

## FRANCHISE DISCLOSURE DOCUMENT

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The franchise is for a retail food establishment (a "DeliCafe") under the name "Erik's DeliCafe" offering a variety of delicatessen style food in a cafe-style, relaxing atmosphere.

The total investment necessary to begin operation of an Erik's DeliCafe franchise ranges from \$198,500 to \$406,600. This includes the initial franchise of \$20,000 that must be paid to the franchisor for the first franchise. Discounts on these fees may apply if you buy an additional franchise or have managed a company-owned DeliCafe. See Item 5 of this disclosure document for details.

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

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact Brian E. Johnson, President and General Counsel, at Erik's DeliCafe Franchises, Inc., 1550 The Alameda, Suite 330, San Jose, California 95126, telephone number (831) 458-1818 extension 127, email [brian@eriksdelicafe.com](mailto:brian@eriksdelicafe.com).

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

Buying a franchise is a complex investment. The information in this disclosure document can help you make up your mind. More information on franchising, such as *"A Consumer's Guide to Buying a Franchise,"* which can help you understand how to use this disclosure document, is available from the Federal Trade Commission. You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, D.C. 20580. You can also visit the FTC's home

page at [www.ftc.gov](http://www.ftc.gov) for additional information. Call your state agency or visit your public library for other sources of information on franchising.

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

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## How to Use This Franchise Disclosure Document

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

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

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

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

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

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

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

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

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

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

### **Some States Require Registration**

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

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:

**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.

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

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### EXHIBITS

- Exhibit A - Financial Statements
- Exhibit B - Franchise Agreement
- Exhibit C-1 - List of Franchised DeliCafes
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**ITEM 1**  
**THE FRANCHISOR, ANY PARENTS, PREDECESSORS, AND AFFILIATES**

**The Franchisor, Its Predecessors**

To simplify the language in this Disclosure document we will use certain shorthand terms to identify parties. The terms “Franchisor,” “we” or “us” means Erik’s DeliCafe Franchises, Inc. The term Franchisor does not include Erik’s DeliCafe Franchises, Inc.’s officers, directors, or shareholders. “You” or “franchisee” means the person buying the franchise. Erik’s DeliCafe Franchises, Inc. and you will occasionally be referred to together as the “parties.” If the purchaser of the franchise is a business entity, “you” also includes each partner, shareholder, or other owner of that entity.

The Franchisor, Erik’s DeliCafe Franchises, Inc., is a California corporation that was incorporated on March 5, 1986 to offer franchises for operating Erik’s DeliCafes. We do not have a parent or predecessor. The Franchisor does business under the name “Erik’s DeliCafe.” The founder of the Erik’s DeliCafe concept is Mr. Erik R. Johnson. Mr. Johnson owned and operated the first Erik’s DeliCafe that opened in 1973 in Scotts Valley, California. Beginning with a single 600 square foot deli, Mr. Johnson built and guided his sole proprietorship into a corporation that was formed on August 12, 1977 under the name “Erik’s Deli, Inc.” for purposes of operating company-owned Erik’s DeliCafes (the “Affiliate”). The Affiliate changed its name from “Erik’s Deli, Inc.” to “Erik’s DeliCafe, Inc.” on October 19, 1981.

Both the Affiliate and the Franchisor maintain their principal business address at 1550 The Alameda, Suite 330, San Jose, California 95126.

The Franchisor’s agent for service of process in California is Brian E. Johnson located at 1550 The Alameda, Suite 330, San Jose, California 95126.

**Business of the Franchisor and the Franchise Offered**

The Franchisor franchises the right to operate DeliCafes which serve delicatessen-type food, prepared according to the Franchisor’s recipes and specifications, in a cafe style, relaxing atmosphere (the “DeliCafe”) using certain trademarks, service marks and commercial symbols including the name “Erik’s DeliCafe” (“the Marks”). The DeliCafes serve food items that are made fresh with natural ingredients from family recipes.

You will operate your DeliCafe at a location (the “Premises”) approved by the Franchisor within a specified territory (the “Designated Area”) under the Franchisor’s standard form of Franchise Agreement, a copy of which is attached as Exhibit B.

The DeliCafes are subject to local and state health and sanitation codes and regulations governing food preparation and food service businesses. You should contact your local and state authorities for detailed information about these codes. They are also subject to rules regarding mandatory menu labeling including calorie disclosure, and rules restricting single-use plastics, such as restrictions regarding to go bags and food packaging.

The food products and services offered by the DeliCafes appeal to a broad spectrum of the general public. DeliCafes compete with many other food providers, including sandwich shop chains, fast and quick service food chains generally, full service restaurants, and independently owned delicatessens and sandwich shops. Within the broad-based, highly competitive food service industry, we believe the market for deli-type food service establishments is growing. As a restaurant service,



Erik's DeliCafe is positioned between fast food and full service food establishments, combining the speed and convenience of fast food with the friendly atmosphere and quality of full service. Our customers are looking for a quick, good quality meal at a moderate price.

### **Prior Business Experience**

The Affiliate has operated a business similar to the type of franchise offered in this Disclosure document since 1973. As of December 31, 2020, the Affiliate owned and operated 1 DeliCafe that is similar to the franchised DeliCafes being offered in this Disclosure document. The Franchisor was established to promote and establish franchised DeliCafes similar to those owned and operated by the Affiliate, but does not own or operate any DeliCafes. Neither the Franchisor, its Affiliate, nor any predecessor has offered franchises in any other lines of business.

## **ITEM 2** **BUSINESS EXPERIENCE**

### **Chairman and Founder: Erik R. Johnson**

Mr. Johnson has been Chairman of the Board of the Franchisor since March of 1986. He was CEO of the Franchisor and the Affiliate from October 1998 to January 2024 and remains CEO of the Affiliate. Mr. Johnson has served as Chairman of the Board of the Affiliate since April of 1986. He is currently a member of the Dominican Oaks Board of Directors.

### **CEO: Brian E. Johnson**

Mr. Johnson joined Franchisor in October 2008. He was appointed President in September 2018 and General Counsel in February 2016 and in 2017 he was appointed Secretary of the Affiliate. Mr. Johnson is an Aptos Chamber of Commerce Board Member, and in 2024 he was named Brand Ambassador for the Campbell Chamber of Commerce.

### **Vice President of Operations: Dan Witting**

Mr. Witting joined the Franchisor as District Manager in February 2009 and has served as Director of Operations since 2015. In 2024, he was elevated to Vice President of Operations.

## **ITEM 3** **LITIGATION**

No litigation is required to be disclosed in this Disclosure document.

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

No person or company 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 or the laws of foreign nations relating to bankruptcy required to be disclosed in this Item.

## **ITEM 5** **INITIAL FEES**

Except as noted below, all franchisees pay a \$20,000 lump sum franchise fee. If you buy a second franchise you will pay a \$17,500 lump sum. For the third and subsequent franchises, the

initial franchisee fee is \$12,500. Employees of the Affiliate who have managed an operating DeliCafe for at least one year pay a \$17,500 lump sum franchise fee.

As of the date of this disclosure document, we also offering an incentive program under which existing franchisees in good standing, or their employees, will have their initial franchise fee for an additional franchise business reduced from the standard, discounted rate to between \$2,500 and \$5,000 depending on location and other circumstances including whether they are bringing any longstanding employees into ownership with them. In the past fiscal year, we offered one initial franchise fee of \$2,500 under these circumstances.

Except as described below, these fees are not refundable. In all cases, the franchise fee is paid and fully earned when the Franchise Agreement is signed.

In its sole discretion, the Franchisor may elect to waive the franchise fee for some employees of the Franchisor or the Affiliate who become franchisees. Otherwise, the fees described in this Item are uniform as to all franchisees who receive this offer. We reserve the right to change the type and amount of any initial fees offered to new franchisees in the future, but have no immediate plans to do so.

## **ITEM 6**

### **OTHER FEES**

<b>NAME OF FEE</b>	<b>AMOUNT</b>	<b>DUE DATE</b>	<b>REMARKS</b>
Décor and Equipment Deposit	\$5,000	Upon signing of the lease.	The décor and equipment deposit is held in escrow for you by the Franchisor and used to pay for décor and equipment as your franchise is built. Any balance remaining is refunded 60 days after you open for business.
Royalty	5% of Gross Revenue generated from the operation of your DeliCafe.	Wednesday of each week for the preceding week's Gross Revenue, beginning on Monday and ending on Sunday.	Gross Revenue includes all charges for goods or services rendered by the DeliCafe, excluding taxes added to sales prices and collected from customers and amounts retained by third parties for delivery of customer orders.
Network Marketing Fund	Currently 2.5% of Gross Revenue	Mid-week the second week of the month following the end of the prior month	The amount of the Network Marketing Fund is subject to change but will not exceed 4% of Gross Revenue. If the requirement to contribute to the Network Advertising Fund is discontinued by Erik's, then local advertising minimum payment described below would be imposed. <sup>1</sup>

<b>NAME OF FEE</b>	<b>AMOUNT</b>	<b>DUE DATE</b>	<b>REMARKS</b>
Local Advertising:	If the Network Marketing Fund is suspended or discontinued, you must spend at least 1% of each fiscal quarter's Gross Revenue on advertising and promotional activities related to your DeliCafe.	The 10th day of each calendar quarter.	You must send to the Franchisor a report detailing the advertising expenditures for the preceding fiscal quarter.
Grand Opening Advertising Deposit	\$5,000	One month prior to opening	The grand opening advertising deposit is held in escrow for you by the Franchisor and is used to pay for the advertisement of your grand opening. Any balance remaining is refunded 90 days after you open for business.
Technology Fee	The Franchisor may require you to pay actual costs for IT related support for franchisees	Monthly, upon implementation	We reserve the right to implement a Technology Fee to cover IT related support provided to franchisees
Loyalty Program Fee	\$0 currently, but may increase up to \$200 per month with prior notice.	Monthly after opening	Currently, all fees for the Erik's Loyalty Program are covered by the Network Marketing Fund. We reserve the right to charge a monthly fee for this after notice to you.
Repeat Training	The Franchisor may require a new or existing manager of the DeliCafe to attend and successfully complete the initial training course. If so, you will be charged a repeat training fee not to exceed \$2,500.	Prior to beginning the training program.	None
Transfer Fees	\$5,000 transfer fee	On the effective date of transfer.	These fees must be paid by you or the transferee on a transfer of the franchise.
Renewal Fee	\$2,500	Before the initial term expires	Payable if you elect to renew the franchise
Audits	All costs of audit.	Immediately upon notice.	Payable if audit discloses one understatement of gross revenue of 5% or more.

<b>NAME OF FEE</b>	<b>AMOUNT</b>	<b>DUE DATE</b>	<b>REMARKS</b>
Late Payment Fee	For Royalty Fees, either a \$50.00 or 10% of the overdue amount whichever is greater. For Marketing Fees, either \$100.00 or 10% of overdue amount which is greater	Immediately	
Indemnification	You will pay the Franchisor all amounts it incurs for any claims arising from your establishment or operation of the DeliCafe.	On demand	You must defend, indemnify and hold the Franchisor harmless. Includes all costs of defense and claims.
Management Fee	Manager's salary plus 10%	On demand	On death or disability of franchisee, the Franchisor may appoint a manager if one is needed, and charge you this fee for the management services.
Legal Fees and Costs	Prevailing party recovers costs and expenses, including reasonable accounting and legal fees.	On demand after conclusion of judicial or arbitration proceeding.	Only due if the Franchisor prevails in an action against you.
Supplier and Product Evaluation	An amount not to exceed the reasonable cost for the Franchisor to test relevant samples, inspect the supplier's facilities, and other evaluation measures. See Items 8 and 9.	Payable upon invoice.	To purchase any item or service from an unapproved supplier, or to offer or sell products or services not previously approved by the Franchisor, you must first submit a written request for approval to us.
Proprietary food items	Then-current prices.	Payable upon invoice.	Certain proprietary food items must be purchased from designated suppliers.

The above fees are currently uniform as to all franchisees who receive this offer. However, we reserve the right to negotiate different rates or fees with other franchisees under appropriate circumstances. In our sole discretion, we may waive the collection of a transfer fee or a training fee.

All fees stated here are uniform. We reserve the right to change the type and amount of fees offered to new or renewing franchisees in the future.

All fees are payable to the Franchisor except as otherwise noted. All fees are non-refundable except the Décor and Equipment Deposit and the Grand Opening Deposit. You must pay fees due to us in the manner we designate, which may include electronic funds transfer from your bank account initiated by the Franchisor (ACH) or by some comparable electronic debit system.

## **NOTES TO ITEM 6**

1. This Fund will be administered and used solely for advertising, promotion, and marketing as described in Item 11 of this Disclosure document.

## **ITEM 7** **ESTIMATED INITIAL INVESTMENT**

The table below is our estimate of establishing a DeliCafe according to our current standards. You will need to decorate and equip your DeliCafe to conform to our specifications that are in effect at the time you are building your DeliCafe. If you purchase a franchise, we will keep you informed of any changes to our specifications and any cost variations that could affect your start up requirements and costs.

### **YOUR ESTIMATED INITIAL INVESTMENT**

<b>TYPE OF EXPENDITURE</b>	<b>ESTIMATED AMOUNT</b>	<b>METHOD OF PAYMENT</b>	<b>WHEN DUE</b>	<b>TO WHOM PAYMENT IS TO BE MADE</b>
Initial Franchise Fee <sup>1</sup>	\$20,000	Lump sum	At signing of Franchise Agreement	The Franchisor
Décor and Equipment Deposit <sup>2</sup>	\$5,000	Lump sum	At signing of the lease.	The Franchisor
Leasehold Improvements (or "General Contractor") <sup>3</sup>	\$50,000 to \$150,000	As arranged	During construction	Contractor
Architect Drawings	\$5,000 to \$20,000	Lump sum	Before construction	Architect
Furniture, Fixtures Equipment <sup>4</sup>	\$50,000 to \$90,000	As arranged	Prior to opening	Suppliers
Exterior Sign Package <sup>5</sup>	\$5,000 to \$10,000	As arranged	Prior to opening	Suppliers
Initial Inventory <sup>6</sup>	\$8,000 to \$12,000	Lump sum	Prior to opening	Suppliers
Computer System	\$1,000 to \$2,000	Lump sum	Prior to opening	Suppliers
POS System and Wiring	\$5,000 to \$10,000	As arranged	Prior to opening	Suppliers
1st Month's Rent & Deposits <sup>7</sup>	\$10,000 to \$32,000	Lump sum	At signing of lease	Lessor
Grand Opening Advertising Deposit <sup>8</sup>	\$5,000	As incurred	One (1) month prior to the opening.	The Franchisor
Miscellaneous <sup>9</sup>	\$3,000 to \$5,000	As incurred	As incurred	Suppliers

TYPE OF EXPENDITURE	ESTIMATED AMOUNT	METHOD OF PAYMENT	WHEN DUE	TO WHOM PAYMENT IS TO BE MADE
Additional Funds (3 Months) <sup>10</sup>	\$31,500 to \$45,600	As incurred	As incurred	Suppliers
Total <sup>11</sup>	\$198,500 to \$406,600			

## **NOTES TO ITEM 7**

**1** As discussed under Item 5 of this Disclosure document, the franchise fee is lower in certain cases.

**2** The décor package refers to the distinctive materials on the walls, floors and ceilings that make the site easily recognizable by the public as an Erik's DeliCafe location. The antique Parlor Heater, Pot Belly Stove, and other décor items are not included in this décor package. You must lease some or all of these items as appropriate for your location from the Affiliate under the Décor Lease attached as Exhibit F. Other antique décor items may be leased if available and appropriate for your DeliCafe location.

**3** The cost of leasehold improvements will vary substantially depending on the size and age of the building, the market condition and the extent of the required leasehold improvements. You must make modifications and leasehold improvements to the Premises according to the Franchisor's specifications. There is no requirement that your lease have any minimum term. However, if your lease has a term less than the term of the Franchise Agreement (10 years), you might be unable to renew the lease when it expires and would have to relocate your DeliCafe to another location approved by the Franchisor.

**4** Furniture, fixture and equipment costs will vary substantially depending on the size and age of the building, the type of fixtures and equipment desired, and the market conditions in your area.

**5** The exterior signage package consists of an exterior store front sign, monument sign (if available), a "Soup's On" illuminated sign and catering illuminated sign.

**6** Initial inventory consists of food purchases necessary for training and food products, chemicals, smallwares and resale items for the opening of your DeliCafe (approximately \$8,000 - \$12,000).

**7** The estimated rent is based on a triple net lease requiring an initial payment of the first month's rent and a security deposit, a rental range of \$2.00 to \$6.00 per square foot per month, plus three more months' rent payment, for a premise size of 1,200 to 2,000 square feet. The exact rental depends on the location, size, condition of the Premises, possible buyouts of existing tenants, taxes, utility charges, and other expenses. No financing or improvement costs are included in the rent.

**8** The grand opening advertising deposit is held in escrow for you by Franchisor and used to pay for all advertising related to your grand opening. Any balance remaining is refunded 90 days after you open for business. The Franchisor has developed a grand opening advertising program that you will have an opportunity to review and provide input. The Franchisor has the sole

discretion over the creative concepts, materials and media used and its placement and allocation of the grand opening advertising deposit.

**9** This includes amounts required for health and other permits, business licenses, insurance and travel while you attend the initial training course.

**10** Additional funds is an estimate of the funds needed to cover initial start up expenses not listed above before operations begin and during the first three months after the opening of the DeliCafe. Additional funds are for uniforms for workers, supplies, utilities, payroll costs, lease payments, advertising and promotion, taxes and benefits for employees and miscellaneous start-up and operating costs. It does not include an owner's draw. These figures are estimates and the Franchisor cannot guarantee that you will not incur additional expenses. Your costs will depend on factors such as your ability to operate and conform with the Franchisor's recommended methods of doing business, the demographics and economic conditions in the Designated Area, competition, your management and marketing skills, competitive pricing, aggregate demand and prevailing wages. Because the exact amount of the initial start up expenses will vary from operation to operation, the Franchisor urges you to retain the services of an experienced accountant or financial advisor to help you develop the business plan and financial projections for your particular DeliCafe.

**11** We based these estimates on our knowledge of start-up costs incurred by our franchisees and Affiliate, including the costs incurred by a recently opened DeliCafe that was built using most of our newer specifications. However, as noted in the first paragraph of this Item, these specifications are not entirely settled and some expenses could be higher or lower than what is shown above.

## **ITEM 8**

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

#### **The Premises**

We must approve the location ("Premises") of your DeliCafe in all cases.

#### **Designated and Approved Suppliers of Inventory, Suppliers and Equipment**

The Franchisor's image depends on an integral network of similar DeliCafes in a variety of locations, utilizing the Franchisor's uniform business system and providing uniform products and services, (particularly in the types and quality of Erik's DeliCafe food products). To maintain this image, you must purchase certain proprietary and other food items that we specify solely from our designated suppliers. You must also use our approved suppliers for construction, remodeling, design, and decoration of your DeliCafe. You may not use alternative sources or suppliers for these items.

You must adhere to our trade dress requirements in your DeliCafe. The trade dress includes an antique stove and you may also use other antique decor items as available and appropriate. To ensure consistency with our trade dress standards, you must lease these items from the Affiliate, but we lease these items to you at no cost. The form of lease is attached to this Disclosure document as Exhibit G.

The Franchisor has also approved several suppliers of non-proprietary food items, services and materials required for the operation of the DeliCafe. The suppliers must demonstrate to the continuing reasonable satisfaction of the Franchisor the ability to meet the Franchisor's standards and specifications and possess adequate quality and sanitation controls and must be able to supply the franchisees' needs promptly, consistently and reliably. The Franchisor's internal standards and

specifications are disclosed in its Operations Manual and may be modified by the Franchisor from time to time.

The Franchisor requires you to use an electronic POS system in your DeliCafe and to have a DSL or faster internet connection running at a minimum of 3Mb. Currently, the Franchisor requires you to use and install a PAR Technology Corporation POS System supplied by an approved and designated supplier. More information about the required computer system is contained in Item 11.

If you wish to use a supplier or sell products or services not previously approved by the Franchisor, you must first submit a written request for approval. As a condition of approval, the Franchisor may require inspection or testing, at your expense, of requested suppliers, products or services. The Franchisor will provide its criteria for approving suppliers upon a request that specifies the type of supplier. The Franchisor will advise you of approval or disapproval within a reasonable time after receiving the request and conducting an evaluation. The Franchisor has the right to re-inspect the facilities and products of any approved supplier and revoke its approval, if any has been granted, if the supplier fails to meet any of the Franchisor's then-current criteria. However, if an item is proprietary or we have designated a specific source for it, we are not obligated to evaluate or approve alternate suppliers. Additionally, the Franchisor in its sole discretion may refuse to approve any new product or service you request to sell.

### **Required Insurance**

You must obtain and maintain throughout the Franchise Agreement insurance that meets our minimum specifications concerning type and amount of coverage from insurance companies meeting our requirements. These specifications and standards may be changed from time to time. The current specifications and standards are set forth in Section 3.17 of the Franchise Agreement and modifications to those specifications and standards, if any, will be provided in the Confidential Operating Manuals (the "Manuals") or other writings from us.

### **Supplier Arrangements**

The Franchisor may receive rebates or other revenue or consideration from designated and approved suppliers or distributors as a result of purchasing arrangements. Some vendors provide rebates, price breaks or other consideration directly to each DeliCafe, including those owned by franchisees and any owned by the Affiliate, based on what that DeliCafe purchases from the supplier. In other cases, the rebate, revenue or other consideration is paid to the Franchisor and is typically used for brand identification, marketing, advertising or other purposes intended to benefit all DeliCafes. However, the Franchisor is not required to contribute such rebates, revenue or other consideration toward marketing and may retain some or all of it. We receive a 1%-2% rebate from franchisee and company owned DeliCafe purchases from our primary approved vendor and approved vendors. In the 2023 fiscal year, we received \$230,797 in rebates. Of this, we contributed \$32,768 into the Network Marketing account, and we recognized \$198,029 of it as revenue which comprised 10.2% of our total revenue of \$1,935,840 in 2023.

We will negotiate purchase arrangements with a supplier or suppliers to prepare and sell proprietary menu items and other products to the franchised and company-owned DeliCafes. We also negotiate prices on various items for the benefit of all DeliCafes. The Franchisor tries to get favorable pricing terms from its vendors, but cannot promise that the pricing vendors agree to extend will be the lowest possible pricing. Also, vendor pricing and rebate programs can be changed or discontinued by vendors in the future.



Franchisees do not receive any material benefit or inducement from the Franchisor or its Affiliate for using designated or approved suppliers.

Owners and officers of Erik's DeliCafe may have minority ownership interests in a variety of publicly traded companies. Some of these publicly traded companies or their affiliates could be approved or designated suppliers to Erik's DeliCafe franchises. Other than this type of minority ownership, no officer or owner of Erik's DeliCafe has any ownership interest in any of your suppliers.

We do not have any purchasing or distribution cooperatives.

### **Required Purchases in Relation to All Purchases**

We provide specifications that you must follow as to virtually all products, supplies, fixtures, equipment and other items needed to establish your DeliCafe. These purchases will comprise almost 100% of your expenditures to establish the business other than what you spend on payroll, rent, utilities and miscellaneous services. The costs of goods and services you must purchase according to our specifications constitute about 30% to 38% of the total amount of your ongoing purchases to operate the DeliCafe.

## **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. For purposes of this table, the sections referred to are those in the franchise agreement unless otherwise noted.**

<b>OBLIGATION</b>	<b>SECTION IN FRANCHISE AGREEMENT</b>	<b>ITEM IN THIS DISCLOSURE DOCUMENT</b>
a. Site selection and acquisition/lease	Sections 3.8 and 4.1(a)	Items 7 and 11
b. Pre-opening purchases/leases	Section 3.9	Items 7 and 8
c. Site development and other pre-opening requirements	Section 3.9	Items 7 and 11
d. Initial and ongoing training	Sections 3.10(f), 4.1(b) and 4.2(c)(d)	Items 7 and 11
e. Opening	Section 3.10	Item 11
f. Fees	Sections 2.3(b); 3.1(a)(b)(e), 3.2, 3.4, 3.5, 3.6, 3.7, and 3.14	Items 5 and 6
g. Compliance with the Manuals	Section 3.10(a)	Item 11
h. Trademarks and proprietary information	Sections 1.2, 3.10(d) and 3.11	Items 13 and 14
I. Restrictions on products/services offered	Section 3.10(b)(c)	Items 8 and 16
j. Warranty and customer service requirements	Sections 3.13 and 7.3	None

<b>OBLIGATION</b>	<b>SECTION IN FRANCHISE AGREEMENT</b>	<b>ITEM IN THIS DISCLOSURE DOCUMENT</b>
k. Territorial development and sales quotas	N/A	Item 12
l. Ongoing product/ service purchases	Section 3.10(b)	Item 8
m. Maintenance, appearance, and remodeling requirements	Section 3.9	Item 11
n. Insurance	Section 3.17	Items 6 and 8
o. Advertising	Sections 3.4 and 3.10(g)	Items 6, 7 and 11
p. Indemnification	Section 3.16	Item 6
q. Owner's participation/ management/ staffing	Section 3.10(e)	Items 15
r. Records and reports	Sections 3.4(a), 3.6, 3.20(a) and 3.20(b)	Item 6
s. Inspections/audits	Section 3.20(b) and 3.21	Items 6 and 11
t. Transfer	Article 6	Item 17
u. Renewal	Section 2.3(b)	Item 17
v. Post-termination obligations	Section 5.3	Item 17
w. Non-competition covenants	Sections 3.10(e) and 5.3(g)	Item 17
x. Dispute resolution	Section 7.11	Item 17

## **ITEM 10** **FINANCING**

The Franchisor does not offer direct or indirect financing. The Franchisor has guaranteed leases in limited instances, but it does not always guarantee leases and there is no assurance that it will agree to guarantee your lease.

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

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

### **Pre-Opening Assistance and Service**

1. The Franchisor will specify the Designated Area. (Franchise Agreement -Section 2.1(b).)
2. The Franchisor will advise and consult with you in selecting an appropriate location. (Franchise Agreement - Section 4.1(a).)

3. The Franchisor will provide you with a non-structural floor plan for the planning, designing, and construction of improvements to the DeliCafe. (Franchise Agreement - Section 4.1(a).)

4. The Franchisor will provide the initial training program to you and one other person. (Franchise Agreement - Section 4.1(b).)

5. For one week prior to the opening of your DeliCafe, we will assist you in the set-up of your DeliCafe. This will include training Team Members and installing the systems necessary to open your DeliCafe. (Franchise Agreement - Section 4.1(b)(ii).)

6. We will provide you with digital access to our Operations Manual. (Franchise Agreement – Section 4.1(c).)

7. The Franchisor will provide you with initial copies of financial reporting forms as detailed in the Manuals. (Franchise Agreement - Section 4.1(d).)

8. The Franchisor will provide you with marketing materials for use in advertising your franchise. (Franchise Agreement – Section 4.2(h); 3.4(a)(ii).)

### **After the DeliCafe Opens**

1. Upon the opening of your DeliCafe, for a one week period we will provide daily operational support, which will include establishing par and staffing levels. (Franchise Agreement – Section 4.1 (b)(ii).)

2. After establishing your DeliCafe, the Franchisor will provide, at reasonable times and frequency as it determines in its sole discretion, periodic field visits to the DeliCafe by its representative to provide consultation, advice, and information concerning the operation and growth of your DeliCafe. (Franchise Agreement - Section 4.2(b).)

3. The Franchisor will host periodic meetings for updates on new management techniques and other topics of interest to you and your managers. Although there will be no separate charge for these seminars, it will be your responsibility to pay all travel, living and wage expenses you or your managers incur while attending the seminars. Attendance at the seminars is mandatory. (Franchise Agreement - Section 4.2(c).)

4. If the Franchisor requires in the case of new or existing managers, the Franchisor will provide training for your new or existing managers at a cost not to exceed \$2,500. It is your responsibility to pay all travel, living and wage expenses you or your managers incur while attending the training. (Franchise Agreement - Section 4.2(d).)

5. The Franchisor will make available, at its corporate offices, personnel for consultation, in person, by written or telephone communication, or by email, concerning problems and questions arising in the day to day operation of your DeliCafe. (Franchise Agreement - Section 4.2(e).)

6. The Franchisor will disseminate periodic supplements and amendments to the Manuals as well as newsletters, emails, text messages, trend updates, and other information of general interest to all franchisees. (Franchise Agreement - Section 4.2(f).)

7. The Franchisor will negotiate with suppliers to sell you products made by our recipes, standards, formulae and processes. We are not liable to you for any nonperformance or negligence

of our suppliers. We will use reasonable commercial efforts to negotiate favorable terms with reliable suppliers, but we cannot dictate the pricing, delivery and other terms offered by its suppliers or control their performance. - Section 4.2(g).)

8. The Franchisor will utilize the Network Marketing Fund payments discussed in Item 6 to direct, supervise and develop local, regional and other advertising and marketing programs. (Franchise Agreement - Sections 3.4(a) and 4.2(h).) An accounting of the operation of the Fund will be prepared annually and made available to franchisees. (Franchise Agreement - Section 3.4(a)(ii).)

9. The Franchisor and its Affiliate will continue to take all steps reasonably necessary to preserve and protect the ownership and validity of its registered Marks, and to permit other franchisees to use these marks only in accordance with its system and the standards and specifications of its system which underlie the goodwill associated with and symbolized by the Marks. (Franchise Agreement - Section 4.3.)

10. The Franchisor will use certain information you supply to prepare studies and surveys relating to the DeliCafes, the system and the network. The continuing development, improvement and success of the Erik's DeliCafe network, and of each DeliCafe, require meaningful, timely and accurate information concerning all functions and aspects of the business. So that the system can be fully evaluated and improved and benefit all franchisees, you agree to prepare and forward to the Franchisor, at times specified and on forms supplied by the Franchisor, requested information. (Franchise Agreement - Section 3.20(b).)

11. The Franchisor will provide a framework for a system-wide loyalty program that encourages repeat customer business. The Franchisor will structure and maintain the program, and ensure that your POS system software is compatible with the program. You agree to participate in the loyalty program and honor the discounts provided by the program to qualifying customers. (Franchise Agreement - Section 3.10(h).)

12. The Franchisor will provide access to an online ordering channel for catering orders.

### **Advertising**

The Franchisor has implemented a Network Marketing Fund (the "Fund") to which you are currently required to contribute 2.5% of your Gross Revenue. The amount of this contribution could be changed by the Franchisor on written notice, but cannot exceed 4% of Gross Revenue. The Fund is used solely for advertising, promotion and marketing. Franchisor-owned DeliCafes and affiliate-owned DeliCafes will contribute to the Fund at the same rate as franchisee-owned DeliCafes.

The Franchisor currently administers the Fund and has the right to direct all local, regional and national advertising, public relations and marketing programs for the system; to use the Fund to pay for these programs. The Franchisor has the sole discretion over the creative concepts, materials and media used and its placement and allocation. The Franchisor undertakes no obligation in administering the Fund to make expenditures for your Designated Area that are equivalent or proportionate to your contribution, or to ensure that any particular franchisee benefits directly or pro rata from these programs. The Franchisor may delegate some or all of the administration of the Fund to a third party.

The Franchisor has implemented a "Dine for a Day" promotion in which a percentage of sales on a particular day are donated to a charitable cause. The donation is made from the Fund.

The Fund may be used to meet any and all costs of maintaining, administering, directing and preparing marketing programs, including the cost of preparing and conducting television, radio, magazine, newspaper, internet, direct mail, digital media, social media and other types of advertising; public relations activities, including, the cost of hiring agencies and the Franchisor's personnel to engage in public relations work; and employing advertising and public relations agencies and personnel. Advertising and public relations agencies and personnel may be composed of the Franchisor's employees or may be entities owned by or affiliated with the Franchisor if use of in house agencies is deemed best by the Franchisor, in which event the methods for determining the value of services rendered by the in house agency will be set forth in writing and may be charged to the Fund.

