

FRANCHISE DISCLOSURE DOCUMENT



LEDO PIZZA SYSTEM, INC.
41 Old Solomons Island Rd., Suite 201
Annapolis, Maryland 21401
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www.ledopizza.com

As a LEDO PIZZA® franchisee, you will operate a of *Ledo Pizza*® restaurant selling pizza and other food products, prepared and marketed according to Our proprietary specifications, recipes, preparation methods and procedures.

The initial investment necessary to begin operation of a LEDO PIZZA® franchise business ranges from \$206,250.00 to \$672,500.00. This includes up to \$30,000 that must be paid to the franchisor or its affiliates.

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

You may wish to receive your disclosure document in another format that is more convenient to you. To discuss the availability of disclosures in different formats, contact James Beall at 41 Old Solomons Island Rd., Suite 201, Annapolis, Maryland 21401, (410) 571-8385, jb1955@ledopizza.com.

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

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

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

Issuance Date: April 1, 2023

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 Ledo Pizza® business in my area? | Item 12 and the "territory" provisions in the franchise agreement describe whether the franchisor and other franchisees can compete with you. |
| Does the franchisor have a troubled legal history? | Items 3 and 4 tell you whether the franchisor or its management have been involved in material litigation or bankruptcy proceedings. |
| What's it like to be a Ledo Pizza® franchisee? | Item 20 lists current and former franchisees. You can contact them to ask about their experiences. |
| What else should I know? | These questions are only a few things you should look for. Review all 23 Items and all Exhibits in 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 I.

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 litigation only in Maryland. Out-of-state litigation may force you to accept a less favorable settlement for disputes. It may also cost more to litigate with franchisor in Maryland than in your own state.
2. **Sales Performance Required.** You must maintain minimum sales performance levels. If you fail to do so, you could lose your exclusive territory or the franchisor could terminate your agreement and you could lose your investment.

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

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APPLICABLE STATE LAW MAY REQUIRE ADDITIONAL DISCLOSURES RELATED TO THE INFORMATION IN THIS FRANCHISE DISCLOSURE DOCUMENT. THESE ADDITIONAL DISCLOSURES, IF ANY, APPEAR IN EXHIBIT H TO THIS FRANCHISE DISCLOSURE DOCUMENT.

EXHIBITS

- A. Financial Statements
- B. Standard Franchise Agreement
- C. Conditional Sublicense of Operating Rights Agreement
- D. Lease Addendum
- E. Confidentiality Agreement
- F. Franchise Release Agreement
- G. Franchise Agreement Pre-Execution Questionnaire
- H. State Specific Disclosures and Addenda
- I. Applicable State Agencies and Agents for Service of Process
- J. State Effective Dates
- K. Receipt (2 copies)

Item 1

THE FRANCHISOR, AND ANY PARENTS, PREDECESSORS, AND AFFILIATES

The Franchisor

To simplify the language in this Disclosure Document “we”, “us” or “**Ledo Pizza System**” means Ledo Pizza System, Inc., the franchisor. “You” means the person who buys the franchise. **Ledo Pizza System** is a Maryland corporation that was incorporated in 1989. We do business as “Ledo Pizza®” although we may trade under the name “Ledo Pizza® and Subs” or “Ledo Pizza® and Pasta.” Our principal business address is 41 Old Solomons Island Rd., Suite 201, Annapolis, Maryland 21401. Our agent for service of process is disclosed in Exhibit E. Ledo Pizza System has no parent entities. We do not operate Ledo Pizza restaurants. Since 1989, we have offered franchises for Ledo Pizza restaurants. We do not engage in any activities other than offering franchises using the “Ledo Pizza” system.

Parents, Predecessors and Affiliates

We do not have any predecessors which have conducted a business of the type offered by us nor do we have any predecessors which have offered franchises in other lines of business. We do not and have not offered franchises for sale in any other line of business and we have no predecessors that have offered franchises for sale.

Ledo Pizza Carryouts, Inc. (formerly known as Ledo Pizza Carryouts, Ltd.), whose principal offices are located at 2015 La Porte Drive, Palm Beach Gardens, Florida 33410, is the owner of the trademark, service mark and trade name and is an affiliate of Ledo Pizza System. Ledo Pizza Carryouts, Inc. is in the business of licensing “Ledo Pizza®” to certain qualified businesses, including full-service restaurant locations which desire to feature and sell “Ledo Pizza®” along with their other full-service menu items in the same fashion as was the case with Fireside Beefhouse, Inc. in Berwyn Heights, Maryland. Ledo Pizza Carryouts, Inc. licenses restaurants which feature “Ledo Pizza®” pizza products along with their full-service menus. Robert M. Beall and Margaret K. Beall, the parents of the stockholders of Ledo Pizza System are co-owner’s of Ledo Pizza Carryouts, Inc. Mr. Beall currently serves as President and Chief Executive Officer of Ledo Pizza Carryouts, Inc. Ledo Pizza Carryouts, Inc. has never offered franchises in any line of business. While Ledo Pizza Carryouts, Inc., grants us a license to use of its trademark, service mark and trade name, it does not offer any other products or services to Us. Ledo Pizza Carryouts, Inc. changed its name from Ledo Pizza Carryouts, Ltd. on October 15, 2012.

Robert G. Beall, Troy L. Beall, Garth E. Beall and James B. Beall are the shareholders of Ledo Pizza System. James Beall, Robert G. Beall and Garth Beall are also officers of Ledo Pizza System.

We currently operate 112 franchises. One (1) additional franchise has been sold. We franchise the right to prepare, merchandise and sell pizza and related food products. Sales are made to carry-out and eat-on-premises customers. We will generally require eat-on-premises capacity although we do not intend to specifically require you to provide eat-on-premises sales in the event local zoning laws, rules or regulations or your lease prohibits such eat-on-premises sales.

Presentation of this service, including preparation of the food products, advertising and promotion of the products and the business operations methods inherent in the business are part of the franchise. Our agent for service of process is disclosed in Exhibit I in the Applicable State Agencies and Agents for Service of Process.

The “Ledo Pizza®” pizza products and recipes currently available in the other “Ledo Pizza®” franchise and license locations are the same as those offered under this franchise, although other products, recipes and services may differ.

Market and Competition

There is competition in the family casual restaurant business. Examples of competitors include national, regional and local franchised and independently owned restaurants. Your competitors also include other restaurants serving pizza and pizza-related products in both an eat-on-premises and carry-out capacity.

Industry-Specific Regulations

There are no regulations specific to the industry in which the Ledo Pizza System franchise operates. You must, however, become familiar with federal, state and local laws and health regulations pertaining to restaurants and food handling generally. For example, many health department and related codes and regulations require that food service businesses within their jurisdictions have at least one employee or staff member who has successfully completed a food service manager or employee certification program. You may also be required to obtain a restaurant license from the locality in which your franchise is located. In addition, if your franchise agreement permits the sale of alcoholic beverages, you will be required to obtain an additional license for the sale of these items. There may be other laws and regulations applicable to your business and we urge you to make inquiries about any laws or regulations that may impact your business.

Item 2

BUSINESS EXPERIENCE

Chairman of the Board of Directors:

Robert M. Beall

From 1960 to 1963, Mr. Beall was employed by Ledo Restaurant, Inc., in Adelphi, Maryland. Ledo Restaurant, Inc. was co-founded by Mr. Beall's father, Mr. Robert L. Beall, in 1955, along with Mr. Thomas E. Marcos, Sr. Ledo Restaurant, Inc. is currently owned and operated entirely by various members of the Marcos family.

From 1963 to 1998, Mr. Beall co-owned and operated the Fireside Beefhouse, Inc., located in Berwyn Heights, Maryland. He served as its President and Chief Executive Officer from 1968 to 1998. In 1978, Fireside Beefhouse, Inc. became a licensee of Ledo Restaurant and began featuring and selling Ledo Pizza®. Ledo Pizza® subsequently became a substantial portion of the revenues of Fireside Beefhouse, Inc., particularly in carry-out sales. In 1998, Fireside Beefhouse, Inc., in connection with a sale of its assets, ceased operations.

Mr. Beall co-founded Ledo Pizza Carryouts, Inc. in 1986. Ledo Pizza Carryouts, Inc. is in the business of licensing “Ledo Pizza®” to certain qualified full-restaurant locations which desire to feature and sell “Ledo Pizza®” along with their other full-service menu items in the same fashion as had been the case with Fireside Beefhouse, Inc. We are a licensee of certain trade and service marks and commercial symbols, which are owned by Ledo Pizza Carryouts, Inc. Mr. Beall is currently a co-owner of Ledo Pizza Carryouts, Inc. along with Mrs. Margaret K. Beall. Mr. Beall serves as the President and Chief Executive Officer of Ledo Pizza Carryouts, Inc.

Director and Vice President:

Robert G. Beall

Mr. Beall, Robert M. Beall's son, was born in Montgomery County and raised in Anne Arundel County Maryland. He received his Bachelor of Arts degree in Economics and Philosophy from Rollins College in Winter Park, Florida. Initially, working in banking, he began working with Ledo Pizza System in 1989 and was elected to our Board of Directors in 1990. He was elected Chief Executive Officer in January, 2002, a position he held until September 30, 2017. Mr. Beall has served as Vice President of Ledo Pizza Carryouts, Inc. since October 9, 1994 and Vice President of Ledo Pizza System since September 30, 2017.

Mr. Beall served as the founding President of the Maryland Hospitality Education Foundation in 1995. He has served as a member of the Board of Directors of the Restaurant Association of Maryland since 1994, and was appointed Chairman of the Board in 1996. In 2003, Mr. Beall was elected to serve as a member of the Board of Directors of the National Restaurant Association, representing the State of Maryland.

Director and President:

James B. Beall

Mr. Beall has served as President of Ledo Pizza System since January, 2002 and Vice President of Ledo Pizza Carryouts, Inc. since December 1, 2009. Mr. Beall served as a Manager of Urban Bar-B-Que Systems, LLC, located at 41 Old Solomons Island Rd., Suite 201, Annapolis, Maryland 21401 from its formation on August 23, 2013 until June 1, 2019.

Secretary, Treasurer and Director:

Margaret Kilby Beall

Mrs. Beall, Mr. Robert M. Beall's wife, graduated from the University of Maryland in 1966. She worked at Fireside Beefhouse, Inc., in Greenbelt, Maryland from 1968 to 1998. In 1986, she co-founded Ledo Pizza Carryouts, Inc. along with Mr. Beall. In addition to serving as Secretary, Treasurer and Director of Ledo Pizza System, Mrs. Beall also serves as Corporate Secretary, Treasurer and Director for Ledo Pizza Carryouts, Inc.

Vice Chairman, Vice President and Assistant Secretary and Director:

Garth E. Beall

Mr. Beall has served as Assistant Secretary of Ledo Pizza Carryouts, Inc., and Ledo Pizza System, Inc. since November, 1997. Mr. Beall has served as Vice President of Ledo Pizza System, Inc. since November, 1999, Vice President of Ledo Pizza Carryouts, Inc. since December 1, 2011 and as Vice Chairman of Ledo Pizza System since January of 2002. Mr. Beall was a Manager of Urban Bar-B-Que Systems from its formation on August 23, 2013 until July 1, 2019. He has been a principal with the firm of McNamee Hosea, P.A., located at 6411 Ivy Lane, Suite 200, Greenbelt, Maryland 20770, since May 1, 2001, a Managing Principal since November 11, 2015 and President since January 27, 2021.

Director:

Thelma W. Beall

Mrs. Beall, the mother of Robert M. Beall, founded Ledo Restaurant in 1955 along with Robert L. Beall, the father of Robert M. Beall. Mrs. Beall served as President of Ledo Restaurant, Inc. from 1955 until 1994. Mrs. Beall was elected as a Director of Ledo Pizza System in November, 2001.

Director:

Troy L. Beall

Mr. Beall, in addition to being a member of the board of directors of Ledo Pizza System, is also President of Annapolis Woodworks, LLC, a Maryland woodworking shop and school.

Assistant Vice President - Operations

Michael Conway

Mr. Conway graduated from the University of Maryland in 1989 before joining the United States Army where he served as an Army Ranger until 1993. After completing his military service, Mr. Conway worked in various different restaurant businesses before becoming manager of a Ledo Pizza System franchised outlet in 1995. In 1997, Mr. Conway joined Ledo Pizza System and became Assistant Vice President for Operations in 2000.

Item 3

LITIGATION

Pending Actions

D&L Urban Holdings, LLC, et al. v. Cluckster, LLC, et al., (Civil Action No. CAL20-01111 and CAL20-12412) was filed in December of 2019 in the Circuit Court for Prince George's County, Maryland. This action was filed as a confessed judgment by D&L Urban Holdings, LLC and L&L Urban Holdings, LLC (former members of Ledo Pizza System's former affiliate, Urban Bar-B-Que Systems, LLC) and Friend's Choice Investments, LLC (a former member of Urban Bar-B-Que Systems, LLC, owned by Robert G. Beall, Troy L. Beall, James B. Beall and Garth E. Beall), as Plaintiffs, against Cluckster, LLC (the purchaser of the membership interests in Urban Bar-B-Que Systems, LLC), Urban Bar-B-Que Systems, LLC, Clucksters International, LLC and Cluck-U, Corp. (guarantors of Cluckster, LLC's obligations to the Plaintiffs), as Defendants (the "Confessed Judgment Case"). The Defendants filed a counterclaim in the Confessed Judgment Case and then a separate lawsuit against the Plaintiffs and the individual members of the Plaintiffs, excluding Robert G. Beall and Troy L. Beall. Both the counterclaim and confessed judgment case alleged misrepresentation, violation of the Maryland Franchise Act, intentional misrepresentation and concealment and breach of contract, conversion and violation of the Maryland Business Opportunities Act. Ledo Pizza System is not a party to the litigation. The Court consolidated the cases and, after the Defendants paid and satisfied the amounts sought under the Confessed Judgment Case in the amount of \$122,232.91, dismissed that case. The Plaintiffs filed additional claims for breach of contract and fraud against the Defendants and Jean Pierre Haddad (the owner of Cluckster, LLC) and his wife, Roula Zoghby. Trial was held on April 12 through 21, 2021. The Defendants abandoned their claim for violation of the Maryland Franchise Act prior to trial and, following the close of the Defendants' case, the Court dismissed all of the individuals except James B. Beall, Jean Pierre Haddad and Roula Zoghby. Following trial, the Court entered judgment in favor of the Plaintiffs on the Defendants' remaining claims and entered judgment in favor of the Plaintiffs on its claims for fraudulent conveyance, declaratory relief, conversion, indemnification and breach of contract in the amount of \$60,000 plus \$480,775.01 in legal fees and costs and expenses and \$12,800.00 in prejudgment interest. The Defendants appealed. Oral arguments were heard before the Appellate Court of Maryland on September 2, 2022. No decision in the appeal has been entered.

Ledo Pizza System, Inc. et al. v. Ledo's, Inc., (Case No. 20-CV-07350). This action was filed on December 11, 2020 in the United States District Court for the Northern District of Illinois. This action for preliminary injunctive relief, permanent injunction and for damages was filed by Ledo Pizza System, Inc. and Ledo Pizza Carryouts, Inc., as Plaintiffs. The action arose after Ledo Pizza System discovered that the defendant Ledo's, Inc. ("Ledo's Illinois"), an Illinois corporation with no relationship to Ledo Pizza System, Inc. and Ledo Pizza Carryouts, Inc. had established a web site and was operating a restaurant under the name "Ledo's Pizza". The suit involves various claims by Ledo Pizza System and Ledo Pizza Carryouts, Inc. that Ledo's Illinois is infringing upon the "Ledo Pizza®" trade name and trademark by the use of the name "Ledo's Pizza". The suit seeks injunctive relief for the alleged trademark infringement, false designation of origin, unfair competition and trademark dilution. Ledo's, Inc. Illinois has filed a counterclaim seeking declaratory relief and alleging unfair competition, violation of the Illinois Deceptive Trade Practices Act and Illinois Consumer Fraud Act, trademark infringement and common law unfair competition,

seeking unspecified damages, attorney fees and costs. Discovery is closed. Dispositive motions are fully briefed and pending before the trial judge. No trial date has been set.

Urban Bar-B-Que Systems, LLC v. Pasil Aboarob, et al., (Civil Action No. CAL20-10229) was filed on March 17, 2020 in the Circuit Court for Prince George's County, Maryland by Urban Bar B Que Systems LLC against Pasil Aboarob. Ledo Pizza System was not an original party to this case. Ledo was joined as a party by a third amended complaint filed on October 14, 2021. On February 27, 2023, Ledo was served in this matter. The plaintiffs seek to assert claims of tortious interference in connection with Ledo Pizza System having sold franchises to Pasil Aboarob and Steven McDonnell Smith, former franchisees of Urban Bar B Que Systems LLC. Ledo Pizza System has filed a preliminary motion to dismiss. No scheduling order has been issued setting discovery and other deadlines. No trial date has been set.

Randy Sanchez v. Ledo Pizza System, Inc., (Case No. 1:23-cv-1605) This action was filed in the United States District Court for the Eastern District of New York. Plaintiff alleges that ledopizza.com contains access barriers denying blind customers the full and equal access to the goods, services and facilities of ledopizza.com. Plaintiff seeks declaratory relief and alleges violations of Title III of the Americans with Disabilities Act, the New York State Human Rights Law, the New York State Civil Rights Law and the New York City Human Rights Law, seeking unspecified damages, attorney fees and costs. The plaintiff seeks an injunction requiring Ledo Pizza System to take all the steps necessary to make its website, ledopizza.com, into full compliance with the requirements set forth in the ADA, declaratory relief, class action certification, unspecified damages and attorneys fees. This case was first received by Ledo Pizza System on March 10, 2023. Ledo Pizza System anticipates filing a motion to dismiss.

Governmental Actions

Consent Order with Maryland Securities Commissioner, dated May 26, 1989. Ledo Pizza Carryouts, Inc., Robert M. Beall, Margaret K. Beall and Thomas E. Marcos, Jr. are all signatories to and have voluntarily entered into a Consent Order with the Maryland Securities Commissioner ("Commissioner"). The Consent Order was required by the Commissioner after a review of the licensing agreements described in Items 1 and 2 above which Ledo Pizza Carryouts, Inc. provided to the Commissioner. Upon review of the license agreements, the Commissioner determined that the license arrangements constituted the sale of unregistered franchises in violation of the franchise law.

While Ledo Pizza Carryouts, Inc. does not agree with that determination, it has nonetheless entered into the Consent Order so as to resolve the matter effectively and efficiently. As a result of the Consent Order, none of the signatories will offer license arrangements in the form of those described above in Items 1 and 2. Upon approval of the Securities Commissioner, Ledo Pizza Carryouts, Inc. may, in the future, offer license arrangements to full-service restaurants in a form of license agreement which the Commissioner approves as not constituting a franchise. Ledo Pizza Carryouts, Inc. has requested approval from the Commissioner, in the form of a No Action Letter, for several forms of licensing agreements referred to above. Approvals, in the form of a No Action Letter, were issued by the Commissioner on April 10, 1995, May 28, 1997, on February 5, 1998 and again on January 1, 2006.

Litigation Against Franchisees in the Last Fiscal Year

Ledo Pizza System, Inc. et al. v. Abdur Rob, et al., (Case No. 1:23-cv-00848-GLR). This action was filed on March 28, 2023 in the United States District Court for the District of Maryland. This action for preliminary injunctive relief, permanent injunction and for damages was filed by Ledo Pizza System and Ledo Pizza Carryouts, Inc., as Plaintiffs. The action arose after Ledo Pizza System terminated Mr. Rob's franchises for failure to comply with the terms of the franchise agreement and involved various claims by Ledo Pizza System and Ledo Pizza Carryouts, Inc. that Mr. Rob was infringing upon the "Ledo Pizza®" trade name, trademark and trade secrets by the use of the name "Ledo Pizza®" after termination of Rob's franchise agreement. The suit seeks specific performance based upon Mr. Rob's failure to comply with the obligation upon termination of the Franchise Agreement and both injunctive relief and damages for the alleged trademark infringement, false designation of origin, unfair competition and trademark dilution.

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

Item 4

BANKRUPTCY

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

Item 5

INITIAL FEES

We currently charge an initial nonrefundable franchise application and processing fee of Thirty Thousand and 00/100 Dollars (\$30,000.00). The initial franchise application and processing fee is payable upon the execution of the Franchise Agreement. We do not anticipate approving any multiple store, regional, territorial or master franchise agreements at this time, although we reserve the right to do so in the future in our sole and absolute discretion. We do not charge an advance advertising and promotion fee.

In the event that we do not approve your franchise location or your lease, you will have the right to cancel your application for a franchise and receive a full refund of your franchise application and processing fee, less a reasonable charge for our administrative and other costs in processing your application up to the time of the cancellation.

Item 6

OTHER FEES

| Name of fee | Amount | Due Date | Remarks |
|--------------------------------|------------------------------------|--|---|
| Royalty | 5% of total bi-monthly gross sales | Payable bi-monthly on or before the 1st and 16th of each month | Gross sales include the total receipt from all sales including food and beverage sales, and, if permitted by local alcoholic beverage laws, all alcoholic beverage sales, without deduction for any premium items or similar items. Gross sales do not include sales and equivalent taxes and coupons and similar discounts approved by us. |
| Sublicense | \$1,000.00 | At time of sublicense | This fee must be paid by you to us for any transfer of operating rights <i>subsequent</i> to the first sublicense which is necessitated by the change in ownership of the entity. |
| Advertising (Cooperative) | 1% of total bi-monthly gross sales | Same as royalty fee | *See below |
| Advertising (Individual store) | 1% of total gross sales | Same as royalty fee | **We require proof of this expenditure. |

| Name of fee | Amount | Due Date | Remarks |
|----------------------|---|---|--|
| Interest & Late Fees | Then current late fee and, if applicable, interest on unpaid amount at 1.5% per month or highest rate allowed by law. | When and as billed to You. | We can change these fees without notice. They apply if you fail to pay us, or if your EFT is rejected by your bank. |
| Transfer | \$10,000.00 | Prior to consummation of transfer | This fee pertains to the the transfer by you to an individual or entity not related to you and as contemplated in Section 36(b) of the Franchise Agreement. This fee must be received by us prior to the consent of a transfer, however, the Franchise Agreement contemplates payment of such fee by the transferee /new franchisee. |
| Inspections | ***See below | As they become due | We may inspect the book-keeping records and take a physical inventory of the assets of your store. |
| Audits | ****See below | Within 15 days after receipt of an audit report | Payable only if audit shows an understatement by the greater of 5% of payments due or \$500.00. |
| Testing | *****See below | As they become due | We have the right to charge fees for testing any product or supplier you proposed to use. |

| Name of fee | Amount | Due Date | Remarks |
|---|--|---------------------------|--|
| Optional | Cost of service as designated by separate agt. | Established by you and Us | We may elect to provide optional services from time to time. Any such services will be billed to you upon terms of separate agreements negotiated between you and us. You have no obligation to utilize optional services. |
| Administrative Charge | \$200.00 | As they become due | An administrative charge may be assessed for each default of your franchise agreement or other rules promulgated by us. |
| Additional Investment | Not to exceed \$5,000 per year | As they become due | We have the right to add additional authorized products and services that you will be required to offer. |
| Liquidated Damages (In-term Covenants Not to Compete) | \$1,000/day | As they become due | We have the right to assess liquidated damages for each day you violate the in-term covenants not to compete in the franchise agreement. |
| Liquidated Damages (Post-term Covenants Not to Compete) | \$100,000 | As they become due | We have the right to assess liquidated damages for each day you violate the post-term covenants not to compete in the franchise agreement. |

| Name of fee | Amount | Due Date | Remarks |
|-----------------|----------------|---|--|
| Loss of Bargain | *****See below | Upon termination of franchise agreement | We have the right to recover damages resulting from loss of bargain resulting if this Agreement is terminated before its expiration. |
| *****See below | | | |

*We will from time to time prepare, produce and conduct advertising and promotion programs for use in such media as we determine are reasonable. We have the right, in our sole discretion, to require that you participate in local and regional advertising cooperatives or similar organizations in connection with such advertising and promotion programs. All costs of the production of any such advertising and promotion, including without limitation, the proportionate compensation of employees of Ledo Pizza System who devote time and render services in the development and production of such advertising and promotion programs or the administration of the funds used by the advertising fund, will be paid by us (the “Ledo Pizza System Advertising Fund”) from advertising fees to which you are required to pay one percent (1%) of the bi-monthly gross sales which contribution is due on or before the First (1st) and the Sixteenth (16th) of each month. We may increase the advertising (common) fee to two percent (2%) if we notify you that we no longer require you to spend at least 1% of the gross sales on individual franchise store advertising. Company owned stores have no vote in these cooperatives.

*We may engage the services of an advertising source or sources to formulate, develop, produce and conduct the advertising and promotional programs, the cost of such services to be payable from advertising fees.

**In addition to the advertising fee for “common” advertising, you will be required to spend at least 1% of gross sales on individual franchise store advertising. We will require proof of the expenditure of your minimum advertising requirement. We may eliminate the requirement that you spend at least 1% of gross sales on individual franchise store advertising. If we eliminate this requirement, the 1% advertising (common) fee will increase to two percent (2%).

***We reserve the right and you must grant to our representatives access, at any time during business hours and without prior notice to you, to inspect the Franchise store and all business bookkeeping records of the franchise store including tax returns, and to take a physical inventory of the assets of the franchise store. We will incur the expense of these inspections; however, should we be required to make two (2) inspections in connection with your continuing failure to comply with the Franchise Agreement, we have the right to charge you for all the costs of making all inspections in excess of two (2) inspections. These costs include, but are not limited to, travel expenses, room and board and compensation of our employees, without limitation, plus an amount equal to Fifteen percent (15%) of our costs. Your failure or refusal to grant to Us and/or our representatives access to your premises for the purposes of this section and paragraph constitutes a breach of the Franchise

Agreement.

****If we dispute the accuracy of any one or more of the gross sales reports, other reports or payments made to us, we may audit or cause to be audited the sales reports, financial statements and tax returns which you are required to submit under the Franchise Agreement. In the event any such audit discloses payments that are underreported by you by the greater of (i) Five percent (5%) of the payments due or (ii) Five Hundred Dollars (\$500), you must pay us within Fifteen (15) days after receipt of the audit report, any underpayment of fees due to us plus interest at a rate of Eighteen Percent (18%) per annum on such underpayments from the date such payments would have been due to us. Further, in the event that such understatement for any period or periods is Two percent (2%) or more of the royalty sales of your location for such period or periods, you must reimburse us for the cost of such audit, including without limitation, the charges of any independent certified public accountant and travel expenses, room and board and compensation of our employees.

*****We have the right to charge fees for testing and evaluating proposed and approved suppliers and may impose limitations on the number of approved suppliers of any product. We would anticipate that the amount of the supplier testing fee would depend upon the type of product required to be tested and would anticipate testing fees to be in the \$500 to \$2,500 range for each product *plus* the amount of any third party fees and expenses such as any required nutritional analysis.

*****Loss of bargain damages are equal to the royalty fees that would have been payable to Us for the balance of the term of the franchise agreement, but not more than thirty-six (36) months.

*****All fees listed in this Item are imposed and collected by us and are payable directly to Ledo Pizza System. All fees listed in this Item are non-refundable. All fees referred to in this Item and all other amounts owed to us under the Franchise Agreement bear interest after the due date at the rate of one and one-half percent (1.50%) per month. We require that payments be made by electronic funds transfer. Your bank may charge you fees for making payments by electronic funds transfer but we do not anticipate those fees exceeding Thirty Dollars (\$30) per month.

*****The royalty and advertising fees referred to in this Item are determined by the establishment of a bookkeeping and record keeping system conforming to the requirements prescribed by us in our Franchise Operating Manual. You must submit sales reports, records sales tax returns and tax returns to us according to the requirements contained in the Operating Manual. You must also deliver copies of your complete Federal Income Tax package and any other tax forms or packages pertaining to your location within Five (5) days of filing with the Internal Revenue Service or any other state or local taxing authority. You must also provide us on a monthly basis, copies of all sales tax returns filed by you.

You are required to grant to Us, a continuing security interest for all franchise royalty and advertising fees and other sums of money becoming due to Us from You, upon all of You and Your Operating Entity's tangible and intangible assets and property rights.

Item 7

ESTIMATED INITIAL INVESTMENT

YOUR ESTIMATED INITIAL INVESTMENT

| PAYMENT IS | AMOUNT | METHOD OF PAYMENT | WHEN TO DUE | WHOM PAYMENT IS TO BE MADE |
|--|---------------------------------------|-------------------------|---------------------------------------|-----------------------------------|
| 1) Initial Franchise Fee | \$30,000.00 | Lump Sum (Note 1) | Upon execution of Franchise Agreement | Ledo Pizza System |
| 2) Advance Advertising and Promotion Costs | \$250.00 to \$1,000.00 | (Note 2) | As Incurred | Vendors |
| 3) Equipment and Supplies (Note 3) | \$75,000.00 to \$225,000.00 | As Incurred | As Incurred | Vendors |
| 4) Opening Inventory | \$5,000.00 to \$13,000.00 | As Incurred | As Incurred | Vendors |
| 5) First Month's Rent | \$3,000.00 to \$15,000.00 (Note 4) | Lump Sum | Prior to Opening | Landlord |
| 6) Signs | \$500.00 to \$7,500.00 | Lump Sum | Prior to Opening | Sign Company |
| 7) Additional Funds - 3 months (Note 5) | \$10,000.00 to \$25,000.00 | As Incurred | As Incurred | Vendor's and/or Ledo Pizza System |
| 8) Lease Deposits | \$3,000.00 to \$15,000.00 | Lump Sum | Prior to Opening | Landlord |

| PAYMENT IS | AMOUNT | METHOD OF PAYMENT | WHEN TO DUE | WHOM PAYMENT IS TO BE MADE |
|----------------------------------|------------------------------|-------------------------|------------------|---|
| 9) Leasehold Improvements | \$70,000.00 to \$300,000.00 | As Incurred | Prior to Opening | Various Parties |
| 10) Miscellaneous Start-Up Costs | \$5,000.00 to \$15,000.00 | As Incurred | As Incurred | Suppliers, Vendors, etc. |
| 11) Utility Deposits | \$500.00 to \$6,000.00 | Lump Sums | Prior to Opening | Utilities |
| 12) Impact fees and permits | \$1,000.00 to \$10,000.00 | As Incurred | As Incurred | Regulatory and governmental authorities |
| 13) Insurance (Note 6) | \$3,000.00 to \$10,000.00 | As Incurred | As Incurred | Insurance Companies |
| TOTAL | \$206,250.00 to \$672,500.00 | | | |

*There may be other third-party costs or payments required of the Franchisee of which we have no control or ability to estimate at this point. Other than the initial franchise fee which is refundable, less a reasonable charge for our administrative and other costs in processing your application up to the time of the cancellation, in the event that we do not approve your franchise location or your lease and you cancel your application for a franchise, no fees listed in this Item that are payable to us are refundable. Amounts payable to third parties may be refundable depending on the agreement with the third party.

**We do not offer, either directly or indirectly, financing to Franchisees for any items; however, the initial investment may be financed in part through a financial institution or directly from suppliers of specific items. We have not identified any particular banks or financial institutions as potential sources of financing for Franchisees.

Notes:

- (1) See Item 5 of this document pertaining to the details regarding this fee.
- (2) Although you are not required to contribute to the Ledo Pizza System Advertising Fund (see Item 6 of this document pertaining to the details of the fund) prior to the opening of your Ledo Pizza® franchise store, we sometimes suggests that you advertise and promote the opening of your Ledo Pizza® franchise store.
- (3) We anticipate that you will purchase or lease equipment, fixtures, supplies from third-party vendors. We require that you purchase telephone hardware from Pizza Cloud. Although we do not require that you purchase your telephone system hardware from a particular vendor,

we estimate that the total cost of a new telephone system hardware and software will be between \$1,500 to \$2,500. We also require that your Ledo Pizza® Store have broadband internet service with minimum 300Mbps download speed. We also require that you purchase or use a point of sale computer system installed with POSitouch software in your Ledo Pizza® Store. Although we do not require that you purchase your computer system hardware or software from a particular vendor, we estimate that the total cost of a new computer system hardware and software will be between \$21,900 to \$33,000.

- (4) We anticipate that franchisees will lease retail locations from third-party lessors/landlords. A location will be selected by you with assistance from us. It is expected that your location will be in a shopping centers or mall and will range in size from 1,500 to 3,000 square feet. The actual rental rates, deposits required and build-out costs will vary greatly from location to location taking into account the size of space available, rental rates in the surrounding area, age of the building, etc.
- (5) You should anticipate having a working capital reserve above and beyond actual expenses incurred when the franchise store is open for business. This fee is an estimate as to the amount of capital reserve that is to be held by you and as to the amount of additional funds that may be required by you to cover potential operating losses. These figures are estimates, and We cannot guarantee that you will not have additional expenses starting the business. The estimated range of working capital is based on our experience in opening and operating restaurants since 1960, including more than 100 Ledo Pizza® franchised restaurants and will depend on factors such as: the size of your Ledo Pizza® Store; how closely you follow our methods and procedures; your management skill, experience and business acumen; financing costs; local economic conditions; the local market for restaurant business; the prevailing wage rate; competition; and the sales level reached during the initial period.
- (6) You must, at all times during the term of the Franchise, maintain in full force and at your sole expense, comprehensive general liability insurance (including, but not limited to, coverage for personal injury, products and contractual liability), motor vehicle liability (including, but not limited to, hired and non-owned coverage), fire, extended coverage, vandalism and malicious mischief, worker's compensation insurance, and such other insurance as you require, under one or more policies of insurance containing the coverage, as from time to time prescribed by us. All such insurance policies must be issued by an insurance carrier rated A or better by Alfred M. Best & Company, Inc. All comprehensive general liability and motor vehicle liability insurance policies must name Ledo Pizza System as an additional insured and provide that we receive thirty (30) days prior written notice of termination, expiration, cancellation, modification, or reduction in coverage of any such policy. You must submit to us a copy of the certificate of or evidence of the renewal or extension of each such insurance policy within ten (10) days of the inception of each policy and at least thirty days prior to the expiration of each policy.

Item 8

RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

We have no required specifications, designated suppliers, or approved suppliers for goods, services, supplies, fixtures, equipment, inventory or real estate relating to your franchise business except for the requirements and specifications referred to in this Item. We will not derive revenue from your purchases or leases with the exception of certain licensing fees specified in this Item.

We require that all “Ledo Pizza®” ingredients, beverage products, cooking materials, containers, packaging materials, other paper and plastic products, utensils, uniforms, menus, administrative forms, cleaning and sanitation materials and other supplies and materials used in the operation of a “Ledo Pizza®” franchise store conform to the specifications and quality standards established by us from time to time in our sole discretion. In the operation of a franchise store, you must use boxes, containers and other paper or plastic products imprinted with the trade names and trademarks as prescribed from time to time by us. We require that you buy or use a POSitouch point of sale computer system which must consist of no less than three (3) touch screen computer terminals for order entry and no less than two (2) remote printers to print food and beverage tickets to the kitchen. The estimated cost of computer system hardware and software is currently between \$21,900 and \$33,000.

We may charge licensing fees to suppliers of goods and services to you. We receive licensing fees from suppliers, generally ranging from 1% to 4% of the amount of purchases by franchisees from such suppliers. We may in our sole discretion require that ingredients, supplies and materials used in the preparation, packaging, and delivery of all food products be purchased exclusively from approved suppliers and that any such ingredients, supplies and materials not previously approved by us as conforming to our specifications and quality standards (for example, all pizza sauces, spice base, pepperoni, cheese, sausage, dough, and other pizza ingredients must meet our standards for quality including texture, grade and taste), be submitted to us for examination and/or testing by us prior to use in your store, you may purchase from any source ingredients, supplies and materials which conform to the specifications and quality standards established by us from time to time in our sole and absolute discretion. We have the right to examine the facilities of any approved supplier, and to test or inspect the ingredients, materials or supplies to determine whether they meet our standards and specifications. We have the right to charge fees for testing and evaluating proposed and approved suppliers and may impose limitations on the number of approved suppliers of any product. We anticipate that testing fees would range from \$1,000 to \$4,500 for each product, depending upon the type of product required to be tested, plus the amount of any third party fees and expenses such as any required nutritional analysis. We will notify you in writing within a reasonable time, generally not to exceed thirty (30) days, whether any ingredients, supplies or materials submitted by you to us for approval meet with our approval or are disapproved. We may revoke approval for any ingredients, supplies or materials submitted by you to us either as a result of changes in ingredients, supplies or materials we require for the operation of Your Ledo Pizza® store or because we believe that such items no longer conform with our specifications and quality standards. In the event that we do so, we will notify you in writing within a reasonable time, generally less than thirty (30) days following the withdrawal of our approval. We maintain a list of suppliers who have been approved by us.

We will provide you with specifications for food and beverage preparation, dispensing, storage and display equipment, other equipment, fixtures, furniture, exterior and interior signs and decorating required for the franchise store. Specifications may include minimum standards for delivery, performance, warranties, design and appearance of store and local zoning, sign and other restrictions. You may purchase or lease original and replacement equipment, fixtures, furniture, signs and decorating services meeting such specifications from any source. If you propose to purchase or lease any item of equipment or furniture or any fixture or sign not previously approved by us as meeting our specifications, you must first notify us and we may require submission of sufficient specifications, photographs, drawings and/or other information and samples to determine whether such item of equipment or furniture or such fixture or sign meets our specifications. We will advise you within a reasonable time, generally not to exceed thirty (30) days whether such item of equipment or furniture or such fixture or sign meets our specifications.

We do not currently sell or otherwise supply goods or services to any “Ledo Pizza®” franchise store. Neither we nor any of our affiliates is a currently approved supplier. None of our franchisee receives any material benefits based upon the use of designated or approved suppliers. None of the current suppliers of goods and services to the various “Ledo Pizza®” franchise stores are affiliated with us. No officer of Ledo Pizza System owns an interest in any supplier of “Ledo Pizza®” franchise store. Subject to the terms of this entire Item 8, you may purchase from any source, ingredients, supplies and materials we have approved as conforming to its specifications and quality standards.

