



299 Marsh St.
San Luis Obispo, Ca 93401
805.542.0255
email bread@houseofbread.com
www.houseofbread.com

FRANCHISE DISCLOSURE DOCUMENT

House of Bread, House of Bread Bakery Café, and House of Bread Senior are different names for the same company of House of Bread that is separate from House of Bread Franchising Inc. House of Bread Junior and the Brew House are separate optional offerings under House of Bread Franchising Inc.

The business trademark is the name House of Bread.

The franchisee will operate a specialty bread bakery cafe offering healthy, low-fat, and deliciously baked goods and sandwiches.

The total investment necessary to begin operations of a House of Bread Bakery Café, franchise ranges from \$198,000 to \$584,000 for one unit. This includes the \$35,000 franchise fee that is paid to the franchisor or affiliate. House of Bread Franchising Inc. does offer a Multi-Unit franchise agreement. The first franchise unit is \$35,000, the second unit is \$17,500 and third through the eighth unit is \$10,000. The minimum franchise fee for a multiple unit franchise agreement of two units is \$52,500 and the maximum franchise fee for a multiple unit franchise agreement of eight units is \$127,500.

The investment range necessary to begin operations for a House of Bread Jr. is from a low of \$42,000 to a high of \$90,000. The total includes the initial franchise fee that is paid to the franchisor of \$10,000.

The investment range necessary to begin operations for The Brew House is from a low of 58,000 to a high of 102,000. The total includes the initial franchise fee that is paid to the franchisor of \$5,000.

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 for additional information. Call your state agency or visit your public library for other sources of information on franchising.

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

Issuance Date:

How to Use This Franchise Disclosure Document

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

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

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

Special Risks to Consider About *This Franchise*

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

1. **Out-of-State Dispute Resolution.** The franchise agreement requires you to resolve disputes with the franchisor by mediation, arbitration and/or litigation only in California. Out-of-state mediation, arbitration, or litigation may force you to accept a less favorable settlement for disputes. It may also cost more to mediate, arbitrate, or litigate with the franchisor in California than in your own state.
2. **Unopened Franchises.** The franchisor has signed a number of franchise agreements with franchisees who have not yet opened their outlets. If other franchisees are experiencing delays in opening their outlets, you also may experience delays in opening your outlet.

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.

TABLE OF CONTENTS

ITEM		PAGE
1	The Franchisor and any Parents, Predecessors and Affiliates	6
2	Business Experience	7
3	Litigation	8
4	Bankruptcy	8
5	Initial Fees	8
6	Other Fees	9
7	Estimated Initial Investment	10
8	Restrictions on Sources of Products and Services	13
9	Franchisee's Obligations	15
10	Financing	16
11	Franchisor's Assistance, Advertising, Computer Systems and Training Obligations	16
12	Territory	22
13	Trademarks	23
14	Patents, Copyrights and Proprietary Information	24
15	Obligation to Participate in the Actual Operation of the Franchise Business	24
16	Restrictions on What the Franchisee May Sell	25

17	Renewal, Termination, Transfer and Dispute Resolution	25
18	Public Figures	28
19	Financial Performance Representations	28
20	Outlets and Franchisee information	30
21	Financial Statements	33
22	Contracts	34
23	Receipts	35

Exhibits

A. Financial Statements

B. Franchise Agreement

C. Multi-Unit Franchise Agreement.

D. Franchise Disclosure Questionnaire.

E. List of State Administrators and Agents for Service of Process.

F. State Addendum.

ITEM 1
THE FRANCHISOR, ITS PREDECESSORS AND AFFILIATES

To simplify the language in this Disclosure Document, HOB means House of Bread Franchising, Inc., the Franchisor. "You" means the person considering purchasing a franchise.

Franchisor Parent and Affiliates

We conduct business under the name House of Bread Franchising Inc. Our principal business address is 299 Marsh Street, San Luis Obispo, Ca. 93401. We are a California Corporation that was incorporated on February 26, 1998.

Our affiliate, goes by the name House of Bread Bakery Café, also known as House of Bread or House of Bread Senior, if there is also a House of Bread Junior associated with the House of Bread Bakery Cafe.

We have no corporate parent. We have no predecessor.

Agents for Service of Process

HOB's agent for service of process is Sheila McCann at 299 Marsh St., San Luis Obispo, Ca. 93401. Further, the agent is disclosed in the acknowledgment of receipt, Item 23 of this Franchise Disclosure Document. Also, the agents for service of process are disclosed in Exhibit E.

HOB is a franchising company which sells and grants franchises for the operation of Outlets known as House of Bread Bakery Café. The business being offered scratch bakes baked goods as well as serves breakfast and lunch. We add the descriptive word of senior to House of Bread Bakery cafe, when there is also a House of Bread Jr. purchased with the House of Bread Bakery Cafe. A junior model is a smaller foot print that only sells baked goods that were produced at the senior unit. A junior unit is only offered with a purchase of a House of Bread Bakery Café senior unit. Furthermore, HOB franchising Inc. offers House of Bread Juniors and Brew House as additional sales revenues to existing franchise owners. By separate agreement, HOB may offer Multi-Unit Franchise Agreement.

HOB has two franchise company owned stores that are called House of Bread Bakery Cafe, which operates a senior bakery café. House of Bread Bakery Café is the concept being offered by HOB. However, House of Bread Franchising Inc. and House of Bread Bakery Café are two completely separate entities and House of Bread Bakery Café does not assume any legal obligations of House of Bread Franchising Inc.

HOB is not engaged in any other type of business activity.

HOB franchises or authorizes you to use the trademarks of and to operate a House of Bread Bakery Cafe. A House of Bread Bakery Café franchise provides specialty bread products and sandwiches through a uniform system consisting of high standards for service, use of quality ingredients, and under the business format created and developed by HOB. A House of Bread Bakery Cafe caters not only to the health conscious consumer but also to people who are most concerned with flavorful baked goods and sandwiches. The House of Bread junior concept is a smaller location where only the cinnamon rolls are baked on the premises. The bread that is sold at the junior store is baked at the senior House of Bread location. The Brew House concept within a House of Bread, is small pub area, with a few beers on tap, and shared seating with House of Bread. The idea is to create a synergy of sales between the Brew House and House of Bread, people having a sandwich and will want a high end beer and vice versa.

You will have to compete with other franchised operations, national chains and independently owned companies offering freshly baked bread and sandwiches.

HOB affiliate, House of Bread Bakery Cafe has conducted a business of the type to be operated by the franchisee since November 11, 1996. The affiliates address is 299 Marsh St, SLO, Ca. 93401. The affiliate and the franchisor share the same address.

HOB has been offering franchises since 1999.

HOB has not offered franchises in any other lines of business.

House of Bread Bakery Cafés must comply with the local county health department regulations.

ITEM 2

BUSINESS EXPERIENCE

President of House of Bread Franchising: Sheila McCann

Sheila McCann Attorney at Law December 1990 to present. San Luis Obispo, Ca.
President of House of Bread Inc. March 1995 to present. San Luis Obispo, Ca.
President of House of Bread Franchising Inc. 1998 to present. San Luis Obispo, Ca.

Franchise Consultant: Marc Chaisson

Marc Chaisson President of Chaisson Enterprise, Inc. from October 1985 to present. Shingle Springs, Ca.

Franchise Trainer: Miku Sekiyu

Miku Sekiyu manager of House of Bread 2021 to present. San Luis Obispo, Ca.

ITEM 3

LITIGATION

No litigation is required to be disclosed in this Item.

ITEM 4

BANKRUPTCY

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

ITEM 5

INITIAL FRANCHISE FEE

The initial franchise fee is \$35,000 for the House of Bread Bakery Café (senior). For this Item, “initial fees” means all fees and payments or commitments to pay, for service or goods received from the Franchisor or any affiliate before the franchisee’s business opens. The “initial fee” includes all fees and payments that are paid in two lump sums and the initial fee is not refundable. The initial franchise fee for the multi-unit offering, Brew House and House of Bread Junior are paid in one lump sum and are not refundable.

Franchise Fee	Amount	Due Date	Remarks
Initial Franchise Fee House of Bread Bakery Café (Senior)	\$35,000	50% or \$17,500 is due upon signing franchise agreement with the remaining 50% or \$17,500 due upon completion of three day training program	The three day training program happens within one month of signing of the franchise agreement
House of Bread Junior	\$10,000	Due upon signing of lease for House of Bread Junior	This is an optional opportunity after the main House of Bread is opened.
Brew House	\$5,000	Due upon completion of the three day training program	This is an optional sales opportunity within the main House of Bread concept.
Multi-Unit Fee for unit 2	\$17,500	Due upon completion of the three day training program	Unit one is the initial franchise fee of \$35,000 and unit two total fee is \$17,500
Multi-Unit Fee for unit 3-8	\$10,000 for each unit purchased.	Due upon completion of the the three day training program	Each unit from three to eight requires an additional \$10,000 franchise fee

ITEM 6
OTHER FEES

Name of Fee	Amount	Due Date	Remarks
Royalty	6% of gross revenue	Payable weekly for the first year and then on a monthly basis.	Gross revenues are all the sales of the business minus the sales tax collected and any refunds.
Individual Local Advertising	2% of gross revenue	Payable weekly for the first year and then on a monthly basis	Stops when cooperative advertising is available
Cooperative Advertising	2% of gross revenue	Established by franchisee organization	Formed when 3 or more franchisees in a local market
Professional fees to include, but not limited to, attorneys, accountants, architects, and space planners	Unknown	Upon franchisor and franchisee judgment	
Pre-Opening and First Year Marketing	\$15,000	Report mailed to franchisor with advertising costs.	The \$15,000 is the minimum amount estimated cost
Transfer	\$10,000	Prior to acceptance of transfer	Payable before you sell your franchise.
Audit	Cost of audit plus 10% interest on understatement	30 days after billing	Payable only if audit shows an understatement of at least 2% of gross revenue for any month

Site relocation fee	\$2,000	Prior to relocation	Payable before you Relocate
Fees for lost manuals	Recopy costs and labor	Upon delivery	
Interest/late charges	10%	30 days after billing	Maximum interest rate in California is 10% annually
Franchise renewal fees	\$5,000	30 days upon renewal signing	

All fees are imposed by and are payable to HOB. The fees and costs in this ITEM 6 are uniform as to all persons currently being offered a franchise. All fees are non-refundable.

The House of Bread Junior's gross sales and the Brew House sales option would be added to the House of Bread Senior's gross sales in determining the royalty and advertising fees.

ITEM 7

INITIAL INVESTMENT

YOUR ESTIMATED INITIAL INVESTMENT FOR A HOUSE OF BREAD SENIOR BAKERY, WHICH IS ALSO REFERRED TO AS HOUSE OF BREAD AND/OR HOUSE OF BREAD BAKERY CAFE

Column 1 Type of Expenditure	Column 2 Amount	Column 3 Method of Payment	Column 4 When Due	Column 5 To Whom Payment is Made
Initial Franchise Fee	\$ 35,000 (note 1)	Two \$17,500 payments	At franchise signing & after three day training	House of Bread Franchising, Inc..
Travel and living expense while training	\$1,000-\$5,000	As incurred	As incurred	Airlines, hotel, restaurants
Equipment	\$45,000-\$170,000 (note 2)	As determined by vendors	Prior to opening or as arranged	Vendor

			with vendors	
Build out And Lease	\$74,000-\$326,000 (note 3)	As determined by contractors and Lessors	Prior to opening or as arranged with contractors or lessors	Construction contractor
Pre-opening and first year advertising	\$15,000	As incurred	as necessary during first year	Media supplier
Marketing Materials	\$5,000	As incurred	Prior to opening	House of Bread or supplier
Miscellaneous opening expense	\$5,000-\$8,000 (note 4)	As incurred	Varied times	Supplier, vendor
Informational System	\$8,000 (note 5)	As determined by vendors	Prior to opening	Supplier, vendor
Legal, accounting, professional fees	\$1,000-3,000	As incurred	Varied terms	Supplier
Food Supplies	\$9,000	As incurred	Prior to opening or as arranged with suppliers	Supplier
TOTAL	\$198K-584K Note 6			

High Investment TOTAL \$584,000 to Low Investment TOTAL \$198,000.

Notes:

- (1) This fee is not refundable. House of Bread does not finance any fee.
- (2) This payment varies depending upon whether you lease the equipment or purchase new and/or used equipment.

(3) If you do not own adequate space, you must lease the space for your business. Generally this will include first and last month rent plus a security deposit. Typical locations are in shopping centers anchored by an upscale supermarket or high trafficked commercial streets. The usual space contains 1,800 to 2,000 square feet. Rent is estimated to be between \$45,000 to \$85,000 per year depending on factors such as size, conditions and location of the leased premises. We limit the amount of rent to \$90k for the first year of a lease. The House of Bread Juniors are 200-800 square feet and rent is estimated to be between \$20,000 to \$40,000 a year.

(4) Includes other deposits, utility costs, incorporation fee.

(5) This payment is for Toast point of sale information system to include touch screen, receipt printer, cash drawer credit card swipe, back office computer hardware, printer, battery back up, auto shut down, software for touch screen, credit card software, backroom inventory, QuickBooks Pro interface, set up and installation.

(6) This estimates your initial total start up expenses. These expenses do not include payroll costs or working capital.

YOUR ESTIMATED INITIAL INVESTMENT FOR A HOUSE OF BREAD JUNIOR

Expense	Amount	Method of Payment	When Due	To Whom Payment is Made
Initial Franchise Fee	\$ 10,000	Payment in full	When lease is found for the junior concept	House of Bread Franchising, Inc..
Travel and living expense while training	\$1,000-\$3,000	As incurred	As incurred	Airlines, hotel, restaurants
Equipment	\$2,000-\$6,000	As determined by vendors	Prior to opening or as arranged with vendors	Vendor
Build out And Lease	\$7,000-\$47,000	As determined	Prior to opening or	Construction contractor

		by contractors and Lessors	as arranged with contractors or lessors	
Pre-opening advertising	\$5,000	As incurred	as necessary during first three months	Media supplier
Marketing Materials	\$5,000	As incurred	Prior to opening	House of Bread or supplier
Miscellaneous opening expense	\$1,000- \$3,000 (note 1)	As incurred	Varied times	Supplier, vendor
Information System	\$8,000 (note 2)	As determined by vendors	Prior to opening	Supplier, vendor
Food Supplies	\$3,000 (note 3)	As incurred	Prior to opening or as arranged with suppliers	Supplier
TOTAL	\$42K- 90K note 4			

High Investment TOTAL \$90,000 to Low Investment TOTAL \$42,000.

Notes

(1) Includes deposits, and utility costs.

(2) This payment is for Toast, point of sale information system to include touch screen, receipt printer, credit card swipe, back office computer hardware, printer, battery back up, software for touch screen, credit card software, QuickBooks Pro interface, set up and installation.

(3) The Junior bakery only bakes the cinnamon rolls on the premises. Therefore, the majority of your supply costs are incurred at the Senior bakery.

(4) This estimates your initial total start up expenses. These expenses do not include payroll costs.

(5) There are no refunds under any circumstances.

(6) The Franchisor will not provide financing.

HOB relied on its experience to compile these estimates. You should review these figures carefully with a business advisor before making any decision to purchase the franchise.

YOUR ESTIMATED INITIAL INVESTMENT FOR THE BREW HOUSE

Expense	Amount	Method of Payment	When Due	To Whom Payment is Made
Initial Franchise Fee	\$ 5,000	Payment in full	When the 2 nd half of the initial franchise fee is due after the three day training	House of Bread Franchising, Inc..
Travel and living expense while training	\$1,000-\$3,000	As incurred	As incurred	Airlines, hotel, restaurants
Equipment	\$20,000-\$40,000	As determined by vendors	Prior to opening or as arranged with vendors	Vendor
Build out And Lease	\$10,000-\$30,000	As determined by contractors and Lessors	Prior to opening or as arranged with contractors or lessors	Construction contractor
Pre-opening advertising	\$5,000	As incurred	as necessary during first three months	Media supplier
Marketing Materials	\$5,000	As incurred	Prior to opening	House of Bread or supplier
Miscellaneous opening expense	\$1,000-\$3,000 (note 1)	As incurred	Varied times	Supplier, vendor

Information System	\$8,000 (note 2)	As determined by vendors	Prior to opening	Supplier, vendor
Beer Related Retail Supplies	\$3,000 (note 3)	As incurred	Prior to opening or as arranged with suppliers	Supplier
TOTAL	\$58K-102K note 4			

High Investment TOTAL \$102,000 to Low Investment TOTAL\$58,000.

Notes:

- (1) Includes deposits, and utility costs.
- (2) This payment is for the Toast, point of sale information system.
- (3) Includes growlers, beer glasses, bottle openers to sell.
- (4) This estimates your initial total start up expenses. These expenses do not include payroll costs.

HOB relied on its experience to compile these estimates. You should review these figures carefully with a business advisor before making any decision to purchase the franchise.

ITEM 8

RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

You are required to use a premium white whole wheat and red whole wheat flours that meet our protein specifications. You are also required to use either King Arthur High Protein White Flour, White Chief or a flour with the same specifications. Your outlet will open with the use of Boar's Head high quality all natural meats. The soup shall be scratch made with only natural ingredients as with all products offered to sell at the bakery or you may purchase Boar's Head Soups. The required coffee supplier is Equal Exchange or an equivalent fair trade organic coffee supplier.

HOB requires that you purchase an information system called Toast Systems, which has been designed specifically for HOB. However, you are not required to purchase Toast systems from any particular supplier. You are responsible for

maintaining computer compliance security requirements for your credit card processing.

Each Franchisee will have a web site created for them, Facebook page, and Instagram account. The franchisees are required to use icontact, the email newsletters that will be sent out by House of Bread Franchising with the option of also, sending out additional communications with the customers. Please refer to the SOPM marketing section for further guidelines.

HOB requires vendors due to quality and consistency concerns. The vendors approved and required by House of Bread is subject to change without notice. Please refer to the Standard Operating Procedural Manuals, for the approved vendor list. There are no kick backs, commissions of any kind paid to HOB. Failure to use the approved vendors will be a material breach of the contract.

You are required to use the ingredients listed in the House of Bread recipes. Any proposed substitutions must be approved. We encourage franchisees to experiment with the products in order to meet their market needs. However, we require all potential new products to be approved by corporate on a new product request form contained within the standard operating procedures manual. This form needs to be submitted prior to the sale of any new items. Failure of House of Bread Franchising to respond to the request form within 48 hours, then approval is implied. There is an opening bread schedule, which has ten required breads to be baked and room for two more at the franchisees discretion. There is also, a required lunch menu with eight signature sandwiches listed, with two soups and two salads. There are certain products that are difficult to make and thus, are only allowed after the first 90 days in business.

We do have a system for wholesale procurement, production and delivery. However, we do not allow any delivery of wholesale products during the first 90 days.

HOB does have formal procedures for determining standards and they must be strictly adhered to. These standards or specifications and the names and addresses of recommended vendors, who are not affiliated with HOB, from whom you may purchase will be provided to you in the Standard Operating Procedural Manual, which contains all of the operating procedures of House of Bread. HOB reserves

the right to require additional items to be purchased from designated suppliers in the future.

The Franchisor or its affiliates are not approved suppliers of any goods or service. Also, the Franchisor or its affiliates do not own an interest in any approved supplier. The criteria used to approve a supplier are available to the franchisees.

The Franchisor permits franchisees to contract with alternative suppliers who meet the franchisor's criteria. The Franchisee would submit a request to use an additional supplier in writing. Failure to submit a request in writing and use of a non-approved supplier is a material breach of the contract. Approvals would be revoked upon a clear showing that the standards used to approve the supplier were false or had materially changed.

HOB currently does negotiate purchase arrangements with suppliers or vendors to obtain price terms or any other benefits of a buying cooperative for its franchisees. HOB does not currently derive revenue but reserves the right to derive revenue from some of your purchases to cover administrative and implementation costs in the future. However, the franchisee will realize a reduced price from the cooperative purchasing.

HOB does not have any officers that owns any interest in any supplier. HOB or its affiliates will not derive any income based upon the required purchases or leases made in accordance with the franchisor's specifications. Thus, there is no revenue to disclose from any required purchases or leases of products and service.

HOB requires that you maintain a minimum two million liability insurance coverage and name House of Bread Franchising as a additional insured. However, House of Bread reserves the right to increase the minimum liability coverage if you elect to operate your bakery as a sole-proprietorship or partnership arrangement.

ITEM 9

FRANCHISEE'S OBLIGATIONS

THIS TABLE LISTS YOUR PRINCIPAL OBLIGATIONS UNDER THE FRANCHISE AND OTHER AGREEMENTS. IT WILL HELP YOU FIND MORE DETAILED INFORMATION ABOUT YOUR OBLIGATIONS IN THESE AGREEMENTS AND IN OTHER ITEMS OF THIS DISCLOSURE DOCUMENT.

Obligation	Section in Franchise	Item in Disclosure
-------------------	-----------------------------	---------------------------

	Agreement	Document
a. Site selection and acquisition/lease	Sections 8 & 9	Item 11
b. Pre-opening purchases/leases	Section 8	Item 11
c. Site development and other preopening requirements	Section 8	Item 11
d. Initial and ongoing training	Sections 8 & 12	Item 11
e. Opening	Section 8	None
f. Fees	Sections 3 & 4	Item 5 & 6
g. Compliance with standards and policies/operating manual	Section 11, 12e, 12.5 and 13.2	Item 11
h. Trademarks and proprietary information	Sections 1.3 & 15	Item 13 & 14
i. Restrictions on products/services offered	Section 1.2, 12c, 12d & 13	Item 8 & 16
j. Warranty and customer service requirements	By manufacturers	
k. Territorial development and sales quotas	Section 1 and Exhibit A of the Franchise Agreement	Item 11 & 12
l. Ongoing product/service purchases	Section 12	Item 16
m. Maintenance, appearance and remodeling requirements	Section 2D, 10, 12F, 12G, 12H & 12M	None
n. Insurance	Section 14	Item 8
o. Advertising	Section 5 & 12K	Item 11
p. Indemnification	Section 14.4	None
q. Owner's participation/management staffing	Sections 12A, 12B & 12.7	Item 15
r. Records/reports	Section 7	
s. Inspection/audits	Section 7 & 12.4	

t. Transfer	Section 19	Item 17
u. Renewal	Section 2	Item 17
v. Post-termination obligations	Section 9, 15 & 18	Item 17
w. Non-competition covenants	Section 17	Item 17
x. Dispute resolution	Section 22.8	Item 17
y. Personal Guarantee	Section 22.11	Item 22

ITEM 10

FINANCING

HOB does not offer direct or indirect financing. HOB does not guarantee your note, lease or obligation. However, HOB does offer assistance in obtaining SBA approved lenders, loan packaging, equipment sources and financing.

ITEM 11

FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS AND TRAINING

Except as listed below, HOB need not provide any assistance to you.

Before you begin your business, HOB will:

1. Designate your location and exclusive Territory (Franchise Agreement - Section 1 and subsections 8.3 A and 9.1.) The zip code area for a Senior is between 20,000 and 80,000 people and for a Junior area is determined by the mutual decision House of Bread Franchising and the franchisee. The territory is exclusive for the multi-unit offering as well as the junior and brew house.
2. Assist you in selecting a business site. We do not lease properties to the Franchisees. Your site must be at least 1,500 square feet in area and cost no more than \$90,000 to lease the first year. Site selection is your responsibility but HOB assists in the location selection by providing you with a comprehensive real estate guide, which considers population density, traffic patterns, parking, neighborhood demographics based upon zip code, physical characteristics of the building, lease terms and proximity of the proposed site to other bread bakery locations. HOB reserves the absolute right of approval. If the franchisor and franchisee cannot agree on a site, then the franchisee must submit another site until one is approved. However, HOB must approve or disapprove your site within 20 days after we receive notice of the location from you (Franchise Agreement - Subsection 9.3). Furthermore, HOB has the first right of refusal to purchase adjacent territories.

3. After signing your Franchise Agreement, HOB will assist you in negotiating the lease or purchase of a location for your business (Franchise Agreement - Subsection 9.7). HOB recommends that you seek your own attorney to review the proposed lease. Your location will be leased or purchased by you from independent third parties.
4. Upon signing the Franchise Agreement, HOB will schedule the first phase of your training period. During phase 1 of the training, HOB will provide the operation's manual, real estate guide, finance guide, written specifications and instructions for the required permits such as health, sanitation, building, utility and sign for your premises. You pay for construction or remodeling and all other cost of compliance and permits. (Franchise Agreement - Subsection 9.4).
5. After signing the Franchise Agreement, provide written specifications for all required and replacement equipment, signs, fixtures, inventory and supplies (Franchise Agreement - Subsection 13.2). HOB does not supply, deliver or install these items directly but will provide you with the names of recommended suppliers. See Item 8 of this Disclosure Document.
6. Phase 1 is the "Initial Indoctrination Training and Launching of the Site Selection process". The first three-day training program covers how to find a location, write a business plan and secure financing for the project. An itinerary of the training follows. Three days will be spent in your community.
7. The training needs to be completed after two years, three months from the time the franchise contract is signed.
8. There are no additional training and costs, other than franchise conventions travel and living expenses. The cost to attend the franchise convention will vary depending upon how far the franchisee travels, their preferred method of travel, and their lodging choices. The franchise conventions will not have a fee.
9. Most franchisees open their HOB within a year of signing the franchise contract. The primary factor in determining when the business opens is how quickly a lease can be obtained. Other factors that contribute to the timing of the opening are building permits, zoning and local ordinances, weather conditions, shortages, and delayed installation of equipment, fixtures and signs.

PHASE ONE: INTRODUCTION & TRAINING; 3 days in Franchisee's community:

First Day: 9:00 A.M. - 9:30 A.M.
"Welcome and Indoctrination"
9:30 A.M. - 12:00 P.M.

