$ <u><u>81,397</u></u>
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest expense	\$ 14,128	\$ 40,944
Income taxes	\$ 1,139	\$ 4,070
SUPPLEMENTARY DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Loans refinanced:		
Short-term debt outstanding balance	\$	\$ (399,711)
Long-term debt outstanding balance		(104,198)
New long-term debt to refinance loans		<u>503,909</u>
Proceeds from long-term debt to refinance loans	\$ <u><u></u></u>	\$ <u><u></u></u>

See accompanying notes to financial statements.

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

ORGANIZATION

Deli Delicious Franchising, Inc. (the “Company”), a California S corporation, was formed on August 27, 2008 to offer franchises to operate deli restaurants. The Company operates under the accrual method of accounting. The Company is currently in the process of acquiring franchisees to operate in various states. The Company has 1,000 shares of no stated value common stock authorized, issued, and outstanding as of December 31, 2020 and December 31, 2019, respectively.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Deli Delicious Franchising, Inc. is presented to assist in understanding the Company’s financial statements. The financial statements and notes are the representations of the Company’s management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements. Management has evaluated subsequent events through March 31, 2021, the date the financial statements were available to be issued.

Cash Equivalents

For purposes of the statement of cash flows, the Company considers all unrestricted investment instruments purchased with original maturities of three months or less to be cash equivalents. At December 31, 2020 and December 31, 2019, there were no cash equivalents.

Property and Equipment

Property and equipment are stated at cost. Expenditures for maintenance and repairs are expensed as incurred while renewals and betterments are capitalized. Depreciation is computed on the straight-line method over estimated useful lives.

Accounts receivable

Bad debts are charged to operations in the year in which the account is determined uncollectible. Trade receivables are due no more than 30 days after issuance of the invoice. Receivables past due more than 60 days are considered delinquent. All accounts receivables are considered by management to be fully collectible.

Compensated Absences

Compensated absences for sick pay and vacation time have not been accrued since they cannot be reasonably estimated. The Company’s policy is to recognize these costs when actually paid.

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Advertising

The Company follows the policy of charging the costs of advertising to expense as incurred. Advertising expense for the years ended December 31, 2020 and December 31, 2019 were \$326,346 and \$379,555, respectively.

Income Taxes

The Company has elected to be taxed as an S corporation under the provisions of the Internal Revenue Code. Accordingly, the financial statements do not include provision for federal income taxes because the Company does not incur federal income taxes. Instead, the stockholders are taxed on their proportionate share of the Company's taxable income. The state of California does impose a corporate level franchise tax on S corporations. A provision for this tax has been recorded.

The Company classifies interest related to the underpayment of income taxes and any related penalties as operating expenses in the Statement of Income. Penalties related to income taxes for the years ended December 31, 2020 and December 31, 2019 were \$-0- and \$203, respectively.

The Company files income tax returns in the U.S. federal jurisdiction and the state of California. The Company's U.S. federal income tax returns from 2018 to the current year remain open to examination, while the California income tax returns from 2017 to the current year remain open to examination.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of risk consist principally of accounts receivable. Concentrations of credit risk with respect to accounts receivable contracts are due to the majority of customers being located within the Central Valley of California.

The Company maintains all of its cash accounts in one commercial bank located in Fresno, California. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2020 and December 31, 2019 there were no amounts in excess of the insured limits.

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

The Company's revenue is derived primarily from franchise fees, franchise royalties and advertising income. Generally, revenue is recognized when the performance obligations have been fulfilled (see note on Franchising). General and administrative expenses are expensed as incurred. Bad debts are charged to operations in the year in which the account is determined uncollectible.

Adoption of New Revenue Recognition

Effective January 1, 2020 the Company adopted the new revenue recognition standard under the Financial Accounting Standard Board's Accounting Standards Codification (FASB ASC) 606, Revenue from Contracts with Customers, using the modified retrospective transition method for all contracts. The new revenue recognition guidance requires the recognition of revenue when the promised goods or services are transferred to the customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. Results for reporting periods beginning after December 31, 2019, are presented under FASB ASC 606, while comparative period amounts have not been restated and continue to be presented under the previous accounting standard.

The Company generally recognizes revenue when the performance obligations have been fulfilled. The performance obligations are clearly identified (see note on Franchising) and therefore, the adoption of this new revenue recognition standard did not result in any significant changes to the assessment of such performance obligations, conclusions related to revenue that is currently recognized on a net basis, or the timing of the Company's revenue recognition.

NOTE RECEIVABLE – OFFICERS

	<u>Years Ended</u>	
	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Note receivable from Mohammad Hobab (officer/ shareholder), paid in monthly installments of \$2,156.24, including interest at 3%, secured by assets and goodwill of borrower. The loan matures December 15, 2022.	\$ <u>99,179</u>	\$ <u>100,070</u>
	99,179	100,070
Less current portion	<u>73,720</u>	<u>49,903</u>
	\$ <u>25,459</u>	\$ <u>50,167</u>

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

DEPRECIATION AND AMORTIZATION EXPENSE

Depreciation expense was computed as follows:

	Estimated Useful Years	<u>Years Ended</u>	
		<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Machinery and equipment	3 - 5	\$ 1,956	\$ 1,629
Furniture and fixtures	7	799	1,117
Vehicles	5	21,196	26,348
Computer equipment	5	2,149	2,733
Leasehold improvements	20	<u>5,937</u>	<u>5,937</u>
		32,037	37,764

Amortization expense was computed as follows:

Loan fees	30	<u>2,805</u>	<u>1,265</u>
Total depreciation and amortization expense		<u>\$ 34,842</u>	<u>\$ 39,029</u>

INTANGIBLE ASSET

Loan fees include costs to acquire long-term financing and are being amortized using the straight-line method over a 30-year life. Amortization expense was \$2,805 and \$1,265 for the years ended December 31, 2020 and 2019, respectively. The Company's intangible assets consisted of the following at December 31, 2020 and December 31, 2019:

	<u>Years Ended</u>	
	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Loan fees	\$ 13,677	\$ 13,677
Accumulated amortization	<u>(6,598)</u>	<u>(3,793)</u>
	<u>\$ 7,079</u>	<u>\$ 9,884</u>

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

LONG-TERM DEBT

	<u>Years Ended</u>	
	<u>December 31,</u>	<u>December 31,</u>
	<u>2020</u>	<u>2019</u>
Note payable to Fresno First Bank, variable interest rate 2.75% over Prime Rate, current rate is 6.00%, due in current monthly installments of principal and interest of \$2,349.20, secured by inventory chattel paper, accounts receivable, equipment, general intangibles and fixtures. The loan matures November 24, 2024.	\$ 100,122	\$ 115,621
Note payable to Michael Cadillac, due in monthly installments of \$784.68, including interest at 4.94%, vehicle pledged as collateral. The loan matures November 18, 2021.	10,062	17,200
Note payable to Educational Employees Credit Union, due in monthly installments of \$555.42, including interest at 3.74%, vehicle pledged as collateral. The loan matures June 15, 2021.	4,433	9,706
Note payable to Michael Cadillac, due in monthly installments of \$403.13, 0% interest, vehicle pledged as collateral. The loan matures July 29, 2023.	13,303	17,738
Note payable to Fresno First Bank, variable interest rate, current rate is 5.25%. Due in monthly installments of principal and interest of \$5,937.61, secured by Real Estate Documents. The loan matures September 5, 2022.	484,477	493,912
Note payable to Fresno First Bank, interest rate is 1.00%, payment deferred six months (deferral period) from the date of the first disbursement, payment due in monthly installments of principal and interest after deferral period. The loan matures April 23, 2022.	200,282	

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

LONG-TERM DEBT (continued)

	<u>Years Ended</u>	
	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Note payable to U.S Small Business Administration, annual interest rate 3.75%, due in monthly installments of principal and interest of \$731.00, starting on May 9, 2021, secured by inventory, chattel paper, accounts receivable, equipment, general intangibles and fixtures. The loan matures May 9, 2050.	\$ 150,000	\$
Note payable to Intuit, interest rate 7.95%, due in weekly installments of principal and interest of \$1,453.21, unsecured. The loan matured February 17, 2020.		8,060
Note payable to ClassicPlan Premium Financing, Inc., annual interest rate 13.89%, due in monthly installments of principal and interest of \$509.81, unsecured. The loan matured April 9, 2020.	<u>962,679</u>	<u>1,500</u> 663,737
Less current portion	<u>238,528</u>	<u>89,182</u>
	<u>\$ 724,151</u>	<u>\$ 574,555</u>

Maturities of long-term debt for each of the next five years are as follows:

<u>Year Ending</u>	<u>Aggregate</u> <u>Obligations</u>
December 31, 2021	\$ 238,528
December 31, 2022	530,161
December 31, 2023	34,042
December 31, 2024	28,281
December 31, 2025	5,000
Thereafter	<u>126,667</u>
	<u>\$ 962,679</u>

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

LEASE COMMITMENTS

Office Lease

The Company leases its office in Fresno, California (see note on Related Party Transactions).

Warehouse Lease

The Company leases a warehouse located at 3658 W. Gettysburg, Fresno, California on an operating lease with a two-year term. For the years ended December 31, 2020 and December 31, 2019, rent of \$16,200 and \$15,750, respectively, was paid and expensed.

Future minimum warehouse lease payments are as follows:

<u>Year Ending</u>	<u>Aggregate Obligations</u>
December 31, 2021	\$ 16,200
December 31, 2022	
December 31, 2023	
December 31, 2024	
December 31, 2025	
Thereafter	_____
	<u>\$ 16,200</u>

Vehicle Lease

Deli Delicious Franchising, Inc. leases automobiles on an operating lease with three-year terms. Automobile lease expense for the years ended December 31, 2020 and 2019 was \$12,465 and \$13,357, respectively.