Certain of the approved suppliers of Ledo Pizza® ingredients, beverage products, cooking materials, containers, packaging materials, other paper and plastic products, utensils, uniforms, menus, administrative forms, cleaning and sanitation materials and other supplies and materials used in the operation of Ledo Pizza® stores by you may from time to time pay rebates to us based on the total of all Franchisee purchases from such suppliers. Supplier rebates are not necessarily automatically given, but may be given as a result of efforts and negotiations by us. The payment of such rebates is, in our opinion, a food services industry custom which does not add appreciably to the cost to you of any such supplies or services provided to you. The payment to us of rebates by suppliers is not a factor in nor is it a condition of our approval of suppliers of goods and services to you. In general, in our opinion, if such rebates are not negotiated for by and paid to us, no discount would be allowed or permitted by the suppliers to you and thus the value of the offered rebates would be lost to us if not negotiated for and accepted by us. We may use supplier rebates for our own purposes and intend to administer and disburse, in our sole and absolute discretion, these supplier rebates for any purpose which we determine to be in the interests of Ledo Pizza System and/or any of our franchisees. No effort is or will be made by us to equally or proportionately benefit all or any particular franchisee. You are entitled to no vested rights, title or interest in or to these supplier rebates and you will not be entitled to any refund from us or suppliers at any time. Supplier rebates are generally paid based on a certain volume quantity based on the total of all Franchisee purchases from such suppliers. For example, some suppliers pay a set amount for each product unit, e.g. case of product, purchased by all franchisees from such suppliers. Other suppliers may pay bases on a percentage of sales to franchisees. Other suppliers may pay a flat amount or make indirect or in kind payments, such as advertising and marketing assistance, promotional banners, contributions or donations to events sponsored by us such as the annual Ledo Pizza Golf Classic and tickets to sports or entertainment. Some examples of the types of uses to which we may

use the rebates include, but are not limited to, promotional banners and items which may be used by you; contributions to, donations to, or sponsorship of charitable, social, athletic, or civic organizations; preparation and mailing of our newsletters and other information and assistance; Ledo Pizza System social functions and events; purchase of tickets to sports or entertainment events for contests and other uses and promotions; purchase and maintenance of store equipment which may be available for use by you, such as cleaning equipment or back-up food production equipment; advertising or promotional expenses above and beyond the general advertising fund; and any and all other uses which we may deem beneficial or appropriate. All costs, including the production of any such promotions and assistance and the proportionate compensation of employees of Ledo Pizza System who devote time and render services in the development and production of such assistance and promotion programs or projects or the administration of the funds used for advertising, may, at our option, be paid from the supplier's refund. For the calendar year ending December 31, 2022, we received approximately \$1,417,355.40 in rebate income.

We are a party to a master distributorship agreement with U.S. Foodservice, Inc., including its subsidiaries, pursuant to which certain food products and supplies may be purchased for an amount equal to the cost of such items plus a percentage anticipated to range from 4.5% to 15%.

We may negotiate purchase arrangements or terms (such as price) with suppliers for the benefit of franchisees as a whole. We do not guarantee the availability of independent sources of supply for any particular product or service required to establish or operate Your Ledo Pizza® store.

We do not provide material benefits to our franchisees based on a franchisee's use of designated or approved sources. However, your franchise may be subject to termination or we may refuse to renew your franchise if you do not purchase from designated or approved manufacturers, suppliers or distributors.

You are required to periodically refurbish Your Ledo Pizza ® store (in addition to regular maintenance and repair) within 6 months after receipt of notice from Us. You will not be required to make aggregate expenditures for refurbishing in excess of One and One-half percent (1-1/2%) of the Gross Sales from the date of its opening to the date of the required refurbishing or, except in connection with a renewal of the franchise, to effect any refurbishing of Your Ledo Pizza ® store during the last Six (6) months of the term of the franchise.

You must, at all times maintain in full force and at your sole expense, comprehensive general liability insurance, motor vehicle liability, fire, extended coverage, vandalism and malicious mischief, worker's compensation insurance, and such other insurance as you require, under one or more policies of insurance containing the coverage, as from time to time prescribed by Us and naming Ledo Pizza System as an additional insured (See Item 7).

Item 9

FRANCHISEE'S OBLIGATIONS

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

| <u>Obligation</u> | <u>Section in Agreement</u> | <u>Item in Disclosure Document</u> |
|--|---|------------------------------------|
| a. Site Selection and acquisition/lease | Sections 6 and 7 of the Franchise Agreement | Items 7 and 11 |
| b. Pre-opening purchases/ leases | Sections 9 and 15 of the Franchise Agreement | Items 7 and 8 |
| c. Site development and other pre-opening requirements | Sections 6 through 8 Franchise Agreement | Items 7, 11 and 15 |
| d. Initial and ongoing training | Section 11 of the Franchise Agreement | Item 11 |
| e. Opening | Section 12 of the Franchise Agreement | Items 7 and 11 |
| f. Fees | Sections 16, 25 and 26 of the Franchise Agreement | Items 5 and 6 |
| g. Compliance with standards and policies/Operating Manual | Sections 15, 18 and 20 of the Franchise Agreement | Items 11, 15 and 16 |
| h. Trademarks and proprietary information | Sections 21 and 24 of the Franchise Agreement | Items 13 and 14 |
| i. Restrictions on products/ services offered | Sections 9, 14 and 15 of the Franchise Agreement | Item 16 |
| j. Warranty and customer service requirements | Sections 14, 15 and 18 of the Franchise Agreement | Item 11 |
| k. Territorial development and sales quotas | Sections 3 and 4 of the Franchise Agreement | Item 12 |

| <u>Obligation</u> | <u>Section in Agreement</u> | <u>Item in Disclosure Document</u> |
|--|---|------------------------------------|
| l. Ongoing product/service purchases | Section 15 of the Franchise Agreement | Items 8 and 16 |
| m. Maintenance, appearance and remodeling requirements | Sections 9 and 10 of the Franchise Agreement | Items 11 and 15 |
| n. Insurance | Section 23 of the Franchise Agreement | Item 7 |
| o. Advertising | Section 16 of the Franchise Agreement | Items 6, 7 and 11 |
| p. Indemnification | Sections 24 and 41 of the Franchise Agreement | Not Applicable |
| q. Owner's participation/management/staffing | Sections 13 and 22 of the Franchise Agreement | Items 11 and 15 |
| r. Records/reports | Sections 17 and 28 of the Franchise Agreement | Items 6 and 15 |
| s. Inspections/audits | Sections 27 and 28 of the Franchise Agreement | Items 6 and 11 |
| t. Transfer | Sections 31, 32, 34, 35 and 36 of the Franchise Agreement | Item 17 |
| u. Renewal | Section 5 of the Franchise Agreement | Item 17 |
| v. Post-termination obligations | Sections 31, 32 of the Franchise Agreement | Item 17 |
| w. Non-competition covenants | Section 33 of the Franchise Agreement | Item 17 |
| x. Dispute resolution | Sections 39 and 40 of the Franchise Agreement | Item 17 |

Item 10

FINANCING

We do not offer direct or indirect financing. We do not guarantee your note, lease or obligation.

Item 11

FRANCHISOR'S OBLIGATIONS

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

Before you open your business, we will:

1) Designate your exclusive territory. Generally your exclusive territory will be one mile around the site selected by you and approved by us. Your exclusive territory may be more or less than one mile from your site depending on such factors as population density, geographic or political boundaries or similar factors (Franchise Agreement - Sections 3 and 6)

2) Assist you in selecting a business site. Responsibility for locating a site will, however, fall on you. We must approve any site you select. The site must be selected before signing the Franchise Agreement. There is no time limit for approving a site but if we do not approve a site, the consequence is that we will not sign a franchise agreement. In selecting and granting or withholding acceptance and approval of a proposed site, we will consider such factors as general location and neighborhood, traffic patterns, parking, size, layout and other physical characteristics. The lease, sublease or purchase agreement for your site must provide for adequate parking and must provide that upon termination or expiration of the franchise for any reason, other than a termination by the you for cause and in accordance with the Franchise Agreement, we have the right, but not the obligation, to assume your status and replace you as lessee or sublessee, or to lease a purchased site. There is no time limit for franchisor to locate or approve sites. We will not execute the Franchise Agreement unless we agree on a site. (Franchise Agreement - Sections 6 and 7)

3) We have the right to examine and approve as to conformity with the requirements of the Franchise Agreement, the lease, sublease or purchase agreement for the site of the store, and you agree that you will not execute a lease which has for any reason not been approved in advance by us or which has been disapproved by us. Approval of a lease or purchase agreement by us and/or our legal counsel will be based solely on the conformity of the lease or purchase agreement to the terms and conditions of the Franchise Agreement (see Section 7 of the Franchise Agreement) and upon our projected (but in no way guaranteed) economic impact of the lease or purchase agreement on the franchise. In selecting and granting or withholding acceptance and approval of a proposed site, we will consider such factors as general location and neighborhood, traffic patterns, parking, size, layout and other physical characteristics. We will not approve any lease which does not contain certain provisions relating to (1) assignment of the lease to us, (2) notice of defaults and our right to cure, (3) assumption of the lease by us, and (4) the sole permitted use and trade name at the premises as a Ledo Pizza restaurant, as more clearly and specifically defined in the Franchise Agreement. Approval or disapproval by us and/or our legal counsel of the lease, sublease or purchase agreement will be

provided to you no later than ten (10) business days after receipt of same by us. No review or approval of a lease or purchase agreement by us or our legal counsel will be deemed to be for or on behalf of you. You are advised to obtain your own legal counsel to review the lease, sublease or purchase agreement. You must also deliver a copy of the signed lease or purchase agreement and any addenda (including documents permitting us to lease and/or purchase the premises) to us within five (5) days of execution of the lease. After our approval, your execution of a lease, sublease or purchase agreement for a site will constitute acceptance by you of such site and location and of the terms of such lease, sublease, or purchase. In the event that we do not approve your franchise location or your lease, you will have the right to cancel your application for a franchise and receive a full refund of your franchise application and processing fee, less a reasonable charge for our administrative and other costs in processing your application up to the time of the cancellation. (Franchise Agreement - Section 7)

4) Promptly after obtaining possession of the site for your Franchise (within ten (10) business days), you must (a) provide us with all technical information concerning the site including lot and block number, zoning and tax numbers, legal address and plans for any building on the premises from which you will prepare a complete site plan or space plan for the Franchised store; (b) obtain all required zoning changes, all required building, driveway, utility, health, sanitation, and sign permits and other required permits; (c) purchase or lease equipment, fixtures, furniture and signs for the opening of the store; (d) complete the construction and/or remodeling of the premises and the installation of equipment, fixtures, furniture and signs and decoration of the store in full and strict compliance with plans and specifications as approved by us and with all applicable ordinances, building codes and permit requirements; and (e) obtain all customary contractors' sworn statements and partial and final waivers of lien for construction, remodeling, decorating and installation services. We may, but are not required to, provide you with sample plans and specifications for the equipment, fixtures, furniture, signs, inventory and supplies required for a franchise store. (Franchise Agreement - Section 8)

5) You will, at all times, keep your location properly maintained and will keep all of your equipment in good repair. In addition, you will periodically refurbish your location (in addition to regular maintenance and repair) within Six (6) months after your receipt of notice from us, as we from time to time requires, so as to maintain or improve the appearance and efficient operation of the location or to increase the sales potential or to comply with our standards and identity. Refurbishing may include: (i) replacement of worn out or obsolete equipment, fixtures, furniture and signs; (ii) the substitution or addition of new or improved equipment, fixtures, furniture and signs; (iii) redecorating; (iv) repair of the interior and exterior of the premises and repair and resurfacing of parking facilities; and (v) structural modifications and remodeling of the premises. However, you will not be required to make aggregate expenditures for refurbishing in excess of one and one-half percent (1-1/2%) of the royalty sales of your franchise store from the date of its opening to the date of required refurbishing or, except in connection with a renewal of the franchise, to effect any refurbishing of the franchise store during the last Six (6) months of the term of the franchise.

(Franchise Agreement - Section 10)

6) We have no required specifications, designated suppliers, or approved suppliers for goods, services, supplies, fixtures, equipment, inventory or real estate relating to your franchise business except for requirements discussed in Item 8. We do require that all “Ledo Pizza®” ingredients, beverage products, cooking materials, containers, packaging materials, other paper and plastic products, etc. used in the operation of a “Ledo Pizza®” franchise store must conform to the specifications and quality standards established by us from time to time in our sole discretion. (Franchise Agreement - Section 15)

7) Prior to the opening of a franchise store, you will be provided with a copy of the Franchise Operating Manual for your review prior to traveling for any required training. The contents of the operating manual will remain confidential and the property of Ledo Pizza System. We reserve the right to modify the Operating Manual at any time during the term of the franchise, including adding new or different mandatory and suggested specifications, standards, operating procedures, policies and rules, however, no such modification will conflict with the expressly enumerated terms of the Franchise Agreement. Thereafter, or at such other time as we may require, you and/or your designated manager may be required to enroll in and complete such business and food service courses as we may prescribe from time to time. Such food service and business courses may be offered by a governmental agency, third-party or us and may be furnished at such times and places as the government agency, entity or we designate. We do not charge for this training or service, but you must pay the travel and living expenses for you and your employees. Instructors have been trained by us and may have additional restaurant business experience in addition to such training. The training program will be conducted for each franchisee and will generally begin 7 weeks before the anticipated opening of your Ledo Pizza® Store. Training must be completed to our satisfaction. You must pass each of the tests contained in the Operating Manual. Mr. James B. Beall, President of Ledo Pizza System is in charge of the training program. Mr. Beall has no experience related to the training of franchisee other than his experiences acquired managing the Fireside Beefhouse, Inc. and with Ledo Pizza System (Please see Item 2). Training may vary based on your knowledge and experience of the restaurant business and shall be for such duration as we deem necessary, but generally shall consist of one to three weeks training in one or more *Ledo Pizza®* franchise locations (Franchise Agreement - Section 11). Your training will generally be as follows:

TRAINING PROGRAM

| SUBJECT TAUGHT | HOURS OF CLASSROOM TRAINING | HOURS OF ON THE JOB TRAINING | LOCATION |
|---|-----------------------------------|------------------------------------|----------|
| Office/visits | -- | 28 (four days) | * |
| Counter | -- | 24 (three days) | ** |
| Rolling | -- | 4 | ** |
| Topping | -- | 12 (two days) | ** |
| Pulling | -- | 8 | ** |
| Grill | -- | 23 (three days) | ** |
| Server | -- | 23 (three days) | ** |
| Sanitation, Alcohol awareness, Hire employees, Financials, Building Permits, Miscellaneous | -- | 18 (three days) | * |

* Conducted at the principal office of Ledo Pizza System located at 41 Old Solomons Island Rd., Suite 201, Annapolis, Maryland 21401 and one or more franchise locations. You must visit at least 5 different franchises during the training period.

** Conducted at one or more franchise locations. The following individuals are the training instructors who shall conduct the Training Program on a rotating basis.

Your instructional material will consist of the Operations Manual that We will provide to You at no additional cost. The Operations Manual contains mandatory and suggested standards, operating procedures and rules prescribed by Us. The Operations Manual is copyrighted and is not to be reproduced or distributed to any unauthorized person. We can change the terms of, and add to, the Operations Manual whenever we believe it is appropriate.

| INSTRUCTOR/TITLE | EXPERIENCE |
|---|---|
| Mike Conway- Assistant Vice President - Operations | 36 years experience working for Ledo franchisees and Ledo Pizza System. |
| Thomas Sheahan | 13 years experience working for various Ledo franchisees and Ledo Pizza System |
| Will Robinson - Vice President Marketing | 30 years experience working for various restaurant concepts and Ledo Pizza System. |
| Sandy Chan - Creative Manager | 27 years experience working for various restaurant concepts and Ledo Pizza System. |
| Adam Tripp - Marketing Specialist | 14 years experience working for Hospitality Concepts and Ledo Pizza System. |
| Yun Chan - Office Manager | 9 years experience working for Ledo Pizza System. |
| Greg Papathakis – Technology Specialist | 8 year experience working for Ledo Pizza System, 24 years various Restaurant experience |

8) Following the opening of a franchise store, we will provide you with no less than one (1) week of on-site assistance in opening and start-up training as we deem necessary and appropriate. In addition, we will provide periodic general assistance as more fully described in the operations manuals of Ledo Pizza System. (Franchise Agreement - Section 11)

9) You and/or your designated manager will not be paid for the training period by us. You are responsible for travel and living expenses while attending the training program. (Franchise Agreement - Section 11)

During the operation of the franchised business, we will:

1) Assist you from time to time as we determine in such areas as food preparation, food packaging, personnel management, advertising, sales promotion and general administrative functions. We may advise you from time to time of operational problems that are discovered by us either through on-site inspections or from periodic reports from franchisees to us. The assistance provided by us is not intended to nor does our assistance in any area imply that where we provide assistance, it does not have the ability to mandate specifications, standards, operating procedures or policies. For example, although we may assist you in food preparation, it is your obligation to prepare food in the manner required by the Operating Manual using the specifications, standards, operating procedures and processes prescribed by the Operating Manual. (Franchise Agreement - Sections 13)

2) Loan to you during the term of the franchise one or more copies of the Ledo Pizza

System operating manual or operational bulletins or similar materials (“Operating Manual”) containing mandatory and suggested specifications, standards, operating procedures, policies and rules prescribed from time to time by us. The contents of the operating manual will remain confidential and the property of Ledo Pizza System. We reserve the right to modify the Operating Manual at any time during the term of the franchise, including adding new or different mandatory and suggested specifications, standards, operating procedures, policies and rules, however, no such modification will conflict with the expressly enumerated terms of the Franchise Agreement. We may amend or modify the Operating Manual at any time during the terms of the franchise. The provisions of the Operating Manual as modified from time to time and mandatory specifications, standards and operating procedures, policies and rules prescribed from time to time by us and communicated to a Franchisee in writing, will constitute provisions of the Franchise Agreement as if fully described in the Franchise Agreement. You are obligated to maintain the operating manual in current and up-to-date condition. In the event of any dispute as to the contents of the manual, the terms and conditions of the master copy maintained at our corporate offices will be controlling. (Franchise Agreement - Section 20)

As of the date of this Franchise Disclosure Document, our Operating Manuals totals 284. The table of contents of the Operating Manual is as follows:

| <u>Subject</u> | <u>Number of Pages Devoted to Subject</u> |
|-------------------------------------|---|
| 1. Operator Information | 1 |
| Notice from Ledo Pizza Systems Inc. | 1 |
| The Ledo Philosophy | 6 |
| Operator Training Outline | 4 |
| Book Keeping | 2 |
| Gift Card Monies | 3 |
| Franchise Inspection | 1 |
| 2. Training | 1 |
| Study Sheet | 2 |
| General Staff Test | 2 |
| General Manual | 16 |
| Answer Keys | 4 |
| Pizza Manual | 20 |
| Pizza Answer Key | 4 |
| Pizza Test #3 | 1 |
| Grill Manual | 14 |
| Grill Answer Keys | 2 |
| Grill Test #3 | 1 |
| Counter Manual | 15 |
| Counter Answer Keys | 3 |
| Counter Test #3 | 1 |
| Server Manual | 19 |
| Server Answer Keys | 3 |
| Server Test #3 | 1 |
| Bartenders Manual | 15 |
| Bar Answer Keys | 3 |
| Laminates | 83 |
| 3. Operating the Restaurant | 1 |
| Haccp | 16 |
| Haccp Employee Training | 6 |
| Temp Log | 2 |
| Hiring Forms | 9 |
| Manager Checklists | 3 |
| Us Food Order Sample | 5 |
| Small wares List | 8 |
| Scheduling | 2 |
| Seating Chart Sample | 1 |
| Audit Forms | 4 |
| Customer Service | 2 |

3) Assistance to be provided by us and more specifically outlined in the Operating Manual include, but are not limited to, training of employees, improvements and developments in the franchised business, pricing, administrative, bookkeeping, accounting and inventory control procedures and assistance with operating problems encountered by you in the operation of your franchise. (Franchise Agreement - Section 15)

4) Provide ongoing and additional training to you (or, if applicable, your designated manager), if we decide to require and/or offer such training. (Franchise Agreement - Section 11)

5) We shall from time to time prepare, produce and conduct advertising and promotion programs for use in such media as We determine including print, radio and/or television. We have an advertising council composed of five (5) franchisee representatives, each of which is elected for a two year term. Each representative is elected by a majority of the franchises located within a region specified by us (5 regions). Voting is by number of franchise locations. The advertising council provides input on advertising, marketing, operational and other matters but does not have decision making power. We can change or dissolve the advertising council at any time. The advertising conducted by us shall be local and regional in scope, regional being the general Washington D.C., Baltimore, Maryland, and outlying suburban areas. We also conduct regional advertising in the, Tampa, Florida, Richmond, Virginia and Raleigh, North Carolina area. Although we may formulate, develop, produce and conduct advertising and promotion programs on our own, we currently engage a regional advertising agency, in addition to our in-house advertising department, and reserve the right to engage the services of a national advertising source or sources to formulate, develop, produce and conduct advertising and promotion programs. We are under no obligation to ensure that expenditures for advertising are made in the area or territory where your franchise is located. Under no circumstances may you formulate, develop, produce or conduct an advertising or promotion program on your own without our prior approval. Only advertising approved by us or derived from us, either from our own advertising department or from an advertising source engaged by us, may be used in the advertising and promotion of your store. You are required to contribute one (1%) percent of the gross sales of your *Ledo Pizza*® Store to the Advertising fund. Advertising funds are used to promote the products sold by you and are not used to sell additional franchises. Any amount of advertising funds not spent in the fiscal year in which they are accrued is maintained by us to be used for future advertising (Franchise Agreement - Section 16). The Advertising Fund is administered by us and we will, upon written request, submit to you an annual accounting of the receipts and disbursements of this Advertising Fund within forty-five days of receipt of your written request. During calendar year 2022, we spent Advertising Funds on a variety of print, radio and television advertising during the most recently ended fiscal year. We spent 7% on production, 49% on media placement, 25% on administrative expenses and 18% on employment expenses of our employees supporting advertising and marketing efforts. The Advertising Fund is not separately audited.

6) You may be required to participate in an advertising cooperative or similar organization in connection with advertising and promotional programs and we may require the franchisees in your area to form local advertising cooperatives and participate in certain local advertising. You will not be required to contribute more than one (1%) percent of the gross sales of your *Ledo Pizza*® Store to the local advertising cooperatives. We may also, at our discretion, change the geographic territory of the franchisees in your local advertising cooperative, merge your cooperative into another exiting or newly formed advertising cooperative or require that your local advertising cooperative be dissolved. All costs of the production of any such advertising and promotion (including without limitation the proportionate compensation of our employees who devote time and render services in the development and production of such advertising and promotion programs or the administration of the funds used in advertising), will be paid from a separate fund administered by us (the “Ledo Pizza System Advertising Fund”). Nonetheless, you must contribute one percent (1%) of the Gross Sales of Your Ledo Pizza® store to the Advertising Fund as described above. You are not required to separately contribute toward any advertising cooperative or similar organization in which you participate. There is no requirement that an advertising cooperative or similar organization operate from written governing documents. (Franchise Agreement - Section 16).

We estimate that there will be an interval of two (2) to six (6) months between the signing of the Franchise Agreement and the opening of a franchise store but the interval may vary based upon such factors as your ability to secure a suitable site and the location and condition of the site. Other factors which may affect the interval between the execution of the Franchise Agreement and the opening of your store will include your ability to obtain financing and/or building permits, zoning and local ordinances. Under Section 12 of the Franchise Agreement, you must open your store within six (6) months of the date after you execute the Franchise Agreement. If you do not open the store within six (6) months of the date of the Franchise Agreement, then the Franchise Agreement may, at our sole option, be terminated by giving written notice to you.

We require that you buy or use an POSI-Touch point of sale (“POS”) system. The POSI-Touch system is a multi-functional restaurant POS solution that is used to enter orders and payments, food preparation and delivery, and operations. The system must consist of no less than three (3) touch screen computer terminals for order entry and no less than three (3) remote printers to print food and beverage tickets to the kitchen. We also require that you buy or use POSI-Touch Quick Menu Enterprise Management which allows Us to manage / push menu updates individual location POS systems; GK Software Transaction Plus - Credit Card Processing Software; Vigilix Remote Access - which allows locations to interact in real time with Us on quality control and compliance tasks / issues; Norton AntiVirus and Restaurant 365 which is an accounting software that integrates into the POS System and includes a data polling system for Us to poll data from locations. The current cost of POSI- Quick Menu Enterprise Management is \$40/month, GK Software Transaction Plus is \$1,200/year; Vigilix Remote Access is \$120/year; Norton AntiVirus is \$104.99/year and Restaurant 365 is \$199/ month. The estimated cost of POS system hardware and software is currently between \$21,900 to \$33,000. We also require that you have annual Hardware and Software Maintenance agreements from your local Positouch licensed vendor. The estimated annual cost is \$2,000 to \$4,500. We also require that you purchase monthly phone service from Pizza Cloud. The

estimated cost of Pizza Cloud hardware is currently between \$1,500 to \$2,500. The estimated monthly service fee is \$177 - \$207/month. We also require the you use Mobo Systems, Inc. ("Olo") as your online ordering provider. Olo charges a location activation fee of \$250, a monthly program fee of \$70 plus \$0.16 per order.

The computer system must use a POSitouch software package, the principal function of which is point of sale, time and attendance and inventory control management and credit card authorization. Optional software programs include PC Anywhere Software and Norton Antivirus, the principal function of which is remote access and virus protection, respectively.

Warranties, maintenance, repairs, upgrades and updates may be provided by the manufacturer of the hardware or by the vendor of the computer system. Shift4 Corporation located at 1551 Hillshire Dr. Las Vegas, NV 89134 Telephone (888) 276-2108, an approved supplier of POSitouch computer systems, currently provides between ninety (90) days and one (1) year hardware warranty and between thirty-five (35) and forty-five (45) hours of training and support time, depending on the computer system purchased. Other than the warranty and training and support time, neither we, any affiliate of Ledo Pizza System nor any third party has the contractual right or obligation to provide ongoing maintenance, repairs, upgrades or updates and no estimate of the current annual cost of any optional or required maintenance and support contracts, upgrades or updates is available.

We do not currently anticipate any upgrades to the POSitouch computer system. You have a contractual obligation to make any upgrades, updates or replacement of the POSitouch computer system required by us in the future and those upgrades, updates or replacements are refurbishing under the franchise agreement. You will not be required to make aggregate expenditures for refurbishing in excess of one and one-half percent (1-1/2%) of the royalty sales of your franchise store from the date of its opening to the date of required refurbishing or, except in connection with a renewal of the franchise. (Franchise Agreement - Section 10).

Hardware brands may vary but may include brands such as Epson and Hewlett Packard. Any compatible equivalent hardware may be used with the system. Compatible equivalent brands will depend on the system type and configuration and no specific hardware has been approved or disapproved by us. The software program is the proprietary property of POSitouch, and no compatible equivalent program has been approved by us for use with the system to perform the same functions. The name, business address and telephone number of POSitouch LLC is 2202 N Irving Street Allentown, PA 18109, Telephone (888) 276-2108. The program has been in continuous use by in the franchise store located in Falls Church, Virginia since 1995 and, as of March 15, 2023, is used in one hundred five (105) franchise stores.

The POSitouch computer system will be used in your business for point of sale, time and attendance and inventory control management and credit card authorization. The computer system, if used properly will collect data on sales, sales tax, employee hours and inventory sold. We will have independent access to the information and data collected. There are no contractual limitations on our right to access the information and data.

Item 12

TERRITORY

You will receive an exclusive territory in which no other *Ledo Pizza*® store will be physically located closer than one (1) mile from an existing franchise, unless you and Ledo Pizza System agree to a different exclusive territory upon the execution of their Franchise Agreement or upon the execution of an amendment to the existing Franchise Agreement which sets forth the amended exclusive territory. We reserve the right, in our sole and absolute discretion, when reviewing an application for a franchise, to constrict the territory of the proposed franchise in the event the population density, traffic barriers, natural divides or other criteria dictate, in our sole discretion, that a smaller or differently configured territory is in our best interests. If we determine that we will only approve a smaller territory than one (1) mile, you will have the right to cancel your application for a franchise and receive a full refund of your franchise application and processing fee, less a reasonable charge for our administrative and other costs in processing the application up to the time of the determination of your territory.

At any time during the term of the franchise, we may operate or grant a franchise for the operation of another *Ledo Pizza*® Store whose exclusive territory overlaps your exclusive territory provided that no such *Ledo Pizza*® Store shall be physically located within your exclusive territory referred to above. For example, if your exclusive territory is one (1) mile, we may grant a franchise for the operation of another *Ledo Pizza*® Store having an exclusive territory of one (1) mile that will be physically located less than two (2) miles away from the physical location of your *Ledo Pizza*® Store. We will not, however, grant a franchise for the operation of another *Ledo Pizza*® Store that would be physically located within one (1) mile of Your *Ledo Pizza*® Store.

We may at any time during the term of the franchise open and operate one or more commissaries and/or distributorships within your exclusive territory or may sell pre-packaged *Ledo Pizza*® products to certain non-restaurant businesses, within your exclusive territory. With the exception of sales to *Ledo Pizza*® franchised locations from commissaries or distributorship located within your territory, we will only sell such *Ledo Pizza*® products to wholesale or retail food distributors such as grocery, convenience or other similar businesses located within your exclusive territory, and will not use alternative channels of distribution such as the Internet, catalog sales, telemarketing or other direct marketing as a means of conducting direct sales in your territory.

You do not receive the right to acquire additional franchises within your exclusive territory. Provided your Franchise Agreement remains in effect, your exclusive territory may not be altered without your consent. You must operate from the location agreed to and must obtain our consent prior to relocating. In the event you desire to move or relocate to another location, you may request permission to do so in the form of a written application submitted to us. We may elect to grant our prior written consent, which consent may be withheld in our sole and absolute discretion. Any move or relocation, if approved by us, will be deemed a transfer of the franchise for which all of the other franchise transfer conditions and fees provided for in the Franchise Agreement will be applicable.

You do not have a right to develop and open additional stores. You do not have any options or similar rights to acquire additional stores.

We may establish company-owned stores which will use the trade and/or service marks licensed by us under the Franchise Agreement; however, such stores will not interfere with your exclusive territory as described in this Item 12.

We will not operate stores or grant franchises for a similar or competitive business within your area, although we intend to approve other franchisees who may use the trade and/or service marks licensed by us.

The name “Ledo Pizza” is currently used by the licensees of Ledo Pizza Carryouts, Inc. Neither us, nor any of our affiliates has previously established any other franchises or company-owned outlets selling or leasing similar products or services under a different trade name or trademark. The Franchise Agreement does not prohibit us or our affiliates from establishing other franchises or company-owned outlets selling similar products or services under a different trade name or trademark within your exclusive territory, although we have no present intention of doing so.

The minimum sales quota for this franchise is the greater of Two Hundred Fifty Thousand and 00/100 Dollars (\$250,000.00) or the product of eight (8) times the first year’s annual rent for the franchise location. You will be deemed not to have achieved the quotas if you fail to achieve the yearly gross sales figure stated above in any Two (2) consecutive years of the Franchise Agreement or in any Three (3) years of the Franchise Agreement. Failure to achieve the yearly gross sales figure stated above in any Two (2) consecutive years of the Franchise Agreement or in any Three (3) years of the Franchise Agreement constitutes a non-curable default for which your Franchise Agreement may be terminated. Provided the Franchise Agreement remains in full force and effect, your territory may not be altered without your consent and you maintain your rights to your area even though the population increases.

We will not prohibit or restrict you from soliciting or accepting orders from customers outside your Exclusive Territory. You are free to solicit or accept orders from outside your Exclusive Territory either through phone or over the internet but are not permitted to use alternative channels of distribution such as the Internet, catalog sales, telemarketing, or other direct marketing, to make sales inside or outside your territory, without our prior written approval. You will not be required to pay any compensation to any other franchisee as a result of any orders received from outside your Exclusive Territory. In addition, We may engage in the sale of *Ledo Pizza*® products, under the principal trademark or under a different trademark, within your Exclusive Territory, according to one or more of the following: (a) the licensing or operation of one or more wholesale food distributorships for the sale of ingredients, prepared food products, supplies and materials used in the preparation, packaging, and sale of *Ledo Pizza*® products; (b) the licensing of one or more wholesale or retail food businesses, i.e. grocery or convenience stores, for the sale of *Ledo Pizza*® products including, without limitation, (i) uncooked or partially cooked prepared pizza or pasta; (ii) pizza or pasta sauces; (iii) spice base; and (iv) salad dressing or other condiments or (c) other non-restaurant locations such as corporate cafeterias, offsite events (e.g. art fairs, fundraisers, etc.), stadiums, and locations with relatively fixed populations (e.g. airports, military bases, indoor regional malls, certain large office buildings where a substantial portion of the inhabitants do not leave the building for lunch and few people from outside the building come in for lunch, and similar locations). We may grant a license to sell *Ledo Pizza*® products to a wholesale food distributorship or wholesale or retail food distributors, i.e. grocery or convenience stores that is located within your

Exclusive Territory.

We will not pay any compensation for soliciting or accepting orders inside your Exclusive Territory.

Item 13

TRADEMARKS

We are a nonexclusive licensee and also grant you a license to use certain Marks under the terms of the Franchise Agreement. The Marks include “Ledo Pizza®”. Your rights to use the Marks are derived solely from the Franchise Agreement and are limited to the conduct of the business by you under the Franchise Agreement and all applicable standards, specifications and operating procedures prescribed from time to time by us during the term of your franchise.

Any unauthorized use of the Marks by you is a breach of the Franchise Agreement and is an infringement of our rights in and to the Marks. You may not use any Mark as part of any corporate name or with any prefix, suffix or other modifying words, terms, designs or symbols (other than logos licensed to a Franchisee under the Franchise Agreement), nor may you use any Mark in connection with the sale of any unauthorized product or service.

You may not use the Marks nor any derivation of the Marks in any other manner not explicitly authorized in writing by us.

You acknowledge and agree that all uses of the Marks by you and any goodwill established by your use of the Marks under the Franchise Agreement inure to the benefit of Ledo Pizza System and the owner of the Marks. The Franchise Agreement and this Disclosure Document do not confer any goodwill or other interests in the Marks upon or to you.

We are the licensee of certain trade and service marks and commercial symbols, including “Ledo Pizza”, which trademark is owned and licensed to us by Ledo Pizza Carryouts, Inc. (the “Mark Owner”). We have filed and intend to file all required affidavits and renewals for these trademarks in a timely manner. The Mark Owner has obtained federal registration of its trademark and state (Maryland and Virginia) registrations of its trade name. The United States Patent and Trademark Office granted a federal registration for a stylized Ledo Pizza trademark on December 13, 1988, No. 1,516,567, and subsequently granted a federal registration for a block letter Ledo Pizza trademark on March 23, 1993, No. 1,760,125. Registration No. 1,760,125 has since expired and was subsequently re-registered on May 6, 2003, No. 2,712,869. The license granted to us by the Mark Owner is for a term of five (5) years from January 1, 2010 (and automatically renews for annual periods thereafter) and permits sublicenses to Franchisees under the terms and conditions of the Franchise Agreement. The license can be terminated by the Mark Owner following our failure to cure a material breach and upon our bankruptcy or insolvency but a termination, non-renewal or cancellation of the license granted to us does not operate to terminate your rights to use the Marks under the Franchise Agreement.

There are no presently effective determinations of the United States Patent and Trademark Office nor any trademark administrator of this state or any court, nor any pending interference, opposition or cancellation proceeding nor any material litigation involving any of the Marks which is relevant to their use in this state or the state in which the franchised business is to be located.

There are no agreements currently in effect which limit our right to use or license the use of the Marks in any manner material to the franchise. The license granted to us by the Mark Owner is

perpetual and permits sublicenses to Franchisees under the terms and conditions of the Franchise Agreement.

You must immediately notify us of any infringement of or challenge to the use of any Mark and we will have sole discretion to take such action as we deem appropriate. We will indemnify you against and reimburse you for all damages for which you are held liable in any proceeding arising out of the use of any Mark in compliance with the Franchise Agreement and for all costs reasonably incurred by you in the defense of any such claim brought against you or in any such proceeding in which you are named as a party, provided that you have timely notified us of such claim and have otherwise complied with the Franchise Agreement and we have the right to defend any such claims as provided in the Franchise Agreement. We have the right to exclusively control litigation or United States Patent and Trademark Office or other administrative proceedings arising out of any such infringement, challenge or claim or otherwise relating to any Mark, if any. If it becomes advisable at any time in our sole discretion for you to modify or discontinue use of any Mark and/or use one or more additional or substitute Marks, you must do so and our sole obligation in any such event will be to reimburse you for your tangible costs of complying with this obligation (for example, the printing of new menus, the painting of wall signs, etc.).

We do not know of any infringing uses which could materially affect your use of any Mark owned by the Mark Owner and licensed to us.

Item 14

PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

We may develop various copyrighted materials to be used in connection with the operation of “Ledo Pizza®” franchise stores. Specifically, We intend to claim copyrights on all operations manuals and materials as well as the various reporting forms and documents prepared by us for use by you. The operations manual is described in Item 11. We have not yet registered any such copyrights, but may do so in the future. Although we have not filed an application for copyright registration for the operations manual and the various reporting forms and documents, we claim a copyright and the information contained in the operations manuals and other documents is proprietary.

We do not own any patents that are material to your franchise. We do not have any pending patent applications that are material to your franchise.

You must promptly tell us when you learn about unauthorized use of this proprietary information. We are not obligated to take any action but will respond to this information as we think appropriate. We will indemnify you for losses brought by a third party concerning your use of this information. If it becomes advisable at any time in our sole discretion for you to modify, add or discontinue use of any item or process covered by a patent or copyright, you must do so and our sole obligation in any such event will be to reimburse you for your tangible costs of complying with this obligation.

The information disclosed to you in connection with the operation of a “Ledo Pizza®” franchise store, including without limitation the contents of the Operating Manual and the specifications, standards and operating procedures of the “Ledo Pizza®” franchise store is confidential and a trade secret of Ledo Pizza System. You are obligated to maintain the absolute confidentiality of all such information during and after the term of the franchise, disclosing only the same to the other employees of the “Ledo Pizza®” franchise store and only to the extent necessary for the operation of the “Ledo Pizza®” franchise store in accordance with the Franchise Agreement. You may not use any such information in any other business or in any manner not specifically authorized or approved in writing by us.

The Franchise Agreement provides that if you develop any new product, ingredient, recipe, concept, process or improvement in the operation or promotion of the “Ledo Pizza®” franchise store, you must promptly notify us and provide us with all necessary information with respect the new product, ingredient, recipe, concept, process or improvement without compensation. You acknowledge that such new product, ingredient, recipe, concept, process or improvement will become our property and that we may itself utilize or disclose to other franchisees such information.

Item 15

OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS

Provided all other terms and conditions of the Franchise Agreement are met (i.e., sales quotas, etc.), there is no specific requirement in the Franchise Agreement or any other device or practice by which you are required to personally participate in the direct operation of the franchise.

We, however, strongly recommend that each franchise be owner-operated or that you spend substantial time and effort in the direct supervision and operation of the store. If you turn over management of a franchise store to someone other than yourself, each franchise store must be operated under the direct, on-premises supervision of a manager: (i) who has successfully completed, to our satisfaction, the required training program as described above; and (ii) whose identity has been disclosed to and approved in advance by us. Additionally, each employee, including all managers, must execute the Confidentiality Agreement attached as Exhibit E to this Franchise Disclosure Document. Although do not currently do so, We have the right to require all managers to execute, an agreement in form satisfactory to us, an agreement not to divulge any trade secret or confidential or proprietary information, including the contents of the operating manual, or to engage in or have any interest in any other food products and related carry-out business. You are not required to place any other restrictions on your managers with respect to confidentiality, non-competition, or similar matters.

You must use the standard reporting forms and bookkeeping methods provided for in the Operating Manual. You must provide us with copies of all governmental health department reports with regard to the franchise store within five (5) days of receipt of such reports. You must also provide us with a copy of your complete Federal Income Tax Return as described above.