"Overview of the Real Estate Guide and a physical driving of the territory"

12:00 P. M. – 1:30 P. M.
 “Lunch on House of Bread”
 1:30 P.M. - 3:00 P.M.
 "Overview of the Opening Guide”
 3:00 P.M. – 4:00 P.M.
 “Overview of Finance”
 4:00 P.M – 5:00 P. M.
 “Review of House of Bread SLO profit and loss
 statement”
 “Explanation of cash flow projections for bank
 financing”

Second Day: 9:00 A.M. - 11:30 A.M.
 " A revisit to interested shopping areas”
 11.30 A.M. -12:30 P.M.
 “Lunch at a competitor”
 12:30 P. M -3:30 P.M.
 “Meetings with potential Landlords and Brokers,
 3:30 P. M. -4:30 P. M.
 “How to find a general contractor and to avoid costly
 delays”

Third Day:
 9:00 A. M. -10:00 A.M.
 “Marketing strategies and tactics”
 10:00 A.M. - 11:00 A.M.
 “How to hire a head baker”
 11:00 A.M.-12:00 P.M.
 "A review of the next steps and a question and answer
 session"

PHASE TWO: FIELD WORK IN FRANCHISEE'S COMMUNITY ; 2 - 6
 months:

- Preliminary Planning · Finance · Real Estate · Permits & Licenses
- Image Development · Facility Design · Pre-Build out Coordination
- Market Investigation · Opening A House of Bread Operation.

PHASE THREE: WORKING IN A COMPANY OWNED OPERATION ; 7+ days:

Franchisee and/or manager and/or key employees
Seven Days: "Working in the store" To include the following:
One Day: "Informational system, Inventory; Purveyors and Product Standards;
Financial Management, Personnel Management"
One Day: "Customer Service Standards, Store Maintenance, Operational Standards, Hiring and Training Employees"
One Day: "Marketing, Public Relations, Merchandising, Selling"
Five Days: "Baking Procedures"

PHASE FOUR: COMPLETION OF THE FACILITY BUILD OUT ; 1-3 months:

Completion of Facility Construction · Installation of Equipment
Test Marketing · Pre-Opening Procedures

PHASE FIVE: FRANCHISEE TRAINING AND HEAD BAKER; 7 days:

Timing is within one month of opening. Franchisee brings their head baker to the training session to train on baking for 5 days and 1 day of opening retail. Day one is a refresher course in baking for the franchisee. Day two, three, four franchisee will train with Marc Chaisson on operational ratios and how to properly manager the bakery. Day five, six, and seven the franchisee will perform retail lunch and opening/closing duties. On day one, Franchisee will submit their marketing plan for approval and on day seven, a redraft will be submitted.

PHASE SIX: SUPPORT IN FRANCHISEE'S OPERATION - 7 days:

Prior to opening, Marc Chaisson will set up the information system and program the software.

A Bakery trainer will train production staff and help the Franchisee train their lunch and retail.

The production training starts three days in advance of opening.

PHASE SEVEN: GRAND OPENING - 3 days after 1-3 months of planning:

After the first month of business and prior to the end of the third month of business,

the Franchisor will assist the Franchisee in Grand Opening programs and

procedures.

Programs must be implemented in conjunction with Franchisee's
Neighborhood
Marketing Program.

HOB does not charge for this training or service, but you must pay the travel and living expenses for you and your employee(s). All training, except the first training session and the opening week training is at House of Bread San Luis Obispo, California headquarters. Additional training and refresher courses are required at the franchise conventions. No other training and refresher courses are required outside of our franchise conventions.

The majority of training is conducted by Sheila McCann, who has over twenty years of experience in running a House of Bread Bakery Café. Ms. McCann is assisted by Marc Chaisson, who also has over twenty years of experience with the financial operations of House of Bread Bakery Café. Further, Miku Sekiyu has multiple years of experience as the baker, retail clerk and then manager of House of Bread Bakery Café.

TRAINING PROGRAM

Subject	Classroom Hours	On the job training Hours	Trainer Location is all in San Luis Obispo	
HOB Welcome and Indoctrination	1 hour		Sheila McCann	
Overview of Historical financial reports	1 hour		Sheila McCann	
Explanation of cash flow projections for bank financing	2 hours		Sheila McCann	
How to open a House of Bread operation, with a review of the opening guide of the sopm and critical time path chart	1 hour		Sheila McCann	
Review real estate guide	1 hour	12 hours	Sheila McCann	

Review space plans	1 hour	2 hours	Sheila McCann	
Business plan review	3 hours		Sheila McCann	
Marketing plan discussion	9 hours	24 hours	Sheila McCann	
Bread mixing and scheduling	4 hours	64 hours	Miku Sekiya	
Employee job descriptions and hiring	2 hours		Sheila McCann	
Customer service, and product quality	8 hours	24 hours	Miku Sekiya	
Entering in the daily, weekly and monthly financial accounting information	6 hours	64 hours	Marc Chaisson	
Overview of the information system as a management tool, tracking device and generating reports	16 hours	24 hours	Sheila McCann, Marc Chaisson, Miku Sekiya	
Overview of the equipment list and maintenance	1 hour	4 hours	Miku Sekiya	

During the operation of the franchised business, HOB will:

1. Develop new products, services and methods and provide you with information about developments. (Franchise Agreement - Subsection 8.3G).
2. Loan you one copy of HOB's Confidential Operating Manual containing mandatory and suggested specifications, standards, operating procedures and rules prescribed from time to time by HOB as further stipulated in section 11 of the franchise agreement. The Manual is confidential and remains our property. HOB will modify the Manual from time to time, but the modification will not alter your status and rights under the Franchise Agreement. (Franchise Agreement - Subsection 11.1)

You have the right to view HOB's operating manual in our headquarters' office before you purchase the franchise.

HOB will contact you on a regular basis either by telephone, fax or electronic mail to discuss any operational situations (see sub-section 8.3 D of the Franchise Agreement).

HOB will hold mandatory meetings to discuss sales techniques, personnel training, bookkeeping, accounting, inventory control, performance standards, advertising programs and merchandising procedures. There is no conference fee, but you must pay all your travel and living expenses.

HOB provides examples of advertising materials to you. Materials provided to all franchisees include, print advertising materials, coupon examples, posters, banners and miscellaneous point-of-sale items. If you want additional copies you must pay duplication costs. (See section 5.2 of the Franchise Agreement.)

You may develop advertising materials, at your own cost and send an example to HOB prior to usage. HOB has the right of disapproval of the proposed advertising materials within 48 hours.

At the present time, advertising placement is done on a local basis.

At a point in time when there are 3 or more HOB franchises in a "Local Media Area," a Local Advertising Cooperative will be established. HOB reserves the right to form, change, dissolve or merge the Local Advertising Cooperative. A Local Media Area is an area covered by primary advertising media (television, radio and print) as designated by HOB. You must participate in a Local Advertising Cooperative if it is established in the Local Media Area where your business is located. The amount of your contribution to the local advertising cooperative is described in Item 6 under the heading "Advertising Fees and Expenses."

Each Local Advertising Cooperative must adopt written governing documents. A copy of the governing documents of the cooperative (if one has been established) for your Local Media Area is available upon request. Each cooperative may determine its own voting procedures; however, each Company-owned HOB Outlet will be entitled to one vote in any Local Advertising Cooperative. Each company - owned HOB Outlet will contribute to the Local Advertising Cooperative in the same manner as you contribute. The members and their elected officers are responsible for administration of the cooperative. Advertising cooperatives must prepare quarterly and annual financial statements. The annual financial statement

must be compiled and be made available (see Section 5.2 of the Franchise Agreement) to all franchisees in that advertising cooperative.

As stated earlier, you select your business site within your exclusive area subject to HOB's approval. HOB assists in site selection by telling you the population density, traffic patterns and proximity of the proposed site to other HOB locations (see section 9.1 of the Franchise Agreement).

HOB gives the franchisees up to two years to open their bakery. Franchisees typically open their businesses within twelve months after they sign a franchise agreement. The factors that affect this time are the ability to obtain a lease, financing or building permits, zoning and local ordinances, weather conditions, shortages, and delayed installation of equipment, fixtures and signs.

Computer Systems

The franchisor requires the franchisees to buy the Toast Point of Sale Information System. The Toast System, includes the front cash register, receipt printer, which is part of the front of the house computer. The Toast system tracks sales, labor and assists in determining cost of goods. The cost of the system is \$8,000 that is paid by the franchisee. See Item 7 and 8 of the Disclosure Document. The franchisor provides ongoing support and maintenance on the Toast System at no charge during the life of the franchise contact.

The franchisee is required to make upgrades every five years with Toast that will cost \$1,000, and be paid to Toast. The franchisor has independent access to the information stored on the system, regarding sales, labor and cost of goods and there are no contractual limits on the franchisor's right to access the system.

ITEM 12 **TERRITORY**

You will receive an exclusive Territory with a population range of 20,000-80,000 people. There is no right of first refusal to any adjacent territories. However, there is an absolute right to open units within the entire exclusive territory. Each territory is exclusive for the multi-unit offering, junior and brew house as well. The exclusive Territory will be delineated by zip codes. You will operate from your one location approved by HOB and must receive HOB's permission before

relocating. You alone will have the exclusive right to open HOBs within your territory. HOB will not operate Outlets or grant franchises for a similar or competitive business within your exclusive Territory. Except when advertising cooperatively with appropriate franchisees, neither HOB nor you can advertise or solicit orders within another franchisee's territory.

House of Bread Franchising will have the right to use other channels of distribution via the internet, catalogue, direct mail, inside the franchisee's protected territory, using the House of Bread Trademark. The Franchisor does not have the right to use other sales channels to make sales within the franchisee's exclusive territory with any other trademark.

Any sales generated inside the franchisee's territory will be first diverted to the franchisee to fulfill. House of Bread Franchising will only be able to make any sales after the franchisee who owns the protected territory declines the opportunity. There are no commissions that will be paid for any sales made within the franchisees protected territory.

HOB will not unreasonably deny a request for additional franchises or House of Bread Juniors within your area. The location of the House of Bread Junior will be determined by you and HOB.

There is no minimum sales quota. You maintain rights to your area even though the population increases.

HOB requires that the franchisee conduct an extensive pre-marketing program within their exclusive territory prior to opening their bakery. The marketing plan is due at the last phase of the training in San Luis Obispo, which includes the bread schedule, menus, pricing, press release, advertisements, direct mail, and the grand opening.

ITEM 13

TRADEMARKS

HOB grants you the right to operate a business under the name House of Bread, trademark. By trademark HOB means trade names, trademarks, service marks and logos used to identify your business. HOB registered the trademark on the United States Patent and Trademark Office principal register.

The following trade names, trademarks, service marks, logotypes and other commercial symbols are registered with the United States Patent and Trademark Office:

Mark	Registration No.	Registration Date	Register
House of Bread and design	78930197	May 15, 1998	Principal

The United States Department of Commerce has issued House of Bread Inc., a serial no. for the trademark application 75/330,613 for the mark: House of Bread and design. The registration date is May 15, 1998 and the publication date is June 16, 1998.

House of Bread Franchising has filed all the required affidavits.

You must follow our rules when you use these marks. You can not use a name or mark as part of a corporate name or with modifying words, designs or symbols except for those which HOB licenses to you. You may not use HOB's registered name in connection with the sale of an unauthorized product of service or in a manner not authorized in writing by HOB.

No currently effective litigation affects HOB's use or ownership rights in a trademark. No currently effective agreements limit HOB's right to use or license the use of HOB's trademarks.

You must notify HOB immediately when you learn about an infringement of or challenge to your use of our trademark. HOB will take the action necessary to protect the unauthorized use of HOB's trademark.

You must modify or discontinue the use of a trademark if HOB modifies or discontinues it. If this happens, HOB will reimburse you for your tangible cost of compliance (for example, changing signs). You must not directly or indirectly contest our right to our trademarks, trade secrets or business techniques that are part of our business.

ITEM 14

PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

No patents or copyrights are material to the franchise.

You can use the proprietary information in HOB's Manual. The Manual is described in Item 11. Although HOB has not filed an application for a copyright registration for the Manual, it claims a copyright and the information is proprietary. Item 11 describes limitations on the use of the Manual by you and your employees. You must also promptly tell us when you learn about unauthorized use of this proprietary information. HOB is not obligated to take any action but will respond to this information as we think appropriate.

ITEM 15

OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS

If you, the franchisee, are an individual, you must supervise the franchised business on its premises. If you, the franchisee, is comprised of more than one individual, then the supervision must be done by someone who has a financial interest in the bakery and completed the seven day training program at San Luis Obispo Franchise headquarters. This financial interest may be in the form of an option holder, profit sharer and/or actual possessor of an ownership percentage.

For a franchisee who operates more than one bakery location there is no obligation to participate in the actual supervision of both bakeries.

Each individual who owns a 10% or greater interest in the franchisee entity must sign a guarantee agreement (Exhibit A to the Franchise Agreement) assuming and agreeing to discharge all obligations of the "Franchisee" under the Franchise Agreement. Also, this person must complete the Franchisor's required training.

ITEM 16

RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

HOB requires you to offer and sell only those goods and services that HOB has approved (see Item 9). Prior to opening the bakery, we do have an opening check list which must be completed.

You must offer all goods and services that HOB designates as required for all franchisees. Furthermore, you must display in a highly visible location the customer survey cards, franchise available cards and the most recent newsletter.

Supplies and equipment used in your House of Bread business must be approved by HOB (see Item 8).

ITEM 17

RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

THE FRANCHISE RELATIONSHIP

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

Provision	Section in Franchise Agreement	Summary
a. Term of Franchise	Section 2	10 years
b. Renewal or extension of term	Section 2	If you are in good standing you can add additional term(s) of 10 years each. Renewals may be asked to sign a contract with materially different terms and conditions in their original contract.
c. Requirements for franchisee to renew or extend	Section 2	Sign new agreement, be current in payments, sign release and pay \$5,000
d. Termination by franchisee	Section 18.1	Default by <i>HOB</i>
e. Termination by Franchisor with cause	Section 18	Can terminate upon violation of the franchise agreement
f. Termination by Franchisor without cause	Section 18.2	HOB can terminate you without cause if the franchisee fee is returned and the bakery is de-identified as a House of Bread bakery.
g. "Cause "defined –	Section 18	You have 30 days to cure:

curable defaults		non-payment of fees, non-submission of reports and any other default not listed in sec. 21A
h. “Cause” defined – non-curable defaults	Section 18	Non-curable defaults: repeated defaults even if cured, abandonment, trademark misuses and unapproved transfers
i. Franchisee’s obligations on termination/non-renewal	Sections 9.7, 9.8, 15.7, 18.4-18.7	Obligations include complete de-identification and payment of amounts due.
j. Assignment of contract by <i>HOB</i>	Section 19.1-19.7	No restriction on <i>HOB</i> right to assign
k. “Transfer” by franchisee – defined	Section 19	Includes transfer of contract or assets or ownership change
l. Franchisor approval of transfer by franchisee	Section 19	<i>HOB</i> has the right to approve all transfers but will not unreasonably withhold approval
m. Conditions for franchisor approval of transfer	Section 19.2	New franchisee qualifies, transfer fee paid, purchase agreement approved, training arranged, release signed by you and current agreement signed by new franchisee
n. Franchisor’s right of first refusal to acquire franchisee’s business.	Section 20	<i>HOB</i> can match any offer for the franchisee’s business.
o. Franchisor’s option to purchase franchisee’s business	Section 20	<i>HOB</i> may, but is not required to, purchase your inventory and equipment at fair market value if

		franchise is terminated for any reason.
p. Death or disability of franchisee	Section 19.4	Franchise must be assigned by estate to approved buyer in 6 months
q. Non-competition covenants during the term of franchise	Section 17	No involvement in competing business anywhere in US
r. Non-competition covenants after the franchise is terminated or expires	Section 17, 18	No competing business for 2 years within 50 miles of another HOB franchise (including after assignment)
s. Modification of agreement	Section 22.5	No modifications generally but operating manual subject to change
t. Integration/merger clause	Section 22.5	Only the terms of the franchise agreement and othe related written agreements are binding (subject to applicable state law). Any representations or promises outside of the disclosure document and franchise agreement may not be enforceable.
u. Dispute resolution by mediation or arbitration	Section 22.8	Exempt for certain claims, all disputes must be mediated first and then arbitrated
v. Choice of forum	Section 22.7	Litigation must be in California
w. Choice of law	Section 22.7	California law applies

ITEM 18

PUBLIC FIGURES

HOB 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 have included two historical financial reports. The first report titled "The House of Bread Totals and Averages – 2023" is the historical performance for all the bakeries that were open the entire year of 2023. The bases of the information comes from the Point of Sale Informational System. The reports include all the sales information, cost of goods sold and labor costs. All the outlets that were open the entire year are included, which includes five franchised units and one company owned store, that is titled Marsh Street. The company owned unit pays all the same fee percentages as the franchised units.

The outlets all have different markets, different type of locations, size of facilities, different owners and length of time open for business that have resulted in a range of historical performance reports.

The second report that is titled "House of Bread Marsh St-San Luis Obispo, CA Profit & Loss 2023", which is the historical financial performance for 2023 of that company owned store. The bases for the information was obtained from the Quick Books accounting program for that unit. The Marsh St. unit has been open the longest. This outlet resulted in the net profit indicated for Marsh St. House of Bread

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

Written substantiation of the financial representations will be made available to the prospective franchisee upon reasonable request.

House of Bread

Totals and Averages - YTD-2023

Sales:	Marsh St - SLO	Bakery #2	Bakery #3	Bakery #4	Bakery #5	Bakery #6	Totals	Averages
Bread	\$ 187,332.56	\$ 302,537.67	\$ 234,854.38	\$ 243,812.70	\$ 117,087.74	\$ 148,361.99	\$ 1,233,987.04	\$ 205,664.51
Other Baked Goods	\$ 212,555.19	\$ 471,409.21	\$ 278,406.93	\$ 73,970.38	\$ 197,908.42	\$ 134,348.03	\$ 1,368,598.16	\$ 228,099.69
Sandwiches	\$ 127,390.90	\$ 247,920.81	\$ 660,117.27	\$ 391,580.16	\$ 170,835.34	\$ 202,266.50	\$ 1,800,110.98	\$ 300,018.50
Beverage	\$ 15,482.35	\$ 27,423.66	\$ 98,159.74	\$ 31,176.04	\$ 24,263.97	\$ 27,879.38	\$ 224,385.14	\$ 37,397.52
Retail	\$ 8,096.54	\$ 14,180.01	\$ 23,357.07	\$ 8,986.67	\$ 24,268.01	\$ 11,199.99	\$ 90,088.29	\$ 15,014.71
Totals	\$ 550,857.53	\$ 1,063,471.36	\$ 1,294,895.39	\$ 749,525.95	\$ 534,363.48	\$ 524,055.89	\$ 4,717,169.60	\$ 786,194.93
Revenue Center								
In House	\$ 463,377.81	\$ 803,040.44	\$ 1,078,450.97	\$ 645,136.42	\$ 526,674.17	\$ 521,865.76	\$ 4,038,545.57	\$ 673,090.93
Farmer's Markets	\$ -	\$ -	\$ -	\$ 17,161.53	\$ -	\$ 3,510.65	\$ 20,672.18	\$ 10,336.09
Net Wholesales	\$ 27,448.36	\$ 260,430.92	\$ 106,211.92	\$ 86,063.00	\$ 279.20	\$ 939.87	\$ 481,373.27	\$ 80,228.88
Catering	\$ 60,020.41	\$ -	\$ 33,496.57	\$ 1,165.00	\$ 7,410.11	\$ 778.75	\$ 102,870.84	\$ 20,574.17
Baking Classes	\$ -	\$ -	\$ 960.00	\$ -	\$ 1,762.00	\$ -	\$ 2,722.00	\$ 1,361.00
Cost of Sales								
Bakery	24.80%	27.92%	33.13%	30.97%	20.31%	0.00%		30.39%
Sandwiches	22.30%	20.80%	28.42%	25.01%	9.73%	0.00%		23.38%
Beverage	64.59%	40.43%	47.33%	32.99%	27.41%	0.00%		43.77%
Retail	53.93%	53.45%	-11.46%	0.00%	94.53%	0.00%		24.80%
Total Cost of Sales	25.77%	26.86%	31.60%	27.60%	20.79%	0.00%		26.52%
Ttl Cost of Labor	31.71%	27.33%	28.38%	20.24%	29.10%	35.69%		28.53%
Prime Costs	57.47%	54.18%	59.98%	47.84%	49.89%			55.05%
Sales per Sq Ft (Annualized)	\$ 500.78	\$ 303.85	\$ 470.87	\$ 249.84	\$ 238.56	\$ 279.50	\$ 2,303.46	\$ 329.07

House of Bread - Marsh St, SLO

Jan - Dec 23 % of Income

Ordinary Income/Expense

Income

Bakery Sales

Breads

186,679.90 33.53%

Other Baked Goods

211,895.90 38.06%

Total Bakery Sales

398,575.80 71.59%

Beverage Sales

15,408.85 2.77%

Retail Sales

8,433.49 1.51%

Sandwich Sales

134,352.78 24.13%

Total Income

556,770.92 100.00%

Cost of Goods Sold		
COGS Bakery		
Dairy	21,435.02	5.38%
Flour	18,918.82	4.75%
Grocery	56,201.18	14.10%
Paper & Pkg	4,518.94	1.13%
COGS Bakery - Other	3,436.32	0.86%
Total COGS Bakery	104,510.28	26.22%
COGS Beverage	8,805.89	57.15%
COGS Retail	1,847.18	21.90%
COGS Sandwiches	27,116.00	20.18%
Total COGS	142,279.35	25.55%
Gross Profit	414,491.57	74.45%
Expense		
Advertising & Marketing		
Marketing	808.53	0.15%
Advertising	654.00	0.12%
Total Advertising & Marketing	1,462.53	0.26%
Auto Expense		
Auto Insurance	0.00	0.00%
Total Auto Expense	0.00	0.00%
Bad Debts	105.31	0.02%
Bank Service Charges	250.00	0.04%
Cost of Labor		
Misc Labor	332.00	0.06%
Payroll Taxes	16,351.79	2.94%
Employee Benefits	1,610.00	0.29%
Payroll Srv Fees	2,007.00	0.36%
Employee Salaries	0.00	0.00%
Employee Wages	137,494.94	24.70%
Work Comp Ins	2,708.61	0.49%
Total Cost of Labor	160,504.34	28.83%
Credit Card Merchant Fees	11,634.70	2.09%
Delivery	6,083.90	1.09%
Dues and Subscriptions	0.57	0.00%
Franchise Royalty	27,449.67	4.93%
Insurance		
Liability Insurance	2,036.62	0.37%
Total Insurance	2,036.62	0.37%

Laundry	3,249.55	0.58%
Licenses and Permits	700.05	0.13%
Maintenance & Repairs	2,254.50	0.40%
Overage/Shortage	3,509.89	0.63%
Point of Sale	4,713.19	0.85%
Postage and Delivery	78.00	0.01%
Printing and Reproduction	685.50	0.12%
Professional Fees		
Accounting	1,575.00	0.28%
Professional Fees - Other	115.00	0.02%
Total Professional Fees	1,690.00	0.30%
Rent/CAM	60,000.00	10.78%
Supplies - Office	1,362.74	0.24%
Supplies - Operating	1,316.69	0.24%
Taxes		
Property	1,445.61	0.26%
Total Taxes	1,445.61	0.26%
Telephone	248.05	0.04%
Utilities		
Garbage	2,219.67	0.40%
Gas and Electric	11,516.35	2.07%
Water	1,554.34	0.28%
Utilities - Other	568.64	0.10%
Total Utilities	15,859.00	2.85%
Total Expense	306,640.41	55.07%
Net Ordinary Income	107,851.16	19.37%
Other Income/Expense		
Other Income		
credit memo		0.00%
Other Income		0.00%
Delivery Charges	455.00	0.08%
Total Other Income	455.00	0.08%
Total Other Income	455.00	0.08%
Other Expense		
Officer Salary	0.00	0.00%
Other Expenses	-12.60	0.00%
Total Other Expense	-12.60	0.00%
Net Other Income	467.60	0.08%
Net Income	108,318.76	19.45%

ITEM 20
OUTLETS AND FRANCHISEE INFORMATION
TABLE NO.1
Systemwide Outlet Summary for years 2021 to 2023

Outlet Type	Year	Outlets at the start of the year	Outlets at the end of the year	Net change
Franchised	2021	4	4	0
	2022	4	6	2
	2023	6	5	1
Company Owned	2021	1	1	0
	2022	1	1	0
	2023	1	2	1
Total Outlets	2021	5	5	0
	2022	5	7	2
	2023	7	7	0

Outlets and Franchisee Information
Table No. 2

Transfers of Outlets from Franchisees to New Owners (other than the Franchisor)
for years 2021 to 2023

State	Year	Number of Transfers
Alaska	2021	0
	2022	1
	2023	0
Total	2021	0
	2022	1
	2023	0

Outlets and Franchisee information
Table No. 3
Status of Franchised Outlets for Years 2021-2023

State	State	Year	Outlets at Start of Year	Outlets Opened	Transferred Controlling Ownership	Terminations	Non-Renew	Reacquired by HOBf	Ceased Operation Other	Outlets End of Year
AK	AK	2021	2	0	0	0	0	0	0	2
	AK	2022	2	0	1	0	0	0	0	2
	AK	2022	2	0	0	0	0	0	0	2
CA	CA	2021	1	0	0	0	0	0	0	1
	CA	2022	1	0	0	0	0	0	0	1
	CA	2023	1	0	0	0	0	0	1	0
NV	NV	2021	1	0	0	0	0	0	0	1
	NV	2022	1	0	0	0	0	0	0	1
	NV	2023	1	0	0	0	0	0	0	1
TN	TN	2021	0	0	0	0	0	0	0	0
	TN	2022	0	1	0	0	0	0	0	1
	TN	2023	1	0	0	0	0	0	0	1
TX	TX	2021	0	0	0	0	0	0	0	0
	TX	2022	0	1	0	0	0	0	0	1
	TX	2023	1	0	0	0	0	0	0	1
Total	Total	2021	4	0	0	0	0	0	0	4
	Total	2022	4	2	0	0	0	0	0	6
	Total	2023	6	0	0	0	0	0	1	5

Outlets and Franchisee information
Table No. 4
STATUS OF COMPANY-OWNED OUTLETS
For years 2021-2023

STATE	YEAR	OUTLETS AT START OF YEAR	OUTLETS OPENED	OUTLETS REAQUIRED FROM FRANCHISEE	OUTLETS CLOSED	OUTLETS SOLD TO FRANCHISEE	OUTLETS AT END OF YEAR
CA	2021	1	0	0	0	0	1
	2022	1	0	0	0	0	1
	2023	1	1	0	0	0	2

Totals	2021	1	0	0	0	0	1
	2022	1	0	0	0	0	1
	2023	1	1	0	0	0	2

Outlets and Franchisee Informaiton
Table No. 5
PROJECTED OPENINGS AS OF DECEMBER 31, 2023

State	Franchise agreement signed but store not open	Projected franchised new stores in the next fiscal year	Projected company owned openings in next fiscal year
California	0	0	0
Puerto Rico	1	1	0
Texas	4	1	0
TOTALS	5	2	0

Franchisees in operation.