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

LEASE COMMITMENTS (continued)

Vehicle Lease (continued)

Future minimum automobile lease payments are as follows:

<u>Year Ending</u>	<u>Aggregate Obligations</u>
December 31, 2021	\$ 8,221
December 31, 2022	8,221
December 31, 2023	8,220
December 31, 2024	
December 31, 2025	
Thereafter	<hr/>
	\$ <u>24,662</u>

CONTINGENCIES

Pending or Threatened Litigations, Claims, and Assessments

In 2019, a lawsuit was brought against the Company, shareholder, and selected management members (one of whom is a related party) by a former employee. The former employee alleges that the Company has made defamatory statements about him that have caused him to suffer economic harm, professional and reputational harm, shame mortification and hurt feelings and is seeking general and special damages according to proof and punitive damages.

The Company's cross-complaint is that the former employee breached his duty of loyalty to Deli Delicious Franchising, Inc. by wrongfully taking and using the Company's confidential information for his personal, professional and economic benefit which has provided him with a wrongful advantage in competing with the Company and interferes with and harms the Company's contractual relations with its existing and prospective franchisees. The Company also contends that the former employee has published a series of false and defamatory statements to third parties which have cause the Company to suffer damages to its reputation and its ability to contract with new franchisees. The Company is seeking general and special damages according to proof and punitive damages.

The parties are in the discovery phase of the lawsuit and have agreed to submit the dispute to mediation in the future. The Company is rigorously defending the former employee's complaint and vigorously prosecuting its cross-complaint. It is not presently possible to determine the outcome of this lawsuit; an estimate of the loss or range of loss cannot be determined.

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

CONTINGENCIES (continued)

Pending or Threatened Litigations, Claims, and Assessments (continued)

On July 15, 2020, the Company filed a lawsuit seeking a preliminary injunction, and ultimately a permanent injunction to enforce two of its franchisees to (1) purchase and serve in their franchised restaurants bread from the Company's designated vendor and (2) display in their restaurants the electronic menu boards required by the Company. The Company received a preliminary injunction in October 2020.

In response to the Company's complaint, the franchisees cross-complaint against the Company, shareholder, a related party management member, and an affiliated company that alleges 14 causes of actions, ten against the Company (e.g. Violation of Business and Professions Code Section 17200; Discriminatory Practices Act (Business and Professions Code section 17071 et seq.); Discriminatory Practices Act (Business and Professions Code section 17045 et seq.); Alter Ego; Violation of Sherman Anti-Trust Act; Breach of Franchise Agreement; Misappropriation of Funds-Disgorgement; Violation of Franchise Agreement-Declaratory Relief; Violation of Cartwright Act; and Combination of Collusion (Price Fixing)). As the cross-claims arise from the franchise agreements, the Company successfully moved the court to compel arbitration as to these claims. It is not clear how much money the franchisees are seeking by way of their cross-claims, but it is anticipated that the sum will exceed \$25,000. The arbitration has not yet been scheduled, but it is anticipated that the Company will make a demand in that forum against the franchisees for damages to the Company's business and goodwill, which the Company anticipates will exceed \$25,000.

On March 2, 2021, subsequent to the financial statement date, the court entered an order against the franchisees, awarding the Company \$30,500 in attorney fees and costs that it incurred to obtain a preliminary injunction.

In arbitration, the Company intends to defend the claims of the franchisees and prosecute its claims for damages against the franchisees. The claims against the Company are new. The arbitration proceeding where they will be decided has not yet been initiated, and the claims have not been developed through discovery or otherwise. It appears there is evidence that the franchisees have engaged in conduct that resulted in the Company's business and goodwill being damaged. However, it is premature to be able to quantify the extent of those damages because they are ongoing and must ultimately be calculated by an expert. It is not presently possible to determine the outcome of this lawsuit; an estimate of the loss or range of loss cannot be determined.

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

RELATED PARTY TRANSACTIONS

Sales and Purchases

The Company has routine business transactions with franchisees that are considered related parties. The Company has conducted the following routine business transactions with the related parties:

	<u>Years Ended</u>	
	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Sales	\$ 140	\$ 283
Advertising income	6,847	7,796

Accounts receivable–related parties as of December 31, 2020 and December 31, 2019 was \$297,604 and \$272,060, respectively.

Accounts payable–related parties as of December 31, 2020 and December 31, 2019 was \$-0- and \$-0-, respectively.

Lease Commitment

The Company leases its office building from the sole stockholder under a five-year operating lease commencing on November 24, 2015, with the option to renew for two times an additional five years under mutually agreeable terms. The lease calls for monthly payments of \$6,350, with a 3% increase each year, if exercised. Total rent expense incurred for the related party lease for the years ended December 31, 2020 and 2019 was \$76,200 and \$76,200, respectively.

Future minimum rental payments under the Company’s operating lease are as follows:

<u>Year Ending</u>	<u>Aggregate</u> <u>Obligations</u>
December 31, 2021	\$ 76,200
December 31, 2022	76,200
December 31, 2023	76,200
December 31, 2024	76,200
December 31, 2025	76,200
Thereafter	<hr/>
	\$ <u>381,000</u>

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

RELATED PARTY TRANSACTIONS (continued)

Note Receivable

The Company had a note receivable due from officers in the amounts of \$99,179 and \$100,070 at December 31, 2020 and 2019, respectively (see notes on Note Receivable – Officers).

FRANCHISING

Disaggregation of Revenue

The Company offers franchises to operate deli restaurants throughout the state of California. The majority of its franchised stores are located in central California. The Company is dependent on the restaurant industry and its ability to collect payments due from its franchisees. In general, the Company's franchise agreements provide for the payment of a franchise fee for each opened franchised location. Franchisees pay royalty fees of 6% of gross revenues. The Company collects advertising fees for ongoing regional media, which are based on 2% of weekly gross revenues. Franchisees may generally renew their agreement upon expiration subject to approval and payment of their renewal fees. Invoices are due either upon receipt or 30 days after the invoice date. There are no special arrangements or discounts given for early payments. All invoices are billed and payments collected via an electronic third-party website so that payments are assured.

Performance Obligations

Initial franchise fees of \$25,000 for an express model or \$30,000 for a standard model are generally recognized when substantially all services or conditions relating to the franchise sale have been performed or satisfied by the Company. Services provided by the Company include assistance in site selection, franchisee and operator training, and implementation of an accounting and quality control system.

Royalty fees (royalty income) are billed to franchisees on a monthly basis and generally recognized at the time of billing. The Company accesses an electronic platform on a weekly basis to retrieve gross sales amount for that one week for each franchised restaurant and calculates and bills the franchisees 6% of gross sales for royalty fees.

Advertising fees (advertising income) are billed to franchisees on a monthly basis based on 2% of that week's gross revenue and are generally recognized at the time of billing. The Company promotes the sales of sandwiches via marketing, local, regional, national, or international advertising, public relations, promotions, surveys, test marketing, research and development, administration (including the Company's salaries, accounting, collection, legal, and other costs), related expenses, and any media costs.

Renewal fees are billed to franchisees when a franchisee renews its contact upon

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

FRANCHISING (continued)

Performance Obligations (continued)

expiration but subject to management's approval and payment of the renewal fees. The Company generally recognizes renewal fees as income when a renewal agreement becomes effective.

Franchise revenue consists of the following:

	<u>Years Ended</u>	
	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Franchise royalties	\$ 1,128,867	\$ 1,496,835
Advertising income	<u>487,815</u>	<u>516,598</u>
Total franchise revenue	<u>\$ 1,616,682</u>	<u>\$ 2,013,433</u>

As territory is assigned to each franchisee sold, the Company may reach the point where existing markets become saturated and initial franchising revenue declines. Unless new markets are entered into, franchise revenues after market saturation will come primarily from continuing and renewal fees for existing franchises. In 2020 and 2019, there were no territories granted. In 2020, one franchise was opened, two franchises were closed, and 50 franchises were in operation.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments, none of which are held for trading purposes, include cash, receivables, and loan payments. The Company estimates that the fair value of all financial instruments at December 31, 2020 does not differ materially from the aggregate carrying value of the financial instruments recorded in the accompanying balance sheet. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

COVID-19 IMPLICATIONS

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. As a result, economic uncertainties have arisen which are likely to negatively impact net income. Other financial impact could occur though such potential impact is unknown at this time.

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

SUBSEQUENT EVENTS

Pending or Threatened Litigations, Claims, and Assessments

On February 1, 2021, the Company filed a lawsuit seeking issuance of a temporary restraining order, a preliminary injunction, and ultimately a permanent injunction, to enforce the obligations of a franchisee to (1) purchase and serve in the franchisee's franchised restaurants bread from the Company's designed vendor, (2) display in the franchisee's restaurants the electronic menu boards required by the Company, and (3) remove signage from his restaurants that put the Company in a negative light and violated the Company's signage requirements. The Company obtained a temporary restraining order on February 11, 2021 and a hearing on the Company's application for a preliminary injunction was scheduled to occur on March 25, 2021.