You must secure and maintain in force all required licenses, permits and certificates and operate your “Ledo Pizza®” franchise store in full compliance with all applicable laws, ordinances and regulations, including without limitation all government regulations relating to occupational hazards, health, sanitation, consumer protection, unfair and deceptive practices, trade regulation, worker's compensation, unemployment insurance and withholding and payment of federal and state income taxes and social security taxes and sales, use and property taxes. You are required to participate and enroll in any and all courses required of any local and/or state regulatory agency so as to comply with all laws, statutes, ordinances and regulations.

All shareholders, partners, members or investors of Your Operating Entity are required to sign a guarantee of the Operating Rights Agreement and the Standard Franchise Agreement and all other agreements executed by You.

You also must pay when due all amounts payable by you under any provision of the Franchise Agreement or any other agreement with us or our affiliates or subsidiaries or under any agreement with any other creditor or supplier of the “Ledo Pizza®” franchise store.

Item 16

RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

The Franchise Agreement provides that you must offer for sale and sell at the “Ledo Pizza®” franchise store all food and beverage products and the carry-out services that we from time to time authorizes. Further, you are prohibited from offering or selling any products or services not authorized by us and from using the premises for any other purpose than the operation of a “Ledo Pizza®” franchise store. The Franchise Agreement also generally prohibits you from providing door to door pizza delivery service as well as catering services. You are also prohibited from selling alcoholic beverages of any sort at the “Ledo Pizza®” franchise store without (i) obtaining our written consent, which consent will be granted solely at the discretion of and/or under the terms, conditions or limitations imposed by us; and (ii) obtaining the requisite liquor license and permits.

We have the right to add additional authorized products and services that the franchisee will be required to offer, including participation in promotional campaigns. There are no limits on our right to do so except that the investment required of a franchisee will not exceed the amounts for refurbishing.

We reserve the right, to the extent permitted by law, to establish a maximum price that you may charge for any product. You have complete discretion in determining the minimum price you charge for your products. We may suggest pricing strategy, but the minimum pricing decision is always yours. You should also be aware that collaboration with other franchisees in establishing prices may be considered a violation of the law.

Item 17

RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

Item 17 Table

THE FRANCHISE RELATIONSHIP

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

| <u>Provision</u> | <u>Section in Franchise Agreement</u> | <u>Summary</u> |
|--|---|--|
| a. Term of the Franchise | Section 2 | Term is for five (5) years. |
| b. Renewal/extension of term | Section 5 | Five (5) additional Five (5) year terms |
| c. Requirements for you to renew or extend | Section 5 | You will be required to sign a new form of Franchise Agreement and other agreements then customarily used by Us in the granting of franchises at the time of the renewal, which may include materially different terms and conditions and may provide for a higher royalty fee and for greater expenditures for advertising and promotion than are provided for in your original contract. Additionally, you must: be in compliance with complied with the Franchise Agreement, give us not less than Six (6) months nor more than Twelve (12) months' notice, have met or exceeded the Gross Sales Quota, and are able to maintain your current franchise location or a suitable alternative site approved by us. |

| <u>Provision</u> | <u>Section in Franchise Agreement</u> | <u>Summary</u> |
|---|---------------------------------------|--|
| d. Termination by you | Section 29 | If you are in compliance with the Franchise Agreement, you may terminate in the event of breach by us and without cure of same within 30 days after written notice is delivered by you to Ledo Pizza System of such a breach. A Notice of Termination must be sent to us within 60 days following the written notice to us of the breach. |
| e. Termination by us without cause | None | |
| f. Termination by us with cause | Section 30 | We can terminate only if you default. |
| g. "Cause" defined - defaults which can be cured | Section 30 | You have 3 days to cure to correct default in use of trademark and 15 days to cure default for failure to pay any monies owed. |
| h. "Cause" defined - defaults which cannot be cured | Section 30 | Non-curable defaults: you make an assignment for benefit of creditors, you fail to pay debts to suppliers, file voluntarily for bankruptcy, you fail to continuously operate the store, you fail to renew/extend the lease, you fail to achieve sales quotas in 2 consecutive years or any 3 years during your term, you fail to submit sales reports when due on 2 or |

| <u>Provision</u> | <u>Section in Franchise Agreement</u> | <u>Summary</u> |
|--|---------------------------------------|--|
| | | more occasions in any 1 year, you fail to comply with the maximum retail prices established by us, you are convicted of a felony or other crime, you make a material misrepresentation on your application; the interest of a deceased or incapacitated franchisee is not disposed of in accordance with the Franchise Agreement; failure to comply with any of the terms of the Franchise Agreement. |
| i. Your obligations on termination/nonrenewal | Section 31 | Obligations include, but are not limited to payment of amounts due, name decertification, modifications to interior and exterior of store to minimize identification with Ledo Pizza System, return of all copies of Operating Manual. You may not, at the store, sell pizza, pasta, sandwiches, subs or other food items which are the same as or confusingly similar to those food items sold by you or other <i>Ledo Pizza</i> ® Stores immediately prior to the termination or expiration. |
| j. Assignment of contract by Ledo Pizza System | Section 34 | No restrictions on our right to assign. |
| k. "Transfer" by you - definition | Section 35 | Includes transfer of franchise agreement, transfer of franchise, |

| <u>Provision</u> | <u>Section in Franchise Agreement</u> | <u>Summary</u> |
|--|---|--|
| | | part of the ownership of the franchise or the assets of the franchise |
| l. Ledo Pizza System's approval of transfer by you | Section 36 | We will not unreasonably withhold our approval to a transfer; transfer must be approved in writing by us. |
| m. Conditions for Ledo Pizza System's approval of transfer | Section 36 | New franchisee qualifies, pays a transfer fee of \$10,000.00, executes new franchise agreement, completes a training program, you execute a release. Such release will be in a form satisfactory to us and will be a release as to any and all claims against us and our officers, directors, shareholders, agents, and employees. |
| n. Ledo Pizza System's right of first refusal to acquire your business | Section 32 | We have the option but not the obligation to purchase all assets of the store; see paragraph 32 of the Franchise Agreement. |
| o. Ledo Pizza System's option to purchase your business | Section 32 | See o. above |
| p. Your death or disability | Section 37 | Franchise must be assigned to approved buyer by the estate within 12 months. |

| <u>Provision</u> | <u>Section in Franchise Agreement</u> | <u>Summary</u> |
|---|---|--|
| q. Non-competition covenants during the term of the franchise | Section 33 | No involvement in any food and related products carry-out or eat-on premises business anywhere in U.S. without our prior written consent; violation of covenant results in liquidated damages of \$1,000.00 per day. |
| r. Non-competition covenants after the franchise is terminated or expires | Section 33 | No ownership in, employment or involvement of any dine in or carry-out food products business for 3 years or within 10 miles of your Ledo Pizza System franchise; violation of covenant results in liquidated damages of \$100,000.00. |
| s. Modification of the Agreement | Section 46 | You and we may by written instrument waive any restrictions imposed by this agreement, provided no default exists; we reserves the right to modify this agreement for new franchises. |
| t. Integration/merger clause | Section 45 | Only the terms of the franchise agreement and other related written agreements are binding (subject to state law). Any representations or promises outside the disclosure document and franchise agreement may not be enforceable. |

| <u>Provision</u> | <u>Section in Franchise Agreement</u> | <u>Summary</u> |
|---|---|--|
| u. Dispute resolution by arbitration or mediation | None | No binding arbitration. |
| v. Choice of forum | Section 39, 40 | Litigation must be in State of Maryland. |
| w. Choice of law | Section 43 | Maryland law applies, except to the extent governed by U.S. Trademark Act of 1946, 15 U.S.C. Sec. 1501 et. seq., as amended. |
| x. Waiver of jury trial | Section 50 | You agree not to seek a jury trial and agree that all litigation between you and Ledo Pizza System will be tried before a judge. |
| y. Security Agreement | Section 26.4 | You grant Ledo Pizza System a secured interest in the assets of the franchisee to the extent of any amounts due from you. |

Item 18

PUBLIC FIGURES

There is presently no compensation or other benefit given or promised by us to any public figure arising, in whole or in part, from the use of such public figure in advertisement of the franchise. We may choose to engage a public figure in the promotion of the business in the future. There are no public figures involved in the actual management or control of Ledo Pizza System and there are no public figures with investments in Ledo Pizza System.

You may not use the name of a public figure in your promotional efforts or advertising without our prior written consent. There are no public figures involved in the actual management or control of Ledo Pizza System and there are no public figures with investments in Ledo Pizza System.

Item 19

FINANCIAL PERFORMANCE REPRESENTATIONS

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

As of December 31, 2021 we had 107 Ledo Pizza® restaurants in operation. As of December 31, 2022 we had 113 Ledo Pizza® restaurants in operation. All of the Ledo Pizza® restaurants in operation were franchised restaurants. The information in the table below shows the average and median Gross Sales of the franchised restaurants for the years ending December 31, 2021 and December 31, 2022.

| Franchised Restaurants | | |
|------------------------|----------------------------|-------------|
| | Average | Median |
| December 31, 2021 | \$1,194,835 ⁽¹⁾ | \$1,188,029 |
| December 31, 2022 | \$1,194,835 ⁽²⁾ | \$1,192,509 |

Notes:

1. Six of the 107 restaurants in operation were either seasonal or had not been in operation one year. Of the 102 restaurants reporting, 48% met or exceeded this average. Of the 102 restaurants in the reporting, the lowest Gross Sales reported to us was \$204,226 and the highest Gross Sales reported to us was \$2,438,352.
2. Eight of the 113 restaurants in operation were either seasonal or had not been in operation one year. Of the 105 restaurants reporting, 51.4% met or exceeded this average. Of the 105 restaurants in the reporting, the lowest Gross Sales reported to us was \$271,724 and the highest Gross Sales reported to us was \$2,428,877.

General Notes:

1. The financial performance representations figures presented in the tables above do not reflect the costs of sales, operating expenses, or other costs or expenses that must be deducted from the Gross Sales figures to obtain your net income or profit. Gross Sales is the total receipts from all sales from the *Ledo Pizza*® Store of all food, beverages, and if permitted by local alcoholic beverage laws, all alcoholic beverage sales, and all other items without deduction for any premium items or similar items offered but excluding sales and equivalent taxes and coupon and similar discounts approved by Ledo Pizza System. Gross Sales includes only franchises that were reported to us by franchisees.

2. Written substantiation for the financial performance representation will be made available to the prospective franchisee upon reasonable request.
3. **Some outlets have earned this amount. There is no assurance you'll do as well. If you rely upon our figures, you must accept the risk of not doing as well.**

Other than the preceding financial performance representation, Ledo Pizza System does not make any financial performance representations. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report to the franchisor's management by contacting James B. Beall by phone at 410-721-6887 or by mail at 41 Old Solomons Island Rd., Suite 201, Annapolis, Maryland 21401, the Federal Trade Commission, and the appropriate state regulatory agencies.

Item 20

OUTLETS AND FRANCHISEE INFORMATION

Table No. 1
**Systemwide Outlet Summary
For Years 2020 to 2022**

| <u>Outlet</u> | <u>Year</u> | <u>Outlets at the Start of the Year</u> | <u>Outlets at the End of the Year</u> | <u>Net Change</u> |
|---------------|-------------|---|---|-------------------|
| Franchised | 2020 | 103 | 104 | +1 |
| | 2021 | 104 | 107 | +3 |
| | 2022 | 107 | 113 | +6 |
| | | | | |
| Company | 2020 | 0 | 0 | 0 |
| Owned | 2021 | 0 | 0 | 0 |
| | 2022 | 0 | 0 | 0 |
| | | | | |
| Total Outlets | 2020 | 103 | 104 | +1 |
| | 2021 | 104 | 107 | +3 |
| | 2022 | 107 | 113 | +6 |
| | | | | |

Note: **Ledo Pizza System** no longer operates company owned stores.

Table No. 2
Transfers of Outlets from Franchisees to New Owners (other than the Franchisor)
For Years 2020 to 2022

| <u>State</u> | <u>Year</u> | <u>Transfers</u> |
|--------------|-------------|------------------|
| Maryland | 2020 | 0 |
| | 2021 | 1 |
| | 2022 | 5 |
| Virginia | 2020 | 1 |
| | 2021 | 0 |
| | 2022 | 1 |
| Total | 2020 | 1 |
| | 2021 | 1 |
| | 2022 | 6 |

Table No. 3
Status of Franchised Outlets
For Years 2020 to 2022

| <u>State</u> | <u>Year</u> | <u>Outlets at Start of Year</u> | <u>Outlets Opened</u> | <u>Terminations</u> | <u>Non-Renewals</u> | <u>Reacquired by Franchisor</u> | <u>Ceased Operations - Other Reasons</u> | <u>Outlets at End of the Year</u> |
|----------------|-------------|---------------------------------|-----------------------|---------------------|---------------------|---------------------------------|--|-----------------------------------|
| Florida | 2020 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2021 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| | 2022 | 1 | 1 | 0 | 0 | 0 | 0 | 2 |
| Maryland | 2020 | 69 | 3 | 1 | 0 | 0 | 1 | 70 |
| | 2021 | 70 | 4 | 0 | 1 | 0 | 0 | 73 |
| | 2022 | 73 | 1 | 0 | 0 | 0 | 0 | 74 |
| New York | 2020 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2021 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2022 | 0 | 1 | 0 | 0 | 0 | 0 | 1 |
| North Carolina | 2019 | 0 | 1 | 0 | 0 | 0 | 0 | 1 |
| | 2020 | 1 | 1 | 0 | 0 | 0 | 0 | 2 |
| | 2021 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |

Table No. 3
Status of Franchised Outlets
For Years 2020 to 2022
(continued)

| <u>State</u> | <u>Year</u> | <u>Outlets at Start of Year</u> | <u>Outlets Opened</u> | <u>Termin- ations</u> | <u>Non-Re- newals</u> | <u>Reacquired by Fran- chisor</u> | <u>Ceased Operations - Other Reasons</u> | <u>Outlets at End of the Year</u> |
|---------------------|--------------------|--|----------------------------------|----------------------------------|----------------------------------|--|---|--|
| Pennsylvania | | | | | | | | |
| | 2020 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2021 | 0 | 1 | 0 | 0 | 0 | 0 | 1 |
| | 2022 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| South Carolina | | | | | | | | |
| | 2020 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| | 2021 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| | 2022 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| Virginia | | | | | | | | |
| | 2020 | 24 | 0 | 0 | 0 | 0 | 1 | 23 |
| | 2021 | 23 | 0 | 0 | 0 | 0 | 0 | 23 |
| | 2022 | 23 | 0 | 0 | 0 | 0 | 0 | 23 |
| Wash., D.C. | | | | | | | | |
| | 2020 | 4 | 0 | 0 | 0 | 0 | 0 | 4 |
| | 2021 | 4 | 0 | 0 | 1 | 0 | 0 | 3 |
| | 2022 | 3 | 3 | 0 | 0 | 0 | 0 | 6 |
| West Virginia | | | | | | | | |
| | 2020 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| | 2021 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| | 2022 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| Totals | | | | | | | | |
| | 2020 | 103 | 4 | 1 | 0 | 0 | 2 | 104 |
| | 2021 | 104 | 4 | 0 | 1 | 0 | 0 | 107 |
| | 2022 | 107 | 6 | 0 | 0 | 0 | 0 | 113 |

Table No. 4
**Status of Company Owned Outlets
For Years 2020 to 2022**

| <u>State</u> | <u>Year</u> | <u>Outlets at Start of Year</u> | <u>Outlets Opened</u> | <u>Termin- ations</u> | <u>Non-Re- newals</u> | <u>Reacquired by Ledo</u> | <u>Ceased Operations</u> | <u>Outlets at End of the Year</u> |
|---------------------|--------------------|--|----------------------------------|----------------------------------|----------------------------------|--------------------------------------|-------------------------------------|--|
| Totals | 2020 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2021 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2022 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

Note: We no longer operate company owned stores.

Table No. 5
Projected Openings
As of December 31, 2022

| <u>State</u> | <u>Franchise Agreements Signed but Outlet not Opened</u> | <u>Projected New Franchised Outlet in The Next Fiscal Year</u> | <u>Projected Company-Owned Outlet in Next Fiscal Year</u> |
|---------------------|---|---|--|
| Florida | 1 | 0 | 0 |
| Georgia | 0 | 0 | 0 |
| Maryland | 0 | 3-5 | 0 |
| New York | 0 | 1-3 | 0 |
| North Carolina | 0 | 0 | 0 |
| South Carolina | 0 | 0 | 0 |
| Virginia | 0 | 1-3 | 0 |
| Washington, D.C. | 0 | 1-2 | 0 |
| West Virginia | 0 | 0 | 0 |
| Totals | 1 | 4-11 | 0 |

Names, last known addresses and phone numbers of every franchisee whose franchise was terminated, cancelled, not renewed or otherwise ceased to do business under the standard franchise agreement during the most recently completed fiscal year or who has not communicated with the franchisor within 10 weeks of the issuance date.

Robert K. Rubin
8324 Old Keene Mill Road
West Springfield, Virginia, 22152
(301) 984-8900

Scott Taggart
6814 Laurel Bowie Road
Bowie, Maryland 20715
(240) 842-3343

Jeffrey Bagarus
11664 Billingsley Road
St.Charles, Maryland 20602
(410) 414-9471

Moyeen Ahmed
7175 Security Boulevard, Suite 100
Baltimore, Maryland 21244
(410) 944-5336

Lewis J. Mason
505 South Cherry Grove Road
Annapolis, Maryland 21401
(410) 295-3030

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

LIST OF FRANCHISES AND LOCATIONS AS OF DECEMBER 31, 2022

| | <u>Franchisee</u> | <u>Status</u> | <u>Year Opened</u> |
|-----------------|--|---------------|------------------------|
| Florida | | | |
| 1. | Patricia Trevethan 14432 N. Dale Mabry Highway Tampa, Florida 33628 (813) 964-5700 | OPEN | 2001 |
| 2. | Tammy Oliver 230 N Nova Rd Ormond Beach, FL 32174 (386) 293-9300 | NOT YET OPEN | 2022 |
| Maryland | | | |
| 3. | Kory Tucker 7213 Muncaster Mill Road Rockville, Maryland 20855 (301) 869-7900 | OPEN | 1990 |
| 4. | Lewis J. Mason 14609 Baltimore Avenue Laurel, Maryland 20707 (301) 498-5336 | OPEN | 1991 |
| 5. | James C. Mangum 12619 Wisteria Drive Germantown Square Shopping Center Germantown, Maryland 20874 (301) 916-9200 | OPEN | 1990 |
| 6. | Martin T. Gorman 552 East Ritchie Highway Severna Park, Maryland 21146 (301)544-3344 | OPEN | 1990 |
| 7. | Mozammela Hrana 11321 York Road Hunt Valley, Maryland 21030 (410) 785-5336 | OPEN | 1990 |

| | | | |
|-----|---|------|------|
| 8. | Steven McD. Smith 3472 Olney-Latonsville Road Olney, Maryland 20832 (301) 774-9000 | OPEN | 1991 |
| 9. | Lonnie Taylor Central Square Shopping Center 147 Central Square Drive Prince Frederick, Maryland 20678 (301) 535-6084 | OPEN | 1989 |
| 10. | John Jeffrey Wyvill 14611 Main Street Upper Marlboro, Maryland 20772 (301) 627-2222 | OPEN | 1990 |
| 11. | Ralph Dell 405 N. Center Street Westminster, Maryland 21157 (301) 857-3500 | OPEN | 1991 |
| 12. | James G. Robertson 5245 River Road Bethesda, Maryland 20817 (301) 656-5336 | OPEN | 1991 |
| 13. | Robert T. Spearman 9454 Lanham-Severn Road Seabrook, Maryland 20706 (301) 577-5550 | OPEN | 1990 |
| 14. | James F. Mahoney, Jr. 490-I Prospect Boulevard Frederick, Maryland 21701 (301) 663-9800 | OPEN | 1991 |
| 15. | Joseph D. Mister 9375 Chesapeake Street La Plata, Maryland 20646 (301) 934-1862 | OPEN | 1991 |
| 16. | Abdual Kalam 21911 Three Notch Road Lexington Park, Maryland 20653 (301) 737-2700 | OPEN | 1992 |

| | | | |
|-----|---|------|------|
| 17. | Mike Ramadan 12701 Coastal Highway Ocean City, Maryland 21842 (410) 250-0123 | OPEN | 1993 |
| 18. | Thelma B. Beall 6955 Oakland Mills Road Columbia, Maryland 21045 (410) 381-5550 | OPEN | 1993 |
| 19. | Pasil Aboarob 2657-A Old Annapolis Road Hanover, Maryland 21076 (410) 551-0220 | OPEN | 1994 |
| 20. | Mohiuddin Mansour Clinton Crossings Shopping Center 8851 Branch Avenue Clinton, Maryland 20735 (301) 868-8669 | OPEN | 1995 |
| 21. | Martin T. Gorman 110 Kent Landing Stevensville, Maryland 21666 (410) 643-7979 | OPEN | 1995 |
| 22. | Christian A. Tolson Marlboro Plaza 108 Marlboro Road Easton, Maryland 21601 (410) 819-3000 | OPEN | 1995 |
| 23. | Steven McD. Smith 13444 New Hampshire Avenue Silver Spring, Maryland 20904 (301) 384-5400 | OPEN | 1995 |
| 24. | Robert P. Eisler 16 East Ordinance Road Glen Burnie, Maryland 21060 (410) 590-2222 | OPEN | 1996 |
| 25. | Dinesh Sheth 2638 West University Boulevard Wheaton, Maryland 20902 (301) 929-6111 | OPEN | 1997 |

| | | | |
|-----|---|------|------|
| 26. | Jeffrey S. Bagarus 2956 Festival Way Waldorf, Maryland 20601 (301) 645-5336 | OPEN | 1997 |
| 27. | Carson Richard Easterling 3072 Solomons Island Road Edgewater, Maryland 21037 (410) 956-6700 | OPEN | 1997 |
| 28. | James G. Robertson 10058 Darnestown, Road Rockville, Maryland 20850 (301) 424-2700 | OPEN | 1998 |
| 29. | James F. Mahoney, Jr. 9805 Main Street Damascus, Maryland 20872 (301) 482-0700 | OPEN | 1998 |
| 30. | Steven McD. Smith 520 East Ridgeville Blvd. Mt. Airy, Maryland 21771 (301) 829-9700 | OPEN | 1998 |
| 31. | James G. Robertson 10301 Westlake Drive Bethesda, Maryland 20817 (301) 469-6700 | OPEN | 1999 |
| 32. | Pasil Aboarob 577 Johnstown Road Eldersburg, Maryland (410) 552-4000 | OPEN | 2000 |
| 33. | Jason Smith 8480 Baltimore Pike Ellicott City, Maryland 21043 (410) 750-7087 | OPEN | 2000 |
| 34. | Anthony A. Guglielmi 1432 Dual Highway Hagerstown, Maryland 21740 (301) 766-4900 | OPEN | 2000 |

| | | | |
|-----|---|------|------|
| 35. | Tim Farrell 37680 Mohawk Road Charlotte Hall, Maryland 20622 (301) 290-0111 | OPEN | 2001 |
| 36. | James F. Mahoney, Jr. 1293 Riverbend Way Frederick, Maryland 21701 (301) 694-0050 | OPEN | 2002 |
| 37. | Arif Uddin 10574 Campus Way South Largo, Maryland 20774-1309 (301) 499-6622 | OPEN | 2003 |
| 38. | Curtis Nolan 505 South Cherry Grove Road Annapolis, Maryland 21401 (410) 295-3030 | OPEN | 2004 |
| 39. | Mohiuddin Mansur 3020 Donnell Drive Forestville, Maryland 20747 (301) 736-3800 | OPEN | 2004 |
| 40. | Bobby Syed 4243 Branch Avenue Temple Hills, Maryland 20748 (301) 316-5336 | OPEN | 2005 |
| 41. | Steven McD. Smith 6030 Daybreak Circle, Suite A-200 Clarksville, Maryland 21029 (443) 535-0599 | OPEN | 2005 |
| 42. | Shamima Begum 920 E. Swan Creek Road Fort Washington, Maryland 20744 (301) 932-4586 | OPEN | 2006 |
| 43. | Steven McD. Smith 31 Magothy Beach Road Pasadena, Maryland 21122 (410) 439-1955 | OPEN | 2006 |

| | | | |
|-----|--|------|------|
| 44. | Steven McD. Smith 19200 Montgomery Village Avenue Montgomery Village, Maryland 20886 (301) 740-3351 | OPEN | 2006 |
| 45. | William Welch 10820 Town Center Blvd. Dunkirk, Maryland 20754 (410) 257-9111 | OPEN | 2006 |
| 46. | Cole Western 25460 Point Lookout Road Leonardtown, Maryland 20650 (301) 475-9280 | OPEN | 2007 |
| 47. | Cole Western 11777 Trueman Road, C-105 Lusby, Maryland 20659 (410) 394-6677 | OPEN | 2008 |
| 48. | Angela DeAngelis 5350 Campbell Blvd. Baltimore, Maryland 21236 (410) 931-5336 | OPEN | 2007 |
| 49. | William Welch, Jr. 5720 Deale Churchton Road, #I & J Deale, Maryland 20751 (410) 867-2667 | OPEN | 2008 |
| 50. | Mike Amezcua 24465 Garrett Highway, Suite 3 McHenry, Maryland 21541 (301) 387-6300 | OPEN | 2008 |
| 51. | Mozammel H. Rana 913 East Fort Avenue Baltimore, Maryland 21230 (410) 528-8494 | OPEN | 2008 |
| 52. | Mozammel Hoque Rana 3765 Old Court Road, Suite A Baltimore, Maryland 21208 (410) 415-6740 | OPEN | 2008 |

| | | | |
|-----|--|------|------|
| 53. | Mozammel Hoque Rana 7175 Security Boulevard, Suite 100 Baltimore, Maryland 21244 (410) 944-5336 | OPEN | 2008 |
| 54. | Pasil Aboarob 4636 Wilkens Avenue Baltimore, Maryland 21229 (410) 242-8868 | OPEN | 2010 |
| 55. | Mohammed Udin 4925 Indian Head Highway Oxon Hill, Maryland 20745 (301) 567-5656 | OPEN | 2009 |
| 56. | Shaher Magableh 3303 Worthington Blvd. Urbana, Maryland 21704 (240) 699-0303 | OPEN | 2009 |
| 57. | Robert T. Spearman 10201 Martin Luther King Jr. Hwy. Bowie, Maryland 20720 (301) 352-0055 | OPEN | 2010 |
| 58. | Martin Gorman 8531 Veterans Hwy Millersville, Maryland 21108 (410) 729-3333 | OPEN | 2011 |
| 59. | Momodou L. Cham 6510 Landover Road Cheverly, MD 20785 (301) 772-5336 | OPEN | 2015 |
| 60. | Robert T. Spearman 8839 Greenbelt Road Greenbelt, Maryland 20770 (301) 577-5550 | OPEN | 2015 |
| 61. | William Welch, III 8416 Bayside Road Chesapeake Beach, Maryland (410) 257-1705 | OPEN | 2015 |

| | | | |
|-----|--|------|------|
| 62. | Robert Rice 12364 Neale Sound Rd., Cobb Island, Maryland 20625 (301) 259-2879 | OPEN | 2015 |
| 63. | Ziad Bader 9706 Groffs Mill Drive Owings Mills, Maryland 21117 (410) 413-6975 | OPEN | 2015 |
| 64. | Bobby Syed 1703 Ritchie Station Court, Unit 300 Capital Heights, Maryland 20743 (703) 725-9666 | OPEN | 2016 |
| 65. | Steven McD. Smith 3850 International Drive Silver Spring, MD 20906 (240) 560-6354 | OPEN | 2017 |
| 66. | Kelly Eyre 11664 Billingsley Road St.Charles, Maryland 20602 (410) 414-9471 | OPEN | 2018 |
| 67. | Mohammed Udin 6007 Oxon Hill Road Oxon Hill, Maryland 20745 (202) 746-8792 | OPEN | 2018 |
| 68. | Jason Smith 7190 Troy Hill Drive Elkridge, Maryland 21075 (443) 776-3762 | OPEN | 2019 |
| 69. | Steven McD. Smith 6814 Laurel Bowie Road Bowie, Maryland 20715 (240) 842-3343 | OPEN | 2019 |
| 70. | Dhayan Ali Goraya Thurgood Marshall Airport - B Concourse 7050 Friendship Road, #B-6A Baltimore, Maryland 21240 (410) 684-6839 | OPEN | 2020 |

- | | | | |
|-----|--|------|------|
| 71. | Dhayan Ali Goraya Thurgood Marshall Airport – Outside Security 7050 Friendship Road, #UL-2C Baltimore, MD 21240 (410) 684-6839 | OPEN | 2020 |
| 72. | Pasil Aboarob 1013 Beards Hill Road, UNIT 201-A Aberdeen Maryland 21001 (443) 327-7892 | OPEN | 2020 |
| 73. | Steven McD. Smith 4509 Knox Road College Park, Maryland 20740 | OPEN | 2021 |
| 74. | Michael Amezcua 1266 National Highway LaVale, Maryland 21502 | OPEN | 2021 |
| 75. | Sameep Sheth 1319 H Rockville Pike Rockville, MD 20852 | OPEN | 2021 |
| 76. | Moyeen Ahmed 331 Baltimore Pike Suite #3 Bel Air, MD 21014 | OPEN | 2022 |

New York

- | | | | |
|-----|--|------|------|
| 77. | Alap Vora 243 W 38th Street New York, NY 10018 (212) 561-5847 | OPEN | 2022 |
|-----|--|------|------|

North Carolina

- | | | | |
|-----|--|------|------|
| 78. | Christopher Alan Copley 220 Market View Drive, Suite F Kernersville, North Carolina 27284. (336) 596-3537 | OPEN | 2019 |
| 79. | John Spencer 6801 Parker Farm Drive Wilmington, North Carolina 28403 (910) 839-3006 | OPEN | 2020 |

Pennsylvania

| | | | |
|-----|--|------|------|
| 80. | Josh Verstandig 1300 Lincoln Way East Chambersburg, PA 17202 (717) 660-0306 | OPEN | 2021 |
|-----|--|------|------|

South Carolina

| | | | |
|-----|---|------|------|
| 81. | Andrew Rose 489 South Herlong Ave Rock Hill, South Carolina 29732 (803) 980-5336 | OPEN | 2012 |
|-----|---|------|------|

| | | | |
|-----|---|------|------|
| 82. | Kenneth McMurrain 220 Highway 17 North North Myrtle Beach, South Carolina 29582 (843) 273-0840 | OPEN | 2017 |
|-----|---|------|------|

Virginia

| | | | |
|-----|---|------|------|
| 83. | Emory J. Dean 1037 Edward Ferry Road Leesburg, Virginia 22075 (703) 777-9500 | OPEN | 1994 |
|-----|---|------|------|

| | | | |
|-----|--|------|------|
| 84. | Hossein Fallah 1035 South Edgewood Arlington, Virginia 22204 (703) 528-3570 | OPEN | 1994 |
|-----|--|------|------|

| | | | |
|-----|--|------|------|
| 85. | James G. Robertson Tysons Station 7510 Leesburg Pike Falls Church, Virginia 22043 (703) 847-5336 | OPEN | 1995 |
|-----|--|------|------|

| | | | |
|-----|---|------|------|
| 86. | Robert F. Niggel 2254-A Hunters Woods Plaza Road Reston, Virginia 22090 (703) 758-9800 | OPEN | 1999 |
|-----|---|------|------|

| | | | |
|-----|---|------|------|
| 87. | Sameer Al-Smadi 11725 Lee Highway Fairfax, Virginia 22030 (703) 359-4747 | OPEN | 2005 |
|-----|---|------|------|

| | | | |
|-----|--|------|------|
| 88. | Sajid Dar 7547 Somerset Crossing Drive Gainesville, Virginia 20155 (571) 261-5522 | OPEN | 2004 |
| 89. | Mahmond Alhamad 6477 Maddox Blvd. Chincoteague, Virginia (410) 289-2411 | OPEN | 2004 |
| 90. | Daniel F. Owens 700 McKinney Blvd. Colonial Beach, Virginia 22443 (804) 224-LEDO | OPEN | 2006 |
| 91. | Denise Rodriguez & Alonso Rodriguez 419 Gateway Drive Winchester, Virginia 22603 (540) 662-9499 | OPEN | 2006 |
| 92. | Emory J. Dean 45995 Regal Plaza Drive Sterling, Virginia 20165 (703) 444-5211 | OPEN | 2007 |
| 93. | Frank M. Simon 126 Old Graves Mill Road Lynchburg, Virginia 24502 (434) 237-9495 | OPEN | 2007 |
| 94. | Tony Edwards 135 Crooked Run Plaza Front Royal, Virginia 22630 (540) 635-7400 | OPEN | 2007 |
| 95. | Eric Hein 9849 Jefferson Davis Highway, Suite 100 Fredericksburg, Virginia 22407 (540) 710-7775 | OPEN | 2008 |
| 96. | Byron A. Morales 42920 Piccadilly Plaza Ashburn, Virginia 20147 (703) 723-3030 | OPEN | 2009 |

| | | | |
|------|--|------|------|
| 97. | Sushmitha Gaddam 5081 Westfields Blvd. Centreville, Virginia 20120 (703) 825-7790 | OPEN | 2009 |
| 98. | Brenda VanPelt 9658 Liberia Avenue Manassas, Virginia 20110 (703) 361-5336 | OPEN | 2009 |
| 99. | Pasil Aboarob 4925 W Broad St Richmond, Virginia 23230 (804) 864-5336 | OPEN | 2009 |
| 100. | Anthony Edwards 504 Fletcher Dr. Warrenton, Virginia 20186 (540) 341-8580 | OPEN | 2009 |
| 101. | Girma Masresha 7475 Richmond Highway Alexandria, Virginia 22306 (703) 660-8989 | OPEN | 2010 |
| 102. | Joseph Wythe Pearson 8324 Old Keene Mill Road, West Springfield, Virginia, 22152 (301) 984-8900 | OPEN | 2012 |
| 103. | Rehk Karki 5890 Kingstowne Center Alexandria, Virginia 22315 (703) 922-2900 | OPEN | 2015 |
| 104. | Suman Lnu 141 Park Street, S.E. Vienna, Virginia 22180 (703) 865-6220 | OPEN | 2016 |
| 105. | Daniel F. Owens 4599 James Madison Parkway King George, Virginia | OPEN | 2019 |

Washington, D.C.

| | | | |
|------|---|------|------|
| 106. | Timothy Shuy 7435 Georgia Avenue, NW Washington, D.C. 20012 (202) 726-5336 | OPEN | 2006 |
| 107. | Abdur Rob 814 H Street, NE Washington, D.C. 20002 | OPEN | 2018 |
| 108. | Abdur Rob 1400 Irving Street, NW Washington, D.C. 20010 | OPEN | 2018 |
| 109. | Aubrey Reveley 1201 Franklin Street, N.E. Washington, D.C. 20024 | OPEN | 2022 |
| 110. | Dean Mensah 415 8th St SE Washington, DC 20003 | OPEN | 2022 |
| 111. | Aida Leon 4510 East Capitol St. NE Washington, DC 20019 (202) 277-2644 | OPEN | 2022 |

West Virginia

| | | | |
|------|---|------|------|
| 112. | Anthony A. Guglielmi 217 Oak Lee Drive, #1 Ranson, West Virginia 25439 (304) 724-8100 | OPEN | 2006 |
| 113. | Anthony A. Guglielmi 171 Retail Commons Pkwy Martinsburg, West Virginia 25403 (304) 263-2800 | OPEN | 2009 |

LEDO PIZZA SYSTEMS, INC
LIST OF FRANCHISES AND LOCATIONS DECEMBER 31, 2022 TO MARCH 15, 2023

None

* During the last three fiscal years, no current or former franchisees have signed confidentiality clauses that restrict them from discussing with you their experiences as a franchisee in our franchise system.

Franchisee Associations

No trademark specific franchisee association is required to be disclosed in this Item.

Item 21

FINANCIAL STATEMENTS

Attached as Exhibit A are the audited financial statements of Ledo Pizza System for the years ending December 31, 2022, 2021, and 2020. Included in Exhibit A are the Balance Sheets, Statements of Income and Retained Earnings and Statement of Cash Flows of Ledo Pizza System for those dates.

Item 22

CONTRACTS

The following agreements are exhibits to this Franchise Disclosure Document:

- A. Financial Statements
- B. Standard Franchise Agreement
- C. Conditional Sublicense of Operating Rights Agreement
- D. Lease Addendum
- E. Confidentiality Agreement
- F. Franchise Release Agreement
- G. Franchise Agreement Pre-Execution Questionnaire
- H. State Specific Disclosures and Addenda
- I. Applicable State Agencies and Agents for Service of Process
- J. Receipt (2 copies)

Item 23

RECEIPT

Two copies of a Receipt of this Franchise Disclosure Document, including all Exhibits, are attached as Exhibit K. You should sign both copies of the Receipt. You must date and sign one copy of the Receipt and deliver it to: Mr. James B. Beall, Ledo Pizza System, Inc., 41 Old Solomons Island Rd., Suite 201, Annapolis, Maryland 21401.



AND SUBSIDIARY

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

**FOR THE YEARS ENDED
DECEMBER 31, 2022 AND 2021**

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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130 Admiral Cochrane Drive, Suite 200 - Annapolis, MD 21401
Office: 410-224-0343 Fax: 410-224-0043

Independent Auditor's Report

Board of Directors
Ledo Pizza System, Inc. and Subsidiary
Greenbelt, Maryland

Opinion

We have audited the accompanying consolidated financial statements of Ledo Pizza System, Inc. (a Maryland corporation) and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ledo Pizza System, Inc. and Subsidiary as of December 31, 2022 and 2021, and the results of their operations and their 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 Ledo Pizza System, Inc. and Subsidiary 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.

Change in Accounting Principle

As discussed in Note 1 in the notes to the consolidated financial statements, Ledo Pizza System, Inc. and Subsidiary adopted ASU 2016-02 Leases (Topic 842) effective January 1, 2022. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Ledo Pizza System, Inc. and Subsidiary'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 consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated 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 Ledo Pizza System, Inc. and Subsidiary'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 Ledo Pizza System, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

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

Report on Supplementary Information

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



Annapolis, Maryland

March 28, 2023

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

| | <u>2022</u> | <u>2021</u> |
|--|---------------------|---------------------|
| <u>ASSETS</u> | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 2,671,380 | \$ 1,991,463 |
| Investments | 1,413,221 | 1,562,015 |
| Accounts Receivable, Net of Allowance | 1,714,228 | 1,639,160 |
| Notes Receivable, Current | 10,490 | 7,890 |
| Prepaid Expenses | 782,446 | 563,269 |
| Due From Related Parties | 273,260 | 257,578 |
| Other Current Assets | <u>65,939</u> | <u>75,976</u> |
| Total Current Assets | 6,930,964 | 6,097,351 |
| Property and Equipment | 194,958 | 241,613 |
| Less: Accumulated Depreciation | <u>(74,918)</u> | <u>(87,897)</u> |
| Net Property and Equipment | 120,040 | 153,716 |
| Other Assets: | | |
| Notes Receivable, Net of Current Maturities of \$10,490 and \$7,890, Respectively | 146,297 | 137,197 |
| Operating Right-of-use Asset | <u>13,486</u> | <u>-</u> |
| Total Other Assets | <u>159,783</u> | <u>137,197</u> |
| Total Assets | <u>\$ 7,210,787</u> | <u>\$ 6,388,264</u> |

See independent auditor's report and accompanying notes to the consolidated financial statements.