1. Alaska, Anchorage: 88130 Old Seward Hwy Suite #108 Anchorage, AK 99518: Travis and Jessica Carlson 907-301-5596
2. Alaska, Anchorage: 4900 Old Seward Hwy, Anchorage Ak 99503: Travis and Jessica Carlson 907-301-5596. Junior outlet.
3. Alaska, Wasilla: 2005 Parks Hwy, Wasilla, AK: JoAnne and Don Nelson 850-529-6270
4. Nevada, Reno: 1185 California Ave. Reno, Nevada: Tim and Nathalie Atwell 775-322-0773
5. Texas, McKinney: Dustin Marks and Mechelle Coate 7551 Eldorado Parway, 806-928-2732.
6. Tennessee, Nolensville: Tim and Emily Witcher 8146 Nolensville Road: 629-241-0567.

There have been no FRANCHISEES who have failed to communicate with the franchisor within 10 weeks of the application date.

There are no signed confidentiality clauses with the Franchisees.

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

ITEM 21
FINANCIAL STATEMENTS

House of Bread franchising's financial statements from the year 2022, 2023 are attached to this Federal Disclosure Document as Exhibit A.

ITEM 22
CONTRACTS

A copy of the Franchise Agreement (with Guaranty) is attached as Exhibit B. HOB does have a Multi-Unit Franchise Agreement in Exhibit C. Form Nondisclosure and Confidentiality Agreement is exhibit D.

ITEM 23
RECEIPT

Attached to this Disclosure Document are two Receipt Pages. They are duplicates that evidence your receipt of this Disclosure Document-the first is to be retained by you, and the other by us.

HOUSE OF BREAD FRANCHISING, INC.

FINANCIAL STATEMENTS

WITH INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2023, 2022 AND 2021



HOUSE OF BREAD FRANCHISING, INC.

Table of Contents

	<u>Page</u>
Independent auditor's report	3
Balance sheets	5
Statements of operations	6
Statements of changes in stockholders' equity	7
Statements of cash flows	8
Notes to the financial statements	9



Independent Auditor's Report

To the Stockholders
House of Bread Franchising, Inc.
San Luis Obispo, California

Opinion

We have audited the balance sheet of House of Bread Franchising, Inc. as of December 31, 2023, 2022 and 2021, and the related statements of income, retained earnings, and cash flows for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of House of Bread Franchising, Inc. as of December 31, 2023, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of 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 the Company'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 the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Kezar & Dunbar

St. George, Utah
April 19, 2024

HOUSE OF BREAD FRANCHISING, INC.

Balance Sheets

As of December 31, 2023, 2022 and 2021

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 104,715	\$ 113,182	\$ 63,507
Accounts receivable	54,400	36,942	17,891
Total current assets	<u>159,115</u>	<u>150,124</u>	<u>81,398</u>
 Total assets	 <u><u>159,115</u></u>	 <u><u>150,124</u></u>	 <u><u>81,398</u></u>
 Liabilities and Member's Interests			
Current liabilities:			
Accounts payable	13,431	9,786	3,953
Deferred revenue, current	35,000	70,000	165,000
Total liabilities	<u>48,431</u>	<u>79,786</u>	<u>168,953</u>
 Stockholders' equity	 110,684	 70,338	 (87,555)
Total liabilities and stockholders' equity	<u><u>\$ 159,115</u></u>	<u><u>\$ 150,124</u></u>	<u><u>\$ 81,398</u></u>

The accompanying notes are an integral part of the financial statements.

HOUSE OF BREAD FRANCHISING, INC.

Statements of Operations

For the years ended December 31, 2023, 2022 and 2021

	2023	2022	2021
Operating revenue			
Royalties	\$ 251,727	\$ 243,645	\$ 185,201
Initial franchise fees	35,000	105,000	-
Other revenue	8,011	6,412	2,185
Total operating revenue	<u>294,738</u>	<u>355,057</u>	<u>187,386</u>
Costs of goods sold	<u>9,688</u>	<u>-</u>	<u>-</u>
Gross profit (loss)	285,050	355,057	187,386
Operating expenses			
General and administrative	88,752	76,178	49,470
Professional fees	112,289	103,209	127,513
Advertising and marketing	15,511	24,133	18,650
Total operating expenses	<u>216,552</u>	<u>203,520</u>	<u>195,633</u>
Net income (loss)	<u>\$ 68,498</u>	<u>\$ 151,537</u>	<u>\$ (8,247)</u>

The accompanying notes are an integral part of the financial statements.

HOUSE OF BREAD FRANCHISING, INC.

Statements of Changes in Stockholders' Equity For the years ended December 31, 2023, 2022 and 2021

Balance at December 31, 2020	\$ (17,307)
Distributions to stockholders	(62,000)
Net loss	(8,248)
Balance at December 31, 2021	<u>(87,555)</u>
Members contributions	25,000
Distributions to stockholders	(18,644)
Net income	151,537
Balance at December 31, 2022	<u>70,338</u>
Members contributions	-
Distributions to stockholders	(28,152)
Net income	68,498
Balance at December 31, 2023	<u>110,684</u>

The accompanying notes are an integral part of the financial statements.

HOUSE OF BREAD FRANCHISING, INC.

Statements of Cash Flows

For the years ended December 31, 2023, 2022 and 2021

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Net income (loss)	\$ 68,498	\$ 151,537	\$ (8,248)
Adjustments to reconcile net loss to net cash used in operating activities:			
Changes in operating assets and liabilities:			
Accounts receivable	(17,458)	(19,051)	14,312
Accounts payable	3,645	5,833	383
Deferred revenue	(35,000)	(95,000)	73,604
Net cash provided (used) by operating activities	<u>19,685</u>	<u>43,319</u>	<u>80,051</u>
Members contributions	-	25,000	-
Distributions to stockholders	<u>(28,152)</u>	<u>(18,644)</u>	<u>(62,000)</u>
Net cash provided (used) by financing activities	<u>(28,152)</u>	<u>6,356</u>	<u>(62,000)</u>
Net change in cash and cash equivalents	(8,467)	49,675	18,051
Cash at the beginning of the period	113,182	63,507	45,456
Cash at the end of the period	<u>\$ 104,715</u>	<u>\$ 113,182</u>	<u>\$ 63,507</u>

The accompanying notes are an integral part of the financial statements.

HOUSE OF BREAD FRANCHISING, INC.

Notes to the Financial Statements December 31, 2023, 2022 and 2021

(1) Nature of Business and Summary of Significant Accounting Policies

(a) Nature of Business

House of Bread Franchising, Inc. (the “Company”) was incorporated on March 18, 1996 in the state of California. The Company is in the business of conducting franchise sales, operations, and management under the brand name House of Bread. The Company grants qualified franchisees the right to open and operate a store designed to provide fresh, organic, whole grain breads and deli sandwiches.

The company uses the accrual basis of accounting for financial statement purposes, and their accounting period is the 12-month period ending December 31 of each year.

(b) Accounting Standards Codification

The Financial Accounting Standards Board (“FASB”) has issued the FASB Accounting Standards Codification (“ASC”) that became the single official source of authoritative U.S. generally accepted accounting principles (“GAAP”), other than guidance issued by the Securities and Exchange Commission (SEC), superseding existing FASB, American Institute of Certified Public Accountants, emerging Issues Task Force and related literature. All other literature is not considered authoritative. The ASC does not change GAAP; it introduces a new structure that is organized in an accessible online research system.

(c) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

(d) Cash and Cash Equivalents

Cash equivalents include all highly liquid investments with maturities of three months or less at the date of purchase.

As of December 31, 2023, 2022 and 2021, the Company had cash and cash equivalents of \$104,715, \$113,182 and \$63,507, respectively.

(e) Accounts receivable

Accounts receivable primarily consist of amounts from franchisees for various fees, including initial franchise fees and ongoing royalties. Based on an assessment of the franchisees’ credit history and current relationship with the Company, management has concluded that realized losses on balances outstanding at year-end will be immaterial. Accordingly, no reserve for uncollectible amounts has been recorded as of December 31, 2023, 2022 and 2021.

As of December 31, 2023, 2022 and 2021, the Company had accounts receivable of \$54,400, \$36,942 and \$17,891, respectively.

(f) Revenue Recognition

The Company’s revenues consist of fees from franchised locations operated by conventional franchisees. Revenues from franchisees consist of initial franchise fees and royalties based on a percentage of gross revenues.

On January 1, 2020, the Company adopted ASC 606, *Revenue from Contracts with Customers* using the modified retrospective method. This method allows the standard to be applied retrospectively through a cumulative catch-up adjustment recognized upon adoption. As such, comparative information in the Company’s financial statements has

HOUSE OF BREAD FRANCHISING, INC.

Notes to the Financial Statements

December 31, 2023, 2022 and 2021

not been restated and continues to be reported under the accounting standards in effect for those periods. Management determined that the effect of adopting ASC 606 did not have a material effect on the Company's financial statements. ASC 606 provides that revenues are to be recognized when control of promised goods or services is transferred to a customer in an amount that reflects the considerations expected to be received for those goods or services. In implementing ASC 606, the Company evaluated all revenue sources using the five-step approach: identify the contract, identify the performance obligations, determine the transaction price, allocate the transaction price, and recognize revenue.

For each franchised location, the Company enters into a formal franchise agreement that clearly outlines the transaction price, which includes an initial franchise fee, ongoing royalties, and the Company's performance obligations.

Upon evaluation of the five-step process, the Company has determined that this standard does not impact the recognition of royalties, which are based on a percentage of gross revenue and recognized at the time the underlying sales occur. ASC 606 does have an effect on the process management uses to evaluate the recognition of the initial franchise fees.

In allocating the transaction price and recognizing the revenue associated with initial franchise fees, the Company has elected to adopt the practical expedient for private company franchisors outlined in ASC 952-606, *Franchisors—Revenue from Contracts with Customers*. The practical expedient allows franchisors to account for pre-opening services as a single distinct performance obligation. These pre-opening services include the following:

- Assistance in the selection of a site
- Assistance in obtaining facilities and preparing the facilities for their intended use, including related financing, architectural, and engineering services, and lease negotiation
- Training of the franchisee's personnel or the franchisee
- Preparation and distribution of manuals and similar material concerning operations, administration, and record keeping
- Bookkeeping, information technology, and advisory services, including setting up the franchisee's records and advising the franchisee about income, real estate, and other taxes about local regulations affecting the franchisee's business
- Inspection, testing, and other quality control programs

The Company has determined that the fair value of pre-opening services exceeds the initial fees received; as such, the initial franchise fees are allocated to the pre-opening services, which are recognized as revenue upon commencement of operations.

(g) Income Taxes

The entity is structured as a Corporation under the laws of the state of California and has elected to be taxed as an "S" Corporation. Accordingly, the income or loss of the Company will be included in the income tax returns of the shareholders.

The Company follows the guidance under Accounting Standards Codification ("ASC") Topic 740, Accounting for Uncertainty in Income Taxes. ASC Topic 740 prescribes a more-likely-than-not measurement methodology to reflect the financial statement impact of uncertain tax positions taken or expected to be taken in the tax return. If taxing authorities were to disallow any tax positions taken by the Company, the additional income taxes, if any, would be imposed on the shareholders rather than the Company. Accordingly, there would be no effect on the Company's financial statements.

The Company's income tax returns are subject to examination by taxing authorities for a period of three years from the date they are filed. As of December 31, 2023, the 2022, 2021, and 2020 tax years were subject to examination.

HOUSE OF BREAD FRANCHISING, INC.

Notes to the Financial Statements

December 31, 2023, 2022 and 2021

(h) Financial Instruments

For certain of the Company's financial instruments, including cash and cash equivalents, accounts receivable, and accounts payable, the carrying amounts approximate fair value due to their short maturities. The amounts shown for notes payable also approximate fair value because current interest rates and terms offered to the Company for similar debt are substantially the same.

(i) Concentration of Risk

The Company maintains its cash in bank deposit accounts that at times may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risks on cash or cash equivalents.

(2) Franchise Agreements

The Company's franchise agreements generally provide for a payment of initial fees as well as continuing royalty fees to the Company based on a percentage of sales. Under the franchise agreement, franchisees are granted the right to operate a location using the House of Bread system for a period of ten years. Under the Company's revenue recognition policy, franchise fees and any corresponding commissions are recognized when the franchisee begins operations. For any franchisees that have not yet begun operations as of year-end, the Company defers both the revenues and commissions. All locations that are expected to begin operations within the following year are categorized as current, while all others are classified as non-current.

The Company has estimated the following current and non-current portions of deferred revenue as of December 31, 2023, 2022 and 2021:

	2023	2022	2021
Deferred revenue, current	\$ 35,000	\$ 70,000	\$ 165,000
Deferred revenue, non-current	-	-	-
	<u>\$ 35,000</u>	<u>\$ 70,000</u>	<u>\$ 165,000</u>

(3) Commitments and Contingencies

(a) Litigation

The Company may be subject to various claims, legal actions and complaints arising in the ordinary course of business. In accounting for legal matters and other contingencies, the Company follows the guidance in ASC Topic 450 Contingencies, under which loss contingencies are accounted for based upon the likelihood of incurrence of a liability. If a loss contingency is "probable" and the amount of loss can be reasonably estimated, it is accrued. If a loss contingency is "probable" but the amount of loss cannot be reasonably estimated, disclosure is made. If a loss contingency is "reasonably possible," disclosure is made, including the potential range of loss, if determinable. Loss contingencies that are "remote" are neither accounted for nor disclosed.

In the opinion of management, all matters are of such kind, or involve such amounts, that unfavorable disposition, if any, would not have a material effect on the financial position of the Company.

(4) Subsequent Events

Management has reviewed and evaluated subsequent events through April 19, 2024, the date on which the financial statements were issued.

FRANCHISE AGREEMENT

To simplify the language of this Agreement HOB means House of Bread Franchising Inc., the "Franchisor". "You" means the person, corporation, partnership or other entity who is buying the franchise, the Franchisee. If a corporation, partnership or other entity is the Franchisee, "You" includes the Franchisee's owners.

This Franchise Agreement is entered into and between House of Bread Franchising Inc., (hereinafter HOB), a California Corporation, whose principal address is 299 Marsh St. San Luis Obispo, CA 93401, and you the Franchisee(s)

LET ALL PARTIES KNOW

HOB owns a unique system for opening and operating a store designed to provide fresh, organic, whole grain breads. The business format created by HOB and which is known as the HOB System (the "System"), produces the highest quality of baked products and deli sandwiches from the finest ingredients. The HOB System is the House of Bread Bakery Café that is being franchised. There is an additional product offering system within the House of Bread Bakery Café that is being offered called the Brew House. Also, there is another option for a House of Bread Junior, which is a separate scaled down version of the House of Bread Bakery Café.

The distinguishing characteristics of the System include the name "House of Bread", distinctive interior and exterior designs, confidential operating procedures, standards and specifications for equipment, services, products and, management and marketing programs. All of these distinguishing characteristics may be changed, improved, and further developed by HOB from time to time. They are known as "Trade Secrets" and are designated by and identified with the marks described in this Agreement.

HOB identifies House of Bread by means of certain trade names, service marks, logos, emblems, and indicia of origin, including the trademark "House of Bread" and other trade names and service marks which are now, or may be in the future, designated by HOB in writing for use in connection with the System (the "Marks"). The current "Marks" are House of Bread and House of Bread Bakery Café.

HOB continues to use, develop and control the use of the Marks in order to identify for the public the source of services and products marketed under the System, and which represent the System's high standards of quality, cleanliness, appearance and service.

You recognize the benefits to be derived from being identified with the System. You also recognize the value of the Marks and the continued uniformity of image to you, HOB, and other franchisees of HOB. You understand the importance to the System of HOB's high and uniform

standards of quality, cleanliness, appearance and service, and further recognize the necessity of opening and operating your HOB outlet (the "Outlet") in conformity with the System. An "Outlet" is a House of Bread Bakery Café unit.

You recognize that in order to enhance the value of the System and goodwill associated with it, this Agreement places detailed obligations on you, including strict adherence to HOB's reasonable present and future requirements regarding the types of services offered, advertising, recipes, product lines physical facilities, operational techniques, and related matters.

You wish to be assisted, trained, and franchised to operate an Outlet pursuant to the provisions and at the location within the territory specified in this Agreement. You have also had an adequate opportunity to be thoroughly advised of the terms and conditions of this Agreement by counsel of your own choosing.

THEREFORE, you and HOB, intending to be legally bound and in consideration of mutual agreements, covenants and promises contained in this Agreement, agree as follows:

SECTION 1 - GRANT OF LICENSE

1.1 Subject to the limitations contained in this Agreement, HOB grants to you, during the License Term and any extensions, the right and license (the "License") to:

- A. Operate an Outlet upon the terms and conditions of this Agreement, in 1 territorial area and at 1 location described in Exhibit A;
- B. Use the Marks at the Outlet; and
- C. Offer and market at the Outlet only HOB's approved services and products.

1.2 The License does not include the right to market through the internet in any territory other than your exclusive territory. HOB does recognize that internet marketing may result in sales requests outside of the Franchisee's territory. The Franchisee may service those orders outside their territory with the understanding only if it is not a territory owned by another Franchisee. Otherwise all orders within protected territories must be referred to the Franchisee who has that territory. HOB does market through the internet but refers all bread orders originating from within a protected territory to the franchisee's bakery for servicing first. If Franchisee fails to respond to the request within 2 days, then HOB will accommodate the request to purchase bread.

You may wholesale to any vendor outside your territory upon the condition the territory is unprotected. Furthermore, when the territory is sold, then you would have no right to sell any products within the other franchisee's protected territory. All account information and contacts, must be turned over to the new franchisee.

The web site will be designed by HOB and it will be integrated with your Toast

information system. You will have the ability to edit only certain portions of the web site pertaining to your operation at your expense.

1.3 During the License Term and any extensions, HOB will not use or license others to use any of the Marks licensed to you in connection with the operation of any other Outlet within your Territory described in Exhibit A.

SECTION 2 - LICENSE TERM AND EXTENSION PERIODS

This Agreement and the License granted will continue for a period of 10 years. This 10-year period, will begin on the date this Agreement is executed by HOB and is subject to prior termination in accordance with the provisions of this Agreement. When the original 10-year period expires and the end of each renewal period contemplated, you will have the option to renew your Franchise License for successive periods of 10 years each.

HOB may refuse to renew this Agreement and License if you have:

- A. Failed to remedy any breach of this Agreement specified by HOB in a written notice to you; or
- B. Committed 2 or more breaches of this Agreement of a substantial nature in the preceding 24 months prior to extension even if you have remedied the breaches.

HOB may also refuse to renew this Agreement and License if you are not current in payment obligations to HOB and to your trade creditors and your business location landlord or mortgage holder (if any).

You will execute a Renewal Franchise Agreement and all other legal agreements in the form then being used by HOB in granting new franchises. These agreements may include without limitation higher Royalty Fees and higher Advertising Fees. There will not be, however, another Initial Franchise Fee charged in the renewal of the Franchise Agreement. Failure by you to execute these renewal agreements within 30 days after their delivery to you will be deemed an election by you not to renew the HOB Franchise.

As additional conditions to renewal, you will:

- C. Execute a general release of all claims you may have against HOB, its officers, directors, shareholders, agents, and employees, whether in their corporate and/or individual capacities. This release will include all claims arising under any federal, state, or local law, rule, or ordinance arising out of or concerning this Agreement and will be in a form satisfactory to HOB;
- D. Make capital expenditures as may be reasonably required to renovate and modernize the Outlet and its signs and equipment so as to reflect the then-current image of the Outlets. If renovation and modernization of the Outlet is not possible or feasible, you will relocate the Outlet within your exclusive Territory after approval by HOB in writing and in accordance with HOB's relocation procedures.
- E. Comply with new standards for product ingredients and menu options.

The renewal fee is \$5,000 and is due and payable to at the time of signing.

You and HOB agree to give each other not less than 6 months prior written notice of an election not to renew this Agreement and License.

SECTION 3 - INITIAL FRANCHISE FEE

- 3.1 Upon executing this Agreement, you will pay to House of Bread the \$17,500, which is one half of the Initial Franchise Fee. The remaining \$17,500 is due after phase one of the training period. The franchise fee for a House of Bread junior is \$10,000 and is all due upon signing a contract for the junior bakery. The franchise fee for the brew house addendum is \$10,000 and is due upon the signing of the franchise agreement.
- 3.2 The terms for fees under Multi-Unit Franchise offering are in that separate agreement.
- 3.3 The Initial Franchise Fee is non-refundable unless HOB's terminates you as a franchisee during training. The amount of actual expenses incurred by HOB will be deducted from the Initial Franchise Fee and the remaining amount will be refunded to you within 30 days of your notification of termination.
- 3.4 House of Bread has the option to elect to return the total amount of franchise fee paid during the term of the contract but not royalty fees. Then you would be obligated to de-identify yourself as a House of Bread franchise unit. You would still be able to operate your bread bakery using the production methods obtained during the franchise agreement; however, all House of Bread references, logos, computer software, UPC codes used for wholesaling, and signs must be deleted.

SECTION 4 - CONTINUING ROYALTIES

- 4.1 During the first year of operation, you will, without notice from HOB, pay HOB a Royalty Fee in the amount of 6% of Gross Revenues of the preceding week. The week starts and ends on Sunday and the fee are due on a Tuesday. After the first year of operation, all royalty payments will be due monthly. Gross Revenues is defined in Section 6.
- 4.2 Each Royalty Fee payment will be accompanied by a statement of the previous week's Gross Revenues on a form approved by HOB along with a marketing report. A marketing form is required to be filled out indicating the type, manner and amount of marketing conducted.
- 4.3 If you are unable to operate from the Outlet due to damage or loss to the Outlet caused or created by a casualty, act of God, condemnation, or other condition over which you have

no control, then the Royalty Fee will be waived for a period no greater than 1 year commencing with the month in which the damage or loss occurs.

SECTION 5 - ADVERTISING AND PROMOTION

- 5.1 You will advertise and promote the opening of the Outlet at your own expense. However, HOB will pay for the creation of the initial web site, as part of the franchise fee. HOB will also recommend the marketing type, manner, and time period. SOPM G contains a complete program for the head start pre-opening marketing. Minimum required advertising and promotional expense prior to and during the first 12 months of operation would be \$15,000.00. You may elect to coordinate the marketing yourself. A complete marketing plan and budget must be submitted 30 days prior to opening. Failure to do so will require you to contract with a professional marketing firm to coordinate your pre-opening, soft opening and grand opening. Failure to comply with the marketing requirements is considered a material breach of this contract. There is no advertising fee paid to House of Bread Franchising at this time.
- 5.2 After the first 3 months of operation and during the remaining License Term, you will spend a minimum of 2% of the Gross Revenues for the preceding month or portion thereof for advertising and promotion. This advertising expense is called the "Minimum Individual Advertising Expense." HOB will accept 50% of the required advertising amount be in the form of product trade with advertising forums or the distribution of samples at various marketing events. Failure to comply with this requirement and any of the marketing requirements is a material breach of this contract.

During the License Term you will furnish HOB an accounting of your previous month's expenditures for advertising and promotion on a form provided by HOB. You also will provide House of Bread examples of the advertising proposed prior to the use.

HOB will make available to you all advertising and promotion material for the Outlet, which are used by HOB, and other franchisees. You will receive one sample of each type of advertising and promotion material at no charge. You may develop advertising materials for your own use, at your own cost. HOB must approve or not approve your advertising materials in writing within 48 hours. If HOB takes no action, you may use the advertising material submitted.

At a point in time when there are 3 or more House of Bread franchises in a "Local Media Area," a "Local Advertising Cooperative" will be established. The "Local Media Area" will mean the area covered by primary advertising media (television, radio and print) as designated by House of Bread. You must participate in a Local Advertising Cooperative if it now exists or when it is established in the Local Media Area where your business is located. This cooperative advertisement will be your competitive advantage.

Your contribution to the Local Advertising Cooperative will be a minimum of 2% of the Gross

Revenues for the preceding month or portion thereof. When you are participating in a Local Advertising Cooperative you are not required to expend a minimum of 2% of your Gross Revenues for the preceding month on the Minimum Individual Advertising Expense. During the License Term you will furnish HOB an accounting of your previous month's contribution to the Local Advertising Cooperative on a form provided by HOB.

HOB will make available to the Local Advertising Cooperative all advertising and promotional material for the Outlets, which are used by HOB, and other Local Advertising Cooperatives and franchisees. The Local Advertising Cooperative will receive one sample of each type of advertising and promotional material at no charge. If the Local Advertising Cooperative wants additional copies it must pay duplication costs. The Local Advertising Cooperative may develop advertising materials for its own use, at its own cost. HOB must approve or not approve the advertising materials in writing within 48 hours. If HOB takes no action, the Local Advertising Cooperative may use the advertising material submitted.

Each Local Advertising Cooperative must adopt written governing documents. Each Local Advertising Cooperative will determine its own voting procedures; however, each Company-Outlet (owned by HOB) in a Local Media Area, if any, will be entitled to one vote in the Local Advertising Cooperative and will contribute to the Local Advertising Cooperative in the same manner as you contribute. The members and their elected officers will be responsible for the administration of the Local Advertising Cooperative. Local Advertising Cooperatives will prepare quarterly and annual financial statements. The annual financial statement must be prepared by an independent accountant at the Local Advertising Cooperative's cost and be made available to you and all other franchisees in the Local Advertising Cooperative.