No part of the Fund is used to pay for any advertising to sell franchises. No sums paid by you to the Fund will be used to defray any of the Franchisor's general operating expenses, except for reasonable administrative costs and overhead, if any, as the Franchisor may incur in activities reasonably related to the administration or direction of the Fund and promotional programs, including, conducting marketing research, preparing marketing and advertising materials and collecting and accounting for assessments of the Fund. An accounting of the operation of the Fund will be prepared annually and made available to you upon request. The revenue and expenses of the Fund are currently audited as part of the Franchisor's annual audit, but the Franchise Agreement does not require that the Fund be separately audited.

In 2023, the Network Marketing Fund collected \$550,090 from franchisee contributions and an additional \$32,768 from franchisor contributions from rebates, and this was spent as follows:

- (a) Payroll: 29.9%.
- (b) Signage: 6.9%
- (c) Advertising Agency Fees: 4.5%
- (d) Customer Promotion & Contest: 1.4%
- (e) Printed Materials: 4.2%
- (f) Charitable Donations: 9.0%
- (g) Public Relations: 1.0%
- (h) Digital Advertising: 30.3%
- (i) Loyalty Club App: 4.3%
- (j) Loyalty Club Advertising: 9.0%
- (k) Dues & Subscriptions: 3.0%
- (l) Local Marketing: 3.3%
- (m) Miscellaneous: 6.2%

Our spending adds up to 113% of the amount collected because it includes contributions from rebates as explained in Item 8 of this Disclosure Document and also includes spending surplus funds from 2022 rolled forward into 2023.

The Franchisor can dissolve or suspend the Fund and the required contributions to it. In that case, instead of contributing to the Fund, you must spend on advertising and promotional activities related to your DeliCafe an amount equal to 1% of each calendar quarter's gross revenue and must furnish the Franchisor with a report of expenditures on or before the 10th day of each calendar quarter.

You are not currently required to participate in any advertising cooperatives, but we have the right to require your participation in the future.

You must vigorously pursue and promote sales and activities leading to sales by the DeliCafe. You must cooperate with the Franchisor and other franchisees in the system to promote and enhance the system. (Franchise Agreement - Section 3.10(g).)

In addition to the amounts specified above, you must deposit \$5,000 into a Grand Opening Advertising escrow account that will be administered by the Franchisor on advertising and promotional activities related to your DeliCafe concurrently with the opening of the DeliCafe. (Franchise Agreement - Section 3.4(b).)

All of your advertising must be completely factual and must conform to the highest standards of ethical advertising. You must refrain from any business or advertising practice that may damage the system or the goodwill associated with the Marks. All advertising and promotions by you in any form and in any medium shall be conducted in a dignified manner and must conform to such standards and requirements as the Franchisor may designate in writing. You must submit to the Franchisor (by mail, return receipt requested, or email), for prior written approval, samples of all advertising and promotional plans and materials that you desire to use and that have not been prepared or previously approved by the Franchisor. If written approval is not received by you, the Franchisor will be deemed not to have given the required approval. (Franchise Agreement - Section 3.4(c).)

### **Electronic Cash Registers/Computer System**

At a minimum, we require that you use an electronic cash register or point of sale system ("POS") that records sales transactions by dollar amount, product category and quantity, calculates applicable tax, provides daily totals, and processes credit card, debit card and gift card transactions through a DSL or faster connection. We currently require use of a particular POS system developed by PAR Technology Corporation. Depending on the size and volume of the DeliCafe, which will determine the amount of hardware needed, your system will include the following: ordering terminals and cashier stations, printers for each station, and a file server. You will be provided software customized by PAR Technology Corporation systems and menu files written and developed exclusively for the Franchisor. You will also be provided a training manual developed by the Franchisor for your POS System and during the initial training program for your DeliCafe, you will be trained on the use of the POS System.

We estimate that your cost of purchasing all computer equipment we require including the POS System ranges between \$5,000 and \$10,000. The monthly cost to operate the system is \$50-\$76 per month per store, plus \$50-\$75 per terminal. If you have two terminals, your monthly cost is \$150. This is the current cost as of the date of this disclosure document and it could be increased by the vendor. We can require you to upgrade or otherwise change your POS or computer system from time to time.

We reserve the right to have on-line access to the sales and other data generated by your POS or computer system. We also have the right to require you to use an Internet connection meeting our specifications that will provide high speed, secure and reliable communications between your POS system, computer systems and other information systems and our computer systems and information systems. We may charge fees for any services rendered and products sold to you to operate your POS or computer system. (Franchise Agreement - Section 3.19.)

We also require you to offer free WiFi or its equivalent to paying customers of the DeliCafe. Because we already require you to have a high speed Internet connection at the DeliCafe for your POS system, in most cases you will not incur additional expenses to make this available to customers. However, depending on the speed of Internet connection available to you and the amount

of customer demand, you may need to upgrade to a faster Internet connection. Alternatively, you may choose to maintain two separate Internet connections. If so, you may incur additional expenses based on the cost of Internet connectivity in your area. (Franchise Agreement - Section 3.19.)

### **Site Selection**

We will advise and consult with you in selecting an appropriate location for the DeliCafe. We approve locations based on a variety of factors including density of population, population characteristics, traffic patterns, access factors, cost and size and availability of space, cost of construction of leasehold improvements, availability, parking, and other factors. (Franchise Agreement - Section 3.8.) We will provide a nonstructural floor plan for the planning, designing and construction of improvements to the Premises. The Franchisor makes no representations, guarantees or warranties, either express or implied, regarding the profitable operation of your DeliCafe as a result of any site selection advice. (Franchise Agreement - Section 4.1(a).)

Within 6 months of the date of signing of the Franchise Agreement, you must select the Premises and sign a lease. You must get our approval of any site before you lease or develop it.

### **Operations Manual**

Attached as Exhibit E is a copy of the table of contents for our operations manual, which we will lend to you. Our manual is 250 pages long.

### **Time Required to Open the DeliCafe**

A location must be selected and a lease signed within 6 months of signing the Franchise Agreement. (Franchise Agreement – Section 3.8.). Improvements must be completed, equipment installed and the DeliCafe must be opened within 12 months of the signing of the Franchise Agreement. (Franchise Agreement – Sections 3.9 and 3.10).) Franchisees typically open the DeliCafe within 12 months after they sign the Franchise Agreement. The factors that affect this time period are the availability of suitable premises, lease negotiations, compliance with local zoning requirements, delayed equipment and fixtures delivery and installation, and delayed inventory delivery. If you select a location that was formerly used as a very similar type of business, your typical time to open would be within 3 – 6 months of signing the Franchise Agreement.

### **Training**

After you are approved as a franchisee and sign a franchise agreement, there is then a formal training at both a classroom and operational level that will consist of two weeks. Your training will consist predominantly of time at the field level at a DeliCafe in Northern California and 4 to 8 hours at our corporate office covering your administrative/accounting training.

For one week prior to the opening of your DeliCafe, we will assist you in the set-up of your DeliCafe. This will include training Team Members and installing the systems necessary to open your DeliCafe.

Upon the opening of your DeliCafe, for a one week period we will provide daily operational support, which will include establishing par and staffing levels.

Training is also scheduled and available as needed throughout the year.

The following table summarizes the content of our training program:

## TRAINING PROGRAM

<b><u>Subject</u></b>	<b><u>Hours of Classroom Training</u></b>	<b><u>On the Job Training</u></b>	<b><u>Location</u></b>
<p>WEEK 1</p> <p>Engagement period. Work through each station at the DeliCafe, interact with customers, Team Members, Franchisees and the Franchisor.</p>	0	16	At a DeliCafe in Northern California.
<p>WEEK 2</p> <p>Introduction to the Erik's System, training tool such as videos and written tools. Work with a training manager on a greater in-depth understanding of stations, ordering and business practices</p>	0	40	At a DeliCafe in Northern California.
<p>WEEK 3</p> <p>Station tests are completed, manager certifications test is completed. Tests will be reviewed by training manager and/or the head of our operations department.</p> <p>Administrative training, consisting of an overview of filing, payroll, taxes, vendor set up, eriks.biz site review.</p>	4	36	At a DeliCafe in Northern California and our corporate office.



<b><u>Subject</u></b>	<b><u>Hours of Classroom Training</u></b>	<b><u>On the Job Training</u></b>	<b><u>Location</u></b>
WEEK 4 Setting up of systems, Team Member Training, install systems necessary to open your DeliCafe. Preparation for the opening of your DeliCafe	0	40	At your DeliCafe
WEEK 5 Daily operational support for the opening of your DeliCafe, including establishing par and staffing levels.	0	40	At your DeliCafe
TOTAL	4	172	

Team Member Training:

#### **TRAINING PROGRAM**

<b><u>Subject</u></b>	<b><u>Hours of Classroom Training</u></b>	<b><u>On the Job Training</u></b>	<b><u>Location</u></b>
Team Member Training	0	80	At your DeliCafe

Currently our training is performed by an approved and certified Training Manager selected by the Franchisor and our Operations staff, which currently consists of the head of our Operations department and a certified Franchisee and/or General Manager, although our roster of instructors is subject to change. All our trainers have a minimum of one year as a general manager of an Erik's DeliCafe or one year as an employee of the Franchisor. All training locations are within Northern California.

#### **ITEM 12 TERRITORY**

The franchise is not granted for a specific location unless you are purchasing an existing DeliCafe or you have secured a site approved by us. In most cases, however, we designate an area (the "Designated Area"), usually defined in terms of a stated radius around a specific point, a given state, county or by street boundaries, within which you will locate your DeliCafe. You will determine and select the exact location of the DeliCafe within this Designated Area subject to our approval.

If your lease expires or is otherwise terminated before the end of the initial term of the Franchise Agreement, or any extension, and this termination is not caused by your default, you may select another suitable place of business within the Designated Area, or if a location is not available in the Designated Area then outside the Designated Area, subject in all cases to our prior written approval, which will not be unreasonably withheld. Any relocation requires our prior approval and must be completed within 6 months of any loss of lease or closing of the DeliCafe.

Your territory rights do not depend on achieving a certain sales volume or market penetration, but may be changed under the following conditions:

- If an event occurs that allows us to terminate the Franchise Agreement, we may, whether or not we exercise that right of termination, grant another franchise in the Designated Area, without affecting its rights under the Franchise Agreement.
- If a shopping center, strip mall or airport is constructed within the Designated Area or the business count within the Designated Area increases such that we reasonably determine that the area can support an additional DeliCafe(s), we may redefine the Designated Area to add one or more DeliCafe(s). If this happens, the franchisee having the nearest existing location to the proposed DeliCafe is given a right of first refusal for any new DeliCafe that may be offered. Disputes regarding redefinition are subject to arbitration. You must deliver a written demand for arbitration within 30 days after receiving notice of any redefinition.

### **No Exclusive Territory**

You will not receive an exclusive territory. You may face competition from other franchisees, from outlets that we own, or from channels of distribution or competitive brands that we control.

The Franchise Agreement provides that we have the right to open an airport DeliCafe or an Office Park DeliCafe within your protected territory. An airport DeliCafe is within a commercial airport. An Office Park DeliCafe is an Erik's DeliCafe located in an office building with at least 3,000 square feet of office space and at least five stories tall. If you are an operator in good standing with us at the time we decide to open an Office Park DeliCafe within your territory, we will offer you the opportunity to apply for the right to operate that DeliCafe before opening it ourselves or licensing it to a third party, but you will be required to meet our then-current standards for opening a DeliCafe, sign the then-current franchise agreement, and comply with all terms.

There are no restrictions in the Franchise Agreement on the right of the Franchisor or the Affiliate to solicit orders from consumers within your Designated Area whether under the Erik's DeliCafe trademarks or other brands. We reserve the right to acquire or build other brands in the future, and to sell through alternate channels of distribution, such as the internet, catalog sales, grocery store sales, Costco or similar "big box" or wholesale outlet sales, or direct marketing within your territory, using either our principal marks licensed to you, or other marks owned by us. We would not be obligated to pay you in order to do so. Neither the Franchisor nor its Affiliates currently operate or franchise the operation of, or have any current plans or policies to operate or franchise the operation of, any business selling goods or services similar to or competitive with those to be offered for sale or lease by you in another channel of distribution or under trade names or trademarks different from those to be granted to you within the Designated Areas of our franchisees.

### **Delivery And Online Ordering**

You may only provide delivery and catering services to customers located within the Designated Area or to customers located outside of the Designated Area provided that the integrity and quality of the delivery or catering services are maintained in accordance with the Franchisor's standards and specifications. Our specifications may include limits on the menu items that can be offered and sold by delivery and catering. We also have the right to require you to provide catering or delivery to customers within your Designated Area who use our online ordering system. We have the right to prescribe boundaries beyond which the DeliCafe may not offer or provide services or products at any time.

The franchise agreement also prohibits sales at wholesale, through catalogs, mail order or over the Internet and all off-site sales, including sales made through booths, kiosks or similar off-site locations, except as we may be expressly authorize. We have discretion in what action to take in response to franchisee violations of these prohibitions and policies. We are evaluating whether to permit participation in a cloud kitchen concept, in which case we would permit you to operate via sales solely on the internet for that revenue stream, but we have not yet made that determination.

### **Catering Sales**

You are permitted to develop catering clients and to provide catering to them, both within and outside your Designated Area.

In addition to this, we have a Catering department which seeks to develop catering relationships with businesses near restaurants throughout our system. Orders from catering clients within a one mile radius of your DeliCafe, provided that the client is not within any other DeliCafe's one mile radius, will be routed to your DeliCafe for fulfillment. Orders from catering clients within a one mile radius of more than one DeliCafe, or outside of the one mile radius from any DeliCafe's location, will be awarded to franchisees based on a predetermined criteria established by us.

## **ITEM 13** **TRADEMARKS**

The principal trademarks used by the Franchisor that you are licensed to use are the Mark "Erik's" and Design as reproduced on the cover page of this Disclosure document. The following Marks are other Marks which you are licensed to use. They are registered on the United States Patent and Trademark Office principal register, and all required affidavits and renewals have been filed.

<b>Trademarks and Service Marks (Federal)</b>	<b>Registration Date</b>	<b>Number</b>
A HEALTHY DOSE OF GOODNESS	20-Dec-16	5,104,980
CATERING WITH CHARACTER	12-May-20	6,054,462
COMBOS WITH CHARACTER	23-Jul-96	1,988,307
CREATED WITH CHARACTER	13-Apr-21	6,322,717
CREATED WITH CHARACTER	23-Jun-20	6,086,388
ERIK'S	11-Jul-00	2,366,541
ERIK'S & Design	14-May-91	1,644,526
ERIK'S & Design	5-Mar-85	1,323,912
ERIK'S & Pot Bellied Stove & Design	3-Mar-92	1,677,604

<b>Trademarks and Service Marks (Federal)</b>	<b>Registration Date</b>	<b>Number</b>
ERIK'S DELICAFE	16-Jul-91	1,650,896
ERIK'S DELICAFE	20-Jun-89	1,544,995
ERIK'S DELICAFE & Design	28-Jun-83	1,243,935
ERIK'S	6-Nov-01	2,504,074
ERIK'S & Pot Bellied Stove Design	13-Nov-01	2,506,404
ERIK'S ON THE GO & DESIGN	25-Aug-09	3,671,953
FAST, FRESH & DELICIOUS	29-Jan-91	1,633,511
HERE'S TO A HEALTHY PLANET	19-May-15	4,737,759
HERE'S TO YOUR HEALTH	15-Aug-95	1,911,305
HERE'S TO YOUR HEALTH	19-Oct-93	1,799,852
PILGRIM'S PROGRESS	31-May-11	3,961,781
RESPECT YOUR PICKLE	25-Mar-14	4,501,433
SANDWICHES WITH CHARACTER	15-Mar-94	1,826,511
SEASONED CITIZENS	18-Feb-97	2,038,043
SECRET GOO	4-Feb-92	1,674,412
SOUP'S ON	19-Nov-96	2,016,668
SOUP'S ON! IT'S SOUPER GOOD and Design	14-Aug-90	1,610,191
SOUP'S ON	13-Jan-09	3,561,142
TEXAS JAILHOUSE CHILI	23-Jul-02	2,596,784
THE BEST SANDWICHES ARE BUILT RIGHT HERE!	31-May-11	3,970,126

There are no currently effective determinations of the United States Patent and Trademark Office, the trademark administrator or any court, pending interference, opposition or cancellation proceeding, or material litigation involving the above registered Marks.

We hold a perpetual license to the above trademarks from our Affiliate which permits us to sublicense these marks to you. We in lieu of paying a nominal fee, provide services to our Affiliate and this license is only terminable if we materially misuse the trademarks and do not cure that.

You must notify us if you become aware of any unauthorized use of the Marks or a colorable imitation of the Marks, or if litigation involving the Marks is instituted or threatened against you, and to cooperate fully with the Franchisor in this regard. We have the right to control any litigation concerning the Marks.

We intend to take all steps reasonably necessary to preserve and protect the ownership and validity of the Marks. However, we are not expressly obligated by the Franchise Agreement to protect any rights granted to you to use the Marks, or to defend you against any claim of infringement or unfair competition. The Franchisor has the right to control any litigation or administrative proceeding involving the Marks.

We may at any time, in our sole discretion, modify, substitute or discontinue use of any Mark, and in that case you must comply with these changes at your expense within a reasonable period of time.

We are not aware of any superior prior rights or infringing uses that could materially affect your use of the principal trademarks.

We permit you to use our Marks in social media for promoting your franchise and our brand. However, your use of our Marks must be positive and enhance the goodwill of our system and the Marks and must comply with all applicable laws and relevant terms of use. We may require you to delete disparaging, negative, or unlawful content connected to our Marks.

## **ITEM 14**

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

The Franchisor owns no patents and has no copyright registrations that are material to the franchise. The Franchisor will loan to you the Manuals. The Franchisor claims common law copyrights in the Manuals. The Franchisor owns and will develop and acquire certain confidential and proprietary information and trade secrets consisting of (1) business methods, techniques, standards, procedures and formats of the System; (2) policies, procedures, information, concepts, systems and knowledge of and experience in the development, operation and franchising of DeliCafes; (3) recipes, menu preparation and selection and combination of food items; (4) marketing programs for DeliCafes; (5) proprietary information in the PAR Technology Corporation POS system and the Olo online ordering system; and (6) knowledge and specifications for and suppliers of certain materials, furniture, fixtures, furnishings, equipment, signs and decor for DeliCafes (collectively the “Confidential Information”). The Franchisor will disclose to you the Confidential Information in the Manuals and in guidance and assistance furnished to you during the term of the Franchise Agreement. You will not acquire any interest in the Confidential Information and that the use of the Confidential Information in any other business would constitute an unfair method of competition with the Franchisor and other DeliCafes. The Confidential Information belongs to the Franchisor, contains trade secrets belonging to the Franchisor and is disclosed to you and authorized for use solely on the condition that you: (1) will not use the Confidential Information in any other business or capacity; (2) will maintain the absolute secrecy and confidentiality of the Confidential Information during and after the term of the Franchise Agreement; (3) will not make unauthorized copies of any portion of the Confidential Information disclosed in written, physical or electronic form; and (4) will adopt and implement all reasonable procedures of the Franchisor’s to prevent unauthorized use or disclosure of or access to the Confidential Information.

You must have your principals and managers execute and deliver to Erik's a Confidentiality Agreement in the form of Exhibit 3 to the Franchise Agreement. An original of each executed Confidentiality Agreement must be kept on the Premises at all times and available for the Franchisor’s inspection during normal business hours. You must, upon the Franchisor’s request, deliver such copies of any Confidentiality Agreement requested by the Franchisor. The relationship with the Franchisor does not vest in you any interest in any Confidential Information other than the right to use it in the development and operation of the DeliCafe under the Franchise Agreement and other than the right to use it in the development and operation of the DeliCafe under the Franchise Agreement and other than the right to utilize it in the operation of the DeliCafe during the term of this franchise and you must maintain the confidentiality of the Confidential Information during and after the term of the Franchise Agreement.

There are no administrative or judicial determinations relating to the common law copyrights, nor any agreements that limit the use of them. The Franchisor is not obligated to protect these

copyrights. The Franchisor is not obligated to defend or indemnify you if you are made a party to any proceeding because of the common law copyrights.

There are no infringing uses actually known to the Franchisor that would materially affect your use of the Confidential Information.

## **ITEM 15**

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

Either you or a designated approved manager must work full time in the franchised DeliCafe.

The on premises manager(s) needs to be certified by the Franchisor. Certification requires successful completion of our management questionnaire, holding a valid and current ServSafe certification, and holding a current and valid Food Handler's card. It is also essential that the franchise be operated and managed by an individual who has successfully completed all of our training requirements.

As described in Item 14 above, you and all managers you employ must enter into a written agreement, in a form acceptable to the Franchisor regarding nondisclosure of the Confidential Information. During the term of the Franchise Agreement, neither you nor your partners or shareholders, or members of your respective immediate families may conduct or operate, directly or indirectly, or be employed by or associated in any way with any business which is competitive with the operation of the DeliCafe. Neither you nor your partners or shareholders or members of your respective immediate families may engage in, directly or indirectly, or be employed by or associated in any way with any food service operation or other activities that would be detrimental to or interfere with the operation or management of the DeliCafe.

## **ITEM 16**

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

The Franchise Agreement requires you to offer and sell only those foods, beverages and other products that the Franchisor approves in writing. You are also required to provide all food and beverage products authorized or required to be provided as part of the Franchisor's system, and to discontinue offering or selling any food or beverage product or service that the Franchisor may periodically disapprove.

Restrictions on delivery and catering services are described in Item 12. In addition, we may restrict which third party services you use for delivery, and require that you obtain our approval before using a third party service. In order to obtain our approval of a third party delivery service, we will want to obtain information about the service including what insurance they carry and their food safety experience.

You are also required to participate in the Franchisor's customer loyalty program. The Franchisor has the right at any time to redefine the boundaries beyond which the DeliCafe may not provide services or products.

## **ITEM 17**

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

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

## THE FRANCHISE RELATIONSHIP

PROVISION	SECTION IN AGREEMENT	SUMMARY
a. Term of the franchise	Sections 2.3(a) and 3.8	10 years. If due to no fault of your own, the Premises lease is terminated before the end of the 10-year term, you may select a suitable location within the Designated Area or elsewhere to complete the initial 10-year term.
b. Renewal or extension of the term	Section 2.3(b)	If you are not in default of the Franchise Agreement you can renew for one 10-year term.
c. Requirements for you to renew or extend	Section 2.3(b)	You may be required on renewal, at our option, to sign a new form of Franchise Agreement which may include materially different terms and conditions than your original contract. Additionally, you may only renew if you: are not in default of any performance obligations under the Franchise Agreement or Lease; satisfy any existing debts you owe the Franchisor or its Affiliate;; sign release, and submit copy of renewal-related lease; remodel and/or expand Premises; add or replace furniture, fixtures, furnishings, equipment, signs and decor necessary to comply with Franchisor's then-current standards; pay renewal fee.
d. Termination by you	Section 5.1	You may terminate the Franchise Agreement only if Franchisor breaches and does not timely cure after you deliver written notice. If you terminate without cause, Franchisor may require you to pay liquidated damages of two times your annual royalties.
e. Termination by the Franchisor without cause	None	None
f. Termination by the Franchisor with cause	Section 5.2	Franchisor may terminate only for cause. See g and h below.
g. "Cause" - defined defaults which can be cured	Section 5.2(b)	Failure to timely and accurately report Gross Revenues or to pay royalty fees or other amounts to Franchisor or its affiliates (10 days to cure after notice); Curable defaults under the Premises lease (applicable cure period in that agreement); Any other default under

PROVISION	SECTION IN AGREEMENT	SUMMARY
		Franchise Agreement or operating procedures that is not the basis for immediate termination (30 days to cure after notice or must start cure in 10 days where defaults cannot be reasonably cured in 30 days).
h. “Cause” - defined defaults which cannot be cured	Section 5.2(a)	You fail to find a site or develop the DeliCafe in a timely manner; fail to begin to operate the DeliCafe in a timely manner; fail to successfully complete training program; abandon or transfer franchise without the Franchisor’s approval; misrepresent or omit material facts in application; are convicted of felony or other criminal misconduct; make unauthorized transfer; make improper or unauthorized use of the Marks, trade secrets or Confidential Information; become insolvent, bankrupt or a receiver is appointed; fail for 10 days or more to comply with any federal, state or local law or regulation; multiple or repeated failures to comply with the Franchise Agreement in the same 12 month period regardless of whether prior defaults were cured after notice (See Note 2).
i. Your obligations on termination or nonrenewal	Section 5.3	Cease operation of business under system and Marks; immediately pay all sums you owe your creditors including all sums owed the Franchisor or its affiliates; vacate premises or lease; relinquish all rights and phone numbers, listings, and advertising privileges; remove or change signs, colors, menus or decor; offer to the Franchisor the right to repurchase all furniture, fixtures, furnishings, equipment, signs, decor and leasehold improvements of the DeliCafe; return the Manuals and Confidential Information; abide by covenant not to compete.
j. Assignment of contract by the Franchisor	Section 6.6	The Franchisor may freely assign to anyone who assumes the Franchisor’s obligations.
k. “Transfer” by you – definition	Sections 6.1, 6.3 and 6.4	Any assignment of the Franchise Agreement or the DeliCafe or any part or all of the ownership of you, including



PROVISION	SECTION IN AGREEMENT	SUMMARY
		voting stock, securities, partnership or sole proprietorship interests, voluntarily, involuntarily sold, issued or transferred.
l. The Franchisor's approval of transfer by you	Section 6.1	You must have the Franchisor's prior written consent which will not be unreasonably withheld.
m. Conditions for the Franchisor's approval of transfer	Section 6.1 and 6.3	You must first notify Franchisor in writing of your intent to sell and Franchisor has right of first refusal; proposed transferee meets the Franchisor's qualifications standards; you are in good standing; payment of \$10,000 transfer fee; transferee signs then-current Franchise Agreement and Assignment Amendment; you assign to the transferee your leasehold interest; you sign general release; you enter into a non-compete agreement; you agree to subordinate debt of transferee to you; and the Franchisor approves terms of assignment.
n. The Franchisor's right of first refusal to acquire your business	Sections 6.1(a) and 6.3	You must notify Franchisor in writing before offering to sell. Franchisor can match any offer within 30 days of written notice; reactivated if sale not completed in 60 days or if there are material changes in the terms of the sale. The Franchisor also has the right of first refusal to purchase your stock or partnership interest.
o. The Franchisor's option to purchase your business	Section 5.3(e)	The Franchisor has the right to purchase the DeliCafe upon termination of the Franchise Agreement.
p. Your death or disability	Section 6.2	Your representative must complete transfer within 6 months from date of death or disability.
q. Non-competition covenants during the term of the franchise	Section 3.10(e)	No involvement in competing business. No geographic limits.
r. Non-competition covenants after the franchise is terminated or expires	Section 5.3(g)(ii)	For 1 year from the effective date of termination, no competing within 5 miles of the Premises of the DeliCafe. (See Note 3)
s. Modification of the Franchise Agreement	Section 7.2	Franchise Agreement may be modified only by written agreement.

<b>PROVISION</b>	<b>SECTION IN AGREEMENT</b>	<b>SUMMARY</b>
t. Integration/merger clauses	Sections 7.2 and 7.3	Franchise Agreement terms express all obligations. Prior agreements and promises not enforceable. These provisions are binding subject to California law.
u. Dispute resolution by arbitration or mediation	Section 7.11	Except for certain claims, all disputes must be mediated or arbitrated in San Jose, California. (See Note 4)
v. Choice of forum	Section 7.9	Litigation must be in San Jose, California.
w. Choice of law	Section 7.9	California law applies.
x. Limitation claims	Section 7.12	Claims must be made within 1 year from occurrence.
y. Waiver of punitive damages	Section 7.13	Franchisor and you waive right to collect punitive damages.
z. Jury trial waiver	Section 7.10	Franchisor and you waive right to jury trial.

NOTE 1: The California Business and Professions Code Sections 20000 through 20043 provide rights to the franchisee concerning termination, transfer or non-renewal of the franchise. If the Franchise Agreement contains a provision that is inconsistent with the law, the law will control.

NOTE 2: 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.)

NOTE 3: The Franchise Agreement contains a covenant not to compete that extends beyond the termination of the franchise. This provision may not be enforceable under California law.

## **ITEM 18**

### **PUBLIC FIGURES**

The Franchisor does not use any public figure to promote its 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 provide some information about our DeliCafes' historical performance in the past three fiscal years. This information is divided into categories for our company-owned DeliCafes and franchisee-owned DeliCafes. It is also divided by the type of location where you may choose to

locate a DeliCafe: a shopping center (which includes strip malls and stand-alone units in shopping areas with off-street parking), a mall or outlet center food court (locations where eateries are grouped together, typically with shared seating), and a downtown area.

We include all units open for at least 50 weeks of the year. We have excluded some units closed for a longer period either because they opened or closed permanently mid-year, or because they closed for renovation or as a result of a change of location for more than two weeks of the year.

**Some DeliCafes have earned this amount. Your individual results may differ. There is no assurance you'll earn as much.**

### **Company-owned DeliCafes**

Franchisor-owned DeliCafes in 2023:

Type of Location	Number of locations	Average Revenue <sup>(1)</sup>	Median Revenue	High	Low	Number of locations below average
Shopping center	1	\$1,335,989	\$1,335,989	\$1,335,989	\$1,335,989	0

Franchisor-owned DeliCafes in 2022:

Type of Location	Number of locations	Average Revenue <sup>(1)</sup>	Median Revenue	High	Low	Number of locations below average
Shopping center	1	\$1,299,743	\$1,299,743	\$1,299,743	\$1,299,743	0

Franchisor-owned DeliCafes in 2021:

Type of Location	Number of locations	Average Revenue <sup>(1)</sup>	Median Revenue	High	Low	Number of locations below average
Shopping center	1 <sup>(2)</sup>	\$1,107,979	\$1,107,979	\$1,107,979	\$1,107,979	0

<sup>(2)</sup> This chart does not include one DeliCafe which was franchisor-owned at the beginning of 2019 and was sold to a franchisee in April, 2019.

### Franchisee-owned DeliCafes

#### Franchisee-owned DeliCafes in 2023

Type of Location	Number of locations	Average Revenue <sup>(1)</sup>	Median Revenue	High	Low	Number of locations below average
Shopping center	24	\$851,659	\$833,225	\$1,350,574	\$363,747	13
Downtown	2	\$744,703	\$744,703	\$894,633	\$594,774	1

#### Franchisee-owned DeliCafes in 2022

Type of Location	Number of locations	Average Revenue <sup>(1)</sup>	Median Revenue	High	Low	Number of locations below average
Shopping center	23 <sup>(2)</sup>	\$853,726	\$811,852	\$1,296,354	\$332,684	13
Downtown	2	\$736,227	\$736,227	\$780,673	\$691,781	1

<sup>(2)</sup> We excluded one unit that closed during 2022 and one unit that opened during 2022.

#### Franchisee-owned DeliCafes in 2021

Type of Location	Number of locations	Average Revenue <sup>(1)</sup>	Median Revenue	High	Low	Number of locations below average
Shopping center	23 <sup>(3)</sup>	\$746,886	\$711,419	\$1,232,366	\$299,619	13
Downtown	2	\$676,526	\$572,678	\$676,526	\$468,829	1

<sup>(3)</sup> We excluded one unit that lost its lease and closed for one month as part of the resolution of this issue.

Notes to all tables above:

<sup>(1)</sup> "Revenue" includes all sales made after voided transactions, promotional discounts, sales taxes and surcharges have been deducted. This number is all revenue before payment of any expenses, including but not limited to royalties, advertising fund contributions, inventory costs, rent, wages, utilities and insurance.

Written substantiation for this financial performance representation will be made available to you upon reasonable request.