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS (CONTINUED)
DECEMBER 31, 2022 AND 2021

| | <u>2022</u> | <u>2021</u> |
|---|---------------------|---------------------|
| <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u> | | |
| Current Liabilities: | | |
| Accounts Payable and Accrued Expenses | \$ 905,591 | \$ 613,926 |
| Accrued Salaries and Benefits Payable | 92,708 | 68,798 |
| Deferred Revenue | 158,000 | 138,794 |
| Due to Related Party | 456,060 | 19,205 |
| Short-Term Lease Liability, Current Portion | <u>9,499</u> | <u>-</u> |
| Total Current Liabilities | <u>1,621,858</u> | <u>840,723</u> |
| Long-Term Liabilities: | | |
| Long-Term Lease Liability, Net of Current Portion | <u>3,987</u> | <u>-</u> |
| Total Liabilities | 1,625,845 | 840,723 |
| Stockholders' Equity: | | |
| Common Stock, Voting, No Par Value, 1,000 Shares Authorized, 604.9 Shares Issued and Outstanding | 2,573 | 2,573 |
| Common Stock, Non-Voting, No Par Value, 4,000 Shares Authorized, 600 Shares Issued and Outstanding | 600 | 600 |
| Retained Earnings | <u>5,581,769</u> | <u>5,544,368</u> |
| Total Stockholders' Equity | <u>5,584,942</u> | <u>5,547,541</u> |
| Total Liabilities and Stockholders' Equity | <u>\$ 7,210,787</u> | <u>\$ 6,388,264</u> |

See independent auditor's report and accompanying notes to the consolidated financial statements.

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

| | <u>2022</u> | <u>2021</u> |
|---|---------------------|---------------------|
| REVENUE | | |
| Royalties | \$ 6,091,080 | \$ 5,868,828 |
| Advertising Fund Contributions | 2,518,568 | 2,401,776 |
| Franchise Sales | 45,750 | 46,250 |
| Rebates, Promotional and Other Income | 2,149,950 | 1,916,565 |
| Gift Card Breakage | <u>69,250</u> | <u>68,212</u> |
| Total Revenue | 10,874,598 | 10,301,631 |
| EXPENSES | | |
| Advertising and Promotion | 2,121,715 | 1,769,063 |
| Bad Debts | 56,239 | 169,045 |
| Depreciation | 31,290 | 11,268 |
| Operating Expenses | <u>5,198,470</u> | <u>4,443,963</u> |
| Total Expenses | <u>7,407,714</u> | <u>6,393,339</u> |
| INCOME FROM OPERATIONS | 3,466,884 | 3,908,292 |
| OTHER INCOME | | |
| Interest and Dividends | 38,367 | 43,783 |
| Realized Gain (Loss) on Sale of Investments | (2,041) | 19,272 |
| Unrealized Gain (Loss) on Investments | (171,006) | 144,600 |
| Government Grants | - | 372,671 |
| Gain on Sale of Property and Equipment | <u>29,288</u> | <u>-</u> |
| Total Other Income | <u>(105,392)</u> | <u>580,326</u> |
| NET INCOME | <u>\$ 3,361,492</u> | <u>\$ 4,488,618</u> |

See independent auditor's report and accompanying notes to the consolidated financial statements.

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

| | Common Stock | Common Stock Non-Voting | Retained Earnings | Accumulated Other Comprehensive Income | Total |
|----------------------------|-----------------|-------------------------------|----------------------|---|---------------------|
| Balance, December 31, 2020 | \$ 2,573 | \$ 600 | \$ 4,773,962 | \$ - | \$ 4,777,135 |
| Net Income | - | - | 4,488,618 | - | 4,488,618 |
| Cash Distributions | - | - | (3,718,212) | - | (3,718,212) |
| Balance, December 31, 2021 | 2,573 | 600 | 5,544,368 | - | 5,547,541 |
| Net Income | - | - | 3,361,492 | - | 3,361,492 |
| Cash Distributions | - | - | (3,324,091) | - | (3,324,091) |
| Balance, December 31, 2022 | <u>\$ 2,573</u> | <u>\$ 600</u> | <u>\$ 5,581,769</u> | <u>\$ -</u> | <u>\$ 5,584,942</u> |

See independent auditor's report and accompanying notes to the consolidated financial statements.

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

| | <u>2022</u> | <u>2021</u> |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Income | \$ 3,361,492 | \$ 4,488,618 |
| Adjustments to Reconcile Net Income to | | |
| Net Cash Provided by Operating Activities: | | |
| Depreciation | 31,290 | 11,268 |
| Forgiveness of Notes Payable-Government Grants | - | (372,671) |
| Realized Loss (Gain) on Sale of Investments | 2,041 | (19,272) |
| Unrealized Gain on Investments | 171,006 | (144,600) |
| Gain From Disposal of Property and Equipment | (29,288) | - |
| Change in Allowance for Doubtful Accounts | 24,809 | (189,172) |
| Bad Debts | 31,430 | 358,217 |
| Changes in Assets and Liabilities: | | |
| Decrease (Increase) in: | | |
| Accounts Receivable | (131,307) | (99,064) |
| Prepaid Expenses | (219,177) | (210,290) |
| Due from Related Parties | 421,173 | (167,914) |
| Other Current Assets | 10,037 | (15,510) |
| Increase (Decrease) in: | | |
| Accounts Payable and Accrued Expenses | 291,665 | (126,418) |
| Accrued Salaries and Benefits Payable | 23,910 | 14,581 |
| Deferred Revenue | 19,206 | (9,250) |
| Net Cash Provided by Operating Activities | <u>4,008,287</u> | <u>3,518,523</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of Investments | (675,741) | (160,310) |
| Proceeds From Sale of Investments | 651,488 | 128,260 |
| Purchase of Property and Equipment | (9,326) | (126,913) |
| Proceeds From Sale of Property and Equipment | 28,000 | - |
| Issuance of Notes Receivable | - | (50,000) |
| Collection of Notes Receivable | 1,300 | 11,226 |
| Net Cash (Used) by Investing Activities | <u>(4,279)</u> | <u>(197,737)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Cash Distributions | <u>(3,324,091)</u> | <u>(3,718,212)</u> |
| Net Cash (Used) in Financing Activities | <u>(3,324,091)</u> | <u>(3,718,212)</u> |
| Net Increase in Cash and Cash Equivalents | 679,917 | (397,426) |
| Cash and Cash Equivalents at Beginning of Year | <u>1,991,463</u> | <u>2,388,889</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 2,671,380</u> | <u>\$ 1,991,463</u> |

See independent auditor's report and accompanying notes to the consolidated financial statements.

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Ledo Pizza System, Inc. (the Company) was incorporated in the State of Maryland on January 11, 1989. The Company's principal business activity, the franchising of restaurants serving pizza and related food items, is conducted in the Mid-Atlantic States. The subsidiary, Ledo Marketing LLC, doing business as LedoStore.com, was started on November 15, 2002. The LLC provides online and catalog sales and distribution of Ledo Pizza products.

Ledo Pizza System, Inc. grants franchises to investors under franchise agreements to operate restaurants under the name of "Ledo Pizza" in specific geographic territories. When an individual franchise is sold, the Company agrees to provide certain services to the franchisee. Generally these services include assistance in site selection, training personnel, and design of a quality control program. Initial franchise fees paid to the Company are capitalized and amortized on a straight line basis over the contracted franchise term as the services are provided. In addition to initial franchise fees, the franchisees are obligated, among other things, to pay the Company a continuing royalty of five percent of gross sales and to contribute two percent of gross sales to a system administered advertising program for the term of the franchise agreements. Due to uncertainty at the onset of the COVID-19 pandemic, the franchisor reduced the obligated advertising contribution rate paid by the franchisee for three months during the 2021 fiscal year. The franchisees are also obligated to expend a minimum of one percent of gross sales on advertising in their market areas.

As of December 31, 2022, the Company operates 113 franchisees, of which 6 were newly opened during the year ended December 31, 2022.

Basis of Presentation

The consolidated financial statements are presented in conformity with generally accepted accounting principles. The Company maintains its books using the accrual basis of accounting, which recognizes revenue when earned and expenses when incurred.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary which is one hundred percent (100%) wholly owned. All material inter-company transactions have been eliminated from these statements.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable consists of franchise fees, royalties, and advertising fund contributions due from franchisees, rebates due from vendors, and reimbursements due from franchisees for supplies. The Company continuously evaluates the creditworthiness of its franchisees' financial condition and generally does not require collateral.

The Company currently provides for the amount of receivables estimated to become uncollectible in the future by providing an allowance for doubtful accounts. Accounts are written off as bad debt when management deems them uncollectible.

Investments

The Company's investments consist of marketable equity securities and are recorded at fair value on the balance sheet, with the changes in fair value during the year included in net income. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company's management determines the Company's valuation policies utilizing information provided by the investment advisor.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Unrealized and realized gains and losses are determined on the basis of the cost of the specific securities sold as well as held during the year.

Fair Value Measurements

Ledo Pizza System, Inc. has determined the fair value of certain assets and liabilities through application of generally accepted accounting principles.

Financial assets and liabilities valued using level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. For certain long-term debt, the fair value was based on present value techniques using inputs derived principally or corroborated from market data. Financial assets and liabilities using level 3 inputs were primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability.

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Valuation techniques utilized to determine fair value are consistently applied. All assets have been valued using a market approach. The Company recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

Property and Equipment

Acquisitions of property and equipment in excess of \$2,500 are capitalized. The Company's property and equipment are stated at cost and are being expensed by various depreciation methods over the estimated useful lives of the related assets. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is included in current income.

Repairs and maintenance charges, which do not increase the useful lives of the assets, are charged to expense as incurred.

Revenue Recognition

The Company's revenue streams and revenue recognition policies are discussed below.

Royalties - The Company receives revenue from royalties paid by franchisees (calculated as percentage of a franchisee's gross revenue). Royalties are recognized as revenue in the same period as the underlying sales by the franchisees, unless the Company has no reasonable basis to estimate the collectability of the fees. In this case, the Company defers all revenue at the time of sale. The Company will proportionately recognize the revenue when payments are received.

Advertising Fund Contributions - The Company receives contributions for the advertising fund paid by franchisees (calculated as percentage of a franchisee's gross revenue). Advertising fund contributions are recognized as revenue in the same period as the underlying sales of the franchisees.

Franchise Sales - Based on the terms and execution of a franchisee agreement, initial franchise fees are assessed to the franchisee. The Company recognizes the initial franchise fees on a straight-line basis over the term of the franchise agreement, which is usually five (5) years.

Rebates and Promotional Income - The Company receives rebates and other promotional income from suppliers for the use of materials, products and supplies in the operation of Ledo Pizza stores. Rebates and other promotional income are recognized as revenue when earned.

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Gift Cards - The Company and the franchisees sell gift cards to customers. Sales of gift cards are recorded as a liability by the Company, included in accounts payable and accrued expenses. When gift cards are redeemed at a franchisee, the Company will remit the cash to the franchisee, reduce the liability and recognize no revenue. It is the Company's policy to assess a maintenance fee on any outstanding balances after a period of time, unless prohibited by law. However, the Company did not assess any maintenance fees on cards with outstanding balances for the years ended December 31, 2022 and 2021. The Company recognizes gift card breakage revenue in proportion to the pattern of gift card redemptions exercised by its customers, using an estimated breakage rate based on our historical experience.

Leases

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-02, Accounting for Leases (ASC 842), which requires that all leases greater than twelve months be presented on the balance sheet. The Company adopted ASC 842 effective January 1, 2022, using the modified retrospective approach. The Company has elected a package of practical expedients permitted under ASC 842. Under the new guidance, accounting for finance leases has remained substantially unchanged. The most significant change under the new guidance is the requirement to present lease liabilities and right-of-use (ROU) assets on the balance sheet for operating leases with terms greater than twelve months.

As a result of the adoption, on January 1, 2022, the company recognized a lease liability of \$22,886, which represented the present value of the remaining lease payments of \$23,185, discounted using the U.S. Treasury Rate of 1.04%, and an equivalent operating right-of-use asset of \$22,886. The lease liability represents the obligation to make the remaining lease payments required under the lease agreement and the operating ROU asset represents the right to use the underlying asset for the remainder of the lease term. The adoption did not have a material impact on the Company's consolidated financial statements.

The Company utilized all of the available practical expedients. Pursuant to the practical expedients, the Company elected not to reassess: (i) whether expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases, or, (iii) initial direct costs for any existing leases. Additionally, the Company elected to apply the short-term lease measurement and recognition exemption to its leases where applicable.

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

The determination of whether an arrangement is a lease is made at the lease's inception. Under ASC 842, a contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed.

Operating lease liabilities and right-of-use assets are recognized at the present value of the future lease payments, generally for the base noncancellable lease term, at the lease commencement date for each lease. The interest rate used to determine the present value of the future lease payments is the risk-free rate as neither the interest rate implicit in most of the Company's leases nor the Company's incremental borrowing rate are readily determinable. Operating lease right-of-use assets also include any prepaid lease payments and lease incentives. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise the option.

Income Taxes

The Company has elected to be covered by the S Corporation provisions of the Internal Revenue Code and similar state statutes. Under this election, stockholders include their share of the Company's taxable income and tax credits in their individual income tax returns. One jurisdiction does not recognize the "S" status of a corporation and subjects S Corporations to the same corporate state tax as other corporations. The taxes paid to this jurisdiction are insignificant and accordingly are not separately reported in the consolidated statements of income.

On May 8, 2020 legislation enacted in the State of Maryland created an election for pass-through entities that are not taxed as corporations in Maryland. Under this legislation, qualifying pass-through entities may make the election to pay Maryland state and local taxes at the entity level with respect to the pro-rata share of taxable income of stockholders. This election may be made annually.

For the years ended December 31, 2022 and 2021, the Company elected to pay Maryland state and local taxes at the entity level. These taxes are reported as operating expenses in the consolidated statements of income.

The Company's income tax filings are subject to audit by the Internal Revenue Service and the states in which it operates, generally for three years after filing.

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

Management uses estimates and assumptions in preparing consolidated financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could differ from the estimates that were used.

Concentration of Credit Risk

Financial instruments which potentially subject Ledo Pizza System, Inc. to concentrations of credit risk, consist of cash, cash equivalents, and accounts receivable.

The Company maintains its cash balances in three major financial institutions in the United States. These balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At various times throughout the year, the balance may exceed the federally insured limits. Generally, these deposits may be redeemed upon demand and therefore bear minimal risk. At December 31, 2022, the Company had approximately \$1,656,000 in cash deposits in excess of federally insured limits.

The majority of the Company's receivables are derived from franchisees in the states of Virginia and Maryland. As such, the Company is susceptible to credit risk from franchisees in that region. Additionally, the franchisees are all operating in the restaurant industry, which has proven to be sensitive to swings in economic cycles. The Company does not obtain security from its franchisees in support of accounts receivable or notes receivable. At December 31, 2022 and 2021, the aggregate carrying value of accounts and notes receivable from franchisees was \$1,441,899 and \$1,273,942, respectively, which represents the maximum loss the Company could incur in the event that all such receivables were uncollectible.

Advertising

All advertising costs are expensed as incurred.

Subsequent Events

The Company is not aware of any significant events that occurred subsequent to the consolidated balance sheet date but prior to March 28, 2023 that would have a material impact on the financial statements.

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 2 - ACCOUNTS RECEIVABLE

Accounts Receivable at December 31, 2022 and 2021, consist of the following:

| | <u>2022</u> | <u>2021</u> |
|---|---------------------|---------------------|
| Royalties and Other Receivable from Franchisees | \$ 931,100 | \$ 879,501 |
| Advertising Fund Receivable from Franchisees | 404,228 | 299,353 |
| Rebate Receivable from Non-Franchisee | 499,872 | 544,341 |
| Ledo Marketing | 87,221 | 99,349 |
| | <u>1,922,421</u> | <u>1,822,544</u> |
| Less: Allowance for Doubtful Accounts | (208,193) | (183,384) |
| | <u>\$ 1,714,228</u> | <u>\$ 1,639,160</u> |

NOTE 3 - FAIR VALUE MEASUREMENTS

The following tables present the Company's fair value hierarchy for the above assets and liabilities measured at fair value on a recurring basis as of December 31, 2022 and 2021:

| | Quoted Market Prices in Active Markets (Level 1) | Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) | Total |
|--------------------------------------|---|--|-------------------------------------|---------------------|
| <u>2022</u> | | | | |
| Equities | \$ 814,980 | \$ - | \$ - | \$ 814,980 |
| Equities - Exchange Traded Fund | 5,488 | - | - | 5,488 |
| Equities - Mutual Fund | 257,658 | - | - | 257,658 |
| Fixed Income - Government Securities | 168,661 | - | - | 168,661 |
| Fixed Income - Mutual Funds | 144,548 | - | - | 144,548 |
| Total | <u>\$ 1,391,335</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,391,335</u> |

| | Quoted Market Prices in Active Markets (Level 1) | Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) | Total |
|-------------------------------|---|--|-------------------------------------|---------------------|
| <u>2021</u> | | | | |
| Equities | \$ 925,377 | \$ - | \$ - | \$ 925,377 |
| Exchange Traded Fund - Equity | 5,058 | - | - | 5,058 |
| Mutual Funds - Equity | 284,269 | - | - | 284,269 |
| Mutual Funds - Fixed | 326,499 | - | - | 326,499 |
| Total | <u>\$ 1,541,203</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,541,203</u> |

Cash totaling \$21,886 and \$20,812 included in investments at December 31, 2022 and 2021, respectively, is not included in the above table because it is recorded at cost, which approximates fair value.

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows as of December 31:

| | <u>2022</u> | <u>2021</u> |
|--------------------------------|-------------------|-------------------|
| Equipment | \$ 52,141 | \$ 42,816 |
| Website and Software | 19,750 | 19,750 |
| Furniture and Fixtures | 4,179 | 4,179 |
| Vehicles | 118,888 | 174,868 |
| | <u>194,958</u> | <u>241,613</u> |
| Less: Accumulated Depreciation | (74,918) | (87,897) |
| Property and Equipment, Net | <u>\$ 120,040</u> | <u>\$ 153,716</u> |

Depreciation expense for the year ended December 31, 2022 and 2021 totaled \$31,290 and \$11,268, respectively.

NOTE 5 - RETIREMENT PLAN

The Company established a retirement plan during 1999 covering substantially all employees after one year of service. The plan is a 401(k) Profit Sharing Plan under which employees may make elective salary deferrals. Effective January 1, 2001, the employer adopted the safe-harbor contribution formula for the plan. The safe-harbor contribution formula requires an employer contribution equal to at least 3% of each participant's compensation for the year.

The costs incurred by the Company for the year ended December 31, 2022 and 2021 were \$54,501 and \$50,693, respectively. Such amounts are included in Operating Expenses on the statements of income.

NOTE 6 - RELATED PARTY TRANSACTIONS

Immediate family members of the Company's shareholders are 100% shareholders of Ledo Pizza Carryouts, Inc. Ledo Pizza Carryouts, Inc. is the owner of all trade names, trademarks, recipes, and Ledo Pizza products. It has licensed the use of these items to Ledo Pizza System, Inc. and several other entities.

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 6 - RELATED PARTY TRANSACTIONS (CONTINUED)

On December 31, 2009 the license agreement between the Company and Ledo Pizza Carryouts, Inc. was amended and restated. The amended agreement commenced on January 1, 2010 and runs for one year with automatic yearly renewals after the initial term. A license fee of \$54,000 per quarter plus \$500 per store for each location over 50 shall be paid by the Company. Additionally, the Company shall pay a franchise fee of 10% of all royalty fees received by the Company. The license agreement was restated in 2011 to modify the \$500 per store due for each location over 50 to be calculated annually rather than quarterly.

License fees of \$245,375 and \$243,375 were incurred in 2022 and 2021, respectively. Franchise fees of \$618,178 and \$587,405 were incurred for 2022 and 2021, respectively. At December 31, 2022 and 2021, the amount due to and from Ledo Pizza Carryouts, Inc. was \$436,855 and \$46,698, respectively.

At December 31, 2022 and 2021, outstanding distributions due to shareholders was \$19,205 and \$19,205, respectively.

The Company has made advances to employees. At December 31, 2022 and 2021, outstanding advances due from related employees was \$5,000 and \$6,125, respectively.

The Company's shareholders own Friends Choice Investments, LLC in equal parts. The Company has paid legal fees on behalf of Friends Choice Investments, LLC. At December 31, 2022 and 2021, the amount due from Friends Choice Investments, LLC was \$267,174 and \$204,379, respectively.

NOTE 7 - NOTES PAYABLE

In April 2020, the Company obtained a promissory note of \$322,671 from its bank under the Small Business Administration ("SBA")'s Paycheck Protection Program ("PPP") which is part of the CARES Act stimulus relief. Under the terms of the PPP program, the liability for the note may be forgiven if the proceeds are used for eligible expenses. Eligible expenses are limited to payroll costs, interest on other debt obligations, leases and utilities expenses.

The Company applied for and received forgiveness of the full amount of the note on October 5, 2021. The amount forgiven was included in government grants on the consolidated statement of income for the year ended December 31, 2021.

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 7 - NOTES PAYABLE (CONTINUED)

In July 2020, the Company obtained a promissory note of \$50,000 from its bank under the Maryland Small Business Development Financing Authority Program-COVID-19 Emergency Relief Loan Fund.

The Company received forgiveness of the full amount of the promissory note in 2021. The amount forgiven was included in government grants on the consolidated statement of income for the year ended December 31, 2021.

NOTE 8 - LEASES

The Company has entered into an agreement to lease office space on a month-to-month basis. The Company has elected to apply the short-term lease exception to all leases with a term of one year or less. The rent expense associated with this lease is included in rent and utilities on the Consolidated Statements of Operating Expenses. The rent expense associated with this lease for the years ended December 31, 2022 and 2021 was \$80,000 annually.

The Company has entered into an operating lease agreement for a vehicle. The lease agreement requires monthly payments of \$799 through May 2024. As disclosed in Note 1, the Company adopted ASC 842 effective January 1, 2022. The company recognized a lease liability and an equivalent ROU asset for this lease.

The lease liability and ROU asset associated with this lease are presented on the consolidated balance sheet at December 31, 2022 as a short-term lease liability of \$9,499, a long-term lease liability of \$3,987, and a ROU asset of \$13,486.

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 8 – LEASES (CONTINUED)

Additional information about the Company's leases is as follows:

| | Year Ended <u>2022</u> |
|--|---------------------------|
| <u>Lease Costs (included in operating expenses):</u> | |
| Operating lease cost | \$ 9,594 |
| Short-term lease cost | 82,400 |
| Total lease costs | <u>\$ 91,994</u> |
| <u>Other Information:</u> | |
| Cash paid for amounts included in measuring operating lease liabilities: | |
| Operating cash flows from operating leases | \$ 9,594 |
| Leases assets obtained in exchange for lease obligations: | |
| Operating Leases | 22,886 |
| Weighted average remaining lease term (in years) | 1.42 |
| Weighted average discount rate | 1.04% |

Maturities of operating lease liabilities as of:

| | | |
|------------------------------------|------|------------------|
| Year Ending December 31: | | |
| | 2023 | \$ 9,594 |
| | 2024 | 3,997 |
| Total lease payments | | <u>13,591</u> |
| Less: Interest | | 105 |
| Present value of lease liabilities | | <u>\$ 13,486</u> |

SUPPLEMENTARY INFORMATION

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY
CONSOLIDATED SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

| | <u>2022</u> | <u>2021</u> |
|--------------------------|---------------------|---------------------|
| Accounting and Auditing | \$ 45,241 | \$ 43,431 |
| Charitable Contributions | 4,250 | 8,500 |
| Cost of Goods Sold | 635,406 | 430,695 |
| Employee Benefits | 80,702 | 107,522 |
| Franchise Fees | 618,178 | 587,405 |
| Insurance | 41,355 | 47,632 |
| Legal | 295,381 | 61,828 |
| Licensing Fee | 245,375 | 243,375 |
| Office | 429,831 | 333,763 |
| Rent and Utilities | 87,021 | 85,705 |
| Repairs and Maintenance | 1,654 | 1,648 |
| Retirement | 54,501 | 50,693 |
| Salaries | 2,015,156 | 1,834,507 |
| Taxes, Payroll | 140,776 | 134,100 |
| Taxes, Other | 273,015 | 252,900 |
| Telephone | 25,458 | 29,850 |
| Travel | <u>205,170</u> | <u>190,409</u> |
| Total Operating Expenses | <u>\$ 5,198,470</u> | <u>\$ 4,443,963</u> |

See independent auditor's report and accompanying notes to the consolidated financial statements.



AND SUBSIDIARY

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

**FOR THE YEARS ENDED
DECEMBER 31, 2020 AND 2019**

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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Independent Auditor's Report

Board of Directors
Ledo Pizza System, Inc. and Subsidiary
Greenbelt, Maryland

Opinion

We have audited the accompanying consolidated financial statements of Ledo Pizza System, Inc. (a Maryland corporation) and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ledo Pizza System, Inc. and Subsidiary as of December 31, 2020 and 2019, and the results of their operations and their 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 Ledo Pizza System, Inc. and Subsidiary 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Ledo Pizza System, Inc. and Subsidiary'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 consolidated 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 auditing standards generally accepted in the United States of America 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 auditing standards generally accepted in the United States of America, 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 Ledo Pizza System, Inc. and Subsidiary'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 Ledo Pizza System, Inc. and Subsidiary'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. See separate letters communicated to the Board of Directors of the Company dated January 4, 2021 and March 31, 2021.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on consolidated financial statements as a whole. The consolidated schedules of operating expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional

procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

A handwritten signature in blue ink that reads "Toal Murray, Day & Lator LLC". The signature is written in a cursive, flowing style.

Annapolis, Maryland

March 31, 2021

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2020 AND 2019

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| <u>ASSETS</u> | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 2,388,889 | \$ 1,895,302 |
| Investments | 1,366,093 | 1,300,294 |
| Accounts Receivable, Net of Allowance | 1,709,141 | 1,588,918 |
| Notes Receivable, Current | 11,958 | 15,403 |
| Prepaid Expenses | 352,979 | 425,837 |
| Due From Related Parties | 122,855 | 139,285 |
| Other Current Assets | <u>60,466</u> | <u>23,761</u> |
| Total Current Assets | 6,012,381 | 5,388,800 |
| Property and Equipment | 114,700 | 109,988 |
| Less: Accumulated Depreciation | <u>(76,629)</u> | <u>(71,966)</u> |
| Net Property and Equipment | 38,071 | 38,022 |
| Other Assets: | | |
| Notes Receivable, Net of Current Maturities of \$11,958 and \$15,403, Respectively | <u>94,355</u> | <u>15,131</u> |
| Total Other Assets | <u>94,355</u> | <u>15,131</u> |
| Total Assets | <u>\$ 6,144,807</u> | <u>\$ 5,441,953</u> |

See independent auditor's report and accompanying notes to the consolidated financial statements.

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS (CONTINUED)
DECEMBER 31, 2020 AND 2019

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u> | | |
| Current Liabilities: | | |
| Accounts Payable and Accrued Expenses | \$ 740,344 | \$ 410,430 |
| Accrued Salaries and Benefits Payable | 54,217 | 47,366 |
| Deferred Revenue | 148,044 | 176,250 |
| Due to Related Party | 52,396 | 376 |
| Notes Payable, Current Portion | <u>256,220</u> | <u>-</u> |
| Total Current Liabilities | <u>1,251,221</u> | <u>634,422</u> |
| Long-Term Liabilities: | | |
| Notes Payable, Net of Current Portion | <u>116,451</u> | <u>-</u> |
| Total Liabilities | 1,367,672 | 634,422 |
| Stockholders' Equity: | | |
| Common Stock, Voting, No Par Value, 1,000 Shares Authorized, 604.9 Shares Issued and Outstanding | 2,573 | 2,573 |
| Common Stock, Non-Voting, No Par Value, 4,000 Shares Authorized, 600 Shares Issued and Outstanding | 600 | 600 |
| Retained Earnings | <u>4,773,962</u> | <u>4,804,358</u> |
| Total Stockholders' Equity | <u>4,777,135</u> | <u>4,807,531</u> |
| Total Liabilities and Stockholders' Equity | <u>\$ 6,144,807</u> | <u>\$ 5,441,953</u> |

See independent auditor's report and accompanying notes to the consolidated financial statements.

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| REVENUE | | |
| Royalties | \$ 5,218,253 | \$ 5,205,880 |
| Advertising Fund Contributions | 2,001,728 | 2,180,329 |
| Franchise Sales | 27,706 | 25,750 |
| Rebates, Promotional and Other Income | 1,897,095 | 1,675,619 |
| Gift Card Breakage | <u>59,099</u> | <u>66,726</u> |
| Total Revenue | 9,203,881 | 9,154,304 |
| EXPENSES | | |
| Advertising and Promotion | 2,016,708 | 1,925,580 |
| Bad Debts | 176,529 | 292,466 |
| Depreciation | 7,065 | 27,439 |
| Operating Expenses | <u>3,996,900</u> | <u>3,572,477</u> |
| Total Expenses | <u>6,197,202</u> | <u>5,817,962</u> |
| INCOME FROM OPERATIONS | 3,006,679 | 3,336,342 |
| OTHER INCOME | | |
| Interest and Dividends | 28,138 | 39,163 |
| Realized (Loss) Gain on Sale of Investments | (9,335) | 848 |
| Unrealized Gain on Investments | 57,722 | 170,746 |
| Realized Gain on Sale of Property and Equipment | <u>-</u> | <u>4,108</u> |
| Total Other Income | <u>76,525</u> | <u>214,865</u> |
| NET INCOME | <u>\$ 3,083,204</u> | <u>\$ 3,551,207</u> |

See independent auditor's report and accompanying notes to the consolidated financial statements.

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

| | Common Stock | Common Stock Non-Voting | Retained Earnings | Accumulated Other Comprehensive Income | Total |
|---|-----------------|-------------------------------|----------------------|---|---------------------|
| Balance, December 31, 2018 | \$ 2,573 | \$ 600 | \$ 3,785,736 | \$ - | \$ 3,788,909 |
| Cumulative-Effect Adjustment of ASU 2014-09 | - | - | 271,415 | - | 271,415 |
| Net Income | - | - | 3,551,207 | - | 3,551,207 |
| Cash Distributions | - | - | (2,804,000) | - | (2,804,000) |
| Balance, December 31, 2019 | 2,573 | 600 | 4,804,358 | - | \$ 4,807,531 |
| Net Income | - | - | 3,083,204 | - | 3,083,204 |
| Cash Distributions | - | - | (3,113,600) | - | (3,113,600) |
| Balance, December 31, 2020 | <u>\$ 2,573</u> | <u>\$ 600</u> | <u>\$ 4,773,962</u> | <u>\$ -</u> | <u>\$ 4,777,135</u> |

See independent auditor's report and accompanying notes to the consolidated financial statements.

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Income | \$ 3,083,204 | \$ 3,551,207 |
| Adjustments to Reconcile Net Income to | | |
| Net Cash Provided by Operating Activities: | | |
| Depreciation | 7,065 | 27,439 |
| Realized Loss (Gain) on Sale of Investments | 9,335 | (848) |
| Unrealized Gain on Investments | (57,722) | (170,746) |
| Gain From Sale of Property and Equipment | - | (3,608) |
| Loss From Disposal of Property and Equipment | 3,121 | - |
| Change in Allowance for Doubtful Accounts | 105,397 | 20,363 |
| Bad Debts | 71,132 | 272,103 |
| Changes in Assets and Liabilities: | | |
| Decrease (Increase) in: | | |
| Accounts Receivable | (296,752) | (100,490) |
| Prepaid Expenses | 72,858 | (191,228) |
| Due from Related Parties | 68,450 | 243,276 |
| Other Current Assets | (36,705) | (1,561) |
| Increase (Decrease) in: | | |
| Accounts Payable and Accrued Expenses | 329,914 | (281,163) |
| Accrued Salaries and Benefits Payable | 6,851 | (773) |
| Deferred Revenue | (28,206) | (233,815) |
| Net Cash Provided by Operating Activities | <u>3,337,942</u> | <u>3,130,156</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of Investments | (357,990) | (221,754) |
| Proceeds From Sale of Investments | 340,578 | 198,415 |
| Purchase of Property and Equipment | (10,235) | (2,951) |
| Proceeds from Sale of Property and Equipment | - | 90,976 |
| Issuance of Notes Receivable | (87,355) | (22,342) |
| Collection of Notes Receivable | <u>11,576</u> | <u>3,194</u> |
| Net Cash (Used) Provided by Investing Activities | (103,426) | 45,538 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Cash Received from Notes Payable | 372,671 | - |
| Cash Distributions | <u>(3,113,600)</u> | <u>(2,804,000)</u> |
| Net Cash Used in Financing Activities | <u>(2,740,929)</u> | <u>(2,804,000)</u> |
| Net Increase in Cash and Cash Equivalents | 493,587 | 371,694 |
| Cash and Cash Equivalents at Beginning of Year | <u>1,895,302</u> | <u>1,523,608</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 2,388,889</u> | <u>\$ 1,895,302</u> |

See independent auditor's report and accompanying notes to the consolidated financial statements.

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Ledo Pizza System, Inc. (the Company) was incorporated in the State of Maryland on January 11, 1989. The Company's principal business activity, the franchising of restaurants serving pizza and related food items, is conducted in the Mid-Atlantic States. The subsidiary, Ledo Marketing LLC, doing business as LedoStore.com, was started on November 15, 2002. The LLC provides online and catalog sales and distribution of Ledo Pizza products.

Ledo Pizza System, Inc. grants franchises to investors under franchise agreements to operate restaurants under the name of "Ledo Pizza" in specific geographic territories. When an individual franchise is sold, the Company agrees to provide certain services to the franchisee. Generally these services include assistance in site selection, training personnel, and design of a quality control program. Initial franchise fees paid to the Company are capitalized and amortized on a straight line basis over the contracted franchise term as the services are provided. In addition to initial franchise fees, the franchisees are obligated, among other things, to pay the Company a continuing royalty of five percent of gross sales and to contribute two percent of gross sales to a system administered advertising program for the term of the franchise agreements. Due to uncertainty at the onset of the COVID-19 pandemic, the franchisor temporarily reduced the obligated advertising contribution rate paid by the franchisee. The franchisees are also obligated to expend a minimum of one percent of gross sales on advertising in their market areas.

As of December 31, 2020, the Company operates 109 franchisees, of which 5 were newly opened during the year ended December 31, 2020.

Basis of Presentation

The consolidated financial statements are presented in conformity with generally accepted accounting principles. The Company maintains its books using the accrual basis of accounting, which recognizes revenue when earned and expenses when incurred.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary which is one hundred percent (100%) wholly owned. All material inter-company transactions have been eliminated from these statements.

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). The standard prescribes a single model for revenue recognition, with a set of principles to be used for determining when revenue should be recognized. Topic 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 consideration expected to be received for those goods or services. The Company adopted Topic 606 effective January 1, 2019. The Company's revenue streams and revenue recognition policies are discussed below.

Royalties - The Company receives revenue from royalties paid by franchisees (calculated as percentage of a franchisee's gross revenue). Royalties are recognized as revenue in the same period as the underlying sales of the franchisees, unless the Company has no reasonable basis to estimate the collectability of the fees. In this case, the Company defers all revenue at the time of sale. The Company will proportionately recognize the revenue when payments are received.

Advertising Fund Contributions - The Company receives contributions for the advertising fund paid by franchisees (calculated as percentage of a franchisee's gross revenue). Advertising fund contributions are recognized as revenue in the same period as the underlying sales of the franchisees.

Franchise Sales - Based on the terms and execution of a franchisee agreement, initial franchise fees are assessed to the franchisee. The Company recognizes the initial franchise fees on a straight-line basis over the term of the franchise agreement, which is usually five (5) years.

Rebates and Promotional Income - The Company receives rebates and other promotional income from suppliers for the use of materials, products and supplies in the operation of Ledo Pizza stores. Rebates and other promotional income are recognized as revenue when earned.

Gift Cards - The Company and the franchisees sell gift cards to customers. Sales of gift cards are recorded as a liability by the Company, included in accounts payable and accrued expenses. When gift cards are redeemed at a franchisee, the Company will remit the cash to the franchisee, reduce the liability and recognize no revenue. It is the Company's policy to assess a maintenance fee on any outstanding balances after a period of time, unless prohibited by law. However, the Company did not assess any maintenance fees on cards with outstanding balances for the years ended December 31, 2020 and 2019. The Company recognizes gift card breakage revenue in proportion to the pattern of gift card redemptions exercised by our customers, using an estimated breakage rate based on our historical experience.

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable consists of franchise fees, royalties, and advertising fund contributions due from franchisees, rebates due from vendors, and reimbursements due from franchisees for supplies. The Company continuously evaluates the creditworthiness of its franchisees' financial condition and generally does not require collateral.

The Company currently provides for the amount of receivables estimated to become uncollectible in the future by providing an allowance for doubtful accounts. Accounts are written off as bad debt when management deems them uncollectible.

Investments

The Company's investments consist of marketable equity securities and are recorded at fair value on the balance sheet, with the changes in fair value during the year included in net income. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company's management determines the Company's valuation policies utilizing information provided by the investment advisor.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Unrealized and realized gains and losses are determined on the basis of the cost of the specific securities sold as well as held during the year.

Fair Value Measurements

Ledo Pizza System, Inc. has determined the fair value of certain assets and liabilities through application of generally accepted accounting principles.

Financial assets and liabilities valued using level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. For certain long-term debt, the fair value was based on present value techniques using inputs derived principally or corroborated from market data. Financial assets and liabilities using level 3 inputs were primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability.

Valuation techniques utilized to determine fair value are consistently applied. All assets have been valued using a market approach. The Company recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

The Company's property and equipment are stated at cost and are being written off by various depreciation methods over the estimated useful lives of the related assets. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is included in current income.

Repairs and maintenance charges, which do not increase the useful lives of the assets, are charged to expense as incurred.

Income Taxes

The Company has elected to be covered by the S Corporation provisions of the Internal Revenue Code and similar state statutes. Under this election, stockholders include their share of the Company's taxable income and tax credits in their individual income tax returns. One jurisdiction does not recognize the "S" status of a corporation and subjects S Corporations to the same corporate state tax as other corporations. The taxes paid to this jurisdiction are insignificant and accordingly are not separately reported in the consolidated statements of income.

On May 8, 2020 legislation enacted in the State of Maryland created an election for pass-through entities that are not taxed as corporations in Maryland. Under this legislation, qualifying pass-through entities may make the election to pay Maryland state and local taxes at the entity level with respect to the pro-rata share of taxable income of stockholders. This election may be made annually.

For the year ended December 31, 2020, the Company elected to pay Maryland state and local taxes at the entity level. These taxes are reported as operating expenses in the consolidated statements of income.

The Company's income tax filings are subject to audit by the Internal Revenue Service and the states in which it operates, generally for three years after filing.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

Management uses estimates and assumptions in preparing consolidated financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could differ from the estimates that were used.