5.3 You will install and, during the term of this Agreement and License, will maintain an outdoor sign in a prominent location in accordance with HOB's sign specifications or as approved in writing by HOB, unless prohibited from doing so by applicable laws and regulations. You will use your best efforts to obtain any permit or variance required in order to allow the installation and maintenance of an outdoor sign meeting HOB's specifications so long as it does not impose any undue economic burden on you.

SECTION 6 - GROSS REVENUES

6.1 No mention of services or products in this Section is intended to mean or imply that such services or products are approved for sale at the Outlet by HOB.

6.2 For purposes of this Agreement, Gross Revenues includes the total of all receipts derived from services performed and products sold at the Outlet, whether the receipts are evidenced by cash, credit, checks, gift certificates, scrip, coupons (see Subsection 6.3 B.), services, property or other means of exchange.

6.3 Gross Revenues will not include:

- A. Sales taxes or other taxes measured on the basis of the gross revenues of the business imposed by governmental authorities directly on sales and collected from customers, provided the taxes are added to the selling price and are in fact paid by you to the appropriate governmental authorities.
- B. Promotional or discount coupons to the extent that you realize no revenue.
- C. Employee receipt of service or products, if free, or any portion not paid for by an employee.

Cash refunded and credit given to customers, and receivables uncollectible from customers, will be deducted in computing Gross Revenues to the extent that it was previously included in Gross Revenues on which a Royalty Fee was paid.

6.4 Gross Revenues will be deemed received by you at the time the services or products from which they were derived are delivered or rendered or at the time the relevant sale takes place, whichever occurs first. Gross Revenues consisting of property or services will be valued at the retail prices applicable and in effect at the time they are received.

SECTION 7 - RECORDS AND AUDITS - LATE PAYMENT CHARGE

7.1 You will prepare on a current basis, complete and accurate records concerning all financial, marketing and other operating aspects of the business conducted under this Agreement. You will maintain an accounting system, which accurately reflects all operational aspects of the Outlet including uniform reports as may be required by HOB. Your records will include tax returns, daily reports, and statements of Gross Revenues (to be prepared each month for the preceding month), profit and loss statements and balance sheets (to be prepared at least annually by an independent accountant). You will also submit to HOB current financial statements and other reports as HOB may reasonably request to evaluate or compile research data on any operational aspect of the Outlet. All financial data with respect to your business that is required will be for HOB's own use, will be kept confidential and will not be made available to other franchisees, prospective franchisees, or other third parties except to the extent that HOB decides, or is required to, make an "earnings claim" under the franchise disclosure laws. The records required under this Subsection pertain only to your operation of the Outlet. HOB has no right to inspect, audit or copy the records of any unrelated business activity you may have.

7.2 From the date you and HOB sign this Agreement until 3 years after the end of the term of this Agreement including renewals, HOB or our authorized agent will have the right to request, receive, inspect and audit any of the records referred to above wherever they may be located. HOB agrees to do inspections and audits at reasonable times. You agree to keep all records and reports for 6 years from the date they originated. Should any inspection or audit disclose a deficiency in the payment of any Royalty, Advertising Fee or other amounts required to be paid

under this agreement, you will immediately pay the deficiency to HOB, provided the deficiency exceeds \$50.00, without prejudice or any other remedy of HOB under this Agreement. In addition, if the deficiency for any audit period equals or exceeds 2% of the correct amount of any Royalty, Advertising Fee or other amounts due, you will also immediately pay to HOB the entire cost of the inspection or audit including travel, lodging, meals, salaries and other expenses of the inspecting or auditing personnel. For the purposes of this Subsection, an audit period will be each fiscal year. Should the audit disclose an overpayment of any Royalty, Advertising Fees or other amounts due, HOB will promptly pay the amount of the overpayment to you provided that the amount exceeds \$50.00.

7.3 To encourage prompt payment and to cover the costs and expenses involved in handling and processing late payments, you will also pay, upon demand, a late payment charge equal to the lesser of; (i) the maximum rate of interest due on open accounts; or (ii) 1 1/2% per month, on all payments due to HOB during the period of time said payments are due and unpaid but not more than the highest rate permitted by law. Each failure to pay Royalty Fees, Advertising Fees and other amounts payable to HOB when due is a material breach of this Agreement.

SECTION 8 - SERVICES AND ASSISTANCE PROVIDED BY THE FRANCHISOR

8.1 The Initial Franchise Fee and Royalty Fees are paid for the License, which includes the use of the Marks of HOB and for certain services rendered by HOB.

8.2 HOB will offer you initial and continuing services, as HOB deems necessary or advisable in furthering your franchised business and the business of the System as a whole and in connection with protecting the Marks and goodwill of HOB. Failure of HOB to provide any particular service, either initial or continuing, will not excuse you from paying the Initial Franchise Fee or the continuing Royalty Fees.

8.3 Currently, initial and continuing services provided by HOB are:

A. Designation of your exclusive Territory as stipulated in Sect.1.

B. Assisting you in finding and negotiating the lease or purchase of a location for your Outlet within your exclusive Territory through written material contained in the House of Bread Real Estate Guide. However, you will be responsible for securing your own contract lawyer to review the lease. After the real estate training period, a House of Bread Franchising representative will go to your community and work with you in starting the real estate process. Furthermore, if requested by you HOB will assist you in securing third party representation to discover and negotiate a location as stipulated in Subsection 9.1.

C. Furnish you with specifications for all initial and replacement equipment, inventory and supplies required for the operation of your Outlet as stipulated Subsection

9.1.

D. Providing you and 1 of your employees with an initial training program. You and your designated head baker will attend and satisfactorily complete the initial training program prior to opening the franchised Outlet. The training program consists of seven different phases and will commence within 30 days of franchise contract signing and will be completed during the Grand Opening day of your outlet. Failure to complete the training requirements will be a material breach of this contract. Also, House of Bread Franchising will gladly allow for more training at the corporate headquarters in any area the franchisee desires.

HOB will train you and 1 other person as follows:

Phase 1 is the "Initial Indoctrination Training and Launching of the Site Selection process". The first three-day training program covers how to find a great location, write a business plan and secure financing for the project. An itinerary of the training follows. Three days will be spent in your community.

PHASE ONE: INTRODUCTION & TRAINING; 3 days in Franchisee's community:

First Day: 9:00 A.M. - 9:30 A.M.
"Welcome and Indoctrination"
9:30 A.M. - 12:00 P.M.
"Overview of the Real Estate Guide and a physical driving of the territory"
12:00 P. M. – 1:30 P. M.
"Lunch on House of Bread"
1:30 P.M. - 3:00 P.M.
"Overview of the Opening Guide"
3:00 P.M. – 4:00 P.M.
"Overview of Finance"
4:00 P.M – 5:00 P. M.
"Review of House of Bread SLO profit and loss statement"
"Explanation of cash flow projections for bank financing"

Second Day: 9:00 A.M. - 11:30 A.M.
" A revisit to interested shopping areas"
11.30 A.M. -12:30 P.M.
"Lunch at a competitor"
12:30 P. M -3:30 P.M.
"Meetings with potential Landlords and Brokers,

3:30 P. M. -4:30 P. M.
"How to find a general contractor and to avoid costly delays"

Third Day:

9:00 A. M. -10:00 A.M.
“Marketing strategies and tactics”
10:00 A.M. - 11:00 A.M.
“How to hire a head baker”
11:00 A.M.-12:00 P.M.
"A review of the next steps and a question and answer session"

A-2

PHASE TWO: FIELD WORK IN FRANCHISEE'S COMMUNITY; 2 - 6 months:

- Preliminary Planning · Finance · Real Estate · Permits & Licenses
- Image Development · Facility Design · Pre-Build out Coordination
- Market Investigation · Opening A House of Bread Operation.

PHASE THREE: WORKING IN A COMPANY OWNED OPERATION; 7+ days:

Franchisee attends in San Luis Obispo after a lease is signed. To include the following:

- “Bread Production” “Inventory; Purveyors and Product Standards;
Financial Management, Personnel Management”
- “Customer Service Standards, Store Maintenance, Operational
Standards, Hiring and Training Employee”
- “Marketing, Public Relations, Merchandising, Selling”

PHASE FOUR: COMPLETION OF THE FACILITY BUILDOUT; 1-3 months:

- Completion of Facility Construction · Installation of Equipment
Test Marketing · Pre-Opening Procedures

PHASE FIVE: FRANCHISEE TRAINING AND HEAD BAKER; 7 days:

Timing is within one month of opening. Franchisee brings their head baker to the training session to train on baking for 5 days and 1 day of opening retail. Day one is a refresher course in baking for the franchisee. Day two, three, four franchisee will train with Marc Chaisson on operational ratios and how to manager the bakery. Day five, six, and seven the franchisee will perform retail lunch and opening/closing duties. On day one, Franchisee will submit their marketing plan for approval and on day seven, a redraft will be submitted.

PHASE SIX: SUPPORT IN FRANCHISEE'S OPERATION - 7 days:

Prior to opening, Marc Chaisson will set up the information system and program the software. A Bakery trainer will train production staff and help the Franchisee train their lunch and retail. The production training starts three days in advance of opening.

PHASE SEVEN: GRAND OPENING - 3 days after 1-3 months of planning:

After the first month of business and prior to the end of the third month of business, the Franchisor will assist the Franchisee in Grand Opening programs and procedures. Programs must be implemented in conjunction with Franchisee's Neighborhood

Marketing Program.

HOB does not charge for this training or service, but you must pay the travel and living expenses for you and your employee(s). Phase 3, 5 of the training is on-site at House of Bread San Luis Obispo, California headquarters. HOB will pay for the expenses of HOB's field support team during phase 1, 6 and 7.

PHASE EIGHT: The brew house concept will require an additional five days of training at the company owned store. To be completed prior to the bakery café opening.

HOB will hold franchise meetings to discuss sales techniques, personnel training, bookkeeping, accounting, inventory control, performance standards, advertising programs and merchandising procedures. There is no conference fee, but you must pay all your travel and living expenses. These elective conferences are held at our San Luis Obispo, Ca. Headquarters, but may rotate to franchisee bakeries. The conferences are mandatory.

E. Assistance with respect to pre-opening and opening activities will be conducted as reasonably determined by HOB and just prior to and including the first week of operation of your Outlet.

F. Formulation of advertising and promotional programs as further stipulated in Section 5.

G. HOB will engage in the development of new products and service methods, as deemed beneficial in the sole discretion of HOB for the successful operation of the System. You will be informed of any new product or service methods.

H. You will be loaned 1 copy of HOB's Confidential Operating Manual containing mandatory and suggested specifications, standards, operating procedures and rules prescribed from time to time by HOB as further stipulated in Section 11.

SECTION 9 - LOCATION OF OUTLET; CONSTRUCTION AND OPENING FOR BUSINESS; LEASE OR MORTGAGE

- 9.1 You will be responsible for locating, constructing and equipping the Outlet in a location within your exclusive territory in accordance with HOB's standards and general specifications. The location will be submitted in advance to HOB for acceptance, and HOB will approve or make suggestions within 15 days.
- 9.2 The location will be submitted for HOB's acceptance within 18 months of this Agreement date, or this Agreement will terminate and all fees will be retained by HOB as compensation for our services rendered to you. You will provide HOB with the

information HOB may reasonably request in connection with our evaluation of the location, including the cost of acquisition, development and construction and, if the property is to be leased by you, a copy of the lease. Any location inspection will be made solely at the option of HOB and will not be deemed to impose any responsibility on HOB for the construction of the Outlet. Upon designation and acceptance, the location will be deemed to be the location specified in Exhibit A as if originally incorporated.

- 9.2 You and HOB acknowledge that the location of the Outlet is a major factor in the Outlet's potential for success and HOB may reject any location in our sole discretion. HOB makes no representations or warranties with respect to the availability of appropriate locations or the suitability or potential of locations, which it approves.
- 9.3 HOB will help you in finding and negotiating the lease or purchase of a location for an Outlet by providing you with a House of Bread Real Estate Guide and sources for third party assistance. You will find three locations in your area and House of Bread will advise on the suitability of each location. There are specific methods used in the HOB's Real Estate Guide to select the location for your business. You will ascertain population density, traffic patterns and proximity of the proposed location to any other bakery locations. HOB does not hold itself out as a real estate expert, does not undertake to perform any analysis of any location, and does not undertake to advise as to the suitability of any location. HOB's approval of a location merely reflects belief that the proposed location appears to be suitable for the development of an Outlet.
- 9.4 You agree to construct (or renovate) and equip the Outlet at your expense in a good manner on or before the Construction Completion Date. The Construction Completion Date will be the earlier of: (a) 6 months from the date of execution of a lease for the Outlet; or (b) 12 months of this Agreement date. You will be given one six-month extension of the date if you request in writing and can demonstrate that you used good faith and due diligence to complete the construction within the time frame. Failure to submit a request in writing for an extension will terminate this agreement. The construction (or renovation) will conform to all applicable requirements of local authorities and will be in accordance with the standards and general specifications of HOB. You acknowledge that the final plans and specifications for the Outlet will be prepared by an architect or general contractor of your choosing and at your expense. All plans and specifications or modifications proposed by you will be submitted to HOB prior to construction and will be modified as reasonably requested by HOB. House of Bread will have the right, but not the obligation, to inspect the construction to determine if the construction conforms to HOB's standards and general specifications.
- 9.5 You will have discharged, released of record or fully bonded, any construction liens or other liens that may be recorded or perfected which may be attached to the Outlet as a result of work done by or for you. In the event that the Outlet is not open for business on or before the Construction Completion Date (other than as a result of acts of God,

unforeseen unavailability of raw materials or supplies, inability or delay in obtaining necessary equipment or approvals, permits or licenses, labor disputes or acts or omissions of HOB), HOB may terminate this Agreement with 30 days' prior written notice unless the Outlet will open for business within the 30 day period.

- 9.6 No Outlet may be opened until such time as HOB reasonably agrees that all construction has been satisfactorily completed, and all employees have been trained, the Outlet is ready for opening in all other respects (including signboards, inventory, uniforms, fixtures, equipment, marketing materials and the opening check list is fully completed), certificates of insurance have been furnished in accordance with Section 14, you are in compliance with all the terms of this Agreement, including those set forth in Section 12, and all items contained in HOB's Opening Checklist (contained in the Confidential Operating Manual) have been completed to HOB's satisfaction. You acknowledge that any opening for business prior to satisfaction of all of the above conditions will be seriously detrimental to the financial prospects of the Outlet and will cause irreparable damage to HOB's goodwill and reputation.
- 9.7 If you lease the Outlet, the lease will be subject to HOB's reasonable approval and will have a term, or have options to renew, which in total are equal to or greater than the License Term and will provide that;
- A. On termination of this Agreement, for any reason provided for in this Agreement, HOB its designee will have the option for 30 days to assume your remaining lease obligations without accruing any liability regarding the lease prior to the effective date of any assignment, or HOB will have the right to execute a new lease for the remaining term on the same terms and conditions;
 - B. Copies of all notices of default under the lease will be sent to HOB;
 - C. In the event of your default under the lease, HOB or its designee will have an opportunity to cure such default and assume your remaining obligations under the lease, but will not have any obligation to do so; and
 - D. All signs, advertising, logos or other forms or insignia pertaining to the System be removed from the premises demised under the lease in the event neither you, HOB nor its designee is the tenant under the lease upon termination of this Agreement.
- 9.8 If you own the Outlet and the Outlet is (or is to be) mortgaged, the mortgage will be subject to HOB's reasonable approval and will provide that:
- A. On termination of this Agreement, for any reason provided for in this Agreement, HOB or its designee will have the option for 30 days to assume your mortgage obligations without accruing any liability regarding the mortgage prior to the effective

date of any assignment, or HOB will have the right to execute a new mortgage for the remaining term on the same terms and conditions;

B. Copies of all notices of default under the mortgage will be sent to HOB;

C. In the event of your default under the mortgage, HOB or its designee will have an opportunity to cure such default and assume your remaining obligations under the mortgage, but will not have any obligation to do so; and

D. All signs, advertising, logos or other forms or insignia pertaining to the House of Bread System be removed from the premises demised under the mortgage in the event neither you, HOB nor its designee is the owner of the property mortgaged or upon termination of this Agreement.

SECTION 10 - MAINTENANCE AND UPGRADING OF OUTLET

- 10.1 Subject to the terms of this Section and particularly Subsection 10.2, you will at all times comply with all of HOB's standards, specifications, processes, procedures, requirements and instructions regarding the Outlet's physical facilities, including the layout of furnishings and fixtures, at which you are permitted by HOB to render, store, handle, or transport approved services or products. You will maintain the Outlet and any parking areas in good and safe condition.
- 10.2 You will remodel or upgrade the Outlet at your cost in accordance with HOB's standards and at our request at any renewal of this Agreement. You will also pay the cost of adding equipment and altering the Outlet for required services or products, which requires you to market pursuant to Subsection 12.5. **YOU ACKNOWLEDGE THAT AN ADDITIONAL INVESTMENT MAY BE REQUIRED RELATED TO THIS SUBSECTION.**
- 10.3 HOB agrees that it will not require remodeling or upgrading according to standards that exceed those applied to other Outlets in the market nearest your Outlet. The Outlets in the nearest market will be considered as a whole, and you may not avoid your obligations under this Section by comparing your Outlet to any single Outlet in the nearest market.

SECTION 11 - CONFIDENTIAL OPERATING MANUAL

- 11.1 You will acknowledge receipt of a copy of the House of Bread Confidential Operating Manual (the "Manual"). The Manual will at all times remain the sole property of HOB. You agree to immediately return the Manual to HOB at the expiration or sooner termination of this Agreement.
- 11.2 You will at all times treat the contents of the Manual as confidential and will not copy or

otherwise reproduce, in whole or in part or in any way make the contents of the Manual available to any person other than those persons employed by you to whom disclosure is necessary to enable you to operate the Outlet under the terms of this Agreement.

11.3 House of Bread may revise the Manual. The revisions presently contemplated by HOB include changes with respect to:

11.4

- A. Advertising and promotions;
- B. Equipment and supplies;
- C. Employee uniforms;
- D. Internal and external design and layout of the Outlet;
- E. Accounting and reporting systems and forms;
- F. Insurance requirements;
- G. Operating procedures;
- H. Services; and
- I. Products and recipes.

11.4 You agree to operate the Outlet in accordance with the Manual and to be responsible for assuring strict compliance with the standards, specifications, requirements and instructions presently set forth in the Manual and any subsequent amendments and supplements. Failure to comply with the standards set forth in the Manual will constitute a material breach of this Agreement.

SECTION 12 - FRANCHISEE'S DUTIES AND OBLIGATIONS

12.1 You will, consistent with the terms of this Agreement, diligently develop the business of the Outlet and use your best efforts to market and promote the required services and products.

12.2 Subject to the terms of this Agreement, including Subsections 10.2 and 11.4, during the License Term, you will strictly comply with all present and future standards, specifications, processes, procedures, requirements, and instructions of HOB regarding the operation of the business and you must comply with the following requirements:

- A. You, or a fully trained and qualified operating manager, must devote full time to

the management and operation of the Outlet. Failure to have management of the business is a material breach of this agreement.

B. You and the main baker must attend and complete all programs and seminars at locations as HOB may reasonably require, and you will pay all salary and other expenses of persons attending.

HOB will provide you and 1 employee with an initial training program. Attendance by you and your key employee is compulsory and must be satisfactorily completed at least 2 weeks prior to the opening of your Outlet.

C. Any additional required service or product introduced into the System by HOB must be offered for sale on a continuing basis at the Outlet at the time and in the manner required by HOB.

D. No service and product, except approved services or products, may be offered for sale at or from the Outlet.

E. Only signs, advertising and promotional material, services, equipment, supplies, uniforms, furnishings, and fixtures that meet HOB's standards and specifications will be used at the Outlet.

F. All equipment, signs, products, supplies and other items necessary to add new required services or products must be acquired, installed and utilized, and the marketing of new services and products must begin at the Outlet as reasonably required by HOB.

G. Equipment, signs, services, products, supplies and other items must be added, eliminated, substituted and modified at the Outlet as soon as practicable in accordance with changes in HOB's specifications and requirements.

H. The Outlet and everything located at the Outlet must be maintained in first-class condition and must be kept clean, neat and sanitary. The Outlet must be adequately lighted and operated in a clean, wholesome and sanitary manner consistent with HOB's requirements. All maintenance, repairs and replacements reasonably requested by HOB or needed in connection with the Outlet must be promptly made. All employees must be clean and neat in appearance.

I. No alterations of the Outlet materially affecting the image of the Outlet may be made except at HOB's request or approval, and any alterations must strictly conform to specifications and requirements established or approved by HOB.

J. The Outlet and its business must comply with all applicable laws, ordinances, rules, regulations and other requirements.

K. Advertising materials, which are by HOB for use by you, may be used only in the manner and during the period specified by HOB.

L. The Outlet must be open for business Monday-Sunday. The minimum hours of operation shall be 7 a.m. to 6 p.m. Monday through Saturday and Sunday 9:00 a.m. to 4:00 p.m. (Or such later time as may be permitted or such earlier time as may be required by applicable licensing laws and local conditions) or other hours reasonably approved by HOB. Days of closure shall include Christmas, Thanksgiving, Easter, and days the Outlet is closed for repairs pursuant to Section 16. Hours of operation must be posted.

M. The employees, the equipment and supplies, the inventory and other items on hand at the Outlet, must be at all times sufficient to efficiently meet the anticipated volume of business.

N. All debts and taxes arising in connection with the Outlet and its business, except those duly contested in a bona fide dispute, must be paid when due including debts payable to your landlord.

O. All necessary and appropriate measures must be taken to avoid an unsatisfactory or equivalent safety, sanitation or health rating at any time from any governmental agency or authority, that conditions or practices disapproved by any such agency or authority must be promptly corrected, except that, with HOB's prior approval, you may contest the action as being arbitrary, capricious, unfair and unwise.

P. All dealing and transactions with customers and suppliers must be fair and honest.

12.3 In prescribing standards, specifications, processes, procedures, requirements or instructions under Subsection 12.2 or any other provision of this Agreement, HOB will assist in local market research and provide guidance in determining the prices charged by you for services or products of any kind. HOB will not have control over the day-to-day managerial operations of the Outlet. You are free to establish your own prices within our guidelines after you research your market.

12.4 HOB and our representatives will have the right during business hours, to enter and inspect the Outlet and all other facilities used for service or storage, sale and transportation of any approved products. HOB and our representatives will have the right to have you display franchise available cards in a conspicuous place in the bakery. HOB and our representatives will have the right to discuss with you or other people you may designate, all matters that may pertain to compliance with this Agreement and with HOB's standards, specifications, requirements, instructions and procedures and to take photographs of the Outlet. HOB and our representatives will have the right to have any of HOB's required services rendered by any employee at your Outlet. You will in all

respects cooperate with HOB's rights under this Subsection provided that our exercise of these rights will not unreasonably interfere with conduct of your business.

- 12.5 On advance notice of at least 3 months, HOB, in our sole discretion may specify a new service or product as a required service or product. The new service or product will not be deemed a required service or product if you demonstrate to HOB's reasonable satisfaction that:
- A. A substantial capital improvement not contemplated by this Agreement or in the Manual, is required, thereby resulting in a material hardship to you; and
 - B. A material reduction in sales or profitability would result there from. The burden to demonstrate hardship is on You and thus, You must document in writing the argument against the new service or product.

On advance notice of at least 1 month, franchisee may submit a written request to offer a new service or product. You must submit a comprehensive description of the item and include a cost analysis with a projected sales forecast for the item. HOB will approve or not approve the item in their sole discretion within 10 days or you may offer the item for sale.

- 12.6 HOB agrees not to require compliance with the provisions of this Section to the extent that it does not require such compliance by all Outlets, taken as a whole, operating in the market nearest the Outlet.
- 12.7 You agree that during the License Term and for 3 years after the expiration and termination of this Agreement that you will supply to HOB your home address and telephone number which HOB is required by law to include in its offering circular.
- 12.8 You, the Franchisee must directly supervise the franchised business on its premises for the first year. Any change in the operating partner or manager will be subject to the approval of HOB. The operating partner or manager will be the correspondent referred to in Subsection 22.9.

SECTION 13 - PURCHASE OF EQUIPMENT, INVENTORY AND SUPPLIES

- 13.1 You will have the right to purchase directly from any manufacturer or supplier the equipment and products required for the operation of the Outlet except flour, coffee, meat supplier and Toast's information system designed specifically for HOB. However, you may purchase the flour and the information system designed specifically for HOB by Toast from any supplier of your choice. The names and addresses of HOB's required and recommended manufactures and suppliers are in the Manual.
- 13.2 The standards and specifications for equipment, supplies, or other products required by HOB are in the Manual. You are required to follow HOB's standards and specifications

when purchasing all equipment, supplies, or other products required for the operation of the Outlet.

- 13.3 If you desire to purchase the required equipment, supplies, or other products from a manufacturer or supplier not approved by HOB, you will provide HOB with all information regarding the manufacturer or supplier you wish approved which is reasonably requested by HOB. On HOB's request, the manufacturer or supplier may be required to provide HOB with samples of the equipment, products, or other supplies you wish to purchase. Any tests required by HOB to determine whether the equipment, products, or other supplies meet our standards and specifications will be performed by or under the direction of HOB but at the cost of the manufacturer or supplier you wish approved. On the completion of any tests, HOB will determine whether the goods are of sufficient quality, and whether the manufacturer or supplier possesses adequate capacity and facilities to supply your needs in a reliable manner. HOB will then promptly advise you and the manufacturer or supplier as to approval and of the basis for our decision. HOB will not be required to approve sources of equipment, products, or other supplies which do not meet our standards and specifications or which constitute or embody trade secrets of HOB.
- 13.4 HOB may review the quality of the equipment, products, and other supplies produced or supplied by approved manufacturers or suppliers (and their capacity and facilities), and will have the right to monitor the production, use and ultimate disposition of items bearing the Marks. On the basis of any review and monitoring, HOB may remove manufacturers or suppliers from the list of approved sources. In this event, HOB will promptly advise you.