On March 8, 2021, the franchisee filed a cross-complaint in arbitration against the Company, shareholder, a related party management member, and an affiliated company that alleges the following causes of action against the Company's Breach of Written Contract; Fraud and Deceit; Negligent Misrepresentation; Breaches of the California Franchise Relations Act; Breaches of the California Franchise Investment Law; Rescission of Contracts; and Unfair Trade Practices (Business and Professions Code section 17200). In the cross-complaint, the franchisee seeks rescission of the Company's franchisee agreements with the franchisee, restitution and ancillary damages, or in the alternative damages in excess of \$500,000 or according to proof, punitive/exemplary damages according to proof, a permanent injunction enjoining the Company and other cross-defendants from illegal, fraudulent and unfair acts or practices, an order finding selected management members to be the alter egos of the entity cross-defendants and that they are jointly and severally liable for damages allegedly caused by them, and for attorney's fees. The franchisee's counsel has reserved a hearing date for a motion to appoint an arbitrator. It is anticipated that the Company's counsel and the franchisee's counsel will agree upon an arbitrator prior to any hearing to appoint one.

Also, if the Company obtains preliminary injunction against the franchises, it will file a motion against the franchisee seeking the attorney's fees and costs that the Company incurred to obtain the temporary restraining order and the preliminary injunction. It is anticipated that the attorney's fees and costs the Company will seek in that motion will be in excess of \$30,000.

In arbitration, the Company intends to defend the claims of the franchisee and prosecute its claims for damages against the franchisee. The franchisee's claims against the Company have not yet been disclosed. The arbitration proceeding where they will be decided has not yet been initiated, and those as-yet undisclosed claims have not been developed through discovery or otherwise. It appears there is evidence that the Franchisee has engaged in conduct that resulted in the Company's business and goodwill being damaged. However, it is premature to be able to quantify the extent of those damages because they are ongoing and must ultimately be calculated by an expert. It is not presently possible to determine the outcome of this lawsuit; an estimate of the loss or range of loss cannot be determined.

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

SUBSEQUENT EVENTS (continued)

Pending or Threatened Litigations, Claims, and Assessments (continued)

On February 9, 2021, a customer filed a complaint against the Company and a related party management member for equitable relief and civil penalties under Business and Professions Code section 17200 et seq. and 17500 et seq. The complaint contains the following causes of action (1) Dissemination of False Advertising in violation of Business and Professional Code section 17500 et seq. and (2) Unfair competition in violation of Business and Professions Code section 17200 et seq. The customer contends that she purchased two sandwiches from a restaurant owned by the related party management member. She contends the Company is failing to disclose that the bread served in the restaurant was previously frozen and as such is falsely advertising that sandwiches have “fresh ingredients” and is also falsely advertising that its bread is made with 100% organic flour. She also contends the sandwiches depicted in a picture in the subject restaurant do not look like the sandwiches that are being served in the restaurant. She seeks entry of an injunction to enjoin the Company and the related party management member to restore to any person who purchased falsely-advertised sandwiches the purchase price for the sandwiches, a civil penalty of \$2,500 for each violation of Unfair Competition Law, a civil penalty of \$2,500 for each violation of Business and Professional Code section 17500, and for attorney’s fees and costs of suit. It is presently unclear whether the customer’s claim will exceed \$25,000, but it may.

This lawsuit is in its infancy and the Company is evaluating the complaint and preparing its responsive pleading. It will vigorously defend the complaints. It is not presently possible to determine the outcome of this lawsuit; an estimate of the loss or range of loss cannot be determined.

On March 3, 2021, a customer who claimed to be a long-time customer of one of the franchised stores, gave notice by letter to the Company and two franchisees that his recent sandwich order did not taste fresh or have the same fresh consistency as his earlier purchases from that location. He claims he asked someone (presumably the clerk working the restaurant counter) why he thought there was a difference in quality of sandwich, and that he was told the bread served in that restaurant was frozen, whereas before the bread was “fresh” and not frozen. His experience led to his providing the March 3, 2021 notice that he intends to serve as a statutory Demand for Correction. His demand is that the Company/its franchisees place notice of the use of frozen bread in all its restaurants that serve frozen bread within 30 days of March 3, 2021. If that demand is not met, he states he will seek an injunction to obtain that relief. He is also demanding that the Company and the two franchisees reimburse his reasonable attorney’s fees and damages that are recoverable under the Act. It is presently unclear whether the customer’s claim will exceed \$25,000, but it ultimately might. On March 9, 2021, the franchisees’ counsel sent a letter to the Company’s counsel, demanding that the Company provide instructions to the franchisees about whether to post signs in the restaurants that identify the bread as being previously frozen or to revert back to using bread from a previously designated vendor. The letter also demand that the Company furnish the franchisees independent tri-partite counsel and hold them harmless of any judgement or claims that may arise out of the customer’s claim.

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

SUBSEQUENT EVENTS (continued)

Pending or Threatened Litigations, Claims, and Assessments (continued)

The Company intends to provide an appropriate response to the customer's letter and provide an appropriate response to the related claims in the franchisees' counsel's letter dated March 9, 2021. This threatened claim has not yet risen into a lawsuit and the Company is evaluating the claim and preparing a response to it. It is not presently possible to determine the outcome of this claim; an estimate of the loss or range of loss cannot be determined.

On March 8, 2021, a customer who claimed to be a long-time customer of one of the franchised restaurants, gave notice by letter to the Company and a franchisee to correct allegedly misleading or deceptive advertising by the Company and franchisee. He claims that he recently noticed a substantial and qualitative difference between the bread and ingredients used at another franchised restaurant and the subject restaurant. Specifically, he claimed that the bread and ingredients did not taste fresh and did not have the same fresh consistency as earlier purchases at the subject store. He claims the difference was so noticeable that he asked about the difference and was informed that the bread at the subject restaurant was frozen where before the bread served at the restaurant was fresh and that the bread being served at the subject restaurant is advertised as "fresh" not frozen. The customer demands that the Company/its franchisees place notice of the use of frozen bread in all its restaurants that serve frozen bread within 30 days of March 8, 2021. If that demand is not met, he states he will seek an injunction to obtain that relief. He is also demanding that the Company and the franchisee reimburse his reasonable attorney's fees and damages that are recoverable under the Act. It is presently unclear whether the customer's claim will exceed \$25,000, but it ultimately might.

The Company intends to provide an appropriate response to the customer's Demand for Correction. This threatened claim has not yet risen into a lawsuit and the Company is evaluating the claim and preparing a response to it. It is not presently possible to determine the outcome of this claim; an estimate of the loss or range of loss cannot be determined.

On March 8, 2021, a customer who claimed to be a long-time customer of one of the franchised restaurants, gave notice by letter to the Company and a franchisee to correct allegedly misleading or deceptive advertising by the Company and franchisee. She claims that she recently noticed a substantial and qualitative difference between the bread and ingredients used at another franchised restaurant and the subject restaurant. Specifically, she claimed that the bread and ingredients did not taste fresh and did not have the same fresh consistency as earlier purchases at the subject store. She claims the difference was so noticeable that she asked about the difference and was informed that the bread at the subject restaurant was frozen where before the bread served at the restaurant was fresh and that the bread being served at the subject restaurant is advertised as "fresh" not frozen. The customer demands that the Company/its franchisees place notice of the use of frozen bread in all its restaurants that serve frozen bread within 30 days of March 8, 2021. If that demand is not met, she states she will seek an injunction to obtain that relief. She is also demanding that the Company and the franchisee reimburse her reasonable attorney's fees and damages that are

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

SUBSEQUENT EVENTS (continued)

Pending or Threatened Litigations, Claims, and Assessments (continued)

recoverable under the Act. It is presently unclear whether the customer's claim will exceed \$25,000, but it ultimately might.

The Company intends to provide an appropriate response to the customer's Demand for Correction. This threatened claim has not yet risen into a lawsuit and the Company is evaluating the claim and preparing a response to it. It is not presently possible to determine the outcome of this claim; an estimate of the loss or range of loss cannot be determined.

The Company has a threatened litigation from two of its franchisees, both represented under the same counsel. It is anticipated that the franchisees will likely assert claims similar to the cross-complaints made by two other franchisees in the lawsuit filed by the Company on July 15, 2020. While it is not clear how much money these franchisees will see by way of their cross-claims, it is anticipated that the sum will exceed \$25,000 each. The franchisees' counsel acknowledges that the forum for the cross-claim will be arbitration and the Company's counsel and the franchisees' counsel are in the process of selecting an arbitrator to hear the claims. While that arbitration has not yet been scheduled, it is anticipated that the Company will make a demand in that forum against the franchisees for the damages that their conduct has caused to the Company's business and goodwill, which the Company anticipates will exceed \$25,000.

In arbitration, the Company intends to defend the claims of the franchisees and (2) prosecute its claims for damages against the franchisees. The claims of the franchisees have not yet been disclosed. The arbitration proceeding where they will be decided has not yet been initiated, and those as-yet undisclosed claims have not been developed through discovery or otherwise. It appears there is evidence that the franchisees have engaged in conduct that resulted in the Company's business and goodwill being damaged. However, it is premature to be able to quantify the extent of those damages because they are ongoing and must ultimately be calculated by an expert. It is not presently possible to determine the outcome of this lawsuit; an estimate of the loss or range of loss cannot be determined.

CONSENT BY AUDITOR

As independent public accountants, we consent to the use of our report dated July 25, 2022, in the Franchise Disclosure Document of Deli Delicious Franchising, Inc. with the issuance date of July 29, 2022 for distribution to prospective franchisees and for filing with states requiring registration of franchise offers, sales, or both.

Kawana & Gong, LLP

KAWANA & GONG, LLP
Certified Public Accountants

Fresno, CA
July 29, 2022

DELI DELICIOUS FRANCHISING, INC.