Concentration of Credit Risk

Financial instruments which potentially subject Ledo Pizza System, Inc. to concentrations of credit risk, consist of cash, cash equivalents, and accounts receivable.

The Company maintains its cash balances in three major financial institutions in the United States. These balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At various times throughout the year, the balance may exceed the federally insured limits. Generally, these deposits may be redeemed upon demand and therefore bear minimal risk. At December 31, 2020, the Company had approximately \$1,417,302 in cash deposits in excess of federally insured limits.

The majority of the Company's receivables are derived from franchisees in the states of Virginia and Maryland. As such, the Company is susceptible to credit risk from franchisees in that region. Additionally the franchisees are all operating in the restaurant industry, which has proven to be sensitive to swings in economic cycles. The Company does not obtain security from its franchisees in support of accounts receivable or notes receivable. At December 31, 2020 and 2019, the aggregate carrying value of accounts and notes receivable from franchisees was \$1,477,842 and \$1,270,364, respectively, which represents the maximum loss the Company could incur in the event that all such receivables were uncollectible.

Advertising

All advertising costs are expensed as incurred.

Subsequent Events

The Company is not aware of any significant events that occurred subsequent to the consolidated balance sheet date but prior to March 31, 2021 that would have a material impact on the financial statements.

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 2 - ACCOUNTS RECEIVABLE

Accounts Receivable at December 31, 2020 and 2019, consist of the following:

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| Royalties and Other Receivable from Franchisees | \$ 1,042,991 | \$ 990,831 |
| Advertising Fund Receivable from Franchisees | 328,538 | 261,562 |
| Rebate Receivable from Non-Franchisee | 595,990 | 527,418 |
| Shareholder Receivable | - | 21,500 |
| Ledo Marketing | <u>114,178</u> | <u>54,766</u> |
| | 2,081,697 | 1,856,077 |
| Less: Allowance for Doubtful Accounts | <u>(372,556)</u> | <u>(267,159)</u> |
| | <u>\$ 1,709,141</u> | <u>\$ 1,588,918</u> |

NOTE 3 - FAIR VALUE MEASUREMENTS

The following tables present the Company's fair value hierarchy for the above assets and liabilities measured at fair value on a recurring basis as of December 31, 2020 and 2018:

| | Quoted Market Prices in Active Markets (Level 1) | Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) | Total |
|-------------------------------|---|--|-------------------------------------|---------------------|
| <u>2020</u> | | | | |
| Equities | \$ 780,236 | \$ - | \$ - | \$ 780,236 |
| Exchange Traded Fund - Equity | 4,751 | - | - | 4,751 |
| Mutual Funds - Equity | 238,010 | - | - | 238,010 |
| Mutual Funds - Fixed | <u>330,272</u> | <u>-</u> | <u>-</u> | <u>330,272</u> |
| Total | <u>\$ 1,353,269</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,353,269</u> |

| | Quoted Market Prices in Active Markets (Level 1) | Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) | Total |
|-------------------------------|---|--|-------------------------------------|---------------------|
| <u>2019</u> | | | | |
| Equities | \$ 705,117 | \$ - | \$ - | \$ 705,117 |
| Exchange Traded Fund - Equity | 9,894 | - | - | 9,894 |
| Mutual Funds - Equity | 244,353 | - | - | 244,353 |
| Mutual Funds - Fixed | <u>322,529</u> | <u>-</u> | <u>-</u> | <u>322,529</u> |
| Total | <u>\$ 1,281,893</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,281,893</u> |

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

Cash totaling \$12,824 and \$18,401 included in investments at December 31, 2020 and 2019, respectively, is not included in the above table because it is recorded at cost, which approximates fair value.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows as of December 31:

| | <u>2020</u> | <u>2019</u> |
|--------------------------------|------------------|------------------|
| Equipment | \$ 34,791 | \$ 35,079 |
| Website and Software | 19,750 | 14,750 |
| Furniture and Fixtures | 4,179 | 4,179 |
| Vehicles | <u>55,980</u> | <u>55,980</u> |
| | 114,700 | 109,988 |
| Less: Accumulated Depreciation | <u>(76,629)</u> | <u>(71,966)</u> |
| Property and Equipment, Net | <u>\$ 38,071</u> | <u>\$ 38,022</u> |

Depreciation expense for the year ended December 31, 2020 and 2019 totaled \$7,065 and \$27,439, respectively.

NOTE 5 - RETIREMENT PLAN

The Company established a retirement plan during 1999 covering substantially all employees after one year of service. The plan is a 401(k) Profit Sharing Plan under which employees may make elective salary deferrals. Effective January 1, 2001, the employer adopted the safe-harbor contribution formula for the plan. The safe-harbor contribution formula requires an employer contribution equal to at least 3% of each participant's compensation for the year.

The costs incurred by the Company for 2020 and 2019 were \$44,781 and \$40,857, respectively. Such amounts are included in Operating Expenses on the statements of income.

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 6 - RELATED PARTY TRANSACTIONS

Immediate family member of the Company's shareholders are 100% shareholders of Ledo Pizza Carryouts, Inc. Ledo Pizza Carryouts, Inc. is the owner of all trade names, trademarks, recipes, and Ledo Pizza products. It has licensed the use of these items to Ledo Pizza System, Inc. and several other entities.

On December 31, 2009 the license agreement between the Company and Ledo Pizza Carryouts, Inc. was amended and restated. The amended agreement commenced on January 1, 2010 and runs for one year with automatic yearly renewals after the initial term. A license fee of \$54,000 per quarter plus \$500 per store for each location over 50 shall be paid by the Company. Additionally, the Company shall pay a franchise fee of 10% of all royalty fees received by the Company. The license agreement was restated in 2011 to modify the \$500 per store due for each location over 50 to be calculated annually rather than quarterly.

License fees of \$243,375 and \$241,625 were incurred in 2020 and 2019, respectively. Franchise fees of \$513,035 and \$516,207 were incurred for 2020 and 2019, respectively. At December 31, 2020 and 2019, the amount due from Ledo Pizza Carryouts, Inc. was \$117,855 and \$127,755.

At December 31, 2020 and 2019, outstanding distributions due to shareholders was \$53,105 and \$0, respectively.

The Company has made advances to employees. At December 31, 2020 and 2019, outstanding advances due from related employees was \$5,000 and \$6,030, respectively.

NOTE 7 - NOTES PAYABLE

In April 2020, the Company obtained a promissory note of \$322,671 from its bank under the Small Business Administration ("SBA")'s Paycheck Protection Program ("PPP") which is part of the CARES Act stimulus relief. Under the terms of the PPP program, the liability for the note may be forgiven if the proceeds are used for eligible expenses. Eligible expenses are limited to payroll costs, interest on other debt obligations, leases and utilities expenses. As of December 31, 2020, the Company has not applied for forgiveness and the full balance of the note is recorded as a liability on the consolidated balance sheet.

The note has an initial deferment period for six (6) months after receipt of the funds. During this deferment period, interest will accrue but no payments are due. The note bears interest at 1%. Any amount of the note not forgiven by the SBA will require monthly payments of principal and interest beginning after seven (7) months. Monthly principal and interest payments are due until the maturity date in April 2022, when the entire principal balance along with all accrued and unpaid interest is due in full. As of December 31, 2020, approximately \$250,000 is classified in current liabilities and the remainder as long-term.

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 7 - NOTES PAYABLE (CONTINUED)

In July 2020, the Company obtained a promissory note of \$50,000 from its bank under the Maryland Small Business Development Financing Authority Program-COVID-19 Emergency Relief Loan Fund. The term of the loan will be for 5 years. The loan will bear no interest and require no payments for the first year and as such, approximately \$44,000 has been classified in long-term liabilities on the balance sheet as of December 31, 2020. For the remaining 4 years of the loan, the loan will bear interest at 2% with equal principal and interest payments being due.

Principal payments on notes payable for the next five (5) years are as follows:

For the year ending December 31,

| | | |
|------|----|-----------------------|
| 2021 | \$ | 256,220 |
| 2022 | | 84,734 |
| 2023 | | 12,497 |
| 2024 | | 12,749 |
| 2025 | | <u>6,471</u> |
| | \$ | <u><u>372,671</u></u> |

SUPPLEMENTARY INFORMATION

LEDO PIZZA SYSTEM, INC. AND SUBSIDIARY
CONSOLIDATED SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

| | <u>2020</u> | <u>2019</u> |
|--------------------------|---------------------|---------------------|
| Accounting and Auditing | \$ 42,562 | \$ 38,103 |
| Charitable Contributions | 3,750 | 11,247 |
| Cost of Goods Sold | 449,920 | 205,829 |
| Employee Benefits | 79,260 | 73,329 |
| Franchise Fees | 513,035 | 516,207 |
| Insurance | 27,603 | 22,690 |
| Legal | 95,267 | 98,742 |
| Licensing Fee | 243,375 | 241,625 |
| Office | 159,392 | 135,274 |
| Rent and Utilities | 83,945 | 84,904 |
| Repairs and Maintenance | 2,753 | 2,538 |
| Retirement | 44,781 | 40,857 |
| Salaries | 1,692,743 | 1,750,177 |
| Taxes, Payroll | 120,345 | 123,339 |
| Taxes, Other | 272,539 | 18,251 |
| Telephone | 28,442 | 35,508 |
| Travel | <u>137,188</u> | <u>173,857</u> |
| Total Operating Expenses | \$ <u>3,996,900</u> | \$ <u>3,572,477</u> |

LEDO PIZZA SYSTEM, INC.
STANDARD FRANCHISE AGREEMENT

This **Standard Franchise Agreement** (this “Agreement”) is made and entered into by and between:

LEDO PIZZA SYSTEM, INC.
A Maryland Corporation
c/o James B. Beall, President
41 Old Solomons Island Rd., Suite 201
Annapolis, Maryland 21401

(referred to in this Agreement as “We”, “Us”, “Our” or “**Ledo Pizza System**”) and

(**Franchisee**’s Name)

(**Franchisee**’s Mailing Street Address)

(**Franchisee**’s Mailing City, State, Zip Code Address)

(**Franchisee**’s Area Code and Telephone Number)

(**Franchisee**’s Fax Number)

(**Franchisee**’s Social Security Number)

which individual is referred to in this Agreement as “You”, “Your” or “**Franchisee.**”

1. Preamble.

1.1 **Ledo Pizza System** has developed a method of preparing and merchandising pizza and related food products in retail restaurant locations under the name of *Ledo Pizza*®. **Ledo Pizza System** has developed a business format, specially designed equipment, methods, procedures and designs for the operation of *Ledo Pizza*® Stores. **Ledo Pizza System** uses, promotes and licenses certain trade and service marks and commercial symbols in connection with the operation of *Ledo Pizza*® Stores, including the federally registered trademark “*Ledo Pizza*” and certain other related marks (“the Marks”).

1.2 You have applied for a franchise to operate a *Ledo Pizza*® Store selling the products and services authorized and approved by **Ledo Pizza System** and utilizing **Ledo Pizza System**’s business format, methods, specifications, standards, operating procedures, operating assistance, advertising services and the Marks. Your application has been approved by **Ledo Pizza System** in reliance on all of the representations made in Your application, including without limitation, Your financial resources and the proposed ownership and financial resources of Your *Ledo Pizza*® Store.

1.3 You have read this Agreement and **Ledo Pizza System**’s Franchise Disclosure Document and have been given an opportunity to clarify any provision not understood. You acknowledge that You understand and accept the terms, conditions and covenants contained in this Agreement as being reasonably necessary to maintain **Ledo Pizza System**’s standards of quality and service and thereby to protect and preserve the goodwill of the Marks, the franchise system and *Ledo Pizza*® products and services.

2. Grant and Franchise. Subject to the provisions of this Agreement, **Ledo Pizza System** hereby grants You a franchise to operate a *Ledo Pizza*® Store and a license to use the Marks in the operation of the *Ledo Pizza*® Store for a term of Five (5) years (subject to the Option to Renew as set forth below) at the following location:

(Name of Franchise *Ledo Pizza*® Store Shopping Center or Project, if any)

(Franchise *Ledo Pizza*® Store Street Address)

(Franchise *Ledo Pizza*® Store City, State and Zip Code)

(Franchise *Ledo Pizza*® Store Area Code and Telephone Number)

(Franchise *Ledo Pizza*® Store Fax Number)

3. Franchisee's Exclusive Territory.

3.1 You will have an Exclusive Territory of One (1) mile around the location referred to above. From time to time with respect to a proposed franchise location, **Ledo Pizza System**, in consultation with a prospective franchisee, may decide to limit or adjust the Exclusive Territory, but such determination will be made by **Ledo Pizza System** and agreed to by the prospective franchisee prior to the execution of this Agreement.

3.2 During the term of this Agreement, We will not operate or grant a franchise for the operation of another *Ledo Pizza*® restaurant which is to be physically located within Your Exclusive Territory without obtaining Your prior written consent and executing an amendment to this Agreement. Nothing in this Agreement, however, will operate to prohibit or restrict Us or any of other franchisee from making sales or conducting advertising, promotions or business within Your Exclusive Territory. In addition, We reserve the right to engage in the sale of *Ledo Pizza*® products, within Your Exclusive Territory, pursuant to one or more of the following: (a) the licensing or operation of one or more wholesale food distributorships for the sale of ingredients, prepared food products, supplies and materials used in the preparation, packaging and sale of *Ledo Pizza*® products; (b) the licensing of one or more retail food businesses, i.e. grocery or convenience stores, for the sale of *Ledo Pizza*® products including, without limitation, (i) uncooked or partially cooked prepared pizza or pasta; (ii) pizza or pasta sauces; (iii) spice base; and (iv) salad dressing and other condiments or (c) other non-restaurant locations such as corporate cafeterias, offsite events (e.g. art fairs, fundraisers, etc.), stadiums, and locations with relatively fixed populations (e.g. airports, military bases, indoor regional malls, certain large office buildings where a substantial portion of the inhabitants do not leave the building for lunch and few people from outside the building come in for lunch, and similar locations). You agree that We may grant a license to sell *Ledo Pizza*® products in connection with any of the foregoing within Your Exclusive Territory and that We may operate or grant a franchise for the operation of another *Ledo Pizza*® Store whose Exclusive Territory overlaps Your Exclusive Territory; provided that we will not operate or grant a franchise for the operation of another *Ledo Pizza*® restaurant which is to be physically located within Your Exclusive Territory.

4. Ledo Pizza® Store Gross Sales Quotas.

4.1 The annual Gross Sales quota for Your *Ledo Pizza*® Store designated hereinabove is the greater of (i) Two Hundred Fifty Thousand Dollars (\$250,000.00) or (ii) the product of Eight (8) times the first year's annual rent for Your *Ledo Pizza*® Store (hereinafter the "Gross Sales Quota"). "Gross Sales" has the meaning set forth in Paragraph 26.2, below.

4.2 You acknowledge that **Ledo Pizza System** has granted the franchise based upon Your commitment to achieve the Gross Sales Quota annually during the term of the franchise, and that **Ledo Pizza System** has the right to terminate or refuse to renew this Agreement as provided in Paragraphs 5 and 31 in the event You fail to achieve the Gross Sales Quota. **LEDO PIZZA SYSTEM DOES NOT REPRESENT OR WARRANT THAT THE GROSS SALES QUOTA CAN OR WILL BE ACHIEVED BY YOU AT THE LOCATION SUBJECT TO THIS AGREEMENT OR ANY OTHER LOCATION.** You will be deemed not to have achieved the aforesaid Gross Sales Quota if You fail to achieve the Gross Sales Quota in any Two (2) consecutive years of this Agreement or in any Three (3) years of this Agreement.

5. The Franchisee's Option to Renew the Franchise.

5.1 You may, at Your option, renew the franchise for up to Five (5) additional Five (5) year terms, provided that in each instance of renewal:

- (1) You are not in default of any provision of:
 - (a) This Agreement; or
 - (b) Any other agreement between You and Us or our subsidiaries or affiliates; or
 - (c) Any agreement, obligation, debt or liability with any other creditor or supplier of the *Ledo Pizza*® Store;
- (2) You have substantially complied with all the terms and conditions of such agreements during the terms thereof;
- (3) You have satisfied all monetary obligations owed by You to Us, Our subsidiaries and affiliates, and have timely met these obligations throughout the term of this Agreement;
- (4) You have met or exceeded the Gross Sales Quota prescribed in Paragraph 4 of this Agreement;
- (5) You are able to:
 - (a) Maintain possession of the site of Your *Ledo Pizza*® Store (and refurbish or agree to refurbish the site as provided in Paragraph 10 of this Agreement); or
 - (b) Secure and develop a suitable alternative site approved by Us;
- (6) You have kept your *Ledo Pizza*® Store properly maintained and have kept all of Your equipment in good repair. Prior to renewal of this Agreement, We may require You to refurbish Your *Ledo Pizza*® Store in accordance with Paragraph 10, below; and
- (7) In each instance of renewal, You must give Us written notice of Your election to renew the franchise not less than Six (6) months nor more than Twelve (12) months prior to the end of the then-current term of this Agreement.

5.2 In each instance of renewal of this Agreement, renewal will be effective and contingent upon, at Our sole election, that You either:

- (1) Execute the *then-current* form of Standard Franchise Agreement and other agreements then customarily used by Us in the granting of franchises at the time of the renewal of this Agreement, which Standard Franchise Agreement or other agreements may provide for a

higher royalty fee and for greater expenditures for advertising and promotion than are provided for in this Agreement; or

(2) Provide a written confirmation, acceptable to Us, that We accept the renewal of this Agreement based on this Agreement and other agreements entered into between all parties to this Agreements.

5.3 Upon renewal, You will not be required to pay any initial franchise fee.

5.4 Failure or refusal by You to execute the renewal agreements or any other renewal agreements requested by Us within Thirty (30) days after their delivery to You or on or before the final day of the term of this Agreement (whichever occurs later) shall be deemed an election by You not to renew the franchise.

5.5 In the event that You (i) fail to timely renew; (ii) fail to comply with Paragraph 31 of this Agreement and the other provisions of this Agreement which apply in the event that this Agreement expires; and (iii) We have not, prior to the expiration of this Agreement, provided notice to You that we do not intend to renew this Agreement; this Agreement shall continue in effect as if this Agreement had not expired, subject to all of the other terms, covenants, and conditions of this Agreement. Provided, however, that in such event this Agreement may be terminated by Us or You, effective three days following written notice to the other, the effective date of such termination and such termination being agreed to be the expiration date and such termination agreed to be an expiration of this Agreement for purposes of the parties termination and post-termination obligations, including pursuant to Paragraph 31 of this Agreement.

6. The Franchisee's *Ledo Pizza*® Store Location.

6.1 You may operate Your *Ledo Pizza*® Store only at the specific physical location and address specified in Paragraph 2 of this Agreement and may not move or relocate the *Ledo Pizza*® Store to any other location without the prior written consent of Us, which consent may be withheld in Our sole and absolute discretion.

6.2 In the event You desire to move or relocate Your *Ledo Pizza*® Store to another location, You may request permission to do so submitted in the form of a written application to Us. We may elect to grant Our prior written consent, which consent may be withheld in Our sole and absolute discretion. Any move or relocation of Your *Ledo Pizza*® Store, if approved by Us, will be deemed a transfer of the franchise for which all of the other franchise transfer conditions and fees provided for in this Agreement will be applicable.

6.3 If the lease for the site of Your *Ledo Pizza*® Store expires or terminates without Your fault, or if the site is destroyed, condemned or otherwise rendered unusable, or if in Our judgment there is a change in character of the location of Your *Ledo Pizza*® Store sufficiently detrimental to its business potential to warrant its relocation, We may grant permission for relocation of the *Ledo Pizza*® Store to a location and site acceptable to Us *within* Your Exclusive Territory. Any such relocation, if approved by Us, shall not be deemed a transfer of the franchise; provided that, unless otherwise agreed in writing, Your Exclusive Territory shall continue to be determined

with reference to the original site of Your *Ledo Pizza*® Store.

6.4 All expenses and costs of any move or relocation shall be borne by born by You. In addition to any other fees which may be applicable pursuant to Paragraph 6.2, You also agree to reimburse Us for Our costs and expenses, including legal fees, for reviewing, approving the proposed move or relocation and in providing appropriate documentation or agreements for the move or relocation of Your *Ledo Pizza*® Store.

7. The *Ledo Pizza*® Store Lease.

7.1 We will provide You with advice and assistance in connection with the selection of a *Ledo Pizza*® Store site. However, the responsibility for the review, evaluation and selection of a *Ledo Pizza*® Store site shall be Yours, even if we offer you advice or suggestions regarding Your Lease. We and/or Our counsel will, in advance, examine and approve, as to form, the proposed lease for the site of Your *Ledo Pizza*® Store, and You agree that You will not execute a lease, the final form of which has for any reason not been approved, as to form, in advance by Us or which has been disapproved by Us.

7.2 The lease for the site: (1) must provide for adequate parking; (2) must be acceptable to Us, in our sole discretion; and (3) must contain substantially the following provisions:

- (i) “The Landlord acknowledges that the Tenant/Franchisee will operate its business upon the Leased Premises trading as *Ledo Pizza*® under a Standard Franchise Agreement entered into between the Tenant/Franchisee and Ledo Pizza System, Inc. (“Franchisor”). The Landlord further acknowledges that the Franchisor owns, uses, promotes and licenses certain trade and service marks and commercial symbols in connection with the operation of all *Ledo Pizza*® Stores, including store(s) of the Tenant/Franchisee, and as such the Franchisor has both business and legal interests in protecting its business, products and reputation and in preventing *Ledo Pizza*® locations from falling into disfavor with the general public or from transferring to other operators, closing, or going out of business. It is therefore agreed that the Franchisor has a direct and substantial interest in the activities in the continuance of the premises as a *Ledo Pizza*® location.”
- (ii) “Anything contained in this lease to the contrary notwithstanding, the Landlord agrees that without its consent, this Lease and the right, title and interest of the Tenant/Franchisee thereunder, may be assigned by the Tenant/Franchisee to Ledo Pizza System, Inc. (“Franchisor”), or its designee, provided that the Franchisor or its designee, shall execute such documents evidencing its agreement to thereafter keep and perform, or cause to be kept or performed, all of the obligations of the Tenant/Franchisee arising under this Lease from and after the time of such assignment.”
- (iii) “The Landlord shall give written notice to the Franchisor (concurrently with the giving of such notice to the Tenant/Franchisee in the event of default) of

any material amendment or modification to the Lease and of any default by Tenant/Franchisee under the Lease, and the Franchisor shall have, at its sole option, after the expiration of the period during which the Tenant/Franchisee may cure such default, an additional Fifteen (15) days to cure any such default.”

- (iv) “Upon the termination of the Standard Franchise Agreement between the Tenant/Franchisee and Franchisor for any reason (other than a termination by the Tenant/Franchisee for cause and in accordance with the terms of the Standard Franchise Agreement), the Franchisor, or its designee, shall have the right, exercisable by giving the Landlord and the Tenant/Franchisee written notice of its intention to assume the Lease within fifteen (15) days after said termination, at the Franchisor’s sole option, to assume the Tenant/Franchisee’s status under the Lease as assignee of the Tenant/Franchisee. The Franchisor, or its designee, shall be entitled to assume the Tenant/Franchisee’s status under the Lease pursuant to the above circumstances by providing to the Landlord such documents evidencing its financial ability to assume the Lease and its agreement thereafter to keep or perform or cause to be kept or performed all of the obligations of the Tenant/Franchisee arising under the Lease from and after the time of such assumption. In any event, the Tenant/Franchisee shall remain liable under the Lease should the Franchisor assume Tenant/Franchisee’s status under the Lease.”
- (v) “The leased premises shall be used solely for the purpose of conducting therein a *Ledo Pizza*® restaurant for the sale and consumption of pizza and pizza-related products. The sole permitted trade name to be used at the premises shall be “*Ledo Pizza*®” or “*Ledo Pizza*® and Pasta”.
- (vi) “Upon fifteen (15) days prior written notice by Franchisor to Landlord, Landlord shall deliver to Franchisor copies of any and all financial statements, balance sheets, federal, state or local income tax returns, reports or filings and other information concerning the sales, financial status or business operations of Tenant/Franchisee provided to Landlord by Tenant/Franchisee.”

7.3 You agree to deliver a copy of the signed lease for Your *Ledo Pizza*® Store to Us within Five (5) days of execution thereof. Notwithstanding any assistance by or approval by Us of Your lease (including assistance of Our counsel), You agree that You are solely and completely responsible for and will bear all risks associated with the selection of the particular site and the terms and conditions of the lease entered into by You.

7.4 LEDO PIZZA SYSTEM MAKES NO REPRESENTATION OR WARRANTY AS TO THE PROBABLE SUCCESS OR FAILURE OF A FRANCHISEE WITH RESPECT TO ANY PARTICULAR STORE SITE SELECTED BY OR

SUBSTANTIVE LEASE TERMS AGREED TO BY A FRANCHISEE BY VIRTUE OF LEDO PIZZA SYSTEM'S APPROVAL OF A FRANCHISEE'S SELECTED SITE OR FORM OF PROPOSED LEASE AGREEMENT.

8. Development of the Franchisee's Ledo Pizza® Store. You agree that promptly after obtaining possession of the site for the *Ledo Pizza®* Store You will: (a) provide Us with all technical information concerning the site including lot and block number, zoning and tax numbers, legal address and plans of any building on the premises from which You will prepare a complete site plan or space plan for the *Ledo Pizza®* Store; (b) obtain all required zoning changes, all required building, driveway, utility, health, sanitation, and sign permits and any other required permits or approvals; (c) purchase or lease equipment, fixtures, furniture and signs for the opening of the *Ledo Pizza®* Store; (d) complete the construction (and remodeling), installation of equipment, fixture and signs, and decorating of the *Ledo Pizza®* Store in full and strict compliance with plans and specifications therefor approved by Us and all applicable ordinances, building codes and permit requirements; and (e) obtain all customary contractors' sworn statements and partial and final waivers of lien for construction, remodeling, decorating and installation services.

9. Ledo Pizza® Store Equipment, Fixtures, Furniture and Signs. We will provide You with advice, assistance and specifications for the purchase of food and beverage preparation, dispensing, storage and display equipment, other equipment, fixtures, furniture, exterior and interior signs and decorating required for the *Ledo Pizza®* Store. Specifications may include minimum standards for performance, warranties, design and appearance of stores and local zoning, sign and other restrictions. You may purchase or lease original and replacement equipment, fixtures, furniture, signs and decorating services meeting Our specifications from any source. If You propose to purchase or lease any item of equipment or furniture or any fixture or sign not previously approved by Us as meeting Our specifications, You must first notify Us to seek Our approval of the items. We may require submission of sufficient specifications, photographs, drawings and other information and samples to determine whether each such item of equipment or furniture or such fixture of sign meets Our specifications. We will advise You within a reasonable time, generally not to exceed Thirty (30) days, whether each such item meets Our specifications. The *Ledo Pizza®* Marks may be use on or applied to only those items which have been specifically approved by Us.

10. Periodic Refurbishing of the Ledo Pizza® Store. You will at all times keep Your *Ledo Pizza®* Store properly maintained and will keep all of its equipment in good repair. In addition, You will periodically refurbish Your *Ledo Pizza®* Store (in addition to regular maintenance and repair) within Six (6) months after receipt of notice from Us to do so, as We from time to time require, to maintain or improve the appearance and efficient operation of the *Ledo Pizza®* Store or to increase the sales potential or to comply with Our then-current standards. Refurbishing may include: (i) replacement of worn or obsolete equipment, fixtures, furniture and signs; (ii) the substitution or addition of new or improved equipment, fixtures, furniture and signs; (iii) redecorating; (iv) repair of the interior and exterior of the premises and repair and resurfacing of parking facilities; and (v) structural modifications and remodeling of the premises. You will not be required to make aggregate expenditures for refurbishing in excess of One and One-half percent (1-1/2%) of the Gross Sales of its *Ledo Pizza®* Store from the date of its opening to the date of the required refurbishing or, except in connection with a renewal of the franchise, to effect any refurbishing of the *Ledo Pizza®* Store during the last Six (6) months of the term of the franchise.

11. Franchisee Training.

11.1 Prior to the opening of Your *Ledo Pizza*® Store, You and/or Your designated manager ☐ will ☐ will not be required to enroll in and complete such business and food service courses as may be prescribed by Us. Such courses may be offered by a government agency or entity rather than by Us and may be furnished at such times and places as the government agency, entity or We designate. Prior to the opening of the *Ledo Pizza*® Store, or at such other time as may be determined by Us in Our sole discretion on an as-needed basis, We will furnish, and You (and/or Your manager) will enroll, in the current three-week training program, or such other length or duration of training program in Our sole discretion, provided by Us on the operation of a *Ledo Pizza*® Store, furnished at such times and at Our headquarters, at a *Ledo Pizza*® Store or at such other places as We designate. You and/or Your designated manager will not be paid by Us for the training program given by Us. You (and/or Your manager) must complete the current training program to Our satisfaction. In the event You (or Your manager) fail to complete the training program to Our satisfaction, We have the right to terminate this Agreement upon written notice to You. You are responsible for travel and living expenses and compensation of itself and its employees incurred during the training program.

11.2 Following the opening of the Your *Ledo Pizza*® Store, We will provide such on-site assistance in opening and start-up training for You as We deem necessary and appropriate. We may, at the time of the opening of Your *Ledo Pizza*® Store provide Your managers and/or other employees, assistance in training in the operation of the *Ledo Pizza*® Store and in the preparation of *Ledo Pizza*® products. During the term of this Agreement you agree that it is your responsibility to properly train and supervise Your employees and we undertake no duty to do so.

11.3 Following the opening of Your *Ledo Pizza*® Store and in the event that You desire any person who has not previously completed Our training program, to manage the *Ledo Pizza*® Store, You must provide written notice to Us. We may require, in Our sole discretion, that the designated manager be required to complete Our current training course as provided in Section 11.1.

12. Opening of the Franchisee's Ledo Pizza® Store. You must complete development of the *Ledo Pizza*® Store and must have the *Ledo Pizza*® Store ready to open for business within a reasonable time after You obtain possession of the *Ledo Pizza*® Store site or from the date of this Agreement if You already have possession of the *Ledo Pizza*® Store site on the date of this Agreement. If You did not complete all required training, and do not open the *Ledo Pizza*® Store within Six (6) months of the date of this Agreement, then this Agreement and the franchise granted hereby may, at Our sole option, be terminated upon the giving of written notice to You.

13. Operating Assistance.

13.1 We will assist You from time-to-time as, when and to the extent that We, in Our sole, unfettered and unreviewed discretion, determine assistance is necessary or appropriate in such areas as: food preparation, food packaging, inventory control, advertising, sales promotion, bookkeeping, accounting and general operating procedures. We may advise You from time to time

of any operating problems of the *Ledo Pizza*® Store revealed or disclosed by reports submitted by You to Us or inspections made by Us. Although We may provide assistance in areas such as personnel management and provide sample employment policies, schedules, training manuals and other materials to assist you in matters relating to Your employees, You understand and agree that You are solely responsible for all aspects of their employment, including all terms of their employment, hiring, firing, promoting and demoting Your employees. Notwithstanding any provision in this Agreement to the contrary, We will have no control over the hiring, firing, promotion, demotion or supervision of your employees or over other actions related to the employment of your employees. In the event that You believe that an employee of Ledo Pizza System is attempting to exercise control over matters relating to the employment of your employees, you agree to immediately report such conduct in writing to US. You are advised to consult with Your professional advisors to ensure compliance with Federal, state and local laws relating to employment.

13.2 Except as otherwise provided in this Agreement, including without limitation Paragraphs 6.2, 11 and 21, you will not be charged for operating assistance provided by Us. By providing operating assistance, including any advice or suggestions that We may offer, We do not assume any of Your responsibilities or duties.

14. The Ledo Pizza® Store Menu. You will offer for sale and will sell at the *Ledo Pizza*® Store, *only* such food and beverage products and services, including promotional or other food and beverage products and services, as We, from time to time, authorize. You agree neither to offer for sale or sell at the Ledo Pizza® Store or the premises that it occupies any unauthorized food or other products or services nor to use such premises for any purpose other than the operation of the *Ledo Pizza*® Store.

15. Food Ingredients and Supplies; Pizza Delivery, Catering and Sale of Alcoholic Beverages.

15.1 Food Ingredients, Supplies and Materials. All food ingredients, beverage products, cooking materials, containers, packaging materials, other paper and plastic products, utensils, uniforms, menus, administrative forms, cleaning and sanitation materials and other supplies and materials used in the operation of a *Ledo Pizza*® Store must conform to the specifications and quality standards established by Us from time to time in Our sole and absolute discretion. You agree to use only boxes, containers and other paper or plastic products imprinted with the Marks as prescribed from time to time by Us. We may charge licensing fees to suppliers of goods and services to You. We may also, in Our sole discretion, require that ingredients, supplies and materials used in the preparation, packaging, and sale of *Ledo Pizza*® products be purchased exclusively from approved suppliers. You agree not to use any ingredient, supply or material not previously approved by Us as conforming to Our specifications and quality standards without first submitting it to Us for examination and testing. Subject to the provisions of this paragraph, You may purchase from any source ingredients, supplies and materials used in the preparation, packaging and sale of the food products which We have approved as conforming to Our specifications and quality standards. We and Our representatives must have access to and the right to examine the facilities of any approved supplier, and to test or inspect the ingredients, materials or supplies to determine whether they meet Our standards and specifications. We may charge You fees for testing and evaluating proposed and

approved suppliers and may impose limitations on the number of approved suppliers of any product.

15.2 Pizza Delivery Generally Prohibited. Generally, door to door delivery of pizza by You or from Your *Ledo Pizza*® Store is prohibited. In certain circumstances, however, We may permit delivery by certain franchisees at certain locations. In order for You to request permission to provide door to door delivery of pizza, or pizza related products, You must submit a written request to Us asking for approval. We will grant or deny Your request, in Our sole discretion, and may grant the request under such terms, conditions or limitations as We determine appropriate. Any such agreement to permit delivery must be in writing and will be valid only if signed by Us.

15.3 Catering Generally Prohibited. Generally, catering by You or from Your *Ledo Pizza*® Store is prohibited. In certain circumstances, however, We may permit catering by certain franchisees at certain locations. In order for You to request permission to provide catering services, You must submit a written request to Us asking for approval. We will grant or deny Your request, in Our sole discretion, and may grant the request under such terms, conditions or limitations as We determine appropriate. Any such agreement to permit catering must be in writing and will be valid only if signed by Us.

15.4 Sale of Alcoholic Beverages. You are prohibited from selling alcoholic beverages of any sort at or from Your *Ledo Pizza*® Store without first obtaining Our written consent. We will grant or deny Your request, in our sole discretion, and may grant the request under such terms, conditions or limitations as We determine appropriate. At a minimum, any consent granted by Us is subject to You obtaining, to Our satisfaction, the appropriate liquor license and permits to sell alcoholic beverage sales. Any such consent to alcoholic beverage sales must be in writing and will be valid only if signed by Us. If Our consent is given You agree to, at all times, comply and to continue to comply with all Federal, state and local statutes, regulations and ordinances, including any and all restrictions imposed by the applicable liquor license class, regarding the sale of alcoholic beverages. In the event that (i) Federal, state and local statutes, regulations, ordinances or other law prohibit Us from charging or collecting franchise royalty or advertising on the sale of alcoholic beverages, and (ii) if not prohibited by applicable law; You agree to pay to Us additional franchise royalty fees of one percent (1.0%) of the bimonthly Gross Sales of Your *Ledo Pizza*® Store, provided that the total royalty fees paid by You do not exceed the franchise royalty fees required to be paid by You under Paragraph 26, inclusive of alcoholic beverage sales.

15.5 Non-Solicitation. You agree that during the term of this Agreement and for a period of (1) one year after the termination of this Agreement, You will not directly or indirectly, without Our consent, solicit for employment any of our employees or any employee of any other *Ledo Pizza*® Store or in any manner seek to entice, attract or induce any such employee to leave his or her employment. You may, however, without violating this provision, place mass media advertisements or conduct job fairs for the purpose of recruiting employees generally, and may hire applicants who respond to general employment advertisements and were not, within the six (6) month immediately preceding period, employed by either Us or another *Ledo Pizza*® Store.

16. Ledo Pizza System and Franchisee Advertising and Promotion.

16.1 We will from time to time prepare, produce and conduct advertising and promotion programs for use in such media as We determine. We may, in Our sole discretion, require that You participate in local and regional advertising cooperatives or similar organizations in connection with such advertising and promotion programs. All costs of the production of any advertising and promotion (including without limitation the proportionate compensation of Our employees who devote time and render services in the development and production of such advertising and promotion programs or the administration of the funds used therefor), will be paid from a separate fund administered by Us (the "Ledo Pizza System Advertising Fund") to which You must pay One Percent (1%) of your bimonthly Gross Sales (the "Advertising Fee"). In the event that We provide written notice to You that We no longer require You to spend the additional not less than One percent (1%) of Your *Ledo Pizza*® Store Gross Sales on advertising (as currently provided in Paragraph 16.3), the Advertising Fee will increase to Two Percent (2%) of your bimonthly Gross Sales. Advertising Fees must be postmarked by and are payable on or before the First (1st) and Sixteenth (16th) of each month based on sales for the preceding period ending on the Fifteenth (15th) and last day of each month. Although we reserve the right to use amounts paid to the Ledo Pizza System Advertising Fund for any purposes, in Our sole, unfettered and unreviewed discretion, We may engage the services of an advertising source or sources to formulate, develop, produce and conduct the advertising and promotion programs, the cost of such services to be payable from the Ledo Pizza System Advertising Fund.

16.2 Although the Ledo Pizza System Advertising Fund is intended to maximize general public recognition and patronage of the Marks in the manner determined to be most effective by Us, in Our unfettered and unreviewed discretion, You acknowledge and understand that We undertake no obligation to ensure that advertising expenditures are proportionate or equivalent to franchisees' contributions from a particular market area or that any *Ledo Pizza*® Store will benefit directly or pro rata from the placement of advertising.

YOU ACKNOWLEDGE THAT NO FIDUCIARY DUTY EXISTS BETWEEN LEDO PIZZA SYSTEM AND YOU OR BETWEEN YOU AND THE LEDO PIZZA SYSTEM ADVERTISING FUND.

16.3 In addition to the Advertising Fee, You agree to spend an amount equal to not less than One percent (1%) of Your *Ledo Pizza*® Store Gross Sales on advertising for Your individual *Ledo Pizza*® Store. You must provide Us with proof of the expenditure of the minimum franchisee advertising required under this paragraph. In the event that We provide written notice to You that We no longer require You to spend the additional not less than One percent (1%) of Your *Ledo Pizza*® Store Gross Sales on advertising, the Advertising Fee will increase to Two Percent (2%) of your bimonthly Gross Sales

16.4 Under no circumstances may You formulate, develop, produce or conduct an advertising or promotion program, including establishing an internet site or page on the World Wide Web, catalog sales, telemarketing, or other direct marketing, to make sales inside or outside your territory, without Our prior written approval. Only advertising approved by Us, may be used in the advertising and promotion of Your *Ledo Pizza*® Store.