SECTION 14 - INSURANCE AND INDEMNIFICATION

- 14.1 You will, upon commencement of the License Term, purchase and at all times maintain in full force and effect:
- A. Workers' compensation insurance in amounts prescribed by law;
 - B. Fire and lightning, extended coverage, theft, vandalism and malicious mischief, and sprinkler leakage insurance on the Outlet and all fixtures, equipment, supplies and other property used in the operation of the Outlet, for not less than 80% of the cash value of the same, except that an appropriate deductible clause will be permitted;
 - C. Comprehensive general liability insurance and product liability insurance coverage in such amounts and upon such terms as may from time to time be customary for bakery businesses located in your Territory, but not less than \$2,000,000.00, insuring both you and House of Bread Franchising against all claims, suits, obligations, liabilities,

and damage, including attorneys' fees, based upon or arising out of actual or alleged personal injuries or property damage relating to the use or condition of the Outlet; and,

D. Such additional insurance as may be required by the terms of any lease or mortgage for the Outlet.

The liability insurance afforded by the policy or policies will not be limited in any way by reason of any insurance that may be maintained by HOB.

- 14.2 All policies of insurance required under this Section will be with responsible companies qualified to do business and in good standing in the state where the Outlet is located and will be in a form reasonably satisfactory to HOB. Prior to opening for business, you will furnish to HOB certificates issued by each of your insurers indicating that all premiums due have been paid, that all required insurance is in full force and effect and that the insurance will not be terminated or changed without at least 30 days' prior written notice from the insurer to HOB. New certificates evidencing renewal of insurance will be furnished at least 30 days prior to the date of expiration of each policy. Within 5 days of any request by HOB, you will deliver a copy of all insurance policies to HOB for examination.
- 14.3 If you fail to obtain or maintain adequate insurance, HOB may, at its election and sole discretion, obtain insurance for and in your name. Within 5 days of any written request by HOB, you will pay all costs of obtaining adequate insurance.
- 14.4 You will indemnify, defend and hold HOB harmless against all claims, demands, losses, damages (including punitive damages), costs, suits, judgments, penalties, expenses (including reasonable attorneys' fees and amounts paid in settlement or compromise) and liabilities of any kind, whether or not ultimately determined to be meritorious (and including damages suffered by you or any of your property), collectively, "Damages", arising directly or indirectly out of or in connection with the construction, operation, maintenance or occupancy of the Outlet, except to the extent that such liabilities arise from the gross negligence or willful acts of HOB.
- 14.5 All fixtures, equipment, signs, merchandise, supplies, and other property on or about the Outlet will be at your sole risk and hazard, and if they are destroyed or damaged in any way, no part of the loss or damage is to be paid by HOB except to the extent caused by HOB's gross negligence or willful acts.

SECTION 15 - TRADEMARKS AND TRADE SECRETS

- 15.1 You recognize and acknowledge HOB's exclusive ownership of and rights in HOB's current and future Marks and in all related practices, procedures, methods and devices.

All goodwill now or in the future associated with or relating to the Marks will accrue directly and exclusively to the benefit and is the property of HOB. Nothing contained in this Agreement will be construed to entitle you any right, title or interest in or the Marks or the goodwill now or in the future associated with them, other than the rights and license expressly granted in this Agreement.

15.2 You represent, warrant and agree that you will not:

A. Directly or indirectly contest or aid in contesting, either during the term of this Agreement or following its termination, the validity or ownership of the Marks; or

B. Take any action in derogation of HOB's claimed rights whether now existing or later obtained.

15.3 You agree to use only HOB's existing or future Marks, and related practices, systems, procedures and methods in connection with the promotion and operation of the Outlet, and only in accordance with the procedures established by HOB.

15.4 You will cause HOB's Marks to be reproduced exactly and accurately.

15.5 With the exception of the registration of a "d/b/a" or a fictitious name certificate in connection with the operation of the Outlet, you will not register or attempt to register the Marks in your own name.

15.6 You will immediately inform HOB of any suspected, known or threatened infringement, piracy or challenge to the Marks, trade secrets, methods and procedures used in the System. You will assist and cooperate with in taking action, at HOB's expense, as HOB deems appropriate to protect the System.

15.7 Immediately upon the expiration or sooner termination of this Agreement, you will:

A. Cease and forever abstain from using any of the Marks;

B. Take all actions necessary to cancel any d/b/a or fictitious name registration containing any of the Marks; and

C. Furnish HOB evidence satisfactory to HOB of compliance with the foregoing obligations within 30 days after any expiration or sooner termination.

15.8 You acknowledge that you took no part in creating or developing, no prior knowledge of, and no rights or claims in or to, any element of the System. You agree that all materials loaned or made available to you will be kept confidential by you and will remain the property of HOB. You will not disclose, exhibit or reproduce any confidential element of

the System which becomes known to you through HOB in any manner, except to those persons employed by you to whom disclosure must be made to enable you to operate the Outlet under the terms of this Agreement. After the expiration or sooner termination of this Agreement, neither you and your employees, nor any of your officers, directors, shareholders if you are incorporated, will disclose, exhibit or reproduce any confidential information or trade secrets to any corporation, association, partnership or person. You recognize that all of the existing or future Marks, related practices, systems, procedures and methods are trade secrets, which HOB has made a substantial investment in trade secrets and that disclosure of the trade secrets is prohibited. You agree to cause your employees to execute proprietary information agreements containing the provisions of this Subsection and any confidentiality agreements if requested by HOB.

- 15.9 Except as specifically disclosed in the Franchise Offering Circular, HOB represents and warrants to the best of HOB's knowledge that the Marks do not violate or infringe upon any rights of others.

SECTION 16 - CONDEMNATION AND CASUALTY

- 16.1 You will promptly advise HOB upon your receipt of a notice of default or termination under your lease or mortgage and will promptly provide HOB a copy of the notice. You will also give HOB notice of any proposed taking of the Outlet or any portion thereof through the exercise of the power of eminent domain at the earliest possible time. If the Outlet or a substantial part thereof is to be taken, the Outlet may be relocated within the area specified in Exhibit A, or elsewhere with HOB's written approval in accordance with our relocation procedures. If you open a new outlet at another location in accordance with HOB's standards and general specifications within one year or of the closing of the old Outlet, the new Outlet will be deemed to be the Outlet licensed under this Agreement. If a condemnation, lease termination or mortgage default takes place and a new Outlet does not, for any reason, (other than those specified in Section 9) become the Outlet as provided in this Subsection then the License will terminate upon notice by HOB.
- 16.2 If the Outlet is damaged, you will expeditiously repair the damage. If the damage or repair requires closing the Outlet, you will immediately notify HOB in writing, and will:
- A. Relocate the Outlet as provided in Subsection 16.1; or
 - B. Repair or rebuild the Outlet in accordance with HOB's then existing standards and general specifications and reopen the Outlet for continuous business operations as soon as practicable (but in any event within 12 months after closing the Outlet), giving HOB 30 days' advance notice of the date of reopening.

If the Outlet is not (or, in the opinion of HOB cannot be) reopened in accordance with

this Section, or relocated pursuant to Subsection 16.1, the License will terminate upon notice to you.

- 16.3 The License Term will not be extended by any interruption in the Outlet's operations, except for an act of God that results in the Outlet being closed for a reasonable time period. You must apply for any extension within 30 days following the reopening of the Outlet. Except as provided in Subsection 4.3, no event during the License Term will excuse you from paying Royalty Fees or Advertising Fees as provided in this Agreement.

SECTION 17 - RESTRICTIONS ON COMPETITION

- 17.1 During the term of this License and Agreement, or any extensions or renewals and for a period of 2 years following expiration or termination of the License and this Agreement, you will not directly or indirectly, through corporations, or through partnerships, trusts, associations, joint ventures or other unincorporated businesses, perform any services for, engage in or acquire, be an employee of, have any financial, beneficial or equity interest in, or have any interest based on the profits or revenues of, any business similar to the franchised business, except for other outlets franchised by HOB or its affiliates, within 10 miles of any House of Bread Outlet. A food service business that sells bakery items and/or sandwiches, would be considered similar and thus, prohibited under this agreement.
- 17.2 Nothing in this Section will prevent any active officer of yours or member of your family either individually or collectively, from owning stock of any company, which is subject to the reporting requirements of Sections 11 or Subsection 14(D) of the Securities and Exchange Act of 1934.
- 17.3 You will not at any time employ or otherwise interfere with the employment relationship of any person who is employed by HOB.
- 17.4 If any court having jurisdiction to determine the validity or enforceability of this Section determines that, strictly applied, it would be invalid or unenforceable, the definition of "similar business" or the time or geographical provisions of this Section will be deemed modified to the extent necessary (but only to that extent) so that such restrictions as modified, will be valid and enforceable.
- 17.5 You acknowledge that as a HOB franchisee, you will have access to HOB's trade secrets and confidential practices and therefore be in a unique position to use the special knowledge you will have gained while a franchisee. You acknowledge that a breach of the covenants contained in this Section will be deemed to threaten immediate and substantial irreparable injury to HOB. Accordingly, you agree that HOB will have the right, without prior notice to you; to obtain immediate injunctive relief without limiting

any other rights or remedies.

- 17.6 In the event that you are not an individual, this Section will also apply to the officers, directors, stockholders, trustees, beneficiaries and/or principals of you, the franchisee, and any persons controlled by, controlling or under common control with you.

SECTION 18 - TERMINATION OF LICENSE

- 18.1 Termination by you.

If you are in compliance with this Agreement and HOB breaches this Agreement and fails to cure the breach within 30 days after a written notice of the breach is delivered to HOB by you, you may terminate the License and Agreement, effective 10 days after the delivery to HOB of a notice of termination. There are no other provisions in this Agreement that grants you the right to terminate the License and Agreement.

Should you terminate the License and Agreement in compliance with this Subsection, you are required to comply with the termination procedures as set forth in Subsection 18.4.

- 18.2 Termination by HOB without Notice.

Unless HOB promptly, after discovery of the relevant facts, notifies you to the contrary in writing, the License and this Agreement will immediately terminate without notice (or in the event notice is required by law, immediately upon the giving of such notice or at the earliest time thereafter permitted by applicable law) in the event that:

- A. No site has been designated and accepted pursuant to Subsection 9.1;
- B. A permanent or temporary receiver or trustee for the Outlet or all or substantially all of your property is appointed by any court, or any such appointment is consented to or not opposed through legal action by you, or you make a general assignment for the benefit of your creditors or you make a written statement to the effect that you are unable to pay your debts as they become due, or a levy or execution is made on the License, or an attachment or lien remains on the Outlet for 30 days unless the attachment or lien as being duly contested in good faith by you and HOB is advised;
- C. You lose possession or the right of possession of all or a significant part of the Outlet through condemnation, casualty, lease termination or mortgage foreclosure and the Outlet is not relocated or reopened as provided in Section 16;

- D. You contest in any court or proceeding the validity of, or HOB's ownership of, any of the Marks;
- E. A breach of Section 19 (Assignment) occurs; or
- F. You are a corporation, and any action is taken which purports to merge, consolidate, dissolve or liquidate you without HOB's prior written consent.
- G. If House of Bread elects to return the total franchise fee, then you will be required to completely de-identify the bakery as a House of Bread franchise. However, you may continue operating your bread store with the production schedules acquired during the contract term.

18.3 Termination by HOB With Notice.

The License and this Agreement will terminate on notice under certain circumstances as provided in Subsections 6.3, 9.5 and Sections 12, 14 and 16. The License will terminate on the termination date specified in any notice by HOB to you (without any further notice of termination unless required by law), provided that:

- A. The notice is hand-delivered or mailed at least 30 days (or any longer period as may be required by law) in advance of the termination date;
- B. The notice reasonably identifies one or more breaches or defaults in your obligations or performance under this Agreement or the Manual;
- C. The notice specifies the manner in which the breach(es) or default(s) may be remedied; and
- D. The breach(es) and default(s) are not fully remedied before, or as of, the termination date specified in the notice.

The period given to remedy breaches and defaults will, if permitted by law, be 10 days instead of 30 days if you will have engaged in repeated breaches or defaults under this Agreement within the preceding 24 months for which you have received notice of termination and termination failed to take effect because the breaches or defaults were remedied. The period will be extended if the breach cannot reasonably be cured in such 10 or 30 days, provided that:

- A. You have taken all steps to completion towards a cure that is possible within such 10-or 30-day period;

- B. You diligently prosecute a cure to completion; and
- C. Such period will in no event be extended by more than 60 days.

18.4 Effect of Termination.

Should this Agreement or the License expire or be terminated by any party and for any reason, all rights and obligations between you and HOB under this Agreement will terminate, except for Subsections 6.2, 11.1, 11.2, and Section 15 and 17 and Subsection 18.8. In an instance of expiration or termination, you will cease to be a licensed participant in the System, and you will:

- A. Promptly pay HOB all amounts owing by you based on operations of the Outlet through the date of termination plus interest at the lower of (i) 12% per annum; or (ii) the highest rate permitted by law;
- B. Immediately discontinue the use of all Marks, signs, structures, forms of advertising, telephone listings and service, the Manual, and all materials and products of any kind which are identified or associated with the System and subject to Subsection 18.5, return all these materials and products to HOB and, at HOB's request, assign your telephone number to House of Bread;
- C. Make no representation nor state that you are in any way approved, endorsed or licensed by HOB or associated or identified with HOB or the System in any manner;
- D. Immediately take all steps necessary to amend or terminate any registration or filing of any d/b/a or fictitious name or any other registration or filing containing the Marks so as to delete the Marks and all references to anything associated with the System;
- E. Provide HOB the option to purchase required by Section 20; and
- F. Comply with the provisions of Subsections 15.7 and 17.1.

18.5 If, within 30 days after termination of this Agreement by HOB, you fail to remove all displays of the Marks from the Outlet, which are identified or associated with the System, HOB may enter the Outlet to effect removal. In this event, HOB will not be charged with trespass nor be accountable or required to pay for any displays or materials.

18.6 If, within 30 days after termination you have not taken all steps necessary to amend or terminate any registration or filing of any fictitious name or any other registration or filing containing the Marks, you hereby irrevocably appoint HOB as your true and lawful attorney for you, and in your name, place and stead and on your behalf, to take action as

may be necessary to amend or terminate all registrations and filings, this appointment being coupled with an interest to enable HOB to protect the System.

- 18.7 Termination of this Agreement will not affect, modify or discharge any claims, rights, causes of action or remedies which HOB may have against you, whether such claims or rights arise before or after termination.

SECTION 19 - ASSIGNMENT

19.1 General.

None of your rights under this Agreement or the License granted, all of which are personal in nature, may be the subject of any pledge, lien, levy, attachment, or security arrangement, or acquired through execution, foreclosure, or like action. None of your rights or obligations under this Agreement or the License granted is assignable or transferable (including by will, declaration of or transfer in trust or the laws of intestate succession) without HOB's prior written consent and compliance in all other respects with the terms of this Section. If you are a general partnership, limited partnership or corporation, no initial personal interest in the general partnership, limited partnership, or corporation is assignable or transferable without HOB's prior written consent and compliance in all other respects with the terms of this Section. HOB will not unreasonably withhold consent. Any purported action contrary to this Section will be a material breach of this Agreement and will be void.

With and after each valid assignment of this Agreement pursuant to this Section, the assignee or assignees will be deemed to be you, the franchisee, under this Agreement and will be bound by and liable for all of your existing and future obligations. No stockholder in any corporation which becomes the franchisee will have any rights under this Agreement by reason of his, her or its stock ownership, and the name of such corporation will not include any of the Marks.

19.2 Conditions to Assignments and Transfers.

No transfer or assignment of this Agreement will be approved by HOB or be effective unless and until:

- A. There be no default in the performance or observance of any of your obligations under this Agreement or any other agreement with HOB
- B. You have settled all outstanding accounts with HOB, and you and every principal of you, the franchisee, have executed a general release of HOB and all principals of HOB from all claims that may be brought by you or any principal

C. The proposed transferee pays HOB a Transfer Fee in the amount of \$10,000.00, unless the transferee is;

1. A corporation of which you are the majority stockholder, or a child, parent, sibling or spouse of yours, in which case no Transfer Fee will be required, or
2. Another franchisee of the HOB, in which case the Transfer Fee will be \$1,000.00.

D. The proposed transferee will execute a separate Franchise Agreement with HOB, using our then current form of Franchise Agreement, and the proposed transferee will execute an Acknowledgment of Receipt of a then current copy of our Federal Disclosure Document.

E. The proposed transferee will pay for, attend and satisfactorily complete the two week training program for new franchisees in San Luis Obispo unless,

1. The transferee is a current franchisee in good standing in the System, or
2. The transferee is and has been a manager responsible for all phases of the operation for a period of one year or more of an Outlet in good standing. Then the transferee will only be required to attend training in San Luis Obispo for five days.

F. The individual proposed transferee, or the stockholders, partners or trustees and beneficiaries of a proposed corporate, partnership or trust transferee, will each execute a personal guarantee, jointly and severally guaranteeing the performance of the proposed transferee's obligations.

G. The proposed transferee will have demonstrated to HOB's satisfaction that he or she in all respects our standards applicable to new franchisees regarding experience, personal and financial reputation and stability, willingness and ability to devote his or her best efforts to the operation of the franchised business, and any other conditions as HOB may reasonably apply in evaluating new franchisees. HOB must be provided all information about the proposed transferee as we may reasonably require. The proposed transferee must attend a two-day discovery period at House of Bread San Luis Obispo prior to gaining approval for the transfer. Because of the confidential information available to a franchisee, no assignment to a competitor of HOB will be permitted.

H. The parties to the proposed transaction will have entered a binding agreement subject only to the rights of HOB. HOB will be furnished a copy of this binding agreement (a "Purchase Offer"), and HOB must waive in writing its rights under Section

20. You will advise each prospective transferee of this provision and the other terms of this Agreement.

I The parties agree that minimum of one month of training will occur by the Franchisee at the bakery being sold. An additional two week of training will occur for the new owner in San Luis Obispo House of Bread.

19.3 If you are an individual and you desire to transfer your rights under this Agreement to a corporation, partnership or trust which you will newly form and of which you will be a majority shareholder, partner, trustee, beneficiary and/or an executive officer, you may do so only if:

A. Your name remains on this Agreement and the corporation, partnership or trust is added as a co-Franchisee;

B. You continue to devote your best efforts to manage the operations of the franchised business unless you have a operational partner or manager approved by HOB and who will be incorporated into the terms of the franchise agreement and disclosure documents;

C. The corporation's, partnership's or trust's activities are confined exclusively to operating the franchised business;

D. The corporation, partnership, trust and all officers sign an agreement with HOB assuming jointly and severally all your obligations under this Agreement; and

E. The stock certificates, certificated units of partnership or certificated beneficial interests of the corporation, partnership or trust will bear the following legend:

"The (shares of capital stock) (partnership interest) (beneficial interest) represented by this certificate are subject to the terms and conditions set forth in that certain House of Bread Franchise Agreement between the (Corporation) (Partnership) (Trust) and House of Bread Franchising, Inc. a copy of which is on file in the principal office of the (Corporation) (Partnership) (Trust) and a copy of which will be provided to the holder of record hereof upon written request without charge."

It is expressly understood that the assumption of your obligation by any corporation, partnership or trust does not limit your personal obligations under this Agreement, and that you and the corporation, partnership or trust will be jointly and severally liable.

19.4 Upon the death of an individual Franchisee, the rights granted by this Agreement may pass (without payment of any Transfer Fee) to the next of kin or legatees, provided that your legal representatives will within 120 calendar days of your death apply in writing to

HOB for the right to transfer to the next of kin or legatee your rights under this Agreement. HOB will not unreasonably withhold our permission so long as the proposed transferees meet each of the requirements set forth in Subsection 19.2 without regard to Subsection 19.2(C).

- 19.5 Any attempt by you to transfer any of your rights or interest under this Agreement or the License, without having received HOB's prior written consent will constitute a material breach of this Agreement. However, if you die and your personal representative does not desire to sell the Outlet, and if under controlling local law your interest in the Outlet, the License and Agreement are distributable to heirs or legatees who are members of his or her immediate family and who otherwise would qualify as assignees, then, such attempted assignment by operation of law or will, will not be deemed in violation of this Agreement, provided that such heirs or legatees accept the conditions imposed on otherwise permitted assignees.
- 19.6 You will not have the right to grant a subfranchise.
- 19.7 HOB may assign its rights under this Agreement without notice to you.

SECTION 20 - OPTION TO PURCHASE

- 20.1 Unless otherwise explicitly provided by this Agreement, HOB will be entitled to exercise the rights provided in this Section immediately upon:
- A. The expiration without renewal or the termination for any reason of the License or this Agreement;
 - B. Any breach, default or other event that gives HOB the right to terminate the License or this Agreement; or
 - C. The receipt by HOB of a copy of a Purchase Offer.
- 20.2 Upon any event described in Subsection 20.1, HOB will have the option to purchase all of your rights, title and interest in the Outlet, and all its improvements, furniture, fixtures, equipment and products, and all of your accounts, contract rights, customer and vendor lists, work in progress and other business assets.
- 20.3 The purchase price for assets itemized in Subsection 20.2 will be the current fair market value if Subsection 20.1A or 20.1B is applicable or the price specified in any written purchase offer received by you if Subsection 20.1C is applicable. If you and HOB cannot agree on fair market value within a reasonable time, an independent appraiser will be designated by each of us and an average of the 2 appraised values will be binding.

If HOB elects to exercise any option to purchase provided in this Subsection, HOB will have the right to set off all amounts due from you under the Franchise Agreement and the cost of the appraisal, if any, against any payment.

- 20.4 HOB will notify you of our intention to exercise its rights to purchase (a "Notice of Intent") within 30 days following an event described in Subsection 20.1. The Notice of Intent will specify the assets to be purchased, and the fair current market value as determined by HOB. You will have 14 days following receipt of HOB's Notice of Intent to object to any of the prices specified therein, and any disputes over pricing will be resolved through appraisal as specified Subsection 20.3. If HOB declines to exercise its rights under this Section within 30 days, you may thereafter, sell or dispose of the franchised business to a third party, but not at a lower price nor on more favorable terms than set forth in the Purchase Offer, if any, and subject to the prior written permission of HOB and satisfaction of the other conditions to assignment set forth in Section 19.
- 20.5 The purchase and sale contemplated in this Section will be consummated as soon as practicable. Following the delivery of a Notice of Intent as specified in Subsection 20.4, HOB or our designee will have the right to take possession of the Outlet and to carry on and develop the franchised business for the exclusive benefit of HOB or its designee.
- 20.6 In the event that HOB elects not to exercise its option to purchase under this Section, the provisions of Section 19 will apply to any proposed transfer by you.

SECTION 21 - BANKRUPTCY OR INSOLVENCY

You will be deemed in default under this Agreement and all rights granted herein will automatically terminate without notice in the event of the following:

- A. You become insolvent, or make a general assignment for the benefit of creditors;
- B. You file a petition of bankruptcy, or do not oppose a petition filed against you;
- C. You consent to the filing of a receivership or other custodianship for your business assets;
- D. You have instituted by or against you a proceeding for a composition with creditors under any state or federal law;
- E. You have a final judgment filed against you which remains unsatisfied or of record for 30 days or longer (unless supersedeas bond is filed);

F. You are dissolved;

G. An execution is levied against your franchise or property contained in the Outlet, or a suit to foreclose any lien against the Outlet or equipment is instituted against you and not dismissed within 30 days, provided that this provision will not apply if a supersedeas bond is timely filed; or

H. Your Outlet's property is sold after levy by any sheriff, marshal, or constable.

SECTION 22 - MISCELLANEOUS

22.1 Relationship of Parties.

You neither have nor will you exercise any authority, express, implied or apparent, to act on behalf of or as an agent of HOB, for any purpose, and will take no action which might tend to create an apparent employer-employee or agency relationship between you and HOB. No fiduciary relationship exists between you and HOB. You are, and will remain, an independent contractor responsible for all obligations and liabilities of, and for all loss or damage to, the Outlet and its business and for all claims and demands based on damages or destruction of property or based on injury, illness or death of any person or persons, directly or indirectly arising from or in connection with the operation of the Outlet. HOB does not have the control of the day-to-day managerial operations of the Outlet.

22.2 No Conflict with Other Agreements.

You represent that you are not a party to or subject to agreements that might conflict with the terms of this Agreement and agree not to enter into any conflicting agreements during the License Term.

22.3 Cost of Enforcement.

If either party institutes and prevails entirely or in part in any action at law or in equity against the other party based entirely or in part on the terms of this Agreement, the prevailing party will be entitled to recover from the losing party, in addition to any judgment reasonable attorneys' fees, court costs and all of the prevailing party's expenses in connection with any action at law.

22.4 No Waiver.

No failure, forbearance, neglect or delay of any kind on the part of HOB in connection with the enforcement or exercise of any rights under this Agreement will affect or diminish HOB's right to strictly enforce and take full benefit of each provision of this

Agreement at any time, whether at law for damages, in equity for injunctive relief or specific performance, or otherwise. No custom, usage or practice with regard to this Agreement by you or HOB's other franchisees will preclude the strict enforcement of this Agreement in accordance with its literal terms. No waiver by HOB of performance of any provision of this Agreement will constitute or be implied as a waiver of HOB's right to enforce that provision at any future time.

22.5 Entire Agreement; Amendments.

This Agreement, together with any written related agreements and all Exhibits, constitutes the entire understanding and agreement between you and HOB and supersedes all prior understandings, whether oral or written, pertaining to this Agreement, License, System or Outlet. No interpretation, change, termination or waiver of any provision of this Agreement, and no consent or approval under this Agreement, will be binding upon you or HOB or effective unless in writing signed by you and HOB's President or Vice President, except that a waiver need be signed only by the party waiving.

22.6 Severability.

If any term or provision of this Agreement or the application thereof to any person, property or circumstances will to any extent be invalid or unenforceable, the remainder of this Agreement will be unaffected and will remain in full force and effect and each term and provision will be valid and enforced to the fullest extent permitted by law. Should this prove impractical, HOB will have the option of terminating this Agreement upon written notice to you.

22.7 Governing Law.

This Agreement has been made and accepted in the State of California and it will be interpreted in accordance with and governed by the laws of the State of California and any applicable federal and state franchise laws. You hereby consent to jurisdiction in San Luis Obispo, California.