## **ITEM 20**

### **OUTLETS AND FRANCHISEE INFORMATION**

**Table No. 1**  
**System-Wide Outlet Summary For the Fiscal Years of 2021 - 2023**

Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
Franchised	2021	26	26	0
	2022	26	26	0
	2023	26	26	0
Company Owned	2021	1	1	0
	2022	1	1	0
	2023	1	1	0
Totals	2021	27	27	0
	2022	27	27	0
	2023	27	27	0

<sup>(1)</sup> In April 2019, one (1) franchisor-owned location was franchised.

**Table No. 2**  
**Transfers of Outlets from Franchisees to New Owners (other than the Franchisor)**  
**For the Fiscal Years of 2021 - 2023**

State	Year	Number of Transfers
CA	2021	0
	2022	0
	2023	2

**Table No. 3**  
**Status of Franchised Outlets**  
**For the Fiscal Years of 2021 - 2023**

State	Year	Outlets at Start of the Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations For Other Reasons	Outlets at End of Year
CA	2021	26	1 <sup>(1)</sup>	0	0	0	1 <sup>(1)</sup>	26
	2022	26	1	0	0	0	1	26
	2023	26	0	0	0	0	0	26
Totals	2021	26	1 <sup>(1)</sup>	0	0	0	1 <sup>(1)</sup>	26
	2022	26	1	0	0	0	1	26
	2023	26	0	0	0	0	0	26

<sup>(1)</sup> This unit was closed by the original owner, then the lease was acquired and the business was reopened in the same location by a new owner.

A list of all active franchised outlets as of December 31, 2023, is attached to the Disclosure Document as Exhibit C-1. A list of all franchisees who left the system in 2023 is attached as Exhibit C-3.

If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

In some instances, current and former franchisees sign provisions restricting their ability to speak openly about their experience with Erik's DeliCafe. You may wish to speak with current and former franchisees, but be aware that not all such franchisees will be able to communicate with you.

**Table No. 4**  
**Status of Company-Owned Outlets For Years 2021 - 2023**

State	Year	Outlets at Start of the Year	Outlets Opened	Outlets Reacquired from Franchisee	Outlets Closed	Outlets Sold to Franchisee	Outlets at End of the Year
CA	2021	1	0	1	0	1	1
	2022	1	0	0	0	0	1
	2023	1	0	0	0	0	1
TOTALS	2021	1	0	1	0	1	1
	2022	1	0	0	0	0	1
	2023	1	0	0	0	0	1

The store in the above table is owned and operated by the Affiliate.

Note: The addresses and telephone numbers of the company-owned DeliCafes listed above are in Exhibit C-2.

**Table No. 5**  
**Projected New Franchised Outlets As of December 31, 2023**

State	Unit Franchise Agreements signed But Outlet Not Opened	Projected New Unit Franchised Outlets in the Next Fiscal Year	Projected New Company-Owned Outlet In the Next Fiscal Year
CA	1	1	0
TOTAL	1	1	0

Note: There are no franchise organizations or associations in our system.

## **ITEM 21** **FINANCIAL STATEMENTS**

The statements presented as Exhibit A are audited financial statements of the Franchisor for the fiscal years ending December 31, 2023, December 31, 2022, and December 31, 2021.

## **ITEM 22** **CONTRACTS**

Attached to this Disclosure document are the Franchise Agreement (Exhibit B), Decor Lease (Exhibit F) and Sample Form of General Release used in certain transactions with existing franchisees (Exhibit G).

## **ITEM 23** **RECEIPTS**

You will find copies of the receipt in Exhibit H at the very end of this Disclosure Document.

## CALIFORNIA APPENDIX

### TO ERIK'S DELICAFE FRANCHISES, INC. DISCLOSURE DOCUMENT

**The registration of this franchise offering by the California Department of Financial Protection and Innovation does not constitute approval, recommendation, or endorsement by the commissioner.**

The California franchise investment law requires that a copy of all proposed agreements relating to the sale of the franchise be delivered together with the disclosure document.

California Business and Professions Code Sections 20000 through 20043 provide rights to the franchisee concerning transfer, termination or nonrenewal of a franchise. If the franchise agreement contains a provision that is inconsistent with the law, the law will control.

The franchise agreement provides for termination upon bankruptcy. This provision may not be enforceable under federal bankruptcy law (11 USCA Sec 101et seq).

The franchise agreement contains a covenant not to compete that extends beyond the termination of the franchise. This provision may not be enforceable under California law.

Neither the franchisor nor any person described in item 2 of the disclosure document is subject to any currently effective order of any national securities exchange as defined in the securities exchange act of 1934, 15 USCA 78a et seq, suspending or expelling such persons from membership in such association or exchange.

Our URL is [www.eriksdelicafe.com](http://www.eriksdelicafe.com). Our website has not been reviewed or approved by the California department of financial protection and innovation. Any complaints concerning the content of this website may be directed to the California department of financial protection and innovation at [www.dfpi.ca.gov](http://www.dfpi.ca.gov).

1. The financial performance representations do not reflect the costs of sales, operating expenses, or other costs or expenses that must be deducted from the gross revenue or gross sales figures to obtain your net income or profit. You should conduct an independent investigation of the costs and expenses you will incur in operating your DeliCafe. Franchisees or former franchisees, listed in the franchise disclosure document, may be one source of this information.

2. Section 31125 of the California Corporations Code requires us to give you a disclosure document, in a form containing the information that the commissioner may by rule or order require, before a solicitation of a proposed material modification of an existing franchise.

3. You must sign a general release if you renew or transfer your franchise. California corporations code §31512 voids a waiver of your rights under the franchise investment law (California Corporations Code §§31000 through 31516). 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 is amended by the inclusion of the following:

No statement, questionnaire, or acknowledgment signed by a franchisee in connection with the commencement of the franchise relationship shall have the effect

of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the franchisor. This provision supersedes any other term of any document executed in connection with the franchise.



**EXHIBIT A TO THE  
ERIK'S DELICAFE FRANCHISES, INC.  
DISCLOSURE DOCUMENT  
  
FINANCIAL STATEMENTS**

THE ATTACHED FINANCIALS FOR ERIK'S DELICAFE FRANCHISES. INC. FOR THE PERIOD ENDED MARCH 2024 HAVE BEEN PREPARED WITHOUT AN AUDIT. PROSPECTIVE FRANCHISEES OR SELLERS OF FRANCHISES SHOULD BE ADVISED THAT NO CERTIFIED PUBLIC ACCOUNTANT HAS AUDITED THESE FIGURES OR EXPRESSES HIS/HER OPINION WITH REGARD TO THE CONTENT OR FORM.

**Erik's DeliCafe Franchises, Inc.**  
**Balance Sheet**  
As of March 31, 2024

	<u>TOTAL</u>	
<b>ASSETS</b>		
Current Assets		
Cash	\$ 558,427.55	
Accounts Receivable	87,079.52	
Other Current Assets		
ACCOUNT REC-OTHER	90,011.43	
INVENTORY	-	
PREPAID EXPENSES	30,824.62	
Deferred Tax Asset	21,725.45	
Total Other Current Assets	<u>142,561.50</u>	
Total Current Assets	<u>788,068.57</u>	3.27
Net Fixed Assets	57,711.82	
Other Assets		
Operating Lease Right of Use	6,681.59	
LEASE DEPOSIT	2,433.00	
Note Receivable from San Ramon	-	
Total Other Assets	<u>9,114.59</u>	
<b>TOTAL ASSETS</b>	<u>\$ 854,894.98</u>	
<b>LIABILITIES AND EQUITY</b>		
Liabilities		
Current Liabilities		
Accounts Payable	\$ 52,368.81	
Other Current Liabilities		
Intercompany Payables	-	
ACCOUNTS PAYABLE - OTHER	159,515.91	
ACCRUED PAYROLL & Related	19,205.87	
ACCRUED SALES TAX	-	
Accrued Federal Income Tax	-	
Accrued State Income Tax	-	
DEFERRED TAX LIABILITY	-	
Deferred Revenue--ST	3,068.59	
Operating Lease Liabilites, current	6,681.60	
Total Other Current Liabilities	<u>188,471.97</u>	
Total Current Liabilities	<u>240,840.78</u>	
Long-Term Liabilities		
Deferred Revenue--LT	3,775.90	
PPP Loan #xx6040 Due SCCB	-	
Operating Lease Liabilities, long-term	-	
Total Long-Term Liabilities	<u>3,775.90</u>	
Total Liabilities	<u>244,616.68</u>	
Equity		
COMMON STOCK	22,000.00	
PAID IN CAPITAL	-	
RETAINED EARNINGS	588,278.30	
Total Equity	<u>610,278.30</u>	
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>\$ 854,894.98</u>	

**Erik's DeliCafe Franchises, Inc.**  
**Profit and Loss**  
January - March, 2024

	Franchises		Network Marketing		Total Franchises Inc.	
	(\$)	% of Income	(\$)	% of Income	(\$)	% of Income
<b>Income</b>						
301-00 INITIAL FRANCHISE FEES	791.37	0.3%	-	0.0%	791.37	0.2%
304-00 ROYALTY FEES INCOME	270,944.96	97.0%	-	0.0%	270,944.96	65.5%
305-00 NETWORK MARKETING-FRANCHISEES	-	0.0%	133,985.17	100.0%	133,985.17	32.4%
306-00 NETWORK MARKETING-COMPANY	-	0.0%	-	0.0%	-	0.0%
307-00 FRANCHISE TRANSFER FEES	-	0.0%	-	0.0%	-	0.0%
351-01 ADMINISTRATIVE INCOME	7,700.00	2.8%	-	0.0%	7,700.00	1.9%
<b>Total Income</b>	<b>279,436.33</b>	<b>100.0%</b>	<b>133,985.17</b>	<b>100.0%</b>	<b>413,421.50</b>	<b>100.0%</b>
<b>Expenses</b>						
PAYROLL	172,893.71	61.9%	32,295.37	24.1%	205,189.08	49.6%
DIRECT OPERATING EXPENSES	2,350.04	0.8%	-	0.0%	2,237.41	0.5%
Repairs & Maintenance	5,254.41	1.9%	12,110.33	9.0%	17,364.74	4.2%
ADVERTISING & PROMOTION & DONATIONS	3,350.40	1.2%	80,414.08	60.0%	83,764.48	20.3%
OCCUPANCY COSTS	7,135.00	2.6%	-	0.0%	7,135.00	1.7%
Utilities	6,692.87	2.4%	363.34	0.3%	7,056.21	1.7%
GENERAL & ADMINISTRATIVE	66,222.39	23.7%	8,449.19	6.3%	74,671.58	18.1%
Franchise Sales Expenses	-	0.0%	-	0.0%	-	0.0%
<b>Total Expenses</b>	<b>263,898.82</b>	<b>94.4%</b>	<b>133,632.31</b>	<b>99.7%</b>	<b>397,531.13</b>	<b>96.2%</b>
<b>Net Operating Income</b>	<b>15,537.51</b>	<b>5.6%</b>	<b>352.86</b>	<b>0.3%</b>	<b>15,890.37</b>	<b>3.8%</b>
<b>Other Income</b>	<b>35,313.69</b>	<b>12.6%</b>	<b>3,200.00</b>	<b>2.4%</b>	<b>38,513.69</b>	<b>9.3%</b>
INTEREST EXPENSE	-	0.0%	-	0.0%	-	0.0%
BAD DEBT	-	0.0%	-	0.0%	-	0.0%
PENALTIES	-	0.0%	-	0.0%	-	0.0%
FEDERAL INCOME TAXES	14,000.00	5.0%	-	0.0%	14,000.00	3.4%
STATE INCOME TAXES	6,100.00	2.2%	-	0.0%	6,100.00	1.5%
DEPRECIATION & AMORTIZATION	5,866.20	2.1%	-	0.0%	5,866.20	1.4%
<b>Total Other Expenses</b>	<b>25,966.20</b>	<b>9.3%</b>	<b>-</b>	<b>0.0%</b>	<b>11,966.20</b>	<b>2.9%</b>
<b>Net Other Income</b>	<b>9,347.49</b>	<b>3.3%</b>	<b>3,200.00</b>	<b>2.4%</b>	<b>12,547.49</b>	<b>3.0%</b>
<b>Net Income</b>	<b>24,885.00</b>	<b>8.9%</b>	<b>3,552.86</b>	<b>2.7%</b>	<b>28,437.86</b>	<b>6.9%</b>



# ERIK'S

## ESTD DELICAFÉ 1973

**ERIK'S DELICAFE FRANCHISES, INC.**  
*(A CALIFORNIA CORPORATION)*

FINANCIAL STATEMENTS

WITH

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED DECEMBER 31, 2023

**ERIK'S DELICAFE FRANCHISES, INC.**

**(A CALIFORNIA CORPORATION)**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders  
ERIK'S DELICAFE FRANCHISES, INC.

### Opinion

We have audited the accompanying financial statements of ERIK'S DELICAFE FRANCHISES, INC. (a California corporation), which comprise the balance sheet as of December 31, 2023, and the related statements of income, retained earnings, and cash flows for the year 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 ERIK'S DELICAFE FRANCHISES, INC. as of December 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 ERIK'S DELICAFE FRANCHISES, INC. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ERIK'S DELICAFE FRANCHISES, 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 a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ERIK'S DELICAFE FRANCHISES, 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 ERIK'S DELICAFE FRANCHISES, 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.

#### **Report on Supplementary Information**

We have audited the financial statements of ERIK'S DELICAFE FRANCHISES, INC. as of and for the year ended December 31, 2023, and our report thereon dated May 7, 2024, which expressed an unmodified opinion on those financial statements, appears on page 15. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The *Schedule of operating expenses* is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



*Tryna Accountancy Corporation*

Oakland, California  
May 7, 2024



**ERIK'S DELICAFE FRANCHISES, INC.**  
**(A CALIFORNIA CORPORATION)**  
**BALANCE SHEET**  
**AS OF DECEMBER 31, 2023**

**ASSETS**

**Current assets**

Cash and cash equivalents	\$ 532,212
Gift card cash account	143,244
Accounts receivable - franchisees	80,569
Accounts receivable - Erik's DeliCafe, Inc.	-
Accounts receivable - other	32,377
Prepaid insurance	20,704
Prepaid corporate income tax	<u>28,808</u>
Total current assets	837,914
Furniture and equipment, net of accumulated depreciation	63,577
Operating lease right-of-use assets	8,462
Deferred tax asset	29,177
Lease deposit	<u>2,433</u>
Total assets	<u><u>\$ 941,563</u></u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**Current liabilities**

Accounts payable - trade	\$ 56,404
Credit card payables	8,335
Gift card liability	143,244
Accrued liabilities	134,780
Deferred revenue – initial fee, current	2,957
Operating lease liability, current	<u>7,230</u>
Total current liabilities	352,950
Deferred revenue – initial fee, noncurrent	2,179
Deferred tax liability	-
Operating lease liability, non-current	<u>1,233</u>
Total liabilities	<u>356,362</u>

**Stockholders' equity**

Common stock no par value: 1,000,000 shares authorized, 22,000 shares issued and outstanding	22,000
Retained earnings	<u>563,201</u>
Total stockholders' equity	<u>585,201</u>
Total liabilities and stockholders' equity	<u><u>\$ 941,563</u></u>

See Independent Auditor's Report and Accompanying Notes to Financial Statements.

**ERIK'S DELICAFE FRANCHISES, INC.**  
**(A CALIFORNIA CORPORATION)**  
**STATEMENT OF INCOME AND RETAINED EARNINGS**  
**FOR THE YEAR ENDED DECEMBER 31, 2023**

<b>REVENUE</b>		
Rebates	\$	230,797
Network marketing fees		550,090
Royalty fees		1,114,174
Transfer fees		15,000
Initial franchise fees		2,957
Administrative income		10,800
Return of investment		14,105
Loss		<u>(2,083)</u>
Total revenue		<u>1,935,840</u>
<b>OPERATING EXPENSES</b>		
Network marketing expenses		501,433
General and administrative expenses		<u>1,472,244</u>
Total operating expenses		<u>1,973,677</u>
Income (loss) before credit (provision) for income taxes		(37,836)
Credit (provision) for income taxes		<u>862</u>
NET INCOME (LOSS)		(36,974)
Retained earnings, beginning of year		<u>600,175</u>
Retained earnings, end of year	\$	<u><u>563,201</u></u>

See Independent Auditor's Report and Accompanying Notes to Financial Statements.

**ERIK'S DELICAFE FRANCHISES, INC.**  
**(A CALIFORNIA CORPORATION)**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2023**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Net income (loss)	\$ (36,974)
Adjustments to reconcile net income (loss) to cash used by	
Operating activities:	
Depreciation	18,251
Deferred tax, net	(7,452)
Operating lease right-of-use assets	(8,462)
Loss	2,083
(Increase) decrease in operating assets:	
Accounts receivable - franchisees	(4,577)
Accounts receivable - Erik's DeliCafe, Inc.	14,802
Accounts receivable - other	(19,686)
Prepaid corporate income tax	6,590
Gift card cash account	(6,662)
Prepaid insurance	1,820
Lease deposit	(178)
Increase (decrease) in operating liabilities:	
Gift card liability	6,662
Accounts payable - trade	5,947
Accrued liabilities	264
Deferred revenue - initial fee, current	-
Deferred revenue - initial fee, noncurrent	(2,957)
Credit card payable	3,512
Operating lease liability,	8,463
Net cash flow provided (used) by operating activities	<u>(18,554)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of property and equipment	(68,204)
Note receivable	29,623
Net cash provided (used) by investing activities	<u>(38,581)</u>
Net increase (decrease) in cash and cash equivalents	(57,135)
Cash, beginning of the year	589,347
Cash, end of the year	<u><u>\$ 532,212</u></u>

See Independent Auditor's Report and Accompanying Notes to Financial Statements.

**ERIK'S DELICAFE FRANCHISES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 1. Nature of Activities**

*Nature of activities*

ERIK'S DELICAFE FRANCHISES, INC. (A California Corporation) was organized effective March 5, 1986. Erik's DeliCafe Franchises, Inc. (the Company) located in Santa Cruz, California, is engaged in the franchising of Erik's DeliCafe restaurants. ERIK'S DELICAFE FRANCHISES, INC. has twenty-seven franchises operating in California as of December 31, 2023. The Company owns the overall rights and trademarks of the franchise and allows its franchisees to use these rights to do business.

The Company operates on a calendar year with 12 calendar months from January 1 to December 31.

The Company is authorized to sell 1,000,000 common shares.

**Note 2. Summary of Significant Accounting Policies**

*Basis of accounting*

The Company maintains its books on the accrual basis of accounting, whereby revenues are recognized when they are earned, and expenses are recognized when they are incurred.

*Accounting 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.

*Cash and cash equivalents*

The Company considers all highly liquid investments with a maturity of three months or less at the date of acquisition to be cash equivalents. The Company places cash and equivalents with high credit quality intuitions, and periodically such deposits may be in excess of federally insured limits.

*Deferred income tax accounting policies*

ERIK'S DELICAFE FRANCHISES, INC. adopted the Financial Accounting Standards Board simplified balance sheet classification of deferred taxes. Under the guidance deferred tax assets and liabilities are shown as noncurrent.

*Revenue recognition*

The Company accounts for revenue using the accounting method prescribed under generally accepted accounting principles including guidance under *Accounting Standards Codification section 952-Franchisors*. Initial franchise fees are recognized on the consummation of the transaction, which occurs when all material services or conditions have been substantially performed. Network marketing fees are continuing fees designated for a specific purpose which are segregated and recognized as income when actually earned and receivable from a franchisee as that time period is not materially different from the time they are spent down. Royalty fees are continuing fees that are not designated for a specific purpose and are recognized when actually earned.

## **Note 2. Summary of Significant Accounting Policies (continued)**

The Company recognizes revenue on the accrual basis of accounting. The Company's primary revenue sources are from enrolling new franchises, collecting royalties, training, and technology support.

Under the terms of the franchise agreement, the franchisee pays an upfront fee of \$20,000 at the time of signing the agreement and agrees to remit royalty fees of 5% of revenues plus other fees that are periodic in nature for additional services. In return, the franchisor promises to provide limited use of the franchisor's brand name and logo, supported by marketing activities, and ongoing access to a continually updated operating procedures manual for a period of 10 years. The new franchise owner also receives initial training which is typically completed soon after the signing of the agreement with all training responsibilities required of the franchisor concluding at the end of the training period for which a cost of \$5,000 is incurred. Similarly, if a franchise location is sold to a new franchisee, a transfer fee of \$2,500 is charged to cover the one-time fees of amending the franchise agreement and all the vendor agreements.

After assessing the guidance in ASC 606-10-25-19, the franchisor concludes the use of brand name and logo and ongoing access to the operating procedures manual as the core components of the franchise license. The franchisor further concludes the initial training services, and the franchise transfer services are distinct performance obligations that are one-time in nature and completed upon such date that franchisee's training or the franchise transfer is completed.

Therefore, the franchisor concludes that the franchise agreement includes distinct performance obligations for the use of its brand name and logo, supported by marketing and other support services, for the life of each 10 years franchise agreement, while the obligations of the franchisor terminate for training services and transfer services upon the conclusion of the initial training or the franchise transfer.

As such, the franchisor recognizes as revenue upon the completion of training or the franchise transfer, \$5,000 or \$2,500, respectively, related to training fees or the transfer fees. The balance of initial fees results in \$15,000, which gets recognized ratably over the 10-year term of the franchise agreement.

The franchisor also enters into renewals of existing franchise agreements without the requirement for the initial expenses incurred on entering into a new franchise agreement. In those situations, the franchisor, in the past, has not charged a renewal fee, but has charged an ongoing monthly royalty fee of 5% of revenues and additional fees that are periodic in nature for additional services.

The franchisor is in the process of evaluating potential renewal fees for future renewals. If the franchisor institutes renewal fees, the franchisor will recognize revenues related to renewal fees ratably over each of the 10 years of the renewal term based on its obligations to provide limited use of the franchisor's brand name and logo, supported by marketing activities, and ongoing access to a continually updated operating procedures manual for such 10-year period.

### *Investments*

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the balance sheet. Unrealized gains and losses are included in the return on investments.

### *Fair value measurements*

The fair value of cash and cash equivalents, accounts receivable, notes receivable, and notes payable approximate the carrying value due to the short-term natures of such instruments. The fair value of long-term notes receivable approximates carrying value based on terms available for similar instruments.

## **Note 2. Summary of Significant Accounting Policies (continued)**

The Company makes investments with the intention to invest in highly rated, investment grade short-term securities that earn a higher rate of return than cash interest rates to cash accounts. ASC 820 discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost).

The Company utilized a fair value hierarchy that prioritizes a fair value hierarchy that prioritizes.

*Level 1* – Valuation is based upon quoted prices for identical instruments traded in active markets. *Level 2* – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market. *Level 3* – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flows models and similar techniques.

### *Accounts receivable*

Accounts receivable consist of royalties due from franchisees, franchise renewal transfer fees, and a franchise sale. The Company recognizes royalties from each franchisee based on a percentage of the franchisee's gross sales for each month, which is considered earned when reported by the franchisee. The allowance for doubtful accounts is estimated based upon historical experience, payment history and consideration of economic conditions. As of December 31, 2023, in the opinion of management, all of the accounts receivable are considered collectible at the amounts stated in the accompanying balance sheet, and no allowance for doubtful accounts is considered necessary.

### *Property and equipment*

All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, or improvements that significantly prolong the useful lives of the assets are capitalized. Purchased property and equipment is capitalized at cost. Minor replacements, maintenance, and repairs are charged to expense as incurred. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciations are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period.

Property and equipment are depreciated using the straight-line method over estimated useful lives ranging from two to seven years.

### *Advertising*

Advertising costs are expensed as incurred. Advertising expenses for the year ended December 31, 2023 were \$501,433.

### *Income taxes*

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the depreciation of fixed assets, net operating loss carryovers and charitable contribution carryovers for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes also are recognized for tax credits that are available to offset future federal income taxes.

## **Note 2. Summary of Significant Accounting Policies (continued)**

### *Leases*

The Company adopted *Accounting Standards Codification* ("ASC") 842, "Leases" ("ASC 842") on January 1, 2022, using the modified retrospective transition method and used the effective date as the date of initial application. The Company elected the "package of practical expedients," which permits not to reassess under ASC 842 prior conclusions about lease identification, lease classification and initial direct costs. The Company made a policy election not to separate non-lease components from lease components, therefore, the Company accounts for lease and non-lease components as a single lease component. The Company elected the short-term lease recognition exemption for all leases that qualify.

The Company determines if a contract contains a lease at inception of the arrangement based on whether there is the right to obtain substantially all of the economic benefits from the use of an identified asset and whether the Company have the right to direct the use of an identified asset in exchange for consideration.

Right of use ("ROU") assets represents the Company's right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets are recognized as the lease liability, adjusted for lease incentives received. Lease liabilities are recognized at the present value of the future lease payments at the lease commencement date. The interest rate used to determine the present value of the future lease payments is risk-free discount rate, which is determined using a period comparable with lease term, because the interest rate implicit in most of the leases is not readily determinable. Lease payments may be fixed or variable; however, only fixed payments or in-substance fixed payments are included in the lease liability calculation. Variable lease payments may include costs such as common area maintenance, utilities, real estate taxes or other costs. Variable lease payments are recognized in operating expenses in the period in which the obligation for those payments is incurred.

Operating leases are included in operating lease ROU assets, operating lease liabilities, current and operating lease liabilities, non-current on the balance sheet. Finance leases are included in property and equipment, net, accrued and other current liabilities, and other long-term liabilities on the balance sheet. The Company's operating leases, lease expense is recognized on a straight-line basis in operations over the lease term.

## **Note 3. Related Party Transactions**

Erik's DeliCafe, Inc. and ERIK'S DELICAFE FRANCHISES, INC. are owned by the same stockholders.

### *Allocated general and administrative expenses*

The Company's general and administrative expenses are allocated from Erik's DeliCafe, Inc. on a systematic method. During the year ended December 31, 2023 total allocated payroll and payroll related cost is \$937,006.

### *License agreement*

In accordance with license agreement between Erik's DeliCafe, Inc. and ERIK'S DELICAFE FRANCHISES, INC., starting January 1, 2019, the Company pays annual license fee for use of marks and other intangible assets that equals to \$8,000 per month. During the year ended December 31, 2023, the license fee was \$96,000.

### *Accounts receivable - Erik's DeliCafe, Inc.*

The amounts receivable and payable from/to Erik's DeliCafe, Inc. represent the net of funds transferred by the Company to Erik's Deli Cafe, Inc., and expenses paid by Erik's Deli Cafe, Inc. on behalf of the Company, and fees owed to Erik's DeliCafe, Inc. for administrative services and the license fee.

#### Note 4. Certain Risk Concentrations

Revenue is concentrated in networking marketing fee and royalty fee revenues from franchisees. Franchisees operate in the restaurant industry, which is intensely competitive with respect to price, service, location and food quality. In addition, food ingredients may be dependent on a sole or limited number of suppliers which could cause disruptions to business, and the franchisees are subject to federal and state laws governing the workforce. Fluctuations in economic conditions and other unforeseen events in the markets where the franchised restaurants operate could have a material adverse impact on the Company's revenue.

Concentrations of credit risk financial instruments which potentially subject the Company to concentration of credit risk consist of cash balances. At times, a portion of these cash balances may not be insured by the Federal Deposit Insurance Corporation. The potential concentration of credit risk pertaining to cash balances will vary throughout the year depending upon the level of cash deposits versus amounts insured. The Company maintains all deposits in one high quality financial institution. As of December 31, 2023, the Company had uninsured cash balances of \$233,798.

#### Note 5. Franchise Activity

The Company did not sell any additional franchises for the year ended December 31, 2023. No new store was opened and no store was closed resulting in twenty seven stores in operations as of December 31, 2023. The Company does not operate any franchisor-owned outlets.

#### Note 6. Furniture and Equipment

The cost and related accumulated depreciation as of December 31, 2023 consisted of the following:

Equipment	\$	11,199
Automobile		68,204
Accumulated depreciation		<u>(15,826)</u>
Property and equipment, net	\$	<u>63,577</u>

The depreciation expense was \$18,251 for the year ended December 31, 2023.

#### Note 7. Provision for Income Taxes

The provision for income tax expense for the year ended December 31, 2023 have been calculated as follows:

	Federal	California	Total
Current tax expense	\$ 3,218	\$ 3,372	\$ 6,590
Deferred tax asset	(4,980)	(2,472)	(7,452)
Deferred tax liability	-	-	-
Provision (credit) for income taxes	\$ <u>(1,762)</u>	\$ <u>900</u>	\$ <u>(862)</u>

The deferred income taxes relate primarily to net operating loss carryover, differences in depreciation methods used for book purposes and for tax purposes and ASC 606 adjustments.

As of December 31, 2023, the Company had federal net operating loss carryforwards of \$108,358 and state net operating loss carryforwards of \$105,946, which will expire between 2024 and 2040.



**Note 8. Revenue from Long-Term Contracts**

The following table provides information about the significant changes in contract liabilities for the year ended December 31, 2023:

Deferred revenue initial franchise fees, beginning year	\$	8,093
Revenue recognized that was included in deferred at the beginning of the year		(2,957)
Increase in deferred revenue during the current year		-
Deferred revenue initial franchise fees end of year	\$	<u>5,136</u>

**Note 9. Operating Leases**

During the year ended December 31, 2023, the Company had one long-term lease for Mazda CX-50 for two years ending March 2025. The Company pays \$619 per month on this lease. In addition, the Company has several short-term leases. That are excluded from the calculation of right-of-use and related liability.

The lease agreement listed above does not contain any residual value guarantees or restrictive covenants.

The components of the lease expense are as follows:

Operating lease right-of-use assets	\$	<u>8,462</u>
Operating lease liability, current		7,230
Operating lease liability, non-current		1,233
Total operating lease liabilities	\$	<u>8,463</u>

As of December 31, 2023, the maturity of lease liabilities are as follows:

	December 31,	Amount
	2024	\$ 7,434
	2025	1,239
Total undiscounted lease payments		<u>8,673</u>
Less amount representing interest		210
Total lease liabilities	\$	<u>8,463</u>
Weighted average remaining lease term		14 months
Weighted average discount rate		3.94%

Total lease expenses for year ended December 31, 2023 were \$ 35,660.

**Note 10. Subsequent Events**

In accordance with ASC 855, Subsequent Events topic, the Company's management has evaluated events and transactions subsequent to December 31, 2023 through May 7, 2024 for potential recognition or disclosure in the financial statements.

The Company did not have subsequent events that required recognition or disclosure in the financial statements for the year ended December 31, 2023.

**ERIK'S DELICAFE FRANCHISES, INC.**  
**SCHEDULE OF OPERATING EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2023**

Network marketing expenses		
Advertising agency fee	\$	25,000
Customer promotions and contests		12,173
Designs and creative services		273
Digital advertising		166,945
Donations		60,609
Direct mail		650
Loyalty club advertising		49,318
Newspapers and magazines		1,476
Printed materials		23,040
Loyalty club APP		23,585
Public relations		5,660
Catering channel		99
Uniforms		4,879
Anniversary celebration		<u>127,726</u>
Total network marketing expenses	\$	<u><u>501,433</u></u>
General and administrative expenses		
Payroll	\$	844,959
Payroll taxes		62,233
Other employee benefits		29,814
License and management fees		96,000
Due, charges, and fees		34,955
Depreciation expense		18,251
Franchise sales expense		-
Legal and professional fees		119,084
Auto expenses		54,503
Insurance and permits		44,305
Office supplies		14,648
Penalties		-
Maintenance		60,909
Occupancy costs		35,660
Travel		41,785
Utilities		<u>15,138</u>
Total general and administrative expenses	\$	<u><u>1,472,244</u></u>

**IRYNA ACCOUNTANCY CORPORATION**

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# ERIK'S

**ESTD DELICAFÉ 1973**

**ERIK'S DELICAFE FRANCHISES, INC.**  
*(A CALIFORNIA CORPORATION)*

**FINANCIAL STATEMENTS**

**WITH**

**INDEPENDENT AUDITOR'S REPORT**

**YEAR ENDED DECEMBER 31, 2022**

**ERIK'S DELICAFE FRANCHISES, INC.**

**(A CALIFORNIA CORPORATION)**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders  
ERIK'S DELICAFE FRANCHISES, INC.