17. Bookkeeping and Records of the Ledo Pizza® Store.

17.1 You must establish a bookkeeping and record keeping system conforming to the requirements prescribed by Us in the Operating Manual. You agree to submit reports, records and tax returns to Us according to the requirements contained in the Operating Manual, or as otherwise requested by Us. You also agree to deliver copies of Your complete Federal Income Tax Package and any other tax forms, returns or packages pertaining to the *Ledo Pizza®* Store within Five (5) days of filing with the Internal Revenue Service or any other state or local taxing authority. Additionally, You agree to provide to Us on a monthly basis, copies of all sales tax returns filed by You. You agree to maintain and preserve, for a period of not less than three (3) years: (i) all register receipts, including electronic versions thereof if available; (ii) copies of summaries and other statements prepared by You or Your bookkeeper and/or accountant (iii) copies of all reports required to be submitted to Us; (iv) operating budgets and capital expenditure budgets; (v) a schedule of all outstanding long-term debt and short term debt other than normal trade payables, including the payee, origination date, due date, interest rate, monthly payment and current balance; (vi) all loan agreements with creditors, including any documentation with respect to representations given to creditors in connection with obtaining credit; (vii) descriptions of any financial transactions not in the ordinary course of business, and any transactions with affiliates; (viii) a list of all banks where any accounts are maintained (including the identity and address of the owner of the account, the account number, and authorized signatures, as applicable); (ix) guest checks, carry-out checks and similar records of sales to individual customers; (x) invoices from all suppliers, vendors or others providing goods or services or extending credit to the *Ledo Pizza®* Store; (xi) all checks used for payment of such invoices as well as payment of payroll expenses and other expenses of the *Ledo Pizza®* Store (hereinafter, collectively the “Business Records”). Upon five (5) days written notice from Us, You agree to make the Business Records available to Us for review or copying, either at the *Ledo Pizza®* Store or at Our offices, as determined by Us. You agree that your obligations under this Paragraph 17.1 shall survive the termination, expiration or cancellation of this Standard Franchise Agreement.

17.2 You agree to deliver to Us copies of all reports regarding the *Ledo Pizza®* Store prepared by any governmental health department within Five (5) days of receipt of such reports.

18. Policies, Specifications, Standards, Procedures and Rules. You agree to comply fully with all policies, specifications, standards, operating procedures and rules from time-to-time prescribed for the operation of Your *Ledo Pizza®* Store, including without limitation, specifications, standards, operating procedures and rules contained in the Operating Manual and any revisions to the Operating Manual. **YOU ACKNOWLEDGE THAT THIS AGREEMENT AND THE FRANCHISE GRANTED TO YOU IS PERSONAL TO YOU. IN LIMITED CIRCUMSTANCES DETERMINED IN OUR SOLE DISCRETION, WE HAVE, AND IN THE FUTURE YOU AGREE THAT WE MAY, PERMIT ONE OR MORE FRANCHISEES TO OPERATE UNDER POLICIES, SPECIFICATIONS, STANDARDS, PROCEDURES OR RULES WHICH DIFFER FROM THOSE IMPOSED UPON YOU PURSUANT TO THIS AGREEMENT OR THE OPERATING MANUAL. YOU ACKNOWLEDGE AND AGREE THAT NOTWITHSTANDING THE FACT THAT OTHER FRANCHISEES MAY OPERATE UNDER DIFFERENT POLICIES, SPECIFICATIONS, STANDARDS,**

PROCEDURES OR RULES, YOU AGREE TO FULLY COMPLY WITH THE POLICIES, SPECIFICATIONS, STANDARDS, PROCEDURES AND RULES IMPOSED UPON YOU PURSUANT TO THIS AGREEMENT AND THE OPERATING MANUAL.

19. Compliance with Laws and Other Business Practices.

19.1 You agree to secure and maintain in force all required licenses, permits and certificates and to operate Your *Ledo Pizza®* Store in full compliance with all applicable laws, ordinances and regulations, including without limitation all local, state and federal government regulations relating to occupational hazards and health, sanitation, consumer protection, employment practices, unfair and deceptive practices, trade regulation, worker's compensation, unemployment insurance and withholding and payment of federal and state income taxes and social security taxes and sales, use and property taxes. You agree to take all courses required by Federal, state or local laws pertaining to any of the foregoing.

19.2 Franchisee hereby acknowledges that Franchisee is solely responsible for all decisions relating to employees, including, without limitation, hiring and terminating employees.

19.2 You agree to pay when due all amounts payable by You pursuant to any provision of this Agreement or any other agreement with Us or any of our affiliates or subsidiaries and to pay when due all amounts payable by You pursuant to any agreement with any other creditor or supplier of Your *Ledo Pizza®* Store.

19.3 You, your operating company, and its owners, officers, directors, members, partners and agents represent and warrant to Us that: (a) they are not identified by name or alias, pseudonym or nickname, on the lists of "Specially Designated Nationals" or "Blocked Persons" maintained by the U.S. Treasury Department's Office of Foreign Assets Control (text is currently available at www.treas.gov/offices/enforcement/ofac/); (b) they are not directly or indirectly owned or controlled by the government of any country that is subject to a United States embargo; (c) they will not act directly or indirectly on behalf of the government of any country that is subject to a United States embargo; and (d) they are in full compliance with all laws proscribing money laundering and corrupt practices. Further, You, your operating company, and its owners, officers, directors, members, partners and agents represent and warrant to Us that they have not violated and agree not to violate any law prohibiting corrupt business practices, money laundering or the aid or support of persons who conspire to commit acts of terror against any person or government, including acts prohibited by the USA Patriot Act (text currently available at <http://www.epic.org/privacy/terrorism/hr3162.html>), U.S. Executive Order 13244 (text currently at <http://www.treas.gov/offices/enforcement/ofac/sanctions/terrorism.html>), or any similar law. The foregoing constitute continuing representations and warranties, and You, your operating company, and its owners, officers, directors, members, partners and agents must immediately notify us in writing of the occurrence of any event or the development of any circumstance that might render any of the foregoing representations and warranties false, inaccurate or misleading.

20. Franchise Operating Manual. We will lend You during the term of the franchise one or more copies of the Operating Manual, operational bulletins and similar materials containing mandatory and suggested policies, specifications, standards, operating procedures and rules

prescribed from time to time by Us (sometimes collectively referred to as the “Operating Manual”). The entire contents of the Operating Manual will remain confidential and the property of Ledo Pizza System. We have the right to modify the Operating Manual from time to time, provided that no such addition or modification will conflict with the expressly enumerated terms of this Agreement (without regard to any agreement incorporated herein by reference). You acknowledge and agree that all rights not expressly granted to You hereunder are reserved to Us. You acknowledge and agree that the mandatory and suggested policies, specifications, standards, operating procedures and rules prescribed by Us in the Operating Manual or other written document delivered to You may be amended, modified or rescinded by Us at any time and from time to time in connection with the improvement and further development of Our franchise system. You further acknowledge and agree that additional mandatory and suggested policies, specifications, standards, operating procedures and rules that, in any manner, relate to the scope of the franchise granted hereunder and that are not currently contained in the Operating Manual, may be imposed upon You. You acknowledge that such changes (and our ability to require such changes) are necessary for the protection of the Marks and associated goodwill. You understand and acknowledge that some changes in the mandatory and suggested policies, specifications, standards, operating procedures and rules permitted to be made by Us pursuant to this paragraph may be material to the operation of Your *Ledo Pizza*® Store and may not be agreeable to You. In each event, however, you agree to fully comply with such mandatory policies, specifications, standards, operating procedures and rules as amended, modified or adopted in the future by Us. It is your obligation to maintain Your copy of the Operating Manual in current and up-to-date condition. In the event of any dispute as to the contents of the Operating Manual, the terms of the master copy maintained at Our offices will control. The provisions of the Operating Manual, as modified from time to time, and mandatory specifications, standards, operating procedures and rules prescribed from time to time by Us and communicated to You in writing, shall be deemed to be incorporated into this Agreement and will constitute binding provisions of this Agreement as if fully set forth in this Agreement.

21. Trade Secrets; New Processes, Concepts, Improvements, Etc.

21.1 You acknowledge that the contents of the Operating Manual and the specifications, standards and operating procedures of the *Ledo Pizza*® Store are derived from information in the Operating Manual and such information is confidential and a trade secret of Ledo Pizza System. You agree that you will maintain the absolute confidentiality of the Operating Manual and all such other information during and after the term of the franchise. You will disclose the information contained in the Operating Manual only to employees of the *Ledo Pizza*® Store, only to the extent necessary for the operation of the *Ledo Pizza*® Store in accordance with this Agreement and only after having received an executed agreement relating to confidentiality and/or non-competition in the form specified by Us. You agree to furnish us a copy of each executed agreement. You agree not to use the Operating Manual or any information contained in the Operating Manual in any other business or in any manner not specifically authorized or approved in writing by Us.

21.2 You agree that if You develop any new product, ingredient, recipe, concept, process or improvement in the operation or promotion of the *Ledo Pizza*® Store, the Franchisee will promptly notify Ledo Pizza System and will provide Ledo Pizza System with all necessary information with respect thereto without compensation. The Franchisee acknowledges that such new

product, ingredient, recipe, concept, process or improvement will become the property of Ledo Pizza System and that Ledo Pizza System may itself utilize or disclose such information to other franchisees.

22. Franchisee Supervision of the Ledo Pizza® Store. Although we may, from time to time, perform inspections of Your *Ledo Pizza®* Store and provide assistance as described elsewhere in this Agreement, We will not operate Your *Ledo Pizza®* Store. The operation of Your *Ledo Pizza®* Store must, at all times, be under You direct, on-premises supervision. Alternatively, the operation of Your *Ledo Pizza®* Store may be under the direct, on-premises supervision of a manager (at any time it is not under your direct, on-premises supervision), provided that each such manager: (a) shall have completed, to Our satisfaction, Our approved training program; (b) shall have been disclosed to Us as a manager; and, (c) shall have executed, in form satisfactory to Us, an agreement (i) not to divulge any trade secret or confidential or proprietary information, including the contents of the Operating Manual, (ii) not to engage in or have any interest in any other food products and related carry-out business, and (iii) to observe all terms, conditions, provisions and restrictions of this Agreement.

23. Insurance. You agree at all times during the term of the franchise maintain in full force and effect, at Your sole expense comprehensive general liability insurance (including, but not limited to, coverage for personal injury, products and contractual liability) on an occurrence basis with minimum limits of liability in an amount of Two Million Dollars (\$2,000,000.00) for bodily injury, personal injury or death and One Million Dollars (\$1,000,000.00) with respect to damage to property, motor vehicle liability (including, but not limited to, hired and nonowned coverage), fire, extended coverage, vandalism and malicious mischief, worker's compensation insurance, and such other insurance as We may require, under one or more policies of insurance containing the coverage, from time to time in the Operating Manual. All insurance policies must be issued by an insurance carrier rated A or better by Alfred M. Best & Company, Inc. All comprehensive general liability and motor vehicle liability insurance policies must also name **Ledo Pizza System** as an additional insured and You agree to increase the amount of coverage afforded by such liability insurance every two (2) years, upon Our request, to an amount determined by Us in Our reasonable discretion. All policies required under this paragraph must provide that We receive Thirty (30) days prior written notice, sent by certified or registered mail, of termination, expiration, cancellation, modification, or reduction in coverage of any such policy. You agree to deliver to Us certificates or memoranda of insurance of all policies of insurance to be procured by You within ten (10) days of the inception of such policies and. At least thirty (30) days prior to the expiration of such policies, You agree to deliver to Us, certificates or memoranda of insurance evidencing the renewal thereof.

24. The Ledo Pizza® Marks.

24.1 You acknowledge that We are a nonexclusive licensee and a licensor of the names "*Ledo®*", "*Ledo Pizza®*", "*Ledo Pizza® and Pasta*", and "*Ledo Pizza® and Subs*" and each derivation thereof (referred to herein as the "Marks"). All Marks licensed to You and Your right to use the Marks, is derived solely from this Agreement and is limited to the conduct of business by You pursuant to and in compliance with this Agreement.

24.2 Any unauthorized use of the Marks by You is a breach of this Agreement and

is an infringement of the rights of Ledo Pizza System in and to the Marks. You agree not to use any Mark as part of any corporate name or trade name or with any prefix, suffix or other modifying words, terms, designs or symbols (other than logos licensed to You hereunder), nor may You use any Mark in connection with the sale of any unauthorized product or service or in any other manner not explicitly authorized in writing by Us.

24.3 You acknowledge and agree that all uses of the Marks by You, and any goodwill established by Your use of the Marks under this Agreement, shall inure to the benefit of Ledo Pizza System and the owner of the Mark. This Agreement does not confer any goodwill or other interests in the Marks upon or to the Franchisee. You further acknowledge and agree that Your right and title in and to all telephone listings and numbers used at the *Ledo Pizza*® Store are derived from Your right to use the Marks pursuant to the terms of this Agreement.

24.4 You agree to immediately notify Us in writing of any infringement of or challenge to Your or Ledo Pizza System's use of or right to use any Mark or of any claim by any person of any rights in any of the Marks. You agree not to communicate directly or indirectly with any person, other than Us and Our counsel, in connection with any such alleged infringement, challenge or claim. You agree that We have the sole discretion to take such action or to not take action as We deems necessary and appropriate and that We have the right to exclusively control litigation or United States Patent and Trademark Office or other administrative proceedings arising out of any such infringement, challenge or claim or otherwise relating to any Mark, if any. You agree to execute any and all instruments and documents, render such assistance and do such acts and things as may, in the opinion of Our counsel, be necessary or advisable to protect and maintain the interests of Ledo Pizza System or the owner of the Marks in any such litigation or United States Patent and Trademark Office or other administrative proceeding or to otherwise protect and maintain the interests of Ledo Pizza System or the owner of the Marks in the Marks. We agree to indemnify You against, and to reimburse You for: (i) all damages for which You are held liable in any finally determined judicial or administrative proceeding arising out of Your use of any Mark in compliance with this Agreement, and (ii) for all costs reasonably incurred by You in the defense of any such claim brought against You or in any such judicial or administrative proceeding in which You are named as a party. Our agreement to provide indemnification to You is conditioned on: (i) Your timely notifying Us of such claim or proceeding, (ii) You having otherwise fully complied with this Agreement and (iii) Your agreement that We have the right to defend any such claim as provided above.

24.5 If it becomes advisable at any time in Our sole discretion to modify or discontinue the use of any Mark or to use one or more additional or substitute Marks, You agree to comply with Our directions within a reasonable time after notice to You. The sole obligation of Ledo Pizza System in any such event will be to reimburse You for Your direct costs (for example, the printing of new menus, the painting of wall signs, etc.) of complying with this obligation.

25. The Franchisee's Initial Franchise Fee. Upon the execution of this Agreement, You agree to pay to Ledo Pizza System Thirty Thousand Dollars (\$30,000.00) as a nonrefundable initial franchise application and processing fee.

26. The Franchise Royalty Fees.

26.1 Further in consideration of the rights granted to You under this Agreement, You agree to pay to Us, without demand, offset, credit or deduction, a franchise royalty fee of Five Percent (5.0%) of the bimonthly Gross Sales of Your *Ledo Pizza®* Store. You agree to report Your Gross Sales to Us postmarked and payable on or before the First (1st) and Sixteenth (16th) of each month based on Gross Sales for the preceding period ending on the Fifteenth (15th) and last day of each month. Your requirement to pay franchise royalty fees is not conditioned on Your *Ledo Pizza®* Store being profitable and You agree to pay franchise royalty fees regardless of whether Your *Ledo Pizza®* Store is profitable.

26.2 The term “Gross Sales” for purposes of this Agreement means the total receipts from all sales from the *Ledo Pizza®* Store of all food, beverages, and if permitted by local alcoholic beverage laws, all alcoholic beverage sales, and all other items without deduction for any premium items or similar items offered but excluding sales and equivalent taxes and coupon and similar discounts approved by Ledo Pizza System.

26.3 All franchise royalty fees, advertising contributions and all other amounts owed to Us shall bear interest after the due date at the rate of One and One-half Percent (1.5%) per month or at the highest rate permitted by law in the state in which the *Ledo Pizza®* Store is located, whichever is lower. In the event that You fail to report bimonthly Gross Sales to Us as provided above, We may calculate royalty fees and advertising contributions by using the average bimonthly Gross Sales reports for the six (6) most recent months available to Us multiplied by One Hundred Twenty-Five (125%) percent (the “Estimated Gross Sales”). Subject to Our right to audit Your sales reports and financial statements as provided below and until such time as You provide all bimonthly Gross Sales reports to Us in compliance with section 26.1, above, You agree that all such royalty fees and advertising contributions calculated by Us using the Estimated Gross Sales shall be considered actual royalty fees and advertising contributions due to Us for the purposes of this Agreement. Upon delivery to Us of all past due bimonthly Gross Sales, and payment to Us of all royalty fees and advertising contributions then-due (whether determined with reference to Estimated Gross Sales or actual Gross Sales); We will determine (and send written notice to You) any credit due to You or deficiency owed by You as a result of a difference between the royalty fees and advertising contributions paid to Us and the royalty fees and advertising contributions which would have been due (determined using the bimonthly Gross Sales reports provided by You). In the event that the royalty fees and advertising contributions paid to Us are less than the royalty fees and advertising contributions which would have been due (determined using the bimonthly Gross Sales reports provided by You), You agree to pay Us the total amount of such deficiency, including any interest accrued thereon, within five (5) days after written notice to You.

26.4 Security Interest. Ledo Pizza System shall have, and You hereby grant to Us, a continuing security interest for all franchise royalty and advertising fees and other sums of money becoming due to Us from You, upon all of Your tangible and intangible assets and property rights, whether now owned or hereafter acquired including all: (a) accounts; (b) as-extracted collateral; (c) chattel paper; (d) deposit accounts; (e) documents; (f) equipment; (g) fixtures; (h) general intangibles; (i) goods; (j) instruments; (k) inventory, including returned, rejected, or repossessed inventory and rights of reclamation and stoppage in transit with respect to inventory; (l)

investment property; (m) letter-of-credit rights; (n) receivables; (o) copyrights, trademarks, patents, and all pending applications thereof; (p) all machinery, rental goods and leases; and (q) all records relating to or pertaining to any of the above listed collateral, and all proceeds of the foregoing, none of which may be removed without Our prior, express, written consent. On the occurrence of a default, We shall have, in addition to any other remedies provided herein or by law; all rights and remedies afforded to secured parties under the provisions of the Uniform Commercial Code, as codified in Maryland. You agree that We may file whatever financing and continuation statements, amendments and other documents, and that We may take whatever additional actions We deem to be necessary or proper to perfect and continue perfection of the security interest granted hereby. We may file a carbon copy, photographic, facsimile, other reproduction, or electronically authenticated or maintained copy, of any financing statement or of this Agreement for use as a financing statement. We may make electronic filings of financing and other statements. All filings permitted under this section, including without limitation, electronic filings will be deemed to be complete and perfected for all purposes when made by Us, and may be made by Us without the necessity that You sign any such financing statement or other perfection document. We agree not to file a financing statement or other perfection document until You are one (1) month or more delinquent in payment due hereunder or otherwise in default of this or any other agreements with Us for a period of ten (10) days after issuance of a Notice of Default as provided hereunder. You agree to reimburse Us for all recordation tax, filing fees and other costs and expenses associated with the filing of such financing statement or other perfection document.

26.5. We require that all franchise royalty fees, advertising contributions and other amounts due from You be paid by means of electronic funds transfers (“EFT”) as may be further described in the Operating Manual. Prior to the opening of Your *Ledo Pizza®* Store, You agree to set up an electronic depository transfer account (which shall be Your primary depository account) and agree to provide Us with access to such account for the purpose of receiving payment for franchise royalty fees, advertising contributions and other amounts due from You. On a continuing basis, You agree to make deposits to the account sufficient to cover amounts owed to Us.

27. Inspection of the Ledo Pizza® Store. You agree that We have the right, and You hereby grant Our and Our representatives access, at any time during regular business hours without prior notice to You, to inspect the *Ledo Pizza®* Store, its operation and all business bookkeeping records, and to take a physical inventory of the assets of the *Ledo Pizza®* Store. Such inspections shall be made at Our expense, provided that if We make Two (2) inspections in connection with the repeated or continuing failure to comply with this Agreement, You agree to pay for the costs of making all inspections in connection with such failure to comply, including without limitation travel expenses, room and board, direct cost of compensation of Our employees making such inspections (as determined by Us) plus an amount equal to fifteen percent (15%) of such costs. Your failure or refusal to grant Us and/or Our representatives access to the access provided under this paragraph, shall constitute a breach of this Agreement for which We may terminate this Agreement upon delivery of written notice to You.

28. Audit of the Franchisee’s Sales Reports and Financial Statements. In the event that We dispute the accuracy of any one or more of the Gross Sales reports or other reports or payments made to Us, We may audit or cause to be audited the Gross Sales reports, financial statements, tax returns and/or the Business Records, including any information or reports used in

connection therewith. We may select any auditor we choose to conduct such an audit. In the event any such audit discloses that any payment or series of payments made by You was deficient by the greater of (i) Five Percent (5.0%) of the payment or payments due, or (ii) Five Hundred Dollars (\$500.00) You agree to pay to Us, within Fifteen (15) days after receipt of Our report, the full amount of such underpayment plus interest at the rate of Eighteen Percent (18.0%) per annum on such underpayment(s) from the date(s) such payment(s) were first due to Us. Further, in the event such deficiency for any period is Two Percent (2%) or greater, You agree to reimburse Us for the cost of such audit, including without limitation the charges of any independent certified public accountant and travel expenses, room and board and compensation of Our employees involved in the audit. You acknowledge and agree that Our right to audit the Gross Sales reports, financial statements and tax returns under this Section 28 shall survive the termination, expiration, cancellation or non-renewal of this Agreement.

29. Termination of the Ledo Pizza® Franchise by the Franchisee. If You are in strict compliance with this Agreement (whether or not notice of noncompliance has been sent to You), but We breach this Agreement and fail to cure such breach within Thirty (30) days after written notice (the “Notice of Breach”) is sent by You and received by Us, You may terminate the Agreement and the franchise effective Ten (10) days after receipt by Us of a NOTICE OF TERMINATION sent by You. The Notice of Breach sent by to Us must include: (i) the particular facts and matters alleged to constitute a breach of this Agreement, (ii) the specific provisions of this Agreement allegedly breached; and (iii) a recitation that the Notice is a Notice of Breach under Section 29 of the Franchise Agreement. In the event that You fail to send a NOTICE OF TERMINATION to Us within sixty (60) days following the Notice of Breach, You agree that Your rights to terminate this Agreement under the Notice of Breach shall cease and be of no further force or effect with respect to the breaches specified in your Notice of Breach. Any attempted termination of this Agreement and the franchise by You without strictly complying with the foregoing requirements may, at Our option, be deemed a termination by You *without cause* and shall be deemed a breach of this Agreement by You.

30. General Rights of Termination of the Ledo Pizza® Franchise by Ledo Pizza System.

30.1 In addition to all other rights of Ledo Pizza System to terminate this Agreement as provided herein, Ledo Pizza System may also terminate this Agreement and the franchise effective Three (3) calendar days after Ledo Pizza System’s issuance of a NOTICE OF TERMINATION to the Franchisee, if:

(1) the Franchisee makes an assignment for the benefit of creditors or an admission of inability to pay his obligations as they become due; or

(2) the Franchisee fails or refuses to pay its debts to suppliers, creditors or to Ledo Pizza System as they become due and payable in the ordinary course of business without working out suitable arrangements to such suppliers, creditors or Ledo Pizza System; or

(3) the Franchisee files a voluntary petition in bankruptcy or any pleading seeking any reorganization, liquidation, dissolution or composition or other settlement with creditors

under the law which is not dismissed within Thirty (30) days, or admits or fails to contest the material allegations of any such pleading filed against it, or it is adjudicated a bankrupt or insolvent, or a receiver or other custodian is appointed for a substantial part of the assets of the Franchisee or the *Ledo Pizza*® Store; or

(4) the Franchisee or its approved manager fails to continuously and actively operate the *Ledo Pizza*® Store; or

(5) the Franchisee suffers cancellation of or fails to renew or extend the lease or sublease for or otherwise fails to maintain possession of, the premises occupied by the *Ledo Pizza*® Store unless the Franchisee secures suitable alternative premises approved by Ledo Pizza System in accordance with this Agreement within a reasonable time; or

(6) the Franchisee fails to achieve the Gross Sales quotas specified in this Agreement in Two (2) consecutive years or any Three (3) years during the term of the franchise; or

(7) the Franchisee on Two (2) or more occasions within any One (1) year period fails to submit when due, Gross Sales reports, royalty reports or financial statements or fails to pay when due the royalty fees, advertising contributions, or other payments due to Ledo Pizza System or its affiliates or subsidiaries or any other creditors or suppliers of the *Ledo Pizza*® Store; or

(8) the Franchisee is convicted of a felony or other crime which adversely affects the goodwill associated with the Marks or engages in any misconduct which affects the reputation of the *Ledo Pizza*® Store or the goodwill associated with the Marks; or

(9) the Franchisee has made or makes any material misrepresentation in its application for the franchise or in any other report or statement submitted to Ledo Pizza System; or

(10) the interest of a deceased or permanently incapacitated Franchisee is not disposed of in accordance with the terms of this Agreement; or

(11) the Franchisee fails to comply with the maximum retail prices established, from time to time, by Ledo Pizza System; or

(12) the Franchisee otherwise fails to comply with this Agreement, whether or not such failure to comply is corrected after notice thereof is delivered to the Franchisee; or

(13) the Franchisee or his approved manager fails to comply with any provision of this Agreement or any specification, or operating procedure or rule prescribed by Ledo Pizza System and does not correct such failure (i) within Three (3) calendar days after issuance of a NOTICE OF DEFAULT if such failure relates to the use of any Mark or the quality of food or any beverage sold by or the cleanliness or sanitation of the *Ledo Pizza*® Store, or (ii) within Ten (10) calendar days after issuance of a NOTICE OF DEFAULT if such failure is to pay any money payable by the Franchisee pursuant to any provision of this Agreement or any other agreement with Ledo Pizza System or its affiliates or subsidiaries or pursuant to any agreement with any other creditor or supplier of the *Ledo Pizza*® Store;

30.2 Except as otherwise provided above, all other NOTICES OF TERMINATION may be issued by Ledo Pizza System Thirty (30) calendar days after the issuance by Ledo Pizza System of a NOTICE OF DEFAULT (which shall describe the action that the Franchisee must take to correct same), provided that the items referred to in the NOTICE OF DEFAULT shall not have been cured to the satisfaction of Ledo Pizza System.

30.3 Notwithstanding the foregoing Section, in the event Ledo Pizza System issues a NOTICE OF DEFAULT to the Franchisee with respect to any particular matter more than once in any Twelve (12) month period, Ledo Pizza System may issue a NOTICE OF TERMINATION effective Ten (10) days after the issuance by Ledo Pizza System of the NOTICE OF TERMINATION.

30.4 Without waiving any of its rights or remedies at law or under this Agreement, including its rights to terminate this Agreement as provided herein, Ledo Pizza System may issue a NOTICE OF DEFAULT with respect to any breach or default for which Ledo Pizza System may issue at NOTICE OF TERMINATION. Ledo Pizza System may provide the Franchisee with opportunity to cure such default of such duration as Ledo Pizza System deems appropriate; provided that any opportunity to cure shall apply only to the default specified in the notice and shall not apply to subsequent defaults, including any subsequent default which is identical to the default for which Ledo Pizza System provided opportunity to cure.

30.4 In addition to Ledo Pizza System's right to terminate this Agreement for Franchisee's breach of the provisions thereof and without waiving any of its rights or remedies at law or under this Agreement, Ledo Pizza System may assess an administrative charge of Two Hundred (\$200) Dollars for each instance or occurrence of a violation of the terms of this Agreement or of a policy, specification, standard, operating procedure or rule from time-to-time prescribed for the operation of the *Ledo Pizza®* Store, including without limitation, the specifications, standards, operating procedures and rules contained in the Operating Manual and any revisions to the Operating Manual. The following is a non-inclusive list of violation that Ledo Pizza System may assess administrative charges: employees not in uniform; improper portions; store not clean; too few employees on shift; tables not bused quickly; missing or unauthorized food product; missing paper products; pre-rolled shells; reporting not up-to-date; bi-monthly payments not up-to-date; use of unapproved advertisements; use of unapproved discount programs; improper food presentation; noncompliance with franchise hours; operation by unapproved manager; excessive customer complaints.

31. The Franchisee's Obligations Upon Termination or Expiration; Effect of Attempted Assignment.

31.1 The Franchisee's Obligations. Upon termination or expiration of the franchise for any reason whatsoever, including a termination of this Agreement by the Franchisee pursuant to Section 29, above, the Franchisee agrees, at its sole expense and cost:

(1) To pay to Ledo Pizza System within Seven (7) days after the date of issuance of a notice of termination or expiration of the term of this Agreement including any renewal

terms, any royalty fees, advertising contributions and other charges as have or will thereafter become due hereunder and which remain unpaid;

(2) To immediately return to Ledo Pizza System all copies of the Operating Manual and all other information (including all copies thereof) concerning the operation of the *Ledo Pizza*® Store which have been lent to it by Ledo Pizza System;

(3) To take such action as may be required to cancel all assumed name or equivalent registration relating to the use of any Mark and to notify the telephone company and all listing agencies of the termination or expiration of the Franchisee's right to use all telephone numbers and all classified and other directory listings and to authorize the same to transfer to Ledo Pizza System or its designee, all telephone numbers and directory listings of the *Ledo Pizza*® Store. The Franchisee and Ledo Pizza System agree that Ledo Pizza System has the sole rights to and interest in all telephone numbers and directory listings associated with any Mark and the Franchisee authorizes Ledo Pizza System to direct the telephone company and all listing agencies to transfer any such numbers to Ledo Pizza System should the Franchisee fail or refuse to do so and the telephone company and all listing agencies may accept such direction or this Agreement as conclusive evidence of the exclusive rights of Ledo Pizza System in such telephone numbers and directory listings and its authority to direct their transfer;

(4) If Ledo Pizza System does not assume possession of the premises occupied by the Franchisee's *Ledo Pizza*® Store, the Franchisee agrees that upon termination or expiration of this Agreement, it will at its own expense, make such reasonable modifications in the exterior and interior decor thereof as Ledo Pizza System deems required to eliminate or minimize its identification as a *Ledo Pizza*® Store. Such modifications shall include repainting of the interior of the restaurant to a substantially different color, removal and replacements of floor coverings, removal of all decoration used in the *Ledo Pizza*® Stores within six (6) months prior to the date of termination or expiration, the removal of all smallwares prescribed by Ledo Pizza System, the removal of the menu board, the removal of all pizza pans used to prepare Ledo® pizza, the remodeling of the premises to remove separate interior or exterior entrances for carryout and dine-in service, the remodeling of the premises to remove the carry-out counter area and pass-through window and the removal of all decorations in any manner identifying the premises as a *Ledo Pizza*® Store. If the Franchisee fails to comply with this obligation, Ledo Pizza System has the right to enter upon the premises and to make such modifications at the Franchisee's expense, without committing any trespass or other illegal act, and Ledo Pizza System will not be liable in any manner to the Franchisee for so doing.

(5) The Franchisee agrees that after the termination or expiration of the franchise, it will not directly or indirectly in any manner identify itself, the premises which were occupied by the *Ledo Pizza*® Store, or any business of the Franchisee as a *Ledo Pizza*® Store, a former *Ledo Pizza*® Store, or a franchise of or otherwise associated with *Ledo Pizza*® or use in any manner for any purpose any Mark or other indicia of a *Ledo Pizza*® Store. In connection with the foregoing, the Franchisee covenants that, for a period of Two (2) years commencing on the effective date of termination or expiration of this Agreement, the Franchisee shall not, at the premises, either directly or indirectly, for himself or through, on behalf of or in conjunction with any person, partnership or corporation, own, engage in, be employed by, advise, assist, consult, manage, invest

in, franchise, make loans to, or have any other interest in, sell pizza, pasta, sandwiches, subs or other food items which are the same as or in any manner similar to those food items sold by the Franchisee or other *Ledo Pizza*® Stores immediately prior to the termination or expiration. During such period, the Franchisee agrees to advise Ledo Pizza System in writing prior to offering any food products for sale at the premises and agrees not to sell or offer to sell any food items at the premises without the prior written approval of Ledo Pizza System which approval shall be made in accordance with the foregoing and in the reasonable discretion of Ledo Pizza System.

(6) Ledo Pizza System shall have and the Franchisee hereby transfers and assigns to Ledo Pizza System, the right, title and interest in and to any sign, sign faces, menus or other item bearing the Marks. Franchisee hereby acknowledges Ledo Pizza System's right to access and enter the Franchisee's *Ledo Pizza*® Store should Ledo Pizza System elect to take possession of any item bearing the Marks or should Franchisee fail or refuse to deliver to Ledo Pizza System, immediately upon Ledo Pizza System's request, any such item.

31.2 Damages for Loss of Bargain. In addition to any other remedies available to Ledo Pizza System, if this Agreement is terminated before its expiration, Ledo Pizza System will be entitled to recover from Franchisee damages attributable to the loss of bargain resulting from that termination. The parties stipulate and agree that the damages for the Ledo Pizza System's loss of bargain will be the royalty fees that would have been payable to Ledo Pizza System for the balance of the term of this Agreement, but not more than thirty-six (36) months. The parties agree that the aggregate amount of royalty fees that would have been payable will be calculated utilizing annual Gross Sales equal to the average annual Gross Sales for the twenty-four month period [or such lesser period if the franchise was not in operation for a full twenty-four month period] immediately preceding the date of termination. For the purposes of this Paragraph, Gross Sales will be calculated as provided in Paragraph 26. The parties acknowledge and agree that the actual damages that will be sustained by Ledo Pizza System if this Agreement is terminated before its expiration are incapable of calculation at the time of execution of this Agreement. The parties further acknowledge and agree that the damages set forth in this Paragraph are a reasonable estimation of those damages.

31.3 Effect of An Attempted Assignment by The Franchisee. For all purposes of this Agreement, an attempted assignment of the franchise by You to a third party is deemed to be a termination of this Agreement, except as may be otherwise provided for in an assignment agreement approved in writing by Us.

32. Ledo Pizza System's Option to Purchase the Franchisee's *Ledo Pizza*® Store and Real Estate Upon Termination, Expiration or Proposed Sale of *Ledo Pizza*® Store to Third Party.

32.1 Ledo Pizza System's Option to Purchase Assets.

(1) Upon (i) any termination or expiration of the franchise, except termination by a Franchisee for cause, pursuant to Paragraph 29 hereof, or (ii) the Franchisee's proposed sale or transfer of assets of the *Ledo Pizza*® Store to any third party whatsoever, except as provided in Paragraph 38 below; Ledo Pizza System shall have the option, but not the obligation, to purchase all of the assets of the operating assets of the *Ledo Pizza*® Store, including but not limited

to, all equipment (which equipment shall include all equipment required by Ledo Pizza System for the operation of a new Ledo Pizza® franchise location), inventory (in an amount not less than \$7,000, determined with respect to the Franchisee's cost thereof), supplies, furniture, fixtures, decorations, all transferable business licenses and permits, existing telephone numbers used in the operation of the Ledo Pizza® Store, leasehold interests and improvements and favorable rights and covenants of the *Ledo Pizza®* Store.

(2) Ledo Pizza System's option shall be exercisable for a period of Thirty (30) days following the effective date of termination or expiration or, in the event of a sale or transfer, Thirty (30) days following the date of receipt of written notice from the Franchisee of its intention to sell or transfer the assets of the *Ledo Pizza®* Store to a third party.

(3) If Ledo Pizza System elects to purchase the assets of the *Ledo Pizza®* Store as aforesaid, the purchase price shall be determined in accordance with the following formula and shall be allocated among such assets and covenants in the manner prescribed by Ledo Pizza System: Twenty Percent (20%) of the Gross Sales of the Franchisee's *Ledo Pizza®* Store during the Twelve (12) calendar months immediately preceding the date of termination or expiration. In the event the Gross Sales of the of the Franchisee's *Ledo Pizza®* Store during the Twelve (12) calendar months immediately preceding the date of termination or expiration have not been provided to Ledo Pizza System within Seven (7) days following the effective date of the termination or expiration, Ledo Pizza System may, at its option and in its sole discretion, either (i) determine the purchase price using the most recent Twelve (12) calendar months available to it or (ii) extend the time required for exercise of its options to purchase the assets of the *Ledo Pizza®* Store (and to purchase or lease the real property occupied by the *Ledo Pizza®* Store as provided under paragraph 32.2 or 32.3) until such time as the Franchisee provides the Gross Sales of the of the Franchisee's *Ledo Pizza®* Store during the Twelve (12) calendar months immediately preceding the date of termination or expiration to Ledo Pizza System. Notwithstanding the immediately preceding sentence, if the *Ledo Pizza®* Store has been in operation less than Twelve (12) months, the purchase price shall be the Franchisee's cost of the *Ledo Pizza®* Store plus ten percent (10%) thereof. For purposes of the preceding sentence, the term "cost" shall be defined as Franchisee's actual cost of the furniture, fixtures, equipment, inventory and leasehold improvements of the *Ledo Pizza®* Store, and shall not include any indirect expenses or charges for labor performed by a Franchisee or his family members in connection with the establishment or operation of the *Ledo Pizza®* Store.

(4) In the event Ledo Pizza System elects to purchase the assets of the *Ledo Pizza®* Store as provided above, the purchase price determined in accordance with the formula described above shall be reduced by the total current and long term liabilities of the *Ledo Pizza®* Store, up to the amount of Purchase Price, Ledo Pizza System shall assume, subject to all defenses available to the Franchisee and shall pay such liabilities; provided, however, that Ledo Pizza System may elect to pay such liabilities on the schedule provided for payment of the purchase price. The purchase price shall be further reduced by the amount necessary to (i) purchase additional equipment required by Ledo Pizza System for the operation of a new Ledo Pizza® franchise location; (ii) repair any damaged furniture, fixtures, equipment or improvements located at the *Ledo Pizza®* Store; or (iii) to purchase additional inventory necessary to attain the level of inventory provided in paragraph 32.1(1). Ledo Pizza System shall not assume, and the Franchisee agrees to pay from the proceeds of the sale to Ledo Pizza System or from its own separate funds, if such proceeds are insufficient, all

liabilities due to the Franchisee, owners of the sublicensee (or their immediate family members) which liabilities. Amounts due for pro rata adjustments of such prepaid or unpaid items including, but not limited to, personal property tax, utility deposit, rent and security deposit, if any, and any other applicable fees and deposits, shall also be paid or accounted for at closing.

(5) The Franchisee agrees to comply with the Maryland Bulk Sales Act or such equivalent requirement of applicable law in the event that the *Ledo Pizza*® restaurant is not located in the State of Maryland. In order to achieve such compliance, the Franchisee shall, not later than twenty one (21) days prior to the settlement, actually deliver to Ledo Pizza System a list of the Franchisee's creditors and a schedule of the property being transferred hereunder, both of which shall comply as to form and content of the Law. Not later than fifteen (15) days prior to the settlement, Ledo Pizza System shall give notice of the transfer of assets contemplated hereby to all persons shown on the list of creditors provided by the Franchisee. In the event that the Franchisee fails or refused to comply with the foregoing, Ledo Pizza System may escrow all or any portion of the purchase price in order to satisfy any potential creditor claims.