22.8 Arbitration and Mediation.

Except as specifically otherwise provided in this Agreement, and in the event that you or HOB has any dispute relating to this document, there will first be a face-to-face meeting to resolve the dispute. Such meeting shall be held in San Luis Obispo within 30 days or either Franchisor or Franchisee providing written notice of the dispute. Second, after the face-to-face meeting and before any lawsuit or arbitration by any party, the parties shall participate in a non-binding mediation in accordance with the commercial arbitration rules of the American Arbitration Association. Third, if mediation is unsuccessful at resolving the dispute, then the parties shall go to a neutral arbitrator. The arbitrator is to

be determined solely and exclusively by arbitration in accordance with the then existing rules of the American Arbitration Association at its office, 3055 Wilshire, Los Angeles, California 90010, subject to the following:

A. You and HOB will select one arbitrator, and the two so designated will select a third arbitrator. If either of us will fail to designate an arbitrator within 7 days after arbitration is requested, then a single arbitrator will be selected by the American Arbitration Association upon application of either you or HOB. Arbitration proceedings will be conducted in accordance with the rules then prevailing of the American Arbitration Association at its Los Angeles office. Judgment upon an award of the majority of the arbitrators will be binding, and will be entered in a court of competent jurisdiction.

B. Nothing herein contained will bar the right of you or HOB to obtain injunctive relief against threatened conduct that would violate this Agreement and cause loss or damages.

22.9 Notices.

All notices and other communications provided for in this Agreement must be in writing and will be delivered in person or mailed by certified or other receipted mail, or by Federal Express or U.S. Priority Mail for delivery if to you, at your address or, if to HOB at our address. You or HOB, by such notice, may change the address to which notices will be sent. Notices delivered in person will be deemed given when delivered and mailed notices will be deemed given 3 days after mailing if by certified or other receipted mail or 1 day after mailing if by Federal Express or U.S. Express Mail. If you are a corporation or more than 1 individual, then you will authorize 1 natural person as correspondent with authority to bind you.

22.10 Certain References.

References to weeks and months mean calendar weeks and calendar months. References to persons mean legal entities as well as natural persons. Whenever the pronoun "he" or "his" is used herein, it refers to masculine, feminine and neuter genders and also singular and plural. Except as otherwise specifically set forth in this Agreement, this Agreement will inure to the benefit of and be binding on you and HOB, our respective heirs, executors, administrators, personal representatives, successors and assigns.

22. 11 CALIFORNIA ADDENDUM: The California Investment Franchise Law requires that a copy of all proposed agreements be relating to the sale of the franchise be delivered together with the Franchise Disclosure Document.

This entire Agreement, including corrections, changes, and all attachments and addendums, will

only be binding upon HOB when executed or initialed by HOB's President or vice-president. You and HOB, intending to be legally bound, have duly executed, sealed, and delivered this Agreement in duplicate this day _____ 2024.

Franchisee Date: _____

Franchisee Date: _____

Sheila McCann, President of House of Bread Date: _____

PERSONAL GUARANTEES

I, the undersigned, in order to induce HOB to enter into this Franchise Agreement, hereby, jointly and severally, personally guarantee performance of this Agreement in its entirety and specifically, but without limitation thereto, the monetary obligation of the Franchisee, as well as the confidentiality and non-competition provisions as if each of us were the Franchisee.

GUARANTOR:

FRANCHISEE

Date: _____

GUARANTOR:

FRANCHISEE

Date: _____

EXCLUSIVE TERRITORY

Zip Codes

Within six months of the signing of this Agreement, the above listed zip codes may be transferred to a mutually agreed alternative territory that is available.

EXHIBIT C

MULTI-UNIT FRANCHISE AGREEMENT

This Multi-Unit Franchise Agreement is made and entered into between House of Bread Franchising, Inc., dba House of Bread, a California corporation (Franchisor) and _____ (Multi-Unit Franchisee).

The Franchisor as the result of the expenditure of time, skill, effort and money, has developed and owns a unique and distinctive system (System) relating to the establishment and operation of a bread bakery (Outlet) and identifies the System by a service mark for House of Bread Franchising, Inc., (Proprietary Marks).

The Multi-Unit Franchisee wishes to obtain certain multi-unit rights to operate House of Bread Outlets under the System in the territory described in this Multi-Unit Franchise Agreement.

Therefore, the Parties, in consideration of the foregoing, agree as follows:

SECTION 1 - MULTI-UNIT FRANCHISE RIGHTS

1.1 Grant of Multi-Unit Franchise Rights and Franchise Fee. Franchisor hereby grants to Multi-Unit Franchisee, pursuant to the terms and conditions of this Agreement, multi-unit rights to obtain licenses to establish and operate a minimum of two (2) and a maximum of eight (8) House of Bread Outlets, and to use the System solely in connection therewith, at specific locations to be designated in separate House of Bread Franchising, Inc. Franchise Agreements executed as provided in Section 3.1 hereof, and pursuant to the schedule set forth in Schedule A (Development Schedule) of this Agreement. Each House of Bread Outlet shall be located in the area described in Schedule B (Assigned Area) of this Agreement. The Initial License Fees for the House of Bread Outlets to be opened and operated by the Multi-Unit Franchisee shall be as described in Section 2 herein.

1.2 Franchise Agreement Required. Each House of Bread franchise for which a multi-unit right is granted hereunder shall be established and operated according to a Franchise Agreement to be entered into between the Multi-Unit Franchisee and Franchisor in accordance with Section 3.1 hereof.

1.3 Protected Area. Except as otherwise provided in this Agreement, Franchisor shall not establish, nor license anyone other than the Multi-Unit Franchisee to establish any House of Bread Outlet under the System in the Assigned Area during the term of this Agreement.

1.4 No Grant of Franchise Rights. This Agreement does not grant to the Multi-Unit Franchisee any right to use Franchisor's Proprietary Marks or System, which shall only be granted pursuant to a separate Franchise Agreement.

1.5 No Sublicensing. The Multi-Unit Franchisee shall not have the right under this Agreement to license others under the Proprietary Marks or System.

SECTION 2 - INITIAL FRANCHISE FEES

In consideration of the Multi-Unit Franchisee's Agreement to open and operate a minimum of two (2) and a maximum of eight (8) House of Bread Outlets according to the development schedule attached hereto, the Franchisor shall reduce, as set forth below, the Initial License Fee otherwise payable under the Franchise Agreement for the House of Bread Outlets purchased. The Multi-Unit Franchisee shall pay to Franchisor upon execution of this Agreement, fifty percent of thirty five thousand dollars (\$35,000) which is the franchise fee for the first Outlet. The remaining fifty percent payment of seventeen thousand five hundred dollars (\$17,500) for the first franchise shall be due and payable according to the terms of the franchise agreement executed for the first franchise. The additional fees for the Brew House will be five thousand dollars (\$5,000) paid at the time the payment for the second half of the initial franchise fee is due. There are no additional fees for the Brew House for other multiple units. Seventeen thousand five hundred dollars (\$17,500) for the second franchise and ten thousand dollars (\$10,000) for the third-eighth franchise shall be paid at the time of payment of the first fifty percent payment for the first franchise. All Multi-Unit fees are paid in advance. The Initial Franchise Fee shall be fully earned by Franchisor upon execution of this Agreement and is not refundable in whole or in part, regardless of the number of House of Bread Franchising Outlets which may or may not be opened and operated under this Agreement.

SECTION 3 - EXERCISE OF MULTIPLE-UNIT FRANCHISE RIGHTS

3.1 Schedule and Manner of Exercising Multi-Unit Franchise Rights. The Multi-Unit Franchisee shall exercise each multi-unit franchise right granted herein only by executing a Franchise Agreement for each House of Bread Outlet for a location approved by Franchisor in the Assigned Area as hereinafter provided. The Franchise Agreement for the first multi-unit franchise right exercised hereunder shall be in the form of the Franchise Agreement to which this Multi-Unit Franchise Agreement is attached as Exhibit C. Except for the Initial License Fee, the Franchise Agreement for each additional multi-unit franchise right exercised hereunder shall be the form of the Franchise Agreement being offered by Franchisor at the time each multi-unit right is exercised.

3.2 Time is of the Essence. Recognizing that time is of the essence, the Multi-Unit Franchisee agrees to exercise each of the multi-unit franchise rights granted hereunder in the manner specified in Section 3.1 hereof, and to satisfy the multi-unit franchise schedule set forth in Schedule A . Failure by the Multi-Unit Franchisee to adhere to the multi-unit franchise schedule shall constitute a default under the Agreement as provided in Section 6 hereof.

3.3 Site Location. Prior to entering into an agreement to purchase or lease any site, the Franchisee must obtain Franchisor's prior written approval of the site and the terms of the purchase agreement or lease. After obtaining Franchisor's approval, the Multi-Unit Franchisee shall execute a lease (if the premises are to be leased) or binding agreement to purchase the site, and a Franchise Agreement relating to the approved site will be executed. The lease, if any, shall be subject to such terms and conditions as may be contained in the Franchise Agreement relating to that site.

SECTION 4 -TERM AND EXCLUSIVE TERRITORY

4.1 Term. Unless sooner terminated in accordance with the terms of this Agreement, the term of this Agreement and all rights granted hereunder shall expire on the latest date shown on the multi-unit franchise schedule attached hereto as Schedule A.

4.2 Multi-Unit Franchisee's Exclusive Territory. If the Multi-Unit Franchisee successfully and in a timely manner completes the multi-unit franchise schedule set forth in Schedule A, then, Franchisor shall not establish, nor license anyone other than the Multi-Unit Franchisee to establish any House of Bread Outlet under the System in the Assigned Area. In the event that Multi-Unit Franchisee at any time does not complete the multi-unit franchise schedule, such rights shall terminate, and Franchisor may thereafter establish additional House of Bread Outlets itself or license others to do so in the Assigned Area. However, such additional House of Bread Outlets shall not infringe upon any Exclusive Territory, if any, provided for in the Multi-Unit Franchisee's Franchise Agreement for Outlets already established according to the Development Schedule.

SECTION 5 - DUTIES OF THE PARTIES

5.1 Duties of Franchisor. Franchisor shall furnish to the Multi-Unit Franchisee the following:

A. Market analysis and site selection guidance.

B. One (1) copy of each of Franchisor's Confidential Operating Manual (Manual) on loan for the term of this Agreement, subject to the following conditions:

The Multi-Unit Franchisee shall comply with all provisions, standards and procedures set forth in the Manual.

The Manual shall at all times remain the sole property of Franchisor and shall be returned to Franchisor immediately upon expiration or termination of this Agreement.

Franchisor may from time to time revise the contents of the Manual and the Multi-Unit Franchisee expressly agrees to comply with each new or changed provision, standard or procedure which are incorporated herein by reference.

The Multi-Unit Franchisee shall at all times ensure that its copies of the Manual are kept current and up to date and, in the event of any dispute as to the contents of the Manual, the terms of the master copies maintained by Franchisor at Franchisor's home office shall be controlling.

5.2 Duties of the Multi-Unit Franchisee. The Multi-Unit Franchisee shall fulfill the following duties:

A. The Multi-Unit Franchisee shall comply with all terms and conditions set forth in this Agreement, the Franchise Agreement and any related agreements with the Franchisor or its Affiliates.

B. The Multi-Unit Franchisee shall ensure that its business complies with all requirements of federal, state and local laws, rules and regulations.

(c) The Multi-Unit Franchisee shall designate an individual to serve as Franchise Multi-Unit Manager who may be the Franchisee. The Multi-Unit Franchise Manager shall complete, to Franchisor's satisfaction, any continuing development training required by Franchisor hereunder and shall bear all expenses (including travel, lodging and food) of such training. The Multi-Unit Franchisee may attend such optional development training as Franchisor may offer from time to time.

SECTION 6 - DEFAULT AND TERMINATION

Multi-Unit Franchisee acknowledges and agrees that each of the Franchisee's obligations described in this Agreement is a material and essential obligation of Multi-Unit Franchisee; that nonperformance of such obligations will adversely and substantially affect the Franchisor and the System; and agrees that the exercise by Franchisor of the rights and remedies set forth herein are appropriate and reasonable.

6.1 Termination Without Notice or Opportunity to Cure. Multi-Unit Franchisee shall be deemed to be in default under this Agreement and all rights granted herein shall automatically terminate without notice to Multi-Unit Franchisee, if Multi-Unit Franchisee shall become insolvent or make a general assignment for the benefit of creditors; or if a petition in bankruptcy is filed under any Chapter of Title 11 of the United States Code by Multi-Unit Franchisee or such a petition is filed against and not opposed by Multi-Unit Franchisee; or if a bill in equity or other proceeding for the appointment of a receiver of Multi-Unit Franchisee or other custodian for Multi-Unit Franchisee's business or assets is filed and consented to by Multi-Unit Franchisee; or if a receiver or other custodian (permanent or temporary) of Multi-Unit Franchisee's assets or property, or any part thereof, is appointed by any court of competent jurisdiction and not dismissed within thirty (30) days; or if proceedings for a composition with creditors under any law should be instituted by or against Multi-Unit Franchisee; or if a final, non-appealable judgment remains unsatisfied or of record for thirty (30) days or longer (unless a supersedeas bond is filed); or if execution is levied against Multi-Unit Franchisee's business or property; or if suit to foreclose any lien or mortgage against the premises or equipment is instituted against Multi-Unit Franchisee and not vigorously defended, or not dismissed or not satisfied within thirty (30) days after a final, non-appealable judgment; or if the real or personal property of the franchised business shall be sold after levy thereupon by any sheriff, marshal or constable.

6.2 Termination With Notice Without Opportunity to Cure. Multi-Unit Franchisee shall be deemed to be in default and Franchisor may, at its option, terminate this Agreement and all rights granted hereunder, without affording Multi-Unit Franchisee any opportunity to cure the default effective immediately upon notice to Multi-Unit Franchisee, upon the occurrence of any of the following events:

A. If Multi-Unit Franchisee ceases to do business or otherwise abandons the Facility, loses the right to possession of the premises or otherwise forfeits the right to do or transact business in the jurisdiction where the franchised business is located; provided, however, that if through no fault of Multi-Unit Franchisee, the premises are damaged or destroyed by an event such that it cannot reasonably be restored within ninety (90) days thereafter, then Multi-Unit Franchisee has sixty (60) days after such event in which to apply for the Franchisor's approval to relocate and/or reconstruct the Facility, which approval shall not be unreasonably withheld.

B. If Multi-Unit Franchisee or any of Multi-Unit Franchisee's Principals (officers, directors, shareholders, general partners, members, managers, owners) plead nolo contendere to or are convicted of a felony or a crime involving moral turpitude or any other crime or offense that Franchisor believes is reasonably likely to adversely affect the System or the Proprietary Marks, or the goodwill associated therewith, or Franchisor's interest therein.

C. If Multi-Unit Franchisee or any of Multi-Unit Franchisee's Principals purport to transfer any rights or obligations under this Agreement to any third party without Franchisor's prior written consent, contrary to the terms of Section 7 of this Agreement.

6.3 Termination With Notice and Opportunity to Cure. Except as provided in Sections 6.1 and 6.2 of this Agreement, Multi-Unit Franchisee shall have ten (10) days with respect to monetary defaults and thirty (30) days with respect to non-monetary defaults (unless otherwise specifically stated below) after written notice to Multi-Unit Franchisee within which to remedy such default and provide evidence thereof to Franchisor. If any such default is not cured within the appropriate time period, or such longer period as applicable law may require, the Agreement shall terminate without further notice to Multi-Unit Franchisee effective immediately upon the expiration of the respective time period or such longer period as applicable law may require. Multi-Unit Franchisee shall be in default hereunder for any failure to substantially comply with any of the requirements imposed by this Agreement or to carry out the terms of this Agreement in good faith. Such defaults shall include, but shall not be limited to, the occurrence of any of the following events:

A. If Multi-Unit Franchisee fails, refuses or neglects promptly to pay any monies owing to Franchisor or Franchisor's subsidiaries or Affiliates when due.

B. If Multi-Unit Franchisee fails, refuses or neglects to submit the financial information or reports required by Franchisor or makes any false statements in connection therewith.

C. If Multi-Unit Franchisee fails to maintain the standards required by Franchisor.

D. A Multi-Unit Franchisee fails, refuses or neglects to obtain Franchisor's prior written approval or consent as required by any provision of this Agreement.

E. If Multi-Unit Franchisee fails to cure a default under any mortgage, lease or deed of trust relating to the Facility within thirty (30) days or fails to properly contest same in a court of law, in which case said thirty (30) day cure period shall not apply until after a final, non-appealable judicial determination.

- F. If Multi-Unit Franchisee misuses or makes any unauthorized use of the Proprietary Marks or otherwise materially impairs the goodwill associated therewith or Franchisor's rights therein.
- G. If Multi-Unit Franchisee fails, refuses or neglects to commence construction of the Facility in accordance with the Franchise Agreement or to open a Facility for business in accordance with the Franchise Agreement.
- H. If Multi-Unit Franchisee fails, refuses or neglects to comply with the insurance requirements set forth in the Franchise Agreement.
- I. If Multi-Unit Franchisee breaches any of the material terms or conditions of this Agreement.
- J. If Multi-Unit Franchisee or any of Multi-Unit Franchisee's Principals violate or otherwise breach any covenants concerning confidentiality contained in the Franchise Agreement.
- K. If Multi-Unit Franchisee or any of Multi-Unit Franchisee's Principals breach the covenants against competition described in the Franchise Agreement.
- L. If Multi-Unit Franchisee fails to timely obtain the execution of confidentiality covenants pursuant to the Franchise Agreement or the covenants not to compete from the persons designated by Franchisor pursuant to the Franchise Agreement.
- M. If Multi-Unit Franchisee violates, breaches or fails to comply with any of the representations, warranties or covenants set forth in the Franchise Agreement.
- N. If an approved transfer is not effected within the time periods provided in the Franchise Agreement following the death or permanent disability of a person covered under such Section.

O. If in connection with the operation of the Outlet, Multi-Unit Franchisee repeatedly violates any law, ordinance, rule or regulation of a governmental agency, unless Multi-Unit Franchisee is involved in a good faith dispute over the application or legality of such law, rule or regulation or Multi-Unit Franchisee has promptly contacted the appropriate administrative or judicial forum for relief therefrom.

P. If Multi-Unit Franchisee fails to timely comply with the development schedule set forth as Schedule A hereto.

6.4 Failure to Cure Default. If the Multi-Unit Franchisee fails to diligently cure such a default after written notice of such default, which notice has either been personally delivered to the Multi-Unit Franchisee or sent to the Multi-Unit Franchisee postage prepaid by certified or registered mail, Franchisor, in its discretion, may do any one or more of the following:

A. Terminate this Agreement and all rights granted hereunder, upon the mailing of written notice of termination by Franchisor to the Multi-Unit Franchisee. Such notice shall be deemed effective when given in accordance with Paragraph 9.7 herein;

B. Reduce the number of Outlets which the Multi-Unit Franchisee may establish pursuant to Section 1 of this Agreement;

C. Terminate the territorial exclusivity granted the Multi-Unit Franchisee in Section 1.3 or reduce the area of territorial exclusivity granted the Multi-Unit Franchisee hereunder; or

D. Accelerate the Development Schedule.

6.5 Effect of Termination. Upon termination of this Agreement, the Multi-Unit Franchisee shall have no right to establish or operate any Outlet for which a Franchise Agreement has not been executed by Franchisor at the time of termination and Franchisor shall be entitled to establish and to license others to establish Outlets in the Assigned Area, except as may be otherwise provided under any other agreement which is then in effect between Franchisor and the Multi-Unit Franchisee.

6.6 Default Limited to This Agreement. No default under this Multi-Unit Franchise Agreement shall thereby constitute a default under any Franchise Agreement between Franchisor and the Multi-Unit Franchisee.

6.7 Non-Exclusivity of Remedies. No right or remedy conferred upon or reserved to Franchisor by this Agreement is exclusive of any other right or remedy provided or permitted by any Franchise Agreement or contained in law or in equity.

SECTION 7 - TRANSFERS OF INTEREST

7.1 Transfer by Franchisor. Franchisor shall have the right to transfer or assign all or any part of its rights or obligations herein to any person or legal entity.

7.2 Transfer by Multi-Unit Franchisee.

7.2.1 Multi-Unit Franchisee understands and acknowledges that the rights and duties set forth in this Agreement are personal to Multi-Unit Franchisee, and that Franchisor has granted this franchise in reliance on Multi-Unit Franchisee's business skill, financial capacity and personal character. Accordingly, neither Multi-Unit Franchisee nor any immediate or remote successor to any part of Multi-Unit Franchisee's interest in this franchise nor any individual, partnership, corporation or other legal entity which directly or indirectly controls Multi-Unit Franchisee shall sell, assign, transfer, convey, give away, pledge, mortgage or otherwise encumber any direct or indirect interest in this franchise without the prior written consent of Franchisor. Any purported assignment or transfer, by operation of law or otherwise, not having the written consent of Franchisor shall be null and void and shall constitute a material breach of this Agreement, for which Franchisor may then terminate without opportunity to cure pursuant to Section 6 of this Agreement.

7.2.2 Conditions for Transfer. Franchisor shall not unreasonably withhold its consent to a transfer of any interest in Multi-Unit Franchisee or in this franchise; provided, however, that if a transfer, alone or together with other previous, simultaneous or proposed transfers, would have the effect of transferring a controlling interest in the franchised business, Franchisor may, in its sole discretion, require as a condition of its approval that:

- A. All of Multi-Unit Franchisee's accrued monetary obligations to Franchisor, its subsidiaries and its Affiliates and all other outstanding obligations related to the Facility shall have been satisfied;
- B. Multi-Unit Franchisee is not in default of any provision of this Agreement, any amendment hereof or successor hereto, or any other agreement between Multi-Unit Franchisee and Franchisor, or its Subsidiaries and/or Affiliates;
- C. The transferor shall have executed a general release in a form satisfactory to Franchisor, of any and all claims against Franchisor and its officers, directors, independent consultants, shareholders and employees, in their corporate and individual capacities, including, without limitation, claims arising under federal, state and local laws, rules and ordinances;

D. The transferee shall enter into a written assignment in a form satisfactory to Franchisor, assuming and agreeing to discharge all of Multi-Unit Franchisee's obligations under this Agreement;

E. The transferee shall demonstrate to Franchisor's satisfaction that transferee meets Franchisor's reasonable requirements for managerial and business standards; possesses a good moral character, business reputation and credit rating; has the aptitude and ability to conduct the franchised business and has adequate financial resources and capital to operate the business;

F. The transferee shall upgrade, at transferee's expense, the Facility to conform to the then-current standards and specifications of System Facilities, and shall complete the upgrading and other requirements within a time as reasonably specified by Franchisor;

G. Multi-Unit Franchisee and Multi-Unit Franchisee's Principals shall remain liable for all of the obligations to Franchisor in connection with the franchised business incurred prior to the effective date of the transfer, and shall execute any and all instruments reasonably requested by Franchisor to evidence such liability;

H. At transferee's expense, transferee or transferee's manager shall complete any training programs then in effect for Multi-Unit Franchisees upon such terms and conditions as Franchisor may reasonably require;

Except in the case of a transfer to a corporation or partnership formed for the convenience of ownership, a transfer fee of Ten Thousand Dollars (\$10,000.00) in connection with the transfer shall be paid.

7.2.3 Prohibition on Security Interests. Multi-Unit Franchisee shall grant no security interest in the franchised business without the prior written consent of Franchisor. Multi-Unit Franchisee shall grant no security interest in any of the assets of the franchised business unless the secured party also agrees that in the event of any default by Multi-Unit Franchisee under any documents related to the security interest, Franchisor shall have the right and option to purchase the rights of the secured party upon payment of all sums then due to such secured party.

7.2.4 Franchisee Acknowledgment. Multi-Unit Franchisee acknowledges and agrees that each condition which must be met by the transferee Multi-Unit Franchisee is necessary to assure such transferee's full performance of the obligations hereunder.

7.3 Right of First Refusal.

7.3.1 Any party holding any interest in Multi-Unit Franchisee or in this Agreement and who desires to accept any bona fide offer from a third party to purchase such interest shall notify Franchisor in writing of the terms of each such offer, and Franchisor shall

have the right and option, exercisable within forty-eight (48) hours after receipt of such written notification, to send written notice to the seller that Franchisor intends to purchase the seller's interest on the same terms and conditions offered by the third party. In the event that Franchisor elects to purchase the seller's interest, closing on such purchase must occur within sixty (60) days from the date of notice to the seller of the election to purchase by Franchisor or such later date as may have been provided in the offer. Any material change in the terms of any offer prior to closing shall constitute a new offer subject to the same rights of first refusal by Franchisor as in the case of an initial offer. Failure of Franchisor to exercise the option afforded by this Section 7 shall not constitute a waiver of any other provision of this Agreement, including all of the requirements of this Section 7, with respect to a proposed transfer.

7.3.2 In the event the consideration, terms and/or conditions offered by a third party are such that Franchisor may not reasonably be required to furnish the same consideration, terms and/or conditions, then Franchisor may purchase the interest in the franchised business proposed to be sold for the reasonable equivalent in cash. If the parties cannot agree within a reasonable time on the reasonable equivalent in cash of the consideration, terms and/or conditions offered by the third party, an independent appraiser shall be designated, and his or her determination shall be binding.

7.4 Transfer Upon Death.

Upon the death of any person with an interest in the franchise or in Multi-Unit Franchisee, the executor, administrator or personal representative of such person shall transfer his or her interest to a third party approved by Franchisor within six (6) months after such death. However, in the case of transfer by devise or inheritance, if the heirs or beneficiaries of any such person are unable to meet the conditions in this Section 7, the personal representative of the deceased Multi-Unit Franchisee shall have a reasonable time to dispose of the deceased's interest in the franchise, which disposition shall be subject to all the terms and conditions for transfers contained in this Agreement. If the interest is not disposed of within a reasonable time, Franchisor may terminate this Agreement.