### Opinion

We have audited the accompanying financial statements of ERIK'S DELICAFE FRANCHISES, INC. (a California corporation), which comprise the balance sheet as of December 31, 2022, and the related statements of income, retained earnings, and cash flows for the year 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 ERIK'S DELICAFE FRANCHISES, INC. as of December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 ERIK'S DELICAFE FRANCHISES, INC. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ERIK'S DELICAFE FRANCHISES, 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 a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ERIK'S DELICAFE FRANCHISES, 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 ERIK'S DELICAFE FRANCHISES, 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.

#### **Report on Supplementary Information**

We have audited the financial statements of ERIK'S DELICAFE FRANCHISES, INC. as of and for the year ended December 31, 2022, and our report thereon dated April 20, 2023, which expressed an unmodified opinion on those financial statements, appears on page 13. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The *Schedule of operating expenses* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



*Tryna Accountancy Corporation*

Oakland, California  
April 20, 2023

**ERIK'S DELICAFE FRANCHISES, INC.**  
**(A CALIFORNIA CORPORATION)**  
**BALANCE SHEET**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

ASSETS

Current assets

Cash and cash equivalents	\$ 589,347
Gift card cash account	136,582
Accounts receivable - franchisees	75,993
Accounts receivable - Erik's DeliCafe, Inc.	14,802
Accounts receivable - other	12,691
Note receivable, current	13,436
Prepaid insurance	22,524
Prepaid corporate income tax	<u>35,398</u>

Total current assets 900,773

Furniture and equipment, net of accumulated depreciation	15,708
Note receivable, noncurrent	16,187
Deferred tax asset	21,725
Lease deposit	<u>2,255</u>

Total assets \$ 956,648

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities

Accounts payable - trade	\$ 50,457
Credit card payables	4,825
Gift card liability	136,582
Accrued liabilities	134,516
Deferred revenue – initial fee, current	<u>2,957</u>

Total current liabilities 329,337

Deferred revenue – initial fee, noncurrent	5,136
Deferred tax liability	<u>-</u>

Total liabilities 334,473

Stockholders' equity

Common stock no par value: 1,000,000 shares authorized, 22,000 shares issued and outstanding	22,000
Retained earnings	<u>600,175</u>

Total stockholders' equity 622,175

Total liabilities and stockholders' equity \$ 956,648

See Independent Auditor's Report and Accompanying Notes to Financial Statements.



**ERIK'S DELICAFE FRANCHISES, INC.**  
**(A CALIFORNIA CORPORATION)**  
**STATEMENT OF INCOME AND RETAINED EARNINGS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

<b>REVENUE</b>	
Rebates	\$ 237,432
Network marketing fees	535,274
Royalty fees	1,082,902
Transfer fees	-
Grant	-
Initial franchise fees	4,519
Administrative income	10,800
Return of investment	<u>(15,430)</u>
Total revenue	<u>1,855,497</u>
<b>OPERATING EXPENSES</b>	
Network marketing expenses	394,243
General and administrative expenses	<u>1,404,663</u>
Total operating expenses	<u>1,798,906</u>
Income (loss) before credit (provision) for income taxes	56,592
Credit (provision) for income taxes	<u>(19,477)</u>
<b>NET INCOME (LOSS)</b>	<b>\$ 37,115</b>
Retained earnings, beginning of year	<u>563,061</u>
Retained earnings, end of year	<u><u>\$ 600,175</u></u>

See Independent Auditor's Report and Accompanying Notes to Financial Statements.

**ERIK'S DELICAFE FRANCHISES, INC.**  
**(A CALIFORNIA CORPORATION)**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Net income (loss)	\$ 37,115
Adjustments to reconcile net income (loss) to cash used by operating activities:	
Depreciation	5,683
Deferred tax, net	9,493
(Increase) decrease in operating assets:	
Accounts receivable - franchisees	3,487
Accounts receivable - Erik's DeliCafe, Inc.	49,203
Accounts receivable - other	47,314
Prepaid corporate income tax	(35,398)
Gift card cash account	(8,180)
Prepaid insurance	(3,487)
Lease deposit	-
Increase (decrease) in operating liabilities:	
Gift card liability	8,180
Accounts payable - trade	(12,580)
Accrued liabilities	54,175
Deferred revenue - initial fee, current	(2,512)
Deferred revenue - initial fee, noncurrent	(2,007)
Credit card payable	(4,870)
Net cash flow provided (used) by operating activities	\$ <u>145,616</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of property and equipment	-
Note receivable	(29,623)
Net cash provided (used) by investing activities	(29,623)
Net increase (decrease) in cash and cash equivalents	115,993
Cash, beginning of the year	473,354
Cash, end of the year	\$ <u><u>589,347</u></u>

See Independent Auditor's Report and Accompanying Notes to Financial Statements.

**ERIK'S DELICAFE FRANCHISES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 1. Nature of Activities and Summary of Significant Accounting Policies**

*Nature of activities*

ERIK'S DELICAFE FRANCHISES, INC. (A California Corporation) was organized effective March 5, 1986. Erik's DeliCafe Franchises, Inc. (the Company) located in Santa Cruz, California, is engaged in the franchising of Erik's DeliCafe restaurants. ERIK'S DELICAFE FRANCHISES, INC. has twenty-seven franchises operating in California as of December 31, 2022. The Company owns the overall rights and trademarks of the franchise and allows its franchisees to use these rights to do business.

The Company operates on a calendar year with 12 calendar months from January 1 to December 31.

The Company is authorized to sell 1,000,000 common shares.

*Deferred income tax accounting policies*

ERIK'S DELICAFE FRANCHISES, INC. adopted the Financial Accounting Standards Board simplified balance sheet classification of deferred taxes. Under the guidance deferred tax assets and liabilities are shown as noncurrent.

*Basis of accounting*

The Company maintains its books on the accrual basis of accounting, whereby revenues are recognized when they are earned, and expenses are recognized when they are incurred.

*Accounting 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.

*Cash and cash equivalents*

The Company considers all highly liquid investments with a maturity of three months or less at the date of acquisition to be cash equivalents. At December 31, 2022, the Company had no cash equivalents.

*Revenue recognition*

The Company accounts for revenue using the accounting method prescribed under generally accepted accounting principles including guidance under *Accounting Standards Codification section 952-Franchisors*. Initial franchise fees are recognized on the consummation of the transaction, which occurs when all material services or conditions have been substantially performed. Network marketing fees are continuing fees designated for a specific purpose which are segregated and recognized as income when actually earned and receivable from a franchisee as that time period is not materially different from the time they are spent down. Royalty fees are continuing fees that are not designated for a specific purpose and are recognized when actually earned.

## **Note 1. Nature of Activities and Summary of Significant Accounting Policies (continued)**

The Company recognizes revenue on the accrual basis of accounting. The Company's primary revenue sources are from enrolling new franchises, collecting royalties, training, and technology support.

Under the terms of the franchise agreement, the franchisee pays an upfront fee of \$20,000 at the time of signing the agreement and agrees to remit royalty fees of 5% of revenues plus other fees that are periodic in nature for additional services. In return, the franchisor promises to provide limited use of the franchisor's brand name and logo, supported by marketing activities, and ongoing access to a continually updated operating procedures manual for a period of 10 years. The new franchise owner also receives initial training which is typically completed soon after the signing of the agreement with all training responsibilities required of the franchisor concluding at the end of the training period for which a cost of \$5,000 is incurred. Similarly, if a franchise location is sold to a new franchisee, a transfer fee of \$2,500 is charged to cover the one-time fees of amending the franchise agreement and all the vendor agreements.

After assessing the guidance in ASC 606-10-25-19, the franchisor concludes the use of brand name and logo and ongoing access to the operating procedures manual as the core components of the franchise license. The franchisor further concludes the initial training services, and the franchise transfer services are distinct performance obligations that are one-time in nature and completed upon such date that franchisee's training or the franchise transfer is completed.

Therefore, the franchisor concludes that the franchise agreement includes distinct performance obligations for the use of its brand name and logo, supported by marketing and other support services, for the life of each 10 years franchise agreement, while the obligations of the franchisor terminate for training services and transfer services upon the conclusion of the initial training or the franchise transfer.

As such, the franchisor recognizes as revenue upon the completion of training or the franchise transfer, \$5,000 or \$2,500, respectively, related to training fees or the transfer fees. The balance of initial fees results in \$15,000, which gets recognized ratably over the 10-year term of the franchise agreement.

The franchisor also enters into renewals of existing franchise agreements without the requirement for the initial expenses incurred on entering into a new franchise agreement. In those situations, the franchisor, in the past, has not charged a renewal fee, but has charged an ongoing monthly royalty fee of 5% of revenues and additional fees that are periodic in nature for additional services.

The franchisor is in the process of evaluating potential renewal fees for future renewals. If the franchisor institutes renewal fees, the franchisor will recognize revenues related to renewal fees ratably over each of the 10 years of the renewal term based on its obligations to provide limited use of the franchisor's brand name and logo, supported by marketing activities, and ongoing access to a continually updated operating procedures manual for such 10-year period.

### *Accounts receivable*

Accounts receivable consist of royalties due from franchisees, franchise renewal transfer fees, and a franchise sale. The Company recognizes royalties from each franchisee based on a percentage of the franchisee's gross sales for each month, which is considered earned when reported by the franchisee. The allowance for doubtful accounts is estimated based upon historical experience, payment history and consideration of economic conditions. As of December 31, 2022, in the opinion of management, all of the accounts receivable are considered collectible at the amounts stated in the accompanying balance sheet, and no allowance for doubtful accounts is considered necessary.

## **Note 1. Nature of Activities and Summary of Significant Accounting Policies (continued)**

### *Property and equipment*

All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, or improvements that significantly prolong the useful lives of the assets are capitalized. Purchased property and equipment is capitalized at cost. Minor replacements, maintenance, and repairs are charged to expense as incurred. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciations are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period.

Property and equipment are depreciated using the straight-line method over estimated useful lives ranging from three to seven years.

### *Advertising*

Advertising costs are expensed as incurred. Advertising expenses for the year ended December 31, 2022 was \$394,243.

### *Recent accounting pronouncements*

The Company adopted *Accounting Standards Codification* ("ASC") 842, "Leases" ("ASC 842") on January 1, 2022, using the modified retrospective transition method and used the effective date as the date of initial application. The Company elected the "package of practical expedients," which permits not to reassess under ASC 842 prior conclusions about lease identification, lease classification and initial direct costs. The Company made a policy election not to separate non-lease components from lease components, therefore, the Company accounts for lease and non-lease components as a single lease component. The Company elected the short-term lease recognition exemption for all leases that qualify.

The Company determines if a contract contains a lease at inception of the arrangement based on whether there is the right to obtain substantially all of the economic benefits from the use of an identified asset and whether the Company have the right to direct the use of an identified asset in exchange for consideration.

Right of use ("ROU") assets represents the Company's right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets are recognized as the lease liability, adjusted for lease incentives received. Lease liabilities are recognized at the present value of the future lease payments at the lease commencement date. The interest rate used to determine the present value of the future lease payments is risk-free discount rate, which is determined using a period comparable with lease term, because the interest rate implicit in most of the leases is not readily determinable. Lease payments may be fixed or variable; however, only fixed payments or in-substance fixed payments are included in the lease liability calculation. Variable lease payments may include costs such as common area maintenance, utilities, real estate taxes or other costs. Variable lease payments are recognized in operating expenses in the period in which the obligation for those payments is incurred.

Operating leases are included in operating lease ROU assets, operating lease liabilities, current and operating lease liabilities, non-current on the balance sheet. Finance leases are included in property and equipment, net, accrued and other current liabilities, and other long-term liabilities on the balance sheet. The Company's operating leases, lease expense is recognized on a straight-line basis in operations over the lease term.

**Note 1. Nature of Activities and Summary of Significant Accounting Policies (continued)***Income taxes*

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the depreciation of fixed assets, net operating loss carryovers and charitable contribution carryovers for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes also are recognized for tax credits that are available to offset future federal income taxes.

*Covid-19*

In the US, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law on 27 March 2020. While the extent and duration of the economic fallout from the COVID-19 pandemic remains unclear, the Company's future performance might be affected by the pandemic.

**Note 2. Related Party Transactions**

Erik's DeliCafe, Inc. and ERIK'S DELICAFE FRANCHISES, INC. are owned by the same stockholders.

*Allocated general and administrative expenses*

The Company's general and administrative expenses are allocated from Erik's DeliCafe, Inc. on a systematic method. During the year ended December 31, 2022 total allocated payroll and payroll related cost is \$879,760.

*License agreement*

In accordance with license agreement between Erik's DeliCafe, Inc. and ERIK'S DELICAFE FRANCHISES, INC., starting January 1, 2019, the Company pays annual license fee for use of marks and other intangible assets that equals to \$8,000 per month. During the year ended December 31, 2022, the license fee was \$96,000.

*Accounts receivable - Erik's DeliCafe, Inc.*

The amounts receivable and payable from/to Erik's DeliCafe, Inc. represent the net of funds transferred by the Company to Erik's Deli Cafe, Inc., and expenses paid by Erik's Deli Cafe, Inc. on behalf of the Company, and fees owed to Erik's DeliCafe, Inc. for administrative services and the license fee.

**Note 3. Fair Value of Financial Instruments**

The financial position of the Company at December 31, 2022 include certain financial instruments that may have a fair value that is different from the value currently reflected in the financial statements. In reviewing the financial instruments of the Company, certain assumptions and methods were used to determine the fair value of each category of financial instruments for which it is practicable to estimate that value.

The carrying amounts of cash, accounts receivable, accounts payable and accrued liabilities are approximate fair value due to the short-term maturities of these assets and liabilities.

#### Note 4. Certain Risk Concentrations

Revenue is concentrated in networking marketing fee and royalty fee revenues from franchisees. Franchisees operate in the restaurant industry, which is intensely competitive with respect to price, service, location and food quality. In addition, food ingredients may be dependent on a sole or limited number of suppliers which could cause disruptions to business, and the franchisees are subject to federal and state laws governing workforce. Fluctuations in economic conditions and other unforeseen events in the markets where the franchised restaurants operate could have a material adverse impact on the Company's revenue.

Concentrations of credit risk financial instruments which potentially subject the Company to concentration of credit risk consist of cash balances. At times, a portion of these cash balances may not be insured by Federal Deposit Insurance Corporation. The potential concentration of credit risk pertaining to cash balances will vary throughout the year depending upon the level of cash deposits versus amounts insured. The Company is maintaining all deposits in one high quality financial institution. As of December 31, 2022, the Company had uninsured cash balances of \$253,474.

#### Note 5. Franchise Activity

The Company did not sell any additional franchises for the year ended December 31, 2022. One new store was opened and one store was closed resulting in twenty seven stores in operations as of December 31, 2022. The Company does not operate any franchisor-owned outlets.

#### Note 6. Furniture and Equipment

The cost and related accumulated depreciation as of December 31, 2022 consisted of the following:

Equipment	\$	11,199
Automobile lease		17,051
Accumulated depreciation		<u>(12,542)</u>
Property and equipment, net	\$	<u>15,708</u>

The depreciation expense was \$5,683 for the year ended December 31, 2022.

#### Note 7. Provision for Income Taxes

The provision for income tax expense for the year ended December 31, 2022 have been calculated as follows:

	Federal	California	Total
Current tax expense	\$ 6,651	\$ 3,333	\$ 9,984
Deferred tax asset	7,150	2,343	9,493
Deferred tax liability	-	-	-
Provision (credit) for income taxes	\$ <u>13,801</u>	\$ <u>5,676</u>	\$ <u>19,477</u>

The deferred income taxes relate primarily to net operating loss carryover, differences in depreciation methods used for book purposes and for tax purposes and ASC 606 adjustments.

As of December 31, 2022, the Company had federal net operating loss carryforwards of \$69,580 and state net operating loss carryforwards of \$60,429 which will expire between 2023 and 2039.

**Note 8. Revenue from Long-Term Contracts**

The following table provides information about the significant changes in contract liabilities for the year ended December 31, 2022:

Deferred revenue initial franchise fees, beginning year	\$	12,612
Revenue recognized that was included in deferred at the beginning of the year		(4,519)
Increase in deferred revenue during the current year		<u>-</u>
Deferred revenue initial franchise fees end of year	\$	<u><u>8,093</u></u>

**Note 9. Note Receivable**

The Company holds a note receivable with a principal amount of \$39,893.74. The note bears interest at an annual rate of 2.972 percent until paid in full. The note commenced on April 1, 2022, and will be mature on March 8, 2025. The note was issued to franchisee located at San Ramon and not related parties' transaction. During the December 31, 2022, the Company received \$10,896 in principal payment on the note. As of December 31, 2022, the outstanding principal balance on the note was \$29,623.

**Note 10. Subsequent Events**

In accordance with ASC 855, Subsequent Events topic, the Company's management has evaluated events and transactions subsequent to December 31, 2022 through April 20, 2023 for potential recognition or disclosure in the financial statements. The Company did not have subsequent events that required recognition or disclosure in the financial statements for the year ended December 31, 2022.



**ERIK'S DELICAFE FRANCHISES, INC.**  
**SCHEDULE OF OPERATING EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

Network marketing expenses		
Advertising agency fee	\$	26,012
Customer promotions and contests		8,731
Designs and creative services		9,882
Digital advertising		115,605
Donations		48,085
Email club		-
Loyalty club advertising		49,751
Newspapers and magazines		4,309
Printed materials		23,692
Product development		-
Public relations		2,159
Radio advertising		97,138
Uniforms		8,629
Web page design		250
		<hr/>
Total network marketing expenses	\$	<u>394,243</u>
General and administrative expenses		
Payroll	\$	795,934
Payroll taxes		58,591
Other employee benefits		25,235
License and management fees		96,000
Due, charge, and fees		26,725
Depreciation expense		5,683
Franchise sales expense		2,033
Legal and professional fees		124,947
Auto expenses		67,219
Insurance and permits		39,665
Office supplies		16,329
Penalties		109
Bad debt		-
Maintenance		81,199
Occupancy costs		28,704
Travel		26,648
Utilities		9,642
		<hr/>
Total general and administrative expenses	\$	<u>1,404,663</u>

**IRYNA ACCOUNTANCY CORPORATION**

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# ERIK'S

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**ERIK'S DELICAFE FRANCHISES, INC.**  
*(A CALIFORNIA CORPORATION)*

**FINANCIAL STATEMENTS**

**WITH**

**INDEPENDENT AUDITOR'S REPORT**

**YEAR ENDED DECEMBER 31, 2021**

**ERIK'S DELICAFE FRANCHISES, INC.**

**(A CALIFORNIA CORPORATION)**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors and Stockholders of  
ERIK'S DELICAFE FRANCHISES, INC.

### **Opinion**

We have audited the accompanying financial statements of ERIK'S DELICAFE FRANCHISES, INC. (A California Corporation), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities and cash flows for the year 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 ERIK'S DELICAFE FRANCHISES, INC. as of December 31, 2021 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 ERIK'S DELICAFE FRANCHISES, INC. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ERIK'S DELICAFE FRANCHISES, 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 a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ERIK'S DELICAFE FRANCHISES, 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 ERIK'S DELICAFE FRANCHISES, 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.

#### **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The *Schedule of operating expenses* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink, appearing to read "D. M. F.", is written over a light blue horizontal line.

*Iryna Accountancy Corporation*

Oakland, California  
May 29, 2022

**ERIK'S DELICAFFE FRANCHISES, INC.**  
**(A CALIFORNIA CORPORATION)**  
**BALANCE SHEET**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

**ASSETS**

Current assets	
Cash and cash equivalents	\$ 473,354
Gift card cash account	128,402
Accounts receivable - franchisees	79,481
Accounts receivable - Erik's DeliCafe, Inc.	64,005
Accounts receivable - other	60,005
Prepaid insurance	19,037
Prepaid corporate income tax	-
Total current assets	824,284
Furniture and equipment, net of accumulated depreciation	21,391
Deferred tax asset	31,218
Lease deposit	2,255
Total assets	\$ <u>879,148</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current liabilities	
Accounts payable - trade	\$ 63,037
Credit card payables	9,695
Gift card liability	128,402
Accrued liabilities	80,341
Deferred revenue – initial fee, current	5,469
Total current liabilities	286,944
Deferred revenue – initial fee, noncurrent	7,143
Deferred tax liability	-
Total liabilities	294,087
Stockholders' equity	
Common stock no par value: 1,000,000 shares authorized, 22,000 shares issued and outstanding	22,000
Retained earnings	563,061
Total stockholders' equity	585,061
Total liabilities and stockholders' equity	\$ <u>879,148</u>

See Independent Auditor's Report and Accompanying Notes to Financial Statements.

**ERIK'S DELICAFE FRANCHISES, INC.**  
**(A CALIFORNIA CORPORATION)**  
**STATEMENT OF INCOME AND RETAINED EARNINGS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

REVENUE		
Rebates	\$	206,960
Network marketing fees		390,939
Royalty fees		948,402
Transfer fees		-
Grant		175,380
Initial franchise fees		8,081
Other income		<u>12,177</u>
Total revenue		<u>1,741,939</u>
OPERATING EXPENSES		
Network marketing expenses		276,094
General and administrative expenses		<u>1,180,433</u>
Total operating expenses		<u>1,456,527</u>
Income (loss) before credit (provision) for income taxes		285,413
Credit (provision) for income taxes		<u>(33,702)</u>
NET INCOME (LOSS)	\$	251,711
Retained earnings, beginning of year		<u>311,350</u>
Retained earnings, end of year	\$	<u><u>563,061</u></u>

See Independent Auditor's Report and Accompanying Notes to Financial Statements.



**ERIK'S DELICAFE FRANCHISES, INC.**  
**(A CALIFORNIA CORPORATION)**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Net income (loss)	\$ 251,711
Adjustments to reconcile net income (loss) to cash used by	
Operating activities:	
Depreciation	4,850
Deferred tax, net	29,959
(Increase) decrease in operating assets:	
Accounts receivable - franchisees	(10,296)
Accounts receivable - Erik's DeliCafe, Inc.	21,448
Accounts receivable - other	(51,130)
Prepaid corporate income tax	374
Gift card cash account	(12,826)
Prepaid insurance	(15,717)
Lease deposit	-
Increase (decrease) in operating liabilities:	
Gift card liability	12,826
Accounts payable - trade	45,238
Accrued liabilities	42,920
Deferred revenue - initial fee, current	(2,611)
Deferred revenue - initial fee, noncurrent	(5,468)
Credit card payable	(741)
Net cash flow provided (used) by operating activities	\$ <u>310,537</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of property and equipment	<u>(5,000)</u>
Net cash provided (used) by investing activities	<u>(5,000)</u>
Net increase (decrease) in cash and cash equivalents	305,537
Cash, beginning of the year	<u>167,817</u>
Cash, end of the year	\$ <u><u>473,354</u></u>
<b>Supplemental disclosure of cash flows information</b>	
Cash paid for income taxes	\$ 800

See Independent Auditor's Report and Accompanying Notes to Financial Statements

**ERIK'S DELICAFE FRANCHISES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

---

**Note 1. Nature of Activities and Summary of Significant Accounting Policies**

*Nature of activities*

ERIK'S DELICAFE FRANCHISES, INC. (A California Corporation) was organized effective March 5, 1986. Erik's DeliCafe Franchises, Inc. (the Company) located in Santa Cruz, California, is engaged in the franchising of Erik's DeliCafe restaurants. ERIK'S DELICAFE FRANCHISES, INC. has twenty-seven franchises operating in California as of December 31, 2021. The Company owns the overall rights and trademarks of the franchise and allows its franchisees to use these rights to do business.

The Company operates on a calendar year with 12 calendar months from January 1 to December 31.

The Company is authorized to sell 1,000,000 common shares.

*Deferred income tax accounting policies*

ERIK'S DELICAFE FRANCHISES, INC. adopted the Financial Accounting Standards Board simplified balance sheet classification of deferred taxes. Under the new guidance deferred tax assets and liabilities are shown as noncurrent.

*Basis of accounting*

The Company maintains its books on the accrual basis of accounting, whereby revenues are recognized when they are earned, and expenses are recognized when they are incurred.

*Adoption of New Accounting Pronouncement*

In 2021, the Company adopted a new Statement of Auditing Standard (SAS) No. 134, Auditor Reporting and Amendments, including Amendment Addressing Disclosures in the Audit of Financial Statements to enhance the communicative value and relevance of the auditor's report.

The standard does not have an effect on the accounting treatment presented in the financial statements.

*Accounting 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.

*Cash and cash equivalents*

The Company considers all highly liquid investments with a maturity of three months or less at the date of acquisition, to be cash equivalents. At December 31, 2021, the Company had no cash equivalents.

## **Note 1. Nature of Activities and Summary of Significant Accounting Policies (continued)**

### *Revenue recognition*

The Company accounts for revenue using the accounting method prescribed under generally accepted accounting principles including guidance under *Accounting Standards Codification section 952-Franchisors*. Initial franchise fees are recognized on the consummation of the transaction, which occurs when all material services or conditions have been substantially performed. Network marketing fees are continuing fees designated for a specific purpose which are segregated and recognized as income when actually earned and receivable from a franchisee as that time period is not materially different from the time they are spent down. Royalty fees are continuing fees that are not designated for a specific purpose and are recognized when actually earned.

The Company recognizes revenue on the accrual basis of accounting. The Company's primary revenue sources are from enrolling new franchises, collecting royalties, training, and technology support.

Under the terms of the franchise agreement, the franchisee pays an upfront fee of \$20,000 at the time of signing the agreement and agrees to remit royalty fees of 5% of revenues plus other fees that are periodic in nature for additional services. In return, the franchisor promises to provide limited use of the franchisor's brand name and logo, supported by marketing activities, and ongoing access to a continually updated operating procedures manual for a period of 10 years. The new franchise owner also receives initial training which is typically completed soon after the signing of the agreement with all training responsibilities required of the franchisor concluding at the end of the training period for which a cost of \$5,000 is incurred. Similarly, if a franchise location is sold to a new franchisee, a transfer fee of \$2,500 is charged to cover the one-time fees of amending the franchise agreement and all the vendor agreements.

After assessing the guidance in ASC 606-10-25-19, the franchisor concludes the use of brand name and logo and ongoing access to the operating procedures manual as the core components of the franchise license. The franchisor further concludes the initial training services, and the franchise transfer services are distinct performance obligations that are one-time in nature and completed upon such date that franchisee's training or the franchise transfer is completed.

Therefore, the franchisor concludes that the franchise agreement includes distinct performance obligations for the use of its brand name and logo, supported by marketing and other support services, for the life of each 10 years franchise agreement, while the obligations of the franchisor terminate for training services and transfer services upon the conclusion of the initial training or the franchise transfer.

As such, franchisor recognizes as revenue upon the completion of training or the franchise transfer, \$5,000 or \$2,500, respectively, related to training fees or the transfer fees. The balance of initial fees results in \$15,000, which get recognized ratably over the 10 years term of the franchise agreement.

The franchisor also enters into renewals of existing franchise agreements without the requirement for the initial expenses incurred on entering into a new franchise agreement. In those situations, the franchisor, in the past, has not charged a renewal fee, but has charged an ongoing monthly royalty fee of 5% of revenues and additional fees that are periodic in nature for additional services.

The franchisor is in the process of evaluating potential renewal fees for future renewals. If the franchisor institutes renewal fees, the franchisor will recognize revenues related to renewal fees ratably over each of the 10 years of the renewal term based on its obligations to provide limited use of the franchisor's brand name and logo, supported by marketing activities, and ongoing access to a continually updated operating procedures manual for such 10-year period.

**Note 1. Nature of Activities and Summary of Significant Accounting Policies (continued)***Accounts receivable*

Accounts receivable consist of royalties due from franchisees, franchise renewal transfer fees, and a franchise sale. The Company recognizes royalties from each franchisee based on a percentage of the franchisee's gross sales for each month, which is considered earned when reported by the franchisee. The allowance for doubtful accounts is estimated based upon historical experience, payment history and consideration of economic conditions. As of December 31, 2021, in the opinion of management, all of the accounts receivable are considered collectible at the amounts stated in the accompanying balance sheet, and no allowance for doubtful accounts is considered necessary.

*Property and equipment*

Property and equipment are capitalized at cost at the date of purchase if the cost is greater than \$1,000. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation is removed from the accounts and any gain or loss is included in the results of operations.

Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis ranging from three to seven years for property and equipment.

*Advertising*

Advertising costs are expensed as incurred. Advertising expenses for the year ended December 31, 2021 was \$276,094.

*Income taxes*

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the depreciation of fixed assets, net operating loss carryovers and charitable contribution carryovers for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes also are recognized for tax credits that are available to offset future federal income taxes.

**Note 2. Related Party Transactions**

Erik's DeliCafe, Inc. and ERIK'S DELICAFE FRANCHISES, INC. are owned by the same stockholders.

*Allocated general and administrative expenses*

The Company's general and administrative expenses are allocated from Erik's DeliCafe, Inc. on a systematic method. During the year ended December 31, 2021 total allocated payroll and payroll related cost is \$733,795.

*License agreement*

In accordance with license agreement between Erik's DeliCafe, Inc. and ERIK'S DELICAFE FRANCHISES, INC., starting January 1, 2019, the Company pays annual license fee for use of marks and other intangible assets that equals to \$8,000 per month. During the year ended December 31, 2021, the license fee was \$96,000.

**Note 2. Related Party Transactions (Continued)***Accounts receivable - Erik's DeliCafe, Inc.*

The amounts receivable and payable from/to Erik's DeliCafe, Inc. represent the net of funds transferred by the Company to Erik's Deli Cafe, Inc., and expenses paid by Erik's Deli Cafe, Inc. on behalf of the Company, and fees owed to Erik's DeliCafe, Inc. for administrative services and the license fee.

**Note 3. Fair Value of Financial Instruments**

The financial position of the Company at December 31, 2021 include certain financial instruments that may have a fair value that is different from the value currently reflected in the financial statements. In reviewing the financial instruments of the Company, certain assumptions and methods were used to determine the fair value of each category of financial instruments for which it is practicable to estimate that value.

The carrying amounts of cash, accounts receivable, accounts payable and accrued liabilities approximate fair value due to the short-term maturities of these assets and liabilities.

**Note 4. Certain Risk Concentrations**

Revenue is concentrated in networking marketing fee and royalty fee revenues from franchisees. Franchisees operate in the restaurant industry, which is intensely competitive with respect to price, service, location and food quality. In addition, food ingredients may be dependent on a sole or limited number of suppliers which could cause disruptions to business, and the franchisees are subject to federal and state laws governing workforce. Fluctuations in economic conditions and other unforeseen events in the markets where the franchised restaurants operate could have a material adverse impact on the Company's revenue.

Concentrations of credit risk financial instruments which potentially subject the Company to concentration of credit risk consist of cash balances. At times, a portion of these cash balances may not be insured by Federal Deposit Insurance Corporation. The potential concentration of credit risk pertaining to cash balances will vary throughout the year depending upon the level of cash deposits versus amounts insured. The Company is maintaining all deposits in one high quality financial institution. As of December 31, 2021, the Company had uninsured cash balances of \$103,670.

**Note 5. Franchise Activity**

The Company did not sell any additional franchises for the year ended December 31, 2021. No new store was opened and no stores were closed resulting in twenty seven stores in operations as of December 31, 2021. The Company does not operate any franchisor-owned outlets.

**Note 6. Furniture and Equipment**

The cost and related accumulated depreciation as of December 31, 2021 consisted of the following:

Furniture and fixtures	\$	91,819
Computers		4,632
Software		1,299
Automobile lease		17,050
Accumulated depreciation		<u>(93,409)</u>
Property and equipment, net	\$	<u>21,391</u>

**Note 6. Furniture and Equipment (Continued)**

The depreciation expense was \$4,850 for the year ended December 31, 2021.