(6) Closing shall occur at the offices of Ledo Pizza System on such date and time as Ledo Pizza System shall determine; provided, however, that closing shall occur within Sixty (60) days following notice by Ledo Pizza System of its intention to exercise its option to purchase the assets of the *Ledo Pizza*® Store. The Franchisee agrees to deliver at closing, good and marketable title to the assets to be purchased by Ledo Pizza System, free and clear of any and all liens, pledges, security interest, encumbrances and adverse claims of any nature whatsoever.

(7) Until closing, the Franchisee agrees the *Ledo Pizza*® Store in the ordinary course of business and in accordance with applicable law.

(8) The purchase price, after deductions described herein, shall be payable as follows: Ten percent (10%) of the balance at the time of closing and the remainder in Sixty (60) equal monthly installments of principal plus interest at a rate of interest per annum equal to the Wall Street Journal prime lending rate determined as of the closing date with annual adjustments based on the prime rate charged on each anniversary date thereafter, with the first payment to be due on the first day of the second succeeding calendar month and the remaining payments on the first day of each month thereafter. On the first payment date, interest from the date of closing shall also be paid.

32.2 Ledo Pizza System's Option to Purchase Real Estate. In the event the Franchisee owns the real property within which the *Ledo Pizza*® Store is located, Ledo Pizza System will have the option to purchase the property. The purchase price will be the fair market value of the property as determined by an independent appraiser who shall be selected by two other independent appraisers, one of whom shall be selected by the Franchisee and one of whom shall be selected by Ledo Pizza System. The purchase price shall be payable in full at the closing minus customary prorations including the payoff of existing mortgage liens.

32.3 Ledo Pizza System's Option to Lease *Ledo Pizza*® Store. If Ledo Pizza System elects not to purchase the Franchisee's real property, Ledo Pizza System will have the option to assume the lease for the real property within which the *Ledo Pizza*® Store is located or to enter into a new lease for a term of not less than Five (5) years with an option by the lessee to extend the

term of the lease for an additional term of Five (5) years which lease shall contain such other terms and conditions as shall be contained in the form of lease then used by Ledo Pizza System in connection with *Ledo Pizza*® Stores. In the event that Ledo Pizza System elects to enter into a new lease, the rental under the lease for the initial Five (5) year term shall be the fair rental value of the property as determined by an independent appraiser selected in the manner set forth above. Thereafter, the rent shall be increased during the second Five (5) year option term by the percentage that the National Consumer Price Index for Urban Wage Earners and Clerical Workers, all cities, as determined by the United States Department of Labor (or a comparable index if such Index is not then being issued) has increased from the commencement date of the initial term until the last day of the initial term of the lease.

32.4 Execution of Documents. At the closing of the purchase of the *Ledo Pizza*® Store (and/or the purchase or lease of the real property), as above provided, the Franchisee and Ledo Pizza System shall each execute and deliver all documents necessary to vest title in Ledo Pizza System or its designee free and clear of all liens and encumbrances, except those assumed by Ledo Pizza System or to effectuate the purchase or lease described above. Ledo Pizza System has the right to assign its option to purchase the Franchisee's *Ledo Pizza*® Store (and to purchase or lease the real property to the extent applicable) as provided above or to designate a substitute purchaser for the *Ledo Pizza*® Store. If the Franchisee does not execute and deliver all documents required pursuant to this Paragraph, the Franchisee hereby irrevocably appoints Ledo Pizza System as his or her lawful attorney-in-fact with full power and authority to execute and deliver in the name of the Franchisee all such documents and the Franchisee hereby agrees to ratify and confirm all acts of Ledo Pizza System as his lawful attorney-in-fact and to indemnify, defend and save Ledo Pizza System harmless from all claims, liabilities, losses or damages, including reasonable attorney fees, suffered in so doing.

33. The Franchisee's Covenants Not to Compete.

33.1 In-term Covenants. During the term of this Agreement and any extensions or renewals of this Agreement, the Franchisee shall not, without prior written permission of Ledo Pizza System, either directly or indirectly or for himself, or through, or on behalf of, or in conjunction with any person, partnership or corporation, own, engage in, be employed by, advise, assist, consult, manage, invest in, franchise, make loans to, or have any other interest in, any other food and related products carry-out or eat-on premises business. The Franchisee and Ledo Pizza System acknowledge and agree that it is difficult to measure on a short-term basis the damages caused to Ledo Pizza System as a result of the Franchisee's breach of these In-term Covenants Not to Compete. Accordingly, the Franchisee and Ledo Pizza System agree that, in lieu of incurring the cost of proving actual damages, in the event of the Franchisee's breach of its In-term Covenants Not to Compete, Ledo Pizza System will, at its sole election, be entitled to liquidated damages in the amount of One Thousand Dollars (\$1,000.00) per day for the Franchisee's violation of such covenants up to the time this Agreement is terminated by mutual agreement of the parties or by court order or until such time as a settlement agreement is reached by and between the Franchisee and Ledo Pizza System.

33.2 Post-term Covenants. If this Agreement is (i) terminated by Ledo Pizza System in accordance with the terms of this Agreement, (ii) terminated by the Franchisee without

cause or not in accordance with the terms of this Agreement or by mutual agreement, (iii) expires or the Franchisee elects not to renew the franchise as provided herein, then the Franchisee covenants that, for a period of Two (2) years commencing on the effective date of termination or expiration of this Agreement, the Franchisee shall not, either directly or indirectly, for himself or through, on behalf of or in conjunction with any person, partnership or corporation, own, engage in, be employed by, advise, assist, consult, manage, invest in, franchise, make loans to, or have any other interest in, any dine in or carry-out food products business, which is either located at the premises of the *Ledo Pizza®* Store or within Ten (10) miles of the premises of the *Ledo Pizza®* Store. The Franchisee and Ledo Pizza System acknowledge and agree that it is difficult to measure the actual damages caused to Ledo Pizza System as a result of the Franchisee's breach of these Post-term Covenants Not to Compete. Accordingly, the Franchisee and Ledo Pizza System agree that, in lieu of incurring the cost of proving actual damages, in the event of the Franchisee's breach of its Post-term Covenants Not to Compete, Ledo Pizza System will, at its sole election, be entitled to liquidated damages in the amount of One Hundred Thousand Dollars (\$100,000.00) for the Franchisee's violation of such Post-term Covenants. Notwithstanding the foregoing, Franchisee agrees and acknowledges that said liquidated damages are not intended as a substitute for injunctive relief with respect to any breach by Franchisee of the provisions of paragraph 31 of this Agreement or infringement upon the Mark or use or appropriation of Ledo Pizza System's trade secrets or other confidential information.

33.3 Exceptions. The foregoing covenants will not apply to:

(a) Other *Ledo Pizza®* Stores operated by the Franchisee or other *Ledo Pizza®* Stores in which the Franchisee shall have an ownership interest;

(b) Provided full written disclosure is made to Ledo Pizza System prior to the execution of this Agreement, a Franchisee who has an ownership interest in or other affiliation with a food and related products business at the time it enters into this Agreement may retain its ownership or other interest in the other food and related products business referred to in the advance written notice to Ledo Pizza System;

(c) Ownership by the Franchisee of less than a Five Percent (5%) beneficial interest in the outstanding equity securities of any corporation whose stock is publicly traded.

34. Assignment of the *Ledo Pizza®* Franchise by Ledo Pizza System. This Agreement is fully assignable by Ledo Pizza System and shall inure to the benefit of any assignee or other legal successor to the interests of Ledo Pizza System herein.

35. Assignment of the *Ledo Pizza®* Franchise by the Franchisee. This Agreement and the franchise are personal to the Franchisee and neither this Agreement, the franchise, nor any part of the ownership of the franchise (which shall mean and include voting stock, securities convertible thereto, proprietorship and general partnership interests) or the assets of the franchise may be voluntarily, involuntarily, directly or indirectly assigned or otherwise transferred or encumbered by the Franchisee or its owners (including without limitation by will, declaration of or transfer in trust or the laws of intestate succession or by operation of law) without the prior written approval of Ledo Pizza System, and any such assignment, transfer or encumbrance without such

approval will constitute a breach hereof.

36. Ledo Pizza System's Approval of a Sublicense or Assignment. If the Franchisee is in full compliance with this Agreement, permission to sublicense, assign or transfer shall not be unreasonably withheld by Ledo Pizza System, subject to the following:

(a) In the case of a proposed conditional sublicense of operating rights to a partnership, corporation, LLC, LLP or other entity if:

(1) The entity conducts no business other than the operation of a *Ledo Pizza*® Store or other *Ledo Pizza*® Stores operated under Standard Franchise Agreements;

(2) The provisions of Paragraph 42 are fully complied with;

(3) All partners, shareholders, members or investors meet the financial, management and experience requirements established by Ledo Pizza System from time to time;

(4) The sublicensor Franchisee and the entity and its partners, shareholders, members or investors execute Ledo Pizza System's then-current form of Conditional Sublicense of Operating Rights Agreement;

(5) An opinion of counsel for the assignee entity is obtained in a form satisfactory to Ledo Pizza System and/or its counsel;

(6) A transfer fee of One Thousand Dollars (\$1,000.00) is paid by the sublicensor Franchisee to Ledo Pizza System for any transfer of operating rights subsequent to the first sublicense which is necessitated by the change in ownership of the entity.

(b) In the case of all other proposed sublicensees, assignees or transferees if the proposed transferee-franchisee:

(1) Meets Ledo Pizza System's then-applicable standards for Franchisees;
and

(2) Is not operating, franchising or licensing the operation of any food and related products carry-out business (except other *Ledo Pizza*® Stores operated under franchise agreements with Ledo Pizza System or any other exemption provided in this Agreement); and

(3) Executes and agrees to be bound by all provisions of Ledo Pizza System's then-current form of Standard Franchise Agreement (which shall provide for the same royalty fee that is payable hereunder and a term not shorter than the remaining term of this Agreement) and all other agreements and legal instruments and documents then customarily used by Ledo Pizza System in the grant of franchises, provided that Ledo Pizza System shall not charge such assignee an initial franchise application processing fee; and

(4) Completes Ledo Pizza System's standard training program; and

(5) Pays a transfer fee in the sum of Ten Thousand Dollars (\$10,000.00), to recover Ledo Pizza System's costs incurred in approving and effecting the assignment including training of the assignee or transferee.

In connection with any assignment permitted under this paragraph the Franchisee must provide to Ledo Pizza System or its counsel all documents to be executed by the Franchisee and the proposed assignee or transferee at least Thirty (30) days prior to execution. Ledo Pizza System may, in its sole discretion, terminate and reissue any franchise proposed to be assigned rather than assign the existing franchise. Ledo Pizza System's consent to a transfer of any interest subject to the restrictions of this paragraph, shall not constitute a waiver of any claims it may have against the assignor, nor shall it be deemed a waiver of Ledo Pizza System's right to demand exact compliance with any of the terms or conditions of the franchise by the assignee. In addition to the foregoing requirements of this subparagraph 36(b), and upon the subsequent sublicense, assignment or transfer of the franchise granted hereunder, the Franchisee will be required to execute a general release, in form satisfactory to Ledo Pizza System in its sole reasonable discretion, as to any and all claims against Ledo Pizza System, its officers, directors, agents and employees.

37. Death or Incapacity of the Franchisee.

37.1 Within Twelve (12) months of the death or permanent incapacity of the Franchisee, the executor, administrator, conservator or other personal representative of the Franchisee must transfer the Franchisee's interests in this Agreement and in the *Ledo Pizza*® Store to a third party franchisee who has been approved in writing by Ledo Pizza System. All transfers or assignments of this Agreement, including without limitation, transfers by devise or inheritance or trust provisions, shall be subject to the same conditions for transfers or assignments contained elsewhere in this Agreement. The failure to so dispose of a deceased or incapacitated franchisee's interest within the required period of time shall constitute a breach of this Agreement. The Franchisee shall be deemed to have a "permanent incapacity" if the usual, active participation in the *Ledo Pizza*® Store by a Franchisee as contemplated pursuant to this Agreement is for any reason curtailed for a continuous period of Six (6) months or more.

37.2 If after the death or permanent incapacity of the Franchisee the *Ledo Pizza*® Store is not being managed by a competent and trained manager (as determined by Ledo Pizza System in its sole discretion), Ledo Pizza System is authorized, but is not be obligated, to immediately appoint a manager to maintain the operation of the *Ledo Pizza*® Store for a period not to exceed Twelve (12) months or until an approved assignee is able to assume the management and operation of the *Ledo Pizza*® Store. All funds from the operation of the *Ledo Pizza*® Store during the period of management by Ledo Pizza System's appointed manager shall be kept in a separate fund and all expenses of the *Ledo Pizza*® Store, including compensation, other costs and travel and living expenses of Ledo Pizza System's appointed manager, shall be charged to such fund. As compensation for the management services provided, in addition to the royalty fees due hereunder, Ledo Pizza System shall charge such fund Six Percent (6%) of the royalty sales of the *Ledo Pizza*® Store during the period of management by Ledo Pizza System's appointed manager. Operation of the *Ledo Pizza*® Store during any such period shall be for and on behalf of the Franchisee, provided

that Ledo Pizza System shall only have a duty to utilize its best efforts in the operation of the *Ledo Pizza*® Store and shall not be liable to the Franchisee for any debts, losses or obligations incurred by the *Ledo Pizza*® Store, or to any creditor of the Franchisee for any products, materials, supplies or services purchased by the *Ledo Pizza*® Store during any period in which it is managed by Ledo Pizza System's appointed manager. In the event that the fund maintained by Ledo Pizza System is insufficient to pay the expenses of the *Ledo Pizza*® Store in a reasonable businesslike manner, Ledo Pizza System shall so notify the Franchisee or the executor, administrator, conservator or other personal representative of the Franchisee, and such person shall, within Five (5) business days, deposit in the fund such amount as shall be required by Ledo Pizza System to attain a reasonable balance in the fund.

38. Ledo Pizza System's Option to Purchase *Ledo Pizza*® Store or Assets Upon Proposed Sale of Store to Another Franchisee or Approved Franchisee-Applicant. If a Franchisee proposes to sell its *Ledo Pizza*® Store (or its assets) or part or all of the ownership of the franchise to another *Ledo Pizza*® Franchisee or an approved *Ledo Pizza*® franchisee-applicant and the Franchisee obtains a bona fide, executed written offer to purchase the same, the Franchisee shall deliver a copy of the bona fide offer to Ledo Pizza System along with all documents to be executed by the Franchisee and the proposed purchaser/assignee or transferee. Ledo Pizza System will, for a period of Thirty (30) days from the date of delivery of such offer to Ledo Pizza System, have the right, exercisable by written notice to the Franchisee, to purchase the Franchisee's *Ledo Pizza*® Store (and/or its assets) or such ownership for the price and on the terms and conditions contained in such offer, provided that Ledo Pizza System may substitute equivalent cash for any form of payment proposed in such offer or designate a substitute franchisee-purchaser for the *Ledo Pizza*® Store (and/or its assets) or such ownership interest being offered. If Ledo Pizza System does not exercise this right of first refusal, the offer may be accepted by the Franchisee or its owners, subject to the prior written approval of Ledo Pizza System as provided in Paragraphs 35 (Assignment by the Franchisee) and 34 (Ledo Pizza's Approval of Assignment) hereof, provided that if such offer is not so accepted within Two (2) months of the date thereof, Ledo Pizza System will again have the right of first refusal herein described. This paragraph does not apply to transfers described in subsection (a) of Paragraph 36 hereof regarding approved assignments of the franchise.

39. Judicial Enforcement, Injunctions and Specific Performance.

39.1 Ledo Pizza System may enforce by judicial process its right under this Agreement, including, without limitation, its rights to terminate this Agreement as provided in Paragraph 30 hereof and any rights it may have under a sublease or any other agreements with the Franchisee. The Franchisee agrees to entry without bond of temporary and permanent injunctions and orders of specific performance enforcing any of the provisions of Paragraphs 24, 31, 32, 33, 35, 37, and 38 of this Agreement.

39.2 If Ledo Pizza System secures any such injunction or order of specific performance, the Franchisee further agrees to pay Ledo Pizza System an amount equal to the aggregate of its costs of obtaining any such relief, including without limitation expenses and travel and living expenses, and any damages incurred by Ledo Pizza System as a result of a breach of any such provision.

39.3 The Franchisee agrees to payment of all costs of enforcement and/or collection incurred by Ledo Pizza System in enforcing its rights under this or any other agreement between Ledo Pizza System and the Franchisee, including, without limitation, reasonable attorney's fees and all other costs of enforcement and/or suit, in the event that any sums due hereunder, or any interest due thereon, are not paid when due or the Franchisee is otherwise in default hereunder.

40. Jurisdiction and Venue. The Franchisee and Ledo Pizza System irrevocably agree that any action, suit, or proceeding arising in any way out of this Agreement (including the termination of this Agreement) or any other agreement entered into between the Franchisee and Ledo Pizza System must be brought solely and exclusively in the Circuit Court for Anne Arundel County, Maryland or the United States District Court for the District of Maryland and each party unconditionally and irrevocably accepts and submits and waives any objection to jurisdiction or venue of such court.

41. Independent Contractors/Indemnification. Ledo Pizza System and the Franchisee are independent contractors. Ledo Pizza System will not be obligated by any agreements, representations or warranties made by the Franchisee, nor will Ledo Pizza System be obligated for any damages to any person or property directly or indirectly arising out of the operation of the *Ledo Pizza®* Store, whether caused by the Franchisee's negligent or willful action or failure to act. Franchisee agrees to indemnify, defend, and hold harmless Ledo Pizza System and its affiliates, and their respective members, managers, shareholders, directors, officers, employees, agents, successors, and assignees (the "Indemnified Parties"), against, and to reimburse them for, all claims, obligations, and damages described in this paragraph 41, any and all third party obligations described in paragraph 41, and any and all claims and liabilities directly or indirectly arising out of (i) the operation of the *Ledo Pizza®* Store, (ii) any action taken by Franchisee (or any of its owners, employees or other persons under its control) in connection with the business conducted by Franchisee under this Agreement, (iii) the use of the Marks in any manner, or (iv) the lease for Franchisee's location, including, without limitation, those alleged to be or found to have been caused by the Indemnified Party's negligence, unless (and then only to the extent that) the claims and liabilities are determined to be caused solely by the Indemnified Party's gross negligence or intentional misconduct in a final, unappealable ruling issued by a court or arbitrator with competent jurisdiction. For purposes of this indemnification, claims shall mean and include all obligations, actual and consequential damages, and costs reasonably incurred in the defense of any claim against the Indemnified Parties, including, without limitation, reasonable accountants', attorneys', and expert witness fees, costs of investigation and proof of facts, court costs, other litigation expenses, and travel and living expenses. Each Indemnified Party shall have the right to defend any such claim against it at Franchisee's expense and agree to settlements or take any other remedial, corrective, or other actions. This indemnity shall continue in full force and effect subsequent to and notwithstanding the expiration or termination of this Agreement.

42. Operating Corporation, Partnership, LLC or Other Entity. If the operating rights under this Agreement are conditionally sublicensed to a corporation, partnership, LLC or any other entity under the provisions of Paragraph 36 hereof, such entity must conduct no business other than the *Ledo Pizza®* Store and other *Ledo Pizza®* Stores under franchise agreements with Ledo Pizza System. You will remain as the franchisee under the terms of this Agreement; provided that the sublicensee will have the ability to operate the *Ledo Pizza®* Store, subject to the terms of the

Conditional Sublicense of Operating Rights Agreement. In the event of a conditional sublicense, all references to the franchisee in this Agreement (including to the terms “You” and “Your”) shall also refer to the sublicensee. All shareholders, partners, members or investors in such entity must meet the requirements established from time to time by Ledo Pizza System and must execute Ledo Pizza System’s then-current Conditional Sublicense of Operating Rights Agreement and agree to be bound jointly and severally by all provisions thereof and shall thereby also represent and warrant their percentage ownership interests, and that they are all of the persons required to sign that Agreement pursuant to this paragraph. In addition, the Franchisee may be required to provide to Ledo Pizza System an opinion of counsel regarding the sublicensee corporation or partnership in such form as is satisfactory to Ledo Pizza System and/or its counsel. The sublicense of operating rights to the entity will continue in effect only as long as the partners, shareholders, members or investors and their percentage ownership interest in the operating partnership or corporation remain as represented in the executed Conditional Sublicense of Operating Rights Agreement. Any change in either the identity of the partners, shareholders, members or investors or in their percentage ownership interests, without Our prior written consent, will result in automatic termination of the Conditional Sublicense of Operating Rights Agreement without notice and the operating entity's operating rights shall automatically revert to You, provided, however, that We, in Our sole discretion and by written notice to You, reinstate the sublicensed operating entity. Any transfer of operating rights subsequent to the first sublicense which is necessitated by the change in corporate ownership shall be subject to Our approval and subject to a transfer fee of One Thousand Dollars (\$1,000.00). The articles of partnership, partnership agreement, articles of incorporation, bylaws and other organizational documents of such entity must recite that the issuance and transfer of any interest therein is subject to the restrictions of Paragraphs 32, 35, 36, 38 and 42 hereof and all issued and outstanding certificates of ownership in such entity must shall bear a legend referring to the restrictions contained in this Agreement. Ledo Pizza System and/or legal counsel for Ledo Pizza System shall have the right to review and approve the operating entity’s documents to insure compliance with this Paragraph.

43. Governing Law. Except to the extent governed by the United States trademark laws or other applicable federal laws, as amended from time to time, this Agreement is agreed to be entered into and shall be governed by the laws of the State of Maryland, without regard to principles of conflict of laws.

44. Binding Effect. This Agreement is binding upon the parties hereto and their respective heirs, assigns and successors in interest.

45. Entire Agreement. The preamble and recitals are a part of this Agreement, which constitutes the entire agreement of the parties. The Conditional Sublicense of Operating Rights Agreement (if applicable), the Construction Manual, the Operating Manual, all Operator’s Updates (copies of which are available at the offices of Ledo Pizza System) are incorporated in this Agreement by reference. Upon the execution of this Agreement, You will be provided with a copy of the *Ledo Pizza®* Construction Manual [except in the case of a transfer pursuant to Paragraph 36(b)] and the Operating Manual. As provided in Paragraph 18, from time to time Ledo Pizza System may update the Operating Manual, and may provide You with additional Operator’s Updates, memoranda and other instruments of writing. Such updates may pertain to such matters as the specifications and quality standards of the food ingredients, beverage products, cooking

materials, containers, packaging materials, other paper and plastic products, utensils, uniforms, menus, administrative forms, cleaning and sanitation materials and other supplies and materials used in the operation of a *Ledo Pizza*® Store or to the policies, specifications, standards, operating procedures and rules from time-to-time prescribed for the *Ledo Pizza*® Store (collectively, the “Operating Procedures”). The Operating Procedures are incorporated herein by reference and constitute a part of this Agreement. You understand that Ledo Pizza System may adopt Operating Procedures that may cause You to incur additional expense or which may be different than the Operating Procedures in effect on the date of this Agreement. In each event of a change in an Operating Procedure, You agree that such change shall be binding on You to the same extent as if set forth in this Agreement on the date hereof; provided, however, that in the event of a conflict between this Agreement and the Operating Procedures, the terms of this Agreement shall control. This Agreement, including the Conditional Sublicense of Operating Rights Agreement (if applicable), the Construction Manual, the Operating Manual, all Operator’s Updates and Operating Procedures contain the entire agreement and understanding between Ledo Pizza System and the Franchisee pertaining to the subject matter of this Agreement and there are no oral representations, stipulations, warranties or understandings relating thereto which are not fully set forth herein. Notwithstanding the forgoing, nothing in this Agreement or in any related agreement is intended to disclaim the representations made in the Franchise Disclosure Document.

46. Paragraph Headings. . The headings of the several paragraphs hereof are for convenience only and do not define, limit, or construe the contents of such paragraphs.

47. Construction. Ledo Pizza System and the Franchisee agree that if any provision of this Agreement is capable of two constructions, one of which would render the provision illegal or otherwise voidable or unenforceable and the other of which would render the provision valid and enforceable, such provision shall have the meaning which would render it valid and enforceable. Ledo Pizza System and the Franchisee agree that the language of all provisions of this Agreement shall be construed according to its fair meaning and not strictly against Ledo Pizza System or the Franchisee. It is the desire and intent of Ledo Pizza System and the Franchisee that the provisions of this Agreement be enforced to the fullest extent permissible under the laws and public policies applied in each jurisdiction in which enforcement is sought. Accordingly, if any provision of this Agreement is adjudicated to be invalid or unenforceable, such adjudication is to apply only with respect to the operation of such provision in the particular jurisdiction in which such adjudication is made. All provisions of this Agreement are severable and this Agreement shall be interpreted and enforced as if all completely invalid or unenforceable provisions were not contained herein and all partially valid and enforceable provisions shall be enforced to the extent valid and enforceable and the parties hereby confer upon the Court the power to replace any otherwise void or invalid provisions with such other enforceable and valid provisions as shall be as near as may be to the original in form and effect. If any applicable law or rule requires a greater prior notice of the termination of or election not to renew this Agreement, or the taking of some other action hereunder, than is required hereunder, the prior notice or other requirements required by such law or rule shall be substituted for the requirements hereof.

48. Acknowledgement of Commercial Transaction: You and the Ledo Pizza System acknowledge and agree that this agreement evidences a commercial transaction and You are not a “consumer” within the definition of the Consumer Protection Act (Section 13-101 et seq. of the

Commercial Law Article of the Annotated Code of Maryland, as amended) and You agree not to file a claim against Ledo Pizza System under the Consumer Protection Act or similar statute.

49. Waiver. You and the Ledo Pizza System may by written instrument unilaterally waive any obligation of or restriction upon the other under this Agreement. The acceptance by Ledo Pizza System of any payment by the Franchisee or the failure, refusal or neglect of Ledo Pizza System or the Franchisee to exercise any right under this Agreement or to insist upon full compliance by the other with its obligations hereunder or with any specification, standard or operating procedure or rule shall not constitute a waiver of any provision of this Agreement.

50. Waiver of Jury Trial. **YOU HEREBY AGREE NOT TO ELECT A TRIAL BY JURY OF ANY ISSUE TRIABLE OF RIGHT BY JURY, AND WAIVE ANY RIGHT TO TRIAL BY JURY FULLY TO THE EXTENT THAT ANY SUCH RIGHT SHALL NOW OR HEREAFTER EXIST WITH REGARD TO THIS AGREEMENT OR ANY OTHER AGREEMENT ENTERED INTO WITH LEDO PIZZA SYSTEM, OR ANY CLAIM, COUNTERCLAIM OR OTHER ACTION ARISING IN CONNECTION THEREWITH. THIS WAIVER OF RIGHT TO TRIAL BY JURY IS GIVEN KNOWINGLY AND VOLUNTARILY BY YOU, AND IS INTENDED TO ENCOMPASS INDIVIDUALLY EACH INSTANCE AND EACH ISSUE AS TO WHICH THE RIGHT TO A TRIAL BY JURY WOULD OTHERWISE ACCRUE.**

51. Notices. All written notice permitted or required to be delivered by the provisions of this Agreement or of the Operating Manual shall be deemed so delivered if (i) delivered by hand; (ii) sent by overnight delivery by nationally recognized courier; (iii) by facsimile at the Franchisee or Ledo Pizza System's most recent facsimile number of which the other has been notified; or (iv) three (3) days after placed in the United States Mail by Registered or Certified Mail, Return Receipt Requested, postage prepaid and addressed to Ledo Pizza System at its most current principal business address or the Franchisee at the most current principal business address or home address of which Ledo Pizza System has been notified in writing. Rejection or other refusal to accept or inability to deliver, including because of changed address of which written notice was not provided shall be deemed to be proper notice for purposes of this Agreement.

51. Effective Date of this Agreement. This Agreement shall take effect upon the date of its acceptance and execution by Us.

YOU REPRESENT THAT YOU HAVE READ THIS AGREEMENT AND LEDO PIZZA SYSTEM'S FRANCHISE DISCLOSURE DOCUMENT IN THEIR ENTIRETY AND THAT YOU HAVE BEEN GIVEN THE OPPORTUNITY TO CLARIFY ANY PROVISION OR INFORMATION CONTAINED IN THIS AGREEMENT OR IN LEDO PIZZA SYSTEM'S FRANCHISE DISCLOSURE AND TO CONSULT WITH AN ATTORNEY OR OTHER PROFESSIONAL ADVISOR. YOU FURTHER REPRESENTS THAT YOU UNDERSTAND THE TERMS, CONDITIONS AND OBLIGATIONS OF THIS AGREEMENT AND AGREE TO BE BOUND HEREBY. IF YOU DO NOT UNDERSTAND THE TERMS, CONDITIONS OR OBLIGATIONS IMPOSED UPON YOU BY THIS AGREEMENT OR YOUR RIGHTS UNDER THIS AGREEMENT, PLEASE DO NOT SIGN THIS AGREEMENT.

Franchisee:

Witness

Signature

Printed Name of **Franchisee**

Date Signed: _____

ATTEST:

Ledo Pizza System, Inc.

By: _____

Name: _____

Title: _____

Date Accepted by **Ledo Pizza System**

LEDO PIZZA SYSTEM, INC.
CONDITIONAL SUBLICENSE
OF OPERATING RIGHTS AGREEMENT

THIS CONDITIONAL SUBLICENSE OF OPERATING RIGHTS AGREEMENT
(hereinafter this “Operating Rights Agreement”) is made and entered into by and between:

LEDO PIZZA SYSTEM, INC.
A Maryland Corporation
c/o James B. Beall, President
41 Old Solomons Island Rd., Suite 201
Annapolis, Maryland 21401

as the Franchisor (hereinafter referred to as “**Ledo Pizza System**”) and

_____ and
(**Franchisee’s Name**)

(**Operating Entity’s Name**)

(**Operating Entity’s State of Organization**)

(**Operating Entity’s Principal Office Address**)

(**Operating Entity’s Registered Agent’s Name and Address**)

(1) _____
Name Title

(2) _____
Name Title

(3) _____
Name Title

(4) _____
Name Title

(5) _____
Name Title

(6) _____
Name Title

(Operating Entity's Officers, Directors, Managers and Partners)

which entity shall hereinafter be referred to as the **"Operating Entity."**

WHEREAS, by a Standard Franchise Agreement dated _____, 202__, a copy of which is attached and made a part of this Operating Rights Agreement, Ledo Pizza System has granted to Franchisee a Ledo Pizza® franchise and certain license to conduct and operate a pizza and related consumable food products business in accordance with the terms and conditions set forth in the Standard Franchise Agreement; and

WHEREAS, the Franchisee desires to operate the Ledo Pizza® franchise granted to the Franchisee together with the Operating Entity, subject to the terms, conditions and limitations contained herein; and

WHEREAS, the Franchisee desires to sublicense to the Operating Entity the Franchisee's operating rights under the Standard Franchise Agreement and to obtain the consent of Ledo Pizza System to such sublicense of operating rights on the terms and conditions hereinafter set forth; and

WHEREAS, the Franchisee and the Operating Entity acknowledge that this sublicense is solely for the convenience of the Franchisee and the Operating Entity;

NOW, THEREFORE, in consideration of the premises and the mutual promises herein contained and of other good and valuable consideration, the receipt and sufficiency of which are mutually acknowledged, the parties agree as follows:

1. Date of Sublicense of Operating Rights. Effective this date, the Franchisee conditionally sublicenses to the Operating Entity its right to operate the Ledo Pizza® pizza and related consumable food products business as a franchisee under the Standard Franchise Agreement, and the Operating Entity and all of its partners, members or shareholders, as the case may be, agree to be bound, jointly and severally, by each and every obligation, duty and liability with respect to such operation, said conditional sublicense of operating rights and assumption of obligations, all of

which are subject to conditions, limitations and restrictions hereinafter set forth.

2. Consent of Franchisor. Upon execution hereof by all required parties on behalf of the Franchisee and the Operating Entity, and upon Ledo Pizza System's execution hereof, Ledo Pizza System consents to this conditional sublicense of operating rights and assumption of obligations, subject to the conditions, limitations and restrictions hereinafter set forth.

3. Conditional Sublicense of Operating Rights; Reversion. This sublicense of operating rights to the Operating Entity is conditional and will continue in effect only as long as, *inter alia*, the Operating Entity's members, partners, shareholders, as the case may be, and their percentage ownership interests in the Corporation Operating Entity remain as represented in this Operating Rights Agreement. Any change in the members, partners or shareholders or their percentage ownership interests will result in the automatic termination of this conditional sublicense of operating rights without notice or further act or deed of the Franchisor, the Operating Entity or the Franchisee. The Franchisee may, however, seek approval from the Franchisor for a new conditional license of operating rights agreement to the Operating Entity provided the terms and conditions of this Operating Rights Agreement and the Standard Franchise Agreement have been met to the satisfaction of the Franchisor and the necessary parties execute a new then-current form Operating Rights Sublicense Agreement. Any sublicense or assignment of operating rights subsequent to the first sublicense which is necessitated by the change in entity ownership shall be subject to approval of Ledo Pizza System and subject to a transfer fee of \$1,000.00.

4. Automatic Termination by the Franchisor for Default; Reversion. If the Franchisee or the Operating Entity defaults under any term of the Standard Franchise Agreement, and the Franchisee or the Operating Entity (as the case may be) fails to cure the default within the allowed time, this conditional sublicense of operating rights shall automatically terminate without notice or further act or deed of the Operating Entity or the Franchisee. Provided, however, that if the default also results in the termination of the underlying franchise by Ledo Pizza System, then the operating rights of the Franchisee shall also be terminated in accordance with the terms of the Standard Franchise Agreement.

5. Termination of Operating Rights Agreement by the Franchisee. The Franchisee may terminate this Operating Rights Agreement at any time by providing Ten (10) days written notice to the Operating Entity with a copy thereof to the Franchisor. Upon such termination, insofar as Ledo Pizza System is concerned, all operating rights of the Operating Entity shall automatically terminate without notice or further act or deed of the Operating Entity or the Franchisee. The Franchisor shall not be bound to observe any agreement or understanding to the contrary between the Franchisee and the Operating Entity.

6. No Right of Subsequent Sublicense. The Franchisee and/or the Operating Entity, by virtue of these presents, shall not have any further right to sublicense, assign, transfer or dispose of any interest in the franchise, nor the right to enjoy or exercise any right, power of privilege which, by the terms of the Standard Franchise Agreement, is personal to Franchisee or which is not essential to the operation of Franchisee's pizza and related consumable food products business as a Ledo Pizza®

franchisee. The Franchisee, by virtue of these presents, shall not have any further right to sublicense, assign, transfer or dispose of any interest in the franchise except in accordance with the terms and conditions of the Standard Franchise Agreement.

7. Sublicense Subject to Standard Franchise Agreement. This conditional sublicense of operating rights and consent hereto are made and given subject to the terms and conditions of the Standard Franchise Agreement.

8. No Release of Franchisee. Notwithstanding this conditional sublicense of operating rights, the Franchisee shall continue to be fully and directly responsible to Ledo Pizza System for the performance of all obligations, duties and liabilities of the Franchisee and/or the assignee Operating Entity under the Standard Franchise Agreement.

9. Default Under Sublicense Agreement. Any default under this Operating Rights Agreement other than those recited in Paragraph 3 above, shall be a default under the Standard Franchise Agreement subject to cure as provided in that Agreement.

10. Guaranty by Operating Entity. The Operating Entity guarantees full, prompt and complete performance by the Franchisee of all obligations, duties and liabilities of the Franchisee under the Standard Franchise Agreement and guarantees the payment of all sums that are or may become due to Ledo Pizza System under the Standard Franchise Agreement. This guaranty is a primary guaranty and shall continue until all of the obligations, duties and liabilities of the Franchisee have been fully and completely performed or until this Sublicense is formally terminated with the written consent of Ledo Pizza System and the Franchisee and the Operating Entity has been released, by written notice from Ledo Pizza System, of all further obligations, duties and liabilities under the Standard Franchise Agreement.

11. Security Interest. Ledo Pizza System shall have, and the Operating Entity grants Ledo Pizza System, a continuing security interest for all franchise royalty and advertising fees and other sums of money becoming due to Ledo Pizza System, upon all of the Operating Entity's tangible and intangible assets and property rights, whether now owned or hereafter acquired including all: (a) accounts; (b) as-extracted collateral; (c) chattel paper; (d) deposit accounts; (e) documents; (f) equipment; (g) fixtures; (h) general intangibles; (i) goods; (j) instruments; (k) inventory, including returned, rejected, or repossessed inventory and rights of reclamation and stoppage in transit with respect to inventory; (l) investment property; (m) letter-of-credit rights; (n) receivables; (o) copyrights, trademarks, patents, and all pending applications thereof; (p) all machinery, rental goods and leases; and (q) all records relating to or pertaining to any of the above listed collateral, and all proceeds of the foregoing, none of which may be removed without the prior, express, written consent of Ledo Pizza System. On the occurrence of a default, Ledo Pizza System shall have, in addition to any other remedies provided herein or by law; all rights and remedies afforded to secured parties under the provisions of the Uniform Commercial Code, as codified in Maryland. The Operating Entity further pledges all such collateral to secure the Franchisee's obligations under the Standard Franchise Agreement with respect to the rights of first refusal and purchase options exercisable by Ledo Pizza System under the Standard Franchise Agreement, it

being the intention of the parties that the assets of the Operating Entity be subject to the rights of first refusal and purchase options exercisable by Ledo Pizza System under the Standard Franchise Agreement to the same extent as if such assets were owned by the Franchisee and notwithstanding the separate or earlier termination of this Operating Rights Agreement. The Operating Entity agrees that Ledo Pizza System may file whatever financing and continuation statements, amendments and other documents, and that Ledo Pizza System may take whatever additional actions Ledo Pizza System deems to be necessary or proper to perfect and continue perfection of the security interest granted hereby. Ledo Pizza System may file a carbon copy, photographic, facsimile, other reproduction, or electronically authenticated or maintained copy, of any financing statement or of this Agreement for use as a financing statement. Ledo Pizza System may make electronic filings of financing and other statements. All filings permitted under this section, including without limitation, electronic filings will be deemed to be complete and perfected for all purposes when made by Ledo Pizza System, and may be made by Ledo Pizza System without the necessity that the Operating Entity sign any such financing statement or other perfection document. Ledo Pizza System agrees not to file a financing statement or other perfection document until the Franchisee is one (1) month or more delinquent in payment due hereunder or otherwise in default of this or any other agreements with Ledo Pizza System for a period of ten (10) days after issuance of a Notice of Default as provided hereunder. The Operating Entity agrees to reimburse Ledo Pizza System for all recordation tax, filing fees and other costs and expenses associated with the filing of such financing statement or other perfection document.

11. Warranty of Operating Entity. The Operating Entity warrants that it does not currently nor will it in the future, operate, franchise or license any pizza and related consumable food products or carry-out business except other Ledo Pizza® stores operated under franchise agreements with Ledo Pizza System unless otherwise exempted in the Standard Franchise Agreement.

12. Effectiveness. This Operating Rights Agreement shall not be effective for any purpose unless and until it is signed on behalf of Ledo Pizza System by a duly authorized officer.