7.5 Transfer Upon Permanent Disability.

Upon the permanent disability of any person with an interest in this Agreement, the Facility or in Multi-Unit Franchisee, Franchisor may require such interest to be transferred to a third party approved by Franchisor within six (6) months after notice to Multi-Unit Franchisee.

A Permanent disability shall mean any physical, emotional or mental injury, illness or incapacity which would prevent a person from performing the obligations set forth in this Agreement for at least ninety (90) consecutive days and from which condition recovery within ninety (90) days from the date of determination of disability is unlikely. Permanent disability shall be determined by a licensed practicing physician; or if the person refuses to submit to an examination, then such person shall be automatically deemed permanently disabled

as of the date of such refusal for the purpose of this Section 7.5. The costs of any examination required by this Section shall be paid by Franchisor.

Upon the claim of permanent disability of any person with an interest in this Agreement, the franchised business or in Multi-Unit Franchisee, Multi-Unit Franchisee or a representative of Multi-Unit Franchisee must promptly notify Franchisor of claim of permanent disability. If an interest is not transferred upon death or permanent disability as required in this Section 7.5, in accordance with the terms and conditions of Section 7.2, such failure shall constitute a material event of default for which Franchisor may terminate this Agreement without opportunity to cure pursuant to this Agreement.

7.6 Notice. If the Multi-Unit Franchisee desires to make a transfer, the Multi-Unit Franchisee shall serve a written notice upon Franchisor at least sixty (60) days prior to the proposed closing date setting forth:

- A. The name and address of the proposed transferee;
- B. The price and all terms and conditions of the proposed transfer;
- C. The date and place of the proposed closing of the transfer;
- D. Financial statements of the proposed transferee for the preceding three (3) years; and
- E Any other information reasonably requested by Franchisor.

Within forty-eight (48) hours of receipt of Multi-Unit Franchisee's Notice, Franchisor shall either approve or disapprove the transfer or notify the Multi-Unit Franchisee of Franchisor's election to exercise its right of first refusal pursuant to Section 7.4. If Franchisor fails to notify the Multi-Unit Franchisee of Franchisor's approval, disapproval or exercise of Franchisor's right of first refusal within the time specified, then the Multi-Unit Franchisee's proposed transfer shall be deemed granted.

7.7 Approval of Each Transfer. Any transfer approved by Franchisor (and for which Franchisor has failed to exercise its right of first refusal) shall be consummated on or before ninety (90) days after the date of Multi-Unit Franchisee's Notice. Should the transfer not be completed or should the terms and conditions thereof be altered in any way, Franchisor's right of approval and right of first refusal, if applicable, shall be reinstated.

Franchisor's approval of a transfer or its failure to exercise its right of first refusal shall not relieve the Multi-Unit Franchisee or any transferee from the requirement of obtaining Franchisor's approval of, or the giving Franchisor a right of first refusal for, any subsequent proposed transfer.

SECTION 8 - INDEPENDENT CONTRACTOR AND INDEMNIFICATION

8.1 Independent Contractor. It is understood and agreed by the parties hereto that this Agreement does not create a fiduciary relationship between them, that Multi-Unit Franchisee shall be an independent contractor, and that nothing in this Agreement or arising from the franchise relationship is intended to constitute either party an agent, legal representative, subsidiary, joint venturer, partner, employee, employer, joint employer, enterprise or servant of the other for any purpose whatsoever.

8.2 Identification. Franchisee shall hold itself out to the public to be an independent contractor operating the business pursuant to a franchise from Franchisor. Franchisee agrees to take such actions as shall be necessary to that end, including, without limitation, exhibiting a notice of that fact in a conspicuous space on the House of Bread Outlet, the content of which Franchisor reserves the right to specify in the Manuals or otherwise in writing.

8.3 No Liability. Franchisee and Franchisee's officers, directors, shareholders, members, managers, and partners understand and agree that nothing in this Agreement authorizes Franchisee to make any contract, agreement, warranty or representation on Franchisor's behalf, or to incur any debt or other obligation in Franchisor's name; and that Franchisor shall in no event assume liability for or be deemed liable hereunder as a result of any such action; nor shall Franchisor be deemed liable by reason of any act or omission of Franchisee in its conduct of the business franchised by this Agreement, or for any claim or judgment arising therefrom against Franchisor or Franchisee.

8.4 Indemnification. Franchisee and each of Franchisee's Principals will, at all times, indemnify and hold harmless to the fullest extent permitted by law Franchisor, its corporate Affiliates, successors and assigns and the respective directors, officers, employees, agents and representatives of each from all losses and expenses incurred in connection with any action, suit, proceeding, claim, demand, investigation or inquiry (formal or informal), or any settlement

hereof whether or not a formal proceeding or action has been instituted) which arises out of or is based upon any of the following:

- A. The infringement, alleged infringement or any other violation or alleged violation by Franchisee or any of Franchisee's Principals of any patent, mark or copyright or other proprietary right owned or controlled by third parties.
- B. The violation, breach or asserted violation or breach by Franchisee or any of Franchisee's Principals of any contract, federal, state or local law, regulation, ruling, standard or directive or any industry standard.
- C. Libel, slander or any other form of defamation of Franchisor or the System, by Franchisee or any of Franchisee's Principals.
- D. The violation or breach by Franchisee or any of Franchisee's Principals of any warranty, representation, agreement or obligation in this Agreement.
- E. Acts, errors or omissions of Franchisee or any of its agents, servants, employees, contractors, partners, Affiliates or representatives.

8.5 Notice and Procedure. Franchisee and each of Franchisee's Principals agree to give Franchisor immediate notice of any such action, suit, proceeding, claim, demand, inquiry or investigation. Provided the exercise of the rights reserved to Franchisor in this Section 8 does not materially and adversely affect the insurance coverage required to be maintained by Franchisee pursuant to the Franchise Agreement, at the expense and risk of Franchisee and each of Franchisee's Principals, Franchisor may elect to assume (but under no circumstances is obligated to undertake), the defense and/or settlement of any such action, suit, proceeding, claims, demand, inquiry or investigation. If the exercise of the rights reserved to Franchisor in this Section 8 would materially and adversely affect the insurance coverage required to be maintained by Franchisee pursuant to the Franchise Agreement hereof, then in that event Franchisor shall have the right, in place of other rights, to associate counsel of its own choosing to monitor the defense and/or settlement of any such action, suit, proceedings, claims, demand, inquiry or investigation; it being understood, however, that the foregoing is not intended to limit Franchisor's right to seek equitable relief by way of injunction or otherwise to take reasonable actions to mitigate damage, injury or harm to persons or property. Any such undertakings by Franchisor shall, in no manner or form, diminish the obligation of Franchisee and each of Franchisee's Principals to indemnify Franchisor and to hold it harmless.

8.6 Franchisor Resolution of Claims. Subject to the provisions of Section 8.5 above, in order to protect persons or property, or its reputation or goodwill, or the reputation or goodwill of others, Franchisor may, at any time and without notice, as it, in its judgment deems appropriate consent or agree to settlements or take such other remedial or corrective action as

deems expedient with respect to the action, suit, proceeding, claim, demand, inquiry or investigation if, in Franchisor's sole judgment, there are reasonable grounds to believe that:

- A. any of the acts or circumstances enumerated in this Section 8 have occurred; or
- B. any act, error or omission of Franchisee or any of Franchisee's Principals may result directly or indirectly in damage, injury or harm to any person or any property.

8.7 Franchisee Liability for Losses and Expenses. Subject to the provisions of Section 8.5 above, all losses and expenses incurred under this Section shall be chargeable to and paid by Franchisee or any of Franchisee's Principals pursuant to its obligations of indemnity under this Section, regardless of any actions, activity or defense undertaken by Franchisor or the subsequent success or failure of such actions, activity or defense.

8.8 Definition of Losses and Expenses. As used in this Section, the phrase losses and expenses shall include, without limitation, all losses, compensatory, exemplary or punitive damages, fines, charges, costs, expenses, lost profits, attorneys' fees, court costs, settlement amounts, judgments, compensation for damages to the Franchisor's reputation and goodwill, costs of or resulting from delays, financing, costs of advertising material and media time/space and costs of changing, substituting or replacing the same, and any and all expense of recall, refunds, compensation, public notices and other such amounts incurred in connection with the matters described.

8.9 No Requirement to Mitigate Losses. Under no circumstances shall Indemnitee be required or obligated to seek recovery from third parties or otherwise mitigate their losses in order to maintain a claim against Franchisee or any of Franchisee's Principals. Franchisee and each of Franchisee's Principals agrees that the failure to pursue such recovery or mitigate loss will in no way reduce the amounts recoverable by Indemnitee from Franchisee or any of Franchisee's Principals.

SECTION 9 - MISCELLANEOUS

9.1 Conflict with Other Agreements. The Multi-Unit Franchisee represents and warrants that it is not a party to or subject to agreements which might conflict with the terms of this Agreement and shall not enter into any such agreements during the term hereof or any renewals or extensions thereof.

9.2 Cost of Enforcement. In any action at law or in equity based entirely or in part on the terms of this Agreement, the prevailing party shall be entitled to recover, in addition to any judgment in its favor, reasonable attorneys' fees, court costs and all expenses incurred in connection with the litigation or arbitration.

9.3 Non-Waiver. No failure, forbearance, neglect or delay of any kind or to any extent on the part of Franchisor in connection with the enforcement or exercise of any rights under this Agreement shall affect or diminish Franchisor's rights to strictly enforce and take full benefit of each provision of this Agreement at any time, whether at law for damages, in equity for injunctive relief or specific performance, or otherwise. No custom, usage or practice with regard to this Agreement, or between the Multi-Unit Franchisee and Franchisor, or between Franchisor and its other Multi-Unit Franchisees shall preclude at any time the strict enforcement of this Agreement in accordance with its literal terms. No waiver by Franchisor of performance of any provision of this Agreement shall constitute or be implied as a waiver of Franchisor's right to enforce such provision at any future time.

9.4 Entire Agreement; Amendments. This Agreement together with all the related Agreements, Exhibits, and Schedules constitutes the entire understanding and agreement of the Parties with respect to the subject matter addressed herein and supersedes all prior and contemporaneous negotiations, understandings and agreements of the parties, whether oral or written, pertaining to this Agreement and subject matter. **The Multi-Unit Franchisee expressly acknowledges that no oral representations, promises or declarations were made to it which are not specifically set forth in this Agreement.** No modification, change, termination or waiver of any provision hereof shall be binding upon the other party or effective unless in writing signed by the Multi-Unit Franchisee and Franchisor, except that a waiver need be signed only by the Party waiving. No field representative of Franchisor has the right or authority to modify or waive, either orally or in writing, any portion of this Agreement, and any such modification or waiver shall not be binding upon either party hereto.

9.5 Severability. If any nonmaterial term or provision of this Agreement or the application thereof to any person, property or circumstance shall to any extent be invalid or unenforceable, the remainder of this Agreement shall be unaffected thereby and shall remain in full force and effect and each term and provision shall be valid and enforced to the fullest extent permitted by law. If any material term or provision of this Agreement or the application thereof to any person, property or circumstance shall to any extent be invalid or unenforceable, the remainder of this Agreement may be terminated by either party upon sixty (60) days notice to the other. For purposes of this Section a material term or provision is one which goes to the essence of this Agreement, as determined by a court of competent jurisdiction.

9.6 Construction of Agreement. This Agreement has been made and accepted, in San Luis Obispo, California, and shall be interpreted in accordance with and governed by the internal laws of the State of California, County of San Luis Obispo.

The titles and subtitles of the various sections of this Agreement are inserted for convenience and shall not be deemed to affect the meaning or construction of any of the terms, provisions, covenants and conditions of this Agreement. The language in all parts of this Agreement shall in all cases be construed simply according to its fair meaning and not strictly for or against Franchisor or the Multi-Unit Franchisee.

It is the intention of the parties hereto that, if any provision of this Agreement is capable of two constructions, one which would render the provision valid, then the provision shall have the meaning which renders it valid.

The words Franchisor and the Multi-Unit Franchisee herein and all Exhibits and Schedules hereto may be applicable to one or more parties, as the case may be, and the singular shall include the plural and the neuter shall include the feminine and masculine.

If there shall be more than one party or persons executing this Agreement on behalf of the Multi-Unit Franchisee then, unless Franchisor otherwise agrees in writing, their obligations hereunder shall be joint and several.

The Multi-Unit Franchisee and Franchisor shall be excused from performing any obligation or undertaking provided for in this Agreement as long as such performance is prevented, delayed or hindered by acts of God, fire, earthquake, flood, explosion, action of the elements, war, invasion, insurrection, riot, mob violence, sabotage, laws, orders of government or any other cause whether similar or dissimilar to the foregoing, not within the reasonable control of the party prevented, delayed or hindered thereby.

9.7 Notices. All notices and other communications provided for herein must be in writing and shall be sufficiently given if delivered in person or mailed by certified or other receipted mail, if to Franchisee, at the Multi-Unit Franchisee's address or, if to Franchisor, at Franchisor's address marked Attention: Franchising Department. Either party, by such notice, may change the address to which notices shall be sent. Notices delivered in person shall be deemed given when delivered and mailed notices shall be deemed given seventy-two (72) hours after being mailed. If the Multi-Unit Franchisee is a corporation, partnership or more than one individual, then the Multi-Unit Franchisee will authorize one natural person as correspondent with authority to bind the Multi-Unit Franchisee (except that all individuals, partners and/or shareholders holding ownership interests in the Multi-Unit Franchisee shall be required to execute the Agreement and any renewals thereof).

9.8 Certain References. References to weeks and months mean calendar weeks and calendar months. References to persons mean legal entities as well as natural persons. Except as otherwise specifically set forth in this Agreement and subject to the limitations and conditions contained in this Agreement, this Agreement shall inure to the benefit of and be binding upon the parties hereto, their respective heirs, executors, administrators, successors and assigns.

9.9 Taxes. Franchisee shall be liable for and shall pay Franchisor within ten (10) days after notice thereof, all license fees and all state, county, local and other municipal sales and use taxes, business profits taxes, gross receipt taxes and any and all other taxes levied on retail operations or on the account of same by the aforesaid jurisdictions in which the Outlet is located, and assessed upon Franchisor.

9.10 Acceptance by Franchisor. This Franchise Agreement shall not be binding upon Franchisor unless and until it shall have been accepted and signed by a duly authorized officer of Franchisor.

9.11 Arbitration and Mediation.

A. Mediation. Except as specifically modified by this Section 9.11, in the event that a controversy, claim or dispute should arise between the Parties in connection with the rights and/or obligations arising out of or relating to this Agreement or any breach thereof, and prior to the commencement of any lawsuit or arbitration by any Party, the Parties shall participate in a non-binding mediation in accordance with the commercial arbitration rules of the American Arbitration Association (AAA).

B. Binding Arbitration. Except as specifically modified by this Section 9.11 any claim that this Agreement, or any part thereof, is invalid, illegal or otherwise voidable or void, shall be submitted to neutral binding arbitration before AAA if such arbitration shall only be initiated after the parties have attempted mediation as set forth in the paragraph above. Franchisor and Franchisee agree to execute confidentiality agreements as provided by the Franchisor for both the mediation and arbitration, excepting only such public disclosures and filings required by law.

C. Federal Arbitration Act Governs. The provisions of this Section 9.11 shall be construed as independent of any other covenant or provision of this Agreement; provided that if a court of competent jurisdiction determines that any such provisions are unlawful in any way, such court shall modify or interpret such provisions to the minimum extent necessary to have them comply with the law. Notwithstanding any provision of this Agreement relating to under which state laws this Agreement shall be governed by and construed under, all issues relating to arbitrability or the enforcement of the agreement to arbitrate contained herein shall be governed by the Federal Arbitration Act (9 U.S.C. '1 et seq.) and the federal common law of arbitration.

D. Waiver of Punitive and Similar Damages. Judgment upon an arbitration award may be entered in any court having competent jurisdiction and shall be binding, final and non-appealable. Franchisor and Franchisee (and their respective owners and guarantors, if applicable) hereby waive to the fullest extent permitted by law, any right to or claim for any punitive, exemplary, multiple, pain and suffering, mental distress, incidental, consequential, lost income, profits and/or similar damages under any theory whatsoever, and agree that only actual financial losses may be recovered, which shall be the present value of any initial franchise fees, license fees and/or other payments Franchisee would be obligated to make to Franchisor, under the Agreement or otherwise.

SECTION 10 - BANKRUPTCY PROCEEDINGS

In the event that the Multi-Unit Franchisee should become subject to a proceeding (whether voluntary or involuntary) under the Bankruptcy Code and Franchisor does not exercise its right to terminate this Agreement as provided in this Agreement, the debtor in possession, trustee (or similar officer) appointed for the Multi-Unit Franchisee's estate shall either reject or assume this Agreement. If this Agreement is rejected, Franchisor shall continue to have and may exercise all remedies provided for herein or at law for a default by the Multi-Unit Franchisee under this Agreement. If this Agreement is assumed, the debtor in possession, trustee (or similar officer) must comply with all the requirements of this Agreement and must:

A. Perform in a timely and complete manner all obligations of the Multi-Unit Franchisee under this Agreement and all related agreements with Franchisor or its Affiliates from and after the date of such assumption;

B. Cure all defaults existing at the date of such assumption and compensate for any pecuniary loss to Franchisor and its Affiliates or provide adequate assurance that such defaults will be promptly cured;

C. Provide adequate assurance of full and complete future performance by the debtor in possession, trustee (or similar officer) under this Agreement. Such adequate assurance shall include adequate assurance of the source of all consideration (monetary or otherwise) due Franchisor under this Agreement and that the Continuing License Fee and other fees due hereunder will not decline; and

D. In no event shall this Agreement be assumed by or transferred to any individual or entity who does not comply with all requirements for assignment in this Agreement.

SECTION 11 - INFORMATION REGARDING THE MULTI-UNIT FRANCHISEE

The Multi-Unit Franchisee makes the following additional representations and warranties.

A. The Multi-Unit Franchisees are currently individuals with an interest of potentially transferring the ownership to a partnership, limited liability company, corporation or sole proprietorship.

B. If the Multi-Unit Franchisee is a corporation, limited liability company or partnership, set forth below are the names and residential addresses of each shareholder, member and/or manager or partner holding an interest in the entity:

<u>NAME</u>	<u>ADDRESS</u>	<u>NUMBER OF SHARES OR UNITS HELD</u>	<u>PERCENTAGE INTEREST *</u>
-------------	----------------	---	----------------------------------

100%

=====

*As to a corporation, this amount shall indicate the percentage owned of outstanding voting stock of the corporation, and as to the partnership or limited liability company, this amount shall indicate the percent owned in the capital and profits of the limited liability company or partnership.

SECTION 12 - REPRESENTATIONS AND WARRANTIES

The Multi-Unit Franchisee and each person executing this Agreement as an owner of the Multi-Unit Franchisee represents and warrants that:

A. It received a copy of Franchisor's Franchise Offering Circular and this Agreement at the earlier of (i) the Multi-Unit Franchisee's first personal meeting with Franchisor's representatives held for the purpose of discussing the offer or sale of a franchise; or (ii) at least ten (10) days prior to the execution of this Agreement or any other agreement relative to the offering or sale of a franchise and the payment of any consideration in connection with such offer or sale;

B. It has not received from Franchisor any projections or representations regarding the amount of income the Multi-Unit Franchisee can expect to earn from developing franchise sites or entering into franchise agreements. Neither Franchisor nor any representative of Franchisor has made any representation or warranty inconsistent with the Franchise Offering Circular or this Agreement to induce the Multi-Unit Franchisee to execute this agreement. Neither Franchisor nor any other person can guarantee the success of the business contemplated herein or any franchise. The success of the Multi-Unit Franchisee and/or any franchise site is dependent upon the personal efforts of the Multi-Unit Franchisee and the Multi-Unit Franchisee's partners, members, managers, shareholders or officers, if the Multi-Unit Franchisee is a partnership, limited liability company or corporation; and

B. It is not becoming a Multi-Unit Franchisee for speculative purposes and has no present intention to sell or transfer this Agreement or any franchises developed pursuant to this Agreement or its ownership interest in the Multi-Unit Franchisee.

C. It has conducted an independent investigation of the business contemplated by this Agreement and recognizes that the business venture contemplated by this Agreement involves significant business risks and that its success will be dependent upon the ability of Franchisee as an independent businessperson. Franchisor expressly disclaims the making of, and Franchisee acknowledges that it has not received or relied upon, any representation, warranty or guarantee, express or implied, as to the potential volume, profits, if any, or success of the business venture contemplated by this Agreement.

D. Franchisee represents as an inducement to its entry into this Agreement, that it has made no misrepresentations or omitted information which may be material regarding its business or financial experience, qualifications, net worth, background, or those of its officers, directors, shareholders, members, managers, partners or Affiliates in obtaining this Agreement.

E. That the Franchisee has received, read and understood this Agreement, the attachments hereto, and that Franchisor has fully and adequately explained the provisions of each to its satisfaction. Prior to signing this Agreement, the Franchisee has had the opportunity to meet with Franchisor to ask questions and receive satisfactory answers about the franchise and related matters, and to obtain additional information for verification purposes.

F. That Franchisee understands the terms of this Agreement, and has been advised to seek independent legal and financial advice with respect to the franchise and this Agreement.

G. Franchisee, either alone or together with its legal and/or financial advisers, has sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of an investment in a House of Bread Franchise and protecting his interests, and in making an informed investment decision with respect thereto.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed on the _____ day of _____, 2024.

Franchisor: House of Bread Franchising, Inc.

by:

its:_____

Franchisee:

by:

its:_____

Franchisee:

by:

its:_____

Franchisee:

by:

its:_____

**HOUSE OF BREAD
MULTI-UNIT FRANCHISE AGREEMENT**

SCHEDULE A

DEVELOPMENT SCHEDULE

This Agreement authorizes and obliges the Multi-Unit Franchisee to establish and operate _____ House of Bread Outlets pursuant to a Franchise Agreement for each House of Bread Franchise. The following is the Multi-Unit Franchisee's Development Schedule:

Date on which each House of Bread Outlet shall be
open and in operation:

1st Outlet	_____
2nd Outlet	_____
3rd Outlet	_____

**HOUSE OF BREAD
MULTI-UNIT FRANCHISE AGREEMENT**

SCHEDULE B

ASSIGNED AREA

The following describes the Assigned Area within which the Multi-Unit Franchisee may locate the House of Bread Outlets under this Agreement:

EXHIBIT D

FRANCHISE DISCLOSURE QUESTIONNAIRE

THE ENTIRE QUESTIONNAIRE IS NOT APPLICABLE IN CALIFORNIA

As you know, House of Bread Franchising, Inc. (HOB) and you are preparing to enter into a Franchise Agreement for the operation of a House of Bread franchise. The purposes of this Questionnaire are to determine whether any statements or promises were made to you that House of Bread has not authorized or that may be untrue, inaccurate or misleading, to be certain that you have been properly represented in this transaction, and to be certain that you understand the limitations on claims that may be made by you by reason of the purchase and operation of your franchise. The Questionnaire cannot be signed and dated the same day as the Receipt for the Federal Disclosure Document but must be signed and dated the same day you remit your franchise fee. Please review each of the following questions carefully and provide honest responses to each question. If you answer no to any of the questions below, please explain your answer on the back of this sheet.

Yes ____ No ____

1. Have you received and personally reviewed the Franchise Agreement and each exhibit or schedule attached to it?

Yes ____ No ____

2. Have you received and personally reviewed the Franchise Federal Disclosure Document we provided you?

Yes ____ No ____

3. Did you sign a receipt for the Federal Disclosure Document indicating the date you received it?

Yes ____ No ____

4. Do you understand all the information contained in the Federal Disclosure Document and Franchise Agreement?

Yes ____ No ____

5. A) Have you reviewed the Federal Disclosure Document and Franchise Agreement with an attorney, accountant or other professional advisor?

Yes ____ No ____

B) Have you discussed the benefits and risks of operating a House of Bread franchise with your professional advisor?

Yes ____ No ____

6. Do you understand the risks of operating a House of Bread franchise?

Yes ____ No ____

7. Do you understand that you have been granted limited territorial rights and that another House of Bread franchise or company store may open near your territory?

Yes ____No ____

8. Do you understand that House of Bread Franchising, Inc. and its affiliates retain the exclusive unrestricted right to engage, directly or through others, in the production, distribution and sale of bakery and related products under the House of Bread name or other mark outside of your exclusive territory and these other stores or methods of distribution may compete with your store and adversely affect its sales?

Yes ____No ____

9. Do you understand that all disputes or claims you may have arising out of or relating to the Franchise Agreement must be settled by arbitration if not resolved informally, by mediation, or a face-to-face meeting?

Yes ____No ____

10. Do you understand that all persons whose names appear on the Franchise Agreement must satisfactorily complete the training course at headquarters before a store will be allowed to open or a transfer executed?

Yes ____No ____

11. Is it true that no employee or other person speaking on behalf of House of Bread made any statement or promise regarding the costs involved in operating a House of Bread franchise that is not contained in the Disclosure Document or that is contrary to, or different from, the information contained in the Disclosure Document?

Yes ____No ____

12. Is it true that no employee or other person speaking on behalf of House of Bread made any statement or promise regarding the actual, average or projected profits or earnings, the likelihood of success, the amount of money you may earn, or the total amount of revenue a House of Bread franchise will generate that is not contained in the Federal Disclosure Document or that is contrary to or different from the information in the Federal Disclosure Document?

Yes ____No ____

13. Is it true that no employee or other person speaking on behalf of House of Bread made any statement or promise or agreement, other than those matters addressed in your Franchise Agreement, concerning advertising, marketing, media support, marketing penetration, training, support service or assistance that is contrary to, or different from, the information contained in the Federal Disclosure Document.

Yes ____No ____

14. Do you understand that the Franchise Agreement contains the entire agreement between House of Bread and you concerning the franchise for the store, meaning that any prior oral or written statements not set out in the Franchise Agreement will not be binding?

YOU UNDERSTAND THAT YOUR ANSWERS ARE IMPORTANT TO US AND THAT WE WILL RELY ON THEM. BY SIGNING THIS QUESTIONNAIRE, YOU ARE REPRESENTING THAT YOU HAVE CONSIDERED EACH QUESTION CAREFULLY AND RESPONDED TRUTHFULLY TO THE ABOVE QUESTIONS. EACH FRANCHISE APPLICANT MUST FILL OUT A COPY OF THIS FORM. USE REVERSE FOR EXPLANATION OF ANY NEGATIVE RESPONSES (REFER TO QUESTION NUMBER).