**Note 7. Provision for Income Taxes**

The provision for income tax expense for the year ended December 31, 2021 have been calculated as follows:

	Federal	California	Total
Current tax expense	\$ 2,943	\$ 800	\$ 3,743
Deferred tax asset	21,359	8,600	29,959
Deferred tax liability	-	-	-
Provision (credit) for income taxes	\$ 24,302	\$ 9,400	\$ 33,702

The deferred income taxes relate primarily to net operating loss carryover, differences in depreciation methods used for book purposes and for tax purposes and ASC 606 adjustments.

As of December 31, 2021, the Company had federal net operating loss carryforwards of \$113,516 and state net operating loss carryforwards of \$103,865 which will expire between 2022 and 2039.

**Note 8. Revenue from Long-Term Contracts**

The following table provides information about the significant changes in contract liabilities for the year ended 2021:

Deferred revenue initial franchise fees, beginning year	\$ 20,691
Revenue recognized that was included in deferred at the beginning of the year	(8,079)
Increase in deferred revenue during the current year	-
Deferred revenue initial franchise fees end of year	\$ 12,612

**Note 9. Revenue from Paycheck Protection Program**

The Paycheck Protection Program (PPP) Flexibility Act (the Flexibility Act) was signed into law on June 5, 2020 and extended the deferral payment period from six months after the loan disbursement date until the date on which the loan can be forgiven. Once the loan is forgiven, a borrower would recognize the loan as revenue.

On February 8, 2021, the Company obtained the second loan under the PPP for \$175,380, which was provided by Santa Cruz County Bank. The loan was forgiven in full in 2021 and recorded as revenue on the statement of income.

**Note 10. Subsequent Events**

In accordance with ASC 855, Subsequent Events topic, the Company's management has evaluated events and transactions subsequent to December 31, 2021 through May 29, 2022 for potential recognition or disclosure in the financial statements. The Company did not have subsequent events that required recognition or disclosure in the financial statements for the year ended December 31, 2021.

**ERIK'S DELICAFE FRANCHISES, INC.**  
**SCHEDULE OF OPERATING EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

Network marketing expenses		
Advertising agency fee	\$	30,608
Customer promotions and contests		4,344
Designs and creative services		5,167
Digital advertising		117,853
Donations		21,582
Email club		1,100
Loyalty club advertising		49,544
Newspapers and magazines		2,423
Printed materials		12,531
Product development		419
Public relations		1,331
Radio advertising		20,878
Uniforms		7,914
Web page design		400
		<hr/>
Total network marketing expenses	\$	<u>276,094</u>
General and administrative expenses		
Payroll	\$	657,178
Payroll taxes		52,564
Other employee benefits		24,053
License and management fees		96,000
Due, charge, and fees		17,942
Depreciation expense		4,850
Franchise sales expense		11,114
Legal and professional fees		109,132
Auto expenses		52,275
Insurance and permits		45,070
Office supplies		10,107
Bad debt		-
Maintenance		55,524
Occupancy costs		21,096
Travel		11,498
Utilities		12,030
		<hr/>
Total general and administrative expenses	\$	<u>1,180,433</u>

**IRYNA ACCOUNTANCY CORPORATION**

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**EXHIBIT B TO THE  
ERIK'S DELICAFE FRANCHISES, INC.  
DISCLOSURE DOCUMENT  
  
FRANCHISE AGREEMENT**

**ERIK'S DELICAFE FRANCHISES, INC.**

**DELICAFE FRANCHISE AGREEMENT**

Name of Franchisee:

\_\_\_\_\_

DeliCafe Location:

\_\_\_\_\_

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

**ERIK'S DELICAFE FRANCHISES, INC.**

**DeliCafe Franchise Agreement**

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## EXHIBITS

- Exhibit 1 -- The Premises and Designated Area
- Exhibit 2 -- Guaranty and Assumption of Franchisee's Obligations
- Exhibit 3 -- Confidentiality Agreement

# ERIK'S DELICAFFE FRANCHISES, INC.

## DeliCafe Franchise Agreement

THIS AGREEMENT between Erik's DeliCafe Franchises, Inc., hereinafter referred to as "Erik's", and \_\_\_\_\_ hereinafter referred to as "Franchisee", is made on the basis of the following understandings and recitals and in consideration of the following promises, and the parties hereto, intending to be legally bound, agree as follows:

### 1. ARTICLE 1. RECITALS

#### 1.1 The Erik's Business System.

As the result of the expenditure of time, effort and money in research and development, Erik's has developed and has the right to license methods, procedures, designs and marketing and advertising standards and formats, which may be modified by Erik's from time to time (hereinafter referred to as the "Erik's System" or "System"). The System is used in the operation of a retail food establishment (hereinafter referred to as an "Erik's DeliCafe" or "DeliCafe") offering delicatessen-type food in a cafe-style, relaxing atmosphere including, but not limited to, a variety of unique sandwiches, soups, salads and bakery goods and catering services made in accordance with recipes or specifications furnished by Erik's, in a specially designed and decorated cafe with distinctive fixtures, accessories, and motif. Erik's has developed a network (hereinafter referred to as the "Erik's Network" or "Network") of DeliCafes to use the Erik's System on a mutually cooperative and interrelated basis.

#### 1.2 Proprietary Marks.

Erik's, franchises DeliCafes under the proprietary service mark "Erik's DeliCafe" and associated logo and such other trademarks, service marks and other commercial symbols owned by Erik's, as may be modified from time to time, which are used to identify the products and services offered by the DeliCafes (herein collectively referred to as the "Marks").

#### 1.3 Operating Standards.

Franchisee understands and accepts the terms, conditions and covenants contained in this Agreement as being reasonable and necessary to maintain Erik's high standards of service, quality and appearance, as well as the consistency of these standards at all Erik's DeliCafes, in order to protect and preserve the goodwill of the Marks. Franchisee therefore agrees to operate the franchised DeliCafe as an integral part of the Erik's Network and in accordance with the Erik's System.

#### 1.4 Franchisee Desires A License.

Franchisee desires to establish an Erik's DeliCafe under the System, in the general area designated in Exhibit 1, and to use in connection therewith the Erik's Marks and System, and provide the food and related products and services authorized for the DeliCafe, as an integral

part of the Erik's Network, and to derive the benefits of Erik's reputation, advice, experience, guidance and know-how.

## **2. ARTICLE 2. GRANT OF FRANCHISE**

### **2.1 Grant of Franchise.**

(a) Grant of Franchise. Subject to and upon all of the terms and conditions set forth in this Agreement, Erik's grants to Franchisee the right and license, and Franchisee undertakes the obligation to establish and operate an Erik's DeliCafe under the System and the Marks as Erik's directs, and to use the Marks in connection with the various food products and services to be supplied in the operation of the DeliCafe (such operation and all of Franchisee's business and activities in connection therewith are herein referred to as a "DeliCafe" or "Erik's DeliCafe") at a single specific location (herein referred to as the "Premises") located within the area described in Exhibit 1 attached hereto and made a part hereof.

(b) Alternate Channels of Distribution. Erik's may sell packaged products under the Erik's DeliCafe brand and/or Marks ("Branded Products") in alternate channels of distribution including online sales via the internet, grocery stores, supermarkets, big box or wholesale stores, both outside and inside the area granted to Franchisee (herein referred to as the "Designated Area" or "Area") which shall be defined in Exhibit 1 attached hereto upon granting approval of a site as provided in Section 3.8 below. Erik's will not sell Branded Products through other restaurants except as permitted in Section 2.1(c) below, but it may sell Branded Products through stores that include a prepared food counter (e.g., a Whole Foods grocery store featuring a deli counter at which customers may buy prepared or ready-to-eat food), or a dine-in area (e.g., a Costco Wholesale store featuring a food court and seating area). In addition, the stores through which Erik's sells under this Section may prepare and serve samples of the Branded Products and otherwise display, discount and promote the Branded Products pursuant to their normal business practices.

(c) Exclusive Area: Loss of Rights and Exceptions. Subject to the following exceptions, Erik's will not, while this Agreement is in effect, operate, nor will Erik's grant others a license to operate an Erik's DeliCafe under its System at any location within the area (herein referred to as the "Designated Area" or "Area") which shall be defined in Exhibit 1 attached hereto upon granting approval of a site as provided in Section 3.8 below. Notwithstanding the above, upon the occurrence of any of the following, Erik's may itself operate, or grant a license to another franchisee to operate an Erik's DeliCafe within the Designated Area:

(i) Upon the occurrence of any event or events as the result of which Erik's has the right to terminate this Agreement, as provided in Article 5 below, Erik's may, whether or not it elects to exercise its right of termination, grant to another franchisee or franchisees the right and license to operate an Erik's DeliCafe under the System and Marks at another location within the Area, and this action by Erik's shall not affect any other rights and obligations hereunder unless and until Erik's exercises its right of termination as provided in Article 5;

(ii) Erik's reserves the right to establish, either itself or through another franchisee, another DeliCafe in any non-traditional locations within the Designated Area granted by this Agreement. Under the terms of this Agreement, a non-traditional location is defined as an airport, sports stadium or special event arena, college or university campus, or convention center (herein "Non-Traditional Location"). Erik's may offer Franchisee an opportunity to open in a Non-Traditional Location within Franchisee's Area, but is not required to do so; or

(iii) Erik's reserves the right to establish, either itself or through another franchisee, another DeliCafe in an office park within the Designated Area granted by this Agreement. Under the terms of this Agreement, an office park location is defined as an office building of at least 3,000 square feet and over five (5) stories tall, with the DeliCafe to be established within the office building. If Franchisee is in good standing, Franchisee shall have the right to apply to open the office park DeliCafe within Franchisee's Territory before Erik's allows any other party to open the DeliCafe. Franchisee must meet Erik's then-current standards for opening the DeliCafe, sign the then-current form of franchise agreement, and comply with all then-current standards and requirements including but not limited to payment of fees, training requirements, and build-out standards.

## **2.2 Further Rights & Privileges.**

Subject to and upon all of the terms and conditions set forth in this Agreement, Erik's further grants to Franchisee the following rights and privileges:

(a) Marks. Use of the Marks as Erik's directs, but only at the specific DeliCafe described in Section 2.1(a) and only in connection with authorized DeliCafe food products and related services;

(b) System. Use, in conjunction with the operation of the DeliCafe, of the Erik's System, as it may be developed, changed and improved during the term of this Agreement;

(c) Supply. To purchase or acquire the right to use, from Erik's or its approved suppliers, all products, supplies, equipment and services offered by Erik's and required or permitted in the operation of the DeliCafe.

## **2.3 Term.**

(a) Term. This Agreement and the appointment of Franchisee hereunder shall commence on the date this Agreement is executed and, unless previously terminated as herein provided, shall expire on the tenth (10th) anniversary of the date on which this Agreement was executed.

(b) Renewal Option. The term of this Agreement and the appointment hereunder may be extended for one additional term of ten (10) years exercisable by written notice from Franchisee to Erik's, at least one hundred eighty (180) days prior to the expiration of the initial term; provided that at the end of the initial term:

(i) Franchisee is not at the time of the exercise or at the commencement of the extension term, in default of the performance of any of Franchisee's obligations hereunder; and

(ii) Franchisee is not at the time of the exercise or at the commencement of the extension term, in default of the performance of any provision of the lease of the Premises; and

(iii) All monetary obligations owed by Franchisee to Erik's have been fully satisfied prior to the commencement of the extension term; and

(iv) At the option of Erik's, Franchisee shall execute Erik's then-current form of franchise agreement which shall waive any initial franchise fees and provide for the then-current royalty fees and network marketing fund contributions; and

(v) Franchisee shall execute a general release, in a form prescribed by Erik's, of any and all claims against Erik's, and its affiliates, officers, directors, agents and employees, arising out of or relating to this Agreement; and

(vi) Franchisee provides Erik's with a copy of the lease for the Premises indicating that possession by Franchisee is assured for the renewal term; and

(vii) Franchisee agrees to remodel and/or expand the Premises, add or replace furniture, fixtures, furnishings, equipment, signs and decor and otherwise modify the DeliCafe to bring it into compliance with specifications and standards then applicable under new or renewal franchises for Erik's DeliCafes; and

(viii) Franchisee pays Erik's a renewal fee of Two Thousand Five Hundred Dollars (\$2,500.00) before the expiration of the initial term.

### **3. ARTICLE 3. FRANCHISEE'S OBLIGATIONS & DUTIES**

#### **3.1 Initial Franchise Fee.**

(a) Initial Franchise Fee. In consideration of the grant of franchise, and of the rights and privileges relating thereto, hereinabove made, Franchisee shall pay to Erik's a franchise fee in the amount of Twenty Thousand Dollars (\$20,000) Dollars, payable upon the signing of this Agreement. This fee shall be paid solely for the grant of franchise rights and privileges, shall be fully earned upon execution of this Agreement, and shall be in addition to all other fees, royalties, costs and other expenditures of any kind required of Franchisee under the terms hereof, or any sums otherwise becoming due from Franchisee for any reason. The franchise feeshall not be refundable under any circumstances.

(b) Subsequent Franchises. If Erik's subsequently offers additional DeliCafe franchises to Franchisee, the initial franchise fee shall be Seventeen Thousand Five Hundred Dollars (\$17,500) for the second franchise, and the initial franchise fee shall be Twelve Thousand Five Hundred Dollars (\$12,500) for each subsequent franchise, in all cases payable in full upon the signing of the applicable franchise agreement.



### **3.2 Royalties.**

In further consideration of the grant of franchise and related rights and privileges hereunder, and in consideration of the services to be rendered by Erik's to Franchisee in support of Franchisee's operations as below provided, Franchisee shall pay to Erik's throughout the term of this Agreement weekly royalties of five percent (5%) of Gross Revenue (as defined in Section 3.3) derived from the DeliCafe, payable on or before each Friday for the preceding week's Gross Revenue. As used herein, a week is a seven (7) day period as defined in Erik's then-current Manual(s) (currently beginning on a Monday and ending on a Sunday).

### **3.3 Gross Revenue.**

As used herein the term "Gross Revenue" includes the aggregate amount of all charges (defined in accordance with accounting practices and procedures as determined by Erik's) for goods sold or services rendered to customers in the operation of the DeliCafe business, regardless of the nature and location of the giving and receiving of orders for, and of the rendition and delivery of, goods and services, and whether or not payment is received, and in cases where payment is made by exchange of other services and goods provided by a customer, calculated on the basis of usual and ordinary charges for the services or goods rendered or supplied by the Franchisee in the exchange, and all other receipts of any kind of Franchisee derived directly or indirectly from the DeliCafe, the operation thereof, and activities in connection therewith, including, but not limited to proceeds from business interruption insurance. Provided that such deductions are properly documented according to Erik's prescribed accounting procedures, "Gross Revenue" excludes: (i) the amount of all sales, use, and other taxes collected from customers and paid to the appropriate taxing authority and (ii) any amounts collected from customers of Franchisee but retained by or remitted to third party delivery service providers for delivery of customer orders.

### **3.4 Advertising, Public Relations and Marketing.**

Recognizing the value of Network advertising, public relations and marketing programs, and the importance of the standardization of these programs to promote and further the goodwill and public image of the Erik's System and Marks, Franchisee agrees as follows:

(a) Network Marketing Fund; Local Advertising. Erik's has established a Network Marketing Fund ("Network Fund") which is a collective fund used by Erik's solely for advertising, promotion and marketing in accordance with the provisions of subparagraphs (i) and (ii) below. As long as the Network Marketing Fund is in effect, Franchisee shall make monthly contributions of up to four percent (4%), as specified by Erik's in writing, of the preceding month's Gross Revenue to a collective Network Marketing Fund (hereinafter "Network Fund"). Payments to the Network Fund shall be made on the first Friday following the end of each month. Erik's may suspend or discontinue the Network Fund at any time on written notice, in which case Franchisee shall be required to make the minimum local advertising expenditures described below in this paragraph until such time as the Network Fund is resumed. If at any time the Network Fund is not in effect, Franchisee shall instead spend on Franchisee's own advertising and promotional activities related to Franchisee's DeliCafe for each calendar quarter of operation the higher (i) 1% of Franchisee's Gross Revenue or (ii) the same percentage of Franchisee's

Gross Revenue as Franchisee had been contributing to the Network Fund just prior to the Network Fund's suspension. Franchisee shall for those months furnish Erik's a report of such expenditures in the time and manner required by Section 3.6 of this Agreement. Franchisee shall participate in system-wide promotions.

(i) Administration of Network Fund. Franchisee agrees that Erik's shall have the right to direct all local, regional and national advertising, public relations and marketing programs for the System; to use in these programs the payments described in subparagraph (a) above; and that Erik's shall have the sole discretion over the creative concepts, materials and media used and the placement and allocation thereof. Franchisee agrees and acknowledges that one of the primary intentions of the Network Fund is to maximize public recognition and acceptance of Erik's Marks and that Erik's undertakes no obligation in administering the Network Fund to make expenditures for Franchisee's Area which are equivalent or proportionate to Franchisee's contribution, or to ensure that any particular franchisee benefits directly or pro rata from these programs. Erik's may, without prior notice to Franchisee, delegate some or all of the administration of the Network Fund, to a third party or parties.

(ii) Network Fund Expenditures. Franchisee agrees that the Network Fund may be used to meet any and all costs of maintaining, administering, directing and preparing marketing programs, including, without limitation, the cost of preparing and conducting television, radio, magazine, newspaper, Internet, direct mail, in-store signage and other types of advertising; public relations activities, including, without limitation, the cost of hiring agencies and Erik's personnel to engage in public relations work; and employing advertising and public relations agencies and personnel to assist therein; and charitable promotions. Advertising and public relations agencies and personnel may be composed of employees of Erik's or may be entities owned by or affiliated with Erik's if use of in-house agencies is deemed best by Erik's, in which event the methods for determining the value of services rendered by the in-house agency shall be set forth in writing and may be charged to the Network Fund. No sums paid by Franchisee to the Network Fund shall be used to defray any of Erik's general operating expenses, except for reasonable administrative costs and overhead, if any, as Erik's may incur in activities reasonably related to the administration or direction of the Network Fund and promotional programs, including, without limitation, conducting marketing research, preparing marketing and advertising materials and collecting and accounting for assessments for the Network Fund. An accounting of the operation of the Network Fund shall be prepared annually and made available to Franchisee upon request.

(b) Grand Opening Advertising. In addition to the amounts spent pursuant to subparagraphs (a) and (b) above, Franchisee must pay Erik's Five Thousand Dollars (\$5,000) as a deposit toward on advertising and promotion activities related to promotion of the grand opening of Franchisee's DeliCafe. Erik's will administer the payment for this advertising and related activities.

(c) Loyalty Program Fee. Upon notice from Erik's, Franchisee shall pay a monthly fee to Erik's, not to exceed Two Hundred Dollars (\$200.00) per month, for administration of the Erik's Loyalty Program.

(d) Advertising Standards. All advertising by Franchisee shall be completely factual and shall conform to the highest standards of ethical advertising. Franchisee agrees to refrain from any business or advertising practice that may be injurious to the Erik's System or the goodwill associated with the Marks. Without limiting the foregoing, Franchisee agrees that all advertising and promotions by Franchisee in any form and in any medium shall be conducted in a dignified manner and shall conform to such standards and requirements as Erik's may from time to time designate in writing. Franchisee shall submit to Erik's (by mail, return receipt requested or email), for prior written approval, samples of all advertising and promotional plans and materials, including but not limited to menus and photos to be used both within the DeliCafe and online, that Franchisee desires to use and that have not been prepared or previously approved by Erik's. If written approval thereof is not received by Franchisee, Erik's shall be deemed not to have given the required approval.

(e) Use of Social Media. During the term of this Agreement, Erik's permits Franchisee to promote its business through the use of social media. Franchisee must comply with Erik's policies on use of the Marks in social media, which policies may be modified by Erik's at any time. All Franchisee use of social media in connection with the Marks shall be subject to Erik's Advertising Standards as set forth in Section 3.4(c) and must also comply with all applicable laws and with the terms of use of any applicable website and/or social media.

### **3.5 Catering Channel Fee.**

If Franchisee elects to offer catering services, Franchisee shall pay Erik's a flat fee per month and a variable fee for each catering order placed with Franchisee. The flat fee is currently Thirty Dollars (\$30) per month, but is subject to increase if Franchisor's expenses in promoting and offering the catering program change. The fee per order currently ranges from Five Cents (\$0.05) to \_\_\_ percent (\_\_\_%) per order, depending on the size of the order, and is also subject to increase.

### **3.6 Other Payments; Cost Increases.**

(a) Upon renewal or transfer of this Agreement, Franchisee is obligated to pay Erik's the fees set forth in this Agreement.

(b) Items of inventory, equipment, supplies, products, material and services offered by Erik's to and accepted by Franchisee shall be paid for at the prices currently charged by Erik's and its affiliates or suppliers at the time of sale with payment for such items to be made by Franchisee in accordance with the terms and policies as specified by Erik's in its Manuals (as defined in Section 3.10) or otherwise. These payments include payments for décor rental, computer systems, music, and other required elements of the Erik's system. Erik's endeavors to keep all such prices and costs low, but has the right to increase costs as necessary based on vendor cost increases, increased levels of service, new technologies, and related market changes.

### **3.7 Reports, Payment Schedule and Manner of Payment.**

Franchisee shall throughout the term of this Agreement at Franchisee's expense, submit to Erik's, complete and accurate reports and payments in such form and detail as Erik's may require, and in the manner that Erik's may designate, as follows:

(a) Unless otherwise required by Erik's, on or before Friday of each calendar week, a report of all Gross Revenue of the DeliCafe for the preceding week (as defined in Section 3.3), together with payment, without setoff or deduction, of the royalties required by Section 3.3;

(b) On or before the fifteenth (15th) day of each calendar month, a summary report of all income and expenses paid and incurred in the operation of the DeliCafe for the preceding calendar month; and

(c) On or before the tenth (10th) day after the end of each calendar quarter, a report of local advertising expenditures for the preceding calendar quarter as required by Section 3.4(a); and

(d) On or before April 15<sup>th</sup> of each calendar year, a balance sheet for the preceding calendar year; and

(e) Upon request by Erik's, such other data, information and supporting records for such periods as Erik's, from time to time, requires.

(f) Franchisee will make all payments to Erik's in the manner required by Erik's, which may include payment by electronic funds transfer from a designated bank account of Franchisee to a designated bank account of Erik's, or payment by some other electronic debit/credit method. Franchisee agrees to execute any forms or agreements required by banks or financial institutions to authorize transfers, whether initiated by Erik's or Franchisee. Franchisee is responsible for having sufficient funds on deposit to cover all checks, debits and electronic funds transfers made. All charges imposed by Franchisee's bank or financial institution to process and clear any checks, debits or transfers shall be paid by Franchisee. Franchisee will also reimburse Erik's for any charges assessed to Erik's due to Franchisee's account having insufficient funds to cover any check, debit or funds transfer or for any "stop payment" or other refusal to honor or pay a check, debit or funds transfer to Erik's.

(g) Franchisee will submit all reports required hereunder in the form and using the method designated by Erik's, which may include transmission electronically over the Internet or by way of an Intranet through a point of sale or computer system or using other information technology.

### **3.8 Late Payments.**

(a) Late Payments. Any payment not actually received by Erik's as required by this Agreement shall be deemed overdue. If any payment is overdue, Franchisee shall pay Erik's in addition to the overdue amount, a late fee equal to ten percent (10%) of the overdue amount or \$50.00, whichever is greater, for Royalty payments, and a late fee equal to ten

percent (10%) of the overdue amount or \$100.00, whichever is greater, for Network Marketing Fund payment.

(b) No Waiver. Franchisee acknowledges that this Section 3.7 shall not constitute an agreement by Erik's to accept any payments after they are due or a commitment by Erik's to extend credit to, or otherwise finance Franchisee's DeliCafe. Further, Franchisee acknowledges that failure to pay all amounts when due shall constitute grounds for termination of this Agreement by Erik's, as provided in Section 5.2, notwithstanding the provisions of this Section.

### **3.9 Selection and Lease of Premises.**

(a) Initial Selection and Lease. Within six (6) months of the date of signing this Agreement, the Premises shall be selected and a lease signed by Franchisee. No site proposed by Franchisee may be developed unless approved by Erik's. The lease for the Premises must be approved by Erik's prior to the Franchisee's execution of the lease and Erik's may require as a condition of its approval that the lease contain certain provisions to protect its interests, including but not limited to the following provisions:

(i) a provision granting Franchisee the right to assign the lease to Erik's or its designee without penalty; and

(ii) a provision that the lessor will immediately notify Erik's of any breach of the lease and allow Erik's a cure period;

(iii) a provision granting Erik's or its designee the right to exercise any option to renew the lease of the Premises, if an option exists and Franchisee fails to exercise this option;

(iv) a provision requiring that the premises always be operated as an Erik's DeliCafe during the lease term.

Franchisee shall at all times perform and comply with the obligations, limitations and requirements on the part of Franchisee to be performed and complied with under the terms of the lease. In the event Franchisee's lease expires or is otherwise terminated prior to the end of the initial term of this Agreement, or extension thereof, and this termination is not caused by a default on the part of Franchisee, Franchisee shall select another suitable place of business within the Designated Area, or if a location is not available in the Designated Area then outside the Designated Area, subject in all cases to the prior written approval of Erik's which shall not be unreasonably withheld. If the Franchisee's lease of Premises continues beyond the term of this Agreement and beyond the term of any extension or exercised option periods of this Agreement, Franchisee shall be responsible for all obligations and duties described in Sections 5.2 and 5.3 of this Agreement.

(b) Relocation of the Premises. If your lease for the Premises of the DeliCafe expires or terminates without your fault, if the Premises are damaged, condemned or otherwise rendered unusable, or if, in the judgment of Erik's, there is a change in the character of the location of the Premises sufficiently detrimental to its business potential to warrant its relocation,

Erik's will grant permission for relocation of the Premises to a location and premises approved by Erik's within the Designated Area. Any such relocation shall be at your sole expenses and must be completed within six (6) months of the loss of lease for the Premises or the closing of the DeliCafe.

### **3.10 Condition and Appearance of Premises.**

(a) Construction of Premises. Within twelve (12) months of the date of signing of this Agreement, Franchisee shall, at no cost to Erik's, cause to be constructed all improvements to the Premises and outfit them with all furniture, fixtures, furnishings, equipment, alarm and security surveillance system, signs and decor required to prepare for operation of the business, all in accordance with the design, layout and decor specifications supplied and approved by Erik's. To do so, Franchisee shall use approved suppliers of Erik's, including, but not limited to approved architects, general contractors, and designers.

(b) Décor and Equipment Deposit. Upon signing a lease for the Premises, Franchisee shall deposit with Franchisor the sum of Five Thousand Dollars (\$5,000.00), which shall be held in escrow and used for the purpose of paying approved suppliers for required décor and equipment. Franchisor shall refund any balance remaining 60 days after the DeliCafe begins operation. Notwithstanding this deposit and escrow, Franchisee is solely responsible for paying each and every vendor and supplier, and shall defend, indemnify and hold harmless Franchisor as provided in Section 3.16 of this Agreement from any claims by third parties relating to payment.

(c) Maintenance of Premises. Franchisee agrees that neither the DeliCafe nor the Premises will be used for any purpose other than the operation of an Erik's DeliCafe in compliance with this Agreement. Franchisee will maintain the condition and appearance of the DeliCafe and the Premises, its furniture, fixtures, furnishings, equipment, signs and decor in accordance with the specifications and standards of Erik's and consistent with the image of an Erik's DeliCafe as an efficiently operated business offering high quality delicatessen-type food and observing the highest standards of cleanliness and sanitation. Franchisee will perform such maintenance with respect to the furniture, fixtures, furnishings, equipment, signs and decor of the DeliCafe and the Premises as is required from time to time to maintain such condition, appearance and efficient operation, including without limitation: (a) thorough cleaning, repainting and redecorating of the interior and exterior of the Premises at reasonable intervals; (b) interior and exterior repair of the Premises; and (c) repair or replacement of damaged, worn out or obsolete, furniture, fixtures, furnishings, equipment, signs and decor. Decoration and repair shall be made by approved suppliers of Erik's, unless Franchisee obtains approval in writing in advance to use another supplier.

Franchisee will not make any material alterations to the Premises, or to the appearance of the DeliCafe as originally developed, without prior approval by Erik's. Franchisee will remodel, expand, redecorate, re-equip and refurnish the Premises and the DeliCafe at reasonable intervals determined by Erik's, using approved suppliers, to reflect changes in the operations of Erik's DeliCafes prescribed by and required of new franchisees, all of which are subject to approval by Erik's of layouts, designs, furniture, fixtures, furnishings, equipment, signs and decor. Franchisee will place or display at the Premises (interior and exterior) only such

signs, emblems, lettering, logos and displays and advertising materials that are from time to time approved by Erik's.

Franchisee acknowledges that the maintenance and upgrade of the DeliCafe that is required under this Section 3.9 may require the expenditure of additional capital that, in some cases, may be substantial.

### **3.11 Operation of Business.**

Promptly following completion of improvements and installation of equipment in the Premises, and in any event within twelve (12) months of the date of signing this Agreement, Franchisee shall commence operation of the DeliCafe and shall thereafter, subject only to interruption resulting from acts of God or other causes beyond the control of Franchisee and not relating to the availability of funds to Franchisee, continuously operate the DeliCafe, devoting Franchisee's full time, except as below specifically provided in subparagraph 3.10(e), and Franchisee's best efforts, skills, and diligence to the conduct of the business of selling and providing products and services (hereinafter "Business Services") authorized or required to be provided as part of the Erik's System as set forth in Erik's Confidential Operating Manuals and all supplements, addenda and amendments thereto (herein collectively called the "Manuals"), and Franchisee shall not sell or provide other products or services except ones which Erik's, in its sole and absolute discretion, shall approve as being compatible and not interfering with the Erik's System or Network. Specifically and without limiting the foregoing, Franchisee agrees:

(a) Follow Manuals and Standards. Franchisee shall operate the DeliCafe in all respects in accordance with all reasonable requirements of Erik's from time to time in effect, as set forth in the Manuals and in other communications from Erik's, maintaining the highest business standards of quality and ethical conduct, and not otherwise so that the DeliCafe shall be established and at all times operated as and constitute a business of the highest quality and appearance. With respect to the Manuals, Franchisee specifically agrees as follows:

(i) Franchisee shall treat the Manuals created and approved for use in the operation of franchised DeliCafes, and the information contained therein, as confidential, and shall use all reasonable efforts to maintain this information as secret and confidential; and

(ii) Franchisee agrees that the Manuals shall remain the sole property of Erik's; that Erik's may, from time to time, revise the contents of the Manuals; and Franchisee agrees to comply with each new or changed provision thereof; and

(iii) Franchisee agrees that the master copy of each Manual maintained by Erik's at its principal office shall be controlling in the event of a dispute relative to the content of any Manual.

(b) Approved Products and Services. Franchisee shall maintain at sufficient inventory levels, and sell only products and services that meet Erik's standards of quality and have been expressly approved by Erik's in writing for offer or sale by Franchisee. Franchisee shall refrain from any deviation from Erik's standards and specifications for selling products and services without Erik's prior written consent and shall discontinue offering and selling any

products and services that Erik's may disapprove in writing from time to time, in its sole discretion.