**REPORT ON EXAMINATION
OF
FINANCIAL STATEMENTS**

YEARS ENDED DECEMBER 31, 2021 AND 2020

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Kawana & Gong, LLP

Certified Public Accountants
1827 E. Fir Avenue, Suite 103
Fresno, California 93720-3860

Tel. (559) 226-6664
Fax (559) 226-7174
www.kgllpcpas.com

INDEPENDENT AUDITOR'S REPORT

July 25, 2022

To the Board of Directors
and Stockholder of
Deli Delicious Franchising, Inc.

Opinion

We have audited the accompanying financial statements of Deli Delicious Franchising, Inc. (a California corporation), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of income, retained earnings, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Deli Delicious Franchising, Inc. as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Kawana & Gong, LLP

DELI DELICIOUS FRANCHISING, INC.

BALANCE SHEETS

ASSETS

	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
CURRENT ASSETS:		
Cash	\$ 405,749	\$ 86,813
Accounts receivable:		
Trade	72,990	134,530
Related parties	334,733	297,604
Employees	13,803	11,379
Notes receivable – current portion:		
Officers	48,826	73,720
Employees	15,000	
Prepaid expenses	9,318	4,256
Refundable income taxes		5,293
TOTAL CURRENT ASSETS	<u>900,419</u>	<u>613,595</u>
 PROPERTY AND EQUIPMENT - at cost:		
Furniture and fixtures	8,875	8,875
Vehicles	105,979	105,979
Computer equipment	25,708	28,227
Software		107
Machinery and equipment	24,209	24,356
Leasehold improvements	118,715	118,715
	<u>283,486</u>	<u>286,259</u>
Less accumulated depreciation	<u>174,796</u>	<u>155,345</u>
	108,690	130,914
 OTHER ASSETS:		
Notes receivable – due after one year:		
Officers	25,459	25,459
Intangible asset (net of amortization)	4,274	7,079
	<u>29,733</u>	<u>32,538</u>
	<u>\$ 1,038,842</u>	<u>\$ 777,047</u>

See accompanying notes to financial statements.

LIABILITIES AND
STOCKHOLDER'S EQUITY

	December 31,	
	2021	2020
CURRENT LIABILITIES:		
Accounts payable:		
Trade	\$ 86,970	\$ 186,745
Accrued payroll	30,975	38,472
Credit card payable	15,905	19,902
Gift card liability	56,076	141,290
Payroll taxes payable	260,024	246,904
Contracts payable	6,211	2,129
Incomes taxes payable	8,172	
Current maturities on long-term debt	536,931	238,528
TOTAL CURRENT LIABILITIES	1,001,264	873,970
 LONG-TERM DEBT, net of current portion	 344,786	 724,151
 STOCKHOLDER'S EQUITY:		
Common stock, no par value; authorized 1,000 shares; issued and outstanding 1,000 shares	60,000	60,000
Additional paid-in capital	24,875	24,875
Accumulated deficit	(392,083)	(905,949)
	(307,208)	(821,074)
	 \$ 1,038,842	 \$ 777,047

DELI DELICIOUS FRANCHISING, INC.

STATEMENTS OF INCOME AND RETAINED EARNINGS

	<u>Years Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
SALES:		
Franchise royalties	\$ 1,434,088	\$ 1,128,867
Advertising income	<u>541,633</u>	<u>487,815</u>
	1,975,721	1,616,682
EXPENSES:		
General and administrative expenses	1,634,446	1,866,401
Depreciation and amortization	<u>31,029</u>	<u>34,842</u>
	1,665,475	1,901,243
INCOME (LOSS) FROM OPERATIONS	310,246	(284,561)
OTHER INCOME (EXPENSES):		
Interest expense	(29,922)	(14,128)
Interest income	14,234	3,160
Marketing income	78,026	72,127
Other income	38,931	20,631
Transfer fees	15,000	11,500
Gain on extinguishment of debt	203,030	
Gain (loss) on sale of fixed assets		10,000
EIDL grant income		<u>10,000</u>
	<u>319,299</u>	<u>113,290</u>
INCOME (LOSS) BEFORE INCOME TAXES	629,545	(171,271)
INCOME TAXES:		
Current tax expense	6,927	800
Prior years tax expense	<u>(53)</u>	<u>1,139</u>
	6,874	1,939
NET INCOME (LOSS)	622,671	(173,210)

See accompanying notes to financial statements.

DELI DELICIOUS FRANCHISING, INC.

STATEMENTS OF INCOME AND RETAINED EARNINGS

	<u>Years Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
ACCUMULATED DEFICIT, BEGINNING OF YEAR	\$ (905,949)	\$ (448,220)
SHAREHOLDER'S WITHDRAWALS	<u>108,805</u>	<u>284,519</u>
ACCUMULATED DEFICIT, END OF YEAR	\$ <u>(392,083)</u>	\$ <u>(905,949)</u>

See accompanying notes to financial statements.

DELI DELICIOUS FRANCHISING, INC.

STATEMENTS OF CASH FLOWS

	<u>Years Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 622,671	\$ (173,210)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	31,029	34,842
Gain on extinguishment of debt	(203,030)	
Gain on sale of assets		(10,000)
(Increase) decrease in:		
Accounts receivable	21,987	(46,994)
Prepaid expenses	231	(5,654)
Increase (decrease) in:		
Accounts payable	(99,775)	160,209
Accrued payroll	(7,497)	3,109
Credit card payable	(3,997)	(6,121)
Gift card liability	(85,214)	(157,339)
Payroll taxes payable	13,120	206,209
Contracts payable	4,082	2,129
Income taxes payable	8,172	(3,214)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>301,779</u>	<u>3,966</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Collection of loans - notes receivable	214,894	891
Notes receivable - advances	(205,000)	
Purchases of property and equipment	(6,000)	(23,864)
Proceeds from sale of property and equipment		<u>10,000</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>3,894</u>	<u>(12,973)</u>

See accompanying notes to financial statements.

DELI DELICIOUS FRANCHISING, INC.

STATEMENTS OF CASH FLOWS

(Continued)

	<u>Years Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	\$ 184,526	\$ 350,282
Principal payments - long-term debt	(62,458)	(51,340)
Shareholder's withdrawals	<u>(108,805)</u>	<u>(284,519)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>13,263</u>	<u>14,423</u>
NET INCREASE IN CASH	318,936	5,416
CASH, BEGINNING OF YEAR	<u>86,813</u>	<u>81,397</u>
CASH, END OF YEAR	<u>\$ 405,749</u>	<u>\$ 86,813</u>
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest expense	\$ 27,174	\$ 14,128
Income taxes	\$ 800	\$ 1,139

See accompanying notes to financial statements.

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

ORGANIZATION

Deli Delicious Franchising, Inc. (the “Company”), a California S corporation, was formed on August 27, 2008 to offer franchises to operate deli restaurants. The Company operates under the accrual method of accounting. The Company is currently in the process of acquiring franchisees to operate in various states. The Company has 1,000 shares of no stated value common stock authorized, issued, and outstanding as of December 31, 2021 and December 31, 2020 respectively.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Deli Delicious Franchising, Inc. is presented to assist in understanding the Company’s financial statements. The financial statements and notes are the representations of the Company’s management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements. Management has evaluated subsequent events through July 25, 2022, the date the financial statements were available to be issued.

Cash Equivalents

For purposes of the statement of cash flows, the Company considers all unrestricted investment instruments purchased with original maturities of three months or less to be cash equivalents. At December 31, 2021 and December 31, 2020, there were no cash equivalents.

Property and Equipment

Property and equipment are stated at cost. Expenditures for maintenance and repairs are expensed as incurred while renewals and betterments are capitalized. Depreciation is computed on the straight-line method over estimated useful lives.

Accounts receivable

Bad debts are charged to operations in the year in which the account is determined uncollectible. Trade receivables are due no more than 30 days after issuance of the invoice. Receivables past due more than 60 days are considered delinquent. All accounts receivables are considered by management to be fully collectible.

Compensated Absences

Compensated absences for sick pay and vacation time have not been accrued since they cannot be reasonably estimated. The Company’s policy is to recognize these costs when actually paid.

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Advertising

The Company follows the policy of charging the costs of advertising to expense as incurred. Advertising expense for the years ended December 31, 2021 and December 31, 2020 were \$263,465 and \$326,346, respectively.

Income Taxes

The Company has elected to be taxed as an S corporation under the provisions of the Internal Revenue Code. Accordingly, the financial statements do not include provision for federal income taxes because the Company does not incur federal income taxes. Instead, the stockholders are taxed on their proportionate share of the Company's taxable income. The state of California does impose a corporate level franchise tax on S corporations. A provision for this tax has been recorded.

The Company classifies interest related to the underpayment of income taxes and any related penalties as operating expenses in the Statement of Income. Penalties related to income taxes for the years ended December 31, 2021 and December 31, 2020 were \$67 and \$-0-, respectively.

The Company has elected to pay the Pass-Through Entity tax on behalf of its shareholder. The amount of the tax is \$7,271. A provision for this tax has been recorded.

The Company files income tax returns in the U.S. federal jurisdiction and the state of California. The Company's U.S. federal income tax returns from 2019 to the current year remain open to examination, while the California income tax returns from 2018 to the current year remain open to examination.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of risk consist principally of accounts receivable. Concentrations of credit risk with respect to accounts receivable contracts are due to the majority of customers being located within the Central Valley of California.

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentrations of Credit Risk (continued)

The Company maintains all of its cash accounts in one commercial bank located in Fresno, California. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2021 and December 31, 2020 there was \$239,933 and \$-0- in excess of the insured limits.