Signature of Franchise Applicant

Dated _____, 2024.

Name (please print)

Signature of Franchise Applicant

Dated _____, 2024.

Name (please print)

EXHIBIT E

HOUSE OF BREAD FRANCHISING

LIST OF STATE ADMINISTRATORS AND
AGENTS FOR SERVICE OF PROCESS

EXHIBIT E

LIST OF STATE ADMINISTRATORS AND AGENTS FOR SERVICE OF PROCESS

STATE	STATE ADMINISTRATOR	AGENT FOR SERVICE OF PROCESS
CALIFORNIA	Department of Financial Protection and Innovation 2101 Arena Blvd. Sacramento, CA 95834 1-866-275-2677	Corporations Commissioner 320 West 4th Street, Suite 750 Los Angeles 90013-2344 1-866-275-2677
CONNECTICUT	Securities and Business Investment Division Connecticut Department of Banking 44 Capitol Avenue Hartford, CT 06106 203-240-8299	Connecticut Banking Commissioner Same Address
FLORIDA	Department of Agriculture & Consumer Services Division of Consumer Services Mayo Building, Second Floor Tallahassee, FL 32399-0800 850-245-6000	Same
GEORGIA	Office of Consumer Affairs 2 Martin Luther King Drive, S.E. Plaza Level, East Tower Atlanta, GA 30334 404-656-3790	Same
HAWAII	State of Hawaii Business Registration Division Securities Compliance Branch Dept. of Commerce and Consumer Affairs 335 Merchant Street, Room 203 Honolulu, HI 96813 808-586-2722	Hawaii Commissioner of Securities Same Address
ILLINOIS	Franchise Division Office of the Attorney General 500 South Second Street Springfield, IL 62706 217-782-4465	Illinois Attorney General Same Address
INDIANA	Securities Commissioner Indiana Securities Division 302 West Washington Street, Room E 111 Indianapolis, IN 46204 317-232-6681	Indiana Secretary of State 201 State House 200 West Washington Street Indianapolis, IN 46204
IOWA	Iowa Securities Bureau Second Floor Lucas State Office Building Des Moines, IA 50319 515-281-4441	Same

KENTUCKY	Kentucky Attorney General's Office Consumer Protection Division 1024 Capitol Center Drive Frankfort, KY 40602 502-696-5389	Same
-----------------	--	------

STATE	STATE ADMINISTRATOR	AGENT FOR SERVICE OF PROCESS
LOUISIANA	Department of Urban & Community Affairs Consumer Protection Office 301 Main Street, 6th Floor One America Place Baton Rouge, LA 70801 504-342-7013 (gen. info.) 504-342-7900	Same
MAINE	Department of Business Regulations State House - Station 35 Augusta, ME 04333 207-298-3671	Same
MARYLAND	Office of the Attorney General Securities Division 200 St. Paul Place Baltimore, MD 21202 410-576-7044	Maryland Securities Commissioner Same Address
MICHIGAN	Michigan Department of Attorney General Consumer Protection Division Antitrust and Franchise Unit 670 Law Building Lansing, MI 48913 517-373-7117	Michigan Department of Commerce Corporations and Securities Bureau Same Address
MINNESOTA	Minnesota Department of Commerce 85 7 th Place East, Suite 500 St. Paul, MN 55101 651-296-4026	Minnesota Commissioner of Commerce Same Address
NEBRASKA	Department of Banking and Finance 1230 "O" Street, Suite 400 Lincoln, NE 68508 P.O. Box 95006 Lincoln, Nebraska 68509-5006 Tele: 402-471-2171	Same
NEW HAMPSHIRE	Attorney General Consumer Protection and Antitrust Bureau State House Annex Concord, NH 03301 603-271-3641	Same
NEW YORK	Bureau of Investor Protection and Securities New York State Department of Law 120 Broadway, 23rd Floor New York, NY 10271 212-416-8222	Secretary of State of New York 41 State Street Albany, New York 12231 Mrs. Lassoﬀ 212-416-8236 Mr. Grimes 212-416-8235
NORTH CAROLINA	Secretary of State's Office/Securities Division Legislative Annex Building 300 Salisbury Street Raleigh, NC 27602 919-733-3924	Secretary of State Secretary of State's Office 300 Salisbury Street Raleigh, NC 27602

NORTH DAKOTA	North Dakota Securities Department 600 East Boulevard Avenue State Capitol, Fifth Floor, Dept. 414 Bismarck, ND 58505-0510 701-328-4712; Fax: 701-328-0140	North Dakota Securities Commissioner Same Address
---------------------	--	--

STATE	STATE ADMINISTRATOR	AGENT FOR SERVICE OF PROCESS
OHIO	Attorney General Consumer Fraud & Crime Section State Office Tower 30 East Broad Street, 15th Floor Columbus, OH 43215 614-466-8831 or 800-282-0515	Same
OKLAHOMA	Oklahoma Securities Commission 2915 Lincoln Blvd. Oklahoma City, OK 73105 405-521-2451	Same
OREGON	Department of Insurance and Finance Corporate Securities Section Labor and Industries Building Salem, OR 96310 503-378-4387	Director Department of Insurance and Finance Same Address
RHODE ISLAND	Division of Securities 233 Richmond Street, Suite 232 Providence, RI 02903-4232 401-222-3048	Director of the Rhode Island Department of Business Regulation Rhode Island Attorney General 233 Richmond Street Providence, RI 02903-4232
SOUTH CAROLINA	Secretary of State P.O. Box 11350 Columbia, SC 29211 803-734-2166	Same
SOUTH DAKOTA	Department of Revenue and Regulation Division of Securities 445 E. Capitol Avenue Pierre, SD 57501-3185 605-773-4823	Director of South Dakota Division of Securities Same Address
TEXAS	Secretary of State Statutory Documents Section P.O. Box 12887 Austin, TX 78711-2887 512-475-1769	Same
UTAH	Utah Department of Commerce Consumer Protection Division 160 East 300 South (P.O. Box 45804) Salt Lake City, UT 84145-0804 TELE: 801-530-6601 FAX:801-530-6001	Same
VIRGINIA	State Corporation Commission Division of Securities and Retail Franchising 1300 E. Main Street, 9 th Floor Richmond, VA 23219 804-371-9051	Clerk of the State Corporation Commission 1300 E. Main Street Richmond, VA 23219

WASHINGTON	Department of Financial Institutions Securities Division 150 Israel Rd S.W. Tumwater, WA 98501 360-902-8762	Director, Dept. of Financial Institutions Securities Division 150 Israel Rd S.W. Tumwater, WA 98501
STATE	STATE ADMINISTRATOR	AGENT FOR SERVICE OF PROCESS
WISCONSIN	Wisconsin Dept. of Financial Institutions Division of Securities 345 W. Washington Avenue, 4th Floor Madison, WI 53703 608-266-8557	Wisconsin Commissioner of Securities Same Address

EXHIBIT F

HOUSE OF BREAD FRANCHISING STATE ADDENDUM

Addendum for State-Specific Requirements General

These states have statutes which may supersede the franchise agreement in your relationship with Us including the areas of termination and renewal of your franchise: ARKANSAS [Stat. Section 70-807], CALIFORNIA [Bus. & Prof. Code Sections 20000-20043], CONNECTICUT [Gen. Stat. Section 42-133e *et seq.*], DELAWARE [Code, Tit. 6, Chap. 25, Section 2551 *et seq.*], HAWAII [Rev. Stat. Section 482E-1], ILLINOIS [ILCS 705/1-44], INDIANA [Stat. Section 23-2-2.7], IOWA [Code Sections 523H.1 – 523H.17], MICHIGAN [Stat. Section 19.854(27)], MINNESOTA [Stat. Section 80C.14], MISSISSIPPI [Code Section 75-24-51], MISSOURI [Stat. Section 407.400], NEBRASKA [Rev. Stat. Section 87-401], NEW JERSEY [Stat. Section 56:10-1], SOUTH DAKOTA [Codified Laws Section 37-5A-51], VIRGINIA [Code 13.1-557-574-13.1-564], WASHINGTON [Code Section 19.100.180], WISCONSIN [Stat. Section 135.03].

These and other states may have court decisions that may supersede the franchise agreement in your relationship with Us including the areas of termination and renewal of your franchise. Some states have statutes that limit Our ability to restrict your activity after the franchise agreement has ended. Other states have court decisions limiting Our ability to restrict your activity after the franchise agreement has ended.

A provision in the franchise agreement that terminates the franchise upon your bankruptcy may not be enforceable under Title 11, United States Code.

California Addendum (Applies only to California franchisees)

CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES THAT A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE DISCLOSURE DOCUMENT

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

SECTION 31125 OF THE CALIFORNIA CORPORATIONS CODE REQUIRES US TO GIVE YOU A DISCLOSURE DOCUMENT APPROVED BY THE COMMISSIONER, BEFORE WE ASK YOU TO CONSIDER A MATERIAL MODIFICATION OF YOUR FRANCHISE AGREEMENT. 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 FRANCHISE DISCLOSURE DOCUMENT.

Neither We nor any person identified in Item 2 is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities Exchange Act of 1934, 15 U.S.C.A. 78a et. seq., suspending or expelling the persons from membership in that association or exchange.

YOU MUST SIGN A GENERAL RELEASE OF CLAIMS IF YOU TRANSFER YOUR FRANCHISE. CALIFORNIA CORPORATIONS CODE §31512 VOIDS A WAIVER BY THE PERSON ACQUIRING A FRANCHISE OF CERTAIN RIGHTS UNDER THE FRANCHISE INVESTMENT LAW (CALIFORNIA CORPORATIONS CODE §§31000 THROUGH 31516). BUSINESS AND PROFESSIONS CODE §20010 VOIDS A WAIVER OF CERTAIN RIGHTS UNDER THE FRANCHISE RELATIONS ACT (BUSINESS AND PROFESSIONS CODE §§20000 THROUGH 20043).

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

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

The franchise contains a liquidated damages clause. Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable.

You must resolve disputes through binding arbitration. The arbitration will occur at San Luis Obispo, Ca., with the costs of arbitration being borne equally by the parties. Each party will bear its own expenses, including attorney's fees. Prospective franchisees are encouraged to consult private legal counsel to determine the applicability of California and federal laws (such as Business and Professions Code Section 20040.5, Code of Civil Procedure Section 1281, and the Federal Arbitration Act) to any provisions of a franchise agreement restricting venue to a forum outside the State of California.

The Antitrust Law Section of the Office of the California Attorney General views maximum price agreements as per se violations of the Cartwright Act. As long as this represents the law of the State of California, We will not interpret the Franchise Agreement as permitting or requiring maximum price limits.

No statement, questionnaire, or acknowledgment signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (1) waiving any claims under an 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.

Both the Governing Law and Choice of Law for franchisees operating outlets located in California, will be the California Franchise Investment law and the California Franchise Relations Act regardless of the choice of law or dispute resolution venue stated elsewhere. Any language in the franchise agreement or amendment to or any agreement to the contrary is superseded by this condition.

The franchise agreement contains a covenant not to compete which extends beyond

the termination of the franchise. A contract that restrains a former franchisee from engaging in a lawful trade or business is to that extent void under California Business and Professions Code Section 16600.

Internet Ad Exemption Notice, www.houseofbread.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.

No disclaimer, questionnaire, clause, or statement signed by a franchisee in connection with the commencement of the franchise relationship shall be construed or interpreted as waiving any claim of fraud in the inducement, whether common law or statutory, or as a disclaiming reliance on or the right to rely upon any statement made or information provided by any franchisor, broker or other person acting on behalf of the franchisor that was a material inducement to a franchisee's investment. Any statements or representations signed by a franchisee purporting to understand any fact or its legal effect shall be deemed made only based upon the franchisee's understanding of the law and facts as of the time of the franchisee's investment decision. This provision supersedes any other or inconsistent term of any document executed in connection with the franchise.

Hawaii Addendum **(Applies only to Hawaii franchisees)**

If your Licensed Business will be in Hawaii, You will not pay your Initial Fee to Us until your business is open and we have completed all of Our material pre-opening obligations to you. Item 5 of the Franchise Disclosure Document and Article 2 of the Franchise Agreement are amended accordingly. Please review Item 11 for our pre-opening obligations. You must have your bank verify that you have sufficient funds available at the time We sign the Agreement. The only condition on your obligation to pay the Initial Fee is that We must complete all of Our material pre-opening obligations to you.

Illinois Addendum **(Applies only to Illinois franchisees)**

The receipt and the Franchise Agreement are both amended to provide that We must provide the Franchise Disclosure Document to You at least fourteen calendar days before You sign any binding contract or give us any money.

The Illinois Franchise Disclosure Act, Section 4, prohibits any agreement that specifies jurisdiction or venue of any lawsuit in a place outside of the state of Illinois. The Act does permit agreements to require you to arbitrate outside the state of Illinois. The Act prohibits choice of law provisions that would require the application of any laws except the laws of the state of Illinois (Section 41). You cannot waive any of your rights given to you by the Illinois Franchise Disclosure Act (Section 41). You may have other rights under the Illinois Franchise Disclosure Act or other laws of the state of Illinois. To the extent that the Franchise Agreement is inconsistent with Illinois law, the inconsistent terms of the Franchise Agreement will not be enforced and the terms of the applicable Illinois law shall apply.

Indiana Addendum **(Applies only to Indiana franchisees)**

Indiana law prohibits requiring you to prospectively agree to a release or waiver which purports to relieve any person from liability imposed by the Indiana Franchise Practices Act (IC 23-2-2.7(5)). The Franchise Agreement shall be deemed amended to the extent necessary to comply with IC 23-2-2.7(5).

Indiana law limits the parties agreement to resolve disputes in any jurisdiction outside of Indiana (IC 23-2-2.7(10)). Subject to the Federal Arbitration Act, the Franchise Agreement shall be deemed amended and the forum for any court proceedings shall be in Indiana.

Maryland Addendum

(Applies only to Maryland franchisees)

The Maryland Franchise Registration and Disclosure Law, COMAR 02.02.08.16L, provides that, as a condition of the sale of a franchise, We may not require you to agree to a release, assignment, novation, waiver, or estoppel that would relieve a person from liability under the Franchise Registration and Disclosure Law. Item 17 of the Franchise Disclosure Document is amended by adding: any general release required as a condition of sale and/or assignment/transfer shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.

The Franchise Agreement and Franchise Disclosure Document shall be deemed amended so that no release, assignment, novation, waiver or estoppel is required if it would violate the Maryland Franchise Registration and Disclosure Law. Nothing in the franchise agreement, including any acknowledgments or representations, shall be deemed a release or waiver of any right or obligation under the Maryland Franchise Registration and Disclosure Law.

Item 17 of the Franchise Disclosure Document is amended by adding the following: The provision in the Franchise Agreement that provides for termination upon bankruptcy of the franchisee may not be enforceable under federal bankruptcy law (11 U.S.C. Section 101, et. seq.).

Item 17 of the Franchise Disclosure Document and Article 19 of the Franchise Agreement are amended by adding: any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchise.

Article 19 of the Franchise Agreement is amended to provide as follows: Any lawsuit permitted under this Article shall be brought in the federal or state courts located in the State of Maryland. Item 17 is hereby amended by adding the identical language in the "summary" column of line v.

Minnesota Addendum

(Applies only to Minnesota franchisees)

Minn. Stat. §80C.21 and Minn. Rule 2860.4400J prohibit us from requiring litigation to be conducted outside Minnesota. In addition, nothing in the Franchise Disclosure Document or agreement can abrogate or reduce any of your rights as provided for in Minnesota Statutes, Chapter 80C, or your rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.

With respect to franchises governed by Minnesota law, the franchisor will comply with Minn. Stat. §80C.214, Subds. 3, 4, and 5 which require, except in certain specified cases, that We give you 90 days notice of termination (with 60 days to cure) and 180 days notice of non-renewal of the franchise agreement.

We will protect your right to use the trademarks, service marks, trade names, logotypes or other commercial symbols or indemnify you from any loss, costs or expenses arising out of any claim, suit or demand regarding the use of the name, to the extent required by Minn. Stat. §80C.12, Subd. 1(g).

To the extent governed by Minn. Rule 2860.4400J, you shall not be deemed to have waived any rights under Minnesota law. You shall not be deemed to have consented to Us obtaining injunctive relief, although We may seek injunctive relief. A Court or the arbitrators shall determine whether to require a bond as a condition of injunctive relief. If your Licensed Business will be in Minnesota, You will not pay your Initial Fee to Us until your business is open and we have completed all of Our material pre-opening obligations to you. Item 5 of the Franchise Disclosure Document and Article 2 of the Franchise Agreement are amended accordingly. Please review Item 11 for our pre-opening obligations. You must have your bank verify that you have sufficient funds available at the time We sign the Agreement. The only condition on your obligation to pay the Initial Fee is that We must complete all of Our material pre-opening obligations to you.

New York Addendum (Applies only to New York franchisees)

Item 3 is amended to read as follows:

Neither We nor any person identified in Item 2 above have any administrative, criminal or material civil action (or a significant number of civil actions irrespective of materiality) pending against us alleging a violation of any franchise law, antitrust or securities law, fraud, embezzlement, fraudulent conversion, restraint of trade, unfair or deceptive practices, misappropriation of property or comparable allegations.

Neither We nor any person identified in Item 2 above have been convicted of a felony or pleaded *nolo contendere* to any felony charge or during the 10 year period immediately preceding the date of this Franchise Disclosure Document, been convicted of or pleaded *nolo contendere* to a misdemeanor charge been held liable in any other civil action by final judgment or been the subject of any other material complaint or other legal proceeding where such felony, misdemeanor civil action, complaint or other legal proceeding involved violation of any franchise law, antifraud or securities law, fraud,

embezzlement, fraudulent conversion, restraint of trade, unfair or deceptive practices, misappropriation of property or comparable allegations.

Neither We nor any person identified in Item 2 above is subject to any currently effective injunctive or restrictive order or decree relating to the franchise or under any federal, state or Canadian franchise, securities, antitrust, trade regulation or trade practice law as a result of a concluded or pending action or proceeding brought by a public agency, or is subject to any currently effective order of any national securities association or national securities exchange as defined by the Securities and Exchange Act of 1934, suspending or expelling such person from membership in such association or exchange, or is subject to a currently effective injunctive or restrictive order relating to any other business activity as a result of an action brought by a public agency or department.

Item 4 is amended to read as follows:

During the 10 year period immediately preceding the date of the Franchise Disclosure Document neither We nor any predecessor, affiliate, current officer or general partner of Us has been the subject of a bankruptcy proceeding, been adjudged bankrupt or reorganized due to insolvency or been a principal officer of a company or a general partner of a partnership at or within one year of the time that such company or partnership became the subject of a bankruptcy proceeding or was adjudged bankrupt or reorganized due to insolvency or is subject to any such pending bankruptcy or reorganization proceeding.

Item 5 is amended by adding the following: We will use the Initial Fee for the purposes of covering the costs of selling the franchise and other franchises, for your initial training, for general overhead and for profit.

Item 12 is amended by adding the following: Although We will consider many factors in determining the boundaries of your Marketing Area, it will contain a population of not less than 25,000 people.

Item 17 is amended by changing the caption and preliminary statement to read as follows:

Item 17: RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION
THIS TABLE LISTS CERTAIN IMPORTANT PROVISIONS OF THE FRANCHISE AND RELATED AGREEMENTS PERTAINING TO RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION. YOU SHOULD READ THESE PROVISIONS IN THE AGREEMENTS ATTACHED TO THIS FRANCHISE DISCLOSURE DOCUMENT.

Item 17 D is amended by adding the following: You may terminate the agreement on any grounds available by law.

Item 17 J is amended by adding the following: We will only assign to an assignee who in Our good faith judgment is willing and able to assume Our obligations.

North Dakota Addendum

(Applies only to North Dakota franchisees)

Under North Dakota law, no modification or change We make to the Manual or method of operation may materially affect your status, rights or obligations under the Franchise Agreement.

Covenants not to compete are considered unenforceable in the State of North Dakota.

Under North Dakota law, a requirement that you consent to liquidated damages or termination penalties in the event of termination of the franchise agreement is considered unenforceable.

The North Dakota Franchise Investment Law (Section 51-19-09) requires that the laws of North Dakota, which laws will prevail, will govern the Franchise Agreement. Further, North Dakota law requires that all issues or disagreements relating to the Franchise Agreement will be arbitrated, tried, heard and decided within the jurisdiction of courts in the state of North Dakota.

Under the North Dakota Franchise Investment Law (Section 51-19-09), a North Dakota franchisee may not be required to execute a general release upon renewal of the Franchise Agreement.

Rhode Island Addendum

(Applies only to Rhode Island franchisees)

Item 17 is amended by adding the following: Section 19-28.1-14 of the Rhode Island Franchise Investment Act provides that a provision in a franchise agreement restricting jurisdiction or venue to a forum outside this state or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under this Act.

If your Licensed Business will be in Rhode Island, You will not pay your Initial Fee to Us until your business is open and we have completed all of Our material pre-opening obligations to you. Item 5 of the Franchise Disclosure Document and Article 2 of the Franchise Agreement are amended accordingly. Please review Item 11 for our pre-opening obligations. You must have your bank verify that you have sufficient funds available at the time We sign the Agreement. The only condition on your obligation to pay the Initial Fee is that We must complete all of Our material pre-opening obligations to you.

South Dakota Addendum

(Applies only to South Dakota franchisees)

Covenants not to compete upon termination or expiration of a franchise agreement are generally unenforceable in South Dakota, except in certain instances as provided by law.

In the event that either party shall make demand for arbitration, such arbitration shall be conducted in a mutually agreed upon site in accordance with Section 11 of the Commercial Arbitration Rules of the American Arbitration Association.

The law regarding franchise registration, employment, covenants not to compete, and other matters of local concern will be governed by the laws of the State of South Dakota; but as to contractual and all other matters, this agreement and all provisions of this instrument will be and remain subject to the application, construction, enforcement and interpretation under the governing law of the state where the franchise is located. Any provision of the franchise agreement which requires you to agree to jurisdiction and venue outside of South Dakota is void with respect to any cause of action which is otherwise enforceable in South Dakota.

Notwithstanding any term of the franchise agreement, We will not terminate the franchise agreement upon default without first affording you thirty (30) days notice with an opportunity to cure the default within that time.

To the extent required by South Dakota law, all provisions giving any party a right to liquidated damages are hereby deleted from the franchise agreement and the parties shall be entitled to their actual damages instead.

Virginia Addendum (Applies only to Virginia franchisees)

Item 17 of the Franchise Disclosure Document is amended by adding the following: The provision in the Franchise Agreement that provides for termination upon your bankruptcy may not be enforceable under federal bankruptcy law (11 U.S.C. Section 101, et. seq.).

Washington Addendum (Applies only to Washington franchisees)

If any of the provisions in the Franchise Disclosure Document or franchise agreement are inconsistent with the relationship provisions of RCW 19.100.180 or other requirements of the Washington Franchise Investment Protection Act, the provisions of the Act will prevail over the inconsistent provisions of the Franchise Disclosure Document and franchise agreement with regard to any franchise sold in Washington. In any arbitration involving a franchise purchased in Washington, the arbitration site shall be either in Washington or in a place as mutually agreed upon at the time of the arbitration, or as determined by the arbitrator.

Initial Fees of new Washington franchisees are held in an escrow account until the franchisee's business is open.

The state law addendum, above, if applicable, is a part of the Franchise Agreement and supersedes any inconsistent term(s) of the Franchise Agreement.

State Effective Dates

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

This document is effective and may be used in the following states, where the document is filed, registered, or exempt from registration, as of the Effective Date stated below:

State	Effective Date
California	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. 3. A sample of an FTC Cover Page, State Cover Sheets, and State Effective

RECEIPT

This disclosure document summarizes certain provisions of the franchise agreement and other information in plain language. Read this document and all agreements carefully.

If HOB offers you a franchise, HOB must provide this disclosure document to you by the earliest of 14 calendar-days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale or sooner if required by applicable state law.

If HOB does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal and state law may have occurred and should be reported to the Federal Trade Commission, Washington DC, 20580 and franchise division Department of Financial Protection and Innovation, 2101 Arena Blvd, Sacramento Ca. 95834.

The franchise seller is Sheila McCann, 299 Marsh St. San Luis Obispo, Ca. 93401

Issuance date _____, 2024.

HOB authorizes Sheila McCann 299 Marsh St. San Luis Obispo, California to receive service of process for HOB.

I have received this disclosure document dated _____, 2024 that included the following exhibits:

- A. Financial Statements
- B. Franchise Agreement
- C. Multi-Unit Franchise Agreement
- D. Form Nondisclosure and Confidentiality Agreement
- E. List of State Administrators and Agents for Service of Process
- F. State Addendum

_____, 2024
Date

Franchisee

RECEIPT

This disclosure document summarizes certain provisions of the franchise agreement and other information in plain language. Read this document and all agreements carefully.

If HOB offers you a franchise, HOB must provide this disclosure document to you by the earliest of 14 calendar-days before you sign a binding agreement with, or make a payment to, the franchisor or an affiliate in connection with the proposed franchise sale or sooner if required by applicable state law.

If HOB does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal and state law may have occurred and should be reported to the Federal Trade Commission, Washington DC, 20580 and franchise division Department of Financial Protection and Innovation, 2101 Arena Blvd, Sacramento Ca. 95834.

The franchise seller is Sheila McCann, 299 Marsh St. San Luis Obispo, Ca. 93401

Issuance date _____, 2023.

HOB authorizes Sheila McCann 299 Marsh St. San Luis Obispo, California to receive service of process for HOB.

I have received this disclosure document dated _____, 2023 that included the following exhibits:

- A. Financial Statements
- B. Franchise Agreement
- C. Multi-Unit Franchise Agreement
- D. Form Nondisclosure and Confidentiality Agreement
- E. List of State Administrators and Agents for Service of Process
- F. State Addendum

_____, 2023
Date

Franchisee