(c) Approved Suppliers: Testing. Franchisee will purchase certain food and beverage items as specified by Erik's only from suppliers that are designated by Erik's as approved sources for the particular item or items. Erik's may in its sole discretion determine which items must be purchased only from designated sources and which suppliers to designate as the sources for those items. Erik's may require any or all proprietary and non-proprietary food items to be purchased only from designated suppliers. Franchisee agrees that the foregoing provisions are reasonable and necessary in order to maintain consistency in quality of the food and beverages sold by the Erik's Network and to leverage the buying power of the Network. Where no supplier is designated by Erik's, Franchisee will purchase the subject equipment, products, services and materials required for operation of the DeliCafe solely from suppliers who demonstrate to the continuing reasonable satisfaction of Erik's, the ability to meet Erik's standards and specifications for same; who possess adequate quality and sanitation controls and ability to supply Franchisee's needs promptly, consistently and reliably; and who have been approved in writing by Erik's and not thereafter disapproved. If Franchisee desires to purchase any item or service from an unapproved supplier, or to sell products or services not previously approved by Erik's, Franchisee shall submit a written request for approval to Erik's. Erik's shall have the right to require that its representatives be permitted to inspect the supplier's facilities, or that samples of unapproved products or services be delivered, at Erik's option and without charge to Erik's, either to Erik's or its designee for testing. A charge not to exceed the reasonable cost of the inspection and the actual cost of the test shall be paid to Erik's by Franchisee. Erik's reserves the right, at its option, to re-inspect the facilities and products of any approved supplier and revoke its approval, if any has been granted, if the supplier fails to meet any of Erik's then-current criteria. In no event shall Erik's be required to evaluate or approve a different supplier where Erik's has designated a supplier or suppliers as the source for a particular item or to approve any products or services for sale not previously approved by Erik's.

(d) Confidential Information. Erik's possesses and will develop and acquire certain confidential and proprietary information and trade secrets consisting of (1) business methods, techniques, standards, procedures and formats of the System; (2) policies, procedures, information, concepts, systems and knowledge of and experience in the development, operation and franchising of DeliCafes; (3) recipes, menu preparation and selection and combination of food items; (4) marketing programs for DeliCafes; and (5) knowledge and specifications for and suppliers of certain materials, furniture, fixtures, furnishings, equipment, signs and decor for DeliCafes (collectively the "Confidential Information"). Erik's will disclose to Franchisee the Confidential Information in the Manuals and in guidance and assistance furnished to Franchisee during the term of this Agreement. Franchisee acknowledges and agrees that Franchisee will not acquire any interest in the Confidential Information and that the use of the Confidential Information in any other business would constitute an unfair method of competition with Erik's and other DeliCafes. Franchisee acknowledges and agrees that the Confidential Information belongs to Erik's, contains trade secrets belonging to Erik's and is disclosed to Franchisee and authorized for use solely on the condition that Franchisee agrees that Franchisee: (1) will not use the Confidential Information in any other business or capacity; (2) will maintain the absolute secrecy and confidentiality of the Confidential Information during and after the term of this Agreement; (3) will not make unauthorized copies of any portion of the Confidential Information



disclosed in written form; and (4) will adopt and implement all reasonable procedures prescribed from time to time by Erik's to prevent unauthorized use or disclosure of or access to the Confidential Information.

Franchisee shall cause its principals and managers to execute a Confidentiality Agreement substantially in the form of Exhibit 3 attached hereto. Franchisee shall deliver such copies of all such Confidentiality Agreements to Erik's promptly after they are signed. Franchisee agrees that the relationship with Erik's does not vest in Franchisee any interest in any Confidential Information other than the right to use it in the development and operation of the DeliCafe under this Agreement and other than the right to utilize it in the operation of the DeliCafe during the term of this franchise and that Franchisee will maintain the confidentiality of the Confidential Information during and after the term of this Agreement.

(e) Devote Adequate Working Time: Non-Compete. Franchisee acknowledges and agrees that it is essential to this Agreement that the franchise be operated and managed by an individual who has successfully completed the training required by Erik's. Franchisee will designate an individual \_\_\_\_\_ to operate and manage the DeliCafe and provide the name and qualifications of this person to Erik's for approval and only appoint such person as a manager with Erik's prior written approval, which shall not be unreasonably withheld. If said individual does not throughout the term of this Agreement continue to operate and/or manage the DeliCafe, such event shall be a material breach of this Agreement unless such change in management is pursuant to Erik's express written consent as specified in this Agreement.

Erik's has entered into this Agreement on the express condition that with respect to the operation of a retail food establishment, Franchisee and its owners and members of their respective immediate families will deal exclusively with Erik's. Franchisee therefore agrees that during the term of this Agreement, except for the DeliCafe and other Erik's DeliCafes operated under franchise agreements with Erik's, neither Franchisee nor any shareholder or partner of Franchisee (in the event Franchisee is a corporation or partnership), nor any member of the immediate family of Franchisee or any member of the immediate family of any shareholder or partner of Franchisee, shall conduct or operate, directly or indirectly, or be employed by or associated in any way with any delicatessen, sandwich shop, fast casual café or any other retail food establishment that sells products substantially similar to those offered at DeliCafes (referred to hereafter as a "Competitive Business"), nor shall Franchisee or its partners, shareholders, or members of their respective immediate families engage in, directly or indirectly, or be employed by or associated in any way with any food service operation or other activities which would be detrimental to or interfere with the operation or management of the DeliCafe.

(f) Attend and Satisfactorily Complete Training. Franchisee shall, at Franchisee's sole expense, attend and satisfactorily complete the initial training program provided by Erik's. Franchisee shall ensure that employee training as provided for in Section 4.1 (b) hereof is completed prior to commencing business at Franchisee's DeliCafe and Franchisee shall provide and carry out a training program for Franchisee's other employees, in compliance with all requirements of the training and the Manuals. Any designated representative(s) attending the training programs and meetings shall first have entered into a nondisclosure agreement as provided in subparagraph (d) hereof. Franchisee agrees to attend or cause

Franchisee's designated manager(s) to attend, all subsequent and continuing management training programs as provided for in Sections 4.2(c) and (d) hereof.

(g) Marketing Efforts. Franchisee shall vigorously pursue and promote sales and activities leading to sales by the DeliCafe; and shall cooperate with Erik's and other franchisees in the Erik's Network in promoting and enhancing the Erik's System and Network. Franchisee agrees, however, that delivery and catering services shall only be provided to customers located within the Designated Area or to customers located outside of the Designated Area provided that: (1) such location is not within the designated area of another Erik's DeliCafe franchisee; and (2) the integrity and quality of the delivery or catering services are maintained in accordance with Erik's standards and specifications. Erik's shall have the right to prescribe from time to time the boundaries beyond which the DeliCafe may not offer or provide services or products.

(h) Loyalty Program. Erik's has established a customer loyalty program that provides discounts and benefits for repeat customers whose spending at any Erik's DeliCafe in the Erik's Network exceeds certain thresholds set by Erik's (the "Erik's Loyalty Program"). Franchisee must participate in the Erik's Loyalty Program. The specific program rules and construction shall be in the sole discretion of Erik's and currently require Franchisee to provide free or discounted products or services to a customer who earned such benefits through spending at Erik's DeliCafes, including those not owned by Franchisee. The specific terms of the Erik's Loyalty Program shall be set forth in the Manuals and may be modified from time to time by Erik's.

(i) Closure for Remodeling. Franchisee must obtain Erik's prior approval of its dates for closing and re-opening in the event of any closure for remodeling purposes pursuant to Section 3.9.

### **3.12 Use of Commercial Symbols.**

Franchisee acknowledges that Franchisee's right to use the Marks is derived solely from this Agreement and is limited to the operation of a DeliCafe pursuant to and in compliance with this Agreement and all applicable specifications, standards and operating procedures prescribed by Erik's in its Manuals from time to time during the term of this Agreement. Specifically and without limiting the foregoing, Franchisee agrees:

(a) This Agreement does not confer any goodwill or interests in the Marks upon Franchisee.

(b) Franchisee shall use only the Marks authorized by Erik's, and shall use the Marks only in the manner authorized and permitted by Erik's.

(c) Franchisee shall use the Marks only in connection with the operation of the DeliCafe and only at the location referred to in Section 2.1 of this Agreement.

(d) Any and all goodwill arising from Franchisee's use of the Marks under the Erik's System shall inure solely and exclusively to the benefit of Erik's and upon expiration or

termination of this Agreement and the license herein granted, no monetary amount shall be assigned to any goodwill associated with Franchisee's use of the Erik's System or Marks.

(e) The Marks are valid and serve to identify Erik's, the Erik's System and those licensed under the System. Franchisee agrees not to directly or indirectly contest the validity or ownership of the Marks. Throughout the term of this Agreement, including any extensions thereof, Franchisee shall identify himself or herself as a franchisee of Erik's in conjunction with any use of the Marks, displaying the Marks in all appropriate places at the DeliCafe, on stationery and merchandise, and otherwise in the operation of the DeliCafe, as Erik's may specify from time to time.

(f) Franchisee agrees not to use any Mark licensed under this Agreement in connection with the sale of any unauthorized product or service or in any other manner not expressly approved in writing by Erik's.

(g) If it becomes advisable at any time, in Erik's sole discretion, for Erik's or Franchisee to modify or discontinue use of any Mark or use one or more additional or substitute Marks or commercial symbols, Franchisee agrees to comply therewith within a reasonable time after notice by Erik's.

(h) Franchisee shall comply with Erik's instructions in filing and maintaining fictitious or trade name registrations, and shall execute any documents deemed necessary by Erik's to protect and maintain the continued validity of the Marks.

(i) In the event that Franchisee is aware of any use of the Marks or colorable imitation thereof which falsely suggests or represents an association or connection with Erik's or any of its Marks, or litigation involving the Marks is instituted or threatened against Franchisee, Franchisee shall promptly notify Erik's and cooperate fully with Erik's in connection therewith. Franchisee agrees that Erik's will have the right to control any litigation with respect to the Marks.

### **3.13 System Improvements.**

Franchisee acknowledges and agrees that Erik's may modify, alter, add to or subtract components from the System and/or the methods, procedures and techniques which Franchisee is authorized and required hereunder to utilize in the operation of the DeliCafe, including addition to or elimination from the System of products or services or other activities constituting elements thereof. Franchisee acknowledges and agrees that Erik's shall have sole control and discretion over all supplements, improvements, alterations and development of the System, and the products and services offered thereunder; that this control and discretion is in the best interests of the Erik's System; and that Franchisee will comply with all Erik's requirements concerning the System and improvements thereto. Franchisee shall seek, in its operation of the DeliCafe to develop and conceive such supplements, improvements and alterations, and upon doing so shall in each case promptly and fully advise Erik's thereof. Erik's shall have the right, but not the obligation, to make use of all supplements, improvements and alterations so conceived or developed by Franchisee, including the right to disseminate the same to all

DeliCafe franchisees for their use, all without payment of royalties, fees or other compensation by Erik's or other franchisees.

### **3.14 Uniform Network.**

Franchisee understands and acknowledges that the DeliCafe and the business carried on there will benefit from being an integral part of a network of similar DeliCafes in a variety of locations, utilizing the Erik's System in a uniform manner, providing uniform products and services with uniform equipment and with personnel of uniform skill and training. Franchisee acknowledges that the interests of the Erik's System and Network are vital to the success of each franchisee, and that each franchisee has an obligation to promote and further the Erik's System and Network to the fullest extent possible. Franchisee agrees to adhere to Erik's standards, specifications and requirements concerning the Marks, the Erik's System and the Erik's Network as specified by Erik's from time to time in its Manuals including, without limitation, the offering of any new Business Services, the elimination of any previously specified Business Services, and the operation of the DeliCafe as an integral part of the Erik's Network, cooperating and complementing other DeliCafes thereof.

### **3.15 Responsibility for Costs and Expenses.**

Franchisee will be solely responsible for and shall pay, promptly when due, all costs, expenses, obligations and indebtedness of or in any way rising out of or in connection with the DeliCafe and the establishment and operation thereof, including all amounts due to the landlord or suppliers of the DeliCafe and taxes, assessments and other levies, charges and impositions of any kind of any governmental or regulatory body.

### **3.16 Compliance with Law.**

Franchisee shall, in the establishment and operation of the DeliCafe, comply, at Franchisee's sole expense, with all applicable statutes, ordinances, regulations, orders and other enactments or requirements of all governmental or regulatory bodies including obtaining any licenses or permits required by any law.

### **3.17 Indemnification.**

Franchisee shall indemnify Erik's, its affiliates, and their respective officers, directors and employees and hold them harmless from and against any liability or responsibility for any matter for which Franchisee is responsible under this Section 3.16 or otherwise under this Agreement, and from and against any loss, liability, claims, demands, damages, charges, costs or expenses of any kind whatsoever, including attorneys' fees, arising directly or indirectly out of or in connection with any such liability or responsibility, or otherwise out of or in connection with the establishment and operation by Franchisee of the DeliCafe, including but not limited to any such matters arising directly or indirectly out of or in connection with any injury to or death of persons or damage to or loss of property.

Franchisee will notify Erik's in writing within ten (10) days of becoming aware of the filing or existence of any lawsuit, claim, arbitration or administrative proceeding by any third party (including but not limited to employees, former employees, customers, suppliers, landlords,

creditors, competitors or others) against Franchisee or Erik's relating to or arising out of the operation of the Franchised Business, regardless of the nature of the lawsuit, claim, arbitration or proceeding and regardless of whether the right to indemnification under this Section 3.16 would apply.

### **3.18 Insurance.**

In addition to any insurance required of Franchisee by the lease of the Premises, and without limiting its obligations under Section 3.16, Franchisee shall procure and maintain in effect throughout the term of this Agreement insurance coverage issued by companies admitted and licensed to do business in the state where the Premises are located; satisfactory to Erik's; and having a Best's rating of not less than B+:VI. No such policy shall include a property or liability deductible of more than Five Thousand Dollars (\$5,000.00) per occurrence. The policy or policies for Comprehensive or Commercial General Liability insurance, and for Employment Practices Liability insurance required below shall each include an endorsement naming Erik's, its affiliates, and their respective officers, directors and employees as additional insureds on a primary basis and providing for severability of interests so that the acts of Franchisee shall not be imputed to the Erik's, its affiliates, and their respective officers, directors and employees. Franchisee's insurance policy or policies shall provide at least the following coverage for each franchised location subject to change by way of modified requirements in the Manual:

(a) Comprehensive or Commercial General Liability insurance providing the following Combined Single Limit of liability for bodily injury and property damage and covering the following exposures on a per location basis:

(i) Premises/Operations Liability: One Million Dollars (\$1,000,000.00) per occurrence and Two Million Dollars (\$2,000,000.00) aggregate per location; and

(ii) Products/Completed-Operations Liability: One Million Dollars (\$1,000,000.00) per occurrence and Two Million Dollars (\$2,000,000.00) aggregate per location.

(b) Hired and Non-Hired Automobile Liability insurance providing a Combined Single Limit for bodily injury and property damage of One Million Dollars (\$1,000,000.00) per occurrence with no aggregate limit. This insurance may be provided as part of the General Liability policy required in subsection (a) above or the Automobile Liability policy required in subsection (c) below.

(c) Owned Automobile Liability insurance providing a Combined Single Limit for bodily injury and property damage of One Million Dollars (\$1,000,000.00) per occurrence with no aggregate limit. Franchisee's insurance policy for Franchisee's personal automobiles shall carry the same coverage as required above if any of Franchisee's personal automobiles are used in the Franchised Business.

(d) Special Form (formerly called "All Risk") Property and Business Income/Interruption insurance providing:

(i) Property insurance covering the full replacement cost of all of Franchisee's improvements, furnishings, equipment and inventory used in the Franchised Business. In addition, all items leased under the Decor Lease to the Franchisee shall be insured for the value of the items as stated in the lease and shall name Erik's as the loss payee.

(ii) Business Income/Interruption insurance (including Extra Expense) covering the actual loss sustained without any dollar limit, for not less than twelve (12) months.

(e) Employment Practices Liability insurance: Five Hundred Thousand Dollar (\$500,000.00) limit (with no co-insurance) for each claim and in the aggregate a retention cannot exceed Ten Thousand Dollars (\$10,000.00) per claim unless approved by Erik's. This insurance must include third party coverage to include claims brought by persons other than employees. Franchisee shall maintain and retain the required Employment Practices Liability Insurance for at least twelve (12) months after Franchisee discontinues operating the Franchised Business.

(f) Such other insurance as may be required by any laws, including but not limited to Workers' Compensation insurance with statutory limits and Employers Liability insurance with a limit for Bodily Injury by Accident of One Million Dollars (\$1,000,000.00) for each accident and a limit for Bodily Injury by disease of One Million Dollars (\$1,000,000.00) for each employee.

Franchisee shall supply Erik's with Certificates of Insurance currently in force, which shall reflect at least the above coverage, and shall also provide: (1) A copy of the schedule of forms and endorsements comprising the policy, and (2) Copies of the endorsements naming Erik's, its affiliates, and their respective officers, directors and employees as additional insureds where required. All Certificates of Insurance shall provide that the insurance shall not be canceled or reduced in limits or scope of coverage except after at least thirty (30) days written notice by the insurer to Franchisee and Erik's. Any conditional language on the Certificate purporting to limit the obligation or liability of the insurer relating to this notice requirement shall be unacceptable and shall be stricken. If Franchisee fails to provide the required certificates, either initially or upon renewal, Erik's may, but shall not be obligated to obtain such insurance and Franchisee shall reimburse Erik's for the cost thereof upon demand.

All required insurance policies shall be renewed annually and new Certificates of Insurance and copies of endorsements as required above shall be provided to Erik's not less than thirty (30) days prior to expiration of each policy.

Franchisee understands and acknowledges that Erik's may, on notice and in its sole discretion, raise, lower or otherwise change the amounts and types of insurance required under this Section 3.17 and Franchisee shall comply with such changed requirements upon expiration of the policies in force at the time Erik's gave notice of the changes but in no event later than sixty (60) days after such notice.

### **3.19 Encumbrances.**

During the term of this Agreement, except with the written consent of Erik's, Franchisee shall not mortgage, pledge or otherwise assign as security, this Agreement, the DeliCafe or any part thereof, or any furniture, fixtures, furnishings, equipment, signs, decor or

leasehold improvements located thereon, or any interest which Franchisee may have in any part thereof.

### **3.20 Point of Sale and Computer Systems.**

(a) Franchisee must record and process all sales using a point of sale ("POS") system designated or approved by Erik's or meeting specifications issued by Erik's, including but not limited to the capacity to record sales transactions by dollar amount, product category and quantity, calculate applicable tax, provide daily totals, and process credit card, debit card and gift card transactions through a DSL or faster connection. Erik's reserves the right to require Franchisee to use other computer systems (such as those for office and administrative functions) meeting Erik's specifications. Erik's has the right to require that such computer system be fully compatible with the Erik's designated POS system, computer systems and information systems, which may include central servers, Intranets or other technology as Erik's may develop in the future. Erik's has the right to require Franchisee to implement a scanner system that allows customers to redeem coupons or loyalty program rewards with their smart phone or similar technology, or to pay through digital media. Without limiting the foregoing, Erik's may require the use of an information interface capability through which Franchisee's POS system and other computer system communicate electronically with Erik's designated computer or information system, and through which Erik's could access data used or stored in Franchisee's POS or other computer systems. Erik's may require Franchisee to obtain, maintain and upgrade as needed in Erik's sole discretion an Internet connection meeting Erik's specifications, as may be modified from time to time, that will permit and facilitate high speed, secure and reliable communications between Franchisee's point of sale systems, computer systems and other information systems and Erik's computer systems and information systems.

(b) Franchisee must maintain a high speed wireless Internet connection at its DeliCafe and make it available to customers as required by Erik's. Erik's shall supply specifications for minimum acceptable Internet connectivity speeds and duration of customer accessibility, which may be modified from time to time by Erik's.

### **3.21 Audit Rights, Recordkeeping & Reporting**

(a) Recordkeeping. Franchisee shall throughout the term hereof, maintain and preserve at the Premises full, complete and accurate books, records and accounts of the DeliCafe, and supporting data, all in accordance with generally accepted accounting principles and utilizing accounting records and systems as are, from time to time, approved by Erik's. All records and reports required by this Agreement shall be in accordance with the system of accounting as contained in the Manuals.

(b) Audit. Erik's shall have the right at any time during business hours, and without prior notice to Franchisee to inspect and audit, or cause to be inspected and audited, the books, records and financial statements, sales and income tax records and returns and other records of the DeliCafe and the books and records of any corporation or partnership that holds the franchise. Erik's right to audit shall include the right to access any computer systems directly or by telephone. Franchisee shall fully cooperate with representatives of Erik's and independent accountants hired by Erik's to conduct any such inspection or audit. In the event that any such

inspection or audit shall disclose an understatement of Gross Revenue in any statements or reports submitted by Franchisee by five percent (5%) or more, then the cost of the audit, including without limitation, the charges for any certified public accountant(s) and the travel expenses, room, board and compensation of Erik's employees connected with the audit shall be borne by Franchisee and the deficiency shall become immediately due and payable with interest payable as provided in Section 3.7(a) above. The foregoing remedy shall be in addition to any other rights Erik's may have, including, but not limited to, the right to terminate this Agreement. An understatement of Gross Revenue in any report submitted by Franchisee to Erik's by five percent (5%) or more shall be grounds for immediate termination of this Agreement.

(c) Third Party Information. Erik's shall have the right to access information about Franchisee maintained by third parties such as food delivery services (e.g., DoorDash) and vendors and suppliers to Franchisee.

(d) Surveys and Studies. The continuing development, improvement and success of the Erik's Network, and of each DeliCafe, requires meaningful, timely and accurate information concerning all functions and aspects of the business. In order that the Erik's System can be fully evaluated and improved and benefit all franchisees thereof, Franchisee agrees to prepare and forward to Erik's, at times specified and on forms supplied by Erik's, information that Erik's may require for its use in preparing studies and surveys relating to the DeliCafes, the System and the Network.

### **3.22 Right of Entry.**

Franchisee shall permit Erik's and its agents the right to enter upon the Premises at all times during regular business hours for the purpose of examining the books, records and financial statements, conducting inspections, on-site market surveys and studies. Franchisee shall cooperate with Erik's representatives in these examinations and inspections; and, upon notice from Erik's or its agents, and without limiting Erik's other rights under this Agreement, shall take all necessary steps to promptly correct any deficiency detected during the inspection, including, without limitation, immediately desisting from offering and selling any disapproved product or service, or using advertising materials that do not conform with Erik's then-current specifications or standards.

## **4. ARTICLE 4. ERIK'S OBLIGATIONS**

### **4.1 Pre-Opening Services.**

Erik's shall assist Franchisee and perform activities in connection with the establishment of the DeliCafe as follows:

(a) Site Selection Advice: Premises Specification. Erik's will advise and consult with Franchisee in selecting an appropriate location for the DeliCafe and will provide a nonstructural floor plan for the planning, designing and construction of improvements to the Premises, as provided in Section 3.9. Erik's makes no representations, guarantees or warranties, either express or implied, regarding the profitable operation of Franchisee's DeliCafe as a result of any site selection advice.



(b) Initial Training.

(i) Franchisee Training. Erik's shall provide in connection with the establishment, management and operation of the DeliCafe management training lasting four weeks and comprised of training in administration and operations of a DeliCafe. The training program shall be attended by Franchisee and, at Franchisee's option, one additional person designated by Franchisee. Franchisee shall pay all expenses of travel, room, board and wages incurred by its trainee(s). If at any time new persons assume management of the DeliCafe pursuant to Section 3.10(e), and Erik's requires management training as a condition of approval, the new manager(s) must undertake and successfully complete the repeat manager training program provided for in Section 4.2(d) below.

(ii) Team Member Training. Erik's will also train your DeliCafe employees (team members) at your Delicafe or a DeliCafe selected by the Franchisor during the week before the opening of the DeliCafe. Franchisee will be responsible for paying any expenses of travel, room, board and wages for your employees during this training.

(iii) Training shall be completed at least one week before Franchisee opens its DeliCafe. In any event, Franchisee shall commence operation of the DeliCafe only upon successful completion of the training program.

(c) Manuals. Erik's shall provide digital access to Franchisee 'of one complete copy each of Erik's Manuals promptly following the completion of Franchisee's initial education and training, which shall at all times remain the property of Erik's and be handled as herein provided.

(d) Initial Forms. Erik's will provide Franchisee with initial copies of financial reporting forms as detailed by Erik's in its Manuals.

**4.2 Support for DeliCafe Operations.**

Throughout the term of this Agreement, Erik's shall supply to Franchisee, in support and assistance of Franchisee's operations, the following:

(a) On-Site Assistance. During a continuous period of up to seven (7) days prior to the opening of Franchisee's DeliCafe, Erik's will furnish a representative(s) to aid Franchisee with the set-up of the DeliCafe and in learning operations and to assist in the establishment of standard operating procedures.

(b) Visits. Erik's will provide, at reasonable times and frequency, as determined by Erik's, in its sole discretion, periodic visits to the DeliCafe by a representative of Erik's to provide consultation, advice, and information concerning the operation and growth of Franchisee's DeliCafe.

(c) Continuing Management Training. Erik's will provide periodic seminars for updates on new management techniques and other topics of interest to Franchisees of the Erik's Network. Although there will be no training charge for these seminars, in all cases it will

be the Franchisee's responsibility to pay all travel, room, board and other expenses incurred by Franchisee or its manager(s) while attending these seminars.

(d) Additional Management Training. If required by Erik's in the case of new managers, Erik's will provide training for new or existing managers of Franchisee at a cost not to exceed Two Thousand Five Hundred Dollars (\$2,500) for the training required. In addition to this training charge, which shall be payable to Erik's by Franchisee upon demand, it will be the Franchisee's responsibility to pay all travel, room, board and other expenses incurred by Franchisee and its manager(s) while attending these seminars.

(e) Consultation. Erik's will make available, at its corporate offices, personnel for consultation, in person or by written or telephone communication, concerning problems and questions arising in the day-to-day operation of Franchisee's DeliCafe.

(f) Updates. Erik's will disseminate periodic supplements and amendments to its Manuals as well as bulletins and other information of general interest to all Franchisees.

(g) Erik's DeliCafe Products. Erik's will negotiate with suppliers to sell Franchisee products that are prepared pursuant to its recipes, standards, formulae and processes; however, neither Erik's nor its affiliates shall be liable to Franchisee for any nonperformance by or the acts or omissions of its designated or approved suppliers. Erik's will use reasonable commercial efforts to negotiate favorable terms with reliable suppliers, but Franchisee understands that Erik's cannot dictate the pricing, delivery and other terms offered by its suppliers or control their performance.

(h) Advertising. Erik's will supervise the development of advertising, promotional, direct mail and other programs pursuant to the terms of Section 3.4 hereof.

(i) New Product and Service Training. In the event that Franchisee is authorized to offer a new product or service, Erik's may mandate training prior to Franchisee's offer or sale of such new product or service. Franchisee shall be solely responsible for all travel, room, board and other expenses incurred in connection with such training.

#### **4.3 Protection of Marks.**

Erik's has taken and will continue to take all steps reasonably necessary to preserve and protect the ownership and validity of the Marks. Erik's will use, and permit Franchisee and other franchisees to use the Marks only in accordance with the Erik's System and the standards and specifications attendant thereto which underlie the goodwill associated with and symbolized by the Marks.

### **5. ARTICLE 5. TERMINATION**

#### **5.1 Termination by Franchisee; Opportunity to Cure.**

(a) Termination Only for Erik's Breach. If Franchisee is in substantial compliance with this Agreement and Erik's materially breaches this Agreement, Franchisee may terminate this Agreement effective ten (10) days after delivery of notice thereof by registered or

certified mail, addressed as provided in Section 7.5, if Franchisee gives written notice of such breach to Erik's and Erik's does not: (a) correct such failure within thirty (30) days after delivery of such notice; or (b) if such breach cannot reasonably be cured within thirty (30) days after delivery of such notice, undertake within ten (10) days after delivery of such notice, and continue until completion, efforts to cure any such breach. Any termination of this Agreement by Franchisee other than as provided in this Paragraph shall be deemed a termination by Franchisee without cause.

(b) Liquidated Damages. Except as provided in Section 5.1(a), above, Franchisee has no right of early termination of this Agreement. If Franchisee terminates this Agreement except as provided herein, the parties agree that Erik's will be damaged, but that damages may be difficult to quantify as they will involve the loss of future royalties, and that it will take an unknown period of time and substantial effort for Erik's to find a qualified franchisee to take over, if one can be identified at all within the remaining term of this Agreement. Consequently, the parties agree that in the event of Franchisee's early termination of this Agreement except under Section 5.1(a), above, Franchisee shall pay Erik's the sum of two (2) years of royalties, calculated based on the average of Franchisee's four (4) most recent prior annual royalty payments, or the entirety of Franchisee's prior royalty obligations, if less than four years. If Franchisee's remaining term is less than two (2) years, Franchisee shall pay for the remaining period of the term.

## **5.2 Immediate Termination.**

(a) Immediate Termination. This Agreement shall automatically terminate upon delivery of notice of termination to Franchisee if:

(1) Franchisee or any of its owners fails to locate a site approved by Erik's in accordance with Section 3.8 of this Agreement or fails to develop the DeliCafe in accordance with plans and specifications furnished by Erik's and to commence operation of business within the time provided in Section 3.10 of this Agreement;

(2) Franchisee fails to complete the training program to the satisfaction of Erik's;

(3) Franchisee or any of its owners abandons, surrenders or transfers control of the operation of the DeliCafe without prior approval of Erik's;

(4) Franchisee or any of its owners has made any material misrepresentation or omission in the application for the franchise;

(5) Franchisee or any of its owners or affiliates are convicted of or plead no contest to a felony, or other crime or offense that may adversely affect the reputation of Erik's or the DeliCafe or the goodwill associated with the Marks;

(6) Franchisee or any of its owners makes an unauthorized transfer of this Agreement, the franchise, the DeliCafe, or an ownership interest in Franchisee;

(7) Franchisee or any of its owners makes any unauthorized use or disclosure of or duplicates any copy of any Confidential Information, makes any unauthorized use of the Marks, or uses, duplicates, or discloses any portion of the Manuals;

(8) Franchisee or its owners becomes insolvent or makes a general assignment for the benefit of creditors, or a petition in bankruptcy is filed by Franchisee, or if such petition is filed against and consented by Franchisee or if Franchisee is adjudicated a bankrupt, or if a bill of equity or other proceeding for the appointment of a receiver of Franchisee or other custodian for the DeliCafe or its assets is filed and consented to by Franchisee, or if a receiver or other custodian (permanent or temporary) of Franchisee's assets or property, or any part thereof, is appointed by any court of competent jurisdiction, or if a proceeding for a competition with creditors under any state or federal law should be instituted by or against Franchisee;

(9) fails for a period of ten (10) days or more after notification of noncompliance, to comply with any federal, state or local law or regulation applicable to Franchisee's operation of the DeliCafe; or

(10) Franchisee fails to comply with any requirement under this agreement on three (3) or more separate occasions within any period of twelve (12) consecutive months, whether or not any such failure to comply is corrected after notice of default is given; or

(11) Franchisee fails to comply with the same requirement under this Agreement on two (2) or more separate occasions within any period of twelve (12) consecutive months, whether or not any such failure to comply is corrected after notice of default is given.

(b) Termination After Notice of Default. This Agreement shall terminate without further action by Erik's or notice to Franchisee, if Franchisee or any of its owners:

(1) fails to timely and accurately report the Gross Revenues of the DeliCafe or fails to make payments of any amounts due Erik's for royalty fees, advertising contributions, purchases from Erik's or its affiliates, or any other amounts due to Erik's or its affiliates, and does not correct such failure within ten (10) days after written notice of such failure is delivered to Franchisee;

(2) causes or permits to exist default under the lease for the Premises and fails to cure such default after notice within the applicable cure period set forth in the lease; or

(3) fails to pay amounts owed to any service provider or vendor of required goods or services

(4) fails to comply with any other provision of this Agreement or any mandatory specification, standard, or operating procedure prescribed by Erik's and does not: (a) correct such failure within thirty (30) days after written notice of such failure to comply is delivered to Franchisee; or (b) if such failure cannot reasonably be corrected within the aforesaid thirty (30) day period, undertake within ten (10) days after such written notice is delivered to Franchisee, and continue until completion, efforts to bring the DeliCafe into full compliance, and

furnish proof acceptable to Erik's upon its request of such efforts and the date full compliance will be achieved.

### **5.3 Rights and Duties on Termination.**

In the event of any termination of this Agreement, whether by reason of action by Franchisee or Erik's as above provided, or as elsewhere provided in this Agreement, or by the expiration of the term hereof, the parties shall have the following rights and duties:

(a) Cease Operation of Business under System and Marks. All rights and privileges herein granted to Franchisee shall immediately terminate and revert to Erik's, with all rights and goodwill of the DeliCafe pertaining thereto, and Franchisee shall surrender all such rights and privileges, shall cease operation of the DeliCafe business using the Erik's System and Marks in all connections, including any colorable imitation thereof or in any manner or for any purpose, or utilize for any purpose any trade name, trademark, service mark, logo or other insignia which is likely to cause confusion, mistake or deception or that falsely suggests or indicates a connection or association with Erik's. Franchisee shall take all action as may be required to cancel all fictitious or assumed name or equivalent registrations relating to Franchisee's use of any Mark.

(b) Pay Creditors. Franchisee shall immediately pay all creditors of the DeliCafe, including all sums then owing by Franchisee to Erik's or its affiliates.

(c) Vacate Premise or Lease: Offer to Repurchase. Unless termination results solely from the exercise by Franchisee of Franchisee's option as provided in Section 5.1 hereof, Erik's shall have the option, exercisable by written notice to Franchisee at any time within thirty (30) days from the date of termination hereof, to require that Franchisee assign to Erik's the leasehold interest of Franchisee in the Premises in consideration of Erik's assumption of the obligations thereunder. If Erik's exercises this option, Erik's shall repurchase from Franchisee all furniture, fixtures, furnishings, equipment, signs, decor and inventory owned by Franchisee and used in the operation of the DeliCafe at the lower of their fair market value, or the price paid by Franchisee (less depreciation). Erik's shall in any event, make purchases from Franchisee of inventory and supplies as may be required by applicable law.

(d) Transfer Telephone Privileges; Remove Sign; Alterations. Franchisee shall relinquish and take all steps necessary to transfer all right, title and interest in all telephone numbers, listings, and advertising privileges concurrent therewith, relating to the Franchisee's DeliCafe to Erik's. Franchisee, in the event Erik's does not exercise its option to require vacation of the Premises (or assignment of the leasehold interest) as provided in subparagraph (c) above, shall also make removals or changes in signs, colors, menu and decor as Erik's shall reasonably request so to effectively distinguish the Premises from their former appearance and from any other franchised DeliCafes and return the Premises to pre-Erik's condition.

(e) Erik's Right To Purchase the DeliCafe. Upon termination of this Agreement by Erik's for cause or upon expiration of this Agreement (without renewal), Erik's shall have the option, exercisable by giving written notice thereof within sixty (60) days from the date of such expiration or termination, to purchase from Franchisee all the assets of the DeliCafe.

Assets shall include, without limitation, furniture, fixtures, furnishings, equipment, signs, decor, leasehold improvements and the lease for the Premises. Erik's shall have the unrestricted right to assign this option to purchase. In the event Franchisee owns the Premises, Franchisee shall grant to Erik's or its assignee a retail lease, in a form acceptable to Erik's, for a term of ten (10) years. Erik's or its assignee shall be entitled to all customary warranties and representations in connection with its asset purchase, including, without limitation, representations and warranties as to ownership, condition and title to assets, liens and encumbrances on the assets, validity of contracts and agreements, and liabilities inuring to Erik's or affecting the assets, contingent or otherwise.

The purchase price for the assets of the DeliCafe shall be the fair market value, determined in a manner consistent with reasonable depreciation of leasehold improvements owned by Franchisee and the furniture, fixtures, furnishings, equipment, signs, decor and inventory of the DeliCafe, provided that the purchase price shall not contain any factor or increment for any trademark, service mark or other commercial symbol used in connection with the operation of the DeliCafe, and further provided that Erik's may exclude from the assets purchased hereunder any furniture, fixtures, furnishings, equipment, signs, decor and inventory that are not approved as meeting quality standards for DeliCafes. The length of the remaining term of the lease for the Premises of the DeliCafe shall also be considered in determining the fair market value hereunder. If Erik's and Franchisee are unable to agree on the fair market value of the assets, the fair market value shall be determined by an independent appraiser selected by Erik's and Franchisee, and if they are unable to agree on an appraiser, Erik's and Franchisee shall each select one appraiser, who shall select a third appraiser, and the fair market value shall be deemed to be the average of the three (3) independent appraisals.

The purchase price shall be paid in cash at the closing of the purchase, which shall take place no later than ninety (90) days after receipt by Franchisee of Erik's notice to exercise this option to purchase, at which time Franchisee shall deliver instruments transferring to Erik's or its assignee: (1) good and merchantable title to the assets purchased, free and clear of all liens and encumbrances (other than liens and security interests acceptable to Erik's or its assignee), with all sales and other transfer taxes paid by Franchisee; and (2) all licenses and/or permits of the DeliCafe which may be assigned or transferred. In the event that Franchisee cannot deliver clear title to all of the purchased assets as aforesaid, or in the event there shall be other unresolved issues, the closing of the sale shall be accomplished through an escrow. Further, Franchisee and Erik's shall, prior to closing, comply with the applicable Bulk Sales provisions of the Uniform Commercial Code of the state where the DeliCafe is located. Erik's shall have the right to set off against and reduce the purchase price by any and all amounts owed by Franchisee to Erik's, and the amount of any encumbrances or liens against the assets. If Erik's or its assignee exercises this option to purchase, pending the closing of such purchase as hereinafter provided, Erik's shall have the right to appoint a manager to maintain the operation of the DeliCafe. Alternatively, Erik's may require Franchisee to close the DeliCafe during such time period without removing therefrom any assets, provided that the landlord for the Premises approves of such closure. Franchisee shall maintain in force all insurance policies required by this Agreement until the date of closing.

(f) Rights Not Exclusive. The foregoing rights of Erik's upon termination by reason of breach or default hereunder shall not be exclusive, but shall be in addition to all other

rights available to Erik's under the terms hereof or under applicable law. Termination of this Agreement under any circumstances shall not abrogate, impair, release, or extinguish any debt, obligation, or liability of Franchisee which may have accrued hereunder, including without limitation any debt, obligation, or liability which was the cause of termination. All covenants and agreements of Franchisee which expressly or by their nature survive the expiration or termination of this Agreement shall continue in full force and effect subsequent to and notwithstanding its expiration or termination and until they are satisfied in full or by their nature expire.

(g) Activities Following Termination. Franchisee acknowledges that the elements comprising the Erik's System are unique, proprietary and distinctive and have been developed by Erik's as the result of great expenditures of time, effort and money; that Franchisee has regular and continuing access to valuable trade secret and confidential information; and that Franchisee recognizes its obligation to keep this trade secret and confidential information in confidence pursuant to the provisions of this Agreement. Franchisee therefore agrees as follows:

(i) Nondisclosure. If, prior to its expiration this Agreement is terminated by Erik's in accordance with the provisions of this Agreement or by Franchisee without cause, or this Agreement expires pursuant to the terms hereof, Franchisee shall (1) immediately cease to use any Confidential Information of Erik's disclosed to, or otherwise learned or acquired by Franchisee in any business or otherwise; (2) return to Erik's all copies of the Manuals and any other confidential materials which have been loaned or made available to him or her by Erik's; and (3) return to Erik's all customer lists generated and/or used by the DeliCafe.

(ii) Competition. Franchisee acknowledges that in addition to the license of the Marks hereunder, Erik's has also licensed a large body of commercially valuable information including, but not limited to, operations, marketing, advertising and related materials and that the value of this information derives not only from the time, effort and money which went into its compilation but from the usage of same by all franchisees in the Erik's Network to develop System goodwill. Franchisee therefore agrees that, unless this Agreement is terminated pursuant to Section 5.1 hereof, in order to foster System loyalty, protect the DeliCafes and the System and protect the ability of Erik's to sell new franchise rights within the Area, neither Franchisee, nor any shareholder or partner of Franchisee (in the event Franchisee is a corporation or a partnership), nor any member of Franchisee's immediate family, will, for a period of one (1) year, commencing on the effective date of termination, or the date on which Franchisee ceases the business conducted pursuant to this Agreement, whichever is later, have any interest as an owner, investor, partner, director, officer, employee, consultant, representative or agent, in any Competitive Business, within five (5) miles of the location of the Premises (except ownership of securities that are traded on a stock exchange or on the over-the-counter market representing five percent (5%) or less of the equity or voting power of the issuer thereof). It is understood and agreed by Franchisee that the purpose of this covenant is not to deprive Franchisee of means of livelihood, but is rather to protect the goodwill and interests of Erik's, the Erik's System and Network of franchised DeliCafes.

## **6. ARTICLE 6. TRANSFER AND ASSIGNMENT**

### **6.1 Prior Offering and Consent: Conditions For Approval.**

Franchisee understands and acknowledges that the rights and duties created by this Agreement are personal to Franchisee and that Erik's has granted this franchise in reliance upon the individual character, skill, aptitude, attitude, business ability and financial capacity of Franchisee. Therefore, except as hereinafter provided in Section 6.4 with respect to assignment to a corporation or partnership, neither this Agreement nor the franchise (or any interest therein), nor any part or all of the ownership of Franchisee or the DeliCafe (or any interest therein) may be transferred without the prior written approval of Erik's, and any such transfer without approval shall constitute a breach hereof and convey no rights to or interests in this Agreement, the franchise, Franchisee or the DeliCafe. As used in this Agreement the term "transfer" shall mean and include the voluntary, involuntary, direct or indirect assignment, sale, gift or other transfer by Franchisee (or any of its owners) of any interest in: (1) this Agreement; (2) the franchise; (3) the ownership of Franchisee; or (4) the DeliCafe. An assignment, sale, or other transfer shall include the following events: (1) the transfer of any ownership interest in Franchisee or the Franchised Business, whether by transfer of capital stock, partnership interest or otherwise; (2) merger or consolidation or issuance of additional securities representing an ownership interest in Franchisee; (3) any sale of voting stock of or other ownership interest in Franchisee or the sale of any security or debt interest that is convertible to voting stock of or other ownership interest in Franchisee; (4) transfer of an interest in this Agreement, the franchise, Franchisee or the DeliCafe in a divorce, insolvency, corporate or partnership dissolution proceeding or otherwise by operation of law; or (5) transfer of an interest in this Agreement, the franchise, Franchisee or the revenues, profits, rights or assets of the DeliCafe in the event of the death of Franchisee or an owner of Franchisee, by will, declaration of or transfer in trust, or under the laws of interstate succession. If Franchisee is in full compliance with this Agreement, Erik's shall not unreasonably withhold its approval of a transfer that meets all of the applicable requirements of this Section 6.1. A transfer of ownership of the DeliCafe may only be made in conjunction with a transfer of the franchise and this Agreement and a transfer of the franchise or this Agreement may only be made in conjunction with a transfer of the DeliCafe and all in all cases the following conditions must be met prior to, or concurrently with, the effective date of the transfer:

(a) Franchisee has complied with the provisions of Section 6.3 below and Erik's has been given and has declined to exercise the right of first refusal as described in Section 6.3 below; and

(b) The proposed transferee meets Erik's uniform standards of qualification then applicable with respect to all applicants for a DeliCafe franchise including, but not limited to, financial strength, business experience, and other relevant business considerations; and

(c) As of the effective date of the transfer, all obligations of Franchisee under all written contracts and agreements between Franchisee and Erik's are fully satisfied; and

(d) Erik's is paid a transfer fee in the amount of Five Thousand Dollars (\$5,000) by the effective date of the transfer to the transferee; and



(e) Prior to the commencement of training, the transferee shall, have signed and agreed to be bound by the then current form of franchise agreement and other ancillary agreements, which shall waive the initial franchise and pre-opening service fees, provide for a term equal to the remaining term hereof and contain other provisions to clarify that it is for a transfer of an existing franchise rather than the sale of a new franchise, and which may provide for higher royalty fees, advertising contributions or expenditures, and different rights and obligations than are provided in this Agreement; and

(f) The transferee must attend and satisfactorily complete the training program provided by Erik's as provided in Section 4.1 (b) prior to the effective date of the transfer; and

(g) Franchisee assigns to the transferee its leasehold interest in the Premises; and

(h) Except to the extent limited by applicable law, Franchisee and its owner(s) have executed a general release, in form satisfactory to Erik's, of any and all claims against Erik's and its affiliates, directors, officers, employees and agents; and

(i) Franchisee and its owners must execute a noncompetition agreement in favor of Erik's and the transferee, agreeing that for a period of one (1) year, commencing on the effective date of transfer, Franchisee, its owners and members of the immediate family of Franchisee or each owner of Franchisee will not hold any direct or indirect interest as a disclosed or beneficial owner in any Competitive Business located or operating within five (5) miles of the DeliCafe (other than other Erik's DeliCafes operated under franchise agreements with Erik's), or any entity which is granting franchises or licenses or establishing joint ventures for the operation of Competitive Businesses; and

(j) Erik's shall have approved the material terms and conditions of the assignment, which approval shall not be unreasonably withheld including, without limitation, a determination that the price and terms of payment are not so burdensome as to adversely affect the future operations of the DeliCafe by the proposed transferee in compliance with the terms and conditions of the franchise agreement; and

(k) If Franchisee finances any part of the sale price of the transferred interest, Franchisee and/or its owners must agree that all obligations of the transferee under or pursuant to any promissory note, agreements or security interests reserved by Franchisee or its owners in the assets of the DeliCafe or the Premises shall be subordinate to: (i) the obligations of the transferee to pay franchise fees, royalty fees, advertising contributions and other amounts due to Erik's, and otherwise to comply with this Agreement or the franchise agreement executed by the transferee; and (ii) the collateral security interest of Erik's in the lease of the Premises.

If the proposed transfer is to or among owners of Franchisee, Subparagraph (d) of the above requirements shall not apply and subparagraphs (j) and (k) shall not apply to transfers by gift, bequest or inheritance.

## **6.2 Death or Disability.**

Notwithstanding the provisions of Section 6.1, in the event of the death or permanent disability of Franchisee or if Franchisee is a corporation or partnership or the owner of a majority interest therein, the executor, administrator, conservator or other personal representative of such person shall transfer Franchisee's interest within a reasonable time, not to exceed six (6) months from the date of death or permanent disability, to a third party approved by Erik's. This transfer, including, without limitation, transfers by devise or inheritance, shall be subject to all of the terms and conditions contained in Section 6.1 hereof, and the following:

(a) Appointment of Manager. If, within ten (10) days after the death or permanent disability, Franchisee's DeliCafe is not being managed by a competent and trained manager, Erik's is authorized, but is not obligated, to immediately appoint a manager for Franchisee's DeliCafe for a period of up to ninety (90) days, terminating when an approved Franchisee-appointed manager or approved transferee can assume the management of Franchisee's DeliCafe. In the event that Franchisee does not provide an approved Franchisee-appointed manager or an approved transferee, Erik's may renew its appointment of an interim manager for additional periods of time, not to exceed ninety (90) days each and one (1) year of consecutive management by Erik's. Erik's will discuss matters material to Franchisee's DeliCafe with the Franchisee, or Franchisee's representatives, at least once per quarter during any period of management. Erik's appointment of an interim manager of the DeliCafe pursuant to this Section shall not relieve Franchisee of any obligations under this Agreement and Erik's shall not be liable for any debts, losses, costs or expenses incurred in the operation of the DeliCafe or to any of Franchisee's creditors for any products, materials, supplies or services purchased by the DeliCafe during any period during which it is managed by a manager appointed by Erik's. Erik's will charge Franchisee a management fee equal to the manager's salary plus ten percent (10%) of the manager's salary. Erik's may cease to provide such management services at any time and, upon Franchisee's request, shall account for revenues and expenditures of the DeliCafe during any period in which Erik's provides such services.

## **6.3 Right of First Refusal.**

In the event Franchisee desires to make any sale, assignment or other transfer referred to in Section 6.1, Franchisee shall notify Erik's of this intention before extending any offer or making any arrangements to sell, assign or transfer. Upon receipt of any bona fide offer and before unconditionally accepting any bona fide offer for any sale, assignment or transfer, Franchisee will submit an exact copy of the written offer or writings encompassing such offer to Erik's, or if not in writing, Franchisee will submit to Erik's in writing all of the terms and conditions of such offer fully and accurately, including the identity of the purchaser. Erik's shall have the right, exercisable by written notice delivered to Franchisee, to accept this offer on equal terms and price at any time within thirty (30) days following receipt by Erik's of the offer or terms and conditions of the offer in writing as provided above. If Erik's does not exercise its right of first refusal, Franchisee may complete the proposed sale, assignment or other transfer pursuant to and on the terms of the offer, and in compliance with all provisions of Section 6.1. In the event the sale, assignment or other transfer is not completed within sixty (60) days after delivery of the information about the offer to Erik's as required above, or if there is a material change in the terms of the sale, assignment or other transfer after the delivery of the required

information to Erik's, Erik's right of first refusal and the process and time periods required above shall be initiated again.

#### **6.4 Assignment to Franchisee Entity.**

Notwithstanding Section 6.1, Franchisee may assign and delegate this Agreement and Franchisee's rights and obligations hereunder to a corporation, limited liability company or partnership ("entity") organized by Franchisee solely for the purpose of operating the DeliCafe provided that Franchisee retains ownership and control of at least fifty-one percent (51%) of the equity and voting power of the entity, and further provided that:

(a) The shareholders, members or partners are all identified to and approved by Erik's; and

(b) The articles of incorporation, articles of partnership, limited liability formation and operating agreements, partnership agreement, bylaws or other organizational documents of the entity shall recite that the issuance and assignment of any interest therein is restricted by the terms of Sections 6.1 and 6.3 of this Agreement, and in the case of a corporation, all issued and outstanding stock certificates of the corporation shall bear a legend reflecting or referring to the restrictions of Sections 6.1 and 6.3 in a form satisfactory to counsel for Erik's; and

(c) Each shareholder, officer, director, member or partner of Franchisee shall execute an agreement in form attached to this Agreement as Exhibit 2 undertaking to be bound jointly and severally by the provisions of this Agreement; and

(d) The parties will document the assignment by entering into a form of assignment as approved by Erik's; and

(e) The entity shall furnish to Erik's at any time upon request, in form as Erik's may require, a list of all shareholders, members, directors, officers or partners of Franchisee reflecting their respective interests in and positions with Franchisee; and

(f) The entity shall at no time engage, directly or indirectly, in any Competitive Business or in any similar business activity other than those directly related to the operation of Franchisee's DeliCafe, pursuant to all terms and conditions of this Agreement, including, but not limited to Section 3.10(e); and

(g) Erik's shall be given written notice of the assignment and delegation, and upon compliance with the foregoing, the entity shall have all of said rights and obligations, and the term "Franchisee" as used herein shall refer to the corporation, limited liability company or partnership.

#### **6.5 Consent Does Not Constitute Waiver.**

Erik's consent to an assignment or transfer of any interest subject to the restrictions of this Article 6 shall not constitute a waiver of any claims it may have against the

transferring party, nor shall it be deemed a waiver of Erik's right to demand exact compliance with any of the terms or conditions hereof by transferee.

#### **6.6 Transfer or Assignment By Erik's.**

This Agreement is fully assignable by Erik's and shall inure to the benefit of any assignee or other legal successor to the interest of Erik's herein.

### **7. ARTICLE 7. ADDITIONAL LIMITATIONS AND PROVISIONS**

#### **7.1 Independent Status.**

This Agreement and the activities pursuant hereto do not and will not be deemed to create any relationship between Erik's and Franchisee or any other party of agency, partnership, joint venture or employment, or any other relationship except that of franchisor and franchisee. Franchisee is and shall be solely an independent contractor and shall at no time act or represent itself to be acting in any other capacity. Without limiting the foregoing, Franchisee shall not incur any obligation or indebtedness on behalf of Erik's; shall only contract or otherwise incur any obligation or indebtedness only in Franchisee's own name, which, if Franchisee is a corporation or partnership, shall at no time include Erik's name or Marks or any part thereof, or be so similar thereto so as to be in any way misleading; and Franchisee shall otherwise comply with the provisions of Section 3.11 hereof.

#### **7.2 Construction; Whole Agreement; Amendments.**

This Agreement contains the entire understanding of the parties, except for such additional agreements and understandings as may, concurrently herewith or hereafter be set forth in written agreements executed by both parties hereto. This Agreement shall be effective only when executed by a duly authorized representative of Erik's, and no amendment or addition hereto shall be effective unless in writing, executed by a duly authorized representative of Erik's and by Franchisee.

Nothing in this Agreement is intended, nor shall be deemed, to confer any rights or remedies upon any person or legal entity not a party hereto. Except where this Agreement expressly obligates Erik's to reasonably approve or not unreasonably withhold its approval of any action or request by Franchisee, Erik's has the absolute right to refuse any request by Franchisee, or to withhold its approval of any action or omission by Franchisee. The headings of the several sections and paragraphs hereof are for convenience only and do not define, limit, or construe the contents of such sections or paragraphs. The term "attorneys' fees" shall include, without limitation, reasonable legal fees, whether incurred prior to, in preparation for or in contemplation of the filing of any written demand or claim, action, hearing or proceeding to enforce the obligations of this Agreement. The term "member of the immediate family" as used herein refers to parents, spouses, offspring and siblings and their spouses, and the parents and siblings of spouses. References to a "controlling interest" in Franchisee shall mean more than fifty percent (50%) of the voting control of Franchisee if Franchisee is a corporation, and any general partnership interest if Franchisee is a partnership. The term "Franchisee" as used herein is applicable to one or more persons, a corporation or a partnership, as the case may be. The singular usage includes the plural and the masculine and neuter usages include the other and the

feminine. If two or more persons are at any time Franchisee hereunder, whether or not as partners or joint venturers, their obligations and liabilities to Erik's shall be joint and several. This Agreement shall be executed in multiple copies, each of which shall be deemed an original.

Nothing in this or any related agreement, however, is intended to disclaim the representations Erik's made in the franchise disclosure document that Erik's furnished to Franchisee.

**7.3 No Representations or Warranties.**

Franchisee specifically recognizes and acknowledges that the success of the business venture contemplated by this Agreement depends largely upon the abilities of Franchisee as an independent business person, as well as other factors, such as market and economic conditions beyond the control of Erik's and Franchisee.

**7.4 Severability; Additional Assurances.**

Should any provision of this Agreement be for any reason held invalid, illegal or unenforceable, that provision shall be deemed restricted in application to the extent required to render it valid and the remainder hereof shall in no way be affected and shall remain valid and enforceable for all purposes, both parties hereto declaring that they would have executed this Agreement without inclusion of the invalid, illegal or unenforceable provision. If any of the provisions of this contract are inconsistent with applicable state law, then the state law shall apply. Each party agrees to execute and deliver to the other any further documents that may be reasonably required to fully effectuate the provisions hereof. To the extent that either Sections 3.10(d), 3.10(e) or 5.3(g)(ii) is deemed unenforceable by virtue of its scope of area, prohibited business activity or length of time, but may be made enforceable by reductions of any or all provisions thereof, Franchisee and Erik's agree that Sections 3.10(d), 3.10(e) or 5.3(g)(ii) shall be enforced to the fullest extent permissible under the laws and public policies applied in the jurisdiction in which enforcement is sought. Although printed provisions of this Agreement were prepared by Erik's, this Agreement shall not be construed either for or against Erik's or Franchisee, but shall be construed in accord with the general tenor of the language to reach a fair and equitable result.

**7.5 Notices.**

All notices required or permitted hereunder shall be in writing, shall be deemed to have been given when received, and shall be personally delivered to or sent by registered or certified U.S. mail, return receipt requested, addressed as follows:

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

To Erik's: Mr. Erik R. Johnson, C.E.O.  
ERIK'S DELICAFE FRANCHISES, INC.

1550 The Alameda, Suite 330  
San Jose, California 95126

Either party may change the address for notices by written notice to the other in accordance with the foregoing.

**7.6 Costs and Attorneys' Fees.**

In any legal action or arbitration proceeding between the parties arising out of or related to this Agreement, the prevailing party shall be entitled to recover its costs and expenses, including reasonable accounting and legal fees.

**7.7 Successors and Assigns.**

Subject to the above provisions concerning assignments and transfers by Franchisee, this Agreement shall inure to the benefit of and be binding upon the successors, assigns and legal representatives of the parties hereto.

**7.8 Headings.**

The subject headings of the paragraphs and subparagraphs of this Agreement are included for the purpose of convenience only, and shall not affect the construction or interpretation of any of its provisions.

**7.9 Governing Law; Jurisdiction.**

Except to the extent governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. Sections 1051 et seq.) or other applicable state law, this Agreement shall be construed in accordance with, and governed by, the laws of the State of California. If a claim is asserted in any legal proceeding, Franchisee irrevocably submits to jurisdiction of the Superior Court of the State of California and the Federal Court for the Northern District of California, and irrevocably agrees that venue for any such action shall be in the County of Santa Clara, State of California. Franchisee waives any objection to the jurisdiction of such courts or to venue in Santa Clara County.

**7.10 Jury Trial Waiver.**

ERIK'S AND FRANCHISEE IRREVOCABLY WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM, WHETHER AT LAW OR IN EQUITY, BROUGHT BY EITHER OF THEM.

\_\_\_\_\_  
Initials

\_\_\_\_\_  
Initials

**7.11 Dispute Resolution.**

(a) All controversies, disputes or claims arising between Erik's and Franchisee (including any claim against Erik's officers, directors, agents, employees, licensors, licensees, independent contractors or consultants in their capacity as such, or against the owners and guarantors of Franchisee, if applicable) in connection with, arising from, or with respect to:

(1) any provision of this Agreement or any other agreement between the parties related to this Agreement; (2) the relationship of the parties hereto; (3) the validity of this Agreement or any other agreement between the parties related to this Agreement, or any provision thereof; or (4) any specification, standard or operations procedure relating to the establishment or operation of the Erik's DeliCafe (except controversies, disputes or claims relating to the Marks or any lease of real estate) shall be submitted for mediation to Judicial Arbitration and Mediation Services ("JAMS") or such other dispute resolution service agreed upon by the parties for mediation. If JAMS or such other dispute resolution service is unable to successfully resolve any dispute, the dispute shall be resolved under the laws, and in such jurisdiction as set forth in Section 7.9.

(b) Erik's may enforce by judicial process any right Erik's may have to possession of the DeliCafe under this Agreement or any collateral conditional assignment of lease with Franchisee. Further, Erik's has the right to seek preliminary and permanent injunctive relief prohibiting unauthorized use or infringement of any of the Marks or unauthorized use of any licensed software program or copyrighted material or other confidential information, in any court of competent jurisdiction under customary equity rules, without submitting the dispute to mediation. Franchisee agrees that Erik's will have the right to seek any provisional remedy, including preliminary injunctive relief necessary to enforce this Agreement or the termination hereof or to restrain conduct by Franchisee in the operation of the DeliCafe that could materially damage the goodwill associated with the Marks and the reputation of Erik's DeliCafe without prior submission of the claim to mediation or pending the outcome of any mediation commenced. Franchisee agrees that Erik's will not be required to post a bond to obtain any injunctive relief and that Franchisee's only remedy if an injunction is entered against Franchisee will be the dissolution of that injunction. It is agreed that either party may seek injunctive relief to prohibit a wrongful termination of this Agreement by the other party without first submitting the dispute to mediation.

#### **7.12 Limitations of Actions.**

Any and all claims arising out of this Agreement or the relationship of Franchisee and Erik's in connection with Franchisee's operation of the DeliCafe must be made within one (1) year from the occurrence of the facts giving rise to such claims or within ninety (90) days from either the actual discovery of the facts giving rise to such claims or from the date on which Franchisee should have, in the exercise of reasonable diligence, discovered such facts. A submission of the claim to non-binding mediation under Section 7.11(i) above shall operate to stay the limitation period until 15 days after the conclusion of that mediation proceeding.

#### **7.13 Waiver of Punitive Damages.**

ERIK'S AND FRANCHISEE (AND ITS OWNERS AND GUARANTORS, IF APPLICABLE), HEREBY WAIVE TO THE FULLEST EXTENT PERMITTED BY LAW, ANY RIGHT TO OR CLAIM FOR ANY PUNITIVE OR EXEMPLARY DAMAGES AGAINST THE OTHER AND AGREE THAT IN THE EVENT OF A DISPUTE BETWEEN THEM EACH SHALL BE LIMITED TO THE RECOVERY OF ANY ACTUAL DAMAGES SUSTAINED BY IT.

*[Signature page follows]*



**FRANCHISOR**

Erik's DeliCafe Franchises, Inc. ("Erik's")

By: \_\_\_\_\_  
(Signature)

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

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

**FRANCHISEE**

\_\_\_\_\_  
(Name of Entity)

By: \_\_\_\_\_  
(Signature)

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

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

**FRANCHISEE**

\_\_\_\_\_  
(Print Name)

By: \_\_\_\_\_  
(Signature)

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

## EXHIBIT 1 TO ERIK'S DELICAFFE FRANCHISE AGREEMENT

The Premises and Designated Area at which the DeliCafe will be operated in accordance with Section 2.1 is:

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The Designated Area referred to in subparagraph (b) of Section 2.1 shall be:

- \_\_\_\_\_ there shall be no Designated Area due to population density
- \_\_\_\_\_ a one-half mile radius around the business address of the DeliCafe
- \_\_\_\_\_ a three-quarter mile radius around the business address of the DeliCafe
- \_\_\_\_\_ a one mile radius around the business address of the DeliCafe

### FRANCHISOR

Erik's DeliCafe Franchises, Inc. ("Erik's")

By: \_\_\_\_\_  
(Signature)

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

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

### FRANCHISEE

\_\_\_\_\_  
(Name of Entity)

By: \_\_\_\_\_  
(Signature)

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

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

### FRANCHISEE

\_\_\_\_\_  
(Print Name)

By: \_\_\_\_\_  
(Signature)

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

## EXHIBIT 2 TO ERIK'S DELICAFE FRANCHISE AGREEMENT

### **Guaranty and Assumption of Franchisee's Obligations**

In consideration of, and as required by Section 6.4(c) of the above Franchise Agreement (the "Agreement") each of the undersigned hereby personally and unconditionally:

(1) guarantees to Erik's DeliCafe Franchises, Inc. ("Erik's") and its successors and assigns, for the term of the Agreement including renewals thereof, that \_\_\_\_\_ ("Franchisee") shall punctually pay and perform each and every undertaking, agreement and covenant set forth in the Agreement; and

(2) agrees to be personally bound by, and personally liable for the breach of, each and every provision in the Agreement.

Each of the undersigned waives the following:

(1) acceptance and notice of acceptance by Erik's of the foregoing undertakings; and  
(2) notice of demand for payment of any indebtedness or nonperformance of any obligations hereby guaranteed; and

(3) protest and notice of default to any party with respect to the indebtedness or nonperformance of any obligations hereby guaranteed; and

(4) any right he or she may have to require that an action be brought against Franchisee or any other person as a condition of liability; and

(5) any and all other notices and legal or equitable defenses to which he or she may be entitled, including defenses arising by reason of California Civil Code Sections 2806 through 2855.

Each of the undersigned consents and agrees that:

(1) his or her direct and immediate liability under this guaranty shall be joint and several; and

(2) he or she shall render any payment or performance required under the Agreement upon demand if Franchisee fails or refuses punctually to do so; and

(3) such liability shall not be contingent or conditioned upon pursuit by Erik's of any remedies against Franchisee or any other person; and

(4) such liability shall not be diminished, relieved or otherwise affected by any extension of time, credit or other indulgence which Erik's may from time to time grant to Franchisee or to any other person, including without limitation the acceptance of any partial payment or performance, or the compromise or release of any claims, none of which shall in any way modify or amend this guaranty, which shall be continuing and irrevocable during the term of the Agreement, including renewals thereof.

WITNESS	GUARANTOR(S)	%
_____ (Signature)	_____ (Signature)	_____
_____ (Print Name)	_____ (Print Name)	
_____ (Date)	_____ (Date)	
_____ (Signature)	_____ (Signature)	_____
_____ (Print Name)	_____ (Print Name)	
_____ (Date)	_____ (Date)	
_____ (Signature)	_____ (Signature)	_____
_____ (Print Name)	_____ (Print Name)	
_____ (Date)	_____ (Date)	

## EXHIBIT 3 TO ERIK'S DELICAFFE FRANCHISE AGREEMENT

### Confidentiality Agreement

In consideration of my [employment/continued employment] by \_\_\_\_\_ ("EMPLOYER") and other good and valuable consideration, receipt of which is acknowledged, I acknowledge and agree that:

1. EMPLOYER is the franchisee of an Erik's DeliCafe Business pursuant to a franchise agreement with Erik's DeliCafe Franchises, Inc. ("FRANCHISOR"). FRANCHISOR has developed certain information of a confidential, proprietary or trade secret nature that gives FRANCHISOR and EMPLOYER a competitive edge in their businesses. For purposes of this Agreement, all such confidential, proprietary or trade secret information will be referred to as "Confidential Information." Confidential Information includes without limitation: (1) methods and procedures for the establishment and operation of food establishments known as "Erik's DeliCafe"; (2) methods, techniques, specifications, procedures, information, systems, and knowledge of and experience in the development, operation and franchising of Erik's DeliCafe businesses; (3) marketing programs; (4) client lists and employee lists; and (5) patterns, computer programs, marketing and sales plans, product development plans, competitive analyses, business and financial planner forecasts, non-public financial information, agreements, and information that FRANCHISOR has a legal obligation to treat as confidential or which FRANCHISOR treats as proprietary or designates as confidential.

2. As an employee of EMPLOYER, I will receive valuable Confidential Information, disclosure of which would be detrimental to EMPLOYER, FRANCHISOR and its franchisees, and other Erik's DeliCafe businesses. I will not use trade secret information that I have learned from previous employers in connection with EMPLOYER's business.

3. I will hold in strict confidence the Confidential Information and any other information designated by EMPLOYER or FRANCHISOR as confidential. I will not disclose any portion or all of the Confidential Information to non-Erik's DeliCafe employees or to employees who are not authorized to have access to the Confidential Information, and I will use it only in connection with my duties as an employee of EMPLOYER as may be necessary in the ordinary course of performing my duties for EMPLOYER or otherwise as directed by EMPLOYER, unless EMPLOYER otherwise agrees in writing. My promise not to disclose the Confidential Information is a condition of my employment by EMPLOYER and continues even after I leave the employ of EMPLOYER.

4. I agree that I will not compete with EMPLOYER or FRANCHISOR during the time that I am employed by or am an agent of EMPLOYER. More specifically, I agree that during that time I will not do any of the following things for myself or for anyone else: (a) encourage customers to do business with any competitor of EMPLOYER; (b) acquire an interest in, or promote, aid or assist, any business that is of the same general type as an Erik's DeliCafe; (c) encourage employees or agents of

EMPLOYER to quit their jobs or agency relationships with EMPLOYER or to encourage employees or agents to encourage customers to do business with any competitor of EMPLOYER or to encourage employees or agents to acquire an interest in, or promote, and or assist, any business that is of the same general type as EMPLOYER's. I agree that my obligation in (c) directly above shall continue beyond the termination date of my employment or agency for an additional period of one (1) year.

5. FRANCHISOR is a third-party beneficiary of this Agreement and may enforce it. My violation of this Agreement will cause FRANCHISOR and EMPLOYER irreparable harm; therefore, I acknowledge and agree that EMPLOYER and/or FRANCHISOR may apply for the issuance of an injunction preventing me from violating this Agreement and agree to pay EMPLOYER and/or FRANCHISOR all the costs incurred, including attorneys' fees, if this Agreement is enforced against me. I agree that EMPLOYER and/or FRANCHISOR may also seek a judgment against me for money damages that result from my violation of those duties if EMPLOYER and/or FRANCHISOR is able to prove the amount of those damages. Due to the importance of this Agreement to EMPLOYER, any claim I have against EMPLOYER is a separate matter and does not entitle me to violate, or justify any violation of this Agreement. If any part of this Agreement is held invalid by a court or agency, the rest of the Agreement is still enforceable and the part held invalid is enforceable to the extent found reasonable by the court or agency.

6. This Agreement has been negotiated, prepared, executed and delivered in several jurisdictions, including the State of California, United States of America. Accordingly, in order to establish with certainty that this Agreement will be governed by one body of well-developed commercial law, the parties hereto have expressly agreed that this Agreement shall be governed by, and construed in accordance with, the laws of the State of California applicable to contracts executed and fully to be performed therein, to the exclusion of any other applicable body of governing law including, without limitation, the United Nations Convention on Contracts for the International Sale of Goods. In the event that either party commences a legal action pursuant to this Agreement, the parties hereto agree that the federal and state courts located in the County of Santa Clara, State of California, shall have exclusive jurisdiction over any such action.

7. Upon termination of my employment, I will surrender all records and material relating to the business of EMPLOYER.

8. I am aware of no prior obligations that would prevent my compliance with the terms and spirit of this Agreement.

9. This Agreement shall be binding upon me and my heirs, executors, administrators and assigns. EMPLOYER shall have the right to assign this Agreement to any successor to the business in which I am employed.

10. I understand that I may conceive of or develop ideas and inventions related to EMPLOYER's or FRANCHISOR's business during or for purposes of my employment. Such information and inventions that I conceive or develop pertaining to EMPLOYER's or FRANCHISOR's business are the sole property of FRANCHISOR and are FRANCHISOR's Confidential Information. I agree to disclose promptly to EMPLOYER

and/or FRANCHISOR all inventions, ideas or conceptions, developments and improvements (whether or not patentable or subject to copyright) which are made or conceived by me, either alone or together with others, during or as a result of my employment, provided that they pertain to EMPLOYER's and/or FRANCHISOR's business. I will keep complete records of such matter and will and hereby do assign such matter to FRANCHISOR whether or not it has been tested or reduced to practice. All such records are and shall be the property of FRANCHISOR alone.

Upon request of FRANCHISOR, either during or after my employment, I will assist in applying for Letters Patent or for copyright on all such inventions and ideas made or conceived by me, and I will execute all papers necessary thereto, including assignments as may be requested by EMPLOYER, without further compensation to me.

This Agreement does not apply to an invention which qualifies fully under the provisions of Section 2872 of the Labor Code of California as an invention for which no equipment, supplies, facility, or trade secret information EMPLOYER was used and which was developed entirely on my own time, and which does not relate to EMPLOYER's or FRANCHISOR's business or to EMPLOYER's or FRANCHISOR's actual or demonstrably anticipated research or development, or which does not result from any work I performed for EMPLOYER.

11. This Agreement shall be construed under the laws of the State of California. The only way this Agreement can be changed is in writing signed by EMPLOYER, FRANCHISOR and me.

**EMPLOYER**

\_\_\_\_\_  
(Name of Entity)

By: \_\_\_\_\_  
(Signature)

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

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

**EMPLOYER**

\_\_\_\_\_  
(Print Name)

By: \_\_\_\_\_  
(Signature)

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

**EMPLOYEE**

\_\_\_\_\_  
(Print Name)

By: \_\_\_\_\_  
(Signature)

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

## NOTICE

### **Attention: Employees**

California Labor Code 2872 requires this Agreement to provide you with written notification as to certain of your inventive rights. This notification must include the fact that the agreement to assign invention cannot apply to an invention with qualifies fully under Section 2870 of the California Labor Code. Section 2870 of the California Labor Code provides:

"(a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities, or trade secret information except for those inventions that either:

(1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer; or

(2) Result from any work performed by the employee for the employer.

(b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable."

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

By: \_\_\_\_\_  
(Signature)

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



**EXHIBIT C-1 TO THE  
ERIK'S DELICAFE FRANCHISES, INC.  
DISCLOSURE DOCUMENT**

**LIST OF FRANCHISED DELICAFES**

CGVH Restaurants, LLC  
Erik's DeliCafe of Aptos  
Rancho Del Mar Shopping Center  
102 Rancho Del Mar  
Aptos, CA 95003  
(831) 688-5656

Kamal Foods, LLC  
Erik's DeliCafe of Campbell  
1777 S. Bascom Ave.  
Campbell, CA 95008  
(408) 371-8282

D&J Deli, LLC  
Erik's DeliCafe of Capitola  
King's Plaza Shopping Center  
1475 A-2 41st Avenue  
Capitola, CA 95010  
(831) 475-4646

Three J Family, LLC  
Erik's DeliCafe of Dublin  
7603 Amador Valley Blvd.  
Dublin, CA 94568  
(925) 829-1414

Carley Bennetts & Ron Engebretson  
Erik's DeliCafe of Folsom  
411 Blue Ravine Rd. #400  
Folsom, CA 95630  
(916) 510-2200

New Capital, Inc.  
Erik's DeliCafe of Fremont  
4138 Walnut Ave.  
Fremont, CA 94538  
(510) 490-7799

GDSIS Investments, LLC  
Erik's DeliCafe Gilroy - Outlets  
8300 Arroyo Cir #320  
Gilroy, CA  
(408) 847-5252

Chinmoy Roy  
Erik's DeliCafe of Hayward  
871 B Street  
Hayward, CA 94541

GDSIS Investments, LLC  
Erik's DeliCafe of Los Gatos  
15495 Los Gatos Blvd.  
Los Gatos, CA  
(408) 395-6363

D&J DeliCafe, Inc.  
Erik's DeliCafe of Milpitas  
148 North Milpitas Blvd  
Milpitas, CA 95035  
(408) 262-7878  
Fax (408) 262-5247

MH Deli2, Inc.  
Erik's DeliCafe of Morgan Hill – Cochrane Rd.  
775 Cochrane Road, Suite 180  
Morgan Hill, CA 95037  
(408) 776-0303

MH Deli Inc.,  
Erik's DeliCafe of Morgan Hill - Vineyard  
309 Vineyard Town Ctr Way  
Morgan Hill, CA 95037  
(408) 778-5151

JD's, Inc.  
Erik's DeliCafe of Mountain View – Grant Rd.  
1350 Grant Rd.  
Mountain View, CA 94040  
(650) 962-9191

Ambika Hallen DBA Erik's DeliCafe CRMV  
Erik's DeliCafe of Mountain View – Charleston  
Rd.  
2424 Charleston Road  
Mountain View, CA 94040  
(650) 962-1212

Festivus, Inc.  
Erik's DeliCafe of Redwood City  
400 Walnut St.  
Redwood City, CA 94063  
(650) 364-1717

Ron Engebretson  
Erik's DeliCafe of Roseville  
1450 Lead Hill Boulevard  
Roseville, CA 95661  
(916) 782-5566

Frank & Patricia Martinez  
Erik's DeliCafe of Salinas  
1980A N. Main St.  
Salinas, CA 93906  
(831) 449-7272

GDsis Group, LLC  
Erik's DeliCafe of San Jose – Branham Square  
4611 Almaden Exp.  
San Jose, CA 95118  
(408) 265-1515

J. Richman Group  
Erik's DeliCafe of San Jose – Downtown  
2 North Market St., Suite 105  
San Jose, CA 95113  
(408) 998-2323

OT Deli, Inc.  
Erik's DeliCafe of San Jose – Orchard Town  
Center  
Orchard Town Center  
5705 Cottle Rd.  
San Jose, CA 95123  
(408) 365-1515

3 Beautiful Daughters, LLC  
Erik's DeliCafe of San Jose – The Plant  
81 Curtner Avenue  
Suite #50  
San Jose, CA 95125  
(408) 280-0404

Andy and Katherine Tsuei  
Erik's DeliCafe of Santa Clara  
830 Kiely Blvd., Suite #105  
Santa Clara, CA 95051  
(408) 246-1010

Newman's EDC, LLC  
Erik's DeliCafe of Santa Cruz – Soquel Drive  
Newberg Center  
1664 Soquel Drive  
Santa Cruz, CA 95065  
(831) 462-1919

E G & J  
Erik's DeliCafe of San Ramon  
2551 San Ramon Valley Blvd  
San Ramon, CA 94583  
(925) 743-0101

KPM, LLC  
Erik's DeliCafe of Seaside  
Seaside City Center  
840 Broadway Ave, Suite B-1  
Seaside, CA 93955  
(831) 393-1818

Timilie Enterprises, Inc.  
Erik's DeliCafe of Watsonville  
1074 S. Green Valley Rd.  
Watsonville, CA 95076  
(831) 724-7575

**EXHIBIT C-2 TO THE  
ERIK'S DELICAFFE FRANCHISES, INC.  
DISCLOSURE DOCUMENT**

**LIST OF COMPANY OWNED DELICAFES**

Erik's DeliCafe, Inc.  
Erik's DeliCafe of Scotts Valley  
King's Village Shopping Center  
222 Mt Hermon Rd J  
Scotts Valley, CA 95066  
(831) 438-4646

**EXHIBIT C-3 TO THE  
ERIK'S DELICAFE FRANCHISES, INC.  
DISCLOSURE DOCUMENT**

**LIST OF FRANCHISEES WHO LEFT THE SYSTEM**

Edison Enterprises, LLC  
717 Wilde Ct.  
Discovery Bay, CA 94505

Tung Di, Inc.  
38759 Stillwater Common  
Fremont, CA 94536

**EXHIBIT D TO THE  
ERIK'S DELICAFE FRANCHISES, INC.  
DISCLOSURE DOCUMENT**

**LIST OF STATE ADMINISTRATORS**

**California:**

Department of Financial Protection and  
Innovation  
2101 Arena Boulevard  
Sacramento, CA 95834  
866-275-2677  
Ask.DFPI@dfpi.ca.gov

**Connecticut:**

Securities and Business Investment Division  
Connecticut Department of Banking  
260 Constitution Plaza  
Hartford, CT 06103  
860-240-8299

**Florida:**

Department of Agriculture and Consumer  
Services  
Division of Consumer Services  
Rhodes Building,  
2005 Apalachee Parkway  
Tallahassee, FL 32399-6500  
850-410-3800  
800-435-7352

**Hawaii:**

Department of Commerce and  
Consumer Affairs  
Business Registration Division  
335 Merchant Street  
Honolulu, HI 96813  
808-586-2744

**Illinois:**

Office of the Attorney General  
500 South Second Street  
Springfield, IL 62706  
877-844-5461

**Indiana:**

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

**Kentucky:**

Consumer Protection Division  
Office of the Attorney General  
1024 Capital Center Drive  
P.O. Box 2000  
Frankfort, KY 40602-2000  
502-696-5389

**Maryland:**

Office of the Attorney General  
Division of Securities  
200 Saint Paul Place, 20th Floor  
Baltimore, MD 21202-2020  
410-576-6360  
888-743-0023

**Michigan:**

Consumer Protection Division  
Antitrust and Franchise Unit  
Michigan Department of Attorney General  
670 Law Building  
Lansing, MI 48913  
517-335-7622

**Minnesota:**

Minnesota Department of Commerce  
85 7th Place East, Suite 500  
St. Paul, MN 55101  
651-539-1500

**Nebraska:**

Department of Banking and Finance  
1200 N Street, Suite 311  
P.O. Box 95006  
Lincoln, NE 68509  
402-471-3445

**New York:**

New York State Department of Law  
Bureau of Investor Protection and Securities  
120 Broadway, 23rd Floor  
New York, NY 10271  
212-416-8222

**North Dakota:**

Office of Securities Commissioner  
600 East Boulevard, 5th Floor  
Bismarck, ND 58505  
701-328-2910  
800-297-5124

**Rhode Island:**

Division of Securities  
1511 Pontiac Avenue  
Cranston, RI 02920  
401-462-9527

**South Dakota:**

Department of Commerce and Regulation  
Division of Securities  
118 West Capitol Avenue  
Pierre, SD 57501-2017  
605-773-3563

**Texas:**

Secretary of State  
Statutory Documents Section  
1019 Brazos Street  
Austin, TX 78701  
512-463-5555

**Utah:**

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

**Virginia:**

State Corporation Commission  
Division of Securities and Retail  
Franchising  
1300 East Main Street, 1st Floor  
Richmond, VA 23219  
804-371-9051  
800-552-7945

**Washington:**

Department of Financial Institutions  
Securities Division  
150 Israel Road SW  
Tumwater, WA 98501  
360-902-8760

**Wisconsin:**

State of Wisconsin  
Office of the Commissioner of Securities  
345 West Washington Avenue, 4th Floor  
Madison, WI 53703  
608-261-9555

**EXHIBIT E TO THE  
ERIK'S DELICAFE FRANCHISES, INC.  
DISCLOSURE DOCUMENT**

**OPERATIONS MANUAL TABLE OF CONTENTS**

# **Erik's DeliCafé Franchises, Inc.**

## **Operations Manual**

### **ERIK'S DELICAFE**

### **OPERATIONS MANUAL**

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SECTION TWO: HUMAN RESOURCES

SECTION THREE: TRAINING PROGRAM

SECTION FOUR: DELICAFE OPERATIONS

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SECTION SIX: FACILITIES

SECTION SEVEN: SAFETY & SANITATION

SECTION EIGHT: EMERGENCY PROCEDURES

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**EXHIBIT F TO THE  
ERIK'S DELICAFE FRANCHISES, INC.  
DISCLOSURE DOCUMENT**

**DÉCOR LEASE**

## Erik's DeliCafé Franchises, Inc.

### DÉCOR LEASE

This Lease is entered into as of this \_\_\_\_\_ day of \_\_\_\_\_, 2\_\_\_\_ by and between Erik's DeliCafé Franchises, Inc., hereinafter called "Lessor", and \_\_\_\_\_, herein referred to as "Lessee."

### RECITALS

A. Lessor and Lessee desire to enter into a lease for the following described property (herein collectively referred to as "Leased Items"):

1. Parlor Heater – a total of \_\_\_\_\_ described as \_\_\_\_\_
2. Pot Belly Stove – a total of \_\_\_\_\_ described as \_\_\_\_\_
3. Branding Irons – a total of \_\_\_\_\_ branding irons, each bearing the following designs, respectively:
4. Other: \_\_\_\_\_

B. Lessee, acting as Franchisee, and Erik's DeliCafé Franchises, Inc. (an affiliate of Lessor), executed a written Franchise Agreement (herein referred to as "Franchise Agreement") whereby Lessee were granted the right and license to operate one Erik's DeliCafé at \_\_\_\_\_. Said Franchise Agreement is incorporated into this Lease as if fully set forth herein.

Therefore, for good and valuable consideration, the receipt of which is hereby acknowledged, Lessor and Lessee agree as follows:

### LEASE

**1.1 Ownership.** At all times throughout this Lease, the Leased Items will be and shall remain the property of Lessor.

**1.2 Term.** The term of this Lease shall commence on \_\_\_\_\_, 2\_\_\_\_ and shall end, unless sooner terminated as herein provided, on the date Lessee ceases to operate as a franchisee of Erik's DeliCafé Franchises, Inc.

**1.3 Location.** The Leased Items shall be kept at the business address listed in Recital B above.

**1.4 Fair Market Value.** The fair market value of the Leased Items at the start of the term is \_\_\_\_\_ Dollars (\$ \_\_\_\_\_) for the Parlor Heater, \_\_\_\_\_ Dollars (\$ \_\_\_\_\_) for the Pot Belly Stove, and \_\_\_\_\_ Dollars (\$ \_\_\_\_\_) for the Branding Irons and  
for \_\_\_\_\_. Since the leased items are genuine antiques, it can be expected that their fair market value will increase over the term of this Lease.

**1.5 Maintenance.** Lessee shall be responsible for maintaining the Leased Items in good condition, and for having any necessary repairs done. Lessee must obtain advance written consent from the Lessor before undertaking any repairs, alterations or modifications.

**1.6** Loss. Lessee shall be responsible for reimbursing Lessor for the fair market value of each Leased Item, in the event of its loss or destruction during the Term of this Lease.

**1.7** Insurance. Lessee agrees to maintain insurance covering the full replacement cost of the Leased Items, and to name Lessor as a co-insured on the certificate of insurance.

**1.8** Warranties. Lessor is not the manufacturer of the Leased Items and is not acting as agent for the manufacturer(s). Therefore, Lessor provides no express or implied warranties of any kind on the Leased Items - neither of fitness for intended use nor merchantability.

**1.9** Assignment: Encumbrances. Lessee shall not assign or encumber Lessee's interest in this Lease, or mortgage, pledge or otherwise assign as security, or sublease any of the Leased Items. Any assignment or encumbrance without Lessor's express written consent shall be voidable by Lessor and shall constitute a default of this Lease.

**1.10** Effect of Franchise Agreement. Any breach by Lessee as Franchisee in the performance of any agreement made under the terms of the Franchise Agreement shall constitute a breach of this Lease.

**1.11** Termination of Lease. The termination of either of the following shall, at the option of the Lessor, terminate this Lease: (i) The termination of nonrenewal, for what-ever reason, of the Franchise Agreement pursuant to the terms contained therein; or (ii) The termination, for whatever reason, of the right and license of Lessee as Franchisee to operate an Erik's DeliCafé at the premises described in Recital "B" above. Upon termination, Lessee shall assemble the Leased Items and make them available for repossession by Lessor, in good condition except for normal wear and tear.

**1.12** Headings. The subject headings of the paragraphs of this Lease are included for the purpose of convenience only, and shall not affect the construction or interpretation of any of its provisions.

**1.13** Costs and Attorneys' Fees. In any legal or arbitration proceeding between the parties arising out of or related to this Lease, the prevailing party shall be entitled to recover its costs and expenses, including reasonable legal fees.

**1.14** Jurisdiction. If a claim is asserted in any legal proceeding, or in arbitration, Lessee submits to jurisdiction in the County of Santa Clara, State of California and waives any objection to either jurisdiction or venue in the County of Santa Clara, State of California.

In Witness Whereof, the parties hereto have executed this Lease on the date above written.

**LESSOR**

Erik's DeliCafe Franchises, Inc.

By: \_\_\_\_\_  
(Signature)

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

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

**LESSEE**

\_\_\_\_\_  
(Name of Entity)

By: \_\_\_\_\_  
(Signature)

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

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

**LESSEE**

\_\_\_\_\_  
(Print Name)

By: \_\_\_\_\_  
(Signature)

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

**EXHIBIT G TO THE  
ERIK'S DELICAFE FRANCHISES, INC.  
DISCLOSURE DOCUMENT**

**SAMPLE FORM OF GENERAL RELEASE**

## SAMPLE FORM OF GENERAL RELEASE

This General Release (this "Release") is made by \_\_\_\_\_ [NAME OF FRANCHISEE] ("Franchisee") in favor of Erik's DeliCafe Franchises, Inc. ("Franchisor") and certain related parties as set forth below effective as of \_\_\_\_\_, 2\_\_\_\_ (the "Effective Date").

Franchisor is the franchisor of Erik's DeliCafe restaurants ("DeliCafes").

Franchisor and Franchisee entered into a Franchise Agreement dated \_\_\_\_\_, \_\_\_\_\_ (the "Franchise Agreement") for the operation of a DeliCafe located at \_\_\_\_\_ (the "Franchised Business").

Franchisee is seeking to renew the franchise or is seeking Franchisor's consent to sell, transfer and convey the rights under the Franchise Agreement to \_\_\_\_\_ [NAME OF PURCHASER] ("Purchaser") as provided in the Franchise Agreement. A release of all claims against Franchisor and related parties by Franchisee is one of the conditions that must be satisfied in order to renew or transfer the franchise under the Franchise Agreement. ***[OR: The current term of the Franchise Agreement has not expired, and Franchisee wishes to enter into a new franchise agreement with Franchisor for the Franchised Business that would replace the Franchise Agreement and provide Franchisee with a new ten (10) year franchise term and a further right to renew. Franchisor is willing to enter into a new franchise agreement with Franchisee in consideration of Franchisee entering into this Release.]***

Therefore, in consideration of these premises, and for other good and valuable consideration, receipt of which is hereby acknowledged, Franchisee agrees as follows:

- 1. Release by Franchisee.** Franchisee for Franchisee and Franchisee's respective predecessors, shareholders, officers, directors, members, partners, owners, successors, assigns, affiliates, family members, heirs, executors, administrators and personal representatives and anyone claiming through or under them (collectively the "Franchisee Parties"), hereby releases, acquits and forever discharges Franchisor and its predecessors, successors, assigns, parent company, subsidiaries, affiliates, officers, directors, stockholders, employees, attorneys, accountants and other representatives (collectively the "Franchisor Parties") of and from any and all claims, demands, debts, disputes, obligations, damages, causes of action and claims for relief of any nature whatsoever, whether known or unknown, whether arising under the Franchise Agreement, or under common law, equitable principles, statute (including but not limited to the California Franchise Investment Law), regulation or otherwise, whether fixed or contingent, which the Franchisee Parties or any of them have against the Franchisor Parties by reason of any matter, event or cause whatsoever occurring at any time before, through and including the Effective Date of this Release stated above.
- 2. Waiver of Civil Code Section 1542.** Franchisee for Franchisee and the Franchisee Parties hereby expressly waives any rights or benefits available under the provisions of Section 1542 of the California Civil Code or any similar law of any state that provides for the survival of claims notwithstanding a general release. Civil Code Section 1542 provides as follows:

**A general release does not extend to claims that the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by Franchisee must have materially affected Franchisee's settlement with the debtor.**

Franchisee understands this statutory language, and notwithstanding this or any similar statute or law, Franchisee freely elects to specifically waive these rights and hereby does release the Franchisor Parties from all claims whether known or unknown at the time of this Release. Franchisee understands that if the facts relied upon in making this Release are discovered hereafter to be other than or different from the facts now believed to be true, or if additional facts are discovered, Franchisee expressly accepts the risk of such possible different or additional facts and agrees that this Release shall remain effective notwithstanding any such discoveries. Franchisee is not deciding to make this Release or waiver predicated on any factual representations of Franchisor concerning the nature of any claims released, past or future events or any other matters.

**3. Representations.** Franchisee represents, warrants, agrees and acknowledges:

- a. That Franchisee had the opportunity to consult with legal counsel in making this Release and that Franchisee has read and fully understands the terms of this Release and that this Release was entered into freely and voluntarily;
- b. That the validity of this Release is an essential condition to and in consideration of Franchisor's consent to the transfer or renewal of the franchise ***[OR: Franchisor's offer of a new franchise agreement and franchise term prior to expiration of the Franchise Agreement]***;
- c. That in addition to this Release, there are other conditions that must be satisfied in order to have the franchise transfer or renewal approved by Franchisor as required in the Franchise Agreement and that Franchisee understands and agrees to these conditions; and
- d. That Franchisee is the sole owner of all of the claims released hereby and has not heretofore assigned any interest in the franchise, the Franchise Agreement, or any of the claims released hereby.

**4. Entire Agreement.** This Release contains the entire agreement by Franchisee with respect to the release required for ***[the applicable transaction]***. All prior discussions, negotiations, and representations concerning this matter are superseded by this Release.

**5. Governing Law.** This Release will be governed by the laws of California.

**6. Exception to Release.** Notwithstanding any of the provisions of this Release, if Franchisee is entering into a new franchise agreement concurrently with this Release, this Release is not meant to waive compliance with any provisions of the California Franchise Investment Law that might apply to the acquisition of the new franchise agreement.

**Name(s) of Franchisee Above**

**FRANCHISEE**

\_\_\_\_\_  
(Name of Entity)  
By: \_\_\_\_\_  
(Signature)  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

**FRANCHISEE**

\_\_\_\_\_  
(Print Name)  
By: \_\_\_\_\_  
(Signature)  
Date: \_\_\_\_\_



**EXHIBIT H TO THE  
ERIK'S DELICAFE FRANCHISES, INC.  
DISCLOSURE DOCUMENT**

**STATE EFFECTIVE DATES**

## STATE EFFECTIVE DATES

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

This Franchise Disclosure 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	(Pending)

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

**EXHIBIT I TO THE  
ERIK'S DELICAFE FRANCHISES, INC.  
DISCLOSURE DOCUMENT**

**AGENTS FOR SERVICE OF PROCESS**

## **AGENTS FOR SERVICE OF PROCESS**

<b>California</b> Commissioner of Financial Protection and Innovation 320 West 4th Street, Suite 750 Los Angeles, CA 90013	<b>New York</b> New York Department of State One Commerce Plaza 99 Washington Avenue Albany, NY 12231
<b>Florida</b> Florida Department of Agriculture and Consumer Services The Mayo Building 407 South Calhoun Street Tallahassee, FL 32399	<b>North Dakota</b> Securities Commissioner 600 East Boulevard Avenue State Capital, 5th Floor Bismarck, ND 58505
<b>Hawaii</b> Commissioner of Securities 335 Merchant Street, Room 205 Honolulu, HI 96813	<b>Rhode Island</b> Director of Department of Business Regulation 1511 Pontiac Avenue, Bldg. 69-2 Cranston, RI 02920
<b>Illinois</b> Illinois Attorney General 500 South Second Street Springfield, IL 62701	<b>South Dakota</b> Director of Division of Securities 124 S. Euclid Avenue, Second Floor Pierre, SD 57501
<b>Indiana</b> Indiana Secretary of State 302 West Washington, Room E-111 Indianapolis, IN 46204	<b>Utah</b> Utah Department of Commerce 160 East 300 South, Second Floor Salt Lake City, Utah 84144
<b>Maryland</b> Maryland Securities Commissioner 200 Saint Paul Place Baltimore, MA 21202	<b>Virginia</b> Clerk of the State Corporation Commission 1300 East Main Street Richmond, VA 23219
<b>Michigan</b> Michigan Department of the Attorney General Consumer Protection Division - Franchise Section G. Mennen Williams Building P.O. Box 30212 525 W. Ottawa Street Lansing, MI 48909	<b>Washington</b> Director of Department of Financial Institutions 150 Israel Road SW Tumwater, WA 98501
<b>Minnesota</b> Commissioner of Commerce 85 7th Place East, Suite 280 Saint Paul, MN 55101	<b>Wisconsin</b> Wisconsin Division of Securities <b>ITEM 244822</b> Madison Yards Way, North Tower Madison, WI 53703

**EXHIBIT J TO THE  
ERIK'S DELICAFE FRANCHISES, INC.  
DISCLOSURE DOCUMENT**

**RECEIPTS**

**RECEIPT**  
**(OUR COPY)**

This disclosure document summarizes certain provisions of the franchise agreement and other information in plain English. Read this disclosure document and all agreements carefully.

If Erik's DeliCafe offers you a franchise, we must provide this disclosure document to you fourteen (14) calendar days before you sign a binding agreement or make a payment to us or an affiliate in connection with the proposed franchise sale.

The name, principal address and telephone number of each franchise seller offering the franchise: Brian E. Johnson, 1550 The Alameda, Suite 330, San Jose, California 95126, telephone number (831) 458-1818.

Issuance Date: May 8, 2024

Erik's DeliCafe authorizes Mr. Brian E. Johnson at 1550 The Alameda, Suite 330, San Jose, California 95126 to receive service of process for ERIK'S DELICAFFE.

Our franchise sellers include:

Brian E. Johnson, President & General Counsel	1550 The Alameda, Suite 330, San Jose, California 95126, (831) 458-1818
---	--

I have received a Franchise Disclosure Document dated as reflected on the State Effective Dates exhibit that includes the following exhibits:

Exhibit A - Financial Statements  
Exhibit B - Franchise Agreement  
Exhibit C-1 - List of Franchised DeliCafes  
Exhibit C-2 - List of Company-Owned DeliCafes  
Exhibit C-3 - List of Franchisees Who Left the System  
Exhibit D - List of State Administrators  
Exhibit E - Operations Manual Table of Contents  
Exhibit F - Décor Lease  
Exhibit G - Sample Form of General Release  
Exhibit H - State Effective Dates  
Exhibit I - Receipts

DATE

SIGNATURE

PRINTED NAME

\_\_\_\_\_  
**Please sign this copy of the receipt, date your signature, and return it to:**  
**Brian E. Johnson, Erik's DeliCafe, 1550 The Alameda, Suite 330, San Jose, California 95126.**

**RECEIPT**  
**(YOUR COPY)**

This disclosure document summarizes certain provisions of the franchise agreement and other information in plain English. Read this disclosure document and all agreements carefully.

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DATE

SIGNATURE

PRINTED NAME

\_\_\_\_\_

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**KEEP THIS COPY FOR YOUR RECORDS.**