Revenue Recognition

The Company's revenue is derived primarily from franchise fees, franchise royalties and advertising income. Generally, revenue is recognized when the performance obligations have been fulfilled (see note on Franchising). General and administrative expenses are expensed as incurred. Bad debts are charged to operations in the year in which the account is determined uncollectible.

NOTES RECEIVABLE

	<u>Years Ended</u>	
	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
Note receivable from Mohammad Hobab (officer/ shareholder), paid in monthly installments of \$2,156.24, including interest at 3%, secured by assets and goodwill of borrower. The loan matures December 15, 2022.	\$ 74,285	\$ 99,179
Note receivable from Sam Siamak Namdarian, \$140,000 due on June 30, 2021, remaining balance paid in monthly installments of \$10,000 with final payment of \$5,000. Interest at 0%, unsecured. The loan matures February 1, 2022.	<u>15,000</u> 89,285	<u>99,179</u>
Less current portion	<u>63,826</u>	<u>73,720</u>
	\$ <u>25,459</u>	\$ <u>25,459</u>

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

DEPRECIATION AND AMORTIZATION EXPENSE

Depreciation expense was computed as follows:

	Estimated Useful Years	Years Ended	
		December 31, 2021	December 31, 2020
Machinery and equipment	3 - 5	\$ 2,835	\$ 1,956
Furniture and fixtures	7	197	799
Vehicles	5	16,882	21,196
Computer equipment	5	2,373	2,149
Leasehold improvements	20	<u>5,937</u>	<u>5,937</u>
		28,224	32,037

Amortization expense was computed as follows:

Loan fees	30	<u>2,805</u>	<u>2,805</u>
Total depreciation and amortization expense		<u>\$ 31,029</u>	<u>\$ 34,842</u>

INTANGIBLE ASSET

Loan fees include costs to acquire long-term financing and are being amortized using the straight-line method over a 30-year life. Amortization expense was \$2,805 and \$2,805 for the years ended December 31, 2021 and 2020, respectively. The Company's intangible assets consisted of the following at December 31, 2021 and December 31, 2020:

	Years Ended	
	December 31, 2021	December 31, 2020
Loan fees	\$ 13,677	\$ 13,677
Accumulated amortization	<u>(9,403)</u>	<u>(6,598)</u>
	<u>\$ 4,274</u>	<u>\$ 7,079</u>

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

LONG-TERM DEBT

	<u>Years Ended</u>	
	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
Note payable to Fresno First Bank, variable interest rate 2.75% over Prime Rate, current rate is 6.00%, due in current monthly installments of principal and interest of \$2,349.20, secured by inventory chattel paper, accounts receivable, equipment, general intangibles and fixtures. The loan matures November 24, 2024.	\$ 77,968	\$ 100,122
Note payable to Michael Cadillac, due in monthly installments of \$784.68, including interest at 4.94%, vehicle pledged as collateral. The loan matures November 18, 2021.	944	10,062
Note payable to Michael Cadillac, due in monthly installments of \$403.13, 0% interest, vehicle pledged as collateral. The loan matures July 29, 2023.	8,465	13,303
Note payable to Fresno First Bank, variable interest rate, current rate is 5.25%, due in monthly installments of principal and interest of \$5,937.61, secured by Real Estate Documents. The loan matures September 5, 2022.	462,562	484,477
Note payable to U.S Small Business Administration, annual interest rate 3.75%, due in monthly installments of principal and interest of \$731.00 starting on May 9, 2021, secured by inventory, chattel paper, accounts receivable, equipment, general intangibles and fixtures. The loan matures May 9, 2050.	150,000	150,000
Note payable to Fresno First Bank, interest rate is 1.00%, payments deferred eight weeks after disbursement (deferral period) with first payment due in ten months after deferral period, payment due in monthly installments of principal and interest. The loan matures January 27, 2026. Unsecured. (Paycheck Protection Program loan.)	181,778	

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

LONG-TERM DEBT (continued)

	<u>Years Ended</u>	
	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
Note payable to Educational Employees Credit Union, due in monthly installments of \$555.42, including interest at 3.74%, vehicle pledged as collateral. The loan matures June 15, 2021.	\$	\$ 4,433
Note payable to Fresno First Bank, interest rate is 1.00%, payment deferred six months (deferral period) from the date of the first disbursement, payment due in monthly installments of principal and interest after deferral period. The loan matures April 23, 2022. Unsecured. (Paycheck Protection Program loan.)		<u>200,282</u>
	<u>881,717</u>	<u>962,679</u>
Less current portion	<u>536,931</u>	<u>238,528</u>
	<u>\$ 344,786</u>	<u>\$ 724,151</u>

Maturities of long-term debt for each of the next five years are as follows:

<u>Year Ending</u>	<u>Aggregate</u> <u>Obligations</u>
December 31, 2022	\$ 536,931
December 31, 2023	70,801
December 31, 2024	69,607
December 31, 2025	41,356
December 31, 2026	41,355
Thereafter	<u>121,667</u>
	<u>\$ 881,717</u>

The Company applied for and received Paycheck Protection Program (“PPP”) loans under a new federal program designed to support small businesses during the novel coronavirus (“COVID-19”) global health pandemic. The PPP loan program was part of The CARES Act, which was signed into law on March 27, 2020, and is being implemented by the SBA with cooperation from private banks. PPP loans may be fully or partially forgiven by application to the SBA if proceeds are expended based on federal guidelines. Management applied and was approved for the first PPP loan on April 12, 2020 for \$200,282 and the second PPP loan on

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

LONG-TERM DEBT (continued)

January 27, 2021 for \$181,778 to fund payroll and other allowable costs, while the Company responded to government restrictions on business operations and anticipated reduced revenues from the economic downturn associated with the pandemic. Both loans were received from Fresno First Bank. On August 30, 2021, the Company received full forgiveness of the first PPP loan amount, including accrued interest of \$2,748. Management anticipates that all of the loan proceeds for the second PPP loan will also qualify for loan forgiveness since it will be spent in accordance with federal regulations relating to the use of funds during the 24 weeks following the deposit of loan proceeds.

LEASE COMMITMENTS

Office Lease

The Company leases its office in Fresno, California (see note on Related Party Transactions).

Warehouse Lease

The Company leases a warehouse located at 3658 W. Gettysburg, Fresno, California on an operating lease with a two-year term. For the years ended December 31, 2021 and December 31, 2020, rent of \$16,200 and \$16,200, respectively, was paid and expensed.

Future minimum warehouse lease payments are as follows:

<u>Year Ending</u>	<u>Aggregate Obligations</u>
December 31, 2022	\$ 16,200
December 31, 2023	16,200
December 31, 2024	
December 31, 2025	
December 31, 2026	
Thereafter	<hr/>
	<u>\$ 32,400</u>

Vehicle Lease

Deli Delicious Franchising, Inc. leases automobiles on an operating lease with three-year terms. Automobile lease expense for the years ended December 31, 2021 and 2020 was \$13,930 and \$12,465, respectively.

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

LEASE COMMITMENTS (continued)

Vehicle Lease (continued)

Future minimum automobile lease payments are as follows:

<u>Year Ending</u>	<u>Aggregate Obligations</u>
December 31, 2022	\$ 20,962
December 31, 2023	12,741
December 31, 2024	8,494
December 31, 2025	
December 31, 2026	
Thereafter	<hr/>
	<u>\$ 42,197</u>

CONTINGENCIES

Pending Litigations, Claims, and Assessments

Tim Campbell v. Mohamad Hobab; Hesam Hobab; Ali Nekumanesh; Deli Delicious Franchise, Inc. and Related Cross-Complaint; Fresno County Superior Court Case No. 19CECG02930

On August 9, 2019, Plaintiff Tim Campbell asserts the following causes of action against the Company (Defendant): Defamation Per Se; Defamation; Intentional Interference With Prospective Economic Relations; Intentional Infliction of Emotional Distress; and Negligent Infliction of Emotional Distress. The Company cross-complained against Plaintiff Campbell asserting the following causes: Breach of Duty of Loyalty; Misappropriation of Trade Secrets; Defamation; Intentional Interference with Contract; Negligent Interference with Contract; and Unfair Competition.

In Plaintiff Campbell's complaint, he alleges that the Company has made defamatory statements about him that have caused him to suffer economic harm, professional and reputational harm, shame mortification and hurt feelings. Plaintiff Campbell seeks general and special damages according to proof and punitive damages. Although the amount of monetary damages Plaintiff Campbell claims to have incurred as a result of the Company's actions is subject to proof at trial, this disclosure is being made because the sum of such damages may exceed \$30,000.

The Company contends in its cross-complaint that Plaintiff Campbell breached his duty of loyalty to the Company by wrongfully taking and using the Company's confidential information for his personal, professional, and economic benefit which has provided him with a wrongful advantage

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

CONTINGENCIES (continued)

Pending Litigations, Claims, and Assessments (continued)

Tim Campbell v. Mohamad Hobab; Hesam Hobab; Ali Nekumanesh; Deli Delicious Franchise, Inc. and Related Cross-Complaint; Fresno County Superior Court Case No. 19CECG02930 (continued)

in competing with the Company and interferes with and harms the Company's contractual relations with its existing and prospective franchisees. The Company also contends that Plaintiff Campbell has published a series of false and defamatory statements to third persons which have caused the Company to suffer damages to its reputation and its ability to contract with new franchisees. The Company seeks general and special damages according to proof and punitive damages. Although the amount of monetary damages incurred by the Company as a result of Plaintiff Campbell's action is subject to proof at trial, this disclosure is being made because the sum of such damages may exceed \$30,000.

The parties are in the discovery phase of the lawsuit and have agreed to submit the dispute to mediation in the future. The Company is rigorously defending Plaintiff Campbell's complaint and vigorously prosecuting its cross-complaint. It is not presently possible to determine the outcome of this lawsuit; an estimate of the loss or range of loss cannot be determined.

Deli Delicious Franchising, Inc. v. Vahid Misaghi; Fresno Superior Court Case No. 21CECG00287

On February 1, 2021, the Company (Plaintiff) filed a lawsuit seeking issuance of a temporary restraining order, a preliminary injunction, and ultimately a permanent injunction, to enforce the obligations of its franchisee Vahid Misaghi (Defendant) to (1) purchase and serve in the franchisee's franchised restaurants bread from the Company's designed vendor, (2) display in the franchisee's restaurants the electronic menu boards required by the Company, and (3) remove signage from his restaurants that put the Company in a negative light and violated the Company's signage requirements. The Company obtained both temporary restraining order and preliminary injunction.

On March 8, 2021, Defendant Misaghi filed a cross-complaint in arbitration against the Company, Mohammad Hobab (shareholder), Hesam Hobab (officer), and D.D.'s Bakery, A California Corporation (related company) that alleges the following causes of action: Breach of Written Contract; Fraud and Deceit; Negligent Misrepresentation; Breaches of the California Franchise Investment Law; Rescission of Contracts; and Unfair Trade Practices (Business and Professions Code section 17200). The prayer for relief in the cross-complaint seeks rescission of the Company's franchisee agreements with Defendant Misaghi, restitution and ancillary damages, or in the alternative damages in excess of \$500,000 or according to proof, punitive/exemplary damages according to proof, a permanent injunction enjoining the Company and other cross-defendants from illegal, fraudulent and unfair acts or practices, an order finding Mohammad Hobab and Hesam Hobab to be the alter egos of the entity cross-defendants and that they are jointly and severally liable for damages allegedly caused by them, and for attorney's fees. Although Defendant Misaghi filed

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

CONTINGENCIES (continued)

Pending or Threatened Litigations, Claims, and Assessments (continued)

Deli Delicious Franchising, Inc. v. Vahid Misaghi; Fresno Superior Court Case No. 21CECG00287 (continued)

his cross-complaint in superior court, the counsel representing him acknowledge that the forum for the cross-claims will be in arbitration.

On May 25, 2021, Defendant Misaghi filed a notice of appeal of the court's issuance of the preliminary injunction in the Company's favor. If the Company successfully opposes the appeal, it will file a motion against Defendant Misaghi seeking the attorney's fees and costs the Company incurred to obtain the temporary restraining order and the preliminary injunction and to defeat the appeal. Attorney's fees and costs that the Company will seek will be in excess of \$45,000.

The superior court is stayed pending the resolution of the dispute in arbitration. The Company intends to prosecute its claims for damages against Defendant Misaghi and defend the cross-claims that Defendant Misaghi has brought against the Company. The arbitration is in its infancy stage. It is not presently possible to determine the outcome of this lawsuit; an estimate of the loss or range of loss cannot be determined (see note on Subsequent Events).

Letitia Sanches v. Deli Delicious Franchising, Inc. and Hesam Hobab; Fresno Superior Court Case No. 21CECG00378

On February 9, 2021, Plaintiff Letitia Sanches filed a complaint against the Company and Hesam Hobab (officer) for equitable relief and civil penalties under Business and Professions Code section 17200 et seq. and 17500 et seq. The complaint contains the following causes of action (1) Dissemination of False Advertising in violation of Business and Professional Code section 17500 et seq. and (2) Unfair competition in violation of Business and Professions Code section 17200 et seq. Plaintiff Sanches contends that she purchased two sandwiches from a restaurant operated by Hobab. She contends the Company is failing to disclose that the bread served in the restaurant was previously frozen and as such is falsely advertising that sandwiches have "fresh ingredients" and is also falsely advertising that its bread is made with 100% organic flour. She also contends the sandwiches depicted in a picture in the subject restaurant do not look like the sandwiches that are being served in the restaurant. She seeks entry of an injunction to enjoin the Company and Hobab to restore to any person who purchased falsely-advertised sandwiches the purchase price for the sandwiches, a civil penalty of \$2,500 for each violation of Unfair Competition Law, a civil penalty of \$2,500 for each violation of Business and Professional Code section 17500, and for attorney's fees and costs of suit. It is presently unclear whether Plaintiff Sanches' claim will exceed \$30,000, but it may.

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

CONTINGENCIES (continued)

Pending Litigations, Claims, and Assessments (continued)

Letitia Sanches v. Deli Delicious Franchising, Inc. and Hesam Hobab; Fresno Superior Court Case No. 21CECG00378 (continued)

Plaintiff Sanches' claims against the Company are not yet fully developed or known through the discovery process. Trial is set to occur on February 14, 2023. All parties have exchanged and responded to initial written discovery. The Company will vigorously defend the complaints. It is not presently possible to determine the outcome of this lawsuit; an estimate of the loss or range of loss cannot be determined.

Threatened Litigations, Claims, and Assessments

On March 3, 2021, a customer who claimed to be a long-time customer of one of the franchised stores, gave notice by letter to the Company and a franchisee that his recent sandwich order did not taste fresh or have the same fresh consistency as his earlier purchases from that location. He claims he asked someone (presumably the clerk working the restaurant counter) why he thought there was a difference in quality of sandwich, and that he was told the bread served in that restaurant was frozen, whereas before the bread was "fresh" and not frozen. His experience led to his providing the March 3, 2021 notice that he intends to serve as a statutory Demand for Correction. His demand is that the Company/its franchisees place notice of the use of frozen bread in all its restaurants that serve frozen bread within 30 days of March 3, 2021. If that demand is not met, he states he will seek an injunction to obtain that relief. He is also demanding that the Company and the two franchisees reimburse his reasonable attorney's fees and damages that are recoverable under the Act. It is presently unclear whether the customer's claim will exceed \$30,000, but it ultimately might. On March 9, 2021, the franchisees' counsel sent a letter to the Company's counsel, demanding that the Company provide instructions to the franchisees about whether to post signs in the restaurants that identify the bread as being previously frozen or to revert back to using bread from a previously designated vendor. The letter also demand that the Company furnish the franchisees independent tri-partite counsel and hold them harmless of any judgement or claims that may arise out of the customer's claim.

As of April 11, 2022, there is no litigation to respond to and the Company has no plan to reach out to the customer because it seems the customer may have decided not to pursue his Demand. If the customer later reinitiates action relating to the Demand, the Company will defend its interests against the Demand and against any related demands of the two franchisees. It is not presently possible to determine the outcome of this threatened claim that has not yet risen into a lawsuit; an estimate of the loss or range of loss cannot be determined.

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

CONTINGENCIES (continued)

Threatened Litigations, Claims, and Assessments (continued)

On March 8, 2021, a customer who claimed to be a long-time customer of one of the franchised restaurants, gave notice by letter to the Company and a franchisee to correct allegedly misleading or deceptive advertising by the Company and franchisee. He claims that he recently noticed a substantial and qualitative difference between the bread and ingredients used at another franchised restaurant and the subject restaurant. Specifically, he claimed that the bread and ingredients did not taste fresh and did not have the same fresh consistency as earlier purchases at the subject store. He claims the difference was so noticeable that he asked about the difference and was informed that the bread at the subject restaurant was frozen where before the bread served at the restaurant was fresh and that the bread being served at the subject restaurant is advertised as “fresh” not frozen. The customer demands that the Company/its franchisees place notice of the use of frozen bread in all its restaurants that serve frozen bread within 30 days of March 8, 2021. If that demand is not met, he states he will seek an injunction to obtain that relief. He is also demanding that the Company and the franchisee reimburse his reasonable attorney’s fees and damages that are recoverable under the Act. It is presently unclear whether the customer’s claim will exceed \$30,000, but it ultimately might.

As of April 11, 2022, there is no litigation to respond to and the Company has no plan to reach out to the customer because it seems the customer may have decided not to pursue his Notice/Demand. If the customer later reinitiates action relating to the Notice/Demand, the Company will defend its interests against the Notice/Demand. It is not presently possible to determine the outcome of this threatened claim that has not risen into a lawsuit; an estimate of the loss or range of loss cannot be determined.

On March 8, 2021, a customer who claimed to be a long-time customer of one of the franchised restaurants, gave notice by letter to the Company and a franchisee to correct allegedly misleading or deceptive advertising by the Company and franchisee. She claims that she recently noticed a substantial and qualitative difference between the bread and ingredients used at another franchised restaurant and the subject restaurant. Specifically, she claimed that the bread and ingredients did not taste fresh and did not have the same fresh consistency as earlier purchases at the subject store. She claims the difference was so noticeable that she asked about the difference and was informed that the bread at the subject restaurant was frozen where before the bread served at the restaurant was fresh and that the bread being served at the subject restaurant is advertised as “fresh” not frozen. The customer demands that the Company/its franchisees place notice of the use of frozen bread in all its restaurants that serve frozen bread within 30 days of March 8, 2021. If that demand is not met, she states she will seek an injunction to obtain that relief. She is also demanding that the Company and the franchisee reimburse her reasonable attorney’s fees and damages that are

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

CONTINGENCIES (continued)

Pending or Threatened Litigations, Claims, and Assessments (continued)

recoverable under the Act. It is presently unclear whether the customer's claims will exceed \$30,000, but it ultimately might.

As of April 11, 2022, there is no litigation to respond to and the Company has no plan to reach out to the customer because it seems the customer may have decided not to pursue his Notice/Demand. If the customer later reinitiates action relating to the Notice/Demand, the Company will defend its interests against the Notice/Demand. It is not presently possible to determine the outcome of this threatened claim that has not risen into a lawsuit; an estimate of the loss or range of loss cannot be determined.

RELATED PARTY TRANSACTIONS

Sales and Purchases

The Company has routine business transactions with franchisees that are considered related parties. The Company has conducted the following routine business transactions with the related parties:

	<u>Years Ended</u>	
	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
Franchise royalties	\$ 94,186	\$
Advertising income	6,847	6,847
Other income	381	140

Accounts receivable-related parties as of December 31, 2021 and December 31, 2020 was \$334,838 and \$297,604, respectively.

Accounts payable-related parties as of December 31, 2021 and December 31, 2020 was \$-0- and \$-0-, respectively.

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

RELATED PARTY TRANSACTIONS (continued)

Lease Commitment

The Company leases its office building from the sole stockholder under a five-year operating lease commencing on November 24, 2015, with the option to renew for two times an additional five years under mutually agreeable terms. The lease calls for monthly payments of \$6,350, with a 3% increase each year, if exercised. Total rent expense incurred for the related party lease for the years ended December 31, 2021 and 2020 was \$76,200 and \$76,200, respectively.

Future minimum rental payments under the Company's operating lease are as follows:

<u>Year Ending</u>	<u>Aggregate Obligations</u>
December 31, 2022	\$ 76,200
December 31, 2023	76,200
December 31, 2024	76,200
December 31, 2025	76,200
December 31, 2026	
Thereafter	<hr/>
	<u>\$ 304,800</u>

Note Receivable

The Company has a note receivable due from the shareholder in the amount of \$74,285 and \$99,179 at December 31, 2021 and 2020, respectively (see notes on Notes Receivable).

FRANCHISING

Disaggregation of Revenue

The Company offers franchises to operate deli restaurants throughout the state of California. The majority of its franchised stores are located in central California. The Company is dependent on the restaurant industry and its ability to collect payments due from its franchisees. In general, the Company's franchise agreements provide for the payment of a franchise fee for each opened franchised location. Franchisees pay royalty fees of 6% of gross revenues. The Company collects advertising fees for ongoing regional media, which are based on 2% of weekly gross revenues. Franchisees may generally renew their agreement upon expiration subject to approval and payment of their renewal fees. Invoices are due either upon receipt or 30 days after the invoice date. There are no special arrangements or discounts given for early payments. All invoices are billed and payments collected via an electronic third-party website so that payments are assured.

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

FRANCHISING (continued)

Performance Obligations

Initial franchise fees of \$25,000 for an express model or \$30,000 for a standard model are generally recognized when substantially all services or conditions relating to the franchise sale have been performed or satisfied by the Company. Services provided by the Company include assistance in site selection, franchisee and operator training, and implementation of an accounting and quality control system.

Royalty fees (franchise royalties) are billed to franchisees on a monthly basis and generally recognized at the time of billing. The Company accesses an electronic platform on a weekly basis to retrieve gross sales amount for that one week for each franchised restaurant and calculates and bills the franchisees 6% of gross sales for royalty fees.

Advertising fees (advertising income) are billed to franchisees on a monthly basis based on 2% of that week's gross revenue and are generally recognized at the time of billing. The Company promotes the sales of sandwiches via marketing, local, regional, national, or international advertising, public relations, promotions, surveys, test marketing, research and development, administration (including the Company's salaries, accounting, collection, legal, and other costs), related expenses, and any media costs.

Renewal fees are billed to franchisees when a franchisee renews its contact upon expiration but subject to management's approval and payment of the renewal fees. The Company generally recognizes renewal fees as income when a renewal agreement becomes effective.

Franchise revenue consists of the following:

	<u>Years Ended</u>	
	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
Franchise royalties	\$ 1,434,088	\$ 1,128,867
Advertising income	<u>541,633</u>	<u>487,815</u>
Total franchise revenue	<u>\$ 1,975,721</u>	<u>\$ 1,616,682</u>

As territory is assigned to each franchisee sold, the Company may reach the point where existing markets become saturated and initial franchising revenue declines. Unless new markets are entered into, franchise revenues after market saturation will come primarily from continuing and renewal fees for existing franchises. In 2021 and 2020, there were no territories granted. In 2021, two franchises were opened, six franchises were closed, and 44 franchises were in operation.

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments, none of which are held for trading purposes, include cash, receivables, and loan payments. The Company estimates that the fair value of all financial instruments at December 31, 2021 does not differ materially from the aggregate carrying value of the financial instruments recorded in the accompanying balance sheet. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

COVID-19 IMPLICATIONS

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. As a result, economic uncertainties have arisen which are likely to negatively impact net income. Other financial impact could occur though such potential impact is unknown at this time.

SUBSEQUENT EVENTS

Pending Litigations, Claims, and Assessments

Deli Delicious Franchising, Inc. v. Vahid Misaghi; Fresno Superior Court Case No. 21CECG00287

On February 9, 2022, the Company submitted a demand for arbitration to the American Arbitration Association, which was served on counsel for the franchisee. The Company's demand for arbitration noted that the Company was asserting claims against the franchisee for Breach of the Franchise Agreements; Intentional Interference With Economic Relations; Negligent Interference With Economic Relations; Intentional Interference With Contractual Relationship; Negligent Interference With Contractual Relationship; Civil Conspiracy; Defamation; Defamation Per Se; Defamation Per Quod.

On or about March 10, 2022, Defendant Misaghi submitted a cross-claim against the Company to the America Arbitration Association. In that cross-complaint, Defendant Misaghi asserts the following claims against the Company: (1) breach of written contracts and covenants of good faith and fair dealing; (2) intentional interference with contract and economic relationships; (3) negligent interference with contractual rights and economic relations; (4) violations of association rights under the California Franchise Investment Law; (5) wrongful denial of transfers in violation of the California Franchise Relations Act; and (6) unfair trade practices, Business and Professions Code Section 17200. The cross-claim's prayer for relief seeks general and special damages according to proof, punitive or exemplary damages, reasonable attorney's fees and costs of suit. Being that the governing franchise agreements require this dispute to be resolved in arbitration, the Company will

DELI DELICIOUS FRANCHISING, INC.

NOTES TO FINANCIAL STATEMENTS

SUBSEQUENT EVENTS (continued)

Pending Litigations, Claims, and Assessments (continued)

Deli Delicious Franchising, Inc. v. Vahid Misaghi; Fresno Superior Court Case No. 21CECG00287
(continued)

argue that the franchisee's newly-filed cross-claim in the pending arbitration supersedes the cross-complaint filed in the superior court case.

The superior court is stayed pending the resolution of the dispute in arbitration. The Company intends to prosecute its claims for damages against Defendant Misaghi and defend the cross-claims that Defendant Misaghi has brought against the Company. The arbitration is in its infancy stage. It is not presently possible to determine the outcome of this lawsuit; an estimate of the loss or range of loss cannot be determined.

Management Report

Deli Delicious Franchising, Inc.
For the period ended June 30, 2022

Deli Delicious

Prepared by

Jennifer L. Brandon, CPA

Prepared on

August 1, 2022

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Profit and Loss

January - June, 2022

	Total
INCOME	
4100 Franchise Royalties	717,161.57
4150 Franchise Fees	7,500.00
4160 Transfer Fees	40,750.00
4200 Marketing Income	78,419.91
4300 Advertising Income	239,053.92
4500 Sales	5,322.52
Total Income	1,088,207.92
GROSS PROFIT	
	1,088,207.92
EXPENSES	
703 Advertising - Billable expenses	4,001.07
7030 Advertising & Promotion	2,925.49
7030.01 Radio	4,325.99
7030.04 Television	7,921.07
7030.05 Promotional Prints	2,499.64
Banners/signs	203.84
Door hangers	10,535.40
Total 7030.05 Promotional Prints	13,238.88
7030.06 News Paper and Print	1,289.00
7030.07 Sponsorships	2,700.00
Community/Non-profits	100.00
Golf	15.20
Schools	6,473.58
Total 7030.07 Sponsorships	9,288.78
7030.08 Production Services	400.00
7030.09 Internet/Digital	66,800.79
Newspaper/Radio	3,120.00
Total 7030.09 Internet/Digital	69,920.79
7030.11 Gift cards (trade)	5,515.00
7030.13 Olo	18,000.00
Total 7030 Advertising & Promotion	132,825.00
7070 Automobile Expense	1,861.98
7110 Bank Service Charges	993.63
7250 Computer and Internet Expenses	8,260.81
7250.01 InTouch POS	420.00
Total 7250 Computer and Internet Expenses	8,680.81
7270 Continuing Education	75.00
7280 Charitable Contributions	200.00
7420 Gifts	81.27
7500 Insurance - Officer Life	1,020.12
7540 Insurance Expense	
7540.01 Health	10,444.04

	Total
7540.05 Auto Insurance	7,243.13
7540.06 Umbrella Policy	1,799.00
7540.08 Commercial package	401.50
Total 7540 Insurance Expense	19,887.67
7550 Interest Expense/Loan Payment	3,996.06
7560 Janitorial	1,300.00
7600 Lease Expense	9,433.93
7610 Licensing and Permits	25.00
7620 Marketing Expense	-3,521.00
7630 Meals and Entertainment	7,967.29
7635 Miscellaneous	-10.17
7650 Office Supplies	3,724.38
7655 Operations expense	349.10
7660 Payroll Expenses - Wages	
7660.01 Mohammad Hobab	45,833.37
7660.02 Zohreh Hobab	7,800.00
7660.04 Hesam Hobab	36,675.14
7660.10 Ali Nekumanesh	58,421.00
7660.13 Jenn Brandon	46,135.46
7660.16 Frank Sanchez	30,835.57
7660.26 Juan Garcia	56,718.75
7660.28 William Foley	41,482.50
7660.31 Juliana Bonilla	20,722.52
7660.33 Yer Yang	31,877.11
7660.34 Elle Mayo	7,472.61
7660.35 Geneveive Laird	7,409.33
7660.36 Gina Vigil	29,653.85
7660.37 Destiny Jimenez	2,823.15
Total 7660 Payroll Expenses - Wages	423,860.36
7661 Payroll Expenses - Taxes	
7661.02 FED-941	34,613.17
7661.03 FED-940	562.94
7661.04 CA SUI/ETT	3,471.46
Total 7661 Payroll Expenses - Taxes	38,647.57
7675 Political contributions	3,000.00
7680 Postage	487.50
7690 Professional Fees	
7690.02 Attorney	97,489.81
7690.03 Jennifer L. Brandon, CPA	1,115.95
7690.07 Stephen Ford	3,045.30
Total 7690 Professional Fees	101,651.06
7750 Rent Expense	8,100.00
7770 Repairs and Maintenance	1,296.00
7770.02 Computer Equipment expensed	182.03

	Total
7770.03 Software expensed	14.99
Total 7770 Repairs and Maintenance	1,493.02
7810 Security	170.00
7900 Taxes	1,067.00
7900.02 Property	2,882.08
Total 7900 Taxes	3,949.08
7950 Telephone Expense	
7950.01 Mobile Phones	3,653.03
7950.02 Office Phone/Internet	4,757.68
Total 7950 Telephone Expense	8,410.71
7970 Travel Expense	
7970.02 Hesam Hobab	163.61
7970.21 Juan Garcia	4.10
7970.24 Jewels Bonilla	15.58
7970.26 Yer Yang	1,766.34
7970.28 Gina Vigil	105.30
Total 7970 Travel Expense	2,054.93
7980 Outside Services	6,890.00
7990 Utilities	3,887.19
QuickBooks Payments Fees	443.81
Total Expenses	795,936.37
NET OPERATING INCOME	292,271.55
NET INCOME	\$292,271.55

Balance Sheet

As of June 30, 2022

	Total
ASSETS	
Current Assets	
Bank Accounts	
1001 Franchising - Fresno First	17,682.00
1002 Expense Account	614.17
1031 Advertising - Fresno First	49,442.41
1032 Adv - Expense Account	1,475.58
1071 Marketing - Fresno First	164.98
Total Bank Accounts	69,379.14
Accounts Receivable	
1200 Accounts Receivable (A/R)	137,024.94
Total Accounts Receivable	137,024.94
Other Current Assets	
1310 Employee Cash Advances	169.99
1400 Due from Affiliate	56,424.52
1401 Loans to Affiliated Stores	0.00
1401.1 Citrus Heights	74.21
1401.2 Store #8	48,222.53
1401.3 Marina	146,251.79
1401.4 DD's Bakery	32,276.75
1401.5 Deli D Investments	1,285.65
1401.6 The Original Deli D, Inc. #1	16,388.27
1401.7 Hobab Sisters, LLC	206.00
1401.8 Hobab Investment Group, LLC	20.00
Total 1401 Loans to Affiliated Stores	244,725.20
1420 Payroll Refunds	346.66
1430 Repayment	
1430.03 Employee Advance	10,232.55
1430.06 Spouse mobile phone	-55.50
Total 1430 Repayment	10,177.05
1440 Loans To Officers	61,348.04
1600 Prepaid Lease	4,736.10
1601 Prepaid Insurance	4,581.36
1602 Prepaid state tax	800.00
Total Other Current Assets	383,308.92
Total Current Assets	589,713.00
Fixed Assets	
1500 Furniture and Fixtures	8,875.16
1510 Vehicles	105,979.45
1520 Computer Equipment	25,708.14
1540 Machinery & Equipment	24,208.93
1550 Intangible Assets	13,677.29

	Total
1560 Leasehold Improvements	132,715.08
1580 Accumulated Amortization	-9,403.00
1590 Accumulated Depreciation	-174,795.83
Total Fixed Assets	126,965.22
TOTAL ASSETS	\$716,678.22
LIABILITIES AND EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
2200 Accounts Payable (A/P)	17,940.02
Total Accounts Payable	17,940.02
Credit Cards	
2212 Chase ink VISA XX5253	8,775.56
Total Credit Cards	8,775.56
Other Current Liabilities	
2300 Payroll Liabilities	
2300.05 CA PIT / SDI	-2,420.99
2300.06 CA SUI / ETT	440.22
2300.07 Federal Taxes (941/944)	241,198.71
2300.08 Federal Unemployment (940)	562.94
2300.12 Anthem Blue Cross PPO	-1,984.31
2300.13 Kaiser Permanente	-1,217.35
2300.15 CoPower	-670.50
Total 2300 Payroll Liabilities	235,908.72
2510 State Income Tax Payable	8,172.00
2530 Gift card liability	47,865.77
Contract Payable	6,211.05
Total Other Current Liabilities	298,157.54
Total Current Liabilities	324,873.12
Long-Term Liabilities	
2800 Notes Payable - Fresno First Bank #105639	65,679.47
2804 Notes Payable - Fresno First Bank #106341-20	441,736.90
2814 Prius Loan	6,046.72
2817 EID Loan	145,614.00
2818 PPP Loan 2	181,777.50
Total Long-Term Liabilities	840,854.59
Total Liabilities	1,165,727.71
Equity	
3300 Additional Paid-In Capital	24,875.40
3500 Capital Stock	60,000.00
3700 Shareholder Distributions	-434,156.46
3900 Retained Earnings	-392,039.98
Net Income	292,271.55
Total Equity	-449,049.49

Total

TOTAL LIABILITIES AND EQUITY

\$716,678.22

State Effective Dates

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

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

State	Effective Date
California	January 7, 2022
Hawaii	
Illinois	
Indiana	
Maryland	
Michigan	
Minnesota	
New York	
North Dakota	
Rhode Island	
South Dakota	
Virginia	
Washington	
Wisconsin	

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

Receipt

RETURN THIS SIGNED COPY TO THE FRANCHISOR

**ACKNOWLEDGMENT OF RECEIPT FOR
Franchise Disclosure Document [FDD] and Franchise Agreement
DELI DELICIOUS FRANCHISING, INC.**

THIS DISCLOSURE DOCUMENT SUMMARIZES PROVISIONS OF THE FRANCHISE AGREEMENT AND OTHER INFORMATION IN PLAIN LANGUAGE. READ THIS DISCLOSURE DOCUMENT AND ALL AGREEMENTS CAREFULLY.

IF DELI DELICIOUS FRANCHISING, INC. OFFERS YOU A FRANCHISE, IT MUST PROVIDE THIS DISCLOSURE DOCUMENT TO YOU 14 CALENDAR DAYS BEFORE YOU SIGN A BINDING AGREEMENT WITH, OR MAKE A PAYMENT TO, THE FRANCHISOR OR AN AFFILIATE IN CONNECTION WITH THE PROPOSED FRANCHISE SALE.

YOU MUST ALSO RECEIVE A FRANCHISE AGREEMENT CONTAINING ALL MATERIAL TERMS AT LEAST 7 CALENDAR DAYS BEFORE YOU SIGN ANY FRANCHISE AGREEMENT IF THE FRANCHISOR HAS UNILATTERALLY MADE MATERIAL CHANGES TO THE DISCLOSURE DOCUMENT.

IF DELI DELICIOUS FRANCHISING, INC. DOES NOT DELIVER THIS DISCLOSURE DOCUMENT ON TIME OR IF IT CONTAINS A FALSE OR MISLEADING STATEMENT, OR A MATERIAL OMISSION, A VIOLATION OF FEDERAL AND STATE LAW MAY HAVE OCCURRED AND SHOULD BE REPORTED TO THE FEDERAL TRADE COMMISSION, WASHINGTON, D.C. 20580 AND THE APPROPRIATE STATE AGENCY AS IDENTIFIED ON EXHIBIT 2.

We authorize the respective state agencies identified on Exhibit 2 to receive service of process for Deli Delicious Franchising, Inc., in those particular states.

Name, principal business address, and telephone number of each franchise seller offering the franchise:

- Hesam Hobab, 2495 West Shaw Ave., Fresno, CA 93711, (559) 435-5305
- Ali Nekumanesh, 2495 West Shaw Ave., Fresno, CA 93711, (559) 435-5305

Issuance Date: _____, 2022

I have received a Deli Delicious™ disclosure document dated _____, 20__ that included the following Exhibits:

- | | | | |
|---|---|---|--------------------------------------|
| 1 | Franchise Agreement with attached Schedules | 6 | Option Agreement |
| 2 | List of State Agencies and Regulators | 7 | List of Franchisees |
| 3 | Franchise Disclosure Questionnaire | 8 | Franchisees Who Have Left The System |
| 4 | State Addenda | 9 | Financial Statements |
| 5 | Operations Standards Manual Table of Contents | | Receipt |

Date

Recipient/Franchise Applicant

RETURN THIS SIGNED FORM TO THE FRANCHISOR. Mail to: Deli Delicious Franchising, Inc, 2495 West Shaw Ave., Fresno, CA 93711. Fax to: 559-435-5213

APPLICANT COPY

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| 5 | Operations Standards Manual Table of Contents | | Receipt |

Date

Recipient/Franchisee Applicant

THIS SIGNED FORM REMAINS WITH THE FRANCHISE APPLICANT.