13. **Waiver of Jury Trial. THE OPERATING ENTITY HEREBY AGREES NOT TO ELECT A TRIAL BY JURY OF ANY ISSUE TRIABLE OF RIGHT BY JURY, AND WAIVES ANY RIGHT TO TRIAL BY JURY FULLY TO THE EXTENT THAT ANY SUCH RIGHT SHALL NOW OR HEREAFTER EXIST WITH REGARD TO THIS AGREEMENT OR ANY OTHER AGREEMENT ENTERED INTO WITH LEDO PIZZA SYSTEM, OR ANY CLAIM, COUNTERCLAIM OR OTHER ACTION ARISING IN CONNECTION THEREWITH. THIS WAIVER OF RIGHT TO TRIAL BY JURY IS GIVEN KNOWINGLY AND VOLUNTARILY BY THE OPERATING ENTITY, AND IS INTENDED TO ENCOMPASS INDIVIDUALLY EACH INSTANCE AND EACH ISSUE AS TO WHICH THE RIGHT TO A TRIAL BY JURY WOULD OTHERWISE ACCRUE.**

14. Jurisdiction and Venue. The Operating Entity agrees that Ledo Pizza System may institute any action arising out of or relating to this Agreement in any state or federal court of general jurisdiction in the State of Maryland and the Operating Entity irrevocably submits to the jurisdiction of such court and waives any objection he may have to either the jurisdiction or venue of such court.

15. Choice of Law. This Operating Rights Agreement shall be governed by the laws of the State of Maryland, without regard to principles of conflicts of laws.

IN WITNESS WHEREOF, the Franchisee has signed and sealed these presents, and the Operating Entity and Ledo Pizza System have caused the same to be executed by their respective and duly authorized officers and their respective seals to be affixed, the day and year first above written.

Witness

Franchisee

(Printed Name of Franchisee)

ATTEST:

(Printed Name of Operating Entity)

By: _____
Name: _____
Title: _____

ATTEST:

LEDO PIZZA SYSTEM, INC.

Secretary

By:_____

Name:_____

Title:_____

Date Signed by Ledo Pizza System

COVENANTS AND GUARANTIES OF SHAREHOLDERS

The undersigned individuals represent and warrant that they are all of the shareholders, partners, members or investors of the Operating Entity. They further warrant that the information concerning the Operating Entity's stock and/or their ownership interests is true and correct. They acknowledge that the articles of incorporation, by-laws and/or other organizational documents recite that the issuance and transfers of any interest therein is subject to the restrictions of Paragraphs 32, 35, 36, 38 and 42 of the Standard Franchise Agreement and all issued and outstanding stock certificates bear the legend referred to in these restrictions. Accordingly, to induce Ledo Pizza System, Inc. to enter into this Operating Rights Agreement for the sole benefit of the Franchisee and the Operating Entity, each of the undersigned individuals hereby jointly and severally guarantees the performance by the Franchisee and the Operating Entity of their respective obligations under this Operating Rights Agreement and under the Standard Franchise Agreement and each of the undersigned individuals hereby jointly and severally agrees to be bound by all of the provisions of the Standard Franchise Agreement and all other agreements executed by Ledo Pizza System and the Franchisee.

STOCK/OWNERSHIP INFORMATION OF OPERATING ENTITY:

Total Authorized Shares or Member/Partnership Interests: _____

A. Class ____: # Shares Authorized: _____

Shares Outstanding: _____

B. Class ____: # Shares Authorized: _____

Shares Outstanding: _____

C. Class ____: # Shares Authorized: _____

Shares Outstanding: _____

[SHAREHOLDER/PARTNER/MEMBER]
[SIGNATURES CONTINUED ON FOLLOWING PAGES]

SHAREHOLDER/PARTNER/MEMBER SIGNATURE AND OWNERSHIP INTERESTS:

Printed Name of Shareholder/Partner/Member: _____

Signature of Shareholder/Partner/Member: _____

Home address of Shareholder/Partner/Member: _____

Shares/Partner/Membership Interests Held:

1. Class ____: # Shares % Interest Held: _____

2. Class ____: # Shares % Interest Held: _____

3. Class ____: # Shares % Interest Held: _____

[SHAREHOLDER/PARTNER/MEMBER]
[SIGNATURES CONTINUED ON FOLLOWING PAGES]

SHAREHOLDER/PARTNER/MEMBER SIGNATURE AND OWNERSHIP INTERESTS:

Printed Name of Shareholder/Partner/Member: _____

Signature of Shareholder/Partner/Member: _____

Home address of Shareholder/Partner/Member: _____

Shares/Partner/Membership Interests Held:

1. Class ____: # Shares % Interest Held: _____

2. Class ____: # Shares % Interest Held: _____

3. Class ____: # Shares % Interest Held: _____

[SHAREHOLDER/PARTNER/MEMBER]
[SIGNATURES CONTINUED ON FOLLOWING PAGES]

SHAREHOLDER/PARTNER/MEMBER SIGNATURE AND OWNERSHIP INTERESTS:

Printed Name of Shareholder/Partner/Member: _____

Signature of Shareholder/Partner/Member: _____

Home address of Shareholder/Partner/Member: _____

Shares/Partner/Membership Interests Held:

1. Class ____: # Shares % Interest Held: _____

2. Class ____: # Shares % Interest Held: _____

3. Class ____: # Shares % Interest Held: _____

LEDO PIZZA SYSTEM, INC.

ADDENDUM TO LEASE AGREEMENT

THIS ADDENDUM TO LEASE AGREEMENT (“Addendum”) made this ____ day of _____, 20__ is attached to and made a part of the Agreement of Lease (“Lease”) entered into by and between:

(1) _____

(hereinafter the “Landlord”); and

(2) _____

trading as “*Ledo Pizza®*” (hereinafter referred to as “Tenant/Franchisee”) and is made effective upon the same date as set forth in the Lease to which this Addendum is attached.

WITNESSETH:

WHEREAS, the Landlord and the Tenant/Franchisee are parties to a commercial lease dated _____, 20__ (hereinafter the “Lease”) for certain premises known as: _____ (hereinafter the “Lease Premises”); and

WHEREAS, by virtue of the Ledo Pizza System, Inc. (the “Franchisor”) Standard Franchise Agreement, the Tenant/Franchisee is or will be granted a franchise of the Franchisor by which the Tenant/Franchisee will operate an *Ledo Pizza®* restaurant at the Premises; and

WHEREAS, the Tenant/Franchisee is required by the terms of his/her Standard Franchise Agreement to secure the Landlord’s execution hereof and the Franchisor's approval (as to form only) of the Lease and site as a *Ledo Pizza®* location cannot be obtained without its approval of the Lease including, but not limited to, this Addendum.

NOW THEREFORE, in consideration of the premises, covenants and conditions herein, the parties agree as follows:

1. Addendum to Modify Agreement of Lease: This Addendum is intended by the Parties to amend, modify and to supersede the printed terms of the Lease and in the event this Addendum is in conflict with or is inconsistent with the terms or conditions of the Lease, this Addendum shall control.

2. Recognition of Franchisee Status: The Landlord acknowledges that the Tenant/Franchisee will operate its business upon the Leased Premises trading as *Ledo Pizza* ® under a Standard Franchise Agreement entered into between the Tenant/Franchisee and Ledo Pizza System, Inc. ("Franchisor"). The Landlord further acknowledges that the Franchisor owns, uses, promotes and licenses certain trade and service marks and commercial symbols in connection with the operation of all *Ledo Pizza*® restaurants, including restaurant(s) of the Tenant/Franchisee, and as such the Franchisor has both business and legal interests in protecting its business, products and reputation and in preventing *Ledo Pizza*® locations from falling into disfavor with the general public or from transferring to other operators, closing, or going out of business. It is therefore agreed that the Franchisor has a direct and substantial interest in the activities in the continuance of the premises as a *Ledo Pizza*® location.

3. Assignment(s) to the Franchisor and/or Designees: The Lease provisions regarding assignments shall be modified as follows:

Anything contained in this lease to the contrary notwithstanding, the Landlord agrees that without its consent, this Lease and the right, title and interest of the Tenant/Franchisee thereunder, may be assigned by the Tenant/Franchisee to Ledo Pizza System, Inc. ("Franchisor"), or its designee, provided that said Franchisor or its designee, shall execute such documents evidencing its agreement to thereafter keep and perform, or cause to be kept or performed, all of the obligations of the Tenant/Franchisee arising under this Lease from and after the time of such assignment.

4. Notice of Defaults; Right to Cure: The Lease provisions regarding notice of defaults and rights to cure shall be modified as follows:

The Landlord shall give written notice to Franchisor (concurrently with the giving of such notice to the Tenant/Franchisee) of any default by Tenant/Franchisee under the Lease, and the Franchisor shall have, at its sole option, after the expiration of the period during which the Tenant/Franchisee may cure such default, an additional Fifteen (15) days to cure any such default.

5. Termination of Franchise: The parties hereto agree as follows:

Upon the termination of the Standard Franchise Agreement between the Tenant/Franchisee and Franchisor for any reason (other than a termination by the Tenant/Franchisee for cause and in accordance with the terms of the Standard Franchise Agreement), the Franchisor, or its designee, shall have the right, exercisable by giving the Landlord and the Tenant/Franchisee written notice of its intention to assume the Lease

within fifteen (15) days after said termination, at the Franchisor's sole option, to assume the Tenant/Franchisee's status under the Lease as assignee of the Tenant/Franchisee. The Franchisor, or its designee, shall be entitled to assume the Tenant/Franchisee's status under the Lease pursuant to the above circumstances by providing to the Landlord such documents evidencing its financial ability to assume the Lease and its agreement thereafter to keep or perform or cause to be kept or performed all of the obligations of the Tenant/Franchisee arising under the Lease from and after the time of such assumption. In any event, the Tenant/Franchisee shall remain liable under the Lease should the Franchisor, or its designee, assume Tenant/Franchisee's status under the Lease. In the event the Franchisor, or its designee, elects to assume the Lease, or otherwise becomes an assignee or subtenant under the Lease pursuant to the paragraphs above, Franchisor's interest in the leased premises shall be nontransferable, without the prior written consent of Landlord, which consent shall not be unreasonably withheld.

6. Use of Premises: The Lease provisions regarding notice of defaults and rights to cure shall be modified as follows:

The leased premises shall be used solely for the purpose of conducting therein a *Ledo Pizza*® restaurant for the sale and consumption of pizza and related products. The sole permitted trade name to be used at the premises shall be "*Ledo Pizza*®".

7. Business Records: The parties hereto agree as follows:

Upon fifteen (15) days prior written notice by Franchisor to Landlord, Landlord shall deliver to Franchisor copies of any and all financial statements, balance sheet, federal, state or local income tax returns, reports or filings and other information concerning the sales, financial status or business operations of Tenant/Franchisee provided to Landlord by Tenant/Franchisee (the "Business Records"). Tenant/Franchisee hereby consents to the release of the Business Records to Franchisor.

8. Notices: Notices to the parties shall be to the addresses of the parties set forth hereinabove and, in the case of the Franchisor, a copy thereof shall be sent first class mail, postage prepaid to counsel for the Franchisor:

Garth E. Beall, Esquire
McNamee Hosea, P. A.
6411 Ivy Lane, Suite 200
Greenbelt, Maryland 20770

9. Amendments to Lease. Without Franchisor's prior written consent, which consent shall not be unreasonably withheld, Landlord and Tenant agree not amend, modify, otherwise change the Lease, or release any party thereto from the performance of such party's obligations thereunder, or grant any waiver, consent or indulgence thereunder to any other party thereto.

10. Approval by Franchisor: The Franchisor's initialing of this Addendum shall constitute its approval of the Lease and Addendum (in form only) as required by the terms of the aforesaid Standard Franchise Agreement. The Franchisor shall not be substantively bound in any way by the terms and conditions of the Lease or this Addendum, if at all, unless and until it executes such lease assumption agreements as are referred to hereinabove and the Franchisor's initialing hereof for approval as to form shall not be construed as binding the Franchisor in any way hereto.

IN WITNESS WHEREOF, Landlord and Tenant/Franchisee have executed this Addendum to Lease Agreement under seal on the day and year first hereinabove listed.

WITNESS:

LANDLORD:

By: _____ (SEAL)

WITNESS:

TENANT:

By: _____ (SEAL)

APPROVED BY FRANCHISOR AS TO FORM ONLY:

LEDO PIZZA SYSTEM, INC.

By: _____
[Initials] Date

CONFIDENTIALITY AGREEMENT

I am an employee or independent contractor of LEDO PIZZA SYSTEM, INC. (the "Franchisor") or of one of its affiliates or franchisees (my employer or the person training me, including the Franchisor, if applicable, will be referred to in this Agreement as the "Company").

As an employee or trainee of the Company, I acknowledge that in the course of my employment and training in the Ledo Pizza® franchise systems of operation, I will have access to certain Confidential Information, as defined below, about the Franchisor's methods of establishing, developing, operating and maintaining Ledo Pizza® restaurants that is confidential and not available to the public in general. I understand that the Franchisor has spent a great deal of time and money developing this Confidential Information and I acknowledge that the Company's and the Franchisor's reasonable competitive business interests would be severely and irreparably damaged if the Confidential Information that has been (or may be) revealed to me were to be disclosed to any third person, become available to the public in general, or used by me to compete with the Company, the Franchisor or any of their affiliates or franchisees. I, therefore, agree that the Company and the Franchisor have a need to protect the Franchisor's valuable Confidential Information and I agree that in consideration of these factors, and in consideration of my training in the Ledo Pizza® franchise systems of operation and/or my continuing employment with the Company, I promise and agree to be bound by the terms of this Agreement as follows:

1. I agree not to directly or indirectly disclose to any individual, partnership, corporation or any other entity ("person") or to use myself, any Confidential Information that I learn during my training and/or employment with the Company, except as necessary in the course of my employment with the Company. I agree that these restrictions will apply both while I am in training or am employed by the Company and indefinitely after my training is completed or my employment terminates. I also agree that if my training ceases without my being employed by the Company or my employment with the Company terminates, I will immediately return to the Company or the Franchisor, all memoranda, notes and other written or printed information that is in my possession or under my control, which contains Confidential Information, including information, which although not confidential, belongs to the Company or the Franchisor or relates to their business or systems. This obligation will apply regardless of whether the information was prepared by the Company, a third party, or me.

The term "Confidential Information" as used in this Agreement includes (i) "proprietary information," which includes recipes, techniques, processes, equipment, materials, computer programs, or information, whether patentable or not, relating to the establishment, development, operation and maintenance of a Ledo Pizza® Restaurant and all related information and all other information which is confidential, unique and/or not generally known or available to the public, including but not limited to, information regarding the Ledo Pizza® methods, equipment and materials relating to the development or operation of a restaurant that specializes in soup; (ii) "trade secret" information which includes any knowledge, ideas, recipes, concepts, techniques, computer programs, systems manuals, installation guides, reports, technical manuals, operation manuals, and training programs relating to the establishment, development, operation and maintenance of a Ledo Pizza® Restaurant; and (iii) "customer information" which includes information about current and

prospective customers of the Company, the Franchisor or their affiliates or franchisees, including any list which contains the names, addresses and telephone numbers of the Company's or Franchisor's or their affiliates' or franchisees' employees and/or current or prospective customers, and specific information about these customers or prospective customers.

2. I agree that as a condition of my training and/or employment, the Franchisor has the exclusive rights to all ideas, improvements and innovations relating to its business, which I conceive, develop or help develop during my training and/or employment.

3. I acknowledge that the Company and the Franchisor or their affiliates or franchisees will suffer irreparable harm if I violate or breach the promises I have made in this Agreement. I, therefore, agree that the Company or the Franchisor will be entitled to an injunction enjoining me and restraining me from performing and continuing to commit any violation or breach of this Agreement, in addition to any other rights and remedies it might have. Also, the Company or the Franchisor will be entitled to recover all costs and expenses from me, including reasonable attorney fees and costs incurred in enforcing this Agreement.

4. If a Court finds this Agreement to be invalid or unenforceable because it is too broad in any respect, this Agreement may be narrowed by the Court to the extent required to be enforceable.

5. I AGREE THAT THIS AGREEMENT WILL BE GOVERNED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF MARYLAND (WITHOUT REFERENCE TO THE CONFLICT OF LAWS PROVISIONS). I IRREVOCABLY SUBMIT MYSELF TO THE JURISDICTION OF THE CIRCUIT COURT FOR PRINCE GEORGE'S COUNTY, MARYLAND AND TO THE FEDERAL DISTRICT COURT FOR MARYLAND. I WAIVE ALL QUESTIONS OF PERSONAL JURISDICTION OR VENUE FOR THE PURPOSE OF CARRYING OUT THIS PROVISION. I AGREE THAT VENUE FOR ANY PROCEEDING RELATING TO OR ARISING OUT OF THIS AGREEMENT WILL BE THE CIRCUIT COURT FOR PRINCE GEORGE'S COUNTY, MARYLAND AND TO THE FEDERAL DISTRICT COURT FOR MARYLAND; PROVIDED, HOWEVER, WITH RESPECT TO ANY ACTION THAT INCLUDES INJUNCTIVE RELIEF OR OTHER EXTRAORDINARY RELIEF, THE COMPANY OR THE FRANCHISOR MAY BRING SUCH ACTION IN ANY COURT IN ANY STATE THAT HAS JURISDICTION.

IN WITNESS WHEREOF, the parties have executed this Agreement under seal.

I have carefully read and considered the provisions of this Agreement and, having done so, agree that the limitations set forth herein are fair and reasonable and are reasonably required for the protection of the interests of Ledo Pizza System, Inc., the Company and their affiliates.

DATE: _____

By: _____ (SEAL)
Signature of Employee/Trainee

Type or Print Employee/Trainee Name

ACCEPTED:

Name of Employer

DATE: _____

By: _____ (SEAL)

Name: _____

Title: _____

LEDO PIZZA SYSTEM, INC.

FRANCHISE RELEASE AGREEMENT

(_____)

THIS FRANCHISE RELEASE AGREEMENT (hereinafter referred to as this “Release Agreement”) is made effective this ____ day of _____, 20__ by and between _____, an individual residing at _____ (the “**Franchisee**”), _____, a _____ with offices at _____ (hereinafter the “**Operating Entity**”) and **LEDO PIZZA SYSTEM, INC.**, a Maryland corporation of 41 Old Solomons Island Rd., Suite 201, Annapolis, Maryland 21401 (“**Ledo Pizza System**”).

WITNESSETH:

WHEREAS, the **Franchisee** and **Ledo Pizza System** entered into a Standard Franchise Agreement on _____ (the “Franchise Agreement”) and the **Franchisee**, the **Operating Entity** and **Ledo Pizza System** entered into a Conditional Sublicense of Operating Rights Agreement with **Ledo Pizza System** on _____ (the “Operating Rights Agreement”) for the operation of a *Ledo Pizza*® franchise carry-out and eat-on-premises business (the “Business”) located at _____ (the “Location”);

WHEREAS, the **Franchisee** and the **Operating Entity** desire to sell all of their right, title and interest in the Business and the **Franchisee** desires to assign the Franchise Agreement to a party (the “Assignee Franchisee”) approved by **Ledo Pizza System** to be the new franchisee for the Business;

WHEREAS, **Ledo Pizza System** requires that the Assignee Franchisee execute **Ledo Pizza System**’s current standard franchise agreement and related documents and, therefore, does not require the Assignee Franchisee to be a party to this Release Agreement; and

WHEREAS, in connection with said sale and assignment and the execution of the standard franchise agreement by the Assignee Franchisee, the **Franchisee** and the **Operating Entity** desire to confirm (i) the assignment of the Franchise Agreement, (ii) the termination of the **Franchisee** and the **Operating Entity**’s rights operate a *Ledo Pizza*® at the Location, (iii) the termination of the obligation of **Franchisee** and the **Operating Entity** to pay future royalties, and (iv) the continuing obligations of the parties under the Franchise Agreement.

NOW THEREFORE, in consideration of the premises and the mutual covenants herein contained, the **Franchisee**, **Ledo Pizza System** and the **Operating Entity** hereby agree as follows:

1. Franchise Termination:

(a) The parties hereto agree that as of the date of this Release Agreement, the Franchise Agreement between **Ledo Pizza System** and the **Franchisee** under which the **Franchisee** was granted (i) permission and license to operate the Business and (ii) a license to use certain service and trademarks of **Ledo Pizza System**, and any and all assignments and/or transfers thereof, including the Operating Rights Agreement, and all other rights of the **Franchisee** and the **Operating Entity** to operate a *Ledo Pizza*® restaurant, are all hereby terminated.

(b) Notwithstanding the foregoing, the **Franchisee** and the **Operating Entity** specifically acknowledge and affirm the provisions of Paragraph 31 of the Franchise Agreement ("Franchisee's Obligations Upon Termination or Expiration") and agree that those provisions are applicable to this termination and shall continue to bind the **Franchisee** and the **Operating Entity** in full force and effect upon and after the termination of the franchise with respect to the **Franchisee** and the **Operating Entity** as contemplated hereunder. The **Franchisee** and the **Operating Entity** further specifically acknowledge the continuing applicability of Paragraphs 21 ("Trade Secrets; New Processes; Concepts; Improvements, Etc."), 24 ("Marks"), and 33 ("Franchisee's Covenants Not to Compete"), and all other provisions of the Franchise Agreement which are otherwise continuing in nature.

2. Termination of Operating Rights: By its execution hereof and except as otherwise provided herein, the **Operating Entity**, confirms and acknowledges the termination of all of its operating rights granted pursuant to the Operating Rights Agreement.

3. Release:

(a) In consideration of the termination granted by **Ledo Pizza System** herein, the **Franchisee** and **Operating Entity**, agree, provided that the terms and conditions of this Release Agreement are otherwise complied with, that they hereby release and forever discharge, and do by these presents for its, his or her successors, heirs, assigns, administrators and executors, release and forever discharge **Ledo Pizza System** and any and all agents, servants and employees of **Ledo Pizza System** of and from any and all manner of action, suit, dues, sums of money, accounts, covenants, contract, notes, agreements, promises, judgments, claims and demands whatsoever, in law or in equity, which it now has or in the future may have against **Ledo Pizza System** arising out of any and all transactions between **Ledo Pizza System**, the **Franchisee** and the **Operating Entity** occurring prior to the date of this Assignment and Release Agreement; provided, however, that the releases contained herein shall not apply to any liability of **Ledo Pizza System** under the Maryland Franchise Registration and Disclosure Law under COMAR 02.02.08.16L.

(b) This Release Agreement shall not affect any and all amounts due from the **Franchisee** and/or the **Operating Entity** to **Ledo Pizza System** for royalty fees, advertising fees, payments for products or other trade payments due to **Ledo Pizza System** arising in the ordinary course of business up to and including the date of this Release Agreement.

(c) As set forth hereinabove, this Release Agreement shall not terminate the continuing obligations referred to in paragraph 1(b) hereinabove.

4. Representation by Counsel: **Ledo Pizza System**, the **Franchisee** and the **Operating Entity** acknowledge that each of them has been represented and advised by counsel, or has had the opportunity to avail itself of the advice of independent counsel in the course of the termination of the franchise and the matters set forth herein.

5. Comprehensive Nature of Agreement: This Release Agreement represents the entire agreement of **Ledo Pizza System**, the **Franchisee** and the **Operating Entity** relating to the matters set forth herein; all prior negotiations between the parties are merged into this Release Agreement, and there are no understandings or agreements other than those incorporated herein. This Release Agreement may not be modified except by an instrument in writing duly executed by **Ledo Pizza System**, the **Franchisee** and the **Operating Entity**.

6. Benefit and Burden: All terms of this Release Agreement shall be binding upon and inure to the benefit of **Ledo Pizza System**, the **Franchisee** and the **Operating Entity** and their respective heirs, legal representatives, successors and assigns.

7. Notices: All notices, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if delivered personally or if sent by registered or certified mail, return receipt requested, properly addressed and postage prepaid to the Parties and addresses set forth above.

8. Counterparts: This Release Agreement may be executed simultaneously in one or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same agreement.

9. Miscellaneous:

(a) The section headings used herein are for convenience and reference only and shall not enter into the interpretation hereof.

(b) If any term, covenant or condition of this Release Agreement or the application thereof to any person or circumstance shall be invalid or unenforceable, the remainder of this Release Agreement or the application of such terms or provisions to persons or circumstances other than those to which it is held invalid or unenforceable shall not be affected thereby and each term shall be valid and enforceable to the fullest extent permitted by law.

(c) **Ledo Pizza System**, the **Franchisee** and the **Operating Entity** each reserves the right to waive any of the terms of this Release Agreement which benefits the party waiving the same. Any such waiver must be in writing signed by the party waiving same.

(d) It is the intention of **Ledo Pizza System**, the **Franchisee** and the **Operating Entity** that all questions with respect to the interpretations and enforcement of this Assignment and Release Agreement and the rights and liabilities hereunder shall be determined in accordance with the laws of the State of Maryland.

IN WITNESS WHEREOF, the Parties have hereunto set their hands on the day and year first written above.

WITNESS:

FRANCHISEE:

WITNESS/ATTEST:

OPERATING ENTITY:

Secretary

By: _____

LEDO PIZZA SYSTEM, INC.

By: _____

Name: _____

Title: _____

LEDO PIZZA SYSTEM, INC.

41 Old Solomons Island Rd., Suite 201
Annapolis, Maryland 21401

Franchise Agreement Pre-Execution Questionnaire

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

Please complete the following questions prior to your execution of the Standard Franchise Agreement:

1. Were you presented with a copy of the Ledo Pizza System, Inc. ("Ledo Pizza®") franchise disclosure document at your first personal meeting with a representative of *Ledo Pizza®* at which the terms of the franchise agreement were discussed? Yes___ No___
2. Were you given final copies of all documents required to be executed by you at least ten (10) business days prior to execution. Yes___ No___
3. Did any representative of *Ledo Pizza®* make any representation to you regarding the historical or future earnings potential of any *Ledo Pizza®* store? If so, please describe the nature of the representation_____

4. Did any representative of *Ledo Pizza®* make any representations to you regarding the probable or potential earnings of your or other *Ledo Pizza®* stores? If so, please describe the nature of the representation_____

5. Did any representative of *Ledo Pizza*® make any representation inconsistent with *Ledo Pizza*®'s franchise disclosure document? If so, please describe the nature of the representation_____

6. Did *Ledo Pizza*® require you to participate in a training program prior to opening? Yes___ No___

Witness

Signature

Printed Name

State Specific Disclosures and Addenda

Ledo Pizza System, Inc. Amendment to Standard Franchise Agreement and Addendum to Franchise Disclosure Document containing additional information required by the State of Maryland, the State of New York and the Commonwealth of Virginia

The Ledo Pizza System, Inc. Franchise Disclosure Document ("FDD") contains information required by the Federal Trade Commission, the State of Maryland, the State of New York and the Commonwealth of Virginia.

This Addendum to the FDD contains information required by the State of Maryland, the State of New York and the Commonwealth of Virginia and is being provided to you at the same time as the FDD.

* * *

The information contained in this Addendum must be reviewed in conjunction with the FDD

MARYLAND

AMENDMENT TO LEDO PIZZA SYSTEM, INC. FRANCHISE AGREEMENT REQUIRED BY THE STATE OF MARYLAND

The parties to the attached Ledo Pizza System, Inc. Franchise Agreement agree as follows:

1. Paragraph 39 of the Franchise Agreement shall be supplemented by the addition of the following:

39.4 Any Franchisee claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within three (3) years after the grant of this franchise.

2. Paragraph 30.1(3) of the Franchise Agreement shall be supplemented by the addition of the following sub-section:

Paragraph 30.1(3) of the Franchise Agreement provides that Ledo Pizza System, Inc. may terminate you if you file a petition in bankruptcy or bankruptcy proceedings are commenced naming you as debtor. These provisions may not be enforceable under federal bankruptcy law.

3. Paragraph 36 of the Franchise Agreement (Transfer) shall be supplemented by the addition of the following at the end of that section:

Such general release shall not apply to any liability of Ledo Pizza Systems under the Maryland Franchise Registration and Disclosure Law.

4. The Franchise Agreement and the Franchise Agreement Pre-Execution Questionnaire are supplemented by the addition of the following:

All representations requiring prospective franchisees to assent to a release, estoppel or waiver of liability are not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

IN WITNESS WHEREOF, the parties hereto have duly executed this Amendment to the Franchise Agreement in duplicate on the date first above written.

FRANCHISEE

By: _____
Print Name: _____
Title: _____

LEDO PIZZA SYSTEM, INC.

By: _____
Print Name: _____
Title: _____

**ADDENDUM TO LEDO PIZZA SYSTEM, INC.
FRANCHISE DISCLOSURE DOCUMENT
REQUIRED BY THE STATE OF MARYLAND**

For franchises and franchisees subject to the Maryland Franchise Registration and Disclosure Law, the following information replaces or supplements, as the case may be, the corresponding disclosures in the main body of the text of the Ledo Pizza System, Inc. Franchise Disclosure Document:

Item 12.

The acknowledgment that we have not represented or warranted that the sales quota will be achieved by you is not intended to nor shall they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

Item 17.

The Franchise Agreement provides that Ledo Pizza System, Inc. may terminate these agreements, as applicable, if you voluntarily or involuntarily file for bankruptcy, as described in the “Summary of Cause Defined” (provision (h.)). This provision may not be enforceable under federal bankruptcy law.

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

Any action brought under the Maryland Franchise Registration and Disclosure Law must be brought within three years after the grant of the franchise.

**ADDENDUM TO LEDO PIZZA SYSTEM, INC.
FRANCHISE RELEASE AGREEMENT
REQUIRED BY THE STATE OF MARYLAND**

The parties to the attached Ledo Pizza System, Inc. Franchise Agreement agree as follows:

Paragraph 3(a) of the Franchise Release Agreement shall be supplemented by the addition of the following:

; provided, however, that the releases contained shall not apply to any liability of Ledo Pizza System under the Maryland Franchise Registration and Disclosure Law.

IN WITNESS WHEREOF, the parties hereto have duly executed this Amendment to the Franchise Release Agreement in duplicate on the date first above written.

FRANCHISEE

By: _____
Print Name: _____
Title: _____

LEDO PIZZA SYSTEM, INC.

By: _____
Print Name: _____
Title: _____

**ADDENDUM TO LEDO PIZZA SYSTEM, INC.
FRANCHISE AGREEMENT PRE-EXECUTION QUESTIONNAIRE
REQUIRED BY THE STATE OF MARYLAND**

For franchises and franchisee subject to the Maryland Franchise Registration and Disclosure Law, the Franchise Agreement Pre-Execution Questionnaire is amended as follows:

1. Any provision of this Franchise Agreement Pre-Execution Questionnaire which requires a prospective franchisee to assent to any release, estoppel or waiver of liability as a condition of purchasing a franchise is hereby void in the State of Maryland.

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

Franchisee's Signature Date

Franchisor's Signature Date

NEW YORK

ADDENDUM TO LEDO PIZZA SYSTEM, INC. FRANCHISE DISCLOSURE DOCUMENT REQUIRED BY THE STATE OF NEW YORK

1. The following information is added to the cover page of the Franchise Disclosure Document:

INFORMATION COMPARING FRANCHISORS IS AVAILABLE. CALL THE STATE ADMINISTRATORS LISTED IN EXHIBIT A OR YOUR PUBLIC LIBRARY FOR SERVICES OR INFORMATION. REGISTRATION OF THIS FRANCHISE BY NEW YORK STATE DOES NOT MEAN THAT NEW YORK STATE RECOMMENDS IT OR HAS VERIFIED THE INFORMATION IN THIS FRANCHISE DISCLOSURE DOCUMENT. IF YOU LEARN THAT ANYTHING IN THIS FRANCHISE DISCLOSURE DOCUMENT IS UNTRUE, CONTACT THE FEDERAL TRADE COMMISSION AND THE APPROPRIATE STATE OR PROVINCIAL AUTHORITY. THE FRANCHISOR MAY, IF IT CHOOSES, NEGOTIATE WITH YOU ABOUT ITEMS COVERED IN THE FRANCHISE DISCLOSURE DOCUMENT. HOWEVER, THE FRANCHISOR CANNOT USE THE NEGOTIATING PROCESS TO PREVAIL UPON A PROSPECTIVE FRANCHISEE TO ACCEPT TERMS WHICH ARE LESS FAVORABLE THAN THOSE SET FORTH IN THIS FRANCHISE DISCLOSURE DOCUMENT.

2. The following is to be added at the end of Item 3:

Except as provided above, with regard to the franchisor, its predecessor, a person identified in Item 2, or an affiliate offering franchises under the franchisor's principal trademark:

A. No such party has an administrative, criminal or civil action pending against that person alleging: a felony, a violation of a franchise, antitrust, or securities law, fraud, embezzlement, fraudulent conversion, misappropriation of property, unfair or deceptive practices, or comparable civil or misdemeanor allegations.

B. No such party has pending actions, other than routine litigation incidental to the business, which are significant in the context of the number of franchisees and the size, nature or financial condition of the franchise system or its business operations.

C. No such party has been convicted of a felony or pleaded nolo contendere to a felony charge or, within the 10-year period immediately preceding the application for registration, has been convicted of or pleaded nolo contendere to a misdemeanor charge or has been the subject of a civil action alleging: violation of a franchise, antifraud, or securities law; fraud; embezzlement; fraudulent conversion or misappropriation of property; or unfair or deceptive practices or comparable allegations.

D. No such party is subject to a currently effective injunctive or restrictive order or decree relating to the franchise, or under a Federal, State, or Canadian franchise, securities, antitrust, trade regulation or trade practice law, resulting from a concluded or pending action or proceeding brought by a public agency; or is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities and Exchange Act of 1934, suspending or expelling such person from membership in such association or exchange; or is subject to a currently effective injunctive or restrictive order relating to any other business activity as a result of an action brought by a public agency or department, including, without limitation, actions affecting a license as a real estate broker or sales agent.

3. The following is added to the end of the “Summary” sections of Item 17(c), titled **“Requirements for franchisee to renew or extend,”** and Item 17(m), entitled **“Conditions for franchisor approval of transfer”**:

However, to the extent required by applicable law, all rights you enjoy and any causes of action arising in your favor from the provisions of Article 33 of the General Business Law of the State of New York and the regulations issued thereunder shall remain in force; it being the intent of this proviso that the non-waiver provisions of General Business Law Sections 687(4) and 687(5) be satisfied.

4. The following language replaces the “Summary” section of Item 17(d), titled **“Termination by franchisee”**: You may terminate the agreement on any grounds available by law.

5. The following is added to the end of the “Summary” sections of Item 17(v), titled **“Choice of forum”**, and Item 17(w), titled **“Choice of law”**:

The foregoing choice of law should not be considered a waiver of any right conferred upon the franchisor or upon the franchisee by Article 33 of the General Business Law of the State of New York.

VIRGINIA

AMENDMENT TO LEDO PIZZA SYSTEM, INC. FRANCHISE DISCLOSURE DOCUMENT REQUIRED BY THE COMMONWEALTH OF VIRGINIA

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

In recognition of the restrictions contained in Section 13.1-564 of the Virginia Retail Franchising Act, the Franchise Disclosure Document for Ledo Pizza System, Inc. for use in the Commonwealth of Virginia shall be amended as follows:

Additional Disclosure: The following statements are added to Item 17.h

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

Pursuant to Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a franchisor to use undue influence to induce a franchisee to surrender any right given to him under the franchise. If any provision of the franchise agreement involves the use of undue influence by the franchisor to induce a franchisee to surrender any rights given to him under the franchise, that provision may not be enforceable

Additional Disclosure: The following statement is added with respect to Exhibit G.

No statement, questionnaire, or acknowledgement signed or agreed to by you in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by us, any franchise seller, or any other person acting on our behalf. This provision supersedes any other term of any document executed in connection with the franchise.

Franchisee's Initials/Date

Franchisor's Initials

LEDO PIZZA SYSTEM, INC.

**APPLICABLE STATE AGENCIES AND
AGENTS FOR SERVICE OF PROCESS**

If Ledo Pizza System 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 laws may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and the appropriate State Agency:

Maryland: **Office of the Attorney General, Division of Securities, 200 Saint Paul Place, Baltimore, Maryland 21202.**

Virginia: **State Corporation Commission
Division of Securities and Retail Franchising
1300 East Main Street, 9th Floor, Richmond, Virginia 23219**

New York: **Bureau of Investor Protection and Securities
New York State Department of Law
28 Liberty Street, 21st Floor
New York, NY 10005
212-416-8000**

The name and address of Ledo Pizza System' registered agent in each state authorized to receive service of process is:

Maryland: **Securities Commissioner - Division of Securities
200 Saint Paul Place, Baltimore, Maryland 21202**

Virginia: **Craig M. Palik, Esquire
1947 Barton Hill Road, Reston, Virginia 20191-0000**

**Clerk of the State Corporation Commission
1300 East Main Street, 1st Floor
Richmond, Virginia 23219**

New York: **Secretary of State of New York
99 Washington Avenue
Albany, New York 12231**

State Effective Dates

The following states require that the Franchise Disclosure Document be registered or filed with the state, or be exempt from registration: California, Hawaii, 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 or Status |
|--------------|---------------------------------|
| Maryland | |
| New York | |
| Virginia | |

Other states may require registration, filing, or exemption of a franchise under other laws, such as those that regulate the offer and sale of business opportunities or seller-assisted marketing plans.

RECEIPT

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

If Ledo Pizza System offers you a franchise, it must provide this disclosure document to you fourteen (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.

If Ledo Pizza System 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 laws may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and the appropriate State Agency as set forth in Exhibit I.

The name and address of Ledo Pizza System's registered agent in each state authorized to receive service of process is also set forth in Exhibit I.

Issuance date: April 1, 2023.

The franchise sellers for this offering are James B. Beall, President, Ledo Pizza System, Inc., 41 Old Solomons Island Rd., Suite 201, Annapolis, Maryland 21401 (410) 721-6887 and Garth E. Beall, Vice President, Ledo Pizza System, Inc., 6411 Ivy Lane, Suite 200, Greenbelt, Maryland 20770 (301) 441-2420.

I have received a disclosure document dated April 1, 2023 that included the following Exhibits:

- (1) Audited Financial Statements of Ledo Pizza System, Inc. (Exhibit A);
- (2) The Ledo Pizza System Standard Franchise Agreement (Exhibit B);
- (3) The Ledo Pizza System Conditional Sublicense of Operating Rights Agreement (Exhibit C);
- (4) The Ledo Pizza System Standard Lease Addendum (Exhibit D);
- (5) Confidentiality Agreement (Exhibit E);
- (6) The Franchise Release Agreement (Exhibit F);
- (7) Franchise Agreement Pre-Execution Questionnaire (Exhibit G);
- (8) State Specific Disclosures and Addenda (Exhibit H.);
- (9) The Applicable State Agencies and Agents for Service of Process (Exhibit I);
- (10) This Acknowledgment of Receipt (Exhibit J).

Printed Name of Franchisee

Signature of Franchisee

Date: _____

RECEIPT

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

If Ledo Pizza System offers you a franchise, it must provide this disclosure document to you fourteen (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.

If Ledo Pizza System 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 laws may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and the appropriate State Agency as set forth in Exhibit I.

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- (9) The Applicable State Agencies and Agents for Service of Process (Exhibit I);
- (10) This Acknowledgment of Receipt (Exhibit J).

Printed Name of Franchisee

Signature of Franchisee

Date